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JANUARY 1955 ECONOMIC REPORT OF THE PRESIDENT

HEARINGS

BEFORE THE

JOINT COMMITTEE ON THE ECONOMIC REPORT
CONGRESS OF THE UNITED STATES
EIGHTY-FOURTH CONGRESS

FIRST SESSION

PURSUANT TO

Sec. 5 (a) of Public Law 304

(79th Congress)

JANUARY 24, 26, 27, 28, 31, FEBRUARY 1, 2, 3, 8, 9, 10, AND 16, 1955

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UNITED STATES
GOVERNMENT PRINTING OFFICE
58422 WASHINGTON : 1955

JOINT COMMITTEE ON THE ECONOMIC REPORT

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

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JANUARY 1955 ECONOMIC REPORT OF THE PRESIDENT

MONDAY, JANUARY 24, 1955

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

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

The joint committee met at 2 p. m., Senator Paul H. Douglas, chairman, presiding.

Present: Senator Douglas, chairman, and Senators Sparkman, O'Mahoney, Flanders, and Watkins, and Representative Patman, vice chairman, and Representatives Bolling, Mills, Kelley, Wolcott, Talle, and Curtis.

The CHAIRMAN. The meeting will come to order.

I should like to welcome the new members of the committee, Congressman Mills of Arkansas, Congressman Kelley of Pennsylvania, and Congressman Curtis of Missouri, and Senator O'Mahoney who was on the committee when it was first organized, and who served as chairman during two sessions of Congress. We are happy to have you with us.

You probably have received the plan we have for the hearings. It is in the notebook which was prepared for you on Wednesday.

Might I say we have fixed rules of procedure, parliamentary rules, and the rules of gentlemen with respect to the rights of each other and of witnesses.

We have made an informal agreement with Mr. Burns for today, which I will announce, as to certain ground rules for questioning which I would suggest.

Representative CURTIS. As I understand your explanation of the rules of procedure, they are unwritten, and as we go along if anyone feels that a matter of procedure becomes important, I presume the chairman would entertain discussion of it.

The CHAIRMAN. It was the sense of the committee that we invite representatives of the Council of Economic Advisers to appear. A transcript will be made of the questions and answers which is a different procedure than that which prevailed last year.

I had a conference with Dr. Burns on this and we have worked out an agreement which I would like to have him confirm. Then we will see if it meets with the committee's approval.

This is a meeting in executive session and, of course, we should respect an executive session and not make any statements outside about what transpires in executive session.

Dr. Burns will testify and will have the right to correct the transcript as far as his own answers are concerned, and that corrected transcript will then become a part of the printed record, the printed record of the hearings, which I think is more satisfactory than having a transcript made available only for members and the staff.

Senator SPARKMAN. Mr. Chairman, may I ask whether each member of the committee, likewise, will have a chance to check his own questions?

The CHAIRMAN. Yes.

Vice Chairman PATMAN. Well, should we adopt the rule—I think it is the rule in the Senate and the House—that that will be done as long as it does not change or render meaningless the import of the question and answer in relation to each other?

The CHAIRMAN. I think that rule of the Senate and House is a good one. It is sometimes stretched a little, and we will not hold anyone rigidly to it, but people should observe it as sort of a moral guide.

Representative WOLCOTT. Mr. Chairman, going backward a little on this, I understand that you and Dr. Burns have talked this over, and it is agreeable with Dr. Burns, but I think we should have some doubts in our mind as to whether this constitutes a precedent.

If you recall, several years ago this question of whether the Council of Economic Advisers should appear and testify before the committee was the indirect, if not the direct, cause for a major split in the Council of Economic Advisers resulting in the resignation of one.

So last year when the new Council of Economic Advisers was set up we agreed that it would be left to Dr. Burns' discretion as to whether he should have a transcript made of his initial statement.

We thought at that time that Dr. Burns might feel more at liberty to discuss the matter more freely than he would otherwise, if no transcript was made, and the committee members would perhaps feel freer to question and get background on economic thinking at the White House level if it was not on the record. That was the genesis of that issue, and I was a little disappointed, frankly, that this agreement has been made, whereby we would make a transcript of Dr. Burns' testimony, because I think it might cramp our style somewhat, and I am sure it will cramp his style, because he speaks for the President, you know. He is adviser to the President. He cannot divorce himself from that position. He cannot talk as a taxpayer. He cannot talk as just an economist. He must talk as an adviser of the President, and whatever he says will have to, of course, be considered as coming from the President himself, and as being the President's viewpoints, so I wondered if perhaps we were not defeating our purpose in putting him on the record. Would he feel as free to talk to us and as frank to talk to us as he would otherwise?

Senator FLANDERS. Mr. Chairman, I think the question goes a little bit deeper than that, because in the case that resulted in the resignation of Dr. Nourse, it seemed that the basic question was: Was the Council giving advice to the President or speaking for him?

Now, if the Council is giving advice to the President, the President does not necessarily take it. If he does it is very fortunate, and there is no dichotomy in the situation. But if the President receives advice, and does not take it as he has a perfect right to, it puts the Chairman of the Council in a very difficult situation in regard to having a record made of what he says. I hope that has been in Dr. Burns' mind in agreeing to speak. I do not know whether we ought to ask him whether he speaks for the President or whether he speaks to him.

The CHAIRMAN. Senator Flanders, I was going to mention, when the gentleman from Michigan brought up this matter, that I told Dr. Burns privately I thought there were certain questions which would be improper. I think that no committee has the right to inquire of a confidential adviser to the President what advice he has submitted.

I know this is not military affairs or foreign affairs, but, generally, I think communications between the Council and the President, and between the Council and other governmental agencies, between other governmental agencies and the President, are privileged, and are not matters for inquiry, but I thought that questions might be addressed to the body of the report.

Are there motions?

Representative BOLLING. Mr. Chairman, I do not like to prolong this. As those who were present at the other meeting of the committee know, I have definite feelings on this matter. But I am prepared to let the modus vivendi that has been developed operate without any further pressing of my point. However, I would want the record to show that I felt, if the thesis that has been propounded in various fashions is the correct interpretation of the law, that we were in a very peculiar position of being a committee by law required to advise the Congress on matters which give to its opposite number in the executive a right to express its opinions at it wishes in public statements and speeches, to be examined by us as to those same opinions. Furthermore, it leaves the country in the position of having a Cabinet officer who is responsible to the President for each of the separate segments of an economic program, but of having nobody in the executive who speaks for the President on the details of the general economic picture.

The Secretary of the Treasury has certain economic responsibilities. The Secretary of Commerce has certain economic responsibilities. But there is nobody in the executive—since we cannot ask the President to come here and speak—there is nobody in the executive who is responsible for discussing with the Congress the overall problems of the economy.

I just raise those points simply for the record.

Representative CURTIS. Will the gentleman yield just a minute for a question? This is just for information, but do members of the Council of Economic Advisers require senatorial approval?

The CHAIRMAN. Yes.

Representative CURTIS. They do? So they are in exactly the same category. I did not know.

The CHAIRMAN. Any motions?

If not, is the agreement which I have outlined satisfactory?

Representative BOLLING. To make it formal, I move that it be the proceeding under which the committee operates.

Senator SPARKMAN. I second the motion.

The CHAIRMAN. Is there discussion?

Representative WOLCOTT. I think I have stated my position, and I think the other positions are clear. We do not want to have this established as a precedent. In voting the affirmative, it will be with the understanding that this will not be cited as a precedent which might be taken by this committee later on both, with respect to Dr. Burns and Cabinet members.

I think under those circumstances perhaps personally if the vote is taken I shall pass.

Senator SPARKMAN. It seems to me that this relates purely to this one agreement, and certainly it would not be a precedent. This is an agreement worked out which is satisfactory both to the chairman and to Dr. Burns.

The CHAIRMAN. If Dr. Burns wants to add anything, the opportunity is given to him.

ARTHUR F. BURNS, CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS, EXECUTIVE OFFICE OF THE PRESIDENT

Dr. BURNS. I would like to add a word.

Senator Douglas, you have reported accurately the understanding that you and I reached. I only wish the committee to know that I entered into that agreement with some feeling of regret. I was faced with a choice of testifying with a transcript or not testifying at all.

May I recall that when I came up for confirmation before the Senate Banking and Currency Committee, Senator Sparkman asked me the question whether I would ever return to testify. What I told him then is still valid today, namely, that I feel that every citizen, no matter what the circumstances might be, when called upon by a congressional committee to testify, should respond to that request.

I did not choose to request the committee to excuse me from testifying. I will testify for the record, because I deem it better to do that than to have a transcript taken that is restricted to the members of the committee. But I feel that an unwise decision has been reached in insisting on a transcript, and that the purpose that we all have in common, namely, to further the goals set by the Employment Act, may not be promoted by this decision.

Senator FLANDERS. Mr. Chairman, there is one point that surprised me just a little in the agreement. I had thought that we had discussed having a record made, but not having it published.

The CHAIRMAN. That is correct.

Senator FLANDERS. In many of the proceedings of the Foreign Relations Committee, and in many of the proceedings of the Armed Services Committee, with which I am more familiar, a record is made which is available to committee members only, and which is held as a confidential document.

The CHAIRMAN. I think that was the motion and agreement which was reached by the committee, and that was the proposal which I made to Dr. Burns to which he took very strenuous exception. It was in an effort to accommodate Dr. Burns that I accepted the other proposal, namely, that he have a chance to correct the record. And that it be printed as a part of the published proceedings.

Now, if Dr. Burns wishes to return to the earlier proposal, namely, that it not be printed, that was a decision made, and, of course, that is acceptable to me. I want to make clear that the alteration was made at his request. It was agreed to in order to be as accommodating as possible.

Vice Chairman PATMAN. Mr. Chairman, is not this comparable to something like when the President extends for 3 years the Reciprocal Trade Act; then his Cabinet member who is responsible for that appears before a committee that is investigating the subject matter, and testifies even openly and publicly, and answers all questions relating to it?

Now, there are other situations. For example, Mr. Wilson may recommend a certain amount for national defense. Well, he and his assistants come to the Hill. They testify publicly for the record, and they answer any kind of a question that anyone wants to propound, and in view of the fact that the President, himself, even goes before representatives of the press and voluntarily answers any question that the members of the press may want to ask him, it occurs to me that this is very much in order.

Dr. BURNS. May I comment on that, Senator Douglas?

The CHAIRMAN. Surely.

Dr. BURNS. I do not think that the position of a member of the Council is comparable to that of a Cabinet officer. A Cabinet officer has administrative duties that are prescribed by law. The Council of Economic Advisers has no operating or administrative duties whatsoever. Its sole function——

Vice Chairman PATMAN. Now let us drive down a peg there. You say that the Council of Economic Advisers has no administrative duties.

Dr. BURNS. The sole function of the Council is to advise and assist the President. The Council has no other operating or administrative responsibilities.

Vice Chairman PATMAN. But are you not supposed to follow through, like the Cabinet officers and go before the committees. You know when you file your report at a certain time, we are supposed to have hearings and make our report also within a limited time.

Dr. BURNS. You see, a Cabinet officer has duties that are prescribed by law, administrative duties that are prescribed by law, and in that sense is accountable to the Congress. To the best of my knowledge and understanding, the Council has no such function.

The CHAIRMAN. Well, Dr. Burns, I want to say this gently and in all kindness. I can understand the position which you have apparently taken and the logical conclusion of that is that you should not testify before any congressional body at all. Now that is a perfectly legitimate position to take, and had you taken that position, I would have made it clear that there was no bad motive on your part in not wishing to testify. We would have been glad to make a public statement respecting your right not to testify.

But if you do testify, then it is certainly true that it is for this body to prescribe the rules under which you testify. We will try to be as accommodating as possible, but we have to proceed under the rules upon which we agreed.

Dr. BURNS. I take no exception to that, Senator.

Senator SPARKMAN. Mr. Chairman, may I say just this word to Dr. Burns. I said this in the meeting the other day, you will recall. I had thought that perhaps the happy solution to it would be the thing that was mentioned a few minutes ago, and that is making a transcript but keeping that transcript as a part of this committee's files, available to the individual members to see in the committee room and not a part of the record. We follow that in the Foreign Relations Committee all of the time. I suppose 90 percent of our testimony there is taken in executive session, and it is never released unless the committee votes specifically to do so, and even in that event, it would not be done without allowing those from the executive departments who testified to edit it so as to take out those parts they did not want made public.

As far as I know, it has never been violated in our committee. And I thought perhaps that that would be the happy way here, because it would give all of us a chance to pry into this thing, to probe as deeply and as far as we want to, and yet it would give you freedom to discuss the thing as if it were off the record, and the only written part would be for the benefit of the members of this committee, and not for publication in any form whatsoever.

The CHAIRMAN. Mr. Curtis.

Representative CURTIS. Mr. Chairman, do I understand that the sense of the motion would include what Senator Sparkman has just outlined? I did not understand that.

Representative BOLLING. No; the motion was to ratify the agreement reached between the chairman and Dr. Burns.

Representative CURTIS. So it would not include that.

Representative BOLLING. Which would provide for a correction and then publication.

Vice Chairman PATMAN. May I say this, Mr. Chairman: It occurs to me it is a wonderful opportunity afforded the President to make clear and plain some things in this report that will be very much misunderstood and even disturbing if not explained.

In other words, we will bring out any criticism that could possibly be offered, and Dr. Burns can explain it, and that is helpful to the President. They should want that opportunity and if denied that opportunity, they would have a right to object.

Representative TALLE. Mr. Chairman, I was present at the meeting on the 12th of January, and likewise in 1953 when this matter was discussed. My personal choice is that we operate as we have in the past, and I want to state the reason for it. I think if we operate as we have in the past, the Chairman of the Council of Economic Advisers will not feel the degree of restraint that he will feel if we operate under the second method, and since he will not feel that restraint, I think his testimony for the members would have greater value.

That is simply how I feel about it.

The CHAIRMAN. There is a motion before the committee.

Representative CURTIS. Senator Sparkman, did you have in mind offering your suggestion as an amendment?

Senator SPARKMAN. No; I made that proposal before the committee the other day, and I think the committee was favorably impressed and I understand from the chairman that he discussed it with Dr. Burns, but that Dr. Burns preferred the second form rather than this.

Dr. BURNS. If faced with those two choices.

Senator SPARKMAN. Yes, that is my understanding; I mean as between the two.

The CHAIRMAN. Are we ready for the motion?

(A vote was taken and the motion carried.)

Senator FLANDERS. I must say I voted for it, but I do not understand why Dr. Burns is for it. That is what puzzled me.

Senator O'MAHONEY. Mr. Chairman, may I have a word?

The CHAIRMAN. Yes.

Senator O'MAHONEY. Who was it that once said economics is not an exact science. I have listened to this discussion on both sides and I have the feeling that it is a purely technical discussion, based upon fears of things that probably will never arise. I have not any doubt in the world that the President of the United States has the authority, as he has exercised it from the time of George Washington down to the present, to deny certain information to the Congress, but we are here dealing with matters of opinion, and I doubt very much whether any question will be asked at any time that will cause the members of the Council of Economic Advisers the slightest embarrassment, as to what they said to the President on such and such a date and what he said in response to that, so we are not likely to get into that sort of discussion.

The CHAIRMAN. If such a question is asked, the Chairman will rule it out of order.

Vice Chairman PATMAN. And properly so.

Senator O'MAHONEY. So what we are dealing with here are matters of opinion dealing with the economy of the United States, which I think the members of the committee and the members of the Council can discuss with perfect poise and lack of fear.

Representative WOLCOTT. I say very lightly, is the judgment of whether it is to be embarrassing or not to be left solely to Dr. Burns? Is that very likely? He was explaining the objection, he said, if he was asked an embarrassing question.

The CHAIRMAN. I said I would sustain any objection to a question which went into a confidential relationship.

Representative WOLCOTT. I said very lightly, will that be left to the discretion of Dr. Burns?

The CHAIRMAN. The Chair will make a ruling, but of course, the rulings of the Chair are always subject to correction, so the gentleman from Michigan will have an opportunity to correct the Chair.

Representative WOLCOTT. I am getting a little enlightened on the question, because I think Dr. Burns will be given to understand by this colloquy that if there is anything which is of a very confidential nature he can suggest that part and you will not require him to answer.

The CHAIRMAN. I do not think the questioning will go beyond the text of the report, which I assume is not confidential since it has been published.

Senator WATKINS. Mr. Chairman, it seems to me it opens up some possibilities where if we insist on an answer from Dr. Burns it might reveal that he is in opposition to the President's view on this particular matter. If I am a lawyer, an adviser to a man in a professional capacity (and I think an economist will probably admit to the same class), I give advice to my client, he may choose not to follow that advice.

The CHAIRMAN. May I ask this: Would you regard it as permissible to question the members of the Council upon the report which they, themselves, wrote?

Senator WATKINS. Well, I do not know that they prepared it.

The CHAIRMAN. Oh, yes.

Senator WATKINS. The final work, and the final authority for it, is the decision of the President.

The CHAIRMAN. The two reports are the letter of transmittal of the President to the Congress, which I take it is the first one, and then there is the report of the Council to the President.

Dr. BURNS. I must correct that, Senator Douglas.

Senator WATKINS. The opening statement, Mr. Chairman, begins, "I am hereby presenting my economic report * * *," and that is signed by the President.

The CHAIRMAN. Is part 2 signed by the President? Did the President prepare this or did the Council of Economic Advisers?

Dr. BURNS. It is submitted by the President as his report, and naturally in writing that report he had the advice and assistance of the Council.

The CHAIRMAN. Dr. Burns, is it your understanding then that if we question the members of the Council upon the report which is printed this will be a violation of the confidence between the President and the Council, though the report is printed and made a matter of public record? Is it your contention that this should be insulated from questioning?

Dr. BURNS. No; I would not want to make a blanket statement on that, Senator. There may, however, be some questions concerning this report that might prove embarrassing, because this is the President's report and I am his confidential adviser.

The CHAIRMAN. Well, I would say that under those conditions it would be quite proper for you to say "For various reasons I think it inadvisable for me to reply to the question," and in that event we would not put you under oath nor would we say that you would have to plead the fifth amendment in order to try to avoid the question.

Dr. BURNS. I think my presence here and what I have said before should make it very clear that I do not seek cover under the fifth amendment or under any other provision of the law.

The CHAIRMAN. That is understood.

Vice Chairman PATMAN. Suppose we proceed and wait until a real question appears rather than a hypothetical one.

The CHAIRMAN. Are we ready for the question? We are.

(A vote was taken and the motion carried.)

Representative CURTIS. Mr. Chairman, point of order. Did we not vote on that once?

The CHAIRMAN. We voted on a similar motion, I think, but I am not certain. We voted on the transcript, but I am not certain that we voted on this point of the questioning of Dr. Burns.

Representative CURTIS. I do not know whose motion it was that we were voting on.

The CHAIRMAN. If it is held that the previous motion carried with it both of these motions, I would be very glad to ask to cancel the last motion.

Representative BOLLING. Mr. Chairman, I may be confused at this point. I think there was just the one motion that I made, that the agreement between Dr. Burns and the chairman would prevail. I was not aware that Senator Sparkman made a motion. I thought that the reason that the motion was put again was that there was further discussion before any announcement on the motion.

The CHAIRMAN. Have we voted on this motion?

Representative BOLLING. Well, it was not announced that the motion had carried.

The CHAIRMAN. I will announce that it has carried. I wonder if we could proceed with the examination. I understand that Dr. Burns does not have a formal statement to submit.

Dr. BURNS. That is correct.

The CHAIRMAN. He is going to answer questions on the report. May I say that in order that everyone may have a chance to question, I propose to begin by limiting myself to 5 minutes and then we will proceed with alternate questions from the Republican side and the Democratic side with each person limited to 5 minutes.

Vice Chairman PATMAN. May I ask a question, Mr. Chairman? Does that mean 5 minutes of time that you take up or that the witness takes up?

The CHAIRMAN. Well, let us say that is a total of 7 minutes, with the understanding that the witness should be brief, too.

Vice Chairman PATMAN. Well, I have known witnesses on this subject to take up more than 5 minutes. I am thinking of days gone by in the Banking and Currency Committee.

The CHAIRMAN. Let us be expeditious and not monopolize the questions. Let us distribute it between sides with reasonably concise questioning and answers.

Dr. Burns, I would like to raise some questions about the year 1954, if I may. I want to verify certain statements. On pages 15, you state:

> While the physical body of nondurable manufactures declined 6 percent between July 1953 and March 1954, the production of durables declined 14 percent, and manufacturing production as a whole 10 percent.

I take it that that is correct.

Dr. BURNS. To the best of my knowledge.

The CHAIRMAN. And there was substantially no increase in production as evidenced by table B–1 on page 77 between March of 1954 and August of 1954?

Dr. BURNS. That is correct.

The CHAIRMAN. Therefore, there was a decline of 10 percent in industrial production from July of 1953 to August of 1954?

Dr. BURNS. That is right.

The CHAIRMAN. Now, may I ask a question about the volume of employment, table B–7 on page 87: There is a statement that from July 1953 to March 1954 there was a total decline in nonagricultural employment of 1,464,000. Is that correct?

Dr. BURNS. That is correct, on the basis of seasonally adjusted figures.

The CHAIRMAN. Yes. And from March 1954 to August a further decline of 496,000?

Dr. BURNS. That is again correct on the basis of seasonally adjusted figures.

The CHAIRMAN. So that the total decline in employment from July 1953 until August of 1954, was 1,960,000 or virtually 2 million?

Dr. BURNS. As shown by the Bureau of Labor Statistics' figures. The decline is somewhat smaller according to the census figures.

The CHAIRMAN. And during this time the working population was increasing in size?

Dr. BURNS. During that period the working population increased in size; yes.

The CHAIRMAN. Do you have an estimate as to the probable increase?

Dr. BURNS. Well, let me look up the figures.

The CHAIRMAN. Does it amount to about 700,000 for the year?

Dr. BURNS. I will have to consult the record on that. Historically the increase in the labor force has varied a good deal from year to year.

The CHAIRMAN. I know, but the average is roughly about 700,000.

Dr. BURNS. The average in recent years has been between 600,000 and 700,000. However, if I am to testify about the last year, 1954, I would have to consult the figures on that.

The CHAIRMAN. Now then, you have a decline, in other words, of 10 percent in production?

Dr. BURNS. Not in total production, but in industrial production, that is manufacturing and mining combined.

The CHAIRMAN. And a decrease of virtually 2 million in the numbers employed?

Dr. BURNS. In numbers employed in nonagricultural establishments, as measured by the Bureau of Labor Statistics, when adjusted for seasonal variations.

The CHAIRMAN. That is correct. Now, the former definition of the phases of the business cycle by Wesley Mitchell, who was your teacher and mine, was that the phases of the business cycle were revival, prosperity, recession, and depression. Leaving out the naughty word "depression," would you characterize this period then as a period of revival?

Dr. BURNS. I must first make a technical point, Senator Douglas. The four phases of the business cycle to which you referred by name were used in the manner you indicated by Wesley Mitchell for a certain period of time. I worked with Mitchell for a good many years, as you know. In the course of this work at the National Bureau we tried out a variety of concepts and plans of measurement. For the purpose of working out a chronology of business cycles, we finally distinguished troughs, expansions, peaks, and contractions.

We first tried the earlier scheme, namely, revival, prosperity, recession, and depression. We found, however, that it was very difficult to apply this scheme to historical intervals. So from about the middle 1930's, in the course of our efforts to develop a chronology of business cycles, we used the classification that I have just named, that is, trough, expansion, peak, and contraction.

Now, turning to your specific question as to the year 1954——

The CHAIRMAN. The period July 1953 to August 1954.

Dr. BURNS. The period from July 1953 to August 1954 was, using the Bureau's terminology, a period of business cycle contraction.

The CHAIRMAN. Business contraction?

Dr. BURNS. That is correct.

The CHAIRMAN. Now, I notice an article by Professor Schlichter in the current Business Review, in which he speaks of the recent recession.

Dr. BURNS. That is a widely used term.

The CHAIRMAN. Do you think recession and contraction are fundamentally the same?

Dr. BURNS. I think that it is a matter of linguistic preference. The term "recession" is very widely used. It has no precise scientific meaning. The reason the National Bureau adopted the term "contraction" and its affiliates is that these terms are descriptive of economic movements and do no more than that.

The CHAIRMAN. Would you say that the term "recession" is descriptive, too, of contraction?

Dr. BURNS. Well, the difficulty with the term "recession" is that it lacks a unique descriptive meaning.

Let me tell you a little of the history of the term, as used at the National Bureau. The first definition that we gave to the term "recession," for the purposes of measurement, was that of an interval from the midpoint of expansion to the midpoint of contraction, so that the phase of recession overlapped upon the phases of expansion and contraction.

Later on we found ourselves using the term "recession" in another way. Recession was the month which followed the peak in activity, or the quarter which followed the peak in activity, or the year which followed the peak in activity. This usage also seemed unsatisfactory. We finally gave up the term in describing historical intervals.

Now, let me add that I have no quarrel with anyone who wishes to speak of the interval from July 1953 to August 1954 as a period of recession. I have spoken of it that way myself, and you will find that in one or two or three places in this year's Economic Report the term is used that way. It is not a scientific term, but it is popular, is used widely, and when applied to recent events this term is not likely to lead to serious misinterpretation.

The CHAIRMAN. I thank you for that statement. The comment which I am going to make is not addressed to you, but I wish that a similar restraint in language were observed by others who took umbrage at the characterization of this period as being one of recession, because the use of that term was denounced as a treason toward the American people and an attempt to get the United States into a depression. But waiving that question, there is one omission in your report which somewhat startled me, and that was the fact that there was virtually no mention made of agriculture. Perhaps I may have been in error, but as I read the report through 2 or 3 times I did not find any reference to farming. There were tables in the rear about farming, but there is no textual statement about farming; am I correct in suggesting that there is little discussion of farming?

Dr. BURNS. You are correct in suggesting that there is relatively little discussion of farming.

The CHAIRMAN. I think no discussion of farming.

Dr. BURNS. No, that is incorrect. There is some discussion in the text, and much more in the appendix. You will find farming taken up in various places in the report.

The CHAIRMAN. I think there were four sentences about farming.

Dr. BURNS. Well, I am not in a position at this moment either to confirm or deny your precise count of the number of sentences. The important thing is what they say.

The CHAIRMAN. Now, you have prepared some very valuable statistical tables in the rear of your report, table D–37 on page 177 gives the parity ratio, and I find that in December it was 86.

Dr. BURNS. That is correct.

The CHAIRMAN. Which is the lowest, I may say, as far as I can find, that this ratio has been since 1940.

Dr. BURNS. 1940 or 1941, I cannot remember.

This relationship between prices paid by farmers and prices received by farmers is commented on in the text of the report. The numerical figure you have cited is shown in a chart which is contained in the report. It is commented on later in the report itself, and, of course, it is reported in the table you have just quoted from.

The CHAIRMAN. Do you think that this is a situation to which the committee should address itself, or is that an improper question?

Dr. BURNS. I think the committee should address itself to all important economic questions, Senator.

The CHAIRMAN. Well, is this an important issue?

Dr. BURNS. I think it is a question that certainly deserves the attention of your committee, just as it deserves and is receiving the attention of the executive branch.

The CHAIRMAN. I was somewhat surprised that I found, I think, almost no recommendations on this subject, and no analysis of this problem in the report.

Dr. BURNS. There is some analysis in the report. As for recommendations, may I remind you that the Congress last year passed several basic agricultural bills, and that it is the recommendation of the President, as stated in his state of the Union message, that the bills that were passed by the Congress be allowed to take effect. It is important that the new program for agriculture be given a chance to prove its worth.

The CHAIRMAN. Did the Council take into consideration the drought which has hit the southeastern portion of the country, and which has now gone up into the central agricultural belt?

Dr. BURNS. From time to time we have considered what is happening in that area of agriculture and we have taken the drought into account as best we could.

The CHAIRMAN. I cannot find references to drought. Perhaps I am in error.

Dr. BURNS. This report, Senator Douglas, does not contain, to the best of my recollection, any reference to the drought. May I say, however, that this report is not a record of all of the council's thinking on all of the economic questions facing the country. It couldn't very well do that, as you must know.

The CHAIRMAN. I think I have taken up my share of the time. Mr. Wolcott.

Representative WOLCOTT. I find, Mr. Chairman, on page 78, discussion of the agricultural production problem that is quite voluminous.

The CHAIRMAN. Yes; but I was speaking of prices.

Dr. BURNS. There is a discussion of prices as well, Senator Douglas. I can find the page for you if you would like it.

The CHAIRMAN. Do you have further questions?

Represenative WOLCOTT. In evaluating the gross national product you have taken into consideration agricultural income, have you not?

Dr. BURNS. Yes; definitely.

Represenative WOLCOTT. That is all.

The CHAIRMAN. Mr. Patman.

Vice Chairman PATMAN. Mr. Chairman, I do not believe I could ask any question and get the answer in 5 minutes. I do not object to your rule. I am heartily in favor of giving all the members a chance and being in favor of the rule, I think I will read off some statements that I have marked out here in the form of questions and then since a record is being made, just let Dr. Burns answer them for the record later on.

The CHAIRMAN. If he is willing to do that, that will be fine.

Dr. BURNS. Does that mean that I am to answer the questions now or after the meeting? I am not clear about that.

Vice Chairman PATMAN. You can answer the questions after the meeting. I do not think we would have the time during the meeting.

Dr. BURNS. I see.

Vice Chairman PATMAN. Suppose I just go ahead. I have about 3 pages here. Most of it is double spaced. It would take about 5 minutes, and if you want to answer then, it would be all right with me, but I would like to raise them.

Representative WOLCOTT. May I suggest that perhaps Dr. Burns does not understand our procedure of allowing a witness or a Member of the Senate or House to revise and extend his remarks; that is what he is getting to, is answering a question in the revision of the remarks. Will that be what you want?

Vice Chairman PATMAN. Yes. Of course, I assume after we go around the table we will be given another opportunity.

The CHAIRMAN. Oh, yes.

Vice Chairman PATMAN. And when I am reached next time it is possible I will ask some of them, individually.

Although the Economic Report notes "the income shares of both farm and business proprietors in 1954 were at postwar lows," there is no further discussion of this economic development elsewhere in the report. The implications of this fact are that the terms of trade which are reflected in the movements of prices went against the farmers and the small-business man in 1954.

What significance does this have upon the so-called flexible monetary and stable price policies? Does the mere stabilization of a wholesale price index——

Dr. BURNS. I did not hear that question. Does it what?

Vice Chairman PATMAN. Does the mere stabilization of a wholesale price index or the retail price index mean that there are no imbalances developing in the economy? Does not the experience of the 1926–29 period raise questions concerning the validity of this assumption? Does not the experience of 1953–54 indicate that unsound structural dislocations have taken place underneath the cover of a stable-price level?

The Economic Report mentions the farm problem briefly as follows:

> The introduction of flexible price supports for basic crops and the modernization of the parity formula will facilitate the adjustment of our farming enterprises to changing markets and thus help to improve the outlook for the farmer.

How will the outlook for the farmer be improved? Will his share of the personal income disbursements which the report notes is at a postwar low be raised? How much will it be raised and how will this increase occur?

Farm income fell at an annual rate of $2 billion from the first to the fourth quarter of 1954, or 15 percent. Will the improved outlook for the farmer restore this $2 billion drop in farm income? The farm partity ratio in the fourth quarter was 87, the lowest level in 14 years. Will it be restored to 100 percent of parity?

The Economic Report cautions that the "continued economic recovery must not be jeopardized by overemphasis of speculative activity." When the Federal Reserve Board moved to reduce margin requirements by 33 percent in early 1953, did it thereby overemphasize speculative activity? When the Treasury and the administration urged a reduction in the taxes on excess profits, on dividend income, and an acceleration of the rate of recovery, tax free, of investment expenditures, did it encourage speculative activity? Is the economy more or less stable today than it was at the beginning of 1953 prior to the inflation of stock prices?

Much of the postwar prosperity has been attributed to the fact that income has been widely distributed in the hands of all of our families. The narrowing of inequality in income distribution in the 20 years since 1929 has been hailed as a modern revolution by economists of varied views. What significance for income distribution and the inequality of distribution is there in the behavior of personal income shares in 1953 and 1954? For example, the Economic Report shows that labor income from wages and salaries fell as did farm and other proprietor shares. However, investment income shares rose; particularly impressive was the rise in the personal interest share which rose 10 percent in the last 2 years. Do these trends not indicate a redistribution of income that favors a relatively small group at the expense of a relatively large number of income receivers? In brief, are we moving toward greater inequality in income distribution?

Maintenance of a stable price level seems to be given the highest priority in administration declarations dealing with economic policies. Does the mean that the behavior of some price index rather than, say, the amount of unemployed, is used as a guide for economic policy decisions?

In formulating the stable-price policy and in implementing it, what thinking has been done about the implications for price relationships within a stable level of average prices? For example, what consideration has been given to problems arising from the fact that certain prices, notably those for agricultural commodities, are highly sensitive and tend to fluctuate far more frequently and freely than the prices of most manufactured goods and some industrial raw materials? In implementing the stable-price policy, are the effects of price changes considered in combination with each other and with the behavior of noncommodity prices such as services, rents, wages, interest rates? How was this done, for example, in evaluating the prospects of inflation in early 1953? How is this done in evaluating the prospects for price changes currently? For example, prices of industrial supplies have been rising recently while the prices of the farm commodities that business buys have been dropping. What consideration has been given to these divergent moves by the monetary authority in implementing the stable-price policy?

If you do not know, what are your ideas on it? I suspect I have taken up my time. I will not insist on the answer to any of them now because my time has expired, Mr. Chairman. When you get back to me I will pick out 1 or 2 of them.

The CHAIRMAN. Congressman Talle.

Representative TALLE. Mr. Chairman, my mind goes back to the 83d Congress when Dr. Colin Clark, a Britisher, was here for what I think was a rather informal colloquium, and he proposed at that time that our country proceed to spend $20 billion immediately; otherwise the British Empire would probably go bankrupt. Subsequently Dr. Crowther, editor of the London Economist, was here, and he did not go along with that idea.

Later on came a professor from The London School of Economics to whom the staff put what I thought was a very interesting question, inasmuch as it was a reversal of a former question: What effect would a depression in the British Empire have upon the United States? Commenting on the thoughts of Professor Slichter, whom the chairman mentioned, I noticed that he made a statement some time ago about the possibility that perhaps the old ideas about the business cycle are no longer valid, that you do not have now familiar four phases, but on the customary business cycle curve there may be a number of smaller cycles, because he showed that in the recent slowdown of business some industries reemained stable; others declined; and others expanded.

He pointed to the expansion in the British Isles, and in Europe, so he raised the question about the validity of our former adherence to the four phases of the business cycle, saying that perhaps that concept no longer has any validity, or at least less validity than before, because of certain things that can now be done, and have been done, to obviate a depression.

If you choose to comment on that, Dr. Burns, I would be glad to have your ideas, whether you think there is validity to Professor Slichter's views on that or not.

Dr. BURNS. I hesitate to address myself to Professor Slichter's views, not being entirely sure what those views are. Let me say only that I think that it is premature to conclude that the business cycle has been ironed out, that it is premature to conclude that we will not have business fluctuations in the future.

However, there are reasons for believing that if we continue to pursue the policies that have been pursued in recent years, business fluctuations can be kept within moderate compass. More than that, I do not think that either economists or Government officials can safely assert at the present time.

Representative TALLE. Mr. Chairman, may I ask another question?

The CHAIRMAN. Certainly.

Representative TALLE. Dr. Burns, I should like to ask if the Council is satisfied with the steps taken to improve economic statistics in the 1956 budget?

Dr. BURNS. The Council is pleased by the increased emphasis on statistics that is given in the President's budget message for 1956. Congressman Talle, your committee has rendered a great service in emphasizing the limitations of Federal statistical programs. The work of your committee has had a very large influence on the Executive in planning an improved statistical program for the coming year.

Representative TALLE. For the other members of the committee, Senator Carlson, Mr. Bolling, and myself, I say thank you, Dr. Burns.

The CHAIRMAN. Congressman Bolling.

Representative BOLLING. Mr. Chairman, I would like to submit for inclusion in the record of an editorial in Business Week of January 8, 1955, Forecasting: How Good Is it?

Also a speech of Stephen K. Bailey of Princeton University, on Political Elements in Full Employment Policy, on December 9.

I would like to have these included in the record at the appropriate place.

The CHAIRMAN. Without objection, these materials will be included in the record.

(The material referred to is as follows:)

[Business Week, January 8, 1955]

FORECASTING: HOW GOOD IS IT?

All the economic forecasts on the outlook for 1955 are now in, and the predictions provide a remarkable picture. Not one economist of any note foresees a decline ahead, and at the same time, very few are predicting a sharp and sudden rise to boom conditions. The consensus is that the next 12 months will see business activity climb above 1954's level and perhaps over the peaks reached in 1953.

Rarely have so many predictions been so substantially in agreement, a fact that focuses attention on the current state of economic forecasting.

Forecasting has assumed enormous importance in our economic system. The Federal Government, for example, must base its policies on assumptions about the future. In fact, the terms of the Employment Act of 1946 specifically charge the President's Council of Economic Advisers with the task of gathering information on prospective trends in order to make constructive recommendations.

Business, too, bases its decisions on forecasts. In a new booklet titled "Business and Economic Forecasting," the United States Chamber of Commerce points out that the business executive, "even if he has little faith in forecasting," is nevertheless "constantly engaging in an art that he claims to be of dubious merit."

THE RECORD IMPROVES

Until last year, forecasting was considered by most economists as extremely perilous. In general, their postwar record left them little to boast about.

But last year, came a change for the better. There were some forecasters, like Colin Clark, who prophesied doom, and some, like W. S. Woytinsky, who predicted a continuation of the boom. The overwhelming majority, however, predicted that 1954 would see a mild decline, while many went further out on a limb and said that there would be an upturn in the latter part of the year.

The fact that actual activity was in line with predictions has given forecasters confidence in their analytic tools. At the annual meetings of the American Economic Association (p. 104), for instance, delegates were no longer so reluctant to talk about their record. R. C. Turner of Indiana University spoke for many of his colleagues when he declared that "much of the pessimism regarding the potentialities of forecasting" is "exaggerated or outdated."

There is no doubt that last year's record was impressive, and many have marked a turning point in short range—6 months to a year—forecasting. The economists themselves freely admit that they have benefited by greater comprehension of the changes that have taken place in our system and continual improvement in statistical data.

Forecasters also admit a debt to the statistics on intentions to spend, such as the McGraw-Hill survey of business plans for new plant and equipment (Business Week—Nov. 6, 1954, p. 30) and the Michigan Survey Research Center reports on consumer intentions (Business Week—Nov. 27, 1954, p. 124).

Considering the variety of tools at the disposal of our forecasters, it may appear easy to chart the immediate future. But our economy is so complex and changes so quickly that it takes great skill and judgment to forecast with any accuracy.

Even the most self-assured forecasters at the AEA meetings made plain that their predictions depend for the most part on good statistics. They feel that the

Government must continue to improve its statistical information, particularly in such fields as construction, inventories, and unemployment.

Moreover, most economists, including those who have faith in their short-range forecasts, agree that their medium- and long-range predicting is still little better than informed guesswork. In fact, most of the predictions that we have for 1960 or 1965 are merely projections of desirable objectives. Yet the AEA emphasized that both Government and business need to know more about long-term conditions if we are to avert the cyclical fluctuations we have experienced in the past.

If economists get better data and improve their methods, the bright record made in the last year will undoubtedly be improved. This is essential if we are to achieve a full measure of progress and stability.

Political Elements in Full Employment Policy

A paper delivered before the American Economic Association, Detroit, Mich., December 29, 1954, by Stephen K. Bailey, Princeton University

Earlier in this century, a distinguished economist wrote a book the last chapter of which was entitled, "If I Were Dictator." It was a glowing account of what economic measures would save society if only politicians were not around to louse things up.

My theme today is built around the dismal forecast, now widely shared by most economists, that politicians are likely to be around for some time to come. Let me hasten to add, however, that there are stabilizing factors at work and that the secular trend is bullish, although the rate of development may not be great enough to guarantee in the short run the maximum utilization of all the resources of the American Economic Association and the American Political Science Association.

It is 10 years, almost to the day, since a group of economists, political scientists, and politicians sat around a table on Capitol Hill and drafted a so-called full employment bill. In the eyes of history, this temporary confluence of professions may have been of more importance than the Employment Act itself. For one of the central problems before both economists and political scientists is how to make politicians as smart as we are and (if I may be pardoned a heresy) vice versa. This is what Lord Macauley had in mind when, referring to currency reform in the reign of William II, he said, "It would be interesting to see how the pure gold of scientific truth found by the two philosophers was mingled by the two statesmen with just that quantity of alloy which was necessary for the working."[1]

The problem is not new. What is new is the degree of our own self-consciousness that an interdependency exists. One of the salutary results of the Employment Act has been the forcing together of professional economists and professional politicians on a scale hitherto unknown in this country. In Mr. Nourse's felicitous expression, "the research division, the engineering division, and the sales division," have been constrained to sit down together. Even if Mr. Nourse himself found this confluence at times an unhappy one, he has enormously increased our sum of knowledge about the pitfalls of this necessary collaboration.

I do not wish this morning to attempt a detailed summary of the obvious. You are more fully aware than I of the political elements in full employment policy. In fact, the most sophisticated writing in this field has been done by economists, not by political scientists. I need only refer to the writings of Mr. Blough and Mr. Nourse to make my point. They, and others, have listed the tough ones.

But purely as a preliminary catechism, let me recapitulate a few major points:

1. America is a vast and highly pluralistic society. There is no hand, seen or unseen, which is capable of homogenizing all of the diverse political and regional appetites of our country into a uniform, grade A public interest. This frequently leads to shifting compromises and second-bests in economic as in most other policies.

2. Full employment in a free society is an aggregate concept. The constituent pressures on a Congressman are often highly "unaggregate."

3. Politicians, like some other people who shall remain nameless, occasionally differ on the subject of what policies actually will produce a condition of full employment. The difference between politicians and others in this respect is that

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[1] Quoted in C. H. Hankin, The Mental Limitations of the Expert: India, Butterworth & Co., Ltd., 1921, p. 27.

if politicians guess wrong, they run the risk of losing their jobs. They have a tendency, therefore, to do a very cowardly thing: they hedge.

4. There is in America a tradition of what Burt Marshall has called "serendipity." Serendip is an ancient term for Ceylon. Mythology recalls that there were once three princes of Serendip. In Mr. Marshall's words, these three princes were "special favorites of benign fortune. Things never worked out as the princes planned them, but they always worked out remarkably well, nevertheless, and the princes went through life blessed with unintended and unforseen happy consequences." [2] The principle of serendipity accounts for whatever truth there is in Grover Ensley's claim that, on the whole, congressional action in the economic field during the past 10 years has been sounder than the advice of economic experts. Serendipity makes some Congressmen smug—more smug, perhaps, than is warranted by an uncertain future.

5. The phrase "full employment policy" seems to imply a consistent and coordinated Federal effort. That coordination is made remarkably difficult by the extraordinary jogs in Pennsylvania Avenue from 17th Street, NW., to Second Street, SE. Twists of institutional jealousies and prerogatives in the tax and appropriations lanes alone make driving hazardous and destinations uncertain.

6. Even within the executive branch, departments like Agriculture, Labor, Commerce, Interior, Treasury, and the Veterans Administration do not always see eye to eye with each other—or with the President. And there is of course the problem of independent and quasi-independent agencies like the Federal Trade Commission, the Interstate Commerce Commission, the Federal Reserve, and Mr. Wright Patman.

7. Even within the Executive Office of the President, there is no assurance that all those who should, actually will meet together in the lobby of the Sherman Adams hotel.

8. State and local governments make decisions about spending and investment on the basis of political considerations frequently ignored by department heads and Presidential advisers in Washington. I happened to be mayor of Middletown, Conn., when Mr. Humphrey, with the help of some friends in the Federal Reserve, slammed on the brakes in the spring of 1953. Fortunately for Middletown (and perhaps for Mr. Humphrey and the United States), his foot slipped. We would have built the schools anyway, but an interest rate of 1.90 is a lot easier on the books and the ballots than 3.25. And never underestimate the power of local officials. Representative Seely-Brown is a Republican and I am a Democrat, but I called him Seeley and he called me Steve.

9. State and national elections come periodically. It is becoming increasingly obvious that a healthy readjustment is easier in odd years than in even.

10. Finally, the apocalyptic spectrum known as international relations is in the hands of politicians, here and abroad. Full employment policy is mightily conditioned by international events; even if the reverse is also true.

These are some of the major political variables which stand between the scientific economist and consistent economic policy. They are what I would call the centrifugal forces in our Government. The search of both economists and political scientists in the past two decades has been for countervailing, centripetal forces which might increase the rationality of decisionmaking in the field of economic policy. We have a long way to go, but I think we ought to count our blessings. Progress has been made, and the progress is impressive.

The first centripetal force has been in the field of economics itself. Through brilliant analytical work, the economics profession has narrowed to its own areas of disagreement. There are few economists left, for example, who would argue for a tax rise in a major depression, as Roosevelt did. The crystallizing orthodoxies of the economics profession make their way into both branches of the Federal Government, and after a slight delay have an enormous impact upon policies. As Lord Keynes wrote so brilliantly: [3]

"The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. I am

[2] Charles Burton Marshall, The Limits of Foreign Policy: Henry Holt & Co., New York, 1951, p. 46.

[3] J. M. Keynes, General Theory of Employment, Interest, and Money: Macmillan & Co., Ltd., London, 1936, pp. 383–384.

sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas."

There has been a heartening increase in agreement among the members of the Joint Committee on the Economic Report during the past 6 years, and I submit that this increase would have been impossible without the establishment of prior agreement within the economics profession itself.

The second centripetal force has been at the level of executive organization. The tentative, and almost accidental, character of executive branch interest in problems of economic stabilization 40 years ago is reflected in a letter written to President Wilson by his Secretary of Commerce dated May 7, 1913. The letter reads as follows: [4]

"SIR. There is much practical wisdom in the suggestion made by you to Secretary McAdoo yesterday, respecting the advancement of public works under present conditions, that I venture to add a word in the same line.

"The point of attack in the matter will not be with the executive departments. These, inspired by you, will act quickly when authorizations and appropriations allow. It is the chairmen of the two Appropriations Committees who control the situation. I would suggest a conference, at early convenience with these chairmen and with Mr. Underwood, and others if you prefer, to point out to them the practical value to us now (not at a future date, but today) of such appropriations as wil permit the progress during this summer and fall of contract work as fully as possible.

"The Department of Commerce has asked appropriations for lighthouse and other work already authorized, aggregating something over a million dollars, at many different points. They are no more needed than other public works, but they would add to employment and the distribution of funds, and if appropriations were deferred to the next session of Congress a year would be lost, during which much might happen. Practical commonsense would seem to indicate the wisdom not only of appropriations for needed public works, but the political expediency of having those appropriations quickly, for the reason so cogently stated by the Secretary of Labor yesterday.

"Respectfully."

In regard to Executive-legislative relationships, this letter is as hot as tomorrow's headlines. Many of the problems it raises are still unanswered. But there have been major changes in the institutional mechanisms for appraising the President of what he can or should do. The great landmarks in this development have been, of course, the Budget and Accounting Act of 1921; the Reorganizations Acts of 1939, which established the Executive Office of the President; the Employment Act of 1946; the National Security Act of 1947; and the subsesuent administrative additions and changes which have been made within the Executive Office framework itself. The executive departments and agencies still ride off in a variety of directions; strategic and tactical moves in relation to Congress are still handled gauchely at times; but the clearance and advisory mechanisms in the Executive Office have markedly increased the chances that policy freewheeling will be a matter of political choice not of staff default. And these mechanisms are constantly being refined. The reconstitution of the Council of Economic Advisers in 1953, for example, established an Advisory Board on Economic Growth and Stability under the chairmanship of Arthur Burns. This interdepartmental Board includes representatives, at the Under or Assistant Secretary level, of Treasury, Agriculture, Commerce, and Labor. It also includes a member of the Board of Governors of the Federal Reserve System, the Assistant Director of the Bureau of the Budget, and Dr. Gabriel Hauge of the White House staff. There is no necessary magic in interdepartmental committees. Washington probably suffers from too many of them. But in this particular case, an interdepartmental advisory committee may be an extremely useful educational and policy coordinating device.

A third series of centripetal forces have developed in Congress and in the structure of political parties. The Legislative Reorganization Act of 1946 was not an unmixed blessing in this regard, but it did result in the establishment of majority and minority party policy committees in the Senate, it did cut down on the number of standing committees, and it did focus attention on the problem of diffusion in congressional activity. The very existence of the Joint Committee on the Economic Report and the Joint Committee on Internal Revenue Taxation

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[4] Letter from William C. Redfield, central records of the Department of Labor in the National Archives.

with their respective staffs indicates that Congress is aware of the need for a more unified appraisal of fiscal and economic programs.

Both Republican and Democratic National Committees have increased their research services to Congress, and have sincerely tried to find common denominators of agreement on economic issues within their respective parties.

Regularized channels of communication between the President and the Congress have increased in quality and quantity during the past two decades. I refer not only to the care now taken in the preparation of the three annual Presidential messages: The state of the Union message, the budget message, and the Economic Report; but to the new liaison status given to the Vice President, the weekly meetings between the President and his congressional leaders, and the more systematic use of department heads in defending the President's program before the Congress.

These are all encouraging signs. But, unfortunately, centripetal mechanisms, no matter how carefully they are designed are not enough. As J. S. Mill once said, "In politics, as in mechanics, the power which is to keep the engine going must be sought for outside the machinery." In the final analysis, economic stabilization like any other policy goal depends upon the system of value priorities and the political skills of those who wield political power. No matter where we turn in government we find that economic goals are conditional. Man does not live by bread alone. The goals of physical survival and of freedom itself are not necessarily in conflict with, but they are certainly antecedent to, and higher on the value ladder than, any circumscribed economic goal, no matter how desirable. To get at these value interrelationships we need a lot more than a Council of Economic Advisers or a Joint Economic Committee. We need political leadership at both ends of Pennsylvania Avenue—leadership which is capable of performing the highest task of statesmanship: the mobilizing of power behind articulated goals. In the kind of governmental system we have in America, this is an extraordinarily difficult assignment. Lines of responsibility and accountability are not clear cut. The vast and frequently competing congeries of power represented by interest groups in our society are not easily moralized or even contained. The shifting sands of public opinion and the swiftness of changing events makes the very task of goal-setting and political implementation extremely hazardous. And yet the mobilization and harnessing of political power is the only master key to the development of consistent programing in the economic or any other field.

This puts an extraordinary burden upon the President of the United States. Mr. Truman realized this when, without prophetic insight as to his successor, he stated that the President's desk is like a general's. Truman outlined what he called the five vital steps of strategy: (1) Estimate your own resources; (2) estimate your enemy's resources; (3) form a judgment as to what is to be done; (4) implement that judgment with a plan; (5) persuade your leaders of the value of that plan, and mass your forces for the attack.

This is almost a perfect description of what most Presidents have not done, or have done badly. Presidential leadership means what human leadership has always meant: taking account of multiple forces and interests in a more subtle and forceful way than traditional, formal procedures generally permit. Possibly the greatest single weakness of the present administration is its faith that institutional arrangements, secretariats, and rationalized divisions of labor in the executive branch are by themselves adequate to deal with the complex and diverse value configurations of our national polity. The setting and dramatizing of goals, especially in the economic field, has been intermittent, often contradictory, and almost casual. It was not until the exigencies of a political campaign forced the issue, that the President was willing to set economic goals for longer than a month or two in advance. I only hope and trust that this reluctance to perform the highest function of Presidential leadership was not due to staff suggestions that because forecasting is not economically "scientific," the President should ignore his prophetic role. If this was the case, it only lends fuel to the fire of my own conviction that untainted, professional, scientific economists belong back in a dark corner of the Budget Bureau, not at the level of direct advice to the President. However hard it may be on the egos of some economists, the Council of Economic Advisers was not set up to please the American Economic Association. The Employment Act is quite clear about the policy functions of the Council. The act states explicitly that each member of the Council shall be a person who, and I quote, "As a result of his training, experience, and attainments, is exceptionally qualified to analyze and interpret economic developments, appraise programs and activities of the Government in the light of the policy declared in section 2, and *to formulate and recommend national economic policy* (not "alternative economic policies," but "national economic policy") to promote employment, production and purchasing power * * *." [Italics supplied.]

The Council, in short, was established to help the President perform his goal-setting function; to help him as a sorter of values, and to help him in his role as a mobilizer of political power. This makes the Council, inevitably, a participant in the political process, not an adjunct thereto. The act implies that members of the Council should be something more than economists, that they should be in tune with the value premises of the President, and that like the President they should be politically expendable with changes in administration.

I am aware that this is a controversial subject among economists—and that I am taking an unpopular position. But I must, as a political scientist, state my position with some emphasis. I do not believe that economists have any right to participate in high policymaking without running the risks of political involvement and political compromise. Those who will not play unless they are guaranteed immunity against politically tailored value commitments remind me of the early Fabian socialist, Joseph Burgess, who refused to compromise on some issues during a general election and thereby lost his seat in Parliament. George Bernard Shaw complained bitterly as follows:[5]

"When I think of my own unfortunate character, smirched with compromise, rotted with opportunism, mildewed by expediency * * *, putrified by permeation * * * I do think Joe might have put up with just a speck or two on those white robes of his for the sake of the millions of poor devils who cannot afford any character at all because they have no friend in Parliament. Oh these moral dandies, these spiritual toffs, these superior persons. Who is Joe anyhow that he should not risk his soul occasionally like the rest of us?"

If an economist wishes to limit his activities to objective economic analysis, he has a perfect right to do so; but that right should be exercised about 3 steps or 3 blocks removed from the President. What some economists call the "scientific" function is an indispensable function in modern government, but it is a totally different function than that prescribed for the Council of Economic Advisers by the Employment Act. If the Employment Act had established the Council as a Supreme Court of Economic Truth, it would have created an administrative monstrosity. The Presidency creates a magnetic field which structures everything it touches with the electricity of politics. An economist has no option. He must either escape the field completely, or he must be drawn into the magnetic orbit. The economics profession cannot have it both ways. It cannot claim political immunity for Mr. Burns and at the same time ignore the fact that he made a major public speech in Detroit, Mich., 2 weeks before a national election.

With all due respect to Mr. Nourse, the tortured early history of the Council was in part his own making. He attempted to make the Council into something it was never intended to be, and at its peculiar level, never can be: an oasis of pure economic science. Mr. Burns, with rare and notable deviations, has doubled in spades. This perspective has tended to make the Steelman's and the Hague's, the Snyder's and the Humphrey's the true economic advisers to the President, and his stringently limited the Council as a true policy arm of the Chief Executive. Mr. Keyserling may have carried the logic of his own position and personality to unnecessary extremes, but this was in part an understandable reaction to the sincere but pristine myopia of his distinguished predecessor.

The present sorry and bitter hiatus between the Council and the joint committee is more than a matter of personalities. It is a direct outcome of a misreading of the proper role of the Council. There may be good tactical reasons for keeping the Council away from public hearings before congressional committees, but there is every reason in the world to keep constant and friendly informal contacts rolling between the Council and the joint committee. There is every reason, that is, if both the Council and the joint committee are policy-oriented. If the Council is not policy-oriented—if it conceives of its chief function as that of adding up freight car loadings to give the President a Monday morning statistical summary of current indexes and short-run projections—the joint committee is inevitably left high and dry as a potential weapon of Presidential influence in the field of economic policy.

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[5] Hesketh Pearson, G. B. S. (Harpers Bros., New York, 1942), p. 156.

Goal setting, although the supreme task of a President, is not worth much unless there is political followthrough. In the economic field, unless the Council helps—at least covertly—in this followthrough, the President must depend upon ad hoc expedients which lack both the strength of considered strategy and the ideological force of economic sophistication. A little recent history is perhaps germane at this point:

In November 1947, the Council of Economic Advisers reported to the President and the Cabinet that the then inflationary dangers were serious to both the short-run and the long-run stability of the economy, and suggested a 10-point legislative program to handle the situation. The 10-point program was submitted to a special session of the 80th Congress with neither proper bill drafts nor executive branch clearance on testimony to back it up. As far as I can judge from a study of the records, there was not even a suggestion of strategic thinking about pressure groups and congressional support. In January 1948, the President reiterated this demand for anti-inflation legislation in his state of the Union message. Again there was no conscious strategic planning in the Executive Office or elsewhere for the active mobilization of a working coalition to get results. In the summer of 1948, President Truman called a special session of Congress and again submitted an anti-inflation program. Virtually, the only concession to strategic thinking this time was a hurried call to Paul Porter to testify after a superficial briefing, before a congressional committee on behalf of the President's program.

After the November elections, and in preparation for the 81st Congress, the President appointed Dr. Nourse, then Chairman of the Council of Economic Advisers, as head of an ad hoc Cabinet committee to work out an omnibus economic stabilization bill. In January 1949, after much of the technical preparatory work had been finished, Secretary of Agriculture Charles Brannan took on the job of developing agency and congressional support for the bill. Here, after 15 months of virtual futility was the first serious attempt to look at the economic stabilization program in terms of building effective consent behind it. But even here, the strategic planning was pitifully inadequate.

All this adds up to the fact that the development of a consistent economic policy in the Federal Government cannot even be approximated without the central formulation of a political program and the mobilization of a successful coalition of power to carry the program through.

I cannot conclude without pointing out that Presidential leadership—even with the aid of a policy-oriented Council—is only one facet of this problem. Congress must respond with a more consistent power focus than it has developed up to now. That focus can never be as clear as the President's for the kaleidoscopic representative function of the Congress interferes—and probably should interfere. But the tolerance for programmatic anarchy should, in my estimation, be narrowed. Insofar as the force of ideas is important here, the Joint Economic Committee even now performs a significant function; although that function could be strengthened if a more sophisticated provision were made for a "legislative clearance" liaison between the members and the staff of the joint committee on the one hand, and the member and staffs of the standing committees dealing with major economic legislation on the other. It is possible that a Joint Economic-Budget Committee, as suggested by Mr. Colm, might help in the development of more consistent economic policies; although, if the Congress went that far, I think I should prefer a Joint Committee on the State of the Union which might operate each year for not longer than 3 weeks, and whose sole job it would be to hear testimony on the interrelationships of the three Presidential messages.

But again, the real key here is not minor institutional changes to help spread the cold light of reason. The Spanish writer, Unanumo, thinking of Goethe's dying words, "Light, light, more light," declared passionately, "No, warmth, warmth, more warmth; for we die of cold not of darkness. It is not the night that kills but the frost."

The great job of the Congress and of our political parties is to build responsible communities of interest around the major value goals of our society; not to reflect, but to refract and moralize, the divisive pressures in our democracy. Whoever, through personal leadership or through refining the administrative and political instruments of government, is able to develop more cohesive and responsible power behind more coherent and intelligently constructed programs will have solved the key political elements in full employment policy.

Representative BOLLING. Then there are some excellent questions which have been prepared by the staff, and since I am going to leave in a few minutes I would like to ask that the questions not answered at the session be presented to Dr. Burns so he can respond in writing to those that he thinks appropriate. (See p. 42.)

Then somewhat facetiously and exceding any legitimate authority, I would like, on behalf of the chairman, Senator Douglas, and myself, to welcome the cosponsorship of the President for that proposal the Senator and I made last year for a coordinator of public works, and get some comment from Dr. Burns as to—and this is one of the questions prepared by the staff—as to the administrative machinery for Coordinator of Public Works, and the execution of the public works program that already exists. To throw in as a second question here: Wasn't this program on public works actually handled by the Council, and was this not an operating function of the Council?

Dr. BURNS. I would like to answer your questions concerning public works to the very best of my ability. You have asked several questions, and I will do my very best with the questions as I have understood them.

Let me say at the start that I think the members of this committee, in urging the coordination of public works planning, have rendered a very useful service. A unit was established in the Council for public works planning last April. A Coordinator of Public Works Planning was first appointed to the Council's staff. Then a small group of experts was assembled to assist him in that work. This is an activity in which members of the Council have taken a very keen interest.

We feel—I personally feel, and so do my colleagues—that this activity is so important that it should be enlarged and put on a semipermanent basis. The President's recommendation in his state of the Union message, and once again in the Economic Report, is designed to do that.

For many years we have gone along in our country making ad hoc decisions about public works. At long last we now have the beginnings of a mechanism for doing systematically, within the Federal Government, what many States and municipalities have been doing for years. I think it is a progressive step.

The CHAIRMAN. I may say that I also wish to thank the Council of Economic Advisers, and the President, for adopting the principles of the Bolling-Douglas bill, and I ask that it be made a part of the record.

(The material referred to is as follows:)

[S. 2913, 83d Cong., 2d sess.]

A BILL To establish an effective program for the planning and construction of needed public works and to create the Office of Public Facilities Administrator

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Public Facilities Act of 1954".

SEC. 2. It is hereby declared to be the purpose of this Act, in the interest of maximum economic and military security, (1) to provide a means whereby the Federal Government can more effectively take advantage of available manpower and productive capacity, in a manner consistent with the declaration of policy of the Employment Act of 1946 (and particularly with respect to cooperation with State and local governments), to develop needed public facilities for the general welfare, safety, and productivity of the people of the United States, and (2) to offset declines in private investment, production, and employment by the construction of carefully planned and needed public facilities to contribute to continued economic stability and growth.

SEC. 3. (a) To assist in carrying out the purpose of this Act, the President is authorized to appoint, by and with the advice and consent of the Senate, a Public Facilities Administrator in the Executive Office of the President (hereinafter referred to as the "Administrator"). The Administrator shall receive compensation at the rate of $17,500 per annum.

(b) The Administrator shall be Chairman of an Advisory Committee consisting of the following: Commissioner of the Bureau of Public Roads; Commissioner of the Office of Education; the Surgeon General of the United States Public Health Service; Chief of Engineers; Chief of the Forest Service; General Services Administrator; Housing and Home Finance Administrator; an Assistant Secretary of the Interior; an Assistant Secretary of Labor; an Assistant Postmaster General; an Assistant Secretary of Defense; Director of Defense Mobilization, and the Chairman of the Atomic Energy Commission.

SEC. 4. The President, with the assistance of the Administrator and the Advisory Committee, shall devise programs for submission to the Congress, consistent with the purpose of this Act, to aid in the construction of needed public facilities by the Federal Government, State and local governments, and authorities set up under the jurisdiction of State and local governments. In developing Federal programs for the assistance of State and local governments, and public authorities set up under the jurisdiction of State and local governments, consideration shall be given (among other means) to the desirability of providing (1) direct financial assistance, (2) a secondary market for securities, (3) loan guarantees, (4) reimbursable loans for advance planning, or (5) technical assistance.

SEC. 5. Whenever the President, after consultation with the Council of Economic Advisers and the Administrator, determines that acceleration or contraction of the construction of needed public facilities will be consistent with the purpose of this Act, he may designate the fields and areas in which Federal public-works programs and Federal assistance to State and local government programs should be increased or decreased, and any money authorized and appropriated for use in these fields and areas shall be allocated or placed in reserve by the Bureau of the Budget accordingly.

SEC. 6. The President shall include in his Annual Economic Report to the Congress (1) specific information on the reservoir of public facilities needed and planned by Federal, State, and local jurisdictions, (2) a statement of the policy of the Federal Government with respect to the construction of such facilities, and (3) recommendations for such legislation to implement that policy as he may deem appropriate.

SEC. 7. There are hereby authorized to be appropriated such sums (not to exceed $100,000 in any one fiscal year) as may be necessary to provide for the compensation and operating expenses of the Administrator.

Representative BOLLING. That is all I have, Mr. Chairman. Thank you.

The CHAIRMAN. Congressman Curtis.

Representative CURTIS. No questions.

The CHAIRMAN. Congressman Mills.

Representative MILLS. Dr. Burns there were some questions suggested for the Council, or 1 or 2 of them, on which I would like to have comment, now, before I forget them.

What rates of national economic growth should Government economic policy attempt to facilitate?

Dr. BURNS. That is a question to which neither I nor, if I may be so bold as to say that, any other person can give a responsible quantitative answer.

I am inclined to think that we ought not to be satisfied with any rate of growth that we attain. We ought to try to better it. But I would hesitate about expressing that thought in a numerical phrase.

Representative MILLS. Well, let me ask you this question: What is the objective of the President with respect to balancing the budget, and which budget, the cash budget, or the administrative budget, and so on?

Dr. Burns. At this particular point, Senator Douglas——

The Chairman. Congressman Mills.

Dr. Burns. Yes, but I must address a question to the chairman now. I have been asked a question concerning the President's personal objectives as to the budget, and it is not clear to me that that is a question I should try to answer.

Representative Mills. Well, it was leading up to another question, so I will withdraw that one and ask another one.

The Chairman. You assume, Mr. Mills, the policy that has been announced heretofore. I think the President has announced his policies on that.

Representative Mills. That is not really important to the question I had in my own mind.

I am wondering if in the opinion of the Council a continued program of deficit financing in 1956 will affect the soundness of the very sound American dollar?

Dr. Burns. Well, as I see it, in fiscal year 1956, we are likely to have in a practical sense a balanced budget. Let me explain that. The President's budget message indicates a prospective deficit, when the budget is taken on the conventional basis, of $2.4 billion, if I recall the figure correctly. It also indicates a surplus of $600 million, again if my memory is correct, for fiscal year 1956, on the basis of the cash budget.

Now, these are the figures presented in the budget message, and repeated in the Economic Report.

May I——

The Chairman. Go ahead. I was just thinking of another question, but that was improper of me and I rule myself out of order.

Dr. Burns. Well, you are perfectly in order, as far as I am concerned, Senator.

The Chairman. No; go ahead, please.

Dr. Burns. It is my expectation and hope that the budget showing for fiscal year 1956 will be better than the figures I have cited. A continued effort to reduce expenditures will be made, so that the projected figure on expenditures for fiscal year 1956 may well turn out to be a little on the high side. As I see it, we are in the immediate vicinity of a balanced budget.

I have not yet answered your question. I wanted the arithmetical aspects of the budget to be perfectly straight, or as straight as I can make them, before doing that.

Representative Mills. Dr. Burns, I am hopeful that your optimism with respect to the budget will be realized, but in the event that it is not realized, and deficit financing continues into fiscal year 1956, and may be even projected into fiscal year 1957, would that not be inflationary and therefore affect the soundness of the dollar as it exists today?

Dr. Burns. I find it impossible to answer that question in the abstract.

The existence of a budget deficit, as such, may or may not generate inflation.

In the first place, you have to draw a distinction between the conventional budget, on the one hand, and the cash budget, on the other. My opinion is that Federal finances are neutral, by and large, with respect to the economy when the cash budget is in balance, and that nowadays means a deficit of 2 or 3 billion dollars in the conventional budget.

This general statement, however, is of limited value. In practice you have to look at the particulars of any given year or any given economic situation. At a time when there are extensive unused resources, the existence of a deficit, even on a cash basis, need not mean that inflationary pressures exist. It may mean just the contrary. The very fact that you have unused resources may well mean that there is a downward pressure on prices, even though you have an unbalanced cash budget.

Representative MILLS. Well, do I understand, then, Dr. Burns, that it might be possible for the Congress to further reduce taxes on individuals without necessarily constituting a threat of inflation?

Dr. BURNS. You will have to specify particulars before I could answer that question responsibly. If you are thinking of conditions as they are today, I should think that a reduction in taxes at the present time by the Congress would be extremely unwise and that——

Representative MILLS. I did not mean unwise now. I may be able to agree with you on the wiseness of it.

Dr. BURNS. I am coming to your point.

Representative MILLS. All right.

Dr. BURNS. And it might incite inflationary pressures.

Representative MILLS. Well, you have confused me a little bit now.

Dr. BURNS. I would be very glad to clarify, if I may.

Representative MILLS. I might say that it is not difficult for me to be a little bit confused in the field of economics, but I am trying to rationalize the situation.

Now, if an unbalanced budget of $2.4 billion would not be inflationary for the coming fiscal year and would not make unsound the sound American dollar we have, another $2½ billion of deficit financing might be inflationary; is that your point?

Dr. BURNS. I have not expressed any opinion as to whether a deficit of $2.4 billion in fiscal year 1956 will or will not be inflationary. Before I could express an opinion on that, I would have to specify the economic shape that is assumed for that year.

Representative MILLS. Well, on the assumptions that you make for the year, I assume that you make certain economic assumptions upon which you base your predictions.

Dr. BURNS. My judgment on the basis of those assumptions, as of the present, is that the budget for fiscal year 1956 will not be inflationary. That is my present view.

Representative MILLS. Well, on the basis of the same assumptions, would it be inflationary if the deficit were increased by two or two and a half billion dollars, if that $2½ billion represented a decrease in personal income taxes which would be expected to enter into the normal channels of trade?

Dr. BURNS. If the budget deficit were increased beyond the present estimate of $2.4 billion, which, as I stated, I think is probably on the high side, we would be taking a risk of exciting inflationary pressures.

Representative MILLS. But if your optimistic hope is realized, and I say I concur in your hope that it is realized, that we get definitely into a balanced situation, on the basis of the estimates of our future economic situation, and reduction in expenditures, then the $2½ billion loss in tax reduction would not be inflationary because it would just take the place of the $2.4 billion which is now estimated in the budget.

Dr. BURNS. Well, if my present optimism is fulfilled, Congressman, the national income will be even a little larger than the figures that underlie the present budget estimate. To set about and create a budgetary imbalance at a time of very high employment involves, I think, taking a grave risk with the country's money.

Representative MILLS. That is all, Mr. Chairman.

The CHAIRMAN. I may say, that in the discussion of the 1954–55 budget, last January, at that time the adminstration estimated that the deficit for 1954–55 would be $2.9 billion, and they now estimate that it will be $4.5 billion, so as it was there was an underestimating of the deficit for this year of $1.6 billion.

Dr. BURNS. Yes, that is true; and it was due to two factors. One was a decline in economic activity and the other was a larger tax reduction than the President recommended in his budget message.

Representative MILLS. Well, Mr. Chairman, that arouses a further question on that point, if I may.

The CHAIRMAN. Go ahead, please.

Representative MILLS. What reductions other than a billion dollars of excises did we vote last year that the President did not recommend?

Dr. BURNS. I do not believe that there was any in addition, but there was that.

Representative MILLS. Well, that would not make that difference.

Dr. BURNS. Well, the difference between the two figures cited was less than $2 billion, and $1 billion is one-half of $2 billion. Beyond that, and putting to one side what was done to reduce expenditures below the original estimate, we did have a decline in economic activity.

Representative MILLS. Well, that is the main reason for it. I would think that is the main reason for the difference in the earlier estimate and the later realization.

Dr. BURNS. It was certainly a factor in the situation.

The CHAIRMAN. Congressman Curtis.

Representative CURTIS. No, I have no questions.

The CHAIRMAN. Senator O'Mahoney.

Senator O'MAHONEY. Thank you, Mr. Chairman.

Mr. Burns, my concept of this report, as all reports of the Council of Economic Advisers, is in the nature of a recommendation to the Congress for its guidance in approaching the problems that will have to be met on the economic side. I would like to ask, if I may, what assumptions you made or were made in the preparation of this report and its recommendations, as to whether it is a report on a peacetime economy, a defense economy, or an international cold-war economy.

Dr. BURNS. Your last term is perhaps the most nearly descriptive. We have a peacetime economy at the present time, but a peacetime economy with military budgets vastly larger than any that we have been accustomed to associate with a state of peace.

Senator O'MAHONEY. Then you would agree that if the military budget were severely cut there would have to be substituted for it substantial expenditures of a civilian nature, a public-works nature, or something in the normal category of peacetime operations to maintain employment and profits on anything approximating their present levels?

Dr. BURNS. Well, as you put the question, it is purely a matter of arithmetic, is it not?

Senator O'MAHONEY. I think so.

Dr. BURNS. That if one part of the Nation's total of expenditure, namely, that devoted to military purposes, is reduced, then if we are to maintain economic activity at an unchanged level, then surely other parts or other categories of expenditures will have to show increases. If this is what you mean, of course, you are right.

Senator O'MAHONEY. Then to maintain an international cold-war economy, I take it you would agree that we must be prepared to continue those expenditures which are necessary to keep our defense flowing and, at the same time, to shade toward balancing the budget in order to maintain the strength of our own capitalistic economy?

Dr. BURNS. I know nothing about military matters—but it is perfectly clear to me that we must spend whatever is required to maintain the defensive strength of our country.

Now, as for the budget, we should strive by and large for a balanced budget, but we should also be prepared for deficits at certain times, and for surpluses at other times, depending upon economic conditions.

Senator O'MAHONEY. To what extent can we safely hold out to the people, and I am asking now on the part of the economy, the hope of further tax reductions while we hope to maintain or strive toward a balanced budget?

Dr. BURNS. Let me say this, Senator: We have a tax structure at the present time that was built up to meet the Korean threat. I fear that if our present taxes are continued for a very long time, they would constitute a drag on the economy.

Senator O'MAHONEY. Well, we now have the Formosan threat presented to us today in a message from the President. We cannot disregard that, can we?

Dr. BURNS. I do not think we can disregard anything that in any way threatens the security of our Nation. I think we must start from that, since nothing is more important than that.

Senator O'MAHONEY. I think we all agree on that. Yesterday the Secretary of the Treasury, Mr. Humphrey, on Meet the Press, responding to the pointed inquiries of representatives of the press, spoke of the possibility of continuing decreased expenditures and he discussed the likelihood that expenditures would continue to fall.

Is that the assumption on which this budget is based?

Dr. BURNS. The assumptions concerning expenditures are stated in the budget message, and repeated in the Economic Report. Certain figures concerning prospective expenditures are put down. Now, those of us who are concerned with these matters in the executive establishment continue to hope that a little less than that will be spent, though we all recognize that additional cuts in expenditure from now on are going to be very much harder to make than the cuts that were made during the past 2 years.

Senator O'MAHONEY. Secretary Humphrey also stated in that interview that it would be necessary for the Treasury to ask Congress for a higher debt limit toward the end of this fiscal year. You, of course, had that in mind in the preparation of this economic budget. There are expenditures in this budget amounting to $14 billion plus, estimated as obligations which must be paid no matter what happens, as, for example, the interest on the national debt, social-security payments when unemployed, when people are thrown out of employment, and the like.

And now there is talk of a very large broad-gage road program which is highly necessary, but which is to be financed in a manner by which the Government, the Federal Government, will guarantee the bonds and the moral obligation, certainly not a constitutional obligation, would be imposed upon the Congress during 30 years to make appropriations necessary to cover the interest upon those bonds.

Have you taken that interest cost into consideration in your thinking about the interest on the national debt?

Dr. BURNS. Well, of course we have considered the economic implications of the highway program. I must say this, Senator, that the precise shape of the program and its proposed financing will not be known until the President's message on that subject is presented to the Congress.

Senator O'MAHONEY. Well, let us not tie it to the President.

Dr. BURNS. The reason I say that, Senator, is that I am not at all sure that some of the remarks that you made concerning the financing of the highway program will turn out to be valid when the President's recommendations on this subject are submitted.

Senator O'MAHONEY. My remarks will not be valid?

Dr. BURNS. I say, they may not be.

Senator O'MAHONEY. I did not get the negative. I was wondering whether you were making that statement. I wanted to make it clear.

I cited it merely as an illustration and not as a basis for argument because a similar proposal was made last year, or the year before, if I remember correctly—and this I think originated in Congress—but with respect to the building of post offices, it was an attempt, by the issuance of bonds, to authorize an expenditure of Federal money without increasing the national debt, and that has always seemed to me to be a pure illusion.

If the Congress of the United States is under obligation to make appropriations to meet obligations, no matter what the legal form that was used to create the obligation, it becomes part of the debt; do you not agree with me?

Dr. BURNS. I think there is a great deal of force to your observations, Senator.

Senator O'MAHONEY. Well, now, do you have recommendations in this report which will enable the Congress to take efficient means of keeping the national debt down, or is the situation which confronts the Nation one that will require us to continue to raise the debt?

Dr. BURNS. I can only say this: If we are to modernize our highways on the scale which seems required by current conditions, we have a choice between taxing ourselves very heavily for the purpose or borrowing the money for the purpose. My guess would be that if we decided to do it on a pay-as-you-go basis, year in and year out, the modernized highway program which we all agree is desirable, if not necessary, would be much delayed.

Senator O'MAHONEY. Well, I have always been an advocate of the pay-as-you-go program. The reason I feel that way is not only because of old-fashioned ideas of living within one's income, whether one is an individual or a State, although I recognize that the State can do what an individual cannot do with respect to neglecting the payment of its debts, but it was all based upon the fact that experience teaches us that the cost of things that we are now paying and feel compelled to buy has increased by such leaps and bounds that unless we do follow the pay-as-we-go program and let the people know the cost of what they are buying, we are likely to increase the burden of the debt, whether it is concealed by bonds, supposedly revenue bonds, or bonds such as suggested by the post-office bill last year, so as to make it impossible for the country to meet this obligation.

Dr. BURNS. Well, you have raised, I think, an interesting and fundamental question. I only wish we had the time and opportunity to unravel this problem.

Senator O'MAHONEY. This I know, Dr. Burns. Let me say this: I sat on the Defense Appropriations Committee, and I saw the figures showing the tremendous increase in instruments of war that we were buying. Now, that cost has been increasing. I remember when Secretary Lovett appeared before our Subcommittee on Defense Appropriations, and compared the number of electrical wires in a modern plane, the plane that we were trying to finance then, with the number of wires in the best and most destructive plane that we had at the end of World War II, and my recollection is that the new plane which we were building had about 25,000 wires as compared with about 5,500 of the other. In other words, the increasing cost of war is just multiplying beyond all imagination, and I feel, therefore, that an economic report must make these things absolutely clear when we talk about debt and the financing the debt, and the interest on the debt.

Dr. BURNS. There is one sentence in the Economic Report that perhaps should have been expanded upon that deals with the very basic question which you have raised. With your permission I would like to read it.

Senator O'MAHONEY. Surely.

Dr. BURNS (reading):

> Although a steady pace of construction financed through the sale of bonds to the public would normally be the best procedure, expenditure and financing plans could be adjusted in the interests of general economic stability.

Now that I look at it, I would like that sentence better if it read "should be" adjusted.

Senator O'MAHONEY. What page is that?

Dr. BURNS. This is on page 62.

In other words, there may well be times within the next 10 years when in view of the state of the economy the only wise course would be to pay for the highway program by taxation rather than by issuing bonds.

Senator O'MAHONEY. Or by tolls?

Dr. BURNS. Yes. Well, tolls, after all, are a form of taxation.

Senator O'MAHONEY. Surely, but the fellow who is using the road knows he is paying for it.

Dr. BURNS. That is right, and that form of taxation, I think, is one to which the Congress would be well advised to give very serious attention.

Senator O'MAHONEY. Now, let me ask you to turn your attention to pages 18 and 19 of the report. The third sentence on page 18 reads as follows:

> Consumers not only maintained their spending at a consistently high level, but reduced their rate of saving during 1954.

Is there any information as to whether that reduction of saving was a matter of compulsion because other sources of income had disappeared, or was it because savers had come to the conclusion that there was no cold war, and no great economic problem, and that they were free to spend their savings?

Dr. BURNS. Well, what actually happened during the year is that the disposable income of the people increased, and the proportion of that income which was spent on consumer commodities and services increased.

Senator O'MAHONEY. No, I am referring to the statement that the rate of saving was reduced. In other words, the average citizen must have come to the conclusion that he did not have to save as much or he was compelled to reduce his savings.

Dr. BURNS. Well, the rate of savings was reduced in the sense that the proportion of dollar savings to the total disposable income of the people fell somewhat during the year. Now, why people acted in that fashion is a question that——

Senator O'MAHONEY. Well, I did not ask you to speculate on it. I wanted to know whether you had gathered any information as to what the real reason was.

Dr. BURNS. I have no information that I would regard as authoritative as to the reasons for this decline in the rate of saving.

Senator O'MAHONEY. Well, now, let me skip to page 19 and I will close my questioning with this: In the second paragraph on the top of page 19 you are discussing the fact that the Government was not satisfied with the passive role; it tried to act definitely to bring about the results it had in mind:

> One of the earliest acts of the new administration, after taking office in January 1953, was to remove price and wage controls in order to restore the functions of the competitive markets. With a boom psychology existing at the time, and unemployment at a vanishing point, this reform carried the danger of inducing fresh inflation. A precautionary policy of restricting credit expansion was therefore adopted. The aim was to prevent a reckless increase of investment and a deterioration in the quality of new credits, such as had often characterized the closing stages of economic booms in our history.

There follows a discussion of credit restraint, and why later on in the year it became evident that that was no longer necessary.

That is all preliminary to the statement that yesterday in the New York Times, in the business section, I read, and today, on the first page of the New York Journal of Commerce, the statement that the Treasury is now contemplating issuing another long-term high-interest bond.

Does that mean, if it is true, that the Treasury is contemplating another move toward the restraint of credit, or does it feel that inflation is pending?

Dr. BURNS. I feel, Senator O'Mahoney, that that question should be answered by the Secretary of the Treasury.

Senator O'MAHONEY. Well, I asked it only because the first phase of that policy is discussed at length here, and after having explained the abandonment of the policy——

Dr. BURNS. I merely mean that I do not now feel free to discuss policy further.

Vice Chairman PATMAN (presiding). We will state for the benefit of the gentleman from Wyoming, Friday and Monday we will hear the Secretary of the Treasury.

Senator O'MAHONEY. May I ask one further question, then?

On page 7 you have a paragraph entitled "Enlarging the Opportunities of Competitive Enterprise." The first sentence refers to private enterprise. The second paragraph deals with the Government's action in redrawing the line separating private and public empires.

I wonder if you would give us the definitions that you have in mind of the competitive enterprise, private enterprise, public enterprise, whether all private enterprise is competitive or whether public enterprise is competitive at any time, and so forth.

Dr. BURNS. I wish I could say, Senator O'Mahoney, that all private enterprise is competitive. Unhappily I cannot. I do feel, however, that it is an ideal that is well worth striving for.

Senator O'MAHONEY. And you wish this report to be interpreted as being inspired by the desire to promote competitive private enterprise, not monopolistic private enterprise?

Dr. BURNS. You have expressed my thought completely, Senator, and I wish to thank you.

Senator O'MAHONEY. Well, I will end on that note.

Vice Chairman PATMAN. I believe we have gone around the table now. Do any other members desire to ask questions? Mr. Mills, did you have something?

Representative MILLS. Mr. Chairman, I hesitate to pursue the matter. I had one other thought. Senator O'Mahoney has gone into it in part.

Dr. Burns, in this matter of issuing bonds, debentures which are not included as a part of the public debt, does that seem to be a growing tendency, and, if so, is it a sound proposition?

Dr. BURNS. It certainly is a growing tendency on the State and local levels.

Representative MILLS. I mean in the Federal Government now.

Dr. BURNS. To the best of my knowledge there is no such tendency within the Federal Government.

Representative MILLS. Well, I had in mind certain bonds and debentures authorized, I believe, by the distinguished gentleman over here, in the Commodity Credit Corporation, which, of course, have been issued for some time.

Representative WOLCOTT. I will call attention to the fact that at one time we had 18 billion outstanding in RFC debentures, so when Dr. Burns said there might be some contractions on our activity, I think we should have in mind as to what has been going on in these lending agencies.

Representative MILLS. I did not like it then, Mr. Wolcott, as to that being outside of the Government debt. You know of no trend, then, on the part of the Government to issue notes and debentures and not have them considered in the public debt?

Dr. BURNS. I am not aware of any significant trend in that connection, except that the question has come up in connection with the new highway program. It has been variously discussed in that connection.

Representative MILLS. Those of us who may say that it may be handled that way may be wrong, I remember you suggested to Senator O'Mahoney, so I will not pursue it.

Senator O'MAHONEY. May I ask, Dr. Burns, whether you have personally given any thought to the suggestion that has been made numerous times in the past that the Federal budget should be cast in a new form and consideration be given to capital investment and current expenditures, dividing the two, and if so, if you care to express any opinion about it?

Dr. BURNS. I have considered that question over the years and I have considered it since I have been here in Washington. I feel it would be desirable to shift emphasis from the present conventional budget to a cash budget. I think the cash budget is more significant from the viewpoint of the impact that Federal operations have on the economy.

As for a capital budget, I could make out an excellent case for it theoretically, but life being what it is, and people being what they are, and all of us being subject to temptation, I would be very reluctant indeed to recommend at the present time the adoption of a capital budget. It is not enough to be able to argue the theoretical side of that case to one's own satisfaction and perhaps that of others.

Senator O'MAHONEY. Thank you, sir.

Representative MILLS. Mr. Chairman, Dr. Burns, let me get your views as an economist on certain recommendations which have been made to the Congress with respect to taxes.

As a prelude to my question, I call attention to the fact that in 1954, when the President requested a continuation of the corporate tax rate at 52 percent for the year, I voted against it in the Ways and Means Committee, as my colleague from Missouri will remember. You have indicated already that certain rates of taxation, if continued indefinitely, might well become a burden. I suppose you mean a regressive operation. How long can we continue this 52 percent corporate rate on the basis of your present estimates without it becoming an undue burden upon business so as to prevent expansion?

Dr. BURNS. I wish I knew enough to answer your question precisely. Unhappily, I do not. I think we are subjecting our economy to a severe test in imposing a rate of taxation on business firms which is that high; and I do not deem it wise to continue to subject our economy to that test for very long.

On the other hand, there are considerations of fiscal prudence that we also cannot ignore. At a time when business activity is as good as it is at present, and when we are still operating at a deficit, it would be unwise, I think, to give up, right now, any taxes.

Now, to be sure, one might reduce the corporate tax and then make up the revenue that is lost in some other way, but you know as well as I do that this would be very difficult to accomplish, so that for the coming year, taking things all in all, I think we should continue with the present excessively high rate of taxation on corporate firms.

Representative MILLS. In other words, you do not expect any serious economic consequences?

Dr. BURNS. Not over the coming year.

Representative MILLS. Extended to April of 1956, would you not expect any serious consequences?

Dr. BURNS. No.

Represenative MILLS. Do you consider as an economist that it would be possible during the course of the next year for this tax rate to be passed on to the consumers as a part of the price?

Dr. BURNS. Well, this is a very interesting and very difficult question. During the next year I would expect business conditions on the whole to be highly competitive and, therefore, the ability of business firms to pass on the corporate profits tax would be restricted.

The ability of corporations to pass on that tax depends, among other things, on the intensity of business competition. Expecting, as I do, business to be highly competitive, I would also expect, and for that reason, the ability of corporations to pass on that tax to consumers to be relatively restricted.

Representative MILLS. Then does not that mean that it becomes more onerous under those circumstances than it has been in the past year or the past several years?

Dr. BURNS. Well, I would not say that it would become more onerous. Business has been highly competitive during the past year. With our economy recovering I would expect corporate profits after payment of taxes to be appreciably higher than they have been in the recent past.

Representative MILLS. But I am thinking in terms, Dr. Burns, of whether or not during the course of the coming year we may reach a point where this rate of taxation will be so onerous that business will not be able to keep pace with the rate of growth that is needed economically in the country.

Dr. BURNS. No, I do not expect that to happen.

Representative MILLS. You do not?

Dr. BURNS. You must remember that while the corporate tax has remained at 52 percent, business has profited from recent legislation. The excess-profits tax went off. Further, the tax reform bill, which was passed last year, liberalized depreciation allowances and improved the climate for making business investments as well as the means for doing so.

Representative MILLS. Dr. Burns, I am afraid that sometimes we lose track of the fact that the excess-profits tax affected only about 50,000 of our corporations, and I think there are some 400,000 corporate taxpayers. I think we also overlook the fact that under the bill passed last year there are many corporations that will not receive any benefit from the so-called fringe benefits in the legislation. The depreciation provision that you referred to in the report will be of advantage, of course, to a corporation desiring to expand, but I am thinking in terms of smaller businesses who have not yet had any material benefit from a discontinuance of the excess-profits tax.

Now, how much longer can we expect them to live under these heavy rates of taxation and the need that exists for expansion?

Dr. BURNS. You are quite right in saying that many of our small businesses did not have excess profits and, therefore, were not subject to that tax, so that the removal of that tax was of no advantage to them.

On the other hand, some of the provisions in the Internal Revenue Code passed last year, such as liberalized depreciation, and the allowing of business firms to treat research and development expenditures as current expenses, are very favorable to small-business firms. Beyond that, it is worth keeping in mind that in the case of very small businesses a large part of the profits is frequently paid out in the form of salaries.

Representative MILLS. I am glad to hear that this bill that was passed last year may help small businesses some in the case of depreciation.

Dr. BURNS. I think it will.

Representative CURTIS. Mr. Chairman.

Vice Chairman PATMAN. Mr. Curtis.

Representative CURTIS. Could I ask a question or questions? Mr. Mills' line of questioning has suggested these.

The CHAIRMAN. Certainly.

Representative CURTIS. Dr. Burns, along the lines of the discussion Mr. Mills went into, of course you do adhere to the theory that any tax can get to the point of being so high that it produces diminishing returns, but I assume that from your answer you do not feel that this 52-percent corporate tax has reached that point?

Dr. BURNS. No, I do not feel that it has as of the present. However, I would not like to look forward to continuation of that tax in the indefinite future.

Representative CURTIS. I have already discussed a little bit with some of my colleagues on Ways and Means, and one of the staff members of this committee, a situation that exists in three specific instances in the city of St. Louis, and I know exists throughout the country, where due to the corporate tax structure we find—I will mention specific names, because I am not entirely sure what the reason is—take the Medart Co. of St. Louis, an established concern over a period of some 75 years, making pulleys and transmission machinery, and I understand that they were filling a very vital economic function. However, due to a little change in the corporate ownership set up, and and solely because of taxes, I understand that company was bought out not for the purpose of operating it but solely for the purpose of junking it, getting rid of all of the trained personnel that had been collected together.

Just the other day a big dry-goods firm in St. Louis was purchased, Rice Stix, and although they claim they are not going to junk the company, it looks like they are going to.

I saw in the paper just the other day, I think it is the Follansbee Steel Co. in West Virginia, the same procedure exactly, and we had it called to our attention—I think Mr. Mills will remember when we were discussing this—that other people knew of situations where the scavenging industry was going around and picking up these going concerns.

Now, I may be wrong, but I have an idea that that might be to a large extent the result of our corporate tax, and, if it were, I suggest that we might well be at this point of diminishing returns, I think it is something on all of these tax rates, that the economists should be looking into, whether we have not reached the point of diminishing returns, and do not quite realize it. Maybe that is the reason for this increase in bigness that we see going on in the automotive business where small companies are going down because it is the consolidations that become necessary in order for them to survive this climate.

Contrary to Mr. Mills' suggestion on this excess-profits tax, I fought against the continuance even for the 6 months, having been on the Small Business Committee for 2 years, of the House, which held hearings in some 40 cities throughout the country, and if there is one thing that we saw it was the effect of the excess-profits tax on your new type of industry, your growth industry, and, as I expressed it, it was a tax on growth, and I felt clearly that that tax had gone way beyond the point of diminishing returns, and by our elimination of it we probably gained more taxes.

Well, I could not help but make those remarks in view of his discussion, because, in my opinion, these taxes are so high now that any time we alter one phase of it we begin to have a tremendous economic effect, one way or another, and I think we need an awful lot of help in studying what we are doing whenever we do tax a thing in a certain manner or relieve a tax in another manner.

Representative MILLS. Have you yielded that point?

Too much emphasis, it seems to me, Mr. Chairman, taxwise, is placed on the necessity for revenue at the given moment. That is the reason I was prompted to ask Dr. Burns these questions that I did ask him.

Representative CURTIS. Let me close this statement by emphasizing a specific tax that there has been no study on, I regret to say, and I wish there was. The liquor tax of $10.50 a gallon, and at the same time the industry says—I do not know the truth of it, or not—but says that illegal liquor manufacture is going rampant throughout the country, so that your legal industries where we collect the tax are making less and less of the goods that are being sold.

Now, if that is so, the cost of collection, and also the fact that we do not collect, might actually be such that we are beyond the point of diminishing returns on that.

That makes a neat little package for study. I asked the Treasury if they would not make a real study of that, because I do not know whether it is true or is not true, but somewhere we should be able to get these economic facts.

Thank you, Mr. Chairman.

Senator O'MAHONEY (presiding). Are there any other questions?

Well, if there are no other questions, the Chair will express the appreciation of the committee to Dr. Burns, and his colleagues, for their appearance here. I am sorry that our session has been so short. I think it could have been made much longer to the benefit of the members of the committee.

Dr. BURNS. If there is any statement called to my attention that is inaccurate, or needs further amplification, I shall be only too happy to admit to error.

Senator O'MAHONEY. If error is committed.

Dr. BURNS. If error is committed.

Senator O'MAHONEY. Thank you very much.

The committee will reassemble Wednesday morning, 10 o'clock, in the Senate Office Building, room 318.

(The following materials were subsequently submitted for the record:)

JANUARY 25, 1955.

DR. ARTHUR F. BURNS,
Chairman, Council of Economic Advisers,
Washington, D. C.

DEAR ARTHUR: In accordance with the procedure agreed upon, I enclose a copy of the stenographic transcript of the committee hearing of yesterday at which you testified. It is my understanding that after you have made such corrections as you believe desirable to clarify your testimony, the transscript will be returned for publication as a part of the record of the hearings.

The questions which Vice Chairman Wright Patman wished you to answer later for the written record are on page 39 and following pages of the transcript. The additional questions on the enclosed sheet are those which Congressman Richard Bolling requested be submitted to you for the record. This list contains only those questions which were not covered yesterday.

In order to give you as much time as possible but still meet our deadline for processing the printed record, I am requesting the return by Saturday, February 5, of your corrected transcript, with your answers to the additional questions submitted.

Sincerely yours,

GROVER W. ENSLEY, *Staff Director.*

THE CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS,
Washington, February 9, 1955.

Mr. GROVER W. ENSLEY,
Staff Director, Joint Committee on the Economic Report,
Congress of the United States, Washington, D. C.

DEAR MR. ENSLEY: I am enclosing a corrected transcript of my testimony before the Joint Committee on the Economic Report on January 24, 1955. I am also enclosing replies in triplicate to the questions submitted by Vice Chairman Wright Patman and Congressman Richard Bolling.

I believe it to be the sense of the joint committee that my testifying for the record on January 24 will not be treated as a precedent. Since the written replies to the submitted questions are merely a continuation of matters that could not be covered at the hearing, I trust that I am right in thinking that this part of the proceedings also does not establish a precedent.

With sincere appreciation of the courtesy extended to me and my Council colleagues by the joint committee, I am,

Very truly yours,

ARTHUR F. BURNS.

REPLIES TO ADDITIONAL QUESTIONS SUBMITTED BY REPRESENTATIVE WRIGHT PATMAN

Question. Although the Economic Report notes "the income shares of both farm and business proprietors in 1954 were at postwar lows," there is no further discussion of this economic development elsewhere in the report. The implications of this fact are that the terms of trade which are reflected in the movements of prices went against the farmers and the small-business man in 1954. What significance does this have upon the so-called flexible monetary and stable price policies?

Answer. The maintenance of a healthy agriculture and the continued prosperity of small business are vital objectives of economic policy. Their importance was stressed in the Economic Report for January 1954 and again in this year's Economic Report. Both farmers and small businesses have special problems in financing their needs, and special provisions have been made by the Government to serve these needs.

The monetary and credit polices of the Federal Reserve Board are designed to serve the needs of the economy at large. Their aim is to promote the growth, at high levels of employment and production, of the economy as a whole, not of this or that segment of the economy. In order to realize this aim, monetary policies must be flexible, that is, they must be adjusted so as to help check recessionary developments at certain times and inflationary developments at other times. Furthermore, the debt management policies of the Treasury and the credit policies of the Federal Reserve Board must be in harmony with each other. The problems of individual sectors of the economy can often be traced to their special circumstances and are dealt with best through measures designed to cope with these circumstances.

Two major factors are responsible for the reduced share of income disbursements going to farm proprietors in recent years. One is the decline in the number of farm proprietors and unpaid family workers engaged in agriculture relative to the total labor force. This reflects a long-standing and persistent trend in our economy, namely, the shift of employment away from agriculture and toward industry, trade, and the services. Even in the absence of changes in agriculture's terms of trade, the share of the national income earned by farm proprietors would have declined.

The other factor is the decline that has occurred during the postwar period in the farm parity ratio. Prices received by farmers have declined each year since 1951, though the decline from 1953 to 1954 was much smaller than during the 2 preceding years. Prices paid by farmers rose from 1951 to 1952 and then declined somewhat. These contrasting movements reduced the parity ratio from 107 in 1951 to 89 in 1954 and contributed to the recent decline in farmers' share of income disbursements.

The movement of farm prices and incomes in 1954 should be viewed in historical perspective. The inflationary rise in farm prices late in 1950 and early in 1951 reflected the sharply increased demand for farm products which followed the outbreak of hostilities in Korea. Prices of some farm products receded shortly afterward, reflecting an abatement in speculative demand as buyers came to realize that their fears of grave shortages were unjustified. Later the sharp decline in agriculural exports and the expanded output of basic crops, the latter stimulated by high and rigid price supports, contributed to a general decline in agricultural prices.

The bulging surpluses of farm products which have accumulated in recent years constitute a burden on the agricultural price structure. They clearly reflect an imbalance between production and markets which requires correction in the long-run interests of agriculture. The farm program enacted by the Congress in 1954 was designed to correct this condition.

Turning now to the self-employed outside agriculture, it should be noted that their total dollar income was higher in 1954 than in any previous year except 1953. The decline from 1953 to 1954 was a little over 1 percent. This decline is much too small to serve as a basis for any conclusion that an imbalance has developed between self-employed business and professional persons and other income recipients. It is true that the share of the Nation's total income disbursements received by self-employed business and professional persons has declined fairly steadily during the postwar years; but that fact must be read in the light of another fact, namely, that this trend has closely paralleled the decline in the proportion that this self-employed group constitutes of the Nation's labor force.

Statistics on the share of a given group in the Nation's total income can be highly misleading if we do not stop to examine what changes may have occurred in the number of persons participating in that share.

Question. Does the mere stabilization of a wholesale price index or the retail price index mean that there are no imbalances developing in the economy? Does not the experience of the 1926–29 period raise questions concerning the validity of this assumption? Does not the experience of 1953–54 indicate that unsound structural dislocations have taken place underneath the cover of a stable price level?

Answer. Mere stability of an average of prices, whether at wholesale or at retail, does not of itself give assurance that there are no serious imbalances in the economy. This has been made clear more than once in our history and not only by the experiences of 1926–29. In fact, no single indicator can be used as a test of the degree of balance or imbalance.

The fact remains, however, that approximate stability in the general level of commodity prices contributes significantly to economic stability. Readjustments in individual parts of the economy are more readily made when there are no general disturbances in commodity prices, because such disturbances can and commonly do give rise to the need for still further adjustments. To quote from the Economic Report: "Because of the overall stability of prices, the inventory adjustments during 1953–54 were not aggravated by adverse expectations concerning prices, such as often tend to develop when economic activity declines." (P. 95.)

The fact that there was a stable price level during 1953–54 did not obscure the need for economic readjustments, nor did policy decisions rest on any such invalid assumption. Changes that took place in the economy during 1953–54 were in part the result of the termination of hostilities in Korea, and in part the result of adjustments in consumer and related markets, as explained in detail in the Economic Report.

Structural, episodic, or cyclical changes are always taking place in a dynamic and progressive economy and they are often accompanied by divergent movements in the prices of particular commodities and services. Price changes are a vital part of the mechanism by which a free enterprise system adapts itself to other economic changes. They may reflect altered competitive conditions, lower costs of production achieved by new and more efficient technologies, shifts in consumer demands and preferences, or other factors. In some cases, and this is true of the prices of some farm and other raw products in recent years, they may represent an adjustment of temporarily inflated prices to levels that are more nearly in keeping with the state of long-run demand.

Question. The Economic Report mentions the farm problem briefly as follows: "The introduction of flexible price supports for basic crops and the modernization of the parity formula will facilitate the adjustment of our farming enterprises to changing markets and thus help to improve the outlook for the farmers."

How will the outlook for the farmer be improved? Will his share of the personal income disbursements which the report notes is at a postwar low be raised? How much will it be raised and how will this increase occur?

Farm income fell at an annual rate of $2 billion from the first to the fourth quarter of 1954, or 15 percent. Will the improved outlook for the farmer restore this $2 billion drop in farm income? The farm parity ratio in the fourth quarter was 87, the lowest level in 14 years. Will it be restored to 100 percent of parity?

Answer. It must be borne in mind in interpreting the Department of Commerce series on farm proprietors' income by quarters that farm income, like many other economic magnitudes, shows greater variation on a quarterly than on an annual basis. Furthermore, the estimate of $11 billion for the fourth quarter of 1954 was necessarily based on incomplete data and even the first quarter figure of $13 billion is subject to revision. In any case the methods of adjusting net farm income for seasonal variation are rather rough, particularly when major changes are taking place in the composition of farm output. In an industry like farming, with its annual cycles of production, estimates of net income on an annual basis are much more significant. These show a small decline from $12.2 billion in 1953 to $11.9 billion in 1954.

The Department of Agriculture has estimated that farm operators' net income in 1955 will be close to that of 1954. This implies an average 1955 income level well above the figure previously cited for the fourth quarter of 1954.

The number of farm proprietors and unpaid family workers engaged in agriculture will probably continue to decline during the next few years, while the Nation's total labor force continues to grow. This trend may prevent any rise in the percentage of total income disbursements going to farmers as a group. However, income per farmer and per family member engaged in agriculture may be expected to rise during the years ahead, as increases in productivity and income per worker occur in the economy as a whole. This trend in agriculture will be facilitated by the maintenance of a high level of employment in the nonfarm sector.

At present, as in immediately preceding years, accumulated surpluses continue to be a major hindrance to a recovery in the level of farm prices. In the absence of inflationary developments, the surpluses of several major crops must be reduced before prices can rise appreciably, and this process requires time. The flexible price-support program enacted last year was designed to facilitate this adjustment process. After existing surpluses have been worked off, and especially under conditions of high employment, an improvement in the relation of agricultural to industrial prices may be expected. The precise level of the parity ratio cannot be responsibly predicted at this time.

Question. The economic report cautions that the "continued economic recovery must not be jeopardized by overemphasis of speculative activity." When the Federal Reserve Board moved to reduce margin requirements by 33 percent in early 1953, did it thereby overemphasize speculative activity? When the Treasury and the administration urged a reduction in the taxes on excess profits, on dividend income, and an acceleration of the rate of recovery, tax-free, of investment expenditures, did it encourage speculative activity? Is the economy more or less stable today than it was at the beginning of 1953 prior to the inflation of stock prices?

Answer. Margin requirements on stock exchange transactions were reduced in February 1953 from 75 to 50 percent. The 75 percent requirement had been established in January 1951 with the object of preventing an excessive use of credit in stock-market transactions during an inflationary period. The 1953 action, on the other hand, was taken in the belief that even a 50-percent margin requirement would provide sufficient assurance against an unwise use of credit in the situation then prevailing. The increased amount of credit used by purchasers of securities after the margin requirements were lowered, does not support the conclusion that the effect of the February 1953 action was to encourage undue speculative activity. It may also be recalled that stock prices declined during the greater part of 1953.

The tax reductions and the tax reforms of 1954 were parts of an economic program aimed at increasing business and consumer confidence and thus contributing to the resumption of economic growth. The elimination of the excess-profits tax, the reduction of personal income taxes, the reduction of the double taxation of dividends, the provision for liberalized depreciation for tax purposes, and the removal of various inequities in the taxation of personal income were simply the tax portions of a comprehensive program for promoting economic growth and for strengthening the resistance of the economy to inflationary or recessionary influences. A judicious appraisal of any part of this program requires that account be taken of the other parts of the program that were simultaneously proposed and subsequently enacted.

The proposals to remove the excess-profits tax, to reduce the double taxation of dividends, and to liberalize depreciation allowances on new capital investments were designed to strengthen the willingness of investors and businessmen to put funds into risk-taking and job-creating investments. Other parts of the tax, social security, housing, and related programs were designed to strengthen more directly the confidence of consumers in their own and their country's economic future. The effects of the overall program are traced and appraised in the economic report. Suffice it to say here that the measures that bore directly on investor and business groups would have been less efficacious if they had not been accompanied by other measures that impinged directly on consumers, and that the same would be true of the latter measures if they had not been accompanied by the former.

The rise of stock prices during the past 15 or 16 months, which occurred despite a decline of corporate profits below their early 1953 levels, fundamentally reflects our generally improved prospects for economic growth, to which all of the economic programs enacted last year contributed. Although the tax changes constitute an important element in this overall program, it would be incorrect to regard them as the sole or the principal cause of the rise in security prices.

In view of the adjustment which has already been made to lower levels of defense expenditures and of the balance that now exists between production and sales, the economy is less vulnerable to recessionary influences today than it was in the spring of 1953. The rise of stock prices which began in September 1953 has, thus far, been a factor making for economic expansion. On the other hand, as the Economic Report points out, the recovery movement must not be jeopardized by excessive speculation. It was for this reason that the Federal Reserve Board acted in January 1955 to limit the use of credit in stock market purchases. Developments in the securities markets should and will be closely watched.

Question. Much of the postwar prosperity has been attributed to the fact that income has been widely distributed in the hands of all of our families. The lessening of inequality in income distribution in the 20 years since 1929 has been hailed as a modern revolution by economists of varied views. What significance for income distribution and the inequality of distribution is there in the behavior of personal income shares in 1953 and 1954? For example, the Economic Report shows that labor income from wages and salaries fell as did farm and other proprietor shares. However, investment income shares rose; particularly impressive was the rise in the personal interest share which rose 10 percent in the last 10 years. Do these trends not indicate a redistribution of income that favors a relatively small group at the expense of a relatively large number of income receivers? In brief, are we moving toward greater inequality in income distribution?

Answer. Statistical records of income distribution show a long-continued tendency for the labor share of total income disbursements to increase and for the investment share to decrease. Minor fluctuations from year to year that run counter to these trends, such as occurred in 1954, cannot be regarded as a reversal of long-run tendencies. It is apparent from table B-4 (p. 82) of the Economic Report that year-to-year variations often occur without changing such underlying trends. The increase in the investment share from 1948 to 1950 and the decline in the labor share from 1949 to 1950 are examples of such temporary shifts.

In connection with the most recent changes, the following figures should be kept in mind: Labor income constituted 69.3 percent of total personal income in 1952, 70.5 percent in 1953, and 69.5 percent in 1954. The corresponding percentages for transfer payments are 4.8, 4.8, and 5.4; for proprietors' incomes 14.5, 13.3, 13.0; for investment income (which includes dividends, interest, and rents) 11.4, 11.5, 12.1.

While the group receiving wages makes up the largest single income group, it would be a mistake to assume that those who receive investment income make up only a small group in the population. For example, a substantial proportion of the rent component of investment income accrues to homeowners, who are credited with the rental value of their dwellings in national income totals. In view of the wide distribution of homeownership, a large proportion of the higher rental incomes accrued to families of modest means.

Similarly, interest incomes are widely distributed. A large part of the total stems from interest on United States savings bonds and on savings deposits, returns on shares in savings and loan associations, and net earnings on life-insurance policy reserves. Since the owners of these assets are numbered in the tens of millions, it is clear that a substantial part of the 1954 increase in interest incomes was either received by, or accrued to the benefit of, persons with moderate incomes.

Unfortunately, the available data do not provide an adequate basis for measuring the changes in income shares received at various income levels. Certain recent surveys, however, indicate that there has been no trend toward greater inequality in the size distribution of incomes during the postwar period. In fact, the proportion of total income before taxes that is received by the top fifth of the Nation's spending units is estimated to have declined from 48 percent in 1947 to 46 percent in 1953. Although no figures for 1954 are as yet available, it seems reasonably certain that no appreciable change occurred between 1953 and 1954.

Question. Maintenance of a stable price level seems to be given the highest priority in administration declarations dealing with economic policies. Does that mean that the behavior of some price index rather than, say, the amount of unemployed, is used as a guide for economic policy decisions?

Answer. The Economic Report stresses the need for maintaining high and satisfactory levels of employment as well as the desirability of general price stability. These are not inconsistent goals of policy. Both are necessary elements of a program to promote the objectives of the Employment Act. As every student of economic history knows, price inflation has often been followed by severe unemployment. For this reason, if for no other, close attention must be paid to what is happening in the sphere of prices.

In reaching decisions concerning economic policy, consideration must be given to a large number of factors. These include the state of employment, unemployment, prices, production, sales, inventories, new orders, credit, interest rates, business investment, consumer spending, the rate of saving, and many others. Neither prices nor unemployment, important as they each are, can be taken as the sole guide for economic policy. To confine attention to an index of prices or to the level of unemployment would impede the search for adequate measures to reduce unemployment or to prevent its increase.

Question. In formulating the stable price policy and in implementing it, what thinking has been done about the implications for price relationships within a stable level of average prices? For example, what consideration has been given to problems arising from the fact that certain prices, notably those for agricultural commodities, are highly sensitive and tend to fluctuate far more frequently and freely than the prices of most manufactured goods and some industrial raw materials? In implementing the stable price policy, are the effects of price changes considered in combination with each other and with the behavior of noncommodity prices such as services, rents, wages, interest rates? How was this done, for example, in evaluating the prospects of inflation in early 1953? How is this done in evaluating the prospects for price changes currently? For example, prices of industrial supplies have been rising reasonably while the prices of farm commodities that business buys have been dropping. What consideration has been given to these divergent moves by the monetary authority in implementing the stable price policy? If you do not know, what are your ideas on it?

Answer. The long-range objective of monetary policy is to promote stable economic progress at high levels of employment and production. The stabilization of any single average of prices is not the primary aim of monetary policy.

However, Government officials who are responsibly concerned with monetary matters must give close attention to thhe movements of general prices and of changing price relationships, since such movements may affect economic growth and stability.

Although major sectors of the economy often show diverse movements, not only with respect to prices, but also as to wage rates and other market phenomena, it is beyond the scope of monetary policy to undertake to influence specific prices or groups of prices. The basic aim of monetary policy is to help create conditions that are favorable to the maintenance of general economic activity at high levels, thereby facilitating the readjustments that may be required by any imbalances in the economy.

In addition to the policies that are aimed at influencing general credit conditions, it is important during periods of serious readjustment in any part of the economy to make certain that an adequate supply of credit at reasonable rates is available to the industry making the readjustment. This was done with reference to agriculture during 1953–54, when ample credit was available to the producers and processors of farm commodities. When the purpose is to modify the relation between prices received and prices paid by farmers, other means than general monetary measures must be adopted. It was for this reason that flexible price-support legislation was enacted during 1954.

At a time when part of the economy is experiencing great prosperity while another part is undergoing serious readjustment, it is obviously desirable that the policies pursued by Government do nothing to accentuate the lack of balance. During the early months of 1953, the plant and equipment of many industries were utilized to full capacity, labor was working overtime, unemployment was approaching a vanishing point, and the demands for credit kept increasing. While wholesale prices of farm products were declining, the prices of industrial commodities were edging up. Furthermore, price and wage controls had recently been removed, with a view to restoring the functioning of competitive markets. In these circumstances, a continued rapid expansion of credit could not effect an appreciable increase in production or employment but could bring about a substantial increase in prices of industrial commodities. It was in the light of this situation that a precautionary policy of monetary and credit restraint was adopted.

Subsequent events during 1953–54, both with reference to credit and business, are set forth in some detail in the Economic Report in chapter 2, entitled "A Year of Economic Transition." This chapter also describes the actions taken by the Federal Government and the effects of the policies pursued during the period.

A moderate rise in both industrial and farm prices, reflecting strong demands both at home and abroad, has recently occurred. Interest rates and bond yields have also increased somewhat. At present, monetary policy is fostering increases in output and employment, so as to realize our full productive potential, but it is also seeking to avoid the strains and excesses which often accompany a recovery movement of the type we are now experiencing.

Replies to Additional Questions Submitted by Representative Richard Bolling

Question. In its report to the President on its activities during 1954, included in the Economic Report as appendix C, the Council of Economic Advisers refers to the various public and private groups or agencies utilized in preparing the Economic Report. Would you expand upon this, particularly the following points: What use was made of private research agencies? Were advisory committees of representatives of industry, agriculture, labor, consumers, State and local governments, and other groups used by the Council of Economic Advisers?

Answer. In its report to the President, the Council did not refer to "various public and private groups or agencies utilized in preparing the Economic Report." The Council merely expressed its appreciation of the assistance it had received from public and private groups in carrying out its varied responsibilities during the calendar year 1954.

Numerous private research agencies advised the Council on particular problems or made available to the Council the results of their investigations, often prior to their publication. The institutions that deserve special mention are the National Bureau of Economic Research and the Brookings Institution.

The National Bureau of Economic Research made continuously available to the Council the results of its business cycle studies, especially the results of its experiments with techniques of short-run economic forecasting. The Bureau submitted from time to time special statistical reports at the Council's request. At the Councils' request the Bureau also organized a special conference on business-cycle policies, for which numerous university and government specialists prepared papers. None of this work involved any expense to the Council.

The Brookings Institution rendered a very useful service, also without any expense to the Council, by organizing meetings with economists to help the Council in its appraisals of the economic situation and of desirable paths of policy. Two such meetings were held last year. Most of the participants, numbering about 20, came from the great centers of learning in different parts of the country.

The Council has found it more helpful to meet informally with groups or committees of a changing composition than to work with formal committees of fixed composition. The full Council or one or more of its members met from time to time during the past year with representatives of the Committee for Economic Development, the Chamber of Commerce of the United States, the Business Advisory Council for the Department of Commerce, the American Federation of Labor, the Congress of Industrial Organizations, the United Steelworkers of America, the International Association of Machinists, the Governors Conference, the American Farm Bureau Federation, the National Grange, the Conference of Business Economists, and many other organizations or groups.

Question. Did the Council of Economic Advisers, in cooperation with other executive agencies, develop a set of economic assumptions with respect to the coming year to be used to assure internal consistency in the President's program? According to the New York Times of January 18, 1954, Secretary Humphrey announced that the budget estimates assume that personal income will rise from $286.6 billion in calendar 1954 to $298.5 billion in calendar 1955 while corporate profits before taxes are assumed to rise from $36 billion to $38.5 billion. What levels of gross national product, national income, prices, employment and unemployment would be consistent with these assumptions as to personal income and corporate profits? It is recognized, of course, that these are not predictions or forecasts, but assumptions for purposes of preparing an internally consistent program.

The Council could not very well function without making judgments, assumptions, and projections concerning the economic future. Much of this estimating has been expressed in formal, arithmetical terms for the year 1955. The results of these intricate labors have been made available to the agencies of the Government that are especially concerned with the development of the President's program. It would be difficult to go beyond this statement without disclosing how the Council's confidential advise to the President and the members of the Cabinet was presented and used.

Question. What interpretation does the Council give to the declaration of policy of the Employment Act of 1946? What relative weight does it attach to the act's requirement that the President define "levels needed" of "employment, production, and purchasing power"?

Answer. In brief, the Council interprets the declaration of policy of the Employment Act as follows: (*a*) It is a continuing policy of the Federal Government to promote high and expanding levels of production, employment, and national income; (*b*) the Federal Government has a continuing responsibility to help keep our Nation's economy firmly on the narrow road of reasonably full employment without price inflation; and (*c*) the specific policies pursued in working toward these objectives should strengthen our system of free and competitive enterprise. A fuller statement of the Council's position can be inferred from the Economic Reports of the President for January 1954 and January 1955, and can be obtained more directly from addresses by the Chairman of the Council. Copies will be gladly supplied to the Joint Committee, if desired.

It is clearly of the utmost importance that the Economic Report analyze the existing economic situation, that it indicate whether the economy is on the upgrade or declining, that it appraise the prospects for the coming year, if not for a longer period, and that it set forth a program of policies and actions that seems likely to insure a high and satisfactory level of employment and production, without price inflation. This statement is amplified in the response to the next question.

Question. The Employment Act, in section 3 (a), states that the Economic Report of the President shall set forth "the levels of employment, production, and purchasing power obtaining in the United States and such levels needed to carry out the policy declared in section 2." The President's Economic Report, on page 24, states: "With economic activity continuing to expand, it is reasonable to expect that the Nation's output within the coming year will approximate the goals of 'maximum employment, production, and purchasing power' envisaged by the Employment Act."

What are these levels or goals for 1955 in terms of employment, unemployment, production, and purchasing power?

What specific forces do you see operating in the economy that will raise levels of demand sufficient to meet the goals of the Employment Act?

Answer. Section 3 (a) of the Employment Act states that the Economic Report of the President shall set forth "the levels of employment, production, and purchasing power obtaining in the United States and *such levels needed to carry out the policy declared in section 2.*" [Italics added.] The act does not clarify the italicized phrase. Its interpretation is left to the President and his Council of Economic Advisers. The phrase can be interpreted as calling for a numerical specification of economic goals, or it can be interpreted as calling for as good a specification of objectives, whether in terms of numbers or otherwise, as can be made. In the former case, one would assert that "to carry out the policy declared in section 2," employment must be X, production must be Y, etc. In the latter case, one might assert that "to carry out the policy declared in section 2," employment must be a little higher, or substantially higher, etc.; the drop in employment and production, if any, during the recent past, after allowing for an increment of growth, would suggest the general order of the magnitudes that are involved.

For internal purposes the Council utilizes and makes all sorts of quantitative estimates. It seems unwise, however, to publish near-term estimates that rest heavily on assumptions and conjecture, and that is bound to be the case with numerical "goals" or "targets." The use of such estimates by the President in his Economic Report would not render a useful service to the nation.

The present Economic Report, like its predecessor, does not specify numerical goals for the coming year. If these had been presented, neither the economic analysis of the report, nor its recommendations of policy, would have been improved in any way. The impression might, however, have been created that economists or Government officials can reliably esimate how much our economy is able to produce under conditions of full employment, that they can reliably judge what the numerical magnitude of employment should be, and that they can reliably estimate the quantitative effects of specific public policies or programs. All this may become true in the future; it is not true today.

It is important to recognize the limitations of economic knowledge, and how difficult it is to make useful economic predictions or projections. Serious uncertainties surround even historical descriptions, such as the average rate of growth of production during the past decade or the gross national product during a particular year or quarter. Under ideal conditions of measurement, the gross national product should be the same, whether measured from the expenditure side or the income side. In current practice the two figures are sometimes very different, and it is impossible to tell which is the more accurate. According to the figures from the expenditure side, the annual rate of the gross national product decreased $14.4 billion between the second quarter of 1953 and the third quarter of 1954. If, instead, we take figures estimated from the income side, we find that the drop in the gross national product was at a rate of $7.4 billion during this period.

Economists who are familiar with statistical vagaries such as this, and who know how difficult it is to measure with tolerable accuracy even experiences of the past, will hesitate to specify numerical goals for the Nation's economy over the next 6 months or year or two. They know that in setting goals some arbitrary assumptions must be used and that alternative assumptions, which often are no less reasonable than the particular ones selected, can lead to such a wide range of results that the calculated goals cannot have great value for policy decisions.

For example, if we are to specify numerically what the gross national product would be in a later period under conditions of full employment, we must rely on a great variety of assumptions. The most important of these relate, first, to the increment of the labor force, second, to the increment of productivity, using this term in the sense of a ratio of output to labor input. The basis for such assumptions is past experience, very largely. But what do statistics tell us about the increment of the labor force between, say, the final quarters of successive years? For the civilian labor force, the figures range from about 100,000 to 1.4 million between 1947 and 1954, excluding the drop between 1950 and 1951. For the total labor force, the figures range from 50,000 to 1.5 million. If we attempt to look a year ahead, which figure within the indicated range shall we use? Not being content with any of them, we might take their average, but what reasons have we for supposing that the year ahead will be an average year? This variability of economic experience is, of course, reflected also in the case of productivity increments. We might assume that the gain in productivity will be 2.5 percent, as some historical averages suggest. But statistical estimates recently made by the staff of the Joint Committee show that in years that have immediately followed business-cycle troughs since 1911, the increment in productivity has ranged from a minus 4.4 percent to a plus 7.9 percent.

We must always remember that ours is a free economy. In such an economy the number of women who decide to look after their homes rather than seek gainful employment varies from year to year, and so it is also with the number of youngsters who decide to continue with their schooling rather than locate a job. Suppose, for example, that the Economic Report set forth in numerical terms the level of the gross national product "needed" during the coming year. May not the goal be missed merely because the increment to the labor force or the productivity gain turns out to be much smaller than expected? In that event, may there not be some pressure to embark on policies that will make a misjudged piece of arithmetic come true? On the other hand, suppose that the goal is realized, but that this happens because an unexpectedly large increase in productivity compensates for a failure of employment to rise sufficiently. May not the realization of the prescribed goal blind some people to the need for coping with the unemployment that actually exists? These are some of the many questions that the Council has had to consider in interpreting the italicized phrase of the Employment Act that was quoted earlier.

The Council's appraisal of the economic outlook for 1955 is indicated in the Economic Report. After noting that the economy has recently been operating at a high level and analyzing the forces now at work, the report proceeds to appraise what seem to be the likely developments. It points out that the annual rate of the gross national product increased by about $5½ billion (6½ according to more recent estimates) between the third and fourth quarters of 1954, and that the current recovery has some momentum. It describes the economic forces now in motion and concludes: (*a*) That they hold out the promise that we shall achieve a high and satisfactory level of employment and production within the current year, and (*b*) that if this expectation is not fulfilled the Government must be ready to revise its policies so as to help to bring this result about as promptly as feasible. This is a reasonably clear indication of how the economic situation is judged. It admittedly leaves room for discussion concerning the interpretation of some of the phrases used, but this difficulty could not be overcome by specifying numerical targets.

In handling problems of economic policy, nothing is more important than full recognition of the limitations of economic forecasting, and therefore of the need, first, for flexible policies, second, of being in a position of preparedness to meet various economic contingencies. These are the matters that the Council has repeatedly stressed. And let it be said here that, although 4 percent of the labor force is nowadays widely regarded as an approximate measure of the average amount of frictional and seasonal unemployment, the Council has not favored this or any other rigid figure to serve as a trigger to governmental action or as a measure of good performance. When the President's Economic Report of January 1954 was presented, the latest figure of unemployment then available stood at 3 percent. Yet that report counseled the Congress that it was essential "to avoid the adverse consequences that existing uncertainties might generate," that "it makes a vital difference whether an unemployment rate of 3 percent is reached by rising up to that figure or declining to it," and that "prudence as well as zeal for economic improvement require that public policy contribute both to the immediate strength of the economy and to its long-term growth" (pp. 72, 75).

Question. On page 21, the report says:

"This remarkable result—namely, a rise in disposable personal income accompanying a 10 percent decline of industrial production—has no parallel in our recorded economic history."

This statement has been widely quoted. For example, it is one of the important points in a column by Carroll Kilpatrick, Bases of Recovery: A Slump Analyzed, in the Washington Post and Times-Herald of January 25. In view of the wide publicity that has been given to this statement, would you clarify its meaning.

According to the tables, D–11, page 148, and D–26, page 164, industrial production declined 14 percent between 1944 and 1945, but disposable personal income rose from $146.8 billion in 1944 to $150.4 billion in 1945, or 2.5 percent. Again, in the following year, 1945 to 1946, industrial production declined by 16 percent, but disposable personal income went up from $150.4 billion to $159.2 billion, or almost 6 percent. These are comparisons of annual averages.

If the comparison rests on gross national product in constant dollars rather than on the index of industrial production, then it still appears contrary to the facts. According to table D–2, page 138, of the Economic Report, and table D–3, page 140, gross national product in constant prices declined between 1.5 percent and 2 percent between 1944 and 1945, and about 11 percent between 1945 and 1946, although disposable personal income rose between each of these years as indicated above.

Answer. The statement quoted from the Economic Report should be clarified. In the first place, it rests on the assumption of a generally stable price level, such as prevailed in 1953–54. In the second place, it refers to a phase of business-cycle contraction.

Quite clearly, a rise in disposable money income that merely reflected higher prices could be accompanied by a fairly sizable decline of industrial production. This happened in numerous countries during World War I and during other inflationary episodes. A rise of disposable income that merely reflects higher prices has little or no significance.

Approriate figures for the period 1944–46, which was characterized by contraction when viewed in terms of annual data, do not contradict the quoted statement. Since this was a period of rising prices, the dollar figures on disposable income are inflated. After allowance is made for the rise in prices, as should be done, the disposable income in 1946 turns out to be lower than in 1944, just as industrial production was lower. The disposable income in 1944, when deflated by the Consumer Price Index with 1954 as base, is $224.4 billion; the corresponding figure for 1946 is $219.3 billion. When the Department of Commerce price index for consumer expenditures, with 1954 as base, is used instead, the figures for disposable income in 1944 and 1946 are $215.6 and $208.6 billion, respectively.

Annual figures for 1944–46 distort the cyclical movements of this period. That is a common failing of annual data except when they are used to describe farming or other very special economic situations. For purposes of business-cycle analysis, it is usually necessary to observe records for shorter time units. Thus, according to the chronology of business cycles developed by the National Bureau of Economic Research, a peak in economic activity was reached in the first quarter of 1945; the trough came in the fourth quarter of that year; and the next year was a period of expansion. There was, to be sure, a moderate reduction and subsequently a mild increase of industrial production between the last quarter of 1943 and the first quarter of 1945. But these flutterings during 1944 are not indicative of a general cyclical fluctuation; the gross national product continued its wartime rise throughout that period.

Let us now compare the movements of industrial production and disposable personal income during the business-cycle contraction that extended from the first quarter of 1945 to the fourth quarter of 1945. During this interval the Federal Reserve index of industrial production (1947–49=100) fell from 125 to 87. The disposable personal income, even when no adjustment is made for price changes, fell from an annual rate of $152.3 billion to an annual rate of $147.8 billion. These comparisons rest, as they should, on seasonally adjusted data. The disposable income would, of course, show a steeper decline if the figures were expressed, as they should be for the present purpose, in dollars of constant purchasing power.

Question. The economic report, on page 13, states: "The primary contractive factor during the latter part of 1953 was the adjustment of inventories. This role shifted to defense spending after the turn of the year."

Is it correct that the decline in defense spending began simultaneously with, if not somewhat before the adjustment of inventories? Is it correct to say that military orders to industry for future deliveries began declining even earlier? Furthermore, hasn't the adjustment in inventories been concentrated largely in the durable goods industries, particularly those affected directly or indirectly by the planned reduction in defense spending which got under way not later than the spring of 1953?

If these beliefs are correct, then would not the council conclude that the primary factor in the contraction of 1953–54, from its beginning to the present, was the change in the direction and magnitude of defense spending combined with a reduction in business fixed investment, with inventories merely reflecting these underlying forces?

Answer. The statistical facts that underlie the quoted statement are as follows: The annual rate of the gross national product declined $9.4 billion between the second and fourth quarters of 1953. National security expenditures fell $3.7 billion over the same interval, while inventory investment declined $9.6 billion. Clearly, the adjustment of inventories was the primary contractive factor during this period. However, between the last quarter of 1953 and the first quarter of 1954, the rate of inventory liquidation remained unchanged, whereas a reduction of security expenditures accounted for nearly four-fifths of the $4.7 billion decline in the annual rate of the gross national product. Moreover, there was little change in the rate of inventory investment in the second and third quarters of 1954. Meanwhile, expenditures for national security continued to decline materially; but this decline was offset by increases of private domestic investment in fixed capital, personal consumption expenditures, State and local expenditures, and foreign investment, so that the gross national product remained virtually unchanged. Thus, after the turn of 1954, inventory adjustments exerted little additional contractive influence on economic activity; and after the first few months of the year, the contractive influence of reduced security expenditures was counterbalanced by expanding outlays in other sectors of the economy. By the early fall of 1954 the balance shifted in the direction of expansion and a new upswing of economic activity got under way.

The questions raised concerning the quoted statement do not deal with the problem treated in the text at that point; namely, the relative impact of inventory adjustments and reductions of national security expenditures during the period of declining production that preceded the stabilization of aggregate economic activity in the spring and summer of 1954. The questions that have been posed seem to be concerned with the problem of whether the entire contraction, which extended from July 1953 to August 1954, was in some basic sense a response to declining expenditures for defense. Let us turn to this problem.

The onset of contraction during 1953 was the result of a combination of causes, including the decline in the flow of new defense contracts. However, it appears that the principal factor at the beginning of the contraction was an imbalance which developed in the early months of 1953 between the production and sales of consumer goods. In the words of the economic report:

"In our economy, or in any other of which we have definite knowledge, occasional imbalances between production and sales are virtually bound to occur. Such a condition developed in 1953. After the steel strike in the summer of 1952 was settled, production, employment, and incomes increased sharply. So, too, did consumer spending, though at a somewhat lower rate than the increase of personal incomes. The rate of general economic expansion was reduced, but continued to be fairly rapid, during the early months of 1953. Total spending by consumers roughly kept pace with their rising incomes during these months; however, spending on commodities, as distinct from services, tapered off. Inventories, therefore, kept rising, particularly those held by retailers. About the same time the flow of new defense contracts, which tie up inventories of factories on a larger scale than civilian production, diminished sharply. In view of these developments, as well as the general quickening of deliveries, many business firms deemed it prudent to bring their inventories into better balance with sales and incoming orders. The effort to adjust inventories led to scattered declines in production, which became visible in the Nation's aggregate of industrial production after July 1953" (pp. 11–13).

Thus, the process of inventory adjustment in the civilian sector got under way before defense spending began to fall in the third quarter of the year. However, as the Economic Report points out:

"This economic readjustment was complicated and aggravated by the close of hostilities in Korea. With the war at an end, the need for many types of defense goods diminished. At the same time, basic defense plans were being modified to strengthen our economy for what might prove a very long period of "cold war." The changed situation in Korea, the revisions of military programs, and improvements in the administration of our Defense Establishment brought about a sizable drop of military and related expenditures. A larger reduction was carried through during 1954 than had been anticipated, and it called for further readjustments by the economy. For the decline of defense spending not only reduced the Nation's stream of expenditures for final use; it also accentuated the efforts of businessmen to cut inventories" (p. 13).

The recent contraction impinged on numerous industries, not only those engaged in the production of defense goods. To quote once more from the Economic Report:

"The impact of inventory liquidation and of the cuts in defense expenditures was heaviest on those engaged in the manufacture of durable goods. Other factors added to the downward pressure on this sector of the economy. Although total spending by consumers was virtually unchanged between the second quarter of 1953 and the first quarter of 1954, their outlays on durable goods were considerably reduced. Investors in fixed capital likewise reduced their outlays on equipment, though not on construction. In consequence, while the physical volume of nondurable manufactures declined 6 percent between July 1953 and March 1954, the production of durables declined 14 percent and manufacturing production as a whole, 10 percent" (pp. 13, 15).

Changes in inventory investment are not merely passive responses to current or expected changes in sales. A decline in production stemming from inventory adjustments releases contractionary impulses which are capable of spreading through the economy with cumulative impact. This did not happen during the early stage of the contraction of 1953–54 because, as the Economic Report explains in detail, the confidence of businessmen and consumers remained high. When the demand for final products is well maintained, the cumulative depressing influence of inventory reductions is avoided. The process of bringing inventories into better balance with sales is therefore facilitated; the decline of total production remains moderate; and inventory change accounts for a large proportion of the decline that occurs in production. This was the essential character of the 1953–54 contraction in its early stage, and that is why it was described as an inventory adjustment in the Economic Report for January 1954. But as this year's report makes clear, a substantial decline of defense spending was later superimposed on the inventory contraction. This complicated and aggravated the decline; nevertheless, final sales, taken in the aggregate, continued to be well maintained, for reasons that are explained in the Economic Report for January 1955. No simple characterization of the entire contraction, such as is suggested by the question that has been posed, would be accurate.

(Whereupon at 4:30 p. m. the committee adjourned to reconvene at 10 a. m., Wednesday, January 26, 1955.)

JANUARY 1955 ECONOMIC REPORT OF THE PRESIDENT

WEDNESDAY, JANUARY 26, 1955

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

The joint committee met at 10 a.m., Senator Paul H. Douglas (chairman) presiding.

Present: Senator Douglas, Representative Patman (vice chairman), Kelley, Talle, and Curtis.

The CHAIRMAN. This is the second meeting of the committee during the current hearings. The first meeting was held with the Council of Economic Advisers in executive session, but it will be made a part of the printed record by mutual consent.

Let me state for the record that the committee also invited a member of the Council of Economic Advisers, or its staff, to participate in this panel, but the invitation was declined.

The topic today is the appraisal of the economic philosophy and facts underlying the President's Economic Report. We have specifically asked the members of the panel to discuss four questions.

I will make the rounds on the first question, and then members of the committee can ask questions briefly of the participants. When that is finished we will start on the second question, and similarly through the third and the fourth.

I may say that we invited Mrs. Wickens and Mr. Paradiso to testify as individuals. We did not go through the respective Secretaries of Labor and Commerce, so that I do not think that they should be questioned on policy, but merely on facts.

Vice Chairman PATMAN. Mr. Chairman, it is a little after 10. What is your plan with reference to the hearings this afternoon? Do you expect to continue on if we do not finish before 12, and obviously we will not?

The CHAIRMAN. Yes.

Representative CURTIS. Mr. Chairman.

The CHAIRMAN. Mr. Curtis.

Representative CURTIS. I would just like to ask, as I did in our previous meeting, being a new member I am very much interested in the procedures to be followed, and I was wondering, apparently this panel technique has been used before. What is the situation in regard to interrogation of Government officials from the standpoint of the panel itself, rather than members——

The CHAIRMAN. I would say this morning, in view of the fact that Mrs. Wickens and Mr. Paradiso were invited as individuals, and since they are subordinates in the Department, that we should not question them on policy. They are not, strictly speaking, policymaking officials. Since they are not responsible for policy they should not be asked to express their opinion on policy, but I do think that it is proper to question them on the facts which they state, or on the legitimacy of any forecasts which they may make.

Representative CURTIS. Well, Mr. Chairman, I was more concerned with who will be permitted to ask questions. As I understand it, there was an informal agreement between you and one of the members of the committee in regard to that point.

The CHAIRMAN. You will certainly be permitted to ask questions.

Representative CURTIS. Oh, I understand that I will be because I am a member of the committee.

The CHAIRMAN. Just what is it that you are trying to establish?

Representative CURTIS. I will be very blunt, then. What I am trying to establish is whether or not you intend to have the members of the panel ask questions of the various Government officials.

The CHAIRMAN. Well, I think that would be proper. My tentative ruling is that that would be proper, but that would only be after the members of the committee have asked their questions.

Representative CURTIS. I am not worrying about the timing as much as I am about the propriety, because this is a congressional committee, a joint committee, and I might state here for the record that I am even more disturbed about the fact that this committee has had no discussion in executive session of these procedures or I would have had an opportunity of expressing things that disturb me on it.

In fact, everything that has been done to date by this committee has been done ahead of time, and has not been done with the opportunity of members of the committee having an opportunity to express their views. It puts me in an embarrassing spot. Here we are ready to proceed. I hate to hold up proceedings. I am fully aware of the fact, Mr. Chairman, that you have the votes to go ahead and do anything you please, but I think that many of these things should be discussed ahead of time, at committee meetings, and these have not been discussed, and I have had no opportunity of presenting views. In order to make the record complete, Mr. Chairman, I want to point out that this entire agenda of what is to be done, who is going to be called, who is on the panel, has been done ahead of time. I have had no opportunity, and many of the other members have had no opportunity, of suggesting names of those who might be on the panel. The procedures—and I am not asking that my views be carried out—I am simply saying that I have had no opportunity of expressing my views, and I am going to register a formal protest on the manner in which this committee has been set up and the working procedure.

Vice Chairman PATMAN. May I answer Mr. Curtis, Mr. Chairman?

Representative CURTIS. I would be happy for that.

Vice Chairman PATMAN. I admit that a lot of what you say is true, and it came about by necessity and the law. The law sets up certain deadlines. The President's report is presented at a certain time, and this committee must act on it within a certain time.

The CHAIRMAN. March 1.

Vice Chairman PATMAN. March 1, to be exact.

In order to meet those deadlines it is necessary that planning commence very early, even in December.

Representative CURTIS. Will the gentleman yield?

I am not objecting to the planning, I am objecting to the fact that the planning became an actuality without anybody having an opportunity to discuss it.

Vice Chairman PATMAN. It was absolutely necessary, Mr. Curtis; it could not have been done any other way.

Now, we expect this thing to be a continuing thing, not just 1 year, but next year, and so on.

Representative CURTIS. I understand.

Vice Chairman PATMAN. And for this year it was absolutely necessary.

Representative CURTIS. Well, I might state that I disagree that it is absolutely necessary to disregard orderly procedure, and I think that is what has been done.

The CHAIRMAN. May I say the tentative plans were discussed with the two ranking members of the majority, the gentleman from Michigan, Mr. Wolcott, and the Senator from Vermont, Mr. Flanders, and, as I understand it, was approved by them. The gentleman from Missouri was not appointed to this committee, I believe, until last Wednesday.

Representative CURTIS. And the committee did not exist, sir, until I was appointed.

And I might say this: I am not raising this point because I am the gentleman from Missouri, or anything else. I am here representing, as I see it, the House of Representatives. I am also representing the other members of my body, and I say that if my views are not being given an opportunity of being presented, then you are disregarding proper procedure.

The CHAIRMAN. Does the gentleman from Missouri recommend that the hearings be canceled until proper procedure is followed?

Representative CURTIS. I think that would be very proper.

Vice Chairman PATMAN. I hope the gentleman will not insist on that, and I suggest as an alternative that if he feels that there is a certain viewpoint not represented by members of the panel, and he wants someone particularly summoned for this committee, or requested to come, we will do that, if it can be agreed upon, and I believe the chairman will agree to it.

Representative CURTIS. I appreciate that point.

A more major point, of course, is this technique, and something that does involve policy of what position the members of the executive branch of the Government are in. If they are called before a committee of the House and Senate, a joint committee, and asked to answer questions propounded to them by people who are not members of the committee, or members of the staff of that committee, and that is a matter that I would like to have discussed in an executive session.

I understand, though, that you had some discussions, Senator, with Senator Watkins on that, and it was my understanding that there was a tentative agreement that questions by the panel would not be propounded to the executive department people.

Now, I am anxious, of course, to get as much information as this committee can, but I am concerned about the techniques.

Vice Chairman PATMAN. Mr. Chairman, in order to satisfy the gentleman, if it can be agreed upon, we will not only permit him, if it is all right with the chairman, to have any other person he wants after these hearings, if he feels that certain viewpoints are not represented, but we can have an executive session before the panel interrogates one another.

Now, I understood awhile ago that that was one point the gentleman was insisting on, that the panel not interrogate each other.

Representative CURTIS. No, I was not insisting on anything. I was mainly pointing out that I did not know what your procedures were, but the one particular thing that is of concern to me right now is the question of the propriety of members of the panel who are not members of the committee or of the staff asking questions of the executive department members.

I know they are concerned about it, Senator, and their concern does not lie to the standpoint of not wanting to cooperate with this committee. I know—at least I hope you feel that is not in this picture. It is a question of where do the executive department's prerogatives and rights begin and end, and where does the congressional board begin.

Vice Chairman PATMAN. That has been discussed for years.

Representative CURTIS. I understand that, Mr. Patman, but I also understand that this is a committee that is only organized and becomes a new committee each time, and as a member of that committee, even though I might be the junior member, which I certainly am, as a member of that committee I feel that it is important for me to understand these basic things, and actually have the committee vote on it.

The CHAIRMAN. Does the gentleman from Missouri propose that we suspend the meeting so that the committee can go into executive session now?

Vice Chairman PATMAN. I would object to that, Mr. Chairman. I hope the gentleman will not insist on it.

Let us get started and then have an executive session before we permit the members of the panel to interrogate one another. I understand that is your point, sir.

Representative CURTIS. Yes; that is the only thing that concerns me right now.

May I ask the chairman, Is that the way we work the procedure?

The CHAIRMAN. What is the question of the gentleman?

Representative CURTIS. I was asking the question in reference to what Mr. Patman, of Texas, just said, that the idea would be for the panel to go on with their discussion, but before the members of the executive department begin to participate, or were asked questions, that we go into an executive session, and I ask the chairman if that was the way that he intended it.

The CHAIRMAN. Well, I had not intended it, but if the gentleman from Missouri desires it I will be very glad to favor it.

Representative CURTIS. Yes; I would appreciate it if we do before we come to that point because that is the only point I have immediately in mind.

Now, Mr. Chairman, I have one other matter because we have not had an organizational meeting, this has just been called to my attention, this question of staff. I received your letter of January 22, 1955, in which you have advised us that you, as chairman, are just going ahead and discharging one of the staff members, and made a decision——

The CHAIRMAN. I think we should deal with that question in executive session.

Representative CURTIS. Well, I would have thought so, sir, but you have already done it, sir, and that is why I was raising the point. This is the only opportunity I have had because you have not called an organizational meeting.

The CHAIRMAN. I shall be very glad to call a meeting to consider this matter at 12 o'clock, if there is not pressing business on the floor of the Senate.

I do not think that is a matter for discussion in a public meeting.

Representative CURTIS. Well, I had hoped that it would not be, and I hoped that I would have an opportunity before now to discuss some of the procedures and the techniques and, indeed, what powers the chairman is going to have, because, to date, sir, it almost looks as if it is a one-man committee, and I cannot participate in such proceedings.

Vice Chairman PATMAN. I am sure the gentleman is mistaken about that, and I think when he knows all of the facts concerning it it he will retract that statement.

Representative CURTIS. I did not make a positive statement; I said it appears to be at the present time. If there is further information on the subject that would change my opinion I certainly will be very happy to have further information.

Vice Chairman PATMAN. There is lots of further information.

The CHAIRMAN. Does the gentleman from Missouri wish to raise other points?

Representative CURTIS. No.

The CHAIRMAN. Does the gentleman from Missouri wish to move that this meeting adjourn?

Representative CURTIS. No, in light of the Chairman's statement that we would have an executive session before the witnesses are interrogated by the panel, and since the chairman said that we would have an executive session with respect to the staff, then I will not ask that.

The CHAIRMAN. The first question is: What are the facts respecting population force, labor growth, employment, unemployment, layoffs, part-time employment, productivity, production, private investment, consumption, Government demand for goods and services, and savings since 1952?

That is a rather large order, and I would imagine that various members of the panel will wish to speak on specific questions.

I am going to begin with Mrs. Wickens who is Acting Commissioner of the Bureau of Labor Statistics. I imagine that she will probably want to discuss the earlier questions here. These are purely factual questions.

OPENING STATEMENT OF MRS. ARYNESS JOY WICKENS, ACTING COMMISSIONER, BUREAU OF LABOR STATISTICS

Mrs. WICKENS. Mr. Chairman, that is correct. I have a somewhat longer statement than I believe your time will permit, which I would appreciate an opportunity to insert in the record.

I would like to deal with the facts in connection with labor force, employment, unemployment, labor turnover, and hours of work, and I have a number of charts which are also before the members of this committee in connection with my statement.

There has been a subtantial growth in the labor force of the United States over the past 8 years, amounting to nearly 7 million workers, or more than 10 percent. This is shown on the first chart which is also displayed behind me for the members of the committee. The labor force is largest in the summer months when children are out of school, and smallest in the winter months when outdoor activities are curtailed.

The total labor force in the year 1954 averaged 67.8 million people. The Armed Forces are counted as a part of the Nation's labor force since they represent employment for many men who would otherwise be in the civilian labor force.

In the early years of the period shown on the chart, 1947–50, Armed Forces numbered about a million and a half. In the last 3 years they have exceeded 3 million, with the result that this type of employment has absorbed a part of the growth in the labor force, so that the peak annual average of 63 million in the civilian labor force, which was reached in 1950, was not again exceeded until 1953.

This past year the civilian labor force averaged 64½ million.

Now, looking to the future, on the basis of the growth of the population and recent trends in labor force participation by men and women of different age groups, it is estimated that in this year, 1955, the net growth of the total labor force will be about 700,000. If there is a decline of 340,000, as scheduled, in the Armed Forces, and some of those men go to school instead of coming into the labor force, it may be that there will be a further addition to the civilian labor force of about 275,000. Taking these two elements together, then, there may be an increase of as much as a million in the civilian labor force. However, this is by no means a fixed figure. This is the first point I wish to emphasize.

In the United States it is every man's choice whether he will or will not work at a particular time, and this choice is conditioned by a number of factors, including the economic climate. The makeup of today's labor force is illustrated by the second chart. This is as of April 1954, Mr. Chairman, and comes from the census.

This is a chart, a small copy of which you have before you. (The charts referred to appear on pp. 117–122.) You will see that the great majority of men from 20 to 55 are consistently in the labor force. The participation rates of the other groups shown in the chart are much more likely to vary with economic conditions, and they provide flexibility in the labor force. I am referring to the teen-agers, to the adult women who are housewives, and come and go from the labor force, and to men and women over 65.

For example, during World War II it was to these groups that we looked for enormous expansion in the labor force. They left their other pursuits. Under other conditions, as of now, if there are no marked patriotic incentives, these people do not come into the labor force. So that what happens in 1955 cannot be predicted with accuracy.

What I have indicated is that a million is the expansion we might estimate. It might be a little more than this. It is more likely to be a little less.

Now, how is this flexible labor force employed? Here I have to make two general points because they concern trends we expect will continue. The first is the decline in agricultural employment and the rise in nonagricultural employment, and the second is the trend toward the production of services and away from the production of goods.

In the years between 1947 and 1954 you will see the narrowing of the blue bar. Agricultural employment declined from 8¼ million to 6½ million, while nonagricultural employment expanded from less than 50 million in 1947 to over 55 million in 1953, which was its peak.

Now, coming back to the point of goods and services, at the turn of the century 2 out of every 3 workers in the United States were engaged in producing goods, and 1 of 3 engaged in producing services, but by 1950 this proportion had been reversed, and over half, 53 percent, produced services and 47 percent were engaged in the production of goods.

We, therefore, as we look ahead, must realize that certain types of occupations have been consistently increasing. The next chart shows in more detail the makeup of employment in industry. These are payroll employees. The figures are somewhat smaller than the census figures because they do not include unpaid family workers, domestic servants, and self-employed people. These figures come from the Bureau of Labor Statistics.

Now, the rise in employment, which is not shown on the chart as a whole from 1947 to 1954, amounted to 4.8 million; and excluding the bulge in 1953, only three-quarters of a million of this rise was in manufacturing. Trade alone accounted for 1⅓ million of this rise.

Now, we would anticipate that there would be a continuing rise in employment, in trade, and in the service occupations, as shown in more detail on the chart.

However, let us take the specific development in 1953 and 1954. We find that employment in manufacturing shows the greatest fluctuations. It always has. For 1954 as a whole the total number of employees declined by a net of 1.4 million; 1.2 million of this was in manufacturing. About 300,000 was in mining and transportation, closely allied with manufacturing.

On the other hand, those other types of industries which have been expanding since the end of World War II either held their own or expanded slightly with a net growth of about 170,000.

These annual averages obscure the fluctuations during the year.

The crux of the employment situation has been in manufacturing; in fact, in hard-goods manufacturing, where the number of people employed is still well below earlier levels, but as the year closed the trend was upward.

I want to make one general point, and that is that the peaks which we reached in manufacturing employment in 1953 are not necessarily meaningful goals. The peak in 1953, you will see by the bulge on the chart here, was affected by a number of special circumstances, rather than the normal and orderly flow of demands in the civilian economy.

It was a confluence of developments: Pent-up consumer demand was released by easing of credit restrictions. And there was the steel strike in the summer. Defense-production expansion reached its climax in early 1953. I am now talking about the actual production of the goods. At the same time, business outlays for long-run capital expenditures based on earlier plans also enlarged. Therefore, I wish to say that I think we had a somewhat unusual peak. We had unusual peaks like this in World War I, in World War II, in the boom period of 1929, and it took some time for the economy's production to come back to those levels.

The current levels of durable goods employment, that is if you take December 1954, are as high as in any postwar month before early 1952. Now, I do not mean that this level is optimum or desirable, but I just want to emphasize that I think this peak was an exception.

In the final months of 1954 there was increasing strength in the nondefense sectors of the economy. Manufacturing was better sustained than could be expected for the season, not merely in automobiles but in other consumer hard goods. Furniture, construction supply industries, even the shoe industry, trade, commerce, finance, and Government, especially the State and local governments, were at high levels, and there is every reason to anticipate continued growth in these types of employment.

Now, a more sensitive indicator of the current well-being of the nonfarm economy, is the factory workweek.

The remaining point I want to make has to do with unemployment, which is covered by the last chart. The rates were higher for 1954 than they have been for the earlier years; however, you will note that the 1954 rate declined as the year went on, and in the last quarter of the year we had 2.8 million unemployed, or 4.4 percent of the labor force.

The CHAIRMAN. These are Department of Commerce figures?

Mrs. WICKENS. Yes, all Department of Commerce figures, Bureau of the Census.

The second point in this connection is the duration of unemployment. The number of people out of work for a relatively long period (15 weeks or more) was highest in the spring and diminished as the year went on, so toward the end of the year there was a substantial reduction in long-duration unemployment.

I would like to point out that there is a great deal of mobility into and out of employment, not only from and to housework, but from and to schools.

Now, Mr. Chairman, I would like to make one final point: We are now nearing the seasonal peak of unemployment and I have presented some figures to the committee as to what unemployment may total within the next 12 months with only seasonal factors operating. The main point is it may go up by a million from December to February merely because of the seasonal factors. In summary, I would say that the recovery of this autumn-winter has reversed the downward trend in employment, and that there is considerable improvement in the labor market, but there remain, of course, areas and industries in which unemployment is serious. The extent of the recovery will be discussed by other members of this panel.

The CHAIRMAN. Thank you very much, Mrs. Wickens.

Vice Chairman PATMAN. One question to clarify, Mr. Chairman, please.

On this unemployment chart I notice that in 1954 for the first 4 months, January, February, March, and April, the unemployment was higher than in 1949.

Mrs. WICKENS. Yes, sir.

Vice Chairman PATMAN. And it is up close now to 1949.

Do you anticipate it will go above 1949 before the end of the year?

Mrs. WICKENS. No, sir; I would not.

The CHAIRMAN. Any other questions of Mrs. Wickens?

(Mrs. Wickens' prepared statement appears at p. 116.)

The CHAIRMAN. Mr. Paradiso.

Vice Chairman PATMAN. Mr. Chairman, don't you think it would be a little fairer to the panel if we permitted them to proceed even without the slightest interruption, or at least for a certain number of minutes each, to let them get their statements in, their preliminary statements, before noon, and then after noon we could make other arrangements about putting their whole statement in.

Ask the panel what they think about that.

The CHAIRMAN. Well, we are taking up four questions, each one at a time.

Vice Chairman PATMAN. All right. I was just looking at it from the standpoint of the panel in order to be fair to them, to not permit them all to be heard under the circumstances.

The CHAIRMAN. I think they should be permitted to file this morning for the record and for the afternoon papers, but that we should proceed with the questioning by topics. They certainly should be permitted to make any general statements that they want to make.

Mr. Paradiso.

Representative CURTIS. Mr. Chairman, may I ask a question? I was concerned about your remark. The purpose of the panel is to inform the committee, is it not, or is this purpose a publicity stunt?

The CHAIRMAN. Well, that was probably a facetious remark.

Representative CURTIS. Oh, I am sorry.

The CHAIRMAN. I may say that in this connection, that same purpose has not been unknown on the part of Members of both Houses of Congress, and both parties.

Representative CURTIS. And I might state, Mr. Chairman, that is exactly my concern about how the panel is set up and so forth, because we do know from a practical standpoint, that has been done and why I felt it was important that the matter be discussed ahead of time.

The CHAIRMAN. It has even been known to be done by Cabinet officers, and quite recently I might say.

Mr. LUEDICKE. If I understood your questions, wasn't the idea that each of the panel members would be limited to 2 minutes or so——

The CHAIRMAN. Three to five minutes.

Mr. LUEDICKE. And we should talk to, and add something to the written statements on any of the four questions individually, rather than all four at the same time.

The CHAIRMAN. Mr. Paradiso.

STATEMENT OF LOUIS PARADISO, CHIEF STATISTICIAN, OFFICE OF BUSINESS ECONOMICS, DEPARTMENT OF COMMERCE

Mr. PARADISO. Mr. Chairman, I want to thank the committee for asking me to come here and discuss these questions. I am going to confine myself, however, to the Government sector, and I will do this very briefly in two parts.

In the first part I will discuss the recent trend in the Government transactions from the point of view of the national income and products accounts. Later I am going to try to translate into the same accounts the implications of the President's budget on the economic situation.

So now I want to give a very brief discussion of the recent past in terms of Government transactions in these accounts. Just prior to the outbreak of hostilities in Korea, the total Federal purchase of goods and services amounted to annual rate of about $21 billion. Of this total, $17 billion represented national-security purchases. This was about 6 percent of the total value of the Nation's output as measured by the gross national product, as compared with 42 percent during the peak of the World War II effort.

Following the outbreak of the Korean war in June 1950, expenditures mounted very rapidly with the result that the Federal Government purchases of goods and services reached a peak annual rate in the second quarter of 1953 of $62 billion. Of this total, national security purchases amounted to an annual rate of $54 billion, or more than 14 percent of the total output. The rise in these expenditures had a very important direct and indirect impact on the private economy. I need not cite these effects since they are well known.

Suffice it to say that the impact was felt throughout the entire economy and, together with the expansion in major sectors of private demand lifted production, employment, investment, and purchasing power to new highs.

With the truce in Korea and the reappraisal of defense programs, Federal purchases of goods and services were reduced in the past year and a half from the post-Korean peak annual rate of $62 billion in the second quarter of 1953, to an estimated annual rate of about $47 billion in the half year just past. Most of the drop occurred in national-security purchases and centered in the hard-goods categories, especially tanks, noncombat vehicles, and ammunition.

This reduction was one of the factors in the decline in production and employment in the manufacturing sectors. The details of these developments are clearly portrayed in the Economic Report of the President transmitted to the Congress a few days ago.

Turning to the current and the next fiscal year, the Federal programs reflected in the President's budget shape up as follows in terms of the national income and product accounts.

For fiscal 1955 the President's budget implies an estimated total purchase of goods and services amounting to $47 billion. This is about equal to the first half of fiscal 1955, at annual rate, as published in table D–1 in the President's Economic Report. Thus, the President's budget implies that Federal purchases of goods and services will show little change from recent rates during the remainder of the current fiscal year.

Furthermore, for fiscal year 1956, government purchases of goods and services are estimated to be about half a billion dollars lower than in fiscal 1955. Thus, little change is implied in these purchases during the next fiscal year as well for the total, and for national security and other types of purchases.

Government expenditures other than purchases of goods and services based on the national income and product accounts show a moderate rise during fiscal 1955 and 1956, with the increases taking place primarily in higher benefit payments under the OASI program and in veterans' educational and training benefits.

Federal receipts in fiscal year 1955 will be lower than in fiscal year 1954, reflecting primarily the lower rates of taxation. Receipts are projected to rise in fiscal 1956 as a result of a higher level of business.

In terms of the administrative budget, the budget message set forth a deficit in both the current and next fiscal years, although the size of this deficit in fiscal 1956 is almost cut in half from the 4.5 billion estimated in fiscal 1955.

On a cash basis, the budget message estimates the 1955 deficit at $2.4 billion which shifts to a $0.6 billion surplus in fiscal 1956.

In the framework of the national income and product statistics published by the Department of Commerce and included in the Economic Report, Government receipts and expenditures are recorded on a somewhat different basis than either in the administrative budget or in the cash statement. For instance, two major differences from the cash statement are that business taxes are reported on a accrual rather than on a payment basis, and purchases from business are recorded when delivered rather than when paid for. Details of these differences and an explanation of the concepts are given in the 1954 National Income supplement to the Survey of Current Business, United States Department of Commerce, pages 143–149.

In the current and ensuing fiscal years, these differences are of minor importance. Thus, the net budgetary position of the Federal Government on a national income and product basis is very similar to that shown by the cash statement.

The following table presents estimates of Federal receipts and expenditures on the basis of the administrative and cash budgets and the national income and product accounts.

TABLE I.—*Federal Government receipts and expenditures: 1953–56 administrative budget, cash budget, national income accounts*

[Billions of dollars]

	Fiscal years			
	Actual		Estimated	
	1953	1954	1955	1956
Administrative budget:				
Receipts	64.8	64.7	59.0	60.0
Expenditures	74.3	67.8	63.5	62.4
Surplus	−9.4	−3.1	−4.5	−2.4
Cash budget:				
Receipts	71.5	71.6	66.6	68.8
Expenditures	76.8	71.9	69.0	68.2
Surplus	−5.3	−.2	−2.4	.6
National income accounts:				
Receipts	70.5	66.6	64.3	68.1
Expenditures	75.3	75.6	67.9	67.7
Surplus	−4.8	−9.0	−3.7	.4

Source: Administrative and cash budget data for 1954–56 from the Budget of the United States Government for the Fiscal Year Ending June 30, 1956; 1953 data from the Budget for fiscal year 1955. National income accounts data from the U. S. Department of Commerce; estimates for 1955 and 1956 are based on the estimates in the budget for fiscal year 1956.

NOTE.—Detail will not necessarily add to totals because of rounding.

Mr. PARADISO. I shall rest at this point with respect to the very brief summary of the recent 18 months and later I shall make a brief statement on the translation of the President's budget in these same terms.

The CHAIRMAN. Thank you very much, Mr. Paradiso.

Mr. Colm.

OPENING STATEMENT OF GERHARD COLM, CHIEF ECONOMIST, NATIONAL PLANNING ASSOCIATION

Mr. COLM. Mr. Chairman, I appreciate very much having been included in this panel. I would like to say at the beginning I am expressing my own views and not necessarily those of the organization by which I am employed. If I have 2 minutes for comments covering the period from 1952 through the end of 1954, on the American economy, then I would like to characterize what has happened in that time as follows:

During this period we have turned from a national-security buildup to what I perhaps might call a continued war-preparedness economy. I think that this transition is the most important fact of the period from 1952 through 1954. How much of that transition has been accomplished? From the second quarter of 1953, which was the peak of the national-security program, to the fourth quarter of 1954, national-security expenditures of the Government have declined by an annual rate of $14 billion. At the same time we also had a decline in private national-security expenditures, that is, defense-supporting investments, by an annual rate—we have no exact figures—which we estimate at $4 billion.

That means a total decline in private and public national security outlays by $18 billion.

Now in the same period of time, the productivity of the economy has increased. Starting from the second quarter of 1953, assuming that in that quarter we had what we may call moderate overemployment, we estimate that the increase in potential production to the end of the year has been at least $12 billion. That leads me to the conclusion that in order to shift from a full employment buildup economy to a full-employment, continuing-preparedness economy, we needed an increase in nondefense public and private activities by about $30 billion.

Now the actual increase, excluding the temporary change in inventories, was $16 billion; $7 billion in consumer spending; a $3 billion increase in residential construction; perhaps—this is a very vague estimate—a $2 billion increase in business outlays other than for defense-supporting facilities; and a $4 billion rise in State and local government outlays. That gives me $16 billion.

So, Mr. Chairman, with respect to the one question I wanted to discuss under this first item, I have reached the conclusion that in the transition from a full employment national security buildup economy to a continuing-preparedness economy, we have made the adjustment about half way—$30 billion goal, $16 billion accomplished. This accomplishment in the past year and a half is cause for satisfaction. It speaks for the vitality of the American economy, but it also states the fact that one-half of the adjustment is still ahead of us.

(Mr. Colm's prepared statement appears at p. 124.)

The CHAIRMAN. Thank you very much.

Mr. Keezer.

OPENING STATEMENT OF DEXTER M. KEEZER, DIRECTOR, DEPARTMENT OF ECONOMICS, McGRAW-HILL PUBLISHING CO.

Mr. KEEZER. Mr. Chairman, I do not think I have anything to say on this question which would be helpful to the committee. I interpret "the facts" to mean what actually has happened. We accept the statistics of the Government, broadly speaking, on all of these matters and I accept the Economic Report of the President as a competent and honest statement of the facts.

(Mr. Keezer's prepared statement appears at p. 127.)

The CHAIRMAN. Mr. Butler.

OPENING STATEMENT OF WILLIAM F. BUTLER, CONSULTING ECONOMIST, CHASE NATIONAL BANK

Mr. BUTLER. It seems to me the most significant point about recent economic trends in this: The curve of business activity turned up smartly in the fourth quarter of last year. Total activity recovered in 3 months over one-third the ground lost in the preceding 15 months.

The upturn was not only vigorous but also broadly based. If you run through the catalog of economic statistics, you'll see that the vast majority of series was moving up in strong fashion in the final months of 1954. In past recovery periods, upturns in various areas of the economy were spread over a considerable period. This time almost everything—production, employment, man-hours, new orders, consumer expenditures, corporate earnings—moved up at once.

Now it seems to me there are a number of other important trends discernible in recent experience. To save time I will merely list them: First, consumer markets have been showing increasing strength. The ratio of consumer spending to posttax income moved up from 91.4 percent to 92.8 percent during 1954. That is a seemingly small, but very significant change. The University of Michigan's survey of consumer buying plans also point upward. People's evaluation of buying conditions have increased from an index of 100 in September–October 1953 to 118 in October 1954.

Second, while private debt has risen rapidly in the postwar period, ratios of debt to income still seem reasonable. Thus we seem to be in a position to handle a moderate rise in all types of debt.

Third, stock market price averages rose more than 40 percent last year. As measured by past relationships to earnings and bond interest rates, common stock prices were very low when the rise began. At the end of 1954 they stood somewhat above their long-term relationship to these basic factors. However, common stock prices are not as far out of line with earnings, dividends, interest rates, and book values as they got in past periods that preceded a major break in the market.

Fourth, the recent surge in business activity was partly due to a very high level of auto production and construction of new homes. In both areas, current activity seems to be higher than basic demand factors would justify. In autos, the current high level of output is largely a seasonal phenomenon—it's the normal rush to get ready for heavy spring sales.

Our statistics may be overstating the extent of the housing upsurge. Nevertheless, it is important to watch the housing market as the months go by.

To sum up: The record shows that the economy has successfully negotiated the difficult shift from a defense boom to a more normal prosperity. In the process, the decline in production and employment was remarkably moderate. And, in large part because of appropriately timed tax cuts, buying power in the hands of consumers and businesses was maintained at a high level. What is more, economic activity is on the upgrade now. When all the statistics are finally compiled, they should show a sharp upturn in production and employment in the fourth quarter of 1954.

Thus, the economic atmosphere is clearing up rapidly.

(Mr. Butler's prepared statement appears at p. 133.)

The CHAIRMAN. Thank you very much.

Mr. Hoover.

OPENING STATEMENT OF CALVIN HOOVER, PROFESSOR OF ECONOMICS, DUKE UNIVERSITY, AND FORMER PRESIDENT OF THE AMERICAN ECONOMIC ASSOCIATION

Mr. HOOVER. Mr. Chairman, I do not wish to add or to try to add anything to the factual material before us and I do not wish to question any of the estimates which have been made. I also accept the Economic Report of the President as a competent, workmanlike job. I shall have comments to make on the other questions, particularly the third and fourth. Thank you.

(Mr. Hoover's prepared statement appears at p. 137.)

The CHAIRMAN. Thank you, Mr. Hoover. Mr. Luedicke. I may say that Mr. Luedicke has prepared a very thorough statement amounting to 42 pages, for which we thank him. But it will be impossible to deliver it in the course of a few minutes so I wonder if you would be willing to summarize your views on this first topic.

OPENING STATEMENT OF HEINZ LUEDICKE, EDITOR, JOURNAL OF COMMERCE

Mr. LUEDICKE. I don't think, Mr. Chairman, I have to add very much to the first question except perhaps to draw attention to the question of inventories as one factor in recent developments. We have heard a great deal about it; inventories have been declining to be sure, but they have not been declining at such a rapid pace as has been generally believed.

(Mr. Luedicke's prepared statement appears at p. 139.)

The CHAIRMAN. Thank you very much, Mr. Luedicke.

Mr. Ruttenberg.

OPENING STATEMENT OF STANLEY RUTTENBERG, DIRECTOR, DEPARTMENT OF EDUCATION AND RESEARCH, CONGRESS OF INDUSTRIAL ORGANIZATIONS

Mr. RUTTENBERG. Mr. Chairman, If I were to take just a minute or two, I think there are five points which I should like to make and I shall make each of them very briefly.

First, I should like to point out that the monthly average of nonagricultural employment in 1954 was less than in 1953 and in 1952. The same is true of manufacturing employment, being less average monthly in 1954 than the average monthly figures for 1953 and 1952. It is also true of mining. It is true that in construction, interestingly enough, in spite of the continued large scale expenditures for construction, that construction employment average for December 1954, was less than for December 1953. And the average figure for the year 1954 was about equal to the average figures of 1953 and 1952, even though construction expenditures have gone up.

The second point that I would like to direct the attention of the committee to is that unemployment averaged in 1954, 3.2 million. It averaged in 1953, 1.5 million; unemployment more than doubled over the year. The December figure of 2.8 million, compares to 1.8 million in the previous December 1953, although by some peculiar method of correcting the December 1953 figure, we have gotten it revised upward to 2.3. I think the explanation accompanying this upward adjustment of the December 1953, figure is one that I could characterize as being straight guesswork, because there was no real way to adjust it upward.

Thirdly, I should like to call the attention of the committee to another problem, the answer to which I don't have, but it is a problem that disturbs me in terms of current employment. Agricultural employment, over a great many years has shown a continual decline. The year 1954 figure shows a considerably lesser decline than in previous years.

I don't know the explanation for this. In many areas throughout the United States—workers have a farm, they raise a few products, but they also work in an industrial plant. There was a study made, by the Census Bureau, 1949–50, relating to this same situation. The study indicated as I recall that there was a tendency for industrial workers who may have lived on a farm but who also worked in a plant, to be classified as industrial employees, but when they were laid off of their industrial job, they went back to their little farm where they raise what they raised the year before, and as a result they were classified as being employed on a farm.

Secondly, I think another possibility could well be that industrial workers laid off, returned to their family, to their fathers and mothers who have farms, and they sit on the farm and they are waiting there and when something has to be done on the farm they move out and help their father or they help their brother or their family, and as a result the Census Bureau enumerator classifies the employee as on the farm.

This shows up, it seems to me, and it is something that deserves careful attention. If this is true, the decline in employment and the rise in unemployment is greater than the figures indicate.

Now the fourth point which I should like to make relates to the field of productivity. I note with a great deal of interest something which disturbs me no end in the President's Economic Report. On page 5 of that report is a series of 5 lines, 5 graphs. The heading is output per man-hour in major industries, 1909–53.

These five lines indicate what we term productivity or increases in output per man-hour. It is interesting to note at the bottom the source of this material is the Council of Economic Advisers based on data from various Government and private sources. There is no Government data published now that is available that deals with the problem of manufacturing-mining productivity. There are some productivity figures for specific industries. The Department of Labor is engaged in preparing this material, but there is a very careful preparation taking place in the Department of Labor of a statement of limitation.

That document indicating the limitations of the productivity figures has not been published. The Department of Labor is holding up release of the figures on productivity until the statement of limitation is available.

It seems to me that the Council has released those figures or comparable figures based upon such material of the Department of Labor without the qualifying statements which the Department of Labor is now engaged in preparing.

Secondly, I should like to point out in connection with the productivity figure, that nowhere in this report are the lines that appear on page 5 discussed. There is no table in this report relating to productivity. There is nothing, in other words, in this report that I can find that in any way discusses these five lines. The third point which I should like to make is that this chart is prepared in such a way as to lead the non-technician astray. It is a semilogarithmic chart. It does not show arithmetic proportions.

I am not saying that the technician can't interpret this chart correctly. He can do that. Let me edirect your attention to the line on manufacuring. Notice the chart. Notice the bottom line is labeled 25. Then there is a 50 figure. Then a hundred. Then 2 lines, and then the top line is 250. The distance between 25 and 100, 75 points, is less than the distance between 100 and 250, which is 150 points. So that you tend to show a large increase below the line of 100 and a small increase above the line of 100.

Now as I say, I am not saying that a nontechnician will not properly interpret this chart in terms of trend, but a layman or the average Congressman excluding, let us say, the fine economists that are on this committee—but the average individual and Congressman will misinterpret these figures.

Now the fifth point which I should like to make very briefly is that certainly it is true that consumer income, consumer disposable income after taxes, has gone up. Consumer expenditures have continued to rise during 1954. I should just like to call the attention of the committee to the fact that per capita disposable income, disposable income available to each individual after taxes, has declined, because of the rising population. While we might take solace temporarily in the overall figure of disposable income going up, we can take little solace, it seems to me, in the fact that per capita it has gone down. Population has gone up and incomes haven't kept pace with rising population.

Let me say in conclusion, sir, that I am fully aware of the position that Mr. Butler has taken, that there has been an increase in the economy in the last quarter of 1954. I think a great deal of this is peculiar in terms of the automobile industry, and steel rates reflect the automobile upturn. Whether or not this will continue into 1955 remains to be seen. I am not so sure, but I would urge that in looking at the upturn of the last quarter that we do it at least with a bit of skepticism.

(Mr. Ruttenberg's prepared statement appears at p. 156.)

The CHAIRMAN. Thank you very much.

Mr. Gainsbrugh.

OPENING STATEMENT OF MARTIN GAINSBRUGH, CHIEF ECONOMIST, NATIONAL INDUSTRIAL CONFERENCE BOARD

Mr. GAINSBRUGH. Mr. Chairman, I feel honored to be asked back again and, as in the past, I would like to confine my comments to trends and to the outlook and refrain policy recommendations.

First, in my opinion I find the 1955 Economic Report several cuts above its predecessors in the quality of its analysis. I think there will be professional agreement on that position. I am particularly delighted with the extended statistical appendix contained——

Vice Chairman PATMAN. I didn't understand that statement. Will you repeat it?

Mr. GAINSBRUGH. I am impressed with the professional competency of the 1955 Economic Report. I think it is a cut above any we have had.

The CHAIRMAN. You think it was an improvement over 1954.

Mr. GAINSBRUGH. 1954, yes. I would particularly direct the attention of the committee to the table which appears on page 85. For the first time, to my knowledge, the Council has looked at current gross national product figures and called attention to the differences in these highly important figures that are used by all of us in terms of current analysis, when you look at them from the charges against the national product and then when you look at them from the expenditures side.

I found it hard, Mr. Chairman, to come to grips with question No. 1. I would like to deal with it primarily on the basis of what the battery of statistics indicate from 1952 on, rather than deal with each series seriatim. In my mind they reveal 4 major differences over the past 2 years. First, the economy since 1952 has been undergoing a broad shift of activity and resource allocation away from Government and toward the private sector.

Secondly, within the private sector there has been a shift away from capital formation and toward consumption. In combination these shifts have acted to move the composition of national output toward a sustainable normal peacetime balance.

Third, there has been a steady relatively rapid rate of national growth in terms of population, creating increasing pressure upon the market.

Fourth, there has been a complete cycle in the inventory demands of business, starting with the sudden exhaustion of steel and automobile inventories in mid-1952, running through accumulation, then through rapid liquidation and now we begin 1955 with a new phase of inventory accumulation. The restraining impact of inventory liquidation in 1954 is removed as a contracting factor as we enter 1955. The rest of my comments are directed to factors contributing to the favorable economic climate which has increasingly prevailed during the past 2 or 3 years, and I spell these out under 6 headings.

First, tax reductions, and what that has done to support consumption and investment.

Second, flexible monetary policy and how that helped offset the inventory cycle.

Third, the strength of foreign economies and what this has meant in terms of dampening down our domestic recession. And now three major points at the close, some of which do not necessarily agree with the position of the previous speaker.

In the last 2 years wage adjustments in the American economy for the first time in more than a decade have been more reasonably in line with the rate of increase in productivity. In the aggregate, unit labor costs have not changed to any significant degree. As a result pressures on prices from the cost side have been only moderately upward and there has been a relative degree of price stability. This has led to a restored sense of value among consumers and business enterprises.

As a result of price stability, both consumers and business appear over the past 2 years to have attained a reasonable degree of confidence, as to prospective returns on investment and as to the report.

(Mr. Gainsbrugh's prepared statement appears at p. 159.)

The CHAIRMAN. Thank you. Mr. Keyserling.

OPENING STATEMENT OF LEON H. KEYSERLING, ECONOMIC CONSULTANT, PRESIDENT OF CONFERENCE ON ECONOMIC PROGRESS, AND FORMERLY CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

Mr. KEYSERLING. I hope that the committee will reward my waiting until last with patience with respect to my remarks. My friend sitting on my left has said this Economic Report is the best written ever. That reminds me of the Texas millionaire——

The CHAIRMAN. He qualified that later, that it was the best since the last year.

Mr. KEYSERLING. That was under pressure from the chairman. It reminds me of the Texas millionaire who said that if he was the richest man in the United States, he was sorry for the second richest. By the same token, if this is the best Economic Report ever written, I am sorry about the jobs we did earlier.

I think we are threatened by a long-term trend of rising chronic unemployment. I see no signs of improvement sufficient to reverse this trend, without more effective policies. I would like to cite a few facts in support of this proposition, and then correlate them with other economic developments. In 1954, compared with 1953, the level of full-time Census Bureau unemployment rose from 2.5 to 5 percent of the labor force, or from 1,620,000 to 3,230,000.

Allowing for seasonal variations, a 200,000 allowance, I would say that at the end of 1954, the level of full-time Census Bureau reported unemployment seasonally adjusted was in the neighborhood of 3 million, and the level of true unemployment in the neighborhood of 3.7 million. By true unemployment, I include the full-time equivalent of part-time unemployment, shorter hours, temporary unemployment, and so forth.

In addition, there have been profound changes in the structure and utilization of the labor force, which incidentally explains the great variant between the deficit in unemployment and the deficit in output. The deficit in output in the fourth quarter of 1954 was about $30 billion (annual rates) or about 7.7 percent of the full production level. The excess unemployment was about 3.1 percent of the labor force. The difference betwen those figures is explained by the changes in the composition of the labor force. The most striking example is that in 1954 agricultural employment remained relatively stable. Manufacturing employment dropped by more than a million. That happened in many other parts of the economy, so that you had a progressive shifting of people to lower paid, less productive jobs.

A still more striking fact is that in December of 1954, with a level of production in construction, manufacturing, and mining combined, higher than at the end of 1953, unemployment was 1.1 million higher —in other words employment was 1.1 million lower; you don't have unemployment breakdowns for sectors of the economy. So you had the startling factor of a 5 percent decrease in the employment of labor with an increased product, which is about equivalent to about a 5 percent productivity increase.

Now, I ask, where are the people going next year. Mrs. Wickens has said that we may look forward to an increase of about a million in the labor force. Add to that, depending upon what one regards as the optimum level of unemployment, a million and a half desired reduction in unemployment, and you have a job of creating 2½ million new jobs, plus this problem of the composition of the labor force.

Are they going back into manufacturing, which has disemployed 5 percent of its labor with an increased product? Are they going into agriculture, in the face of mounting talk of agricultural surpluses? Or are they going into trade?

Now, let's look at trends in national output—resulting as of now in a $30 billion deficit in national product (annual rate). I regard those trends as highly unfavorable; they need to be measured, not against the levels of 2 or 3 years ago, but against maximum employment and production levels now, which manifestly must change with growing productivity and a growing labor force. In the fourth quarter of 1954—and I think we would all agree that the recent upturn has ben caused primarily by a seasonal spurt in automobiles, much similar to the 1953 spurt—the level of output in the fourth quarter of 1954 was only about 1 percent higher than for the year as a whole.

According to my calculations, which may be wrong, we would need in 1955 an expansion of about 6 percent in total output about the 1954 level to reduce unemployment to what I would regard as tolerable levels under the standards of the Employment Act.

Where is is coming from? Personal income before taxes rose only about $5 billion from the first quarter of 1953 to the fourth quarter of 1954 (annual rates). The increase in consumer spending of about $9 billion was supported almost entirely by tax reductions and by a change in the rate of savings, which I believe went down too rapidly—the savings of middle- and low-income families—even if the now attained rate is sustainable for a long run.

I do not believe that tax reductions and further reductions in savings can make up the current deficit of about $13½ billion in the annual level of consumer spending. The level of business investment tends to portend a slightly moderate decline. The levels of Government expenditures are projected budgetwise to decline substantially.

Therefore, I would expect, with growing productivity, that the true level of unemployment in 1955 would be considerably higher than in 1954. The most optimistic forecasts are that the economy overall may expand about 3 percent in 1955. If it expands only 3 percent, and that is an optimistic forecast, I would expect the true level of unemployment sometime within 1955 to rise by 1 to 2 million. How much of this would be shown by the Census Bureau recorded figures would depend on how much of the unemployment was concealed through forced reductions in the workweek to share unemployment, through further adverse changes in the composition of the labor force, through the further saddling upon agriculture of the burden of carrying too large a percentage of the labor force, and so forth.

Finally, I think that the Economic Report masks and avoids these questions because it rejects the statutory mandate of the Employment Act to define needed levels of employment, and in the absence of that definition cannot make a really penetrating analysis of our present economic situation or where we ought to be going.

(Mr. Keyserling's prepared statement appears at p. 162.)

The CHAIRMAN. Thank you very much, Mr. Keyserling.

The chairman is going to waive the asking of questions to Mr. Patman.

Vice Chairman PATMAN. Thank you, Mr. Chairman.

Mr. Gainsbrugh, I wanted to ask if you believe that the farmers have profited along with industry?

Mr. GAINSBRUGH. They have not. The 1954 picture shows a reduction in income of the agricultural sector. The outlook is for further reduction of the income of the agricultural sector in 1955.

Vice Chairman PATMAN. Do not you consider that a disturbing picture?

Mr. GAINSBRUGH. There are numerous elements of weakness in 1955. The agricultural sector is one of the primary areas of weakness.

In addition to its current weakness flexible price supports introduced in 1954 may further endanger their position. Fortunately they have a strong balance sheet position. They did not expand their debt in World War II as they did in World War I. Their debt levels are barely above where they were pre-World War II. Their savings and asset position has remained strong over the past decade or more ever since the beginning of World War II.

There has also been an increased flow of population away from the farms. Income per capita and income per farm family has not been as markedly reduced as the overall agricultural income figures indicate.

Vice Chairman PATMAN. Now, this report that you have commended, and I commend the tables and the information, I think it is a devastating report for the administration if you analyze it and evaluate it—for instance, on page 83, it says the income shares of both farm and business proprietors in 1954, 4.1 percent and 8.9 percent, respectively, were at postwar lows.

Now, although the report admits this terrible condition of the farmer, and the small-business man, being at the lowest point since the war, can you point out to me any remedy that is suggested, or anything that is offered in the way of hope as being held out to these two classes and groups who are admittedly in the postwar low in this report?

Now, where is there anything in this report that offers them any hope of any kind whatsoever?

Mr. GAINSBRUGH. In my response to question 4, as distinct from question 1, I in general follow the same lines you presented, namely, that the council was derelict in its appraisal of the agricultural sector. It has too quickly disposed of the problems of the economy in 1955, largely on the basis that we have entered the recovery phase of the business cycle and that momentum alone will carry us through 1955.

Vice Chairman PATMAN. Here is a chart that I prepared a couple of months ago. It is very similar to the one on page 42 of the President's report. I means it contains information that is comparable.

Now, if you will notice there in 1951, about the time of the so-called accord—you know what I mean by that, the shotgun wedding or something—the prices of the farm products, the prices of things that the farmers sell—you see the farmer sells in the wholesale market and buys in the retail market—the things that the farmers sells, the line has gone down ever since, and is still going down. And you recognize in the President's report that he admits that it is much lower than it has ever been.

In other words, it is now about 86, parity ratio, compared to 100 in 1952.

Now, where is there in this report anything that offers any hope or encouragement to the farmer?

Mr. GAINSBRUGH. I assume that may be a separate message.

Vice Chairman PATMAN. A separate message; however, the separate message is not in here, and that is just an assumption of yours. What do you believe caused that line to consistently go down since the monetary policy became effective on March 4, 1951?

Mr. GAINSBRUGH. You have another session devoted to agriculture, but in response to your question I would say the ills and evils of agriculture now are directly attributable to the policies that were pursued in terms of rigid support, in terms of overexpansion of agriculture in the earlier years.

Vice Chairman PATMAN. Overexpansion of agriculture?

Mr. GAINSBRUGH. That is correct.

Vice Chairman PATMAN. Is it not a fact that the reason farm prices have consistently gone down is because farm prices respond very quickly to changes in monetary policy, more quickly than any other segment of our economy, and in view of the fact that they respond so quickly, the farmers take nearly all of the beating in a change of monetary policy for the reason that there are so many of their fixed charges that are inflexible?

You take the things that the farmers buy, like utilities, electricity, gas, water, telephone, freight rates, and things like that: They are fixed, and they are constant. And the industrial prices, as shown on page 42 of the President's report, of finished goods and semiprocessed materials, which, of course, are in the so-called monopoly groups, they remain steady and even rise.

Don't you see in that convincing evidence that the monetary policy that has been in effect has hurt the farmers more than any other group except perhaps, the small-business man?

Mr. GAINSBRUGH. Frankly, Mr. Patman, I would place my emphasis upon the economic characteristic of agriculture, its relative inelasticity of supply in periods of war and in periods of crisis. It takes a while for nature to come to our rescue and meanwhile, there is pressure upon the price structure which drives agricultural prices up.

Vice Chairman PATMAN. I know. You are expecting the farmer to wait for nature to take care of him. But what about these other groups? You see the Government is taking care of them.

Mr. GAINSBRUGH. We gave them a while to readjust postwar levels of consumption. We also gave them rigid supports for the basic commodities. We recognized that the prices of agricultural commodities would be driven up in World War II. We wanted maximum production for the farms, and we pledged for a period of years after World

War II we would continue to support agricultural prices at levels above their warrant relative to the current market. Production did not come down to market levels. It did not adjust to existing levels of demand.

Vice Chairman PATMAN. That is right, they did not. But don't you think we should do something about it?

Mr. GAINSBRUGH. I think we are in the flexible price program.

Vice Chairman PATMAN. I know, but the farmer is tired of this flexing. He has been flexed too much, flexing farm prices downward and flexing interest rates upward, so he has felt it both ways. Getting less for what he produces and paying more.

Don't you feel that agriculture represents such a major part of our country in purchasing power, and those who are dependent upon the farm products that are produced, that they represent such a major part of the purchasing power of this Nation that it makes restoring agriculture one of our No. 1 problems, a must problem, commencing right now.

Mr. GAINSBRUGH. I agree, but I doubt that it can be done through monetary methods.

Vice Chairman PATMAN. At least they can pull the monetary dogs off and help them a little in that way, in other words stop the squeeze by reason of monetary policy?

Mr. GAINSBRUGH. I think the more basic problem, however, is the readjustment of agriculture to the existing levels of demand in postwar, postdefense markets.

Vice CHAIRMAN. And don't you find that the monetary policy has definitely been detrimental to agriculture in that you take, for instance, the early part of 1953, and when the hard money, high interest policy, was effective at its worst, it reflected an unfavorable light on farm products, most unfavorably?

Mr. GAINSBRUGH. If you look at your own chart, however, you will see that the break began back in terms of prices received as early as 1948. There was an upsurge following Korea, but prices had been going downward quite a long period before the change in monetary policy.

Vice Chairman PATMAN. That was when they were tampering with the short-term monetary rates, when they arbitrarily raised the rates, in 1947.

But, of course, they went up in 1951, and then when they had that famous accord, and then they have been going steadily downward since.

But you do recognize that agriculture represents the No. 1 economic problem for the country to give economic attention to?

Mr. GAINSBRUGH. I would put it high on the list.

Vice Chairman PATMAN. And in view of the President's report here, on page 83, the economic shares of both farm and business properties in 1954, 4.1 percent and 8.9 percent, respectively, were at postwar lows—don't you think that the small-business man is entitled to consideration, too, as a major problem?

Mr. GAINSBRUGH. May I have that reference again?

Vice Chairman PATMAN. Yes, on page 83, near the top of the page, the second sentence, I believe.

If you will notice the last 2 years, the income of the large concerns has increased, but the income of the small-business man has decreased.

WHAT THE PRESIDENT'S 1955 ECONOMIC REPORT SHOWS

The President's Economic Report clearly shows that farmers and small-business men have been severely damaged by the economic policies of the administration the past 2 years. On page 83 of his report there is the following statement:

The income shares of both farm and business proprietors in 1954—4.1 percent and 8.9 percent, respectively—were at postwar lows.

Earlier in the report the President casually dismissed the economic crisis that confronts the American farmer in the following words:

The introduction of flexible price supports for basic crops and the modernization of the "parity" formula will facilitate the adjustment of our farming enterprises to changing markets and thus help to improve the outlook for the farmer (p. 7).

The falling income position of the farmer is clearly revealed in an appendix table on page 147 of the President's Economic Report. It shows that the income of United States farm proprietors fell in every quarter of 1954. Here are the figures adjusted to annual rates.

1st quarter	$13, 000, 000, 000
2d quarter	12, 200, 000, 000
3d quarter	11, 600, 000, 000
4th quarter	11, 000, 000, 000

These figures show a $2 billion or 15 percent fall in the annual rate of farm proprietor incomes from the beginning of 1954 to the end of the year. As against the deteriorating economic position of farmers and small-business men the Economic Report shows a clear gain for investors in 1954. From the opening to the closing quarter of 1954 the annual rate of income receipts from investment sources—rental income, dividends, and interest—rose by $1.5 billion. As a percentage of total personal income disbursements in 1954 interest income amounted to 5 percent, the highest share since the end of World War II. Since 1952 the interest share of personal income has risen by 11 percent while the income share of farm and other unincorporated proprietors has fallen by 10 percent.

The CHAIRMAN. Mr. Talle.

Representative TALLE. Mr. Chairman, without prejudice or invidious comparison, I should like to pay a compliment to Mr. Gainsbrugh. I have had the opportunity of hearing him on a number of occasions. I am pleased with his presentation and his clarity as well as depth of thought.

Mr. Gainsbrugh, you have pointed your finger straight at the target when you call our attention to the nature of agriculture. Government took the farmer's sons, and industry attracted his hired men as World War II progressed. Therefore, the war forced the farmer to mechanize. That would have come about in time anyway, I think, but war forced mechanization on him sooner than under conditions of peace. because of the high investment, modern farm machinery requires the size of a farm in relation to manpower to become larger than before. Otherwise it would not be an economical unit to operate.

A farm paper the other day raised the question—How big is a farm? I think it is a very good question.

So I would say that we should at this time expect more stability in employment on our farms for the reason that there is relatively little opportunity for a decline. If you have one able-bodied man operating a farm of, say, 160 acres, by employing much machinery, there is no opportunity for unemployment on that farm unless the farmer decides to quit. This is true of many farms today.

I am not surprised at all at the stability of employment in agriculture.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Kelley.

Representative KELLEY. Mr. Chairman, as a new member of this committee, I am impressed with one fact often in listening to these renowned economists, that economics is not an exact science. I may be provincial when I say this: I come from the great State of Pennsylvania where manufacturing and mining are very prominent. I do know that there is a great deal of unemployment, and there has been, since the beginning of 1953, with the advent of the increase in interest rates. I cannot see that there has been much improvement in employment in the great State of Pennsylvania when you have 950,000 people, Mr. Chairman, receiving surplus food in that great State. You know that there is something wrong with the economy, and there is a great deal of unemployment, a great deal of underemployment, too, by the way. I am not optimistic enough to think that there is going to be a great deal of improvement in 1955, Mr. Chairman. I hope I am wrong.

I have been engaged in industry all of my life, and I have been affected by it as many others have, who were in my same position, but I am not very hopeful for 1955.

That is all.

The CHAIRMAN. Mr. Curtis

Representative CURTIS. Yes, Mr. Chairman, I have 3 questions in mind, and I think the first 1 I would like to address to Mr. Gainsbrugh because he raised the question, but any other comments from the panel I would appreciate.

I was very interested in your comment on the failure of the report to refer to the capital-gain situation that exists in the economy.

Now, I might state that my interest lies primarily from the tax angle of the thing, just what economic effect some of our tax laws are having. One thing that I have observed, of course, is the relationship of equity capital as a method of financing our industrial expansion in regard to borrowing, and I am disturbed by that ratio.

Of course, borrowing escapes the 52 percent corporate tax, and naturally if industrial expansion is done through borrowing the equity interest remains proportionately the same, but as the venture succeeds the value of the equity holdings, of course, increase, increase tremendously, as a matter of fact, and those that have these equity holdings realize an ample gain, and that is held at a 25-percent rate.

I was wondering whether you felt that our tax laws were contributing at all to this economic situation that you have mentioned?

Mr. GAINSBRUGH. I think without question the volume of securities that are held in the box, if we had such figures, would be far higher, relatively as well as absolutely, than at any time in our Nation's history. I think the primary reason why so much remains in the box—and by remaining in the box thinning the supply so the pressure drives stock prices up—the primary reason so much remains in the box is the capital-gains tax. The fact is even if investors hold for 5 or 10 years, even if they are not in the market for quick speculative profit, they are still subjected to just as high a tax, should they attempt to realize their capital gains.

I will bow to other members of the panel on this question, though.

Representative CURTIS. Coupled with that is the question of whether the 52 percent corporate rate actually is not contributing to this situation, also, because, after all, bank borrowing and the interest paid on bank borrowing or on corporate bonds, is exempt from the 52-percent tax. In fact, it is a deductible item from the taxable income of the corporations, and I know many situations where corporations already because of the tax structure have called in a pro rata of their equity stock and refunded through the technique of borrowing or from issuing bonds, again theoretically, I suppose, to escape the 52-percent tax.

I was wondering whether or not you did not feel that that was a contributing factor to this economic picture that you have suggested.

Mr. GAINSBRUGH. I have not given any study to that problem. I do think there is a corollary to it, that as a result of the rise in the value of equities, equity financing may be more readily accomplished now than it was several years past when some of the corporations were driven into debt contracts in order to secure their capital requirements.

Representative CURTIS. I am very happy that you refer to the fact of this omission. I feel, too, that it is a very important factor in our economy, and I suggest that probably taxes have a great deal to do with it.

Now, the second question, and I will again address it to you because you started the comments on it, or the questions were asked of you:

In this farm picture nothing was mentioned much about the decline in farm exports, and it has always been my observation—I may be wrong—but after world wars where the production abroad in agricultural products has, of course, declined during the war period, where many of their fields were actually battlefields, and certainly their farm labor was engaged in military occupation, that this country not being subjected to that, has found that they could be the producer for those markets that have been relinquished.

I wonder if you would comment on that. Is it a fair observation to say that a great deal of our farm problem today comes from the decline in the export market, and that export market no longer exists as a result of these countries that were at war having gone back into their normal agricultural production?

Mr. GAINSBRUGH. I think there can be no question that in the immediate postwar years one of the primary outlets for our agricultural production was to provide food and sustenance to those nations that had not yet reconstructed their agricultural economy. Increasingly they have become more and more self-sufficient, and as a result that outlet for our surplus is not so large as it was.

I think there is another factor, too: In supporting agriculture, pegging prices, we may have dried up part of the markets that were traditionally ours pre-World War II, and that are no longer open to us on a competitive price basis.

Representative CURTIS. You mean because we have pegged them they cannot flow, because of the differential in the world market and the market here?

Mr. GAINSBRUGH. It is adverse to us; yes.

Representative CURTIS. Thank you.

Now, I have a third question and I would direct this to Mrs. Wickens.

I was on the subcommittee of Ways and Means studying our social-security laws, and we had testimony at that time by our census people, and I had my eyes opened as to what the actual census figures in regard to labor force were.

Now, it is my understanding that a labor-force figure actually has no relation to the potential labor force in this country; does it, Mrs. Wickens?

Mrs. WICKENS. Well, people coming into the labor force are, of course, by their own appraisal, either considered as available for jobs, looking for jobs actively, or they are out of jobs.

Now, in the sense of potential, sir, I tried to point out that the potential size of the labor force is very much greater than the number who at any one time may include themselves as out of work, looking for work, or at work. Many people, older women, for instance, will come into the labor market if there are incentives to bring them in. Thus, it is not a fixed figure. It depends upon the attitudes of individuals with reference to their attachment to the labor force.

Representative CURTIS. I see, and it is based upon the people who are actually working and perhaps going back a few years as to whether they had worked.

Mrs. WICKENS. No, sir; they are asked the question as of a particular week, whether they were at work, whether they had a job, but were not at work, but expected to be called back, or whether they were unemployed, and actively seeking work during that period.

Then there are additional questions about their age, and their status, for example, a woman who is a housewife, and children, whether they are at school, and it is from a series of questions of this kind that these figures are derived. You know that there is also a table that shows the proportion of people working part time, but who would like to have full-time employment. There are a variety of additional details here, so that many more facts are available about employment than the total figures suggest, but the labor force in the United States is a highly flexible figure which varies in any one year by about 3 million, seasonally.

The CHAIRMAN. I would like to mention in connection with a question of Mr. Curtis, that on page 160, in the first column it is stated that on a seasonally adjusted basis the number employed outside of agriculture, in July 1953, was 49,905,000, or approximately 49.9, and for December, 48.349, let us say 48.4, or a net decline in employment of 1½ million.

Mrs. WICKENS. Are you referring to table A-22 sir?

The CHAIRMAN. That is right, page 160, if those figures are correct.

That is my first point, that there has been a decline in employment on a seasonally adjusted basis from the peak to December of 1½ million.

Your testimony indicated that the normal increase in the size of the working population—I do not say working force, but working population—is at a rate of a little less than 700,000 a year.

Since there was a passage of a year and a half of time here you would expect, therefore, an increase in the working population of a million persons?

Mrs. WICKENS. Well, somewhat less than that—oh, in a year and a half, that is right; yes, sir.

The CHAIRMAN. So that in December the economy fell short of employing—fell short by 2½ million of employing—the same proportion of the working population as it had been able to achieve at the peaks?

Mrs. WICKENS. I want to check the arithmetic.

The CHAIRMAN. Well, it is rather simple, 1.5 to 1.

Mrs. WICKENS. I was trying to figure a percentage in my mind.

The CHAIRMAN. Well, in absolute numbers, then.

We will waive the question of percentage.

In absolute numbers, it fell short by 2½ million.

Mr. GAINSBRUGH. May I offer a comment in that connection, Mr. Chairman.

The CHAIRMAN. Yes.

Mr. GAINSBRUGH. On page 160, it is indicated that the figures of the BLS relate to a more limited segment than the census. Domestics, self-employed, etc., are all excluded from this BLS table. They are, however, included in the census table on page 153, which shows total nonagricultural employment.

I am delighted that you have used the seasonally adjusted figures because I would like to see every series, wherever possible, shown on a seasonally adjusted basis. In this particular series we do not have the seasonally adjusted figures. However, the figures that are shown fail to reveal the gap that appears in the BLS series.

That may be due to seasonal fluctuation, but I cannot tell since the seasonal figures are not shown. The figure for the first half of 1953, on page 153, for nonagricultural employment, is 55.5 million, and for December 1954, on page 154, is 55.3 million.

The CHAIRMAN. Is this based on the sample of 25,000 families?

Mr. GAINSBRUGH. This is based on the census reports.

The CHAIRMAN. I do not think we should take up our time with elaborate discussion of that sample, but I would say that because of an insufficient sample, and the definition of whether a person is seeking work or not makes this point highly subjective and conjectural. While I do not want to take up too much time with that point I think we should not place too great credence upon the Bureau of the Census figure.

Mr. GAINSBRUGH. It does, however, have this qualification, if I might give it: The BLS figures are picked up from employees' records as distinct from the census figures which are obtained through individual sample approach. An individual could have conceivably had dual employment in July 1953 and be reported twice by BLS. The number of dual jobholders may have been reduced from July to the present without signifying an increase in unemployment.

The CHAIRMAN. Mr. Keyserling.

Mr. KEYSERLING. Mr. Chairman, I would like to call the attention of the committee to just a few figures on a seasonally adjusted basis in the fourth quarter. These are official Government figures—Reserve Board. I do not make up figures of my own.

Taking total nonagricultural wage and salary employment, that is as distinguished from agricultural, the seasonally adjusted figure on employment for nonagricultural wage and salary employees as a whole showed almost no change in the fourth quarter of 1954, despite the heralded business upturn. The index was 110 in December. This was lower than the index for 1954 as a whole. It was much lower than the 113.3 index for 1953, as a whole.

The picture is much more striking with respect to manufacturing production work. Here the seasonally adjusted index of employment was 101.8 in December, or no higher than in November. It was lower than 1954 as a whole, and distressingly below the 112.0 index for 1953 as a whole.

Now, the question I ask is this: If the seasonally adjusted index of employment for such wide sectors of the economy as manufacturing production workers and total nonagricultural wage and salary employment showed no improvement in the last quarter of the year, therefor, then the level of unemployment must have been—because of the figures that the chairman gave on labor force growth—very much higher. Unless we assume that more and more people, relatively, are going into agriculture, what is going to happen in 1955, when the average rate of increase in output, according to most estimates, will approximate the fourth quarter, 1954, rate of increase? Even the gentleman here who referred to the fact that business was on the up and up said that the level of increase in automobiles and steel was much higher than could be sustained.

With the labor force expanding, with automation increasing the rate of productivity, with the rate of productivity now much higher than it was in 1953, though masked by a change in the labor force, where are the increasing number of workers, the increasing number of unemployed, going to be absorbed?

Mr. RUTTENBERG. Mr. Chairman, may I add a word here?

The CHAIRMAN. Certainly.

Mr. RUTTENBERG. Mr. Gainsbrugh points out that the BLS employment, as contrasted to the Census Bureau figures on nonagricultural employment, excludes self-employed persons, domestic servants, and unpaid family workers. If we were to assume complete accuracy of the BLS nonagriculture figure, and complete accuracy of the census figure on nonagriculture, it seems to me that we could take little satisfaction from the fact that the Census Bureau figure does not show such a large decline. It shows, if I interpret this correctly, the transfer of workers from the nonagriculture categories as those indicated by the BLS, to the categories of unpaid family workers, domestic servants, self-employed, and proprietors. In the main, these categories would reflect income levels to the individuals at a much lower level than their incomes would have been had they been retained in the nonagriculture employment of manufacturing, mining, transportation, trade, etc.

An important comparison would be what has happened to the income receipts and not necessarily to the employment.

I would just like to point that out.

Mrs. WICKENS. Mr. Chairman, may I say a word at this point: There are two things we need to keep in mind. The seasonally adjusted figures for wage and salary workers, as reported on page 160, do show a rise from the low point. Secondly, however, there is no question whatsoever but that they are substantially lower than they were at the peak.

Now, another question was raised about the seasonal movement in the last quarter of the year on unemployment. I have some seasonally adjusted unemployment figures here—which are census figures adjusted by us for internal use and are not as precise as we wish they were—but they also show a continuing decline in unemployment, seasonally adjusted, beginning in September of 1954 and continuing through December.

Of course, again, this total is substantially below the peak, or substantially above the low—I will turn it around the other way.

Now, Mr. Ruttenberg earlier raised a point about the validity of the Census Bureau's revision of its December 1953 figures from its first published figure of 1.8 to a revised figure of 2.3.

I do not wish to discuss this in detail, because I am not familiar with the process, but there is a basis in fact for this revision, in that the Census Bureau, in introducing its new and enlarged sample in January 1954, had previously conducted sample surveys on that same new basis in November and December, and there is general agreement among statisticians that the unemployment figures for the latter part of 1953 were understated, both as regards the size of employment and the size of the labor force, because of the field enumeration techniques then being used.

In other words, I think we must accept the census revision as more nearly comparable to the figures we are using today.

The CHAIRMAN. Thank you, Mrs. Wickens.

Well, now we are almost at 12. If people believe that question 2 can be speedily answered in one word by each of these members of the panel we could finish question 2. If, however, there are a lot of qualifications which must be attached to each word, I think we better adjourn until 2 o'clock.

What is the feeling of the group? Can you deal quickly with this subject? If we can deal quickly with it I think perhaps we will leave out the two Government officials here, lest they be placed upon the spot in characterizing 1954.

Mr. Colm, the question was: "On the basis of economic developments in 1954, how would you classify the calendar year 1954 with respect to the four phases of the business cycle"—and I again refer to the earlier volumes of the Bureau of Economic Research—"of expansion, recession, contraction, and revival?"

Mr. COLM. Mr. Chairman, I am afraid it will take 2 sentences rather than 1 word, you permitted.

According to the definitions of the National Bureau, a distinction is made between phases in the business cycle and transitions, which are more nearly a turning point. According to that the 1954 phase would be called mainly, excluding the last quarter, a period of contraction, and we are now at the point of a revival, and there may be controversy whether we are in a real phase of expansion already or still at the point of revival.

The CHAIRMAN. What is the difference between recession and contraction?

Mr. COLM. The difference between recession and contraction, according to—that is not my terminology—according to the National Bureau—is that the recession is really the turning point, contraction is a phase in the cycle.

The CHAIRMAN. You mean the contraction is a continued recession?

Mr. COLM. Contraction extends over a period of time.

The CHAIRMAN. Contraction is recession intensified.

Mr. COLM. Pardon me, the intensified recession is called a crisis.

The CHAIRMAN. Well, contraction is recession prolonged?

Mr. COLM. That is correct, Mr. Chairman.

The CHAIRMAN. Then it is a prolonged recession.

Mr. COLM. Expansion and contraction are relating to a phase and recession and revival to the turning point.

The CHAIRMAN. Does that suggest the possibility that some gentlemen downtown in proposing to substitute the term "recession" for "contraction" have jumped out of the frying pan into the fire?

Mr. COLM. I think he is taking his lead from a book published in the year 1927.

The CHAIRMAN. You say that a contraction is a prolonged recession. Therefore, it is a naughtier word than "recession," is it not, if understood?

Mr. COLM. Well, Mr. Chairman, in Mitchell's book of 1927 it is not the question of more severe or less severe; it is only the question of the turning point or a phase.

The CHAIRMAN. Well, I do not want to be accused of badgering the witness, but if the witness does not choose to answer the question, that is all right.

Representative CURTIS. I think the witness has answered it.

The CHAIRMAN. Mr. Keezer.

Mr. KEEZER. Since this involves concepts invented by the National Bureau, I asked the National Bureau to answer the question, and the National Bureau says it does not answer this question any more, that it has abandoned these concepts of expansion, contraction, recession, and revival, and use simply expansion and contraction.

In that terminology I was informed by one of the senior members of the Bureau's staff that, in his judgment, we were in a period of contraction until August of 1954 when we turned to a period of expansion.

The CHAIRMAN. Mr. Butler.

Mr. BUTLER. I would agree with that analysis. I think that the outstanding feature of the business situation since about August has been that activity has started to move up.

The CHAIRMAN. And before August?

Mr. BUTLER. Well, it moved down the first quarter; held level in the second and third quarters; and turned up in the fourth quarter.

The CHAIRMAN. Mr. Hoover.

Mr. HOOVER. Mr. Chairman, I am relieved to know that the National Bureau refuses to answer this question because I did not look it up myself, what they had formerly said even.

Mr. KEEZER. If I used the word "refused," I probably exaggerated. They said they did not care to answer it.

Mr. HOOVER. I did the exaggerating.

It will take me more than a sentence, but it will not be long.

We were apparently in a period of contraction during the first half of 1954. The national economy apparently definitely entered a period of recovery during the last quarter of 1954. The crucial and obvious question is whether the forces behind this rate of recovery are strong enough to carry us to the attainable trend line of annual increase in national product, and whether we can in the future maintain this rate of production increase upon the basis of present economic policies.

Now, I am afraid that sentence sounds as though I were sharply critical of present policies. It is not so intended at all. It may well be that we can attain and maintain these rates of increase, but this is a matter which could be discussed more appropriately under the other questions.

The CHAIRMAN. Mr. Luedicke.

Mr. LUEDICKE. I think it is true, as Professor Hoover said, that these answers really should come under question No. 3, rather than here.

I am at a loss to give you a specific answer on it, but I am intrigued with one thing, that we actually probably do not know enough as yet about the 1953–54 recession, or the bump, or whatever you want to call it, and I am further intrigued with the similarity to 1948 and 1949 in trying to explain the 1953–54 recession. The similarity is that we had in early 1950 a pretty smart recovery, and we cannot be for sure whether, if it would not have been for the start of the Korean war, that the upturn in 1950 would not have been abortive.

I am very much in doubt, in my own mind, about whether we are not in very much the same situation now. In other words, we have a smart recovery, the smart recovery, however, has a number of artificial features which are not to my liking, and I have an idea that by mid-1955 we may be very much in the same position as we were in mid-1950.

So that actually we have had two small bumps since the end of World War II. We have proven that, through Government policy, we were able to handle those two bumps very satisfactorily, because we stopped them without getting any worse. But we still have not had the showdown test as to the solidity of the expanding economy that started with World War II.

The CHAIRMAN. Mr. Ruttenberg.

Mr. RUTTENBERG. Might I just help to correct Mr. Luedicke's implication which I am sure he did not mean, by mid-1950 we had a Korean incident. I hope by mid-1955 we do not have a Formosa incident.

Mr. LUEDICKE. That is, of course, my sincere hope also.

Mr. RUTTENBERG. We will leave that aside.

I shall leave to the more competent theoretical analysts on the panel the answer to this question. They will probably come up with the answer in the terms of National Bureau, probably by 1958 or 1960.

The only thing I know, sir, is that the economic situation as it stands today is in a slight upward trend, not nearly having recovered the downturn that occurred in the 1953–54 period. Whether or not the economic policies as now projected by the administration will bring us back in 1955 to anyways near maximum employment production purchasing power remains to be seen.

The CHAIRMAN. Mr. Gainsbrugh.

Mr. GAINSBRUGH. I, too, went back to the records. This will add additional confusion. This is Arthur Burns' definition of terms in one sentence:

> A cycle consists of expansions occurred at about the same time in many economic activities, followed by similarly general recessions, contractions, and revivals, which merge into the expansion phase of the next cycle.

My own appraisal would lead me to believe that an inventory recession began in July of 1953. It continued through August or September of 1954. In the fourth quarter of 1954 we moved definitely into the expansion phases of that new cycle, and on the basis of our Economic Forum's forecast and our survey of business expectations of Board Associates, 1955 ought to be a year of expansion sustained throughout the year.

The CHAIRMAN. Mr. Keyserling.

Mr. KEYSERLING. Mr. Chairman, with all due respect to the Bureau, I think that the four classifications undermine clear economic thinking. I will give a simple illustration.

Suppose in any year the rate of productivity increase and the growth in the labor force required a 4-percent increase in total output to maintain maximum production. Suppose that year's output actually grew by 2 percent, would that be a year of expansion, revival, contraction, or recession?

Now, what has actually happened since the beginning of 1953 is that our economy has shown what I firmly believe to be a long-term chronic trend of failure to absorb increases in productivity and increases in the labor force.

Further, I believe that in the first three quarters of 1954 that disparity was intense; and in the fourth quarter of 1954 the expansion was less than enough to cure the disparity even in the fourth quarter, so that we had in the fourth quarter a slower rate of falling behind, but a falling behind, nonetheless.

The CHAIRMAN. Thank you very much.

I may announce that at 9:30 tomorrow morning we will have an executive session in room 324.

(Whereupon, at 12:06 p. m., a recess was taken until 2 p. m. of the same day.)

AFTERNOON SESSION

The joint committee met at 2 p. m., the Honorable Senator Paul H. Douglas, chairman, presiding.

Present: Senator Douglas, chairman, and Senator Sparkman, Representative Patman, vice chairman, and Representatives Bolling, Mills, Kelley, Talle, and Curtis.

Senator SPARKMAN (presiding). Let the committee come to order, please. Senator Douglas is delayed for a short time in getting here, so I will start the meeting off in his place until he does come. I am sorry that I was not here this morning, but our Foreign Relations Committee was wrestling with another subject that kept us pretty well tied down, this Formosan declaration. I understand you finished the first two items this morning and we are down now to the third one: "What purpose, in terms of carrying out the objectives of the Employment Act, is served by defining the needed levels of employment, production, and purchasing power, and for how far ahead should they be defined?"

Mrs. Wickens, will you comment on that?

Mrs. WICKENS. Mr. Chairman, I should like to make two comments on that. They have come from my experience as a statistician. In the first place, it is far safer to predict or shall we say, to analyze long-run trends than it is the very short-term. A variety of unexpected circumstances may readily alter a situation in a short term whereas over the long run you have such factors as population, and so on, which can be more safely predicted.

Secondly, I think we should caution that the kinds of figures that we are working with here are subject to wide margins of variability. I would not use the term "error," because I do not mean arithmetic mistakes, but failure to have adequate information upon which to make precise estimates. Therefore, none of these projections can be precise; and finally I want to say with particular reference to the year just ahead of us, that there have been changes in the makeup of the industrial structure of the country, that is, the employment structure of the country, in 1954.

There may be changes in 1955 which will affect the rate of output and of participation in the labor force and hence, make forecasting very difficult.

The CHAIRMAN (presiding). Mr. Paradiso.

Mr. PARADISO. Mr. Chairman, I do not think I have anything more to contribute on that than what Mrs. Wickens has said, so if you do not mind, I will pass.

The CHAIRMAN. Mr. Colm.

Mr. COLM. Mr. Chairman, I think this is a very important question. The question raised is significant for the change in philosophy and thinking on the business cycle. In this respect the wording of the Employment Act, I think, can be regarded as a milestone in our thinking. The act was designed to aid in the growth and stability of the economy and of the social system of competitive enterprise. It states that it is a policy of the United States Government to use all practicable means within the provisions of the act to promote maximum employment production and purchasing power. In simple language this means satisfactory levels of employment and production and purchases.

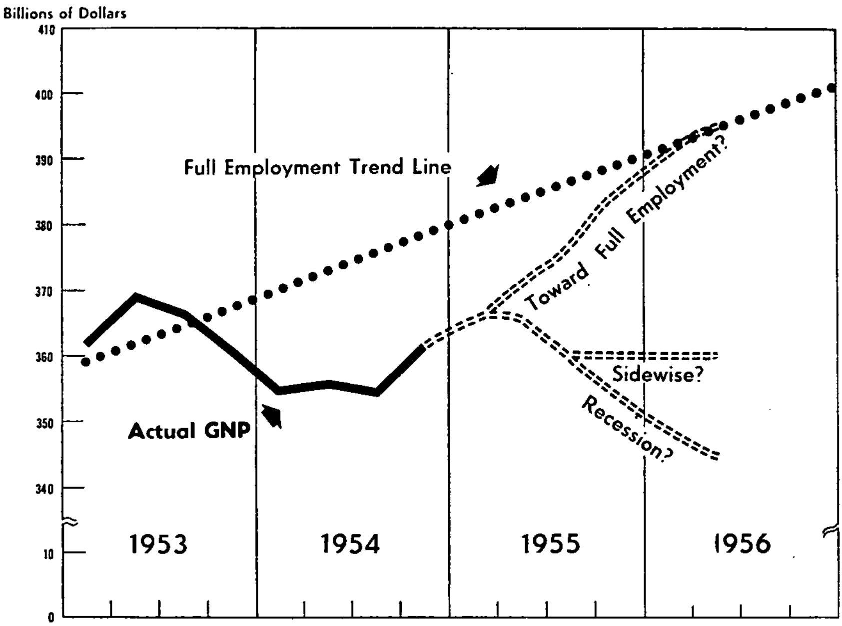
The act recognizes that satisfactory levels cannot be ascertained by reference to the past and here, I think, Mr. Chairman, we have the deeper reasons why these concepts of contraction and expansion which were discussed before lunch, why these concepts which were formulated during the 1920's are inadequate with respect to our present thinking.

We are not using the past, but we are using what a satisfactory level is as our standard. The act, therefore, prescribes specifically that the President's Economic Report should set forth the "needed levels" and also a program for carrying out the policy declared in the act—in effect, for reaching these needed levels. In a period of rapid increase in the labor force and in labor productivity, it makes a great difference whether existing levels of employment and production are evaluated against past levels or needed levels.

For instance, by comparison with the past, one can come to the conclusion that 1954 "will go down in history as one of our most prosperous years," as it is expressed in the President's Economic Report on page 11. By comparison with needed levels, it becames apparent that 1954 was a year in which production was about $20 billion below a level of satisfactory employment.

(The following chart demonstrates actual levels of production during the last 2 years and alternative courses for the coming years—seen in the perspective of "maximum production.")

GROSS NATIONAL PRODUCT



Sources: Actual GNP—Department of Commerce
Full Employment Trend Line—Derived from "The American Economy in 1960"

Mr. Colm. The wisdom of the forward-looking orientation of the Employment Act was most dramatically demonstrated when in 1950 a large defense program was under discussion. Those who measured the effect of the proposed defense program against the past came to the conclusion that it would necessitate a drastic curtailment in consumption. Those who measured it against the growing potential of the ensuing year recognized that a rise in the defense program plus a rise in the levels of consumption and investment would be feasible, which gives you an entirely different appraisal of one particular program.

It is perhaps the most encouraging fact in our modern economy that business managers are increasingly adopting the same sort of forward-looking point of view in their investment planning. Thus I believe that the work done by the Council of Economic Advisers, by the joint committee, and by private research groups in implementing the provisions of the Employment Act, not only results in more adequate Government policies, but also aids business planning and thereby reduces the burden of the Government's stabilization job.

The fact that last year's Economic Report did not posit needed levels of production and purchasing power caused considerable disappointment—this year's Economic Report takes a step in that direction, though it falls short of what was envisaged in the Employment Act in my judgment.

The question 3 which is here under discussion also requires a statement about the time period, for which needed levels of employment, production, and purchasing power should be projected. On this question the Employment Act itself is silent. The National Planning Association has made a recommendation in this respect in a joint statement. It recommended that this committee, the Joint Committee on the Economic Report, be renamed the Joint Committee on Economic and Fiscal policy, and consider needed levels of employment, production, and purchasing power extending over an extended number of years together with the budget outlook covering the same number of years.

This statement is available to the committee if it wishes to have it.

The CHAIRMAN. Do you want to make it a matter of the record?

Mr. COLM. Yes.

The CHAIRMAN. It will be so done.

(The information referred to follows:)

THE NEED FOR FURTHER BUDGET REFORM

A Joint Statement unanimously adopted by the NPA Board, Agriculture, Business, Labor, and International Committee Members Present at the 20th Anniversary Joint Meeting of the National Planning Association Held in Washington, D. C. on December 13 and 14, 1954

I

The budget is a means and not an end. It is a means for aiding in the formulation and execution of those Government programs for national security and well-being which the country needs and can afford. It is a means for developing revenue and debt policies. Expenditure, revenue, and debt policies should be so interrelated that they promote national economic growth and help in counteracting inflation or deflation. Budget presentation, guides for budget policies, and the budget process should all contribute to reaching these ends with a minimum of cost to the Nation.

II

Over the last decades considerable progress has been made in presenting the Federal budget in a more meaningful and more understandable manner. For instance, steps have been taken to transform the budget from the old "line item" appropriation system to the more meaningful "performance" or "program" budget recommended by the Hoover Commission. Nevertheless, the budget still adds together incommensurable items without proper classification. Cash and noncash items, outlays for acquisition of assets and operating expenditures, expenses for semicommercial transactions and administrative expenditures are not always clearly separated. Furthermore, certain activities which used to be financed with public funds are now financed, at least temporarily, by private funds (e. g., certain farm price support operations and lease-purchase contracts for the construction of post-office buildings). Therefore, the budget totals and subtotals have little economic or financial significance. Arbitrary changes in definitions and the organization of programs could result either in substantially higher or substantially lower expenditure totals. We need a budget presentation which gives clearly defined totals and economically significant subdivisions.

III

In recent years it has been increasingly recognized that adherence under all circumstances to the rule of an annually balanced budget in its conventional form would in all likelihood lead to serious economic disturbances. This is particularly true in a period such as the present when the budget has to bear the extraordinary expenditures necessitated by the cold war. In these circumstances, considerations, in part emotional and in a measure realistic, prevent the levying of taxes adequate to cover budgetary requirements.

To move in the direction of meeting this situation, as well as to give effect to the growing realization that fiscal policy can exercise a profound influence in resisting both inflationary and deflationary movements in the economy, several advances have been made or proposed during the last decade for relaxing the rigidity of the annually balanced budget rule.

First, some progress has been made in the use of the so-called consolidated cash budget instead of the conventional budget when considering the budget totals from an economic aspect.

Second, there has been wide acceptance of the idea that expenditure and revenue programs should be so formulated that the consolidated cash budget would be balanced or show a surplus under conditions of high employment. This would automatically lead to deficits if employment and production remained below a full employment level. Such a policy would preclude the taking of perverse fiscal measures—that is, measures which would aggravate business fluctuations.

Third, without taking a position we note that proposals have been made from various sources that the budget which should be balanced or have a surplus under conditions of high employment should be the cash budget of current expenditures. This would mean that certain capital outlays of the Federal Government could be financed by borrowing.

While these various proposals may move in the right direction, they do not establish a close and direct relationship between the economic analysis which the President is obliged by the Employment Act to include in his Economic Report and the budgetary and fiscal proposals which are to be presented in the budget message under the Budget and Accounting Act. The following paragraphs present for discussion a proposal which would aim at a formulation of budgetary and fiscal policies in a longer range economic perspective. Also, it would aim at permitting such changes in expenditure and tax programs as would be desirable in order to counteract economic fluctuations.

IV

We propose that, in line with the intent of the Employment Act of 1946, each Economic Report should contain an economic projection (including estimates concerning the Government sector of the economy) covering a number of years and showing where imbalances might be likely to develop in the national economy. Correspondingly, each budget message should contain a budget outlook covering the same number of years and demonstrating the changes in expenditures, revenue, and debt policies which would be needed to meet the Government's responsibilities under the Employment Act and to promote a better balance in the economy. These estimates would permit deliberation of budget policy for the ensuing year in the longer range perspective of several years, and would help insure that economic trends were taken into consideration. Experience with informal economic and budget projections made within and without the Government justifies the proposal that they be made a regular feature of official documents.

V

Consideration of the budget in a longer range perspective might make possible a greater steadiness in expenditure and tax policies. However, it should be recognized that changes in tax legislation or expenditure programs might be necessary in order to counteract business fluctuations and, further, that such changes should be adopted at early stages of fluctuations in order to forestall as far as possible an inflationary or deflationary spiral.

VI

In order to increase the flexibility of the budget it would be desirable for Congress to make some appropriations for nonroutine programs (mainly public works) without stringent limitation on the time during which such appropriations should remain available for spending. The Executive would be authorized to speed up or slow down various projects in this category depending on the economic outlook. An improved coordination between Federal, State, and local policies is needed in order to develop a national public works policy which embraces activities of all levels of government.

VII

A serious deficiency in the budget process is that, at the present time, no congressional committee gives specific consideration to the budget as a whole. This function should be given to the Joint Committee on the Economic Report which, under its present assignment, has to concern itself with budgetary and fiscal policies anyway. It might then be renamed the Joint Committee on Economic and Fiscal Policy. The joint committee would then concern itself with the overall aspects of the financial program of the Government. It would examine the long term budget outlook proposed by the President in his budget message and also any changes in expenditure programs and tax legislation recommended by the President for the purpose of counteracting business fluctuations. The joint committee could either approve or modify the President's recommendations or recommend changes of its own in existing programs.

VIII

It would be desirable if the Congress would adopt each year a concurrent resolution which would outline the broad order of magnitude of the budget over a period of years and the recommended principles of financing. Such a resolution could state that there should be an excess of revenue over total expenditures, or a balance, or that a part of the expenditures should be financed by loans. It could also set forth the changes in the longer range program, if any, which are considered necessary for the purpose of counteracting business fluctuations.

Although such a resolution could not deprive Congress of its power to make changes in expenditure programs and tax laws at any time and independently of each other, it would encourage a determination of budget policy in line with economic requirements and at the same time maintain the awareness of the relationship between changes in expenditures and changes in taxation or debt policies.

IX

There may well be a different of opinion as to whether steps toward further Federal budget reform should be taken by Executive order or by legislation. But such differences should not be permitted to delay the thorough revision of budgetary concepts and methods without which vital decisions affecting national security and economic health cannot be made successfully.

Members of the NPA Board of Trustees and the Agriculture, Business, Labor, and International Committees, who were present when this statement was unanimously adopted at the NPA 20th anniversary meeting on December 13 and 14, 1954, are:

H. Christian Sonne (chairman, NPA board of trustees), chairman of the board, Amsinck, Sonne & Co., New York, N. Y.
Stanley Andrews, executive director, national project in agricultural communications, Michigan State College, East Lansing, Mich.
Frank App, president, Northeastern Vegetable & Potato Council, Bridgeton, N. J.
Frank Altschul (chairman, NPA International Committee), chairman of the board, General American Investors Co., New York, N. Y.
John A. Baker, legislative secretary, National Farmers Union, Washington, D. C.
Solomon Barkin, director of research, Textile Workers Union of America, New York, N. Y.
William L. Batt, Philadelphia, Pa.
Laird Bell, Bell, Boyd, Marshall & Lloyd, Chicago, Ill.
Murray R. Benedict, professor of agricultural economics, University of California, Berkeley, Calif.
John D. Black, professor of agricultural economics, Harvard University, Cambridge, Mass.
Louis Brownlow (vice chairman, NPA international committee), Washington, D. C.
Eugene Burgess, department of economics and social sciences, industrial relations section, Massachusetts Institute of Technology, Cambridge, Mass.
Harry B. Caldwell, master, North Carolina State Grange, Greensboro, N. C.
John F. Chapman, associate editor, Harvard Business Review, Boston, Mass.
Harry W. Culbreth, vice president, public relations, Farm Bureau Insurance Cos., Columbus, Ohio
Joseph W. Fichter, farm consultant, Oxford, Ohio
Clinton S. Golden (chairman, NPA labor committee), executive director, trade union program, Harvard University, Boston, Mass.
David Heaps, New York, N. Y.
Marion H. Hedges (vice chairman, NPA labor committee), Washington, D. C.
Oscar Heline, president, Farmers Grain Dealers Association of Iowa, Marcus, Iowa
Peter Henle, assistant director of research, American Federation of Labor, Washington, D. C.
A. C. Hoffman, vice president, purchasing, Kraft Foods Co., Chicago, Ill.

Joseph D. Keenan, secretary-treasurer, building and construction trades department, American Federation of Labor, Washington, D. C.
Murray D. Lincoln, president, Farm Bureau Mutual Insurance Cos., Columbus, Ohio
John C. McClintock, assistant vice president, United Fruit Co., Boston, Mass.
John K. Meskimen, Director, Office of Labor Affairs, Foreign Operations Administration, Washington, D. C.
C. Clyde Mitchell, chairman, department of agricultural economics, University of Nebraska, Lincoln, Nebr.
Arthur Moore (vice chairman, NPA agriculture committee), the Washington Bureau, McGraw-Hill Publications, Washington, D. C.
Donald R. Murphy (chairman, NPA agriculture committee), editor, Wallaces' Farmer and Iowa Homestead, Des Moines, Iowa
George Nebolsine, Coudert Bros., New York, N. Y.
Eric Peterson, general secretary-treasurer, International Association of Machinists, Washington, D. C.
Clarence E. Pickett, honorary secretary, American Friends Service Committee, Philadelphia, Pa.
Morris S. Rosenthal, New York, N. Y.
Harry J. Rudick, Lord, Day & Lord, New York, N. Y.
Stanley Ruttenberg, director, Department of Education and Research, Congress of Industrial Organizations, Washington, D. C.
Beardsley Ruml (chairman, NPA business committee), New York, N. Y.
Theodore W. Schultz, chairman, department of economics, University of Chicago, Chicago, Ill.
Ted F. Silvey, National Congress of Industrial Organizations headquarters, Washington, D. C.
Lauren K. Soth (vice chairman, NPA agriculture committee), the Des Moines Register and Tribune, Des Moines, Iowa
Robert C. Tait, president, Stromberg-Carlson Co., Rochester, N. Y.
Wayne Chatfield Taylor, Heathsville, Va.
Howard R. Tolley, Alexandria, Va.
Marcel J. Voorhies, vice president emeritus, American Sugar Cane League, Baton Rouge, La.
Ralph J. Watkins, director of research, Dun & Bradstreet, Inc., New York, N. Y.
Edward H. Weyler, secretary, Kentucky State Council of Carpenters, Louisville, Ky.
Clarence A. Wimpfheimer, chairman of the board, American Velvet Co., Stonington, Conn.
David J. Winton, chairman of the board, Winton Lumber Co., Minneapolis, Minn.
Arnold S. Zander, international president, American Federation of State, County, and Municipal Employees, American Federation of Labor, Madison, Wis.
J. D. Zellerbach, president, Crown Zellerbach Corp., San Francisco, Calif.

Mr. Colm. It is important that projections be presented for the more distant future, perhaps 5 or even 10 years ahead. We need also projections for the more immediate future. We need goals but also a consideration of the path that promises to lead to those goals.

The Chairman. Thank you, Mr. Colm. Mr. Keezer.

Mr. Keezer. I would like to offer a footnote on the usefulness of long-distance projections. I suspect that in my office we have broken the record for long-distance projections. We have gone to 1970. I shall give you a copy of the report.

The Chairman. The question is how do you get there?

Mr. Keezer. We get there, of course, by a technique with which you are thoroughly familiar, Mr. Chairman, but we have reason to believe that these long-range projections are influential in encouraging long-range planning of investment by business firms.

We have been making surveys of plans for business investment for the past 7 years. Seven years ago considerably less than half of the companies which cooperated in our surveys had any long-range plans at all for investment. Last year over 90 percent of the respondent companies—and there was a much larger group of companies than there were 7 years ago—had plans which enabled them to give us some kind of an estimate of their investment over a period of 4 years. I think there is a causal relationship between the extensive development and use of long-range projections and the increase in long-range planning of business investment. I think it is also fair to add that the development of long-range plans produces a tendency to stick to what is planned.

In 1954 there was only a slight decline in business investment as compared to the previous years. The plans announced were fulfilled to a very high degree and I believe it is reasonable to say that——

The CHAIRMAN. What was the difference between the actual investments and your projected investment?

Mr. KEEZER. Well, it is not modest to say so, but I think what I said a year ago turned out to be almost exactly right—that business investment in new plant and equipment would be about 5 percent off in 1954, as compared to 1953. When we come to the fourth question I will have something to say about plans for 1955.

I think short-range projections are also useful and necessary. I do not think that it would contribute anything if I were to say that they have to be used with caution as a guide to action by the Government because of unexpected short-run developments. For the long run, I do think we have rather persuasive evidence that these projections are serving a decidedly constructive rule in our economy.

The CHAIRMAN. Mr. Butler.

Mr. BUTLER. In my opinion, projections of past trends in employment, productivity, production, and consumer and business purchasing power are invaluable for analytical purposes. You need to know what the economy's potential is in order to understand where you are at any given time.

Having said this, let me now stress the importance of interpreting all such projections most carefully. As one of my colleagues says, these figures are fine as long as you do not believe them fully.

Now in interpreting such projections, three things should be kept in mind. First, in the current state of the art of economic forecasting, there is a margin of error involved in all projections. I personally think the margin has been narrowing steadily. The more competent practitioners have come amazingly close to the bull's-eye in the postwar period.

Nevertheless, most economists would agree that there should be a margin of tolerance of at least 5 to 10 billion in all estimates of what gross national product will be in a year in the future. Moreover, all economic projections are based on a set of assumptions which are not always explicitly set out. Some of the key assumptions frequently made are no change in the international scene, no wave of speculative psychology, no prolonged and widespread labor management disputes, no large shifts in Government monetary or fiscal policies.

Now economists generally say that changes in any of these assumptions require a reappraisal of the business outlook. However, those who are repsonsible for framing policy—in a world as uncertain as that we now live in—should keep a wary eye on the things that economists assume to be equal.

The second point is that all projections of our economic growth potential are based on long-run trends. Yet in looking at the next year or 2, short-run factors may be most important. There is the old saying that in the long run we are all dead.

All of this applies with greatest force to the assumption in these projections that productivity will rise at the rate indicated by its long-run trend. The record shows that productivity increases have been anything but regular. In some years there was little advance. In others productivity leaped ahead at more than twice the long-run average. To make the point in specific terms the growth in gross national product resulting from the long-term rate of increase in productivity now amounts to about 9 to 9½ billion a year.

Suppose, first, that the Government were to adopt fiscal and monetary policies on the assumption that this amount of growth would be forthcoming and suppose, second, that no rise in productivity occurred. If the economy had already enjoyed reasonably full employment, the result would be a large dose of inflation.

The point is that in the present state of our knowledge about short and long-term trends in productivity we should treat projections with great caution.

Now a third point about projections of our economic potential relates to the period that should be considered in formulating economic policies. We are below our potential now, but business activity is moving up. If the projections for the year ahead show that activity will continue to increase, should we take steps now to accelerate the advance?

For all of these reasons, I believe projections of the economy's potential are an important and a necessary tool.

However, I believe they must be interpreted with great care. If they show a large gap between expected production and the potential, either on the side of inflation or deflation, then I believe economists should point this out and indicate what steps might be taken to close the gap.

We have powerful weapons against both inflation and deflation. We can reduce taxes and make credit available if deflation threatens; and we can check an inflationary move by running a surplus in the Government cash budget and restraining credit.

However, the area that lies between inflation and deflation may be much broader than most analysts suspect. When we are in that area, as I believe we are today, Government policies should be directed at encouraging private economy's long-run growth potentials. But we need to be always alert to economic developments. If, as the year progresses, it should become clear that the current rise in business activity will be short-lived, we should be ready to cope with the situation. And, if the area between inflation and deflation is fairly broad—say on the order of $15 to $29 billion—there is elbowroom in which to operate.

Thus, in the unlikely event that the private economy should need bolstering, we can apply the appropriate monetary and fiscal measures. Now in this connection, I am intrigued by the suggestion of a number of economists that tax cuts designed to stimulate the economy should be made for temporary periods, for instance, a year.

Thus, Congress would have the opportunity to review the economic situation later on—if the economic winds had shifted to the inflationary side, the tax cut could be permitted to expire.

The CHAIRMAN. Mr. Hoover.

Mr. HOOVER. Mr. Chairman, the purpose of defining needed levels of employment, production and purchasing power is to provide benchmarks by which we can judge whether monetary, fiscal or other policies should be more or less stimulative, restrictive or merely stabilizing in their effects on the economy and thus, to judge whether or not the objectives set forth in the Employment Act are being effectively pursued.

I think it is quite clear that we have the physical capability of increasing our gross national product by some 4 or 5 percent per year. Incidentally, that estimate is higher than I think most people would agree with. This would mean, as outlined in the report of this committee's staff, that our gross national product 10 years from now would be some $530 billion, assuming substantially unchanged prices. Here again, I should say that I believe the compound percentage rate that the committee uses would not be as large as the one I have mentioned although on a simple basis it would be 5 percent over the whole period.

I think that it is useful to make successive 10-year projections of this sort in order to enable us to judge whether or not the general trend is in line with our potentialities. However, these projections would need to be supplemented by continuing annual studies in which new estimates of attainable levels of employment, production, and purchasing power, for periods immediately ahead would be made, and of course, new ones for longer periods also.

Particularly at a time when we are likely to need all our resources in our struggle with the Soviet tyranny, either for the provision of means of armed defense or to keep our standard of living as much in advance of that of Soviet Russia as it now is, we cannot afford to let our national income lag substantially behind that which we are capable of achieving.

Projections of the sort made by the staff of this committee and similar projections are most useful in enabling us to do just that.

The CHAIRMAN. Mr. Luedicke.

Mr. LUEDICKE. Mr. Chairman, I believe that we are now really getting into the subject we are mostly concerned with here and rather than just follow my notes, I would like to throw caution to the wind and stick my neck out although I know there are at least two gentlemen on my right who will take me up sharply on these subjects.

The CHAIRMAN. Do not believe that the world is unfriendly before it actually turns out to be so.

Mr. LUEDICKE. First of all with respect to long-range projections: I have looked into some of them. As it just happened, a very good friend of mine, an economist up in New York, has just made a comparison of seven of these recent long-range projects. He is Julius Hirsch, and with the chairman's approval he would very much like to submit his study on these various long-range projections for the record of these hearings. I think his study is rather interesting and if it is in order I would like to submit it for the record.

There are some very large differences among these seven long-range projections. By the way, Dexter Keezer's study is not the longest one. The Paley report went to 1975. But it is a bit disturbing if you see those very large differences in these projctions. Secondly, when you do try to make such long-range projections, you have to average things such as the annual increment of the labor force or the annual productivity gain, and so far I do not think the economists have come up with any usable method for this. So here you are working, even on the long-range projections, with a number of uncertain factors, but as the chairman said, the important thing is not where we'll be in 1970 or 1975, but how we are going to get there, and that, of course, brings us directly to the purposes and the aims of the Employment Act: specifically the Employment Act, section 3 and section 2. These are the sections we are most concerned with. Section 3 is being interpreted by some of my friends as really requesting the Council to specify needed levels of expansion for a year or for 2 years in advance.

Well, I find it extremely difficult to reconcile section 3 and section 2. Here in section 3 we are supposed to set exact figures on what to aim at and yet in section 2 we have a declaration of purpose of the act which is rather, well, let us say a bit on the fuzzy side, inasmuch as it contains at least 3 or 4 important qualifications in what to do about reaching maximum employment.

The way it looks to me, the one thing we must avoid is overstimulation of the economy because of inflationary dangers. The opposite extreme is the necessity of having the Government take over increasingly more functions in the economy because private enterprise is not willing or not able because of existing profit conditions, to fulfill the investment function.

I think there is general agreement to this extent that those two extremes are not good. Now, we come to the question of what purpose can actually be served by stating at this particular time of year, whether at the end of this year, gross national product should be 370 or 380 billion dollars or any other specific figure.

I personally have more confidence in a policy that watches economic trends and adopts policies according to the general trends as they develop. Both under President Truman and under President Eisenhower we have had able economists to advise the President and to submit programs that actually worked out rather well first in cushioning the 1948–49 decline and then in cushioning the 1953–54 decline.

I think it is not always understood just how much has been done, for instance, this past year, in order to stabilize the economic level. So here we have had two different administrations, certainly showing the bipartisan nature of this type of problem, who have both been successful in smoothing out a minor recession.

Mr. Gainsbrugh this morning used for both these recessions, the term "inventory recession." I wish I could feel sure that that was all we had in those 2 years. I am rather intrigued with the possibility than in 1948 and again in 1953, we had two periods where underlying vulnerabilities in the economy started to break through so that we were actually acting to stabilize and smooth out these vulnerabilities that tried to break through.

High inventories were 1 of these vulnerable points in 1948; the decline in farm prices was the second 1. There are 4 or 5 different vulnerabilities that developed in the course of 15 years of overstimulation and the question I would like to pose, rather than answer, is "How are we to know at this particular time, where the economy really ought to be now? How far has the overstimulation of two wars, then the cold war, then the unprecedented consumer-goods boom that we had after World War II, how far have these factors really pushed us up?" As a matter of fact, have they not pushed us up so fast that if we were to try to equal that pace, we would certainly have to do things that would not be sound from a current point of view?

I am posing that question because I have argued the point several times and I have been getting the answer from other economists, for instance, Mr. Ruttenberg, and Mr. Keyserling, that it is wrong to assume that stimulation of this sort will necessarily lead to inflation.

I am not sold on their confidence, because in order to equal the two wars, plus all of these other factors, we would have to go to town in such monumental efforts to stimulate the economy, that I am afraid the purchasing power of the dollar could not be defended successfully.

Actually I do not agree with the administration's premise, that we have successfully completed the transformation from a war to a peace economy. I cannot quite see it that way because, of course, at the moment the economy still rests very largely on defense. And my good friend, Professor Slichter, who has just written about this in Harvard Business Review, says that in his opinion, if defense does go down, we will have to replace it with something real big in the way of natural-resources development.

Now, doesn't this suggest that we are really getting to the point where we are providing the economy with a permanent cushion on which it can build, on which it can overdo expansion if no check of some sort exists there? I would rather see it firmly established once again that we are still having an economic system that is not only based on proper rewards, and I think at the moment incentives are not big enough for the individual as well as for the corporation, but that also includes a system of penalties. Unless you have rewards and penalties, you will not have the basis for dynamic growth in this country.

All that, I think, is much more important than to argue about whether the goal for this year should be $5 billion higher in gross national product or $5 billion lower, and unless we have confidence in those who are shaping economic policy during the year, and your committee most certainly plays a very leading role in that picture, I think the figures which we put down on paper are not going to mean much.

The CHAIRMAN. Mr. Ruttenberg.

Mr. RUTTENBERG. Mr. Chairman, a great deal of what I want to say is in my prepared statement, and has in part been said by Gerhard Colm. I should like to add just a few additional words.

I agree wholeheartedly with the purpose and intent of the Employment Act of 1946. I think that the Council of Economic Advisers and the President in the Economic Report have advocated their responsibilities under the terms of that act. I do not see how it is possible to intelligently evaluate the kinds of economic policies which are essential in our economy unless we have some framework or some guidepost against which to test them. The Employment Act of 1946 is very clear. It specifically says in section 3, that—

> the President shall transmit to the Congress, etc., an Economic Report setting forth, one, the levels of employment, production, and purchasing power obtaining in the United States, and such levels needed to carry out the policy of section 2.

The policy of section 2 is, of course, as we all know, "to promote maximum production, employment, and purchasing power."

This the Council has not done. This the President in his Economic Report has not done. In going through the President's report there is only one reference to this problem, maybe two. One reference is on page 4, where he says, if I can pick it up in the middle of the sentence, within the very top paragraph of the page:

that our country can within a decade increase its production from a current annual level of about $360 billion to $500 billion or more, with the figures expressed in dollars of the same buying power.

This is the only reference to this problem in the entire report. If one were to project this and assume that within a decade, 10 years, 1965 or 1964, we will be at $500 billion, this actually means if this were spelled out, that in 1955 we would attain a level of gross national product a little higher than 1954, but about equal to or slightly higher than in 1953.

The other reference in this report to this problem, and it is an indirect reference, is on page 48. If I might quote and I hope not out of context, the top paragraph of the page, which says in the beginning of the second sentence:

The vigor of the recent recovery taken in conjunction with investment and expenditure plans already set in motion, suggests that economic expansion will continue during the coming months.

Then it goes on to say:

It holds out the promise that we shall achieve a high and satisfactory level of employment and production within the current year.

What is that high level we are going to attain? What is a satisfactory level in the judgment of the Council and the President? I do not think it is possible to really know the answer to this until you have sat down and observed what is the potential growth in the American economy.

There are certain things we know and which are essential. The labor force is growing. We can make projections on that basis that are fairly accurate, certainly within a period as far as the labor-force figures are concerned, within a period of 14 or 15 years in the future because we know of children that are already born.

Second, we can make projections in terms of productivity and particularly of automation and I wish there were time to discuss the problems of automation further here.

I would like to inject at this point just parenthetically that I think the problems of automation in the future years and even currently are so phenomenal and so extremely significant that it would be well worth the time, energy, and expenditure of funds by this committee, to engage in an investigation of the problems of automation.

What are the effects of this new technique of displacing manpower with machines, displacing human intelligence with a computer? What are the implications of this for the future economy? I just inject that at this point to say that I think an investigation of these problems would be worth while. Maybe not of the scope of Senator O'Mahoney's temporary National Economic Committee—probably not of that scope, but of that general nature. I think it is important. Well, aside from that digression—

The Employment Act of 1946, section 3.1, says:

A program for carrying out the policy declared in section 2, to promote maximum employment, etc., together with such recommendations for legislation as we may deem necessary or desirable—

this is the purpose, this is the function of the President, and the Council—in order to do this, in order to develop a program, it is essential to know the framework, the guideposts against which you are going to set that program.

I should like to make a distinction between what I think Mr. Butler had to say and what I think is in reality what we are talking about.

There is a difference between predictions of what is going to happen in 1955 and projections of the potential growth that should occur within the economy.

The only way that you can judge in 1955 and 1956 whether economic policies are attaining maximum employment is to have some framework against which to set it, and it is for that very basic and fundamental reason that I would think it extremely important for the Council of Economic Advisers, for the President to set forth projections for next year, for the year after, and for a period of 10 to 15 years into the future. I do not think it is unreasonable to do this. The Paley Commission did, and Mr. Paley himself, recently revised those figures, and he said that by 1975 it will take "a whopping $700 billion" to provide full employment opportunities. I do not think that is unuseful. To the contrary, I think it is very helpful that such a projection be made.

I would hope that just because the Council and the President have abdicated this responsibility that the Joint Committee itself will continue to do what it has in the past and continue to put out pamphlets such as the potential economic growth of the United States during the next decade setting forth what the potential growth should be in the economy. It is against these potential growths that we judge the success or failure of economic policies.

The CHAIRMAN. Thank you very much, Mr. Ruttenberg.

Mr. Gainsbrugh.

Mr. GAINSBRUGH. Mr. Chairman, I would like to reserve my time for question 4 on the outlook, and have only a few short comments on question 3.

The first is that it helps us to appraise the diagnosis and prognosis of the Council if they do offer a few quantifications of what their appraisal of the economy promises at the start of the year in terms of subsequent activity. I have read the Council's report intensively from cover to cover and yet I got far more out of a few figures in the budget message than I did out of the Council's entire report in terms of the administration's expectations for 1955. In the budget message the Treasury does specifically state it anticipates that personal income will be at $298½ billion in calendar 1955, continuing into the first 6 months of 1956. (See correspondence, page 1146, for further details.) That immediately gives us the dimensions of the anticipations of the administration.

I think those figures and the accompanying profits estimate set a boom characteristic, a boom pattern to the economy in a way that is not made at all clear by the language used in the report. A single figure is in this instance worth two or three chapters of text. However, and this is my second comment, I am not as concerned as some of my colleagues seem to be about the fact that this model building is not being done by the Council. We owe a great deal to this committee for taking on the assignment which was not previously performed by any governmental agency of building up economic models as you have done for the year immediately ahead. You show on the basis of stated assumptions what the probable level of production would be at high employment and what the foreseeable levels of demand would be. I would recommend that the Joint Committee continue its work and issue three types of forecasts and keep revising them, reviewing them quarterly in the case of the short-range, every 1 or 2 years in the case of the middle-range, and every 5 or 10 years in the case of the long-range. The types of projections already worked out by the committee—the short-range projections done for 1955, and as you contemplate for 1956 and the middle-range for the decade 1965—are very helpful in analyzing economic growth.

I know of nothing that has been more influential in helping shape business confidence over the long run than the explorations that have gone on of market potentials through the work of your committee, through the work of the National Bureau, the Conference Board, the 20th Century Fund and of other economic research institutions.

Businessmen are now convinced as they never were before of the long-range economic growth, the long-range market potential of our economy. I, for one, would like to see you expand what you are doing. And if I might offer one fleeting comment on policy I would much rather see it done here than done within the Council, because here the staff is sheltered by the fact that this is a congressional committee; that it has a majority and a minority viewpoint; and that both of those viewpoints can be voiced in developing models for the short-range, the long-term, and even the middle years.

The CHAIRMAN. Mr. Keyserling.

Mr. KEYSERLING. Mr. Chairman, I think this is the most important question that could possibly be before the committee. The reason that the question may not have seemed too important is that most of the discussion with respect to it is not directed to the question. There is no question here as to whether one believes that the Government should intervene at a particular stage or another in the economic process. There is no question here as to proper policies for fighting inflation or deflation. There is only one simple question: What is the difference between a forecast and defining a need, and in what respect are the two relevant to the making of economic policy, which this Congress must do, and which the President must recommend.

Now, the difference between a forecast and defining a need is plain and simple. If you say that there is likely to be more trouble in the Far East, that is a forecast. If you start devising a national policy as to how our defense forces can be employed and expanded or contracted to meet that problem, that is a matter of defining a need, and of national policy. If you say that unemployment is going to be too high or too low, after the level has been forecast, that is a matter of defining a need, and of national policy, and not a forecast. All national policy is designed to change forecasts. No law is ever needed except to change what the maker of the law thinks would happen if the law were not enacted.

Now let's apply that to this specific year. Suppose the true unemployment level is 3.7 million. I think it is. If the executive branch of the Government and the Congress do not define a need—in other words, if they make no judgment as to whether that level of employment or unemployment is too high or too low, if they make no judgment as to whether they take 4½ million rather than 3.7 million or 1½ million rather than 3.7 million as consistent with maximum employment and a healthy economy, there is no basis on which to rest immediate policies, quite aside from whether different people would agree as to what the policies should be.

Similarly with respect to national output, if the forecast indicates that national output is likely to rise 1 or 2 or 3 percent, until one moves on to the question of what changes in the national output are likely to accomplish the desired policy with respect to the level of employment, there is no basis for evaluation of policy.

Let me take the case of agriculture, which Congressman Patman raised as a striking example. Agricultural income has declined $4 billion at an annual rate since 3 years ago. A forecast might tell us whether it was likely to decline further. I think it will. But that has nothing to do with the definition of need in the making of national policy, because those who believe that agricultural income should decline further, they would say "Sure, the forecast shows it is going to decline further, but we don't need to do anything." The only way one could devise an agricultural policy would be to make an analysis of the economy which indicates whether a billion dollar agricultural decline is consistent with the national economic interest that you want to preserve and maintain.

Therefore, there is an absolute difference between the determination of needs and the making of forecasts, and I would challenge anybody to find in this Economic Report on any central problem of the American economy, a definition which sheds light on what adjustments we need to make in the economy during 1955 and consequently what policies should be adopted. And yet the act specifically says first make the forecast, then correlate the forecast with the need, and then devise policies to close the gap between the forecast and the need.

There is no delineation in the Economic Report of what the level of unemployment ought to be. There is no delineation of what the level of production ought to be. There is no delineation of what farm income ought to be. Thus there is no basis on which to carry out farm policy, housing policy, or any other policy which the Congress must meet.

The CHAIRMAN. Mr. Talle, do you have a question?

Representative TALLE. No questions at this time.

The CHAIRMAN. Mr. Patman?

Vice Chairman PATMAN. I would like to comment briefly on what Mr. Keyserling said about the farmers' income. The falling income position of the farmer is clearly revealed in an appendix table on page 14 of the President's report. It shows that the income of United States farm proprietors fell in every quarter of 1954 and here are the figures on an annual basis. First quarter, 13 billion; second, 12.2; third, 11.6; fourth quarter, $11 billion.

Now, as Mr. Keyserling says, we have the forecast and we must do something to meet the need. In other words, to adjust that. And do you see anything in this report, Mr. Keyserling that offers a remedy?

Mr. KEYSERLING. One of the issues of national policy is whether we should do anything to meet the need. If this report said that the declining level of agricultural income was making for a better adjustment in the American economy, I would say that they were fulfilling their responsibilities, although I would not agree with their conclusions. But they do not evaluate the trends in terms of needs at all, and therefore they are derelict.

Vice Chairman PATMAN. Now, I would like to ask this question of anyone who will answer it, Mr. Chairman. It is on small business. This morning we mentioned about farmers and small business suffering more than any other two groups in our economy. Now, the records disclose a corporation with total assets of under $250,000, the profit late last year was 4.1 percent on stockholders equity after taxes. Now that profit rates goes on up according to assets to over $100 million; it is 12 percent. It gradually goes up. The big corporations had a greater profit rate than the small ones last year. Now, as to the change in profit rate, the corporations with total assets of less than $250,000, they suffered a decline of 61.4 percent, from the first half of 1952 through the first half of 1954, whereas the corporation with assets of over $100 million had an increase of 6 percent. It shows that the smaller they were, the more they suffered, the larger they were the more they profited.

Now, I would like to know if any member of the panel would like to comment on that and suggest anything in this report that offers any remedy for that terrible condition.

The CHAIRMAN. Are there any comments by members of the panel upon that statement? Mr. Luedicke.

Mr. LUEDICKE. One might say that in the sphere of small or medium-sized businesses the question of insufficient incentives is now getting perhaps the biggest demonstration. I have watched with some concern now for the past few years that what you might call a profit squeeze is really being reflected much more sharply in the case of the smaller companies than the bigger ones. Taxes and probably overhead costs are largely responsible for that. They are getting out of hand with respect to the small businesses. The danger is very real to lose sufficient incentives to exist and grow properly. Some people are afraid whenever "profit" is being mentioned. I am not a bit afraid of that. The economy as we want it and as we have to have it, has to function on profit. It is a profit system, and I think the smaller businesses at the moment are in a very dangerous squeeze on their profit margins.

Vice Chairman PATMAN. Well, you raised a question there that disturbs me. You are afraid that they just do not work hard enough. You do not think they have the incentive or that the larger they are the more efficient they are?

Do you say that the larger concern is more efficient than the smaller concern?

Mr. LUEDICKE. I did not mean to give the impression that they do not work hard enough, Senator. I was thinking more of the tax situation.

There is nobody in this economy that works harder than the small-business man. We all know that. But the present tax structure probably takes too much away from the incentive for hard work.

Vice Chairman PATMAN. Well, it is a fact that the larger concerns can fix their own prices pretty well and the last year they have profited greatly by repeal of the excess-profits tax, for instance. Now, they did not reduce their prices by reason of that. They just kept on charging the same prices, and they got a sort of windfall out of that.

Now, the smaller concerns that are not in a position to maintain their prices, some of them had to lower their prices, and, furthermore, the larger concern in buying the raw materials, don't you think they are in a position of advantage over the smaller concern?

Mr. LUEDICKE. Well, on the price angle, Mr. Patman, anybody who did buy an automobile in the latter part of 1954 knows darned well that he did not pay the full list prices. Actually, I believe that the price stability, as it was reflected in our prices indexes, was not quite as "stable" as it appeared in the indexes. We have also heard of increasing trouble with fair trade price maintenance. We are getting greater pressure on the prices of big companies, too.

When it comes to the ability of small business to compete with large business, I will say that I think there are disadvantages in size, as you say raw material purchases and so on, but there are also advantages. And, lest we forget the small-business man is trying to become a bigger businessman, and ultimately a big-business man. The tax system should help him, not hinder him.

Vice Chairman PATMAN. But aren't you disturbed about this merger movement? Take a small concern that is struggling along in competition with a larger concern. Don't they have a great incentive to sell out to the larger concern because the larger concern can bring them into their social security system that they have in the larger one, and give them real security; whereas they do not have good security in the smaller concern, and do not you think that is a great incentive and talking point for the officers and directors and principal owners of a small concern to sell out to the larger one?

Mr. LUEDICKE. That again probably would depend on the individual situation rather than on a generalization. When we are talking about the present merger movement, obviously the mergers in the automobile industry are of a different character than if a steel company were to buy out a small steel company, or any other large company were to absorb some small local company.

One thing that seems to be a very strong factor in the present economic system is that there is this trend to bigness, and that this bigness is not necessarily creating monopoly, but, rather, intensified competition.

I am intrigued with the idea that in the automobile industry the only workable basis for competition is to have a number of equally strong companies to compete.

Vice Chairman PATMAN. A number, you mean a half dozen or a dozen?

Mr. LUEDICKE. Well, I did not want to mention any definite number.

Vice Chairman PATMAN. You know it would be dangerous to have 2 or 3; wouldn't you? Wouldn't you think that would be a short step to socialism?

Mr. LUEDICKE. Well, I do not know, Mr. Patman. This is a leading question.

Vice Chairman PATMAN. Anyway, Mr. Chairman, I will not take up any more time, but I just want to return to this one statement in the President's report, which is really disturbing to me:

The income shares of both farm and business proprietors in 1954, 4.1 percent and 8.9 percent, respectively, were at postwar lows. Now, after making that statement, which is really admitting a lot, I am really surprised and disappointed that something has not been suggested in here to remedy this alarming situation.

The CHAIRMAN. Mr. Curtis.

Representative CURTIS. Yes; I would like to pick up some of the line of questions of Mr. Patman.

One thing I would like to know: In the figure you quoted, Mr. Patman, of the ratio of profits of small to large business, you mentioned 1 year. I wonder if that is a trend? My observation would be this, and if anyone on the panel has the information I would be happy to be set straight as to what it actually is. My information is that the ratio of earnings of large business to small business has always been considerably greater because the industrial deaths occur more in the smaller concerns, and I am wondering whether the figures you have in this year, Mr. Patman, are an indicated trend that is becoming more so or simply an observation that we do have this difference between small and large?

Vice Chairman PATMAN. I think that is a good question.

Now, the figures that I have read represent a trend between the first half of 1952 and the first half of 1954. In other words, there was a reduction for corporations with total assets of under $250,000, during that 2-year period from the first half of 1952, and the reduction of the profit rate is disturbing. It was 61.4 percent, just in that 2-year period, and I have it here broken down into several categories.

Corporations with total assets of:	*Profit rate, percent*
Under $250,000	4.1
$250,000 to $1 million	6.4
$1 to $5 million	5.7
$5 to $10 million	7.6
$10 to $50 million	8.7
$50 to $100 million	8.6
Over $100 million	12.0
All sizes	9.9

Similarly, the changes in profit rates, after taxes, between the first half of 1952 and the first half of 1954 were as follows:

Corporations with total assets of:	*Change in profit rate, percent*
Less than $250,000	−61.4
$250,000 to $1 million	−28.8
$1 million to $5 million	−28.8
$5 to $10 million	−10.6
$10 to $50 million	−8.5
$50 to $100 million	−9.5
Over $100 million	+6.1
All sizes	−2.0

	Profit per dollar of sales	Change in profit rate from 1st half of 1952
Corporations with total assets of—	*Cents*	
Less than $¼ million	0.9	−60.9
$¼ to $1 million	1.9	−17.4
$1 to $5 million	2.1	−19.3
$5 to $10 million	3.4	−2.9
$10 to $50 million	4.0	0
$50 to $100 million	4.0	−2.5
Over $100 million	6.3	+10.5
All sizes	4.5	+7.1

Annual rates of profits (as percent of stockholders' equity) of manufacturing corporations, by size of corporation

BEFORE TAXES

	1st half of 1952	1st half of 1953	1st half of 1954	Change 1952 to 1954
Corporations with total assets of—				
Less than $¼ million	18.0	17.5	8.1	−55.0
$¼ to $1 million	18.5	19.6	13.2	−28.7
$1 to $5 million	20.5	20.7	13.3	−35.2
$5 to $10 million	21.8	26.4	17.3	−20.7
$10 to $50 million	23.4	25.4	18.1	−22.7
$50 to $100 million	22.3	24.6	17.7	−20.7
Over $100 million	24.2	27.9	22.1	−8.7
All asset sizes	22.8	25.7	19.2	−15.8

AFTER TAXES

	1st half of 1952	1st half of 1953	1st half of 1954	Change 1952 to 1954
Corporations with total assets of—				
Less than $¼ million	10.6	10.1	4.1	−61.4
$¼ to $1 million	7.8	9.1	6.4	−18.0
$1 to $5 million	8.0	8.9	5.7	−28.8
$5 to $10 million	8.5	10.6	7.6	−10.6
$10 to $50 million	9.5	10.6	8.7	−8.5
$50 to $100 million	9.5	10.0	8.6	−9.5
Over $100 million	11.3	12.0	12.0	+6.1
All asset sizes	10.1	11.0	9.9	−2.0

Profits per dollar of sales of manufacturing corporations, by size of corporation

BEFORE TAXES

	1st half of 1952	1st half of 1953	1st half of 1954	Change 1952 to 1954
Corporations with total assets of—	*Cents*	*Cents*	*Cents*	*Percent*
Less than $¼ million	3.9	3.9	1.9	−51.3
$¼ to $1 million	5.5	5.3	4.0	−27.3
$1 to $5 million	6.8	6.9	4.9	−28.0
$5 to $10 million	8.9	9.9	7.6	−14.7
$10 to $50 million	9.9	10.3	8.3	−16.2
$50 to $100 million	9.7	10.1	8.2	−15.5
Over $100 million	12.4	12.8	11.5	−7.3
All asset sizes	9.6	10.2	8.7	−9.4

AFTER TAXES

Corporations with total assets of—				
Less than $¼ million	2.3	2.3	0.9	−60.9
$¼ to $1 million	2.3	2.5	1.9	−17.4
$1 to $5 million	2.6	3.0	2.1	−19.3
$5 to $10 million	3.5	3.9	3.4	−2.9
$10 to $50 million	4.0	4.3	4.0	0
$50 to $100 million	4.1	4.1	4.0	−2.5
Over $100 million	5.7	5.5	6.3	+10.5
All asset sizes	4.2	4.4	4.5	+7.1

Annual rates of profits (as percent of stockholders' equity) of manufacturing corporations, by size of corporation.

BEFORE TAXES

	Full year 1952	Full year 1953	1st half 1954
Corporations with total assets of—			
Less than $¼ million	17.0	12.4	8.1
$¼ million to $1 million	16.7	15.6	13.2
$1 to $5 million	19.6	17.4	13.3
$5 to $10 million	21.2	22.3	17.3
$10 to $50 million	22.8	22.5	18.1
$50 to $100 million	21.9	21.8	17.7
Over $100 million	23.6	25.1	22.1
All asset sizes	22.1	22.6	19.2

AFTER TAXES

	Full year 1952	Full year 1953	1st half 1954
Corporations with total assets of—			
Less than $¼ million	9.3	6.8	4.1
$¼ to $1 million	7.2	7.1	6.4
$1 to $5 million	8.0	7.5	5.7
$5 to $10 million	8.8	9.2	7.6
$10 to $50 million	9.7	9.9	8.7
$50 to $100 million	9.9	9.4	8.6
Over $100 million	11.8	12.1	12.0
All asset sizes	10.3	10.5	9.9

Representative CURTIS. Well, of course, I was thinking more of a broader trend. I am very much interested in the point as we served together on the Small Business Committee, and I know we share a great concern about the welfare of small business, but I would be interested in knowing what the overall trend is.

One other observation: In reference to the excess-profits tax, our committee, the Ways and Means Committee, conducted hearings, of course, on the extension of that, and if you recall in our Small Business Committee, Mr. Patman, we had hearings throughout the country, the year you were chairman. That was one matter that the smaller businesses were presenting at all times, and the Small Business Committee stated, I believe, as a matter of fact in one of their reports, that that was the tax that was hurting small business, and our observation after our studies was that it was a tax on growth of the companies, and actually that was encouraging this very tendency of merger with larger companies you speak of.

You have a new company going into a new kind of business, a new device, and because it could not expand through keeping its capital it was a very easy mark for a very large concern buying them up, particularly if they had tax credits on their books. It, to me, is very——

Vice Chairman PATMAN. I was not trying to justify the tax; I was justifying it as an illustration.

Representative CURTIS. The only reason I point it out is you mention larger corporations getting more profits as a result of the tax going off when what I think we did is save the lives of many good small companies by eliminating it. But it goes back to this basic thing that we mentioned this morning, and the one concern that I have on this economic report: Our tax rates in all fields now are so high that the slightest variation of tax language has an economic effect, and I wish that more attention were paid to this problem of the effect of tax laws on the economic course in the country.

Mr. GAINSBRUGH. May I offer this comment, Mr. Chairman: I think if you were to examine the history of the profitability of the smaller enterprise, and of the larger enterprise, you would find this cyclical characteristic: In the upswing business profits move up more rapidly for small-scale business than they do for large-scale business, and, conversely, in a period of contraction or recession, or whatever other descriptive phrase we want to use, small-business profits go down more markedly than do large business. The comparison of mid-1952 with mid-1954 therefore may not be directly pertinent because the periods are in two different stages of the business cycle.

Secondly, the recession did hit particularly hard the apparel industry, textiles, the needle trades, and so forth. They are more typically small scale in character than the durable-goods industries. Your figures may likewise reflect the particular impact of recession upon specific sectors of the economy, particularly specific sectors of manufacturing.

The CHAIRMAN. How could that be in view of the fact that the decline in the durable-goods industries was much more severe than in consumers' goods? If the decline was less in consumer's goods, why would it be that the profits of the consumers' goods industries would fall more rapidly?

Mr. GAINSBRUGH. I do not have the answer to that too clearly in my own mind, Senator. There may have been some relief from excess profits situations in durable goods tax carryovers and textile prices were especially weak—but my comment was to suggest you would get further if you broke this down by particular types of industries and then compared the results for like phases of business cycles.

Vice Chairman PATMAN. Would it not be more favorable to the typical large concern because a larger concern has stable prices more than a smaller concern, and the durable goods industry, all of them, of course, I think the records show that their prices were pretty stable, particularly in the large concerns.

Mr. HOOVER. Actually, Mr. Chairman, if I may say so, I was going to make very much the same comment that Representative Patman has now made, that this is indeed characteristic that during a boom period while the soft consumer goods industries do quite well both with respect to prices and as far as volume of production and employment is concerned. Indeed, prices in the small-scale consumer goods industries may rise further than they do in the large-scale producer's goods industries or in the durable consumer goods industries. On the down side while the small-scale consumer goods industries may maintain production and employment pretty well, prices fall off. I am only repeating what Representative Patman says, but it is very characteristic of this kind of cyclical movement.

The CHAIRMAN. Senator Sparkman.

Senator SPARKMAN. Mr. Chairman, I do not know whether this is the best place to raise this question or not, but it seems that this discussion has developed into a general appraisal of the whole situation, and some criticism of the report, itself. When the report came out, and all of the comments were made, I could not help but wonder at what seemed to me to be a contradiction. Everything was pretty and rosy, and yet I knew that at that same time 10 percent of the people of my State were on emergency rations, and that there were many spots throughout the country where unemployment was really serious, and people were suffering. At the same time we had this condition in agriculture that as far as I know no one disputes is very, very bad, and we have a bad condition in small business. Both groups are caught in the squeeze.

Now, are we getting a correct, honest, full appraisal of the economic situation when we get a report that carries a picture to the country that everything is pretty and on the upgrade, when we know there is suffering and misery and considerable despair in many segments of the economy?

I shall just welcome some comment on that.

The CHAIRMAN. We are going to have a session tomorrow on unemployment in specific areas of industry that will take up some of those questions. I have been getting the figures on the numbers of emergency food orders in various States, and they are really very startling.

In justice to the Council, I think we should say that they did prepare a chart showing percentages of unemployment by States, which is reproduced there, and, of course, that shows that the coal-mining States have been hit the hardest.

Senator SPARKMAN. It is true, Mr. Chairman, that many charts appear in the appendixes, but I refer particularly to the publicity that went out over the country, and it was to the effect that we were in an unusually good economic condition. It seems to me the report should have been more realistic.

At any rate, I invite suggestion on that, and it seems to me in view of the discussions we have had on these other points it would be appropriate at this time.

The CHAIRMAN. Mr. Keyserling.

Mr. KEYSERLING. I think that Senator Sparkman is basically right. I think that basically the report presents a distorted picture. The reason gets back to the very point we were discussing a few minutes ago, about the difference between trends and needs.

Now, in view of the rate of the productivity of the American economy, and the growth of the labor force, par for the course changes every year. In other words, the amount of demand for goods and services, the amount of employment that you have to have, goes up from year to year to maintain maximum employment and production. When it does not go up enough, the people who are hit first and hit hardest are those unable to protect themselves, small business, agriculture, and the unemployed.

Now, that is what has been happening. In the first three quarters of 1954, in the main, the economy was fairly stable if you look at the indexes of business activity; if you look at the stock market, or if you look at the profits of large concerns, it was booming upward. If you thought in terms of needs, in terms of par for the course, it was going backward.

Therefore, you had more unemployment, progressive decline in farm income, progressive rise in the failures of small business.

Now, I think this report makes the wrong basic measurements of what is prosperity, and what are the conditions of maximum employment and production, for the very reason that you cannot find in the body of the report the measurements of need which respond to the Employment Act of 1946, which I think is a good law.

There is nothing in the report which says what the needed level of employment is. There is nothing in the report which says what the needed level of production is. There is nothing in the report which says or analyzes seriously what the needed level of farm income or consumer income, or of business income, might be to restore a lower level of unemployment. On none of those points is there any comment. That is the difference between needs and forecasts.

Mr. KEEZER. Mr. Chairman, I am not particularly prepared to debate the report on as broad a basis as has been indicated. But I think I would be remiss if, in the light of the turn the discussion has taken I did not say that all of my studies indicate that the statement that 1954 was our most prosperous peacetime years is true. I think it is clear that we had a very mild recession, that since August, roughly, the economy has been expanding. I think we all know that there are areas of agriculture and industrial districts, and pockets of unemployment. But I think that to suggest—after all, we are dealing with a broad picture—that there is something wrong with the report on this account would be quite unjustified. I take it to be a demonstrable fact that we are in a prosperous period; this is the record.

This ought to be the group to check on it. We are here as technicians, not as statesmen.

Is there any question that that is true?

Mr. KEYSERLING. I do not think that is responsive to the Employment Act. The Employment Act does not set the target of having a reasonably good economic year for some people. It sets a target of good conditions for the great majority of the people in our country, and no serious hardship for the others.

Now, I think that is an attainable goal. I could say we did have a generally prosperous year in 1954. But it was a declining year for agriculture, it was a declining year for labor in terms of rising unemployment. It was a declining year for small business. It was a year when consumers in middle and low income groups had to draw on their very limited savings to buy the necessities of life, and I think we have to focus on those things because those are the breaking points in the ice, the smooth ice, of the economic outlook.

If we do not watch them, because they are small, or because the act calls for, namely, not to wait until everybody falls through the ice.

I think if you let unemployment rise, if you let farm income go down further, the time will come when the big business as well as the small, the employed worker as well as the unemployed, the retail worker as well as the farmer, will also fall through the crack. If you want to wait until then to define the condition as calling for action, very well, but I do not think that is what the Employment Act calls for. I do not think there is a difference in definition of the current situation. I think there is a difference in interpretation of the act.

Mr. RUTTENBERG. Mr. Chairman, I would like to respond to Senator Sparkman's question in this way:

As I read this report, I think it might be correct to say on page 2 you find the philosophy of the Council and the President. Here in the first 2 paragraphs on page 2 is a discussion of 2 alternatives, and

I think it might be well to direct your attention to them. Beginning in the second sentence it says:

Some citizens lacking faith in the abililty of the private economy to generate a high level of activity espoused a steadily increasing role of Government.

Then it drops down and says:

Other citizens adherent to what they regard as the ultimate economic verities are critical of any Government, which is designed to prevent or minimize the rigors of depressed income and employment.

It says these are two doctrinaire positions. Then it sets up the alternatives. "The American people believe firmly that economic freedom will not passively accept depression or inflation" what they are saying here, it seems to me, is that those who advocate Government action are for inflation, those who say that the Government should stay out are for depression.

In 1954 we had neither depression nor inflation, therefore we must have done a pretty good job, and I think it is with that philosophy in mind that they come to the conclusion that everything is rosy. Mr. Keyserling points out, everything cannot be rosy if the figures we talked about this morning, which everybody agrees to, are accurate. That is, that unemployment over the year has doubled, that industrial production having returned to its last year's level in December has done so with employment below last December, a million below last December, a million below the peak.

These, it seems to me, are the facts. It is accurate to say that gross national product in the fourth quarter of this year showed a rise from the third quarter, things looked good, automobile production is booming, steel production is currently booming, booming relatively to the year 1954, and, therefore, things look rosy. We have avoided depression, on the one hand, we have avoided inflation, on the other; let us not rock the boat. This is a failure to recognize the basic objective of the Employment Act, which is to promote maximum employment, not partial employment.

The CHAIRMAN. Congressman Mills.

Representative MILLS. Mr. Chairman, I am not certain that the question I have in mind is apropros at this time. However, I do desire the panel to discuss in connection with the next question, if they will, this thought: What rates of national economic growth should Government economic policy attempt to facilitate in the coming year?

The CHAIRMAN. That is a very good question.

Does anyone want to reply to it?

Mr. HOOVER. Mr. Chairman.

The CHAIRMAN. Mr. Hoover.

Mr. HOOVER. I have already stated that we should try to maintain a rate of something like 4 or 5 percent. I think we may need more stimulus than present policies provide if we are to attain this rate of growth. Having said that, fairness compels me to go on and say that we should not forget that this is a very delicate matter, to know how stimulative or how restrictive our economic policy should be in order to attain this growth rate. I could be quite wrong in my estimate of what degree of stimulation the economy needs just now. It must be noted, too, that at one time there was, I think, quite a real problem of stopping inflation.

Now, you carried out a particular anti-inflationary policy, and along with stopping inflation you also got a recession.

The CHAIRMAN. When did you think that the problem of stopping inflation occurred? Was it in 1953 or had it been in 1951?

Mr. HOOVER. It well may have been 1951, but on my part this is largely hindsight. If you had asked me in 1951 I doubt whether I would have given that answer.

I hope everybody else knows the answer better than I do on these matters, you see, because unfortunately I do not. I have to admit a very large margin of error. Yet we must repeatedly make value judgments and act or refrain from acting on the basis of very imperfect knowledge. It is simply impossible to avoid the exercise of judgment because a decision to refrain from lowering the interest rate or to refrain from increasing the budgetary deficit or to do the opposite will alike affect the rate of growth in national income.

The CHAIRMAN. A very wise man. But you would say a failure to grow at a rate of 4 or 5 percent should be a matter of concern.

Mr. HOOVER. Yes. However, I would point out that you cannot be sure about it. If my recommendation were followed, it might well turn out that you would get more inflation than we would want. As you ask me right now, I gave a recommendation. That recommendation might result in action which would be wrong. I do not think so or naturally I would not make such a recommendation.

The CHAIRMAN. Does anybody want to comment on that statement?

Mr. KEEZER. Mr. Chairman, I would like to ask a question which might throw some light on this. It might be addressed to Mrs. Wickens, and perhaps there is no answer, but a rough calculation seems to be that productivity increased in 1953 at the rate of about 4 percent. In 1954 an equally rough calculation indicates it increased about 1 percent.

Is there some validity in those figures?

Mrs. WICKENS. In reply to that, Mr. Chairman, I do not think that there is any good over-all measure except the ratio of the number of persons employed to gross national product. Any rough measurement of that kind will indicate the wide fluctuations from year to year. And while I am speaking, I might point out that the Council, in discussing long-term growth, would not have to asume it would be the same rate every year. We are talking about long-term growth. There will be years below and years above. It is expecting too much of a free-enterprise economy to expect it to adjust to a rate of growth in a straight line.

Mr. KEEZER. Mr. Colm favors me with some figures on this subject which are about what my rough figures indicated. Productivity increased at a rate of 4 percent in 1953, and at a rate of 1.2 percent in 1954. I bring up the point because it seems to me to have some bearing.

The CHAIRMAN. Are you speaking of total productivity?

Mr. KEEZER. Output per man-hour.

The CHAIRMAN. That is a very different thing.

Mr. KEEZER. But it seems to me it has an important bearing on the possibility of having a precise year-to-year growth figure.

Mr. COLM. Mr. Chairman, if I may add a comment on my own figures, I do think that the low productivity per man-hour for the year 1954 is a function of the recession, that the figures for 1952 and 1953 and previous years which are all between 3, 4 and 5 percent, are more indicative of a longer run trend than the figure for 1954 which is extraordinarily low, one of 1.2 percent. This is comparable with what happened when we had a decline in 1949. It dropped from 4.9 percent in 1948 to 1.5 percent in 1949.

(The following table was subsequently supplied for the record.)

Annual productivity increases

	Civilian employment			Average weekly hours	Average annual hours	Total man-hours	Gross private product	Output per man-hour	Increase over previous year
	Total (A)	Government (B)	Private (C)	(D)	(E)	(F)	(G)	(H)	(I)
	Millions	*Millions*	*Millions*			*Millions*	*1947 dollars*	*1947 dollars*	*Percent*
1939	45.8	3.7	42.1	42.7	2,220.4	93,479	145.0	1.551	----------
1940	47.5	3.8	43.7	43.0	2,236.0	97,713	158.6	1.623	+4.6
1941	50.4	4.1	46.3	43.9	2,282.8	105,694	181.7	1.719	+5.9
1942	53.8	4.8	49.0	45.1	2,345.2	114,915	198.7	1.729	+.6
1943	54.5	5.5	49.0	47.4	2,464.8	120,775	209.0	1.730	+.1
1944	54.0	5.5	48.5	45.1	2,345.2	113,742	222.0	1.952	+12.8
1945	52.8	5.5	47.3	44.3	2,303.6	108,960	218.0	2.001	+2.5
9146	55.2	5.1	50.1	42.5	2,210.0	110,721	211.2	1.907	−4.7
1947	58.0	5.0	53.0	41.6	2,163.2	114,650	215.6	1.881	−1.4
1948	59.4	5.1	54.3	40.8	2,121.6	115,203	227.3	1.973	+4.9
1949	58.7	5.3	53.4	40.3	2,095.6	111,905	224.0	2.002	+1.5
1950 [1]	60.0	5.5	54.5	----------	----------	----------	246.6	----------	----------
1951	61.0	5.8	55.2	40.3	2,095.6	115,677	259.9	2.247	[2] +12.2
1952	61.3	6.1	55.2	40.5	2,106.0	116,251	269.3	2.317	+3.1
1953	62.2	6.1	56.1	40.1	2,085.2	116,980	281.9	2.410	+4.0
1954	61.2	5.9	55.3	38.9	2,022.8	111,861	272.9	2.440	+1.2
1939–54 average	----------	----------	----------	----------	----------	----------	----------	----------	+3.1

[1] Output per man-hour in 1950 could not be computed because the Census Bureau's figures on average weekly hours for that year are distorted by the fact that the weeks during which surveys were made that year included an unusually large number of holidays.

[2] Percentage increase from 1949 to 1951.

Sources:
(A) P. 153, Economic Report of the President, January 1955.
(B) Table 26, national income, 1954 edition, A Supplement to the Survey of Current Business, General Government employees only. 1954 figure estimated.
(C) (A) minus (B).
(D) From Annual Reports on the Labor Force. Adjusted to take account of the fact that some employees were not working during survey weeks (because of vacation, temporary layoffs, etc.) and therefore worked zero hours.
(E) (D) times 52.
(F) (C) times (E).
(G) P. 140, Economic Report of the President, January 1955.
(H) (G) divided by (F).

The CHAIRMAN. I do not want to interrupt, but I think that what Congressman Mills is asking about and what Mr. Keyserling and Mr. Hoover dealt with was productivity for the economy as a whole, not productivity per man-hour. As a matter of fact, very frequently in a recession productivity per man-hour rises quite appreciably even though the total index of production is falling and I think what Mr. Mills meant was, at what rate should the economy grow?

Mr. HOOVER. Furthermore, Mr. Chairman, if I may say so, the gross national product would have to advance at a greater rate than the per man-hour rate, you see, if the two were to move as they ordinarily would do.

The CHAIRMAN. The population is growing, I assume at a rate of about 1.2 or 1.3 percent a year. Mr. Keyserling.

Mr. KEYSERLING. I have a point in response to Congressman Mills' question. If you start from a maximum employment economy, your economy needs to grow each year by the rate of productivity growth plus the growth of the labor force, minus long-term desirable reductions in hours, once you have decided what you regard as an optimum level of employment.

Now if the economy had grown from the first part of 1953 at a modest rate of productivity growth, measured over the record of the few years before, then plus the absorption of this labor force, we would have been by the end of 1954, at a gross-national-product level of about $391 billion, or about $30 billion higher than we actually were (annual rates).

Therefore, one might say that to restore full maximum production by next year, we would have to grow by that same rate projected from early 1953, and get a level above $400 billion in 1955. However, that would be an inflationary rate of growth, which is another way of saying in 1 year you cannot pick up what you have lost through 2 or 3 years of what I would regard as neglect. Therefore, it would be fair to set as a need—I call it a need—a considerably lower rate of growth than would bring us to where we would have been in 1955 had nothing happened. It certainly must be sufficient to pick up the growth in the labor force, or unemployment will rise. It certainly must be sufficient to pick up the excess number of unemployed.

Well, how big is that excess number? That depends on your national-need definition of what level of unemployment national policy should regard as consistent with maximum employment. So if you do not define that need, you haven't any basis on which to rest.

I don't see how we could get the level of unemployment down to what I would regard as the maximum employment level without the economy growing by about 6 percent above the 1954 level in 1955, and about 8 percent in the fourth quarter of the year above the fourth quarter of 1954 level. Now, that does not really disagree with the figures that Mr. Hoover stated, because the 4 to 5 percent figure that he gives is the growth figure at full employment. We have an additional job, this year, because if we only pick up productivity and the new labor force, we would not be making up anything on the excess unemployment, and we would not be bringing the kind of advance in the economy which would stall the downtrend in agricultural decline and remedy the small-business problems.

So my estimate is, and others may have different estimates, that if you really want to reduce unemployment to the neighborhood of 2 million, you would have to expand about 6 percent over the course of the year. Until you make some such framework of the need—somebody else might take a different figure, 3, 5, or 7—there is no basis for evaluating national policy.

It is like saying you should not make an estimate of tax revenues, and should not make an estimate as to the extent you want to balance the budget, because you may be wrong on the estimates of revenues and also on your policy determinations with respect to the need to balance the budget.

However wrong you may be, you can't exert any national policy without, (1) making a forecast, and (2) bringing in between that forecast and the policy determination an estimate of need. You can't jump from the forecast to the policy. You have to forecast, then say here is what we need to do, and then here is how we hope to get there. It seems to me that is explicit.

Representative MILLS. Just one further question of Mr. Keyserling. As I understand it, you do not see anything in the report which would bring about Government economic policy to facilitate that growth, that rate of growth.

Mr. KEYSERLING. I say first that the report makes no analysis of the basic needs and, therefore, does not relate the policies to needs, which I think any national economic analysis directed toward a policy should do.

It does not set the Federal budget or any other policy in the framework of the need and, therefore, the policy is completely unrelated to the need. Furthermore, it does not even state the need. It makes no commitment whatsoever as to what the level of unemployment ought to be, or the level of production, or the dispersion of purchasing power.

For all that you could gather from this report, the report might be intimating that we ought to have a million higher level of unemployment, or a million lower level of unemployment. If you don't take a position on that, you have no basic policy.

The CHAIRMAN. Is there any further discussion on this point and in particular does anyone want to comment on Mr. Hoover's statement that if the economy fails to grow at the rate of say 4 or 5 percent a year, that it should be a matter of concern?

Mr. GAINSBRUGH. I for one must take reservation at a figure that is pitched as high as 4 percent or 5 percent. I find nothing in our past that says we have made sustained progress at so high a rate. Much of this discussion, it seems to me, has been concentrated on the hole in the doughnut rather than on the doughnut, itself. The level of retail trade in December continuing into January is the highest we have ever had. We have a highly active automotive industry, a booming construction industry. I think the Council is basically right when it says the policy pursued in 1954 gives promise of further recovery in 1955.

I may quarrel with them on the basis of their expectations for boom dimensions in the economy by 1955, but at all previous periods of prosperity there have been declining industries at the same time there was expansion. National policy has tried to deal with the problems of the peripheral, the fringe groups that are being disadvantaged in the process of economic expansion. But national policy has also been centered on seeing to it that the healthy sectors of the economy were not interfered with.

Special programs are suggested in the Economic Report to deal with the problems of depressed areas. There has been a Presidential message designed to deal with the problem of agriculture. There have been numerous other attempts to deal with the problem areas. But the basic point of this Economic Report, if I can repeat it, is that recovery has begun; as best it can be discerned by the Council it anticipates this recovery will grow in dimensions during the course of the year and that by the year end, contrary to Mr. Keyserling's opinion, we will be at levels which they state will approach reasonably full employment.

Mr. KEEZER. Mr. Chairman, I do not see how anybody could possibly take exception to the statement that if the economy is not growing at a rate which reflects the increased labor force and increased productivity, it is a matter for concern. But should not we perhaps make a distinction between concern and action, because we do have these unexpected fluctuations from time to time and if each dip were immediately made the subject of action to bring it up to a steady rate of growth, I think that might——

The CHAIRMAN. How long would you say this dip would have to continue before you thought action would be justified?

Vice Chairman PATMAN. Farm prices in particular, may I add, Mr. Chairman.

The CHAIRMAN. I am speaking of production and Mr. Patman is speaking of farm prices.

Vice Chairman PATMAN. Well, that is an outstanding example.

The CHAIRMAN. You say do not worry about a year. Would you worry about 2 years, would you worry about 3 years, would you worry about 4 years?

Mr. KEEZER. I don't believe I said I would not worry about a year. I intended to say I could see dangers in using a hair trigger which, upon the first dip, would bring immediate action to have something done about it. I think it would be foolish to give a formula answer in days, months, or weeks.

Vice Chairman PATMAN. But would you excuse me, Mr. Chairman, on farm prices do you not think something should be done now in view of the fact that they have gone down so consistently so long over a period of years? Do you not think it is going to upset our entire economy eventually in some way if something is not done to correct that situation?

Mr. KEEZER. Well, I wish we had an expert on agriculture on our panel to deal with that question.

Representative KELLEY. I do not know whether the matter has been discussed or not, but I think this mater of public works should have been given some attention.

As you say, there are areas of depression, there have been and are great areas of depression in the last year, and I wonder why something has not been done in the matter of public works. Certainly the legislation was proposed in the House and in the Senate. I think the depressed areas, so many of them and so severe, would warrant something of that sort.

The CHAIRMAN. Is there comment on that?

Mr. GAINSBRUGH. I think some initial attempts were made. One of the difficulties of Government action is the time required to move in, including a program of public works and very frequently your program of public works comes along at a later time when it is no longer needed. It may take 6 months or a year to get actual production under way. There were also steps taken toward the placement of defense contracts in depressed areas.

That type of activity did go on. In this problem of depressed areas and depressed communities, I think much could be said for the need for self-help of the affected community. Some of them have done far better jobs than others of appraisal of their economic resources, in attracting new industries and in trying to adjust to the changing pattern of markets. There is a limit in my mind to the desirability of Federal action pivoted around the sustaining of a depressed area.

It may be more desirable in some instances to have your resources fluid, to retrain these people, to move or attract them into other areas and into other industries in which they can make a more effective contribution to national output than they can in their particular location.

Representative KELLEY. Of course, that presents a very serious social problem. Most of these families have built their homes, they have raised families, they have established themselves in a community, and they cannot very readily be moved. And besides, it is difficult—you take a whole group of workingmen and their families and transport them some place and find jobs for them. As a rule there are not any jobs in this kind of a period even where you have areas of fairly good employment. There are not so many jobs waiting for people. It is a human problem.

Senator SPARKMAN. Someone has facetiously said that it would create a traffic jam. People going from the coal-mining sections in my State, would meet the people coming from the plants in the Northern States.

The CHAIRMAN. Have we finished discussing topic 3?

How many expect economic activity to be higher in 1955 than in 1954? Could we take a poll on that?

(Show of hands.)

The CHAIRMAN. Apparently, all of you. I do not know whether Mr. Gainsbrugh is more assertive or more optimistic. His hand went up higher than anybody's. It was unanimous though, I think. How many expect economic activity to be higher in 1955 than it was in 1953?

Mr. GAINSBRUGH. For the year 1953 or for peak rate in the second quarter?

The CHAIRMAN. For the full year.

(Show of hands.)

The CHAIRMAN. There are three. The others, I take it, do not expect it to be higher.

Senator SPARKMAN. Well, Mr. Chairman, those who expect 1955 to be higher than 1954——

The CHAIRMAN. That was everybody.

Senator SPARKMAN. That was everybody. I wonder how many of them think——

Mr. LUEDICKE. I am not so certain.

Senator SPARKMAN. I noticed two hands just barely went up. I was wondering since we have devoted a good bit of time to the discussion of this productivity factor, if they would likewise hold up their hands to the question, do they believe that the increase in 1955 would be enough to make up for the productivity factor, the increase that would be normally expected and needed?

Mr. GAINSBRUGH. That phrase, productivity, bothers me. If you will rephrase your question to how many believe unemployment will be higher or lower, because I think that is the area we want to deal with, we might be able to answer.

The CHAIRMAN. Let us start with economic productivity. How many expect economic productivity to be higher; I think everybody agrees it will be higher in 1955 than in 1954. How many expect productivity to be higher in 1955 than in 1953?

Mr. LUEDICKE. Are you talking about gross national product?

The CHAIRMAN. Yes.

Mr. GAINSBRUGH. Not just output per man-hour.

The CHAIRMAN. That is not involved.

Mr. LUEDICKE. Gross national product, it is then?

The CHAIRMAN. I do not like it myself, but everybody is expressing it that way.

Senator SPARKMAN. But is it enough just to expect gross national product to be greater?

The CHAIRMAN. No, John, we are just taking one step at a time.

Senator SPARKMAN. I was wondering if you would take that other step.

The CHAIRMAN. Oh, yes. How many expect gross national product—I personally think national income ought to be the test, but that is neither here nor there. How many expect gross national product to be higher in 1955 than in 1953?

Mr. RUTTENBERG. Was not that what you intended the first question to ask?

The CHAIRMAN. No, the second, the first dealt with 1954.

(Show of hands.)

The CHAIRMAN. The others apparently do not. Now may I ask those who believe that 1955 will be higher than 1953, do you expect it to be more than 3 percent higher?

Mr. RUTTENBERG. Senator, could I be presumptious enough to suggest this question?

The CHAIRMAN. No; I would like to have my question go further.

Mr. RUTTENBERG. This would be a kind of a paraphrase of that question.

The CHAIRMAN. Well, how many believe it is going to be more than 3 percent higher than 1953?

Mr. GAINSBRUGH. What is the figure for 1953?

The CHAIRMAN. 365 billion.

Senator SPARKMAN. That would be about 11 billion more.

Mr. GAINSBRUGH. Our Economic Forum believes the GNP in the fourth quarter of 1955 will be about $370 billion.

The CHAIRMAN. Well, it would have to go up for the year to about 376 to be 3 percent higher.

Senator SPARKMAN. That is the average of the year.

The CHAIRMAN. Well, apparently no one seems to believe that. Mr. Butler.

Mr. BUTLER. I think that the annual rate at the end of the year will be 3 percent above the 1953 average, but the average for the year will not.

The CHAIRMAN. Of course, in the meantime, the population has increased, the working population has increased, and the output per man-hour has increased, so that that would still indicate a very appreciable amount of unemployment at the end of the year, even if the most optimistic estimates were to be made.

Senator SPARKMAN. Mr. Chairman, I wonder if you would include in your predictions what is going to happen in one segment of the economy in which I am greatly interested, and all of those who come from primarily agricultural States, and that is what is going to happen to the farmer. His condition is going to improve or continue to go down.

The CHAIRMAN. All right, we would like to hear comments on that. I don't want to make a partisan statement, but as I understand it——

Senator SPARKMAN. That is gross income for the farmer, his share of the dollar.

Mr. LUEDICKE. I expect pressure on prices to continue, though moderately.

Senator SPARKMAN. You mean going down?

Mr. LUEDICKE. Yes, moderately.

Mr. GAINSBRUGH. Acreage restrictions and greater resort to flexible price supports indicate lower levels of farm income.

Senator SPARKMAN. At the same time is the price of the products he has to buy going to continue to rise? In other words, is the squeeze going to become tighter and tighter?

Mr. GAINSBRUGH. It has not been rising in recent months. I would anticipate price stability in the prices paid by farmers.

Mr. LUEDICKE. I would expect some pressure in that area too, especially later in the year.

Senator SPARKMAN. If you have another steel rise——

Mr. LUEDICKE. Well, steel always comes late.

The CHAIRMAN. Mr. Patman suggested another question on the farm situation. How many believe that the net income of the farmers, the net income of the farmers, which I suppose is price times quantity minus expenses, will be higher in 1955 than it was in 1954?

Senator SPARKMAN. Net income?

The CHAIRMAN. Yes.

Vice Chairman PATMAN. It was down to about 11 billion at the last report, on an annual basis.

Senator SPARKMAN. You do not expect it to be higher?

Vice Chairman PATMAN. No; I am asking them.

The CHAIRMAN. How many expect it to be lower?

Mr. LUEDICKE. Not much lower, but some.

The CHAIRMAN. Nearly everyone, I think, expects it to be lower.

Representative MILLS. Mr. Chairman, may I propose a question. Does that mean then that you anticipate that the farmers, the percentage of farm income as measured by the total income will be less this year than last year?

The CHAIRMAN. They all seem to think that national income or gross national product for the country as a whole will be higher, but they all seem to believe that the farmers' income will be lower.

Representative MILLS. As a percent of national.

The CHAIRMAN. In absolute terms, so the percentage terms would be still lower.

Representative MILLS. Right at that point, if I may, I was just going to suggest that my recollection of the percent of the farmers' income as measured in percentage of the total income this year, or for 1954, was less than it was in 1932, is that right, the percent of farm income of the income of the whole country was less than it was in 1932?

Mr. RUTTENBERG. Of course, there were fewer farmers.

Representative MILLS. We can't alibi it too much, though.

Mr. GAINSBRUGH. You drew one inference from our consensus that I would like to take a reservation on. You said on the basis of a show of hands it seemed apparent that the expansion in the economy in 1955 would not be sufficient to diminish the level of unemployment. I think that was the tenor of your comment.

The CHAIRMAN. No, would still leave an appreciable amount of unemployment and less employment and more unemployment than there was in 1953.

Mr. GAINSBRUGH. Than there was in 1953?

The CHAIRMAN. Yes. Of course, we shouldn't necessarily take these predictions as being gospel truth.

Mr. Colm.

Mr. COLM. Mr. Chairman, your last statement—that we should not take these predictions as gospel truth—is in line with a comment I would like to make. I participated in the show of hands because I wanted to be responsive to the question of the chairman, but I have some hesitation in making outright predictions without more specifically formulating the assumptions under which they are made. I do not believe that we are able really to make such absolute, unqualified predictions.

The CHAIRMAN. We assume that the international situation will not change, which is a very dubious assumption in view of what is going on. There is a hot battle on the Senate floor on this very issue now.

Mr. COLM. Mr. Chairman, this is a very important qualification, but there is a second one. I personally expect that the business revival underway will continue for several more months, but I am somewhat dubious as to whether that revival will continue for the rest of the year.

I could imagine that the Congress, recognizing that situation, might adopt measures or speed up measures which are not now contemplated for this year, for instance, a tax reduction, or a public roads program which under present plans would only start in the subsequent year. I would like to say that at least my vote was under the tacit assumption that there would be no change in present policies. Now, this, I think, is a very important second qualification.

Mr. KEEZER. Mr. Chairman, I have a piece of good news I hope I am going to be able to give the committee.

The CHAIRMAN. Well, we are very glad to hear it. We want to hear good news.

Vice Chairman PATMAN. We are all ears on that.

Mr. KEEZER. In October we made a check on business plans for investment in new plant and equipment in 1955. I think historically that range of investment has been the most unstable part of our economy. This check of preliminary plans indicated that investment in 1955 in industrial plant and equipment would be down approximately 5 percent from 1954.

In anticipation of coming here today and meeting with this committee, we made another check of the larger companies and we found no downward revisions and we found several very substantial upward revisions. So it now appears that between the time we made our preliminary check and the time of this hearing that the outlook for investment in industrial plant and equipment has improved and that if one had to make a judgment at this time it would be that there would be little or no decline in 1955 as compared with 1954.

Vice Chairman PATMAN. Did you also determine whether they are going to get their money for expansion?

Mr. KEEZER. We are constantly looking at that. Depreciation allowances alone will provide about 60 percent of the money required by nonfinancial corporations to finance the investment in new plants and equipment they now seem to be planning for 1955.

Vice Chairma PATMAN. What about the fast amortization? Would that provide quite a bit of it?

Mr. KEEZER. That is lumped in the total depreciation allowance, and I think, Mr. Patman, there is a little indication of one development in this field which you will find encouraging. It is that the smaller companies which had declines in their capital investment over a period of years are beginning to increase them again.

Vice Chairman PATMAN. How much will they get for the expansion program from retained earnings which, of course, I would assume would include the factors that you mention?

Mr. KEEZER. The amount in percentage?

Vice Chairman PATMAN. Yes.

Mr. KEEZER. I would have to check the figures.

Vice Chairman PATMAN. Well, practically all of it, wouldn't they, in retained earnings?

Mr. KEEZER. I say between depreciation allowances and retained earnings there is enough to pay the bulk of the planned investment of industry in new plant and equipment in 1955; that is correct.

Vice Chairman PATMAN. Yes. Now, what chance has a small concern in this country that does not have that advantage against a large concern with this enormous costless capital? In other words, most of their capital or expansion comes about from prices, that by reason of their secure position and their monopolistic position they are able to fix their prices, and the consumers will pay these prices at a rate that will give them their capital for expansion purposes?

Now, that is really costless capital to them. The consumers have paid it. Now, what chance has a small concern that must go into the money market and borrow its money and pay a pretty high rate of interest on it, and keep on paying interest on it, and keep on borrowing? What chance has that small concern against the branch of a big concern across the street that has available all of this costless capital?

Mr. KEEZER. It is my impression that we have more small business enterprises in the United States today than we have ever had.

Am I correct in that?

Vice Chairman PATMAN. What is your feeling about the outlook for this year? You know this report is not very optimistic about small concerns.

Mr. KEEZER. Well, limiting myself to the one thing about which I have some factual information, I could say that our recent survey gave some indication that the smaller companies are increasing their capital investment. These are smaller companies, not tiny companies.

Representative MILLS. Mr. Chairman, may I propound a question which you went into just a little bit. It is a slight variation of your question, but I would like to know of the panel whether or not a rise in gross national product anticipated in 1955 over 1954 will be enough, in your opinion, to reduce 1954 levels of unemployment, or will unemployment be higher in 1955?

The CHAIRMAN. Mr. Keyserling.

Mr. KEYSERLING. My guess would be that if the growth in the national product is held within the limits suggested, that the level of unemployment in 1955 would average considerably higher than in

1954, which was twice as high as in 1953. This is another way of saying, with the growth in gross national product at less than 3 percent, 1955 would be a worse year than 1954, and not a better year, as measured against par for the course.

Mr. COLM. Mr. Chairman, I would like to bring to your attention the most recent survey by Dun & Bradstreet on business expectations.

For the second quarter of 1955, as compared with the second quarter of 1954, 71 percent of all concerns interrogated expect an increase in sales, but only 16 percent expect a rise in the number of employees.

Now, those are business expectations for the second quarter of 1955.

Mr. GAINSBRUGH. Mr. Chairman, on page 73 of the Business Outlook, our 15-man economic forum came up with this anticipation of unemployment, second half of 1955. The arithmetic average of $2.8 million is close to our existing levels of unemployment. They were of the belief that by the second half of 1955 unemployment in the light of the rising tendencies of the economy throughout 1955 would be no higher than it is currently.

Mr. RUTTENBERG. Mr. Chairman, might I just add, when you asked the first question about the 1955 rise in gross national product over 1954, I raised my hand only very slightly.

I think there will be a rise. The rise will be relatively insignificant. I think unemployment in 1955 will average a million to a million and a half higher than the average of unemployment in 1954. While I answered the question affirmatively that gross national product in 1955 will be up over 1954, it will be up not near enough to prevent unemployment from rising about a million to a million and a half.

Mrs. WICKENS. Mr. Chairman, I believe that the answer to this question will vary with the members of the panel in terms of their views on three things: First, the rate of productivity; second, the additions to the labor force; and, finally, their assumptions about the gross national product.

If you take, for example, the figure of 2½ percent a year as the long-term average increase in what we loosely called productivity, that is the output per man-hour, and you assume an addition to the civilian labor force of about a million people, it would take about $375 billion of gross national product in 1955 to absorb a million additional persons.

Now, Mr. Keyserling some time ago talked about an increase of $30 billion. His figure of $30 billion was estimated from the peak of 1953, which would give you much higher levels than if you begin with the end of 1954.

Mr. KEYSERLING. I do not project 1955 needs from the 1953 peak. As I have said, I project them from where we are now.

The CHAIRMAN. Yes; Mr. Butler.

Mr. BUTLER. My analysis of the business outlook leads me to the conclusion that activity will reach a rate at the end of this year of around $375 billion. That will be just about enough to absorb the growth in the labor force. However, I think there is beginning to be some evidence that this advance will continue into 1956. If so, in 1956 will begin to make progress in reducing unemployment.

The CHAIRMAN. In other words, would you expect an increase in unemployment in the first part of the year, a decrease in unemployment the last half of the year, so that at the end of the year the average would be approximately where it was and permanent rises in production would have to wait until 1956?

Mr. BUTLER. Yes. I am thinking in terms of seasonally adjusted figures.

Vice Chairman PATMAN. I want to ask Mr. Keezer one question, please.

In view of the sharp drop in profits for the small- and medium-sized concerns the last 2 years, what factors should be an incentive to the small concerns to increase their capital now; increase their investment?

Mr. KEEZER. Well, you increase your investment in the light of your expectations.

Vice Chairman PATMAN. In other words, they would have to disregard the past were their profit rate was very low, that is the last 2 years?

Mr. KEEZER. I think that in recent years there was this large expansion in defense facilities that was accomplished mostly by the larger companies. When we come back to another type of economy the smaller companies see opportunities that did not exist earlier. This evidence I offer I don't offer as powerful and conclusive. We simply see a little evidence that smaller companies which had been decreasing their investment are now increasing it slightly.

Representative CURTIS. Mr. Chairman, could I just ask a question on these figures on unemployment?

In these answers I gathered the impression that you were using absolute figures rather than percentage figures, ratio of unemployed to the employment; is that correct? Of course, I realize that the differential is not too much, but what we are really concerned about is the percentage.

The CHAIRMAN. Does anybody want to volunteer any information on that?

Mr. Kelley, are there any questions you wish to ask?

Representative KELLEY. No, Mr. Chairman.

The CHAIRMAN. We want to thank you for coming. We do not want to shut the meeting off if people think there are other subjects to be explored. Does anyone have any comment that they want to make, either a member of the committee or the panel?

Representative MILLS. Mr. Chairman, I do not know that this has been focused exactly. We have discussed it in connection with the rate of unemployment anticipated in 1955, but I wonder whether or not in the opinion of the panel unemployment will be higher in 1955 than in 1954, on the average, or even in the last quarter?

The CHAIRMAN. Is anyone willing to make a statement on that?

We will take a poll on that. How many think it will be higher, unemployment?

(There was a show of hands.)

The CHAIRMAN. Thank you very much, indeed.

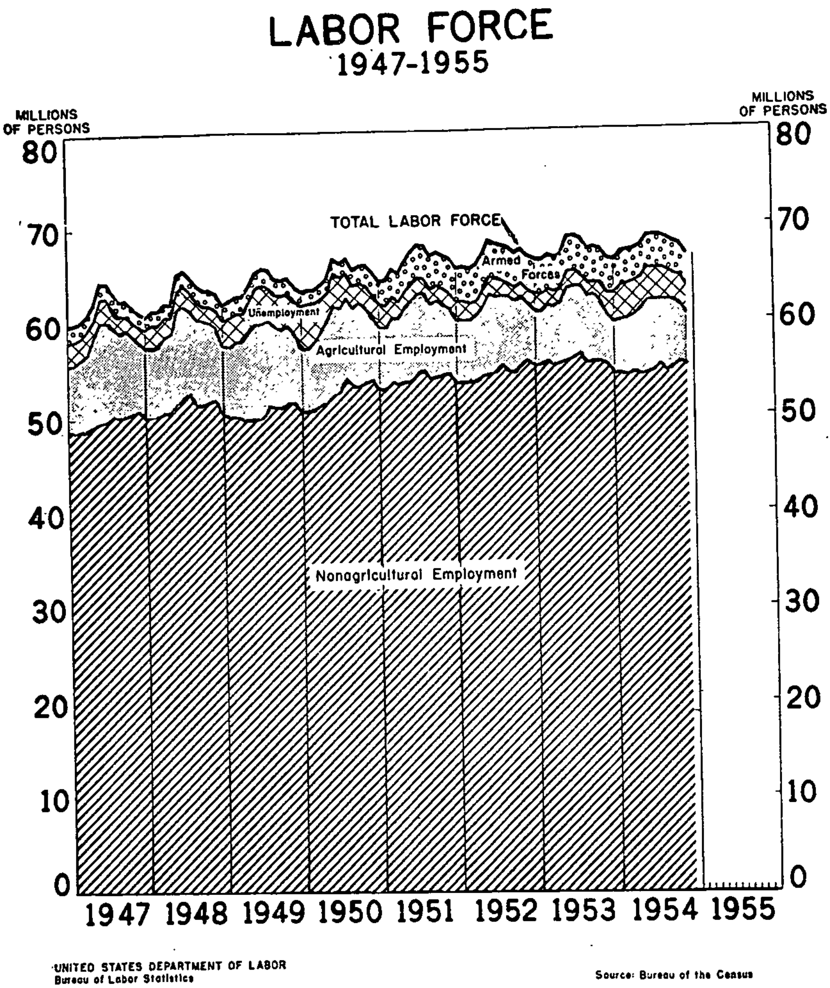
(The extended statements of the panel are as follows:)

RECENT CHANGES IN EMPLOYMENT AND UNEMPLOYMENT

Statement by Aryness Joy Wickens, Acting Commissioner of Labor Statistics, before the Joint Committee on the Economic Report, considered the President's Economic Report

You have requested the members of this panel to answer a series of questions on the state of the Nation's economy in the light of the objective of the Employment Act of 1946 to "promote maximum employment, production, and purchasing power." I shall address my observations to your first question, namely, what have been the economic developments since 1952. I shall discuss them in terms of the labor force, employment and unemployment, labor turnover, and hours of work. I have here with me several charts which illustrate these developments.

Our first major concern is the working population of the country. There has been a substantial growth in the labor force in the United States over the past 8 years, amounting to nearly 7 million workers, or more than 10 percent (see chart 1). This growth is sometimes obscured by the marked ups and downs within each year. The labor force is largest in the summer months when school children enter the labor market and lowest in the winter, with a range of around 3 million from the high to the low. In 1947 the total labor force averaged 61.8 million; in 1950, 64.7 million; and in 1954, 67.8 million.



The Armed Forces are counted as part of the Nation's labor force since they represent employment for many men who would otherwise be in the civilian labor force. Also, of course, a large proportion of the members of the Armed Forces return to the civilian labor force after some years of service. In the early years of the period shown on the chart, 1947–50, the Armed Forces numbered roughly 1.5 million. In the later years, 1951–54, they exceeded 3 million. As a consequence of this expansion in the Armed Forces after the Korean incident began, the civilian labor force has not grown in every year. As a matter of fact, the peak annual average level of 63 million in the civilian labor force in 1950 was not again reached until 1953 because the expected net addition was absorbed in the Armed Forces. This past year the civilian labor force averaged 64½ million.

With these facts as background, I should like to discuss the expectations for 1955. On the basis of the growth of the population and recent trends in labor-force partcipation by men and women of different age groups, it is estimated that the net growth of the Nation's total labor force in the next 12 months will be about 700,000. At the same time a decline of 340,000 is anticipated in the Armed Forces, according to a recent statement by the President. It is likely that about one-fifth of these men will return to school, with the other 275,000 becoming available as civilian workers during the year. Taking these two elements of increase together, then, there may be a net addition to the civilian labor force of something close to a million persons during 1955.

However, this is by no means a fixed figure. It depends upon the decisions of millions of people as to whether they will or will not actually seek work. In the United States, it is every man's and woman's choice whether he or she will or will not work, and that choice is conditioned by changes in the economic climate.

The makeup of today's labor force can be illustrated by the chart which shows the labor force by age and sex in April 1954 (chart 2). You will notice that the great majority of men from 20 to 55 are consistently in the labor force. The participation rates of the other groups shown in the chart are more likely to vary with economic conditions, thereby providing considerable flexibility in the labor force.

In April 1954 a majority of teen-agers were in school, a majority of adult women reported themselves as housewives, and the bulk of the men and women over 65 were out of the labor force because of retirement or inability to work. However, large numbers of these groups do have jobs, and the proportions which are in the labor market depend to a large extent on circumstances. For example, during World War II millions of persons who ordinarily did not work, took jobs. Under other conditions, when there are no patriotic incentives or when jobs are hard to get, many students, housewives, and older workers do not bother to seek work.

Because labor-force participation varies with circumstances and the choice of individuals, one cannot say with complete certainty what the net additions to the labor force will be. I have estimated that the net addition to the civilian labor force for next year will be nearly a million workers but it could vary either way.

EMPLOYMENT DEVELOPMENTS

Now, how is this flexible labor force employed? Since the end of the war, and indeed over the last half century, there have been two distinct trends. The first has been the decline in agricultural employment and the rise in nonagricultural occupations. The second has been the trend toward the production of services and away from the production of goods. As a matter of fact, in 1900, 2 out of 3 workers in the American labor force were engaged in the production of goods and 1 out of 3 in the production of services. By the midcentury mark, the American economy reached the point where more workers (53 percent) were actually engaged in the production of services than in the production of goods (47 percent).

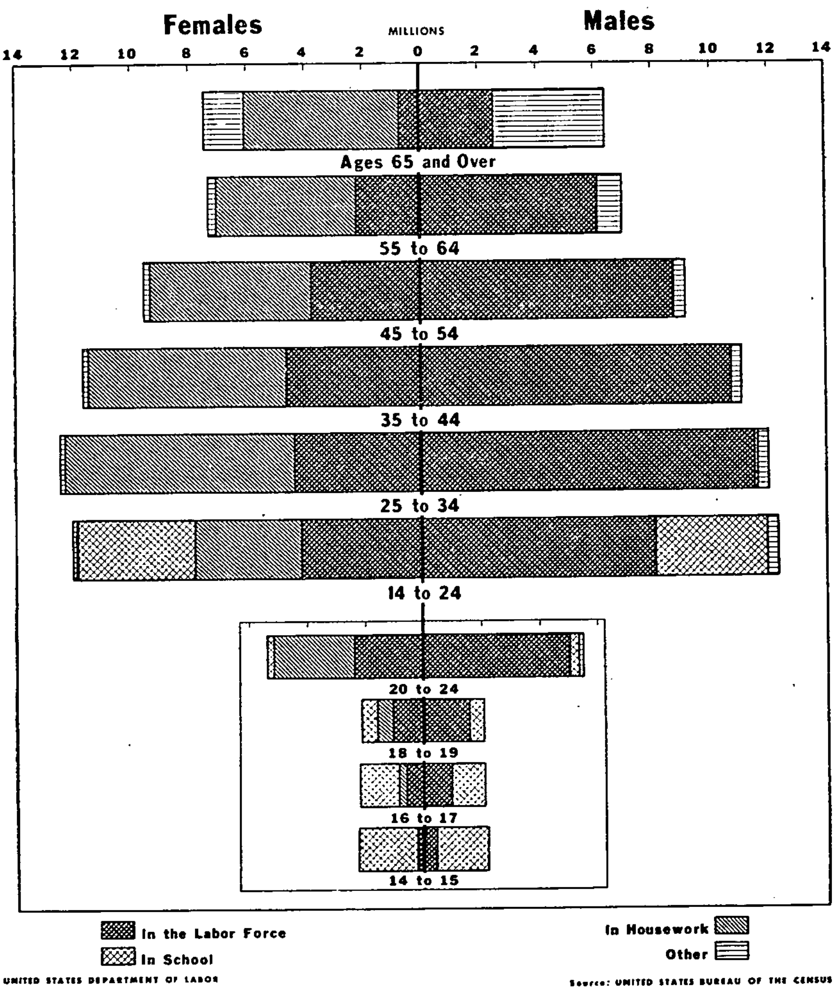
In the years between 1947 and 1954, shown on chart 1, agricultural employment has declined from 8¼ million to 6½ million, according to reports from the Bureau of the Census. Nonagricultural employment has expanded from less than 50 million in 1947 to over 55 million in 1953.

My next chart (chart 3) shows in more detail the makeup of nonagricultural employment and illustrates the shift in emphasis from goods to services. These data are based upon payroll reports to the Bureau of Labor Statistics by a large group of American establishments. In 1953, these employees numbered slightly less than 50 million. (This is a smaller level than the census total by about 5 million because the census includes domestic servants, self-employed and unpaid family workers who are not covered in payroll reports from employers to the Bureau of Labor Statistics.) Of the rise since 1947, amounting to 4.8 million, only three-fourths of a million was in manufacturing. The rest was concentrated in trade, finance, services, and government. Trade alone accounted for 1⅓ million of the increase since 1947.

POPULATION AND LABOR FORCE

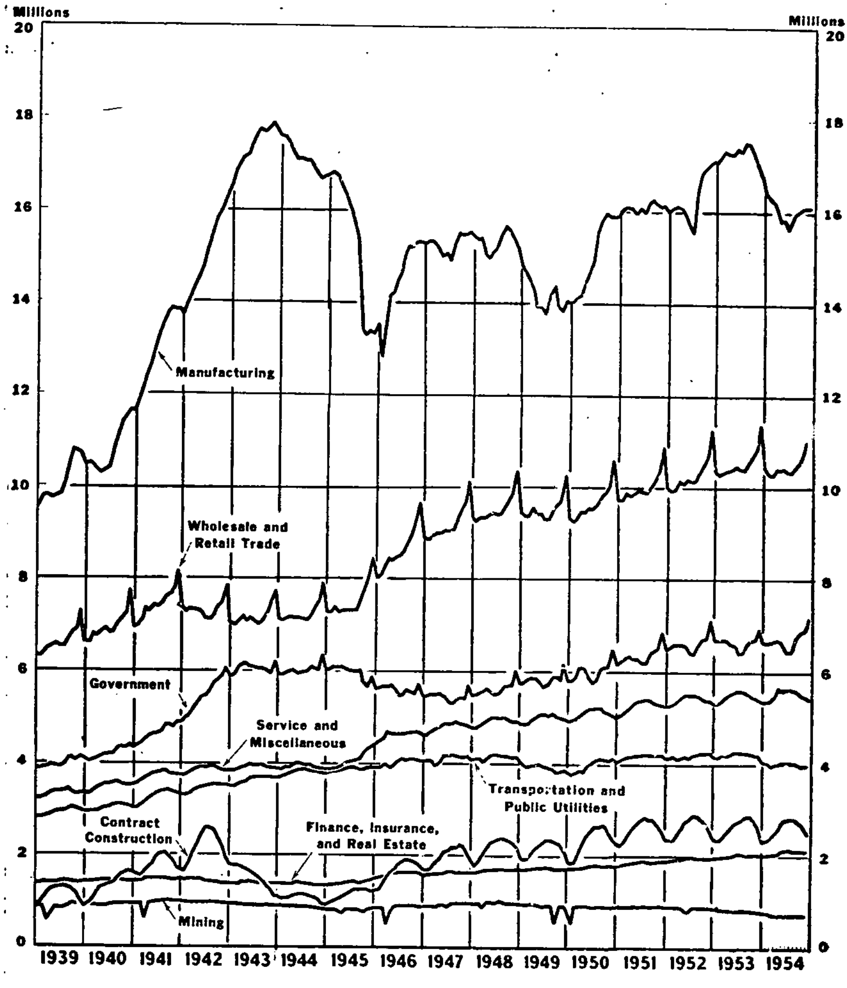
BY AGE AND SEX

April 1954



EMPLOYEES IN NONAGRICULTURAL ESTABLISHMENTS

BY MAJOR INDUSTRY DIVISION, 1939-1954



UNITED STATES DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS

Coming down to the specific developments of 1953 and 1954, we find employment in manufacturing and allied activities showing the greatest fluctuations. For the year 1954 as a whole, the number of employees declined by a net of 1.4 million from 1953. Most of this decline (1.2 million) was in manufacturing. About 300,000 was in mining and transportation which are closely associated with manufacturing. On the other hand, the industries which have been expanding since the end of World War II either held their own or continued to make small but significant gains. There was an increase of about 170,000 employees in finance and services and government combined.

The annual averages which I have been using are excellent for revealing the long-term movements and general levels. They obscure the contours, however, the ups and downs within the year. Manufacturing employment, for instance, reached a low point on a seasonally adjusted basis in late summer and has been rising since.

The crux of the present employment situation, obviously, is manufacturing, especially hard-goods manufacturing, where the number of jobs is still well below earlier levels, although the trend now is upward. Previous peaks, I must emphasize, are not necessarily meaningful goals in any sense of the word. When hostilities broke out in Korea, for instance, when we were anxious to rebuild our defense economy in a hurry, there was a lavish hiring of manpower in anticipation of needs, some of which never actually materialized. As a result, the metal goods industries increased employment very sharply in the first 8 months after the Korean outbreak, and then made no substantial gains thereafter until the upturn which began in the fall of 1952.

The bulge in employment levels, starting at that time and continuing until the downturn in mid-1953, was not the result of a normal and orderly flow of demands. Instead, the increase resulted from a series of special developments, all of which came to a head almost simultaneously. Pent-up consumer demand was released by the removal of credit restrictions in May 1952, but the effect was delayed by the steel strike in the summer and thus was concentrated in the final months of 1952 and early 1953. Relaxation of materials controls in late 1952 gave an added fillip to demand. Coinciding with this great surge of consumer demand, the defense production expansion reached its culmination in early 1953, at the very same time that business outlays for new plant and equipment also were rising rapidly as a result of long-range plans.

The current levels of durable goods employment (December, seasonally adjusted) are as high as in any postwar month before early 1952. This is not to say that the present levels are optimum or desirable. But I do want to point out that the peaks from which we descended were abnormal in the sense of a smoothly functioning economy whose major impetus is an orderly flow of consumer and investment demand.

During the final months of 1954, there was increasing strength in the nondefense sectors of the economy. Manufacturing employment was better sustained than could be expected for the season. Trade, commerce, finance, and government, especially State and local government, were at high levels and there is every reason to anticipate continued growth in these types of employment.

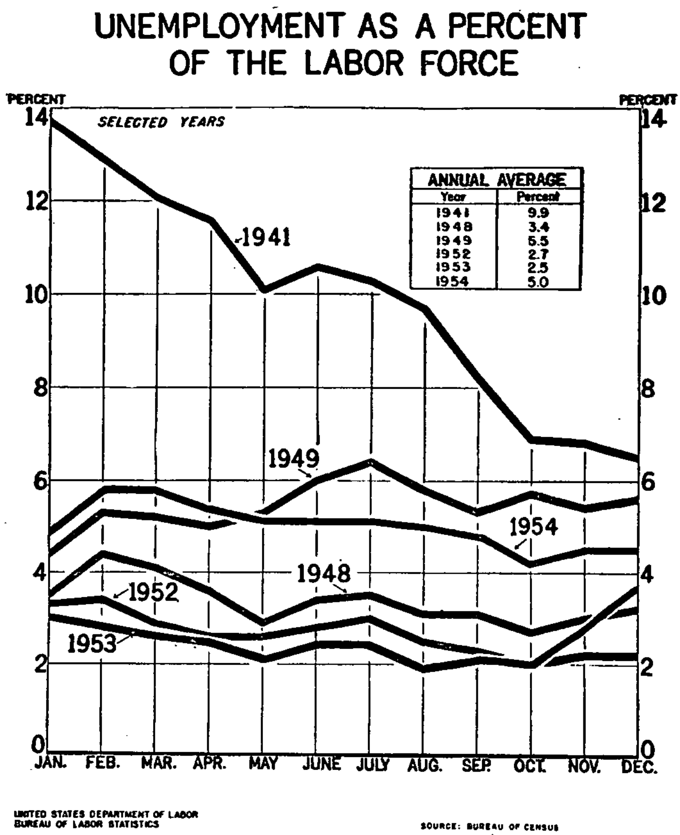
Hours of work

A more sensitive indicator of the current well-being of the nonfarm economy is the workweek. Hours of work began to fall in the spring of 1953, several months before the general downturn in employment. The year 1954 began with a substantial decline in the average factory workweek which brought the January figure below the 40-hour workweek for the first time since January 1950. The workweek began to rise in the spring of 1954, also several months before the recent employment upturn. By the end of the year factories were once again averaging a little more than 40 hours a week.

Because information on the workweek in American industry is such an important indicator of the general state of the economy and because it so often leads other economic developments, we expect to develop additional information on the extent of overtime hours and part-time work in American industry in this coming fiscal year.

UNEMPLOYMENT

The result of the business declines of 1953–54 was an increase in unemployment, which is portrayed in the next chart (chart 4), which shows unemployment as a percentage of the labor force. Because there is considerable seasonable variation in unemployment during the year, the chart shows the percentages on a month-by-month basis for certain selected years. Note that the rates are substantially higher for 1949 and 1954 (5.5 and 5 percent) than for the high prosperity years of 1948, 1952, and 1953 (3.4, 2.7, and 2.5 percent respectively). Note also that while the 1954 unemployment rate was higher than in 1949 in the early months of the year, it was lower throughout the second half of the year. We ended 1954 with approximately 2.8 million unemployed, or 4.4 percent of the labor force in the last quarter.



A certain amount of unemployment exists in any rapidly changing economic system. So long as we have free enterprise and free labor, there will be situations under which workers are laid off or, as often happens in prosperity periods, they voluntarily quit to look for better jobs. In boom years, such as 1952 and early 1953, the voluntary quits run some 2 to 3 times as high as layoffs. As soon as business begins to turn downward and jobs are less plentiful, quits fall rapidly as layoffs increase. So the total separation rate often remains high under both conditions.

The other side of labor turnover is the accession rate. In times of expanding employment, the hiring rate goes up—not only to add to staff but to replace quits. Conversely, in times of business contraction the employer does not try to replace all the workers who leave. Nevertheless, at all times, even in deep depressions, some hiring is going on.

This constant turnover of jobs necessarily results in some workers being out of work for certain periods of time, even if the employment level is stable or rising. If employment conditions are good, the length of unemployment for individual workers will be short; it does not take long for a worker to find a job.

In this past year, the Census Bureau reports that the number of persons experiencing long-duration unemployment (15 weeks or more) reached a peak of 1 million in the spring. This figure has been declining since then, and the year ended with a total of 700,000 long-term unemployed—about one-third less than at the 1954 peak.

The same general developments are shown by data from the Department of Labor's Bureau of Employment Security which indicates a decline during the latter part of the year in the average duration of joblessness among persons receiving unemployment compensation.

There is one more aspect of unemployment which should be carefully noted. In a gross figure of, say, 2.8 million unemployed, there are many different kinds of workers. At one extreme there are heads of families in the prime of life, experienced workers whose unemployment has the most serious consequences for themselves and their families, as well as for the Nation's economy. At the other extreme, the unemployed person may be a worker who never works more than part-time and who voluntarily leaves the labor market from time to time. Ranged in between are men and women of all age groups and with varying attachments to the labor force. Some people work only during the summer months, others over the period of Christmas trade.

Thus, of the 2.8 million unemployed in December 1954, as many as 1¼ million, or 40 percent, had become unemployed only since November. These people—2 out of every 5 unemployed persons in December—had been seeking jobs for 1 month or less. Moreover, not all of these short-term unemployed had lost jobs during the month. Of the 1¼ million in this category, 350,000 had moved into unemployment from keeping house, going to school or some other activity outside of the labor force. The remainder had been working in some farm or nonfarm job the previous month.

During the very same time (between November and December) a large group of persons moved out of the unemployed category. In fact, the number leaving unemployment (1⅓ million) was as large as the number moving into unemployment status (1¼ million). Of those who left the ranks of the unemployed, some 800,000 found jobs and about 500,000 withdrew from the labor force.

Despite these figures I have given, we know much too little about the unemployed—their industrial attachment, their previous service in the labor market, their age, sex and other characteristics. The Department of Labor is now planning to expand its program of current statistical reports and analytical studies of the unemployed. We need more information from time to time on where unemployment is developing, in what locations and from what industries, on the composition of the unemployment load at any one time, and particularly on the characteristics of those workers who are outside the unemployment compensation system, either because they have exhausted their benefit rights or have not been covered under the system.

No matter what the level of unemployment may be, this last group is a matter of serious concern. It is among this group that skills are being lost and morale is being destroyed by prolonged unemployment and destitution. Apart from all other community or Government programs designed to create jobs, there ought to be special effort made to meet the needs of these particular individuals for whom unemployment has such serious consequences, whether in good times or in bad.

So far as the immediate future is concerned, the outlook, apart from seasonal factors, is improving. The turnover data from the Bureau of Labor Statistics show that accession rates have been rising in recent months, as I indicated earlier. Layoff rates have been declining. The hours of work in factories have lengthened. In December, factory employment held steady although it usually drops.

Due to seasonal factors, however, there is almost certain to be a sharp increase in unemployment during the winter months. The heaviest unemployment of the year usually occurs in January and February. Thereafter the spring revival in agriculture, construction and other industries normally produces jobs which again reduce unemployment. As we have already indicated, the year 1954 ended with a total of 2.8 million unemployed. Starting with that figure, for December, here is what the unemployment picture would look like during 1955 if seasonal changes were the only factors operating during the year.

TABLE 1.—*Volume of unemployment in 1955 if seasonal influences were the only factors operating during the year*

[In millions]

January	3.5	July	3.3
February	3.8	August	2.8
March	3.5	September	2.7
April	3.1	October	2.5
May	2.8	November	2.8
June	3.4	December	2.8

This, of course, is not a forecast of unemployment. I have introduced it only to emphasize the marked effects of seasonal factors on the level of unemployment.

Thus, in sumary, the recovery of this autumn and winter has reversed the downtrend in employment and there has been considerable improvement in the labor market. There remain, of course, areas and industries in which unemployment is serious. The extent of the recovery and of the absorption of the potential additional workers will depend upon a number of factors which other members of this panel will analyze.

STATEMENT IN RESPONSE TO FOUR QUESTIONS ON THE ECONOMIC PHILOSOPHY AND FACTS UNDERLYING THE PRESIDENT'S ECONOMIC REPORT

(By Gerhard Colm, chief economist, National Planning Association)

Question 1. What are the facts respecting population growth, labor force, employment, unemployment, layoffs, part-time employment, productivity, production, private investment, consumption, Government demand for goods and services, and savings since 1952?

The following appear to me as the most important facts respecting the American economy since 1952:

1. Defense expenditures dropped sharply between the second quarter of 1953 and the fourth quarter of 1954. Federal purchases of goods and services for national security declined from their peak of $54 billion (annual rate) in the second quarter of 1953 to about $40 billion in the fourth quarter of 1954. We estimate that private defense-supporting investments, measured by facilities put in place under the rapid tax amortization program, declined in the same period from about $6 billion (annual rate) to perhaps $2 billion. Thus, over a period of a year and a half, the annual rate of public and private demand connected with the national-security program declined by about $18 billion.

2. During this same period of a year and a half the productive capacity of the economy has increased. Allowing for a normal rate of inventory accumulation, I believe that aggregate "final demand" would have had to increase by about $12 billion if we were to have had a satisfactory level of employment in the final quarter of last year. This is a conservative opinion which assumes that we had something like overemployment in the second quarter of 1953.

3. To maintain a satisfactory level of employment, a large increase in nondefense demand would have been needed—to offset the decline in defense demand and to absorb the potential output from the increase in productive capacity. Using the above estimates of $18 billion and $12 billion respectively, this would have required an increase in private and public nondefense demand of about $30 billion.

4. The increase in nondefense demand which actually occurred was not sufficient to bring about a satisfactory level of employment by the final quarter of last year. An increase of about $16 billion, or a little over half of the needed increase, took place. (This figure again excludes the change in the rate of inventory accumulation.) The rate of consumer buying went up by about $7 billion, residential construction by about $3 billion, business investment in plant and equipment other than for defense by about $2 billion, and State and local purchases by about $4 billion.

It appears that we have accomplished a little over half of the transition from full employment with a defense buildup to full employment with a continuing cold-war preparedness program. That we have accomplished this degree of adjustment is a cause for great satisfaction. It proves the vitality of our economic system. On the other hand, it is important to recognize that about one-half of the needed transition still remains to be accomplished.

Basis of figures used in reply to question 1:

Annual rates of expenditures

[Billions of dollars]

	2d quarter, 1953, actual	4th quarter, 1954		Change	
		Actual	Full employment	Actual	Needed
Defense expenditures:					
Federal	54	40	40	−14	−14
Private	6	2	2	−4	−4
Total defense demand	60	42	42	−18	−18
Final nondefense demand	305	321	335	+16	+30
Total final demand	365	363	377	−2	+12
Inventory change	+5	−2	+3	−7	−2
Gross national product	370	361	380	−9	+10

Question 2. On the basis of economic developments since 1952, how would you classify calendar year 1954 in respect to the four phases of the business cycle identified in the earlier volumes of the National Bureau of Economic Research—as expansion, recession, contraction, and revival?

If I understand correctly the terminology used by the National Bureau of Economic Research in describing business cycles, "expansion" and "contraction" refer respectively to the upswing and downswing; a "recession" is the transitional phase between an expansion and a contraction; and a "revival" is the transitional phase between a contraction and an expansion.

On this basis I would say that a recession occurred early in the second half of 1953, followed by a contraction which extended through the first half of 1954. A revival occurred early in the second half of 1954 and we are at present in the expansion phase of the cycle.

In addition, the national bureau uses different terms for a different intensity of the movement. A severe recession was called a crisis, a severe downswing a depression. These latter terms would not apply to the events of the year 1954.

Question 3. What purpose, in terms of carrying out the objectives of the Employment Act, is served by defining the needed levels of employment, production, and purchasing power, and for how far ahead should they be defined?

The Employment Act was designed to aid in the growth and stability of the economy and of the social system of competitive enterprise.

It states that it is the policy of the United States Government to use all practicable means, within the conditions of the act, to promote "maximum employment, production, and purchasing power." In simple language, this means satisfactory levels of employment, production, and purchasing power.

The act tacitly recognizes that satisfactory levels cannot be ascertained by reference to the past. It prescribes that the President's Economic Report should set forth the needed levels and also a program for carrying out the policy declared in the act—in effect, for reaching the needed levels.

In a period of rapid increase in the labor force and in labor productivity, it makes a great difference whether existing levels of employment, etc., are evaluated against past levels or needed levels. For instance, by comparison with the past one can come to the conclusion that 1954 "will go down in history as one of our most prosperous years" (President's Economic Report, p. 11). By comparison with needed levels, it becomes apparent that 1954 was a year in which production was about $20 billion below a level corresponding with satisfactory employment.

The wisdom of the forward-looking philosophy of the Employment Act was most dramatically demonstrated when in 1950 a large defense program was under discussion. Those who measured the effect of the proposed defense program against the past came to the conclusion that it would necessitate a drastic curtailment in consumption; those who measured it against the growing potential recognized that a rise in the defense program plus some rise in the levels of consumption and investment would be feasible.

It is perhaps the most encouraging fact in our modern economy that business managers are increasingly adopting the same sort of forward-looking point of view in their investment planning. Thus, I believe that the work done by the Council of Economic Advisers, by the joint committee, and by private research groups in implementing the provisions of the Employment Act not only results in more adequate Government policies but also aids business planning and thereby reduces the burden of the Government's stabilization job.

The fact that last year's Economic Report did not posit needed levels of employment, production, and purchasing power caused considerable disappointment. This year's Economic Report takes a step in that direction though it falls short, in my judgment, of what was envisaged in the Employment Act.

With respect to the time period for which needed levels of employment, production, and purchasing power should be projected, the Employment Act is silent. The National Planning Association made a recommendation in this respect in a unanimously adopted joint statement by members of the various committees (board of trustees, agriculture, business, labor, and international committees) who were present at the recent annual meeting. It recommended that the Joint Committee on the Economic Report be renamed the Joint Committee on Economic and Fiscal Policy and consider projections of needed levels of employment, production, and purchasing power extending over a number of years together with a budget outlook covering the same number of years.

In general, it may be said that it is important to give benchmark projections for 5 or 10 years ahead, but it is equally important that projections be presented regularly for the immediate future. We need goals but also a consideration of the path that promises to load to these goals.

Question 4. What are the implications of recent trends and present indications for employment, unemployment, hours of work, productivity, total production, private investment, levels of consumption, Government demand for goods and services, and savings for the coming year?

The rise in economic activity during the last 3 months is most encouraging. If the same rate of growth should continue over a period of a year or two, it would bring us to a full employment level.

The economic report expresses this hope (p. 24) but does not state whether the factors responsible for the current upswing are likely to continue or what other factors are likely to come into play. The biggest single change which occurred between the third and fourth quarters of 1954 was the reduction in the rate of inventory liquidation. The first quarter of this year may well see a change from liquidation to accumulation of inventories. This suggests a continuation of the present expansion for several more months. Of course, each expansion creates its own markets—to some extent. However, we cannot rely on this factor to support expansion for more than a short period of time. Inventory liquidation did not cause a spiraling deflation—correspondingly we cannot expect the end of inventory liquidation in itself to cause sustained expansion. It is true that an increase in production creates an increase in employment and in earnings and spending. However, employment does not rise quite in proportion to production because labor output per man-hour continually increases. This is borne out by the experience of the recovery movement in 1949–50 and also by the experience of recent months.

Perhaps the most important fact of the current economic scene is that industrial production (in manufacturing and mining) was in December 1954 3 percent above the previous December while employment in these industries was 4 percent, or 800,000, lower. In the construction industry the number of employed workers was about 3-percent lower although construction activity rose substantially. It is true that labor income as a whole has remained about the same as it was a year ago because wage-rate increases made up for the decline in employment. However, the fact that consumption actually increased in the face of the recession was mainly due to tax reductions and a rise in unemployment compensation and other social-security payments. Thus, we have no assurance that the current expansion by itself will generate the markets needed for continued expansion.

Looking ahead a year or so, it appears that business investments in plant and equipment will most likely move on an even keel. Government activities also promise to move on an even keel, at least until the new road-construction program and school-construction program which are recommended in the President's message get underway. The outlook for consumer buying is good. Consumer attitude surveys and observations of the retail trade indicate that consumers think it is a good time to buy. Also, the rise in residental construction will help in lifting purchases of furniture and household equipment.

Many of these purchases will be financed by installment credit which is rising again. Thus, even though some of the facors presently making for expansion are of a temporary nature, other factors may life total activity in the year 1955 above the 1954 level.

However, we should remember that an expansion which would bring us close to a full employment level by the end of the year would necessitate an increase in consumption of about $20 billion (annual rate). Even a quite optimistic evaluation of the expansionary factors which are now foreseeable does not make such a rise appear likely unless one assumes that further policies designed to promote expansion, and particularly to expand consumers' markets, will be adopted.

Considerations like these led the NPA group to which I referred before to recommend that Government measures for increasing consumer purchasing power to the extent necessary should include:

"Further reduction in taxes, particularly those affecting consumption; and further improvements in social-security legislation.

"Acceleration of badly needed public undertakings, including construction of roads, schools, and hospitals.

"Further measures designed to facilitate the purchase and renovation of homes, urban and rural; the modernization of farms and farm equipment; and the improvement of diets of low-income groups.

"Among possible non-Government measures for maintaining purchasing power, we consider the most important to be a rise in wage rates and a reduction in prices in accord with increases in productivity."

Statement to the Joint Committee of the Economic Report on the Outlook for Private Investment With Special Reference to New Industrial Plant and Equipment

(By Dexter M. Keezer, vice president and director of the department of economics, McGraw-Hill Publishing Co., Inc., New York City)

My special assignment as a member of this roundtable is to discuss the outlook for that segment of gross national product represented by private investment. It is that segment which includes new industrial plant and equipment, additions to business inventories, new residential, commercial and other private construction, farm equipment and equipment and vehicles for use by doctors and other professional men.

It is only the outlook for that part of private investment represented by new industrial plant and equipment which I have any special competence to discuss. This competence grows out of the fact that, in my department of the McGraw-Hill Publishing Co., we make surveys of plans for new industrial plant and equipment. We also maintain a monthly index of new orders for machinery, which reflects the new business obtained by suppliers of new equipment. Our latest checkup on business plans was made in October 1954, with a partial recheck earlier this month (January). Our latest index of new orders is for December 1954. Except in this special field of new industrial plant and equipment, my comments on the outlook for private investment simply represent my roundup of estimates made by those whom I believe to be competent authorities.

New industrial plant and equipment accounted for $21.8 billion of an estimated $46 billion of gross private domestic investment in 1954. (This $21.8 billion includes only outlays charged to capital account, except in the oil industry, where all expenses of drilling oil and gas wells have been included. Certain other outlays charged to current account are included in estimates of private domestic investment but are not included in the plans reported by companies in our surveys.)

It now appears that industry is planning to invest very close to the same amount in new plant and equipment in 1955 that it did in 1954. This conclusion is based primarily on an extensive check on the plans of manufacturing, mining, transportation, and utility companies which we conducted in October 1954. This check showed that industry (as represented by the above categories) had preliminary plans to spend $20.7 billion on new plant and equipment in 1955, or within 5 percent of the 1954 total.

Here is a table which shows the principal results of our checkup. The full details are attached as an appendix.

Industry's plans for capital spending in 1955

[Millions of dollars]

Industry	1953, actual [1]	1954, estimated [1]	1955, planned	Percent change, 1954–55
All manufacturing	$10,026	$9,249	$8,598	−7
Petroleum industry	4,600	4,875	4,920	+1
Mining	506	380	311	−18
Railroads	1,312	851	769	−10
Other transportation and communications	2,954	2,922	2,640	−10
Electric and gas utilities	4,548	4,274	[2] 4,206	−2
All industry [3]	23,271	21,784	20,727	−5

[1] U. S. Department of Commerce; Chase National Bank; McGraw-Hill department of economics.
[2] Electrical World, American Gas Association.
[3] Petroleum refining, included under both manufacturing and petroleum, is included only once in the total.

When these figures were first made public, many persons expressed surprise that the indicated decline for 1955 was so small. However, I think we may be reasonably confident that if present plans are carried out expenditures on new plant and equipment in 1955 will actually come very close to 1954, as indicated.

During the 7 years that we have been taking these surveys, they have proved remarkably accurate in indicating the trend of investment for the year ahead. Actual investment has been within 4 percent of plans reported by the survey in every year, except 1950, when all plans were altered by the Korean war.

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 two brief interludes, been boom years and years when there has been specially heavy demand for capital goods.

The surveys 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 confidently 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 except as a report of recent plans. Instead we heavily emphasize the proposition that our survey reports potential capital investment and is no promise of what is actually going to happen.

All of our earlier surveys were made in January and February of the year for which plans were reported. This year, in an effort to provide early information we have made this preliminary check in October. We do not yet know whether plans reported as early as October will always prove to be as accurate as plans reported later. For a more conclusive indication, we must await the regular McGraw-Hill survey and the annual survey conducted by the United States Department of Commerce and Securities Exchange Commission, to be made in February.

However, a recheck of larger companies participating in the October survey, which we have just made in the past 2 weeks, indicates that any large revisions to date have been upward. Some increases have also been indicated by public announcements of plans.

Most of the upward revisions we have noted are in manufacturing. There have been some upward revisions in the field of "other transportation and communications." In the utility field, our magazine Electrical World has now completed a more comprehensive survey covering about 95 percent of the electric power industry, in terms of present capacity, and finds little change from the October estimates.

An improved outlook for investment in new industrial plant and equipment since October is also confirmed by the improvement in the McGraw-Hill index of new orders for industrial machinery. For the last 3 months of 1954, the average of this index is 11 percent higher than in the last 3 months of 1953.

I would be glad to provide the committee with a detailed description of the McGraw-Hill new orders index if it is desired.

Finally an ample supply of funds available to finance plant and equipment expenditures at a high level appears to be in prospect. In 1955, depreciation funds alone will amount to approximately $14 billion for all nonfinancial corporations. This is over 60 percent of planned expenditures for new plant and equipment, adjusted to a corporate basis. There is the benefit that in 1955 earnings after taxes will be somewhat higher than in 1954; and the position of security markets gives promise of being favorable for new issues. Thus, for corporations as a whole the realization of present plans does not seem threatened by financial obstacles.

From all this information, it seems probable that industry's expenditures on new plant and equipment will be within 5 percent of 1954, as indicated by our October survey, and may very well show no decline at all. Moreover, as indicated by the behavior of the new orders index, the rate of these expenditures is likely to increase as the calendar year 1955 goes on. This is the most important single phase of the outlook for private domestic investment, since industrial plant and equipment accounts for almost half of all domestic investment, and is far larger than any other item in the total.

I now turn briefly to a discussion of the other investment sectors:

RESIDENTIAL AND COMMERCIAL CONSTRUCTION

The United States Departments of Labor and Commerce have jointly made a forecast that in 1955—

Expenditures for residential construction of all kinds will be 13 percent higher than it was in 1954 (about $15 billion as compared to about $13.5 billion); and

Expenditures for commercial construction of all kinds will be 7 percent higher than in 1954 (about $2.3 billion in 1955 compared with $2.16 billion in 1954).

Several private agencies have made comprehensive forecasts of construction activity in 1955. All of them indicate an increase this year. Recent statistics on contract awards, which lead actual construction by some time, lend support to the expectation that construction activity will carry on into 1955 at a high level. For the last 3 months of 1954, contracts for residential and commercial construction collected in the 37 Eastern States by the F. W. Dodge Corp. were substantially higher than they were for the same period in 1954 ($1,979 million compared to $1,772 million).

Contract awards for new residential and commercial construction, as compiled by Engineering News-Record, are at the highest level since this series was started in 1925. For the months of October, November, and December, 1954, these awards totaled $1,428 million, compared with $950 million in the same months of 1953. The recent awards data indicate that the value of construction for some months ahead will be well above the same period in 1954.

The contract award figures compiled by Engineering News-Record cover only large-scale projects, with a relatively long construction time span. They do not cover smaller commercial projects or construction of individual homes other than that by mass builders. Where the construction time span is shorter, as in the case of small-scale construction of individual residences, activity is subject to relatively rapid change. Some experts in this field are fearful that the present state of home building cannot be sustained through 1955 without creating widespread vacancies and thus prompting a reduction of activity. However, there seems to be general agreement that for the year 1955 as a whole the volume of residential construction will exceed that of 1954.

FARM EQUIPMENT

This is not a field we follow closely. I have merely noted the forecast of the Department of Agriculture that purchases will be about as high in 1955 as in 1954 (The Farm Cost Situation, U. S. Department of Agriculture, 1955 outlook issue. October 1954).

INVENTORY

For the past year, business has not been adding to its inventories. It has been drawing them down, and this component of investment has been negative by about $4 billion. The latest figures published by the Department of Commerce show that this rate of decline continued through the third quarter of 1954.

As to what happened in the fourth quarter, we can only guess. It is our impression from conversations with businessmen that the desire to reduce inventories has been substantially less in recent months. In some industries, there have evidently been attempts to rebuild stocks to a level more consistent with the increased volume of business. However, sales have been higher than many people expected; and, on balance, it seems entirely possible that total business inventories were again reduced in the fourth quarter.

Since this seems to have been involuntary in many cases, and since many producers now claim that inventories are low in relation to expected sales volume, we think it probable that there will be some addition to business inventories in 1955. The change from a substantial negative to even a moderate positive figure for this component would mean an addition to private domestic investment.

CONCLUSION

Considering the overall outlook for investment, which includes plant and equipment, residential and commercial construction and inventories, our study of these categories leads us to expect some increase in 1955 over 1954, and a rising trend throughout the calendar year 1955. The tables below are intended to illustrate this trend. Estimates for the fourth quarter of 1955 are included to be as helpful as possible indicating the prospective situation in the Government's fiscal year 1956. The figures are not presented as precise estimates, but to indicate the general magnitude of investment demand, based principally on our own surveys of business plans. In the other sectors, we have simply tried to reflect other expert opinion and to be conservative.

Private domestic investment

[Billion dollars]

	1953 actual	1954, estimated	1955, estimated	1955, 4th quarter annual rate, estimated
New industrial plant and equipment [1] (covered by McGraw-Hill survey)	23.3	21.8	20.7	21.2
Other nonresidential construction and equipment [2]	14.7	14.3	14.9	15.0
Residential construction	11.9	13.3	14.1	13.7
Change in business inventories	1.5	−3.4	2.3	3.0
Gross private domestic investment	51.4	46.0	52.0	52.9

[1] Includes all expenditures charged to capital account and current account expenditures of the oil industry ($600 million in each year).

[2] Current account expenditures of all other industry, commercial plant, and equipment, farm construction and equipment, professional automobiles and construction of private schools, hospitals, churches.

APPENDIX

SUMMARY OF THE OCTOBER 1954 M'GRAW-HILL SURVEY OF BUSINESS PLANS FOR NEW PLANTS AND EQUIPMENT

Industry now plans to spend $20.7 billion on new plants and equipment in 1955, compared to an estimated expenditure of $21.8 billion in 1954. Manufacturing companies plan to spend $8.6 billion for new plants and equipment next year—7 percent less than in 1954. Mining, electric and gas utility, railroad and other transportation, and communications industries also expect to reduce their capital spending in 1955. But petroleum companies now plan to increase capital spending slightly next year.

Survey results indicate that capital spending by manufacturing companies may level off in 1955, ending the decline that started late in 1953. A majority of manufacturing companies now expect to invest as much in 1956 as in 1955, and about as many companies plan to increase capital spending in 1956 as plan to reduce it.

Capital spending in manufacturing

Companies in most of the major manufacturing industries report plans for a somewhat lower level of capital investment in 1955. Increases are indicated for only two of the major categories of manufacturing—primary metals, up 1 percent, and miscellaneous manufacturing, up 5 percent. Miscellaneous manufacturing includes lumber, apparel, furniture and other industries not covered by the other major manfacturing classifications. Most of the declines expected in major manufacturing groups are small; textile companies plan to reduce capital spending by 1 percent, chemical processing firms by 2 percent, food and beverages by 10 percent. The only large decline expected for a major manufacturing group is in metalworking—17 percent (table I).

A much wider range of plans appears when these major industrial classes are broken down into smaller parts. Within chemical processing, for instance, stone, clay, and glass companies plan to increase their capital spending by 23 percent in 1955, whereas chemical, paper, rubber, and petroleum-refining companies all expect lower capital expenditures. Plans in metalworking range all the way from an increase of 9 percent for "other metalworking"—including instruments, fabricated metal products, and ordnance—to a tremendous decline of 40 percent for the automobile industry. Automobile companies invested an estimated record $1,350 million last year, bue expect to cut that sharply to $811 million in 1955. The 1954 figure included unusually high expenditures for new tools and body dies in connection with model changes at all major companies. This type of expenditure will not be repeated in 1955. (Note: This is a field in which revised programs may eventually bring 1955 expenditures closer—but not up to—1954.)

End of the defense boom?

There are clear signs in the survey results that the post-Korea boom in defense industries no longer has a major effect on their capital spending. Most of the manufacturing industries that expanded rapidly in connection with the defense expansion programs of 1951–53—steel, nonferrous metals, machinery, electrical machinery, chemicals, petroleum refining, transportation equipment—cut their capital expenditures fairly sharply in 1954. Next year, most of them plan to reduce capital spending by less than the average for other, nondefense industries. There are exceptions to this rule. But, in general, capital expenditures by the defense industries show a tendency to level off after coming down from the peak of their defense expansion.

Plans in other industries

The petroleum industry is the only major nonmanufacturing industry fully covered by this survey that anticipates a higher level of capital spending in 1955 (table II). Petroleum companies report plans to spend about 1 percent more for new plants and equipment in 1955 than in 1954. This is because they expect to increase capital spending for crude-oil production by 7 percent, to $3,473 million. Capital expenditures for refining and transportation of petroleum and petroleum products are expected to decline.

Present plans call for a reduction of 18 percent in capital expenditures in mining. The decline is mainly in coal mining—where planned investment is off 40 percent, to $121 million. Capital spending for iron mining, other than taconite, is expected to decline by 13 percent. Companies are putting more of their investment into taconite developments and iron ore developments outside the United States. (No figures on these are yet available.)

In nonferrous mining, where expenditures dropped sharply in 1954, present plans call for spending 17 percent more next year. This may reflect more favored tax treatment, as well as improving market conditions, and a special factor in the uranium boom.

Railroads, which cut capital spending sharply in 1954, expect to reduce it by another 10 percent in 1955, to $769 million. Other transportation and communications industries—shipping, trucking, airlines, telephones—also expect a cut of 10 percent, to $2,640 million. The electric and gas utilities plan a small reduction of 2 percent in their outlays for new plants and equipment in 1955.

The McGraw-Hill survey does not regularly cover the majority of commercial establishments, which account for almost one-quarter of business' capital expenditures as reported by the United States Department of Commerce. However, this year a limited sample of major chain and department stores was included on a trial basis. The result indicates that their capital expenditures will be substantially increased in 1955 over the 1954 level. Because the sample was small, this figure has not been included in the overall statistics presented in this report. But it can be regarded as a favorable element.

End of decline in sight?

Results of the survey indicate that capital spending by manufacturing companies may level off in 1955, ending the decline that started late in 1953. The majority of manufacturing companies—57 percent—now expect that they will spend about as much for new plants and equipment in 1956 as in 1955. The number of companies that expect to increase capital spending in 1956—21 percent—is about the same as the number that expect to cut it—22 percent. (See table III.)

Plans for 1956 are, of course, highly tentative. But past surveys have indicated that companies are inclined to underestimate their capital spending for more than 1 year in advance, so the response to this survey is distinctly favorable to the prospect of capital spending by manufacturers at a level at least as high in 1956 as in 1955.

A somewhat larger proportion of companies in nonmanufacturing industries currently expect to cut their capital spending in 1956. About 25 percent of companies in the mining business think that they will reduce capital spending in 1956, while 16 percent expect to increase it. About one-half the railroads and 57 percent of the other transportation and communications companies now think they will reduce capital spending in 1956. But as many petroleum companies expect to increase as cut it. Taking all industry together, more than one-half—55 percent—of companies now expect to spend about as much for new plants and equipment in 1956 as in 1955, while 21 percent expect to increase capital spending, and 24 percent to cut it down.

How the survey is made

Companies cooperating in the survey employ more than 60 percent of all workers in the group of industries where capital spending is highest. Coverage in other industries is not so complete, but companies are carefully chosen to represent an accurate cross section of their industry. Companies in the survey employ between one-quarter and one-third of all the workers in industry.

The estimate of capital spending by electric utilities was supplied by Electrical World. The American Gas Association provided figures for gas utilities. Correspondents for Business Week personally interviewed many company executives, and other McGraw-Hill magazines helped in conducting the survey in their own fields.

TABLE I.—*Capital spending plans of manufacturing companies for 1955*

[Millions of dollars]

Industry	1953 actual [1]	1954 estimated [1]	1955 planned	Percent change 1954–55
Primary metals	$1,634	$1,134	$1,145	+1
Iron and steel	1,189	830	805	−3
Nonferrous metals	445	304	340	+12
Metalworking	2,942	3,235	2,683	−17
Machinery	803	694	688	−1
Electrical machinery	481	461	431	−6
Autos	1,000	1,350	811	−40
Transportation equipment (including aircraft)	168	160	132	−17
Other metalworking	490	570	621	+9
Chemical processing	3,162	3,011	2,943	−2
Chemicals	1,559	1,328	1,269	−4
Paper	431	448	423	−6
Rubber	158	133	121	−9
Stone, clay, and glass	339	335	413	+23
Petroleum refining	675	767	717	−7
Food and beverages	818	764	686	−10
Food	525	499	548	+10
Beverages	293	265	138	−48
Textiles	351	290	288	−1
Miscellaneous manufacturing	1,119	815	853	+5
All manufacturing	10,026	9,249	8,598	−7

[1] United States Department of Commerce; Chase National Bank; McGraw-Hill department of economics

TABLE II.—*Capital spending plans of nonmanufacturing industries for 1955*

[Millions of dollars]

Industry	1953 actual [1]	1954 estimated [1]	1955 planned	Percent change 1954-55
Petroleum industry	$4,600	$4,875	$4,920	+1
Production	3,100	3,261	3,473	+7
Transportation	450	391	285	−27
Refining	675	767	717	−7
Marketing	325	374	375	0
Other	50	82	70	−15
Mining	506	380	311	−18
Coal	264	204	121	−40
Iron ore [2]	74	61	53	−13
Nonferrous	115	73	85	+17
Nonmetallic [3]	53	42	52	+24
Railroads	1,312	851	769	−10
Other transportation and communications	2,954	2,922	2,640	−10
Electric and gas utilities	4,548	4,274	[4] 4,206	−2

[1] U. S. Department of Commerce; Chase National Bank; McGraw-Hill department of economics.
[2] Excludes taconite.
[3] Excludes mining by manufacturing companies.
[4] Electrical World; American Gas Association.

TABLE III.—*Preliminary investment plans for 1956*

	Percent of companies answering		
	Up [1]	Down [1]	About same [1]
Primary metals	19	35	46
Steel	8	17	75
Nonferrous	29	50	21
Metalworking	19	17	64
Machinery	23	11	66
Electrical machinery	13	21	66
Autos	0	25	75
Transportation equipment (including aircraft)	15	15	70
Other metalworking	21	33	46
Chemical processing	29	25	46
Chemicals	37	20	43
Paper	48	24	28
Rubber	9	55	36
Stone, clay, and glass	9	22	69
Food and beverages	23	21	56
Textiles	9	17	74
Miscellaneous manufacturing	14	26	60
All manufacturing	21	22	57
Petroleum industry	27	27	46
Mining	16	25	59
Railroads	13	48	39
Other transportation and communications	43	57	0
All industry	21	24	55

[1] Compared with 1955.

STATEMENT OF WILLIAM F. BUTLER, CONSULTING ECONOMIST, THE CHASE NATIONAL BANK

Question 1. What are the facts respecting population, growth, labor force, employment, unemployment, layoffs, part-time employment, productivity, production, private investment, consumption, Government demand for goods and services, and savings since 1952?

Since I assume that other members of this panel will deal with specific trends in the items listed, I shall confine my remarks to overall economic developments.

It seems to me that the best way to characterize what has been happening to the economy in the past 2 years is in these terms: "The economy has been coping vigorously with the problem entailed in shifting from a defense boom to a more normal prosperity."

National security expenditures more than tripled between 1950 and the second quarter of 1953—when they reached a peak rate of $54.3 billion. In the final quarter of 1954, national security expenditures were down to a rate of $40.6 billion. That's a drop of $13.7 billion in a year and a half. And $10 billion of the drop came during 1954.

The widely advertised inventory readjustment in 1953 and 1954 was to a considerable extent a result of the sharp decline in defense outlays. The shift from building inventories to cutting them placed a $10.2 billion drag on the economy (as measured from the second quarter of 1953 to the third quarter of 1954).

Consequently, the truly remarkable fact is that the 1953–54 recession was one of the mildest on record. In face of a $24 billion decline in national security expenditures and inventory buying, gross national product dropped only $14.4 billion from top to bottom. That's a real tribute to the resiliency of the private economy.

A second significant point about recent economic trends is this: the curve of business activity turned up smartly in the fourth quarter of last year. Total activity recovered in 3 months over one-third the ground lost in the preceding 15 months.

The upturn was not only vigorous but also broadly based. If you run through the catalog of economic statistics, you'll see that the vast majority of series was moving up in strong fashion in the final months of 1954. In past recovery periods, upturns in various areas of the economy were spread over a considerable period. This time almost everything—production, employment, man-hours, new orders, consumer expenditures, corporate earnings—moved up at once.

A third significant fact—of which I am sure much will be more this morning—is that the current level of economic activity is below the economy's potential. Gross national product is $10 billion to $15 billion below the joint committee staff's estimate of potential output. But, as I just attempted to demonstrate, business activity is moving up.

Now, it seems to me that there are a number of other important trends discernible in recent experience. To save time I'll merely list them:

(1) Consumer markets have been showing increasing strength. The ratio of consumer spending to posttax income moved up from 91.4 to 92.8 percent during 1954. That's a seemingly small, but very significant, change. The University of Michigan's surveys of consumer buying plans also point upward—people's evaluation of buying conditions have increased from an index of 100 in September to October 1953 to 118 in October 1954.

(2) While private debt has risen rapidly in the postwar period, ratios of debt to income still seem reasonable. Thus, we seem to be in a position to handle a moderate rise in all types of debt.

(3) Stock market price averages rose more than 40 percent last year. As measured by past relationships to earnings and bond interest rates, common stock prices were very low when the rise began. At the end of 1954 they stood somewhat above their long-term relationship to these basic factors. However, common stock prices are not nearly so far out of line with earnings, dividends, interest rates and book values as they got in past periods that preceded a major break in the market.

(4) The recent surge in business activity was partly due to a very high level of auto production and construction of new homes. In both areas, current activity seems to be higher than basic demand factors would justify. In autos, the current high level of output is largely a seasonal phenomenon—it's the normal rush to get ready for heavy spring sales. And our statistics may be overstating the extent of the housing upsurge. Nevertheless, it's important to watch the housing market as the months go by.

To sum up: The record shows that the economy has successfully negotiated the difficult shift from a defense boom to a more normal prosperity. In the process, the decline in production and employment was remarkably moderate. And, in large part because of appropriately timed tax cuts, buying power in the hands of consumers and businesses was maintained at a high level. What is more, economic activity is on the upgrade now. When all the statistics are finally compiled, they should show a sharp upturn in production and employment in the fourth quarter of 1954. Thus, the economic atmosphere is clearing up rapidly.

Question 2. On the basis of economic developments since 1952, how would you classify calendar year 1954 in respect to the four phases of the business cycle identified in the earlier volumes of the National Bureau of Economic Research—as expansion, recession, contraction, and revival?

It seems to me that my earlier statement answers this question. Economic activity declined in the first quarter of calendar 1954, leveled out in the next two quarters, and turned up in the final quarter. I'm not sure that the National Bureau categories are fully adequate to describe a readjustment in which a massive decline in defense spending was the initiating factor. However, it seems to me that the evidence shows that we have been in the revival stage of the cycle since the fourth quarter of last year.

Question 3. What purpose, in terms of carrying out the objectives of the Employment Act, is served by defining the needed levels of employment, production, and purchasing power, and for how far ahead should they be defined?

In my opinion, projections of past trends in employment, productivity, production and consumer and business purchasing power are invaluable for analytical purposes. You need to know what the economy's potential is in order to understand where you stand at any given time.

Having said this, let me now stress the importance of interpreting all such projections most carefully. As one of my colleagues says: "These figures are fine so long as you don't believe them fully."

In interpreting such projections three things should be kept in mind:

(1) In the current state of the art of economic forecasting, there is a margin of error involved in all projections. I personally think the margin has been narrowing steadily—the more competent practitioners have come amazingly close to the bull's-eye in the postwar period. Nevertheless, most economists would agree that there should be a margin of tolerance of at least 5 to 10 billion dollars in all estimates of what gross national product will be a year in the future.

Moreover, all economic projections are based on a set of assumptions which are not always explicitly laid out. Some of the key assumptions are in some instances: No change in the international scene; no wave of speculative psychology; no prolonged and widespread labor-management disputes; no large shifts in Government monetary or fiscal policy. Economists generally say that changes in any of these assumptions require a reappraisal of the business outlook. However, those who are responsible for framing policy in a world as uncertain as that we now live in should keep a wary eye on the things that economists assume to be equal.

(2) A second point is that all projections of our economic growth potential are based on long-run trends. Yet in looking at the next year or two, short-run factors may be most important. As the saying goes: "In the long run we are all dead."

All this applies with greatest force to the assumption in these projections that productivity will rise at the rate indicated by its long-run trend. Now the record shows that productivity increases have been anything but regular. In some years there was little advance; in others productivity leaped ahead at more than twice the long-term average.

To make the point in specific terms, the growth in gross national product resulting from the long-term rate of advance in productivity amounts to about 9 to 9½ billion dollars each year at the present time. Suppose the Government were to adopt fiscal and monetary policies on the assumption that this amount of growth would be forthcoming and suppose no rise in productivity occurred. If there had already been reasonably full employment the result would be a large dose of inflation.

The point is that, in the present state of our knowledge about short- and long-term trends in productivity, we should treat projections with great caution.

(3) A third point about projections of our economic potential relates to the period that should be considered in formulating economic policies. We are below our potential now, but business activity is moving up. If the projections for the year ahead show that activity will continue to increase, should we take steps now to accelerate the advance? This is another way of asking how close we can expect to come in any given year to the ideal of continuous high-level production.

To sum up: I believe projections of the economy's potentials are an important and necessary tool. However, I believe they must be interpreted with great care, for reasons which I have attempted to explain. If they show a large gap between expected production and the potential—either on the side of inflation or deflation—then I believe economists should point this out and indicate what steps might be taken to close the gap.

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We have powerful weapons against both inflation and deflation. We can reduce taxes and make credit available if deflation threatens; and we can check an inflationary move by running a surplus in the Government budget and restraining credit. However, the area that lies between inflation and deflation may be much broader than most analysts suspect. When we are in that area, as I believe we are today, Government policies should be directed at encouraging the private economy's long-run growth potentials.

However, we need to be alert to economic developments. If, as the year progresses, it should become clear that the current rise in business activity will be short-lived, we should be ready to cope with the situation. If the area between inflation and deflation is fairly broad—say on the order of 15 to 20 billion dollars—there is elbowroom in which to operate. Thus, in the unlikely event that the private economy should need bolstering, we can apply the appropriate monetary and fiscal measures.

In this connection, I am intrigued by the suggestion of a number of economists that tax cuts designed to stimulate the economy should be made for temporary periods, for instance for a year. Thus, Congress would have the opportunity after some such period as a year to review the economic situation—if the economic winds had shifted to the inflationary side, the tax cut could be permitted to expire.

Question 4. What are the implications of recent trends and present indications for employment, unemployment, hours of work, productivity, total production, private investment, levels of consumption, Government demand for goods and services, and savings for the coming year?

As I interpret this carefully worded question it asks the panel members for their view of the business outlook in the coming year. I can sum up my answer this way: I believe 1955 will be a year of high-level activity and also a year of lively competition. I expect that gross national product will rise about 4 percent this year—and that's a good increase, even measured against the economy's performance in recent years. However, the economy has the capacity to turn out an even greater volume of goods—so competition for markets should be almost as intense this year as last.

For the benefit of those who like to see an economic projection laid out in neat numerical fashion, here is how the major components of gross national product seem to line up on the basis of a set of assumptions I shall set forth. (The figures I am about to give will be expressed in seasonally adjusted annual rates.)

With the information now at hand, it seems to me that you can project both Government expenditures, and private expenditures on fixed investment, with a reasonably high degree of assurance.

Government expenditures on goods and services should go up from $74.3 billion in the fourth quarter of 1954 to $77.1 billion at the end of this year. State and local governments will account for the $2.8 billion rise.

Next, private fixed investment should increase about $800 million. I would interpret the McGraw-Hill survey, plus trends in things like new orders, as pointing to no change in the level of business investment in new equipment. Construction is one of our strongest areas today. Though I suspect that homebuilding is running at a rate that exceeds basic demand, I still look for an increase of $500 million in total construction by the end of the year. And net foreign investment should show a $300 million plus. All in all, fixed investment should rise from $50.7 billion in the fourth quarter of 1954 to $51.5 billion by the final quarter of 1955. Thus, both the Government and private fixed investment areas promise to expand moderately this year.

Economists used to debate at length over trends in Government spending and private fixed investment. While the debate involved a lot of esoteric words, the two main issues were: First, what were business and Government plans for the period ahead; and, second, how would these plans be altered if business activity went up or down.

With the new tools available—a realistic Federal budget plus surveys of business investment plans—we can project these areas of the economy with a high degree of assurance. For instance, the Commerce Department's surveys of business plans to invest in new plants and equipment have come within 5 percent of actual results in the postwar period.

Moreover, there is good reason to expect that plans will remain resonably firm this year if business activity increases. The Federal budget assumes a 4 percent rise in disposable income. According to McGraw-Hill and Dun & Bradstreet surveys, businessmen are planning on an increase in sales.

In looking ahead of business trends, the difficult areas to protect—and at the same time, the most important ones—are inventories and consumer expenditures. And the key item is consumption, for there seems to be no reason to expect any important change in the ratio of inventories to sales. In other words, inventories will trail along with any change in sales.

Here is where we badly need better data, better statistics. We need more survey work—like the Michigan surveys of consumer buying intentions, some of which are financed by the Federal Reserve. And we need much more information on inventories.

Our lack of precise knowledge about these key areas can be dramatized by reference to Mark Twain. After listening to a series of estimates of the length of the Mississippi River, he marveled at the fascination of a science where one gets such wholesale returns of conjecture out of such a trifling investment of fact.

In that vein, here are my conjectures about consumer expenditures and inventories for 1955. Such meager evidence as we have—through surveys, recent trends, and analysis of past trends—seems to point to an increase in consumer spending. As a rough guess, the ratio of consumer spending to disposable income might rise from 92.8 percent in the fourth quarter of last year to around 94 percent late this year.

With income rising—in part because of the increase in consumer expenditures—that would mean a rise in consumer buying of about $8 billion. To keep inventories in line with this increase in sales, business would have to increase them by $2.5 billion. Clearly, trends in the consumer area will be of crucial importance in determining the level of general business in 1955.

Thus, under all the assumptions I have set forth, the numbers line up this way:

	Fourth quarter 1955	Fourth quarter 1954
		Billion
Government	$77.1 billion, up $2.8 billion from	$74.3
Fixed investment	$51.5 billion, up $0.8 billion from	50.7
Consumption	$245.5 billion, up $8.0 billion from	237.5
Inventories	Up $2.5 billion from	−1.5
Total	$376.6 billion, up $15.6 billion from	361.0

As I pointed out earlier, projections in such specific terms tend to exaggerate the precision that surrounds business forecasts. There seems to be no way to determine just what the margin of error may be. But, granted no changes in the international and domestic scene that cannot now be discerned, it seems to me that this can be said:

The odds are very high that gross national product in the fourth quarter of 1955 will stand somewhere between $370 and $380 billion.

Statement of Calvin B. Hoover

January 21, 1955.

Senator Paul H. Douglas,
Chairman, Joint Committee on the Economic Report.

My dear Senator Douglas: Herewith are my answers to your four questions as set forth in the sheet accompanying your letter of January 19:

Answer to question 1: The facts having to do with the subjects mentioned are in general as the are set forth in the President's report or in the reports of other governmental agencies available to the committee. I have no wish to dispute any of the data presented nor do I feel that I have other data to add to those available to the committee.

It is in the interpretation of the facts, the recommendations for action or for refraining from action and the timing of action, if any, that the factor of personal judgment enters.

For example when statistics show that personal saving continued high although diminishing slightly in 1954, what conclusions are we to draw from this? Should we conclude that if less had been saved less would have been available for investment in industry and more would have been consumed while total national income would have remained unchanged? Or should we draw the conclusion from the data that the maintenance of savings in proportion to consumer expenditures at as high a rate as that of 1954 was in itself a factor in limiting national income? This is only one exampleof what I mean by differences in interpretation of the facts.

Answer to question 2: We were apparently in a period of contraction during the first half of 1954. The national economy apparently definitely entered a period of recovery during the last quarter of 1954. The crucial and obvious question is whether this rate of recovery is great enough to carry us to the attainable trend line of annual increase in national product and whether we can in the future maintain this rate of production increase upon the basis of present economic policies.

Answer to question 3: The purpose of defining needed levels of employment, production and purchasing power is to provide benchmarks by which we can judge whether monetary, fiscal or other policies should be more or less stimulative, restrictive or merely stabilizing in their effects on the economy and thus to judge whether or not the objectives set forth in the Employment Act are being effectively pursued.

It is quite clear, I think, that we have the physical capability of increasing our gross national product by some 4 or 5 percent per year. This would mean, as outlined in the report of this committee's staff, that our gross national product 10 years from now would be some $530 billion, assuming substantially unchanged prices.

I think that it is useful to make successive 10-year projections of this sort in order to enable us to judge whether or not the general trend is in line with our potentialities. However, these projections would need to be supplemented by continuing annual studies in which new estimates of attainable levels of employment, production and purchasing power for periods immediately ahead would be made.

Particularly at a time when we are likely to need all our resources in our struggle with the Soviet tyranny either for the provision of means of armed defense or to keep our standard of living as much in advance of that of Soviet Russia as it now is, we cannot afford to let our national income lag substantially behind that which we are capable of achieving. Projections of the sort made by the staff of this committee are most useful in enabling us to do just that.

Answer to question 4: Recent trends do indeed show that the contraction which began in the second half of 1953 has been halted and that some recovery has taken place. We are, indeed, just approaching the levels of national-income productivity reached in 1953. The peak level of 1953 would not, however, be an acceptable goal for 1955. As I have pointed out, our failure to attain and maintain a trend rate of increase per annum of some 4 or 5 percent would be serious from the standpoint of our national security.

Unfortunately the statistical data which we have does not enable me to answer the really crucial questions in this connection with certainty and precision. These questions are: First, will consumer purchasing power, plus governmental demand for goods and services plus private and corporate investment be large enough to keep the productive forces of our national economy operating at their practicable capacity? Second, if the prospect is that "offsets to saving" will not be great enough to absorb all the saving which people would like to do if they were fully employed, what additional measures beyond those proposed in the President's report might be taken? Third, what should be the magnitude and timing of these measures?

The legislative measures proposed by the President appear well balanced in their design to encourage the expansion of business activity and of consumer purchasing power while attempting to balance the budget and to maintain a stable price level. It may well be that nothing more will be required to attain the desired rate of increase in our national income. If so, we can be devoutly thankful.

We must recognize, however, that we may have to make the hard choice between a further stimulus to business through decreased taxation or increased expenditures for national defense or other necessary expenditures and attaining a balanced budget. It is not easy to make such a choice. What makes the matter even tougher is that we cannot be certain as of this moment which our choice should be. There are no simple or precise statistical indicators to give us the answer. We can only look at the rates of increase in our working population, the rates of increase in productivity per man-hour, the expected increases in consumption and in saving and investment and then make our own estimate. Most of the really critical data upon which we must make our estimates, however, reflect the effects not of independent but of dependent variables. (For example, the volume of savings is dependent to a large extent upon opportunities for investment.)

If I had to make an estimate, mine would be that a greater stimulus to consumption and investment than is now apparent will probably be required if we are to attain and maintain the desired levels of increase in gross national product. But I would be less than honest if I did not point out that if my estimate turns out to have been wrong, Government policy based upon it would result in a further unbalancing of the budget accompanied by inflationary pressures. The evil most recently suffered seems to us always to be the worst. It is a major accomplishment to have attained the price stability which we now have. I fully realize that this stability should not be lightly jeopardized. Yet on balance I think a further stimulus to our economy is likely to be needed.

It should be noted that the successful implementation of the President's recommended policies and measures in the fields of agriculture and international trade are likely to depend upon the maintenance of adequate purchasing power in our domestic market. Trade not aid can be substituted for governmental grants-in-aid to foreign countries only if domestic purchasing power is available to take off the market the additional imports which are received in payment for our formerly unrequited, i. e., unpaid for, exports.

Similarly, we must depend upon the maintenance of substantially full employment in industry if we are to be able to avoid high and rigid price supports and comprehensive and complicated controls in agriculture and if we are to avoid the accumulation of burdensome agricultural surpluses.

Respectfully yours,

CALVIN B. HOOVER.

APPRAISAL OF THE ECONOMIC PHILOSOPHY AND FACTS UNDERLYING THE PRESIDENT'S ECONOMIC REPORT, 1955

ANSWERS TO PREPARED QUESTIONS AND GENERAL BACKGROUND MATERIAL PRESENTED TO THE COMMITTEE BY DR. HEINZ E. LUEDICKE, EDITOR, THE JOURNAL OF COMMERCE, NEW YORK

QUESTIONS TO ANSWERS PREPARED BY SENATOR PAUL H. DOUGLAS, CHAIRMAN, JOINT COMMITTEE ON THE ECONOMIC REPORT

Question 1. What are the facts respecting population growth, labor force, employment, unemployment, layoffs, part-time employment, productivity, production, private investment, consumption, Government demand for goods and services, and savings since 1952?

Answer. The statistical record for the period from 1952 to the start of 1955 shows a pattern from boom to superboom; the culmination of this trend by mid-1953; followed by a period of readjustment lasting until mid-1954; then a slow recovery start and a rather pronounced speedup in the recovery since late October 1954.

Significant features in this pattern were the turn from virtual full employment in the first half of 1953 (which was an overtime economy) to a level of unemployment of about 4 millions by early 1954. This was smaller than the unemployment peak in late 1949 and early 1950, but thus far unemployment has shown a marked degree of stickiness. It has not reacted promptly to the upturn in production. This is probably in part a byproduct of rising productivity.

The period also brought the culmination of the post-Korean plant expansion boom. For the past 2 years, plant and equipment expenditures have been gradually declining. The decline does not seem to be over as yet.

By mid-1953 it was evident once again that the then prevailing rate of industrial output was supportable only by substantial production for inventory. This was the second time since the end of World War II that inventories had become topheavy in the opinion of businessmen.

A $10 billion swing (annual rate) occurred from inventory accumulation to inventory liquidation, but at no time did the rate of inventory liquidation become panicky. Chief reasons for this were the continuing stability in the commodity-price level and the easy money market that did not make it necessary for banks to call inventory loans. By the same token, however, the inventory situation has not improved sufficiently to be regarded as an element of strength in the 1955 outlook. The current rush for some steel items and the appearance of a few scattered commodity-price increases probably are temporary repercussions of the speededup automobile boom.

The picture at the start of 1955 is characterized by the prevalance of buyers' markets in virtually all sectors of the economy: there is moderate pressure on commodity prices; likewise no inclination to add to inventories or to lengthen commitment ranges; finally, greater accent on productivity gains because of competitive pressures which discourage the translation of higher wages into higher prices.

Continued strong spots are construction and consumer spending both to a large extent dependent on continuation of the current high level of cosumers' confidence in the economic outlook.

Question 2. On the basis of economic developments since 1952, how would you classify calendar year 1954 in respect to the four phases of the business cycle identified in the earlier volumes of the National Bureau of Economic Research—as expansion, recession, contraction, and revival?

Answer. Any categorical classification of 1954 might be misleading. Looking at the 1953–54 pattern, certain similarities with 1948–49 are unmistakable. Both these periods started off with pressure to lighten inventories; neither did get much beyond the stage of a mild inventory recession, but in both instances the termination of the inventory liquidation was sparked by the injection of artificial (inflationary) stimulants. It is frequently overlooked that the Eisenhower administration in 1954 followed a quite aggressive policy of nudging business along, considering the cumulative impact of tax cuts, liberalized real-estate mortgage provisions, pronounced credit ease and a number of secondary steps.

Even so, the situation likely to prevail by mid-1955 should resemble the situation just prior to the outbreak of the Korean war. There are reasons to believe that the 1955 recovery start, just like early 1950, will prove abortive, and that, currently just like then, Government intervention merely served to postpone the showdown about the solidity of the overstimulated combined hot- and cold-war boom plus the unparalleled postwar consumer-goods replacement boom after the end of World War II.

The postwar record of both the Democratic and the Republican governments indicates considerable success in postponing, if not preventing, any postwar recession of serious proportion. This has been done primarily by freezing into the economy numerous inequities and maladjustments developed during the active phase of the two war booms.

The two "bumps" in 1948–49 and 1953–54 were exactly that. They helped to alleviate a few troublesome spot situations, but it would appear premature to be lulled into a false sense of security by them.

The question of whether we'll get by without a typical postwar recession that might really test the Employment Act defenses still remains unanswered.

It is important to know, therefore, that the human impact of any such period of adjustment, if and when it comes, will be cushioned by the "security floor" that has been created since the mid-1930's for the individual and the American family.

Question 3. What purpose, in terms of carrying out the objectives of the Employment Act, is served by defining the needed levels of employment, production, and purchasing power, and for how far ahead should they be defined?

Answer. No economic planning can function without a certain degree of economic forecasting.

However, the pinpointing of annual employment and production or GNP goals uder the Employment Act seems an extremely hazardous and objectionable procedure.

Even the development of long-range normal-growth projections is subject to criticism because it necessitates the use of more or less arbitrary "averages" for such key factors as the annual increment of the labor force or annual productivity gains. These averages are based either on past performance or on personal "hunches." Neither method is satisfactory. It is therefore not surprising that existing long-range GNP projections show considerable variations.

The margin of error is compounded if an attempt is made to translate such long-range projections into near-term goals for 1 or 2 years ahead. In that case, they are not only useless, but psychologically and politically dangerous.

The forecasting neded for a reasonable interpretation of the Employment Act goals for any short period, can best be accomplished by an intelligent and openminded study of available business indicators and their behavior against the background of the whole economy. Unemployment and related figures must, of course, be given a high priority in such evaluation of current trends and nearby prospects.

Uninformed use of GUP projections is apt to cause more harm than good. These projections should be taken with a grain of salt. But long-range projections for 10, 15 years, or even longer ahead are not nearly as objectionable as their use in short-term forecasting.

The use of long-range GNP projections as guideposts for industrial expansion will be limited until this statistical yardstick is further refined. Meanwhile, investment spending will remain dependent on sales and profits prospects.

It would be highly dangerous if the feeling were to spread that industry might as well go ahead taking chances, because the Government won't have any choice but to bail it out in case of trouble. The spread of such an attitude would jeopardize the preservation of a free and competitive-enterprise system because such a system can function dynamically only as long as a system of rewards and penalties exists.

Question 4. What are the implications of recent trends and present indications for employment, unemployment, hours of work, productivity, total production, private investment, levels of consumption, Government demand for goods and services, and savings for the coming year?

Answer. The key question for 1955 is whether or not the current upturn in industrial production will carry through. This appears rather dubious in view of the fact that the automobile industry at the start of the year was running at an annual rate of production of somewhere between 8 million and 9 million cars and trucks. Part of this production is for "protective" purposes and it seems likely that production will level off as soon as the industry's labor problems are solved. Steel, rubber, glass, and a host of other industries will take their cue from automobiles. In addition, the textile cycle—now on the upswing—may have passed its peak by early fall.

Hence, industrial production is likely to level off and probably sag moderately by mid-1955.

Much will depend on construction. Should construction, and particularly home building, waver in the latter part of the year—and such a possibility cannot be ignored, what with mortgage credit now being overstimulated and perhaps requiring corrective action before long—business activity could well resume the 1954 decline, unless the administration acts promptly to hold any new decline to mild proportions.

Regardless of the element of further Government stimulation, indications are that the recovery pattern this time may prove to resemble a W rather than a V. The second bottom of the W may occur in mid-1955. This would be before the initial repercussions of the new highway program can make themselves felt.

The combination of a possible production lag by midyear and continued efforts to push productivity higher probably will result in an average level of unemployment for the year slightly higher than 1954.

Without additional stimulation, both defense spending and business spending will tend to drag lower in 1955. As far as defense spending is concerned, increased State and municipal spending will offset further defense cuts and may even result in a small net increase in total Government spending.

Business spending will tend lower because plant and equipment expenditures probably will slide off further and inventory policies will remain ultraconservative. Chances are that total business inventories by the end of 1955 will be lower rather than higher than at the start of the year.

Consumer spending this year is not likely to receive another lift from additional tax cuts. It is closely tied to the factor of "confidence." Unless there is a serious shock to public confidence—and a sharp break in the stock market or Government action to tighten up on real-estate credit could cause such a shock—it is reasonable to expect consumer spending to continue at a high level.

Perhaps the most critical single feature to watch for in 1955, is the possible appearance of some saturation in consumer demand for durable consumer goods, including homes.

Temporary as such saturation would be, and despite the fact that there still are large population groups with substandard living conditions, it could put a serious damper on near-term business prospects.

And it certainly would play havoc with the theories of those economists who believe that all we have to do to insure prosperity is to put more money into the hands of the consumer.

PRESENTATION OF BACKGROUND MATERIAL

I. The Aim of the Employment Act
II. Maximum Growth versus Stable Price Level
III. The Function of "Maximum Employment and Production" Goals
IV. The Future of the Business Cycle

I. The Aim of the Employment Act of 1946

The established aim of the Employment Act of 1946 is "to promote maximum employment, production, and purchasing power?

This goal—partly because of its legislative history—is often confused with "full employment." Congress rightly shied away from the phrase "full employment" because of its economic and political implications. The phrase still survives as a political argument, but not as the basis of responsible economic debate.

A goal of "full employment" actually could be accomplished relatively easily if it were interpreted to mean merely to provide a "job" for everybody able to work.

Various dictatorships have successfully accomplished this. In that process, they have even dropped two of the personal qualifications of the Employment Act. As it is, the Employment Act speaks only of persons "able, willing, and seeking to work." These latter two qualifications spell the difference between a free economy and a dictatorship.

IMPORTANT CONSTRAINTS

Actually, the Employment Act mandate "to promote maximum employment, production, and purchasing power" is couched in language which places considerable constraints on the choice of methods to be used by any administration in applying the act. These are threefold:

(1) The act charges the Federal Government to provide "useful" employment opportunities, including self-employment, for those able, willing, and seeking to work;

(2) The Federal Government is to use only such means as are "practical" and "consistent with its needs and obligations and other essential considerations of national policy"; and

(3) Its actions under the Employment Act are to be used "in a manner calculated to foster and promote free competitive enterprise and the general welfare."

These restrictions, imposed by the Employment Act, rule out:

(1) Heavy reliance on makeshift work of the leaf-raking variety;

(2) Any large-scale exercise of additional economic functions by the Federal Government—such as the replacement of private enterprise in the field of capital investment unless private enterprise cannot fulfill certain functions; and

(3) Any policies that would ultimately result in a further debasement of the currency.

The third qualification—falling under the "general welfare" term—is the most important one. Yet it is the one which, wittingly or unwittingly, all too often is shrugged off or ignored.

II. Maximum Growth Versus Stable Price Level

Is a policy of insisting at all times on maximum employment, production, and purchasing power compatible with the maintenance of a stable currency?

Liberal economists, such as Mr. Leon Keyserling, have consistently denied that the discharge of the Federal Government's obligations under the Employment Act necessarily involves the danger of inflation.

Others, such as Prof. Sumner H. Slichter, have admitted the existing conflict between these two objectives, but have boldly resolved it by claiming that "in the kind of economy possessed by the United States a slowly rising price level is actually preferable to a stable price level." [1]

RECORD STILL INCONCLUSIVE

The record for the period from the enactment of the Employment Act of 1946 through 1954 still is inconclusive as far as the problem of maintaining maximum employment, production and purchasing power without a gradual rise in the price level is concerned.

[1] Reprint of a discussion on How Bad Is Inflation? between Prof. Sumner H. Slichter and the editor of the Journal of Commerce, September 1952.

Starting from the fantastic degree of overstimulation during World War II that permeated the whole economy—not by choice but by necessity[2]—our economy has been under the influence of strong upward forces. Following the war, there was first the unequaled consumer goods replacement boom and, starting in mid-1950, the Korean war and now the need of maintaining a high level of defense expenditures so long as the cold war persists.

Twice during this period of overstimulation, the economy broke stride and faltered—once in 1948–49 under Democratic leadership and then again in 1953–54 under Republican leadership.

In both instances, artificial stimulants were applied. These were far more potent than generally realized, particularly in 1953–54, and they were sufficient, in both instances, to cushion the decline before it attained serious proportions and speed.

The remedial measures taken in both instances must be classified as inflationary. The fact that none of the two episodes was followed by any pronounced rise in the price level does not disprove this. It merely confirms that, in both instances, buyers' markets conditions blocked any immediate increase in the price level. Moreover, there will always remain some doubts with respect to the solidity of the recovery in 1950. The possibility cannot be ruled out that, without the start of the Korean war, business activity once again would have declined during the latter part of the year.

Similarly, the solidity of the 1955 recovery still remains open to some doubt. It will be tested during the latter part of the year.

Summed up, it still is by no means proven that a reasonable maximum employment level can be maintained by props that are not strong enough to lead to an increase in the price level.

Consequently, the controversy over which is the lesser of two evils—some "hard core" unemployment or a continually rising price trend—still is far from resolved.

THE ARGUMENT FOR INFLATION

Professor Slichter believes that—once the element of war and defense overstimulation is removed from the economy—the only feasible way of maintaining maximum employment, and production and purchasing power, is by a policy deliberately designed to result in an annual average increase in the price level of 2 to 3 percent.

While Professor Slichter admits the "obvious injustice of even a slow long-term rise in prices, he claims that the maintenance of a stable price trend—

(1) would require that the country considerably relax its efforts to keep business recessions as mild as possible;

(2) would require the acceptance of chronic unemployment or drastic intervention by the Government in the relations between employers and employees; and

(3) would severely handicap the United States in its efforts to contain communism by building up the economies of the free world.[3]

Professor Slichter argues that since some form of "injustice is inescapable * * * policies that produce a slowly rising price level spread the injustice thinly over a large part of the population. The policies necessary to keep prices stable create unemployment and thus concentrate injustice upon a few."

There are two major objections against such a policy:

(1) It is extremely doubtful that a deliberate long-range inflationary policy can be sufficiently "controlled" at all times. If it is to take the place of hot or cold war stimulation, it is likely to gather speed and culminate in a flight from the currency into goods—which still is the classical demonstration of inflation. While rapidly rising productivity provides a natural defense against inflation, it would involve a considerable risk to base long-range national policy on such a Maginot line.

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[2] CIO–UAW President Walter P. Reuther describes this labor overstimulation as follows: "When the war came along * * * factories began to boom; we put every able-bodied man and woman to work. After we had all the able-bodied people on the job we got the grandfathers and grandmothers out of retirement and we put them to work, and every major company had a very simple employment policy—the employment director was instructed, when somebody applied for a job, not to ask any questions, but just to feel them, and if they were warm, put them on the payroll." Speech before the Economic Club of New York, January 17, 1955.

[3] See the reprint mentioned above. To the best of our knowledge, Professor Slichter has not subsequently denounced or materially amended these views.

(2) The idea that slow inflation would "spread injustices thinly over a large part of the population" is unacceptable as basis of national economic and social policy. A far better solution, in the case of temporary economic balances, is to rely on what is now commonly described as the "security floor" for the individual citizen or the American family.

It may be questioned whether or not the present "security floor"—primarily consisting of unemployment insurance, old-age and disability insurance—is adequate. At any rate, it would appear to be sounder economic policy to strengthen the "security floor" than to impose a general tax in the form of inflation, because inflation is the most cruel and vicious form of taxation ever devised by man. It is obvious that inflation would hit those depending on fixed incomes particularly hard. But the typical American "small capitalist" type of wage earner also would not escape the ravishes of such a policy.

AN ULTIMATE COLLAPSE?

It is rather significant that there is a growing concern over the stability of the currency. This concern shows up in the form of a more and more often repeated question. This question is being asked not only by businessmen—perhaps not even primarily by businessmen—but by the "public," including wage earners, and it runs bluntly like this: "Is there any chance of escaping an ultimate currency breakdown if we keep on stimulating the economy?"

The answer to this question still is that no such currency collapse is likely in this country.

However, the reason for this belief is not the simple assertion that "it cannot happen here," but something far more significant.

While in each economy there are groups who obviously would profit by inflation—who actually have a vested interest in continued inflation—the overriding consideration in this country is that we—and particularly our labor force—is rapidly becoming a nation of homeowners, savers, holders of life insurances, and beneficiaries of private and social-security pensions.

Since these people with a newly found vested interest in a stable currency also have political votes, it is almost a foregone conclusion that any administration whose policies were to be recognized as a threat against the interests of these small capitalists, would promptly be turned out of power.

This is the most potent factor against a policy of continued overstimulation, even though it is designed to prevent any economic "adjustments."

A number of liberal economists and union spokesmen have repeatedly declared that we cannot hope to, and should not try to, equal the hot- and cold-war overstimulation of the past 15 years. Nevertheless, there are some who still are aiming that high.[4]

Such an aim would necessitate a massive program of inflationary stimulants. If superimposed on a reasonably sound economy—and we would so classify the economy today—there is no reason to doubt that it would be a reasonably simple matter to strain the boom to the proportions of a superboom once again.

But any policy aimed at superboom conditions would run contrary to the general aim of the Employment Act. Economists of both a Democratic and a Republican administration—while serving on the President's Council of Economic Advisers—have repeatedly gone on record as being opposed to inflationary overstimulation.

Any policy of economic intervention that does not respect the "integrity of the currency" is bound to prove harmful in the long run.

Hence the specific problem in economic planning today is to find the dividing line between sound economic growth and artifical overstimulation.

And more specifically the question arises: Is there any way of determining this dividing line other than by trial and error which means by maintaining an economy from which all self-regulating features (or safety valves) have not been removed by well-meant, but unsound experimentation?

III. THE FUNCTION OF "MAXIMUM EMPLOYMENT" GOALS

The desire to popularize the Employment Act and to draw it into politics has led to a number of practices which are scientifically questionable.

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[4] Steelworkers and the National Economy, a special report by David J. McDonald, president, United Steelworkers of America, p. 12: "When, however, a substantial demand for goods and services disappears—as is now the case in the Government and private investment sectors of the economy—it should be perfectly clear that the slack must be taken up by an increased demand elsewhere."

Specifically, they have led to a second-best-is-not-good-enough attitude which claims that to fulfill the purposes of the Employment Act, the economy must expand every single year.

The statisticians among the followers of this economic cult believe that it is not only possible, but necessary to calculate and to maintain a normal-growth line and to measure growth against such a line from year to year in order to determine whether or not the economy is gaining or losing ground against the norm of maximum employment, production and purchasing power.

This type of "model building" has become very popular among union leaders and liberal economists.[5]

THE ROLE OF LONG-RANGE PROJECTIONS

All economic planning involves a certain degree of economic forecasting.

Regardless of how an administration defines the maximum employment production and purchasing power level of the Employment Act, the formulation of its policies for the attainment of that level necessitate a number of economic trend evaluations and projections.

Obviously, no administration can base its policies on arbitrary forecasts because economics are not an exact science which permits any "hedgeproof" forecasting.

Actually, the difficulties are even more basic than that because even the projection of long-range normal growth lines defies any scientific approach.

Long-range growth projections admittedly serve a useful double purpose:

(1) Psychologically: They are an effective reminder that there is no call for dusting off the theory of "economic maturity" that dominated economic thinking in the early thirties with devastating results; and

(2) Economically: They offer certain guideposts for the formulation of industrial and communal expansion programs and regional plant location decisions which, following further refinements may prove quite valuable.

Meanwhile, there is an acute danger of statistical misuse of these projections because they have not yet been sufficiently perfected .

This danger is particularly acute if an attempt is made to formulate near-term expansion goals by using a long-term trend line. The fact of the matter is that at least two of the most important specific factors in the construction of any normal-growth line are highly variable. They are:

(1) The annual increment to the labor force; and

(2) The annual gain in productivity.

It is easy enough to go back and calculate average growth figures for the past 20 years or even longer periods. In such calculations, year-to-year increases in the labor force and productivity can be averaged out and not lose their meaning.

However, such percentages, based on previous experiences, are hardly valid when it comes to a projection of the future.

Calculations for future growth must rely on estimated increases in such items as population, size of labor force, workweek, productivity gains, disposable income, and consumer expenditures.

The difficulties in making such estimates are clearly demonstrated by comparing some of the recent calculations of long-range economic growth.[6]

By far the most critical point of difference among these projections are the sharp differences in calculating future productivity gains (in percent of cumulative annual increase).

Some of these productivity estimates are as follows:

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[5] The term "liberal" economists is used in a rather loose sense throughout. It is used to indicate the opposite of conservative but is not supposed to have any political connotations. It has become general usage to describe these economists as "Fair Dealers."

[6] Julius Hirsch has just completed a comparison of seven long-range growth projections. It is available in manuscript form under the title: "Our Economic Future. A Comparison of Seven Long-Term Projections." New York, 52 Wall Street, January 7, 1955.

	Percent
In forecasts for 1960:	
Low projection, Weyerhaeuser[1]	+1.5
Medium projection, Colm[2 3]	+2.5
High projection, Leon Keyserling	+3.5–4
In forecasts for 1975:	
Low projection, Weyerhaeuser	+1.5
Medium projection, Paley Report	+2.5
High projection, Julius Hirsch	+2½–3

It is obvious that such differences in the calculation of future productivity gains will have an important bearing on the future projects of gross national product.

The comparison made by Julius Hirsch shows the following estimates for the gross national product for various target dates:

Gross national product estimates

[In billions of dollars]

	1951	1952	1960	1965	1970	1975
Julius Hirsch		345	440	530		763
Colm	329		425			
Ensley[1]				525–535		
Weyerhaeuser		248	412	465	527	586
Keyserling			500–600			
McGraw Hill			415		562	
Paley report	329					634

[1] Joint Committee on the Economic Report: Potential Economic Growth of the United States During the Next Decade, October 1954.

Under these circumstances, it is obvious that the fixation of annual progress "goals" under the Employment Act is not only useless, but highly questionable.

Whenever pressure is exerted on an administration to pinpoint its economic goal for any specific year, the suspicion is that this is done for political rather than economic reasons.

The determination of the degree of success or failure in attaining the goal of maximum employment, production and purchasing power, defies the use of mathematical or rigid statistical yardsticks. Such determination can be accomplished only by flexible use of available business indicators and their proper interpretation against the background of the whole economic process. Unemployment trends, of course, will have to get a high ranking in the selection of these yardsticks.

To repeat: There is nothing in the Employment Act—nor in the parliamentary proceedings prior to its enactment—that can be interpreted as a mandate to bring about uninterrupted annual growth.

Actually, the American economy has never experienced any period of consequence during which such a pattern prevailed—except under the stress of a dominating war emergency.

Those economists who develeped the "second-best-is-not-good-enough" theory of economic growth cannot cite the Employment Act as authority for their views.

As has been shown, they are not on solid ground, either economically or statistically. All current attempts to demonstrate a "gap"—annual and cumulative—between an arbitrary maximum growth line and the actual performance of GNP are not scientifically supportable, because they are working with invalid yardsticks.

From a long-range point of view: the overriding goal of current economic policy has to be the return from a pattern of overstimulated to supportable growth and not the continuation, and further aggravation of overstimulated growth. From this point of view a roughly sidewise business movement would appear satisfactory. It would give the economy a chance to grow into its current productive plant without harsh transitional pains, but also without further jeopardy to the economic and ideological basis of our free and competitive economy.

[1] A study made by Stanford Research Institute for the Weyerhaeuser Lumber Co., 1954.
[2] The American Economy in 1960, December 1952.
[3] Conference on Economic Progress: Toward Full Employment and Full Production, July 1954.

MISUSE OF GNP

Those economists who are pleading for an immediate closing of the "gap" between what they consider the maximum employment-growth line and the actual performance of GNP, base their policy recommendations on what probably is an objectionable use of gross national-product figures.

Their argument runs something like this: Since GNP roughly corresponds to consumer spending, business spending, and Government spending, a decline in any, or any two, of these categories can be made up by increases in the other one or two, as the case may be. Since we are now confronted with a decline in Government and business spending—their argument continues—it follows that consumer spending must be boosted. That can best be done by increasing the amount of money in the hands of consumers through higher wages and higher social-security benefits.

This type of economic reasoning sounds simple and attractive, but it is faulty. It amounts to a very crude formulation of the so-called purchasing-power theory which ignores the fact that there is an important difference between business and Government spending on the one hand and consumers spending on the other.

This faulty interpretation of the role of consumer spending received its greatest impetus when a group of economists and statisticians started to compute the gross national product (a relatively new concept in economics that took the place of national income) from the expenditures—rather than the income side.

Although the totals, regardless of the method used, theoretically should come out at least very close, that is not the case. After the end of war, the GNP figure, computed from the expenditures side, came into almost uniform use.

This statistical procedure—perfectly logical in its conception and most of its uses—seems to have encouraged the popular belief that all three major types of "spending" are functionally of equal importance.

That led to a dangerous oversimplification, because it obscured the important fact that consumer spending actually is the function of the two other types, Government and business spending which have a high multiplying effect. (The role of savings and dissavings is deliberately eliminated in this discussion.)

There is no such thing as to raise consumer expenditures indefinitely by cutting up the available national income "pie" in such a way that consumers are getting more and management is squeezed further.

Such a policy of raising consumer funds, and presumably consumer expenditures, may be effective in a depression when investment spending is at a standstill and some push is needed to start at least some wheels turning again. It also may do the trick of augmenting consumer spending for a short period of time when a feeling of confidence prevails and some companies, despite competitive pressures, are willing to take a chance on higher wages in the hope that they can avoid strike interruptions and thereby hold their competitive positions.

As a matter of long-range policy, this approach is faulty because a policy aimed at continued redistribution of national income to benefit workers alone will soon undermine the incentives for further growth.

Labor must share in the fruits of greater productivity. That, after all, has been the formula for American industrial success all along. Labor must not, however, be permitted to monopolize these productivity gains.

Personal, as well as managerial "incentives" must be maintained—"restored" is perhaps an even better word—if our economy is to keep on functioning as a free and competitive enterprise system.

IV. The Future of the Business Cycle

When the authors of the Employment Act charged the Federal Government with the task of promoting maximum employment, production and purchasing power, they wisely added that this was to be done within the scope of a "free enterprise system."

This qualification can hardly be ignored as an empty phrase, as it reflects a firm conviction on the part of the authors of the act that no amount of economic experimentation is worthwhile unless our economic system maintains its dynamic character.

Those responsible for the formulation of economic policy under the past two administrations—one a Democratic one and one a Republican one—have repeatedly stated that their aim was not directed toward the elimination of all, even minor, business fluctuations.[7]

Nevertheless, the popular belief that the Federal Government is charged with the responsibility of preventing any interruptions in the economic growth of the country persists.

The fact that—without respect to party lines—the economy suffered two "bumps" in the postwar period, does not seem to discourage those who live in the happy dream that the economic millenium has arrived.

Both these "bumps" were terminated rather quickly and without damaging after-effects, with the help of a number of positive economic measures inaugurated by the Government in office. There is an inclination now to classify both of them as relatively minor "inventory"—recessions.

The ease with which these two recessions were stopped has had two unfortunate results as far as the development of contemporary economic thought is concerned.

The feeling is now widespread that all similar business slowdowns can be quickly halted so that busineses as well as consumers can proceed securely in the belief that "nothing can go wrong." And

(2) This, in turn, is leading to the political clamor for affirmative action by the Government "at the slightest sign of trouble."[8] This obviously reflects the philosophy that as long as the Government can prevent setbacks, it has a moral obligation to do so.

The economic progress since the end of World War II and the ease with which the two recessions of 1948–49 and 1953–54 were overcome have led to a widespread feeling that the economy is basically "sound" and that, now that the 1954 decline has been reversed, progress will be resumed from a "solid base."

Actually, it may well be that the progress made under the stimulus of World War II, the postwar consumer goods replacement boom and the Korean war plus all of its cold-war implications has not yet been sufficiently "digested."

Under the influence of the unparalleled overstimulation of the past 15 years, a number of vulnerabilities have developed under the surface of the economy that have not yet been tested and that may yet break through the surface to create some real postwar readjusment problems.

Chief among these vulnerabilities are:

(1) The rate of plant expansion since the early forties;

(2) The accumulation of inventories;

(3) The sharp expansion in personal indebtedness, particularly in the home mortgage field;

(4) The artificially high support of farm prices without adequate production or marketing curbs; and

(5) The possibility that we are far closer to a temporary saturation of consumer demand for consumer durables than most observers seem to think.

Two of these vulnerabilities have already broken through the surface:

(1) There have already been two waves of inventory liquidation—and even now the widely held optimism that we are at the threshold of another period of inventory accumulation seems rather premature.

(2) Farm prices and farm incomes have been declining since 1948—without showing any partiality to the party in control. Yet even so, agriculture today can hardly be regarded as on a sound base.

Vulnerabilities, by definition, are weak spots that do not necessarily have to break out into the open. There is constantly a threat that they may—but it is not beyond the realm of posibility that, through orderly adjustment processes, these weak spots disappear.

Most of the current literature about the elimination or destruction of the business cycle is predicated on the fact that thus far the Government has succeeded—once again without respect of party lines—to stabilize the economy at a level that seems to have frozen in the overstimulation of the past 15 years rather successfully—and that, therefore, continuation of this millenium can be achieved.

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[7] Conclusive evidence to this effect can be found in the annual and (originally) semi-annual economic reports signed by Mr. Leon Keyserling and the President's reports, since Dr. Arthur F. Burns took over the chairmanship of the Council of Economic Advisers.

[8] Steel Workers and the National Economy, p. 7: "Thus, the monumental Employment Act reposes both the power and responsibility upon the Federal Government to assist the national economy at the first sign of difficulty, even before distress overtakes us."

PAST AND FUTURE CYCLE PATTERNS

This type of reasoning still seems to take too much for granted.

Theoretically, it would be possible to equal the artificial stimulants of the past 15 years though at a price of falling back on unsound budget and wage policies.

One of the most dangerous fallacies behind this reasoning is the expectation that increases in consumer demand brought about by profit squeeze will induce industry to keep up plant and equipment expenditures at a sufficiently high rate.

This is usually described as the trickle-up theory which, in the opinion of union economists and leaders, is far more effective than the trickle-down theory, which seeks to maintain adequate investment incentives as the spark of our free competitive enterprise system.

There is ample historical proof that prosperity depends on an adequate level of investment spending. But there is no statistical record of any period in which the trickle-up theory pulled the economy out of a slump.

Looking over the record of past recessions, it is quite obvious that we have learned successfully how to lock a barn after the horse was stolen.

After each depression legislation was passed to make a recurrence of that particular type of depression next to impossible. In that process we have also learned that no two depressions are alike.

The one thing we have not yet conquered, however, is the ingenuity of man to get himself into trouble.

We may be successful in the future in keeping speculative excesses out of such fields as stock market credit, mortgage credit or consumer credit. We may even halt the deterioration of the farmer's purchasing power and we may succeed in maintaining a reasonably high level of investment spending.

After all the array of props at our disposal for all of these things is impressive. It includes margin regulations, housing regulations, farm price supports, stockpiling of metals, minerals and other materials, all the instruments of credit policy and a shelf full of public works programs, including the new highway program.

And yet what would happen if the next recession—instead of being set into motion by a cut in plant expenditures, or another cut in inventories, or another drastic drop in farm prices, or by credit excesses in one of the 3 or 4 vulnerable major fields—were to be generated by a temporary saturation of consumer demand for all kinds of durable consumer goods, including housing?

There are signs that people are becoming less gadget-minded than they were. That could mean a sign of saturation.

While it is true that a large part of the population still is living at substandard levels, nothing short of a gigantic giveaway program could create effective demand among this group overnight and any attempt of accomplishing this goal through a policy of boosting minimum wages further would certainly result in serious economic dislocations.

Maintenance of the dynamic character of the economy does not only require the existence of sufficient profit incentives—for the individual as well as for the corporation.

It also means that there must be penalties for errors in economic judgment.

Only an economic system based on rewards and penalties can remain truly dynamic and free.

It is for this reason that economic intervention on the part of the Government must not attempt to eliminate the need for all corrections. It is one thing—and an eminently necessary one—to cushion the human impact of economic maladjustments—such as chronic unemployment in areas with a displaced industry. The proper way of accomplishing this is by wise social measures. The wrong way is the use of well-meant, but fuzzy economic legislation that freezes such inequities and maladjustments into the economic structure.

APPENDIX TO STATEMENT BY H. E. LUEDICKE

EVALUATION OF THE 1955 ECONOMIC REPORT

I. AN INTERPRETATION OF THE REPORT

(From the Journal of Commerce of January 21, 1955)

By H. E. Luedicke

Economic planning in 1955 should be concentrated "on basic policies fostering long-term economic growth," rather than "seek to impart an immediate upward thrust to general economic activity."

This statement from the President's economic report to Congress best sums up the current thinking on economic growth within the Eisenhower administration.

It is based not only on the administration's view that "our economy is now undergoing a cumulative expansion of some strength," but also on its belief that there is inherent danger in continued overstimulation of the economy.

As the report puts it: "Our economic policies must be designed not merely to foster growth, but to foster a rate of growth that can be sustained."

NO ONE-WAY STREET

"As we proceed," the report warns, "we must keep in mind the historical fact that growth has generally been attained by spurts of activity, followed by pauses or setbacks."

If we are to escape the "risk of generating overconfidence and subsequent reaction," it is important to keep in mind the limitations of Government intervention for the purposes of smoothing out business fluctuations.

In what was billed in advance as the first complete discussion of the Eisenhower administration's philosophy on economic growth—developed by the President and his chief economic advisers—the economic report flatly acknowledges the Government's responsibility for intervention under the Employment Act of 1946, but just as flatly states that such intervention must be kept within limitations and should not be expected to accomplish the miracle of eliminating all business fluctuations.

Says the report: "We have learned from experience that the Government can do a great deal to moderate economic fluctuations, but there is as yet no good basis for the belief that it can entirely prevent them. A democratic government needs time, especially when current reports are conflicting, to meet a given economic situation. Moreover, the effects of its actions—whether in augmenting or restraining demand—require time to work themselves out.

"Government ought not to continuously be veering its course, although it should act promptly and decisively when a threat to economic stability emerges."

CANNOT STAY ALOOF

"The economic effects of Government operations are now so large and so pervasive that it is no longer reasonable to suppose that Government either can or should remain aloof from what goes on in the private economy.

"We have learned from experience that Government can pursue policies that not only promise to bring a stabler prosperity to economic life, but also to expand the scope and add to the vigor of private enterprise.

"Our aim must be to build on this experience, to pursue policies that will facilitate the growth of private enterprise, and to equip ourselves with better tools for checking any recession or inflation that might develop."

THE NO. 1 SAFEGUARD

The most striking difference between the economic philosophies of President Eisenhower and his advisers on the one hand and former President Truman and his Fair Deal advisers on the other hand lies in the emphasis with which (1) avoidance of inflation and (2) preservation of the free enterprise system are stressed.

Basic as the Government's obligation to promote the objective of maximum employment and maximum production is (under the Employment Act), the act states that the means used to fulfill this obligation must be (and here we again quote from the report) "consistent with the 'needs and obligations' of the Government and 'with other essential considerations of national policy.'

"In other words, in implementing the Employment Act, the Federal Government is subject to certain constraints. Among other things, it must honor the constitutional rights of individuals; it must respect the authority of the States; and it must protect the integrity of the money in which contracts are expressed and payments made."

This emphasis on the "integrity of the money" is repeated several times in the report.

POTENTIAL THREAT

In this connection, the point is being made that inflation as well as depression "carries the danger of undermining, sooner or later, our system of free competitive enterprise."

Dealing with critics on the right as well as on the left, the report goes on to say: "The obligation of the Federal Government under the Employment Act to 'promote maximum employment, production and purchasing power,' and to do so by means that are consistent with 'other essential considerations' of national policy, is not always remembered.

"Some citizens, lacking faith in the ability of the private economy to generate a high level of activity, espouse a steadily increasing role for Government. They urge new public undertakings and unbalanced budgets as devices for augmenting private demand, often with little regard to the cause or magnitude of any deficiency in demand.

"Other citizens, adhering to what they regard as the ultimate economic verities, are critical to any Government action that is designed to prevent or to minimize the rigors of depressed incomes and unemployment.

WARNS ON EXTREMES

"These are extreme and doctrinaire positions. If the one is insensitive to the inequities of inflation, the other is insensitive to the misfortunes of depression. Each carries the danger of undermining, sooner or later, our system of free competitive enterprise * * *.

"The need of our times is for economic policies that, in the first place, recognize the proven sources of sustained economic growth and betterment and, in the second place, respect the need of the people for a sense of security as well as opportunity in our complex and industrialized economy."

BASIC ECONOMIC TENETS

In an explanation of the current and future policies of the Eisenhower administration, the Economic Report says that these policies rest on the following six basic propositions:

1. Competitive markets, rather than governmental directives, are as a rule the most efficient instruments for organizing production and consumption.
2. A free economy has great capacity to generate jobs and incomes if a feeling of confidence in the economic future is widely shared by investors, workers, businessmen, farmers, and consumers.
3. The Federal Government creates an atmosphere favorable to economic activity when it encourages private initiative, curbs monopolistic tendencies, whether of business or labor, avoids encroachment on the private sector of the economy, and carries out as much of its own work as is practicable through private enterprise.
4. The Federal Government generates confidence when it restrains tendencies toward recession or inflation, and does this by relying largely on indirect means of influencing private behavior rather than by direct controls over people, industries, and markets.
5. The Federal Government contributes to economic growth when it takes its part at the side of the States, in promoting scientific research and in providing public facilities, such as highways, hospitals, harbors, and educational institutions, on which the expansion of the private economy heavily rests.
6. The Federal Government strengthens the foundations of the economy when it widens opportunity for its less fortunate citizens and, working in cooperation with the States and localities, helps individuals to cope with the hazards of employment, illness, old age, and blighted neighborhoods.

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STRONG AND HUMANE

"These economic tenets are basic and inseparable. They constitute guides to policies which, if pursued persistently, will advance us toward the goal of an increasing national income, shared equitably among those who contribute to its growth, and realized in dollars of stable buying power.

"In broadest outline, they constitute the framework of an economic system that is at once strong and humane, a system that can provide both greater material abundance and a better quality of living."

ROLE OF INCENTIVE

The two chief goals of public policy are defined in the report as strengthening the "floor of security for individuals and families" and, "to protect incentives and encourage a spirit of enterprise and innovation among people.

"The man or woman who, in the hope of personal betterment, works harder, designs a new product, creates a new method, invests in a new business, moves to a new job, or suggests a new idea to his employer, must believe that the rewards of initiative and effort are worthwhile." Through all of its policies the Government must encourage enterprising action by business managers, investors, and workers, in an environment that is kept basically free and competitive.

TIED TO TAX POLICY

The Eisenhower administration still sticks to its guns as far as the use of tax cuts for the strengthening of corporate incentives is concerned.

The report stresses that, assuming a further tax cut is in order next year, Congress should "continue the program which was begun last year of reducing barriers to the free flow of funds into risk-taking and job-creating investments."

This would be in continuation of the 1954 tax law, as the report puts it, "to promote the vigor of competitive enterprise," such as the liberalization of depreciation allowances, the extension of the period over which business losses can be carried back for tax purposes, the liberalization of the rules for plowing back of earnings for expansion purposes, the encouragement of research and development expenditures, and the limited tax credit on dividends received by shareholders.

WHAT ABOUT THE CYCLE?

While the economic report stresses that Government planning at the moment is primarily directed toward long-range growth, it also emphasizes that "the Government must remain ready to deal with any setback that might develop."

A good deal of confidence is expressed that, in view of past experiences and the weapons in the administration's antirecession kit, the "business cycle is now under reasonable control."

This does not mean, however, that the administration believes it has conquered the cycle. To the contrary, the report stresses that even an expanding economy "does not escape the need for moderating the business cycle."

Says the report: "A view fundamental to the economic program presented in this report is that the best way to avoid economic recessions is to have the economy growing vigorously. Yet it is necessary to recognize that, at times, growth processes may falter, and that on other occasions the forces of growth may generate inflation * * *

"Hence the program recommended in this report has been formulated not only to foster economic growth, but to foster a reasonably stable process of growth."

II. A Philosophy of Growth

(An editorial in the Journal of Commerce, of January 21, 1955)

Economic growth is sound only, says President Eisenhower's 1955 economic report to Congress, if it prevents both deflation and inflation, if it is held to a rate that can be sustained, and if it does not destroy incentive as the chief motivating force in the economy.

This declaration clearly defines the economic philosophy of the Eisenhower administration and demonstrates that its economic policies differ not only in degree, but in principle, from those followed by former President Truman and his Fair Deal advisers.

For this reason, this year's economic report is a valuable contribution to the development of contemporary economic thought in this country. It will leave its mark—even if some of the specific economic predictions prepared by the Council of Economic Advisers for the President should not fully stand up as the year progresses.

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The economic report pledges the Eisenhower administration to full support of the Employment Act of 1946 under which any administration in power—be it Republican or Democratic—is committed to promote "maximum employment, production, and purchasing power." The Eisenhower administration will "act" whenever need for economic action appears and will act "promptly and decisively."

But—and this is the all-important qualification in its commitment—it has very definite ideas as to what the Employment Act meant when it stated that the methods to be used in promoting maximum employment, production, and purchasing power must be consistent with the "needs and obligations" of the Government and with "other essential considerations of national policy."

These "other essential considerations" are primarily the protection of the "integrity of our money" and the prevention of economic overstimulation, merely for the purpose of living up to a preconceived and more or less arbitrarily determined growth pattern.

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The Eisenhower economists do not deny that further progress can be made in smoothing out the fluctuations of the business cycle—but the report states emphatically that "experience affords no good basis for a belief that the Government can entirely prevent fluctuations."

As a matter of fact, the report contains a poignant reminder that historically our growth has generally been attained "by spurts of activity followed by pauses or setbacks."

This does not represent a callous acceptance of the human miseries that accompany any economic setback of consequence, but it does reflect—at least by strong implication—a conviction that no economic system can be kept "dynamic" if all self-regulatory features are removed from it.

No system of free competitive enterprise can long endure even if it, grudgingly, admits the justification of "rewards" for incentive and success, unless it also maintains penalties for economic failures and does not try to soften these for social reasons.

Now that we have, over the past two decades, built in this country a strong "floor of security for individuals and families," it should be recognized that this degree of protection enables us to pursue sound economic policies with far greater assurance than would have been the case without the existence of these forms of protection for the individual and the American family.

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The trouble is that many of those primarily interested in social rather than economic progress are not satisfied with the gradual strengthening of this "security floor." They want to make sure that this floor never becomes effective and they are willing to substitute "security" for incentive as the key motivating force in the economy.

Any economic policy based on such an attitude, sooner or later, will lead to the destruction of the dynamic character of our economy, as it will lead either into inflation or into a planned economy. Such a planned economy could develop under any of half a dozen names, from managed economy down the primrose path to outright socialism, but regardless of its specific label, it would still add up to the end of dynamic economic progress.

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The President's Economic Report clearly accepts the premise that overstimulation compounds the danger of generating inflation—which, in the final analysis, would not only negate what our social reformers try to accomplish, but actually would lead to a rapid deterioration of the standard of living for large parts of the population—not only those who depend on fixed incomes but the majority of our working force as well—because our workers are rapidly moving into the category of small capitalists with huge vested interests in homes, insurance, savings, and pensions.

Those pushing for year-to-year, mathematically determined, economic gains usually deny that their policies involve the danger of further deterioration in the purchasing power of the dollar. They have never proven their point, largely, of course, because their reasoning defies any proof in the mathematical sense.

That is why they will find it quite easy to make converts for their ideas—until the inflationary consequences of their policies become apparent. That could be the case if, following a change in administration, they would once again find a sympathetic ear in Washington.

We feel confident that in such a case there would be a dollar revolt—strictly through the ballot box—before any real inflation tragedy becomes inevitable. The days of any administration playing with the inflation match most certainly would prove numbered.

It is for this reason that the Eisenhower administration's strong commitment to protect the "integrity of our money" deserves strong commendation.

III. Goals and Programs

(An editorial in the Journal of Commerce, of January 24, 1955)

The President's Economic Report, submitted to Congress last Thursday, is a candid document, even if the administration's critics once again are clamoring that it is too evasive.

The 1954 Economic Report was severely criticized by Democrats, union economists and assorted other Fair Dealers because the President did not specifically estimate the size of the output increase required to maintain "maximum employment, production and purchasing power" as envisaged in the Employment Act of 1946 and then offer a precise program for achieving such an output goal.

Despite these attacks, the President and his economic advisers once again decided against pinpointing an annual goal—and they are just as right about the omission this year as they were a year ago.

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One of the key sentences in the report states that "it is reasonable to expect that the Nation's output within the coming year (1955) will approximate the goals of maximum employment, production and purchasing power envisaged by the Employment Act."

No attempt is made to say whether this goal for the current year should be a gross national product of $365 billion, $370 billion, or $375 billion; not even a relatively wide range is given to indicate what approximate level of business activity, in the eyes of the administration's economists, should be attained this year.

This refusal to offer a specific forecast does by no means reflect a coy attitude on the part of the President's economic advisers. After all, there is nothing cagey about their general forecast of continuing improvement in economic activity. They do see the current upturn "powerfully supported by underlying forces of economic growth."

Their only hedge concerns the likely duration of the current upturn. In this respect, they refused to go on record for the whole year. Instead, they merely stated that economic expansion will continue "during the coming months."

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This qualification, it seems to us, is particularly important for a correct interpretation of the Eisenhower approach to the problem of economic planning.

What the 1955 Economic Report says in effect is this: The administration believes that the recovery forces now at work will prove strong enough to give us a satisfactory year within the meaning of the Employment Act of 1946. With this in mind, the administration is proposing a program of economic legislation designed to strengthen the long-range soundness of the economy. Should it become apparent during the course of the year that the administration's evaluation of 1955 was too optimistic, it then will become necessary for the administration to switch the emphasis in its program to measures designed for greater near-term effect. In such a case, care will be taken, however, that such measures do not cause a new wave of overstimulation.

It is quite clear that at the moment the administration's economists are concerned about overstimulation rather than a resumption of the decline. The complex issue of what to do about curbing overstimulation without knocking the props out from under the economy, is now under serious study.

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The advice against use of a crystal ball in pinpointing the economic goal for the current year, given to President Eisenhower by his economic advisers, is absolutely sound.

It shows a refreshing degree of candor in backing away from what can only be described as the statistical numbers game.

There is nothing wrong with the use of fairly general, long-range growth goals—such as President Eisenhower's $500 billion gross national product projection for 1965. When it comes to 1-year projections of this type, however, the door is wide open to statistical abuse.

What earthly purpose can be served by putting down any specific number that cannot be scientifically supported? And the truth of the matter is that there is no formula, method, or procedure available to economists today to determine what our economic growth should be from one year to the next.

It is one thing to calculate long-range averages for past performances in order to dramatize what has happened but any attempt to use these percentages—with respect to such factors as the increase in the labor force or the annual productivity gain—for the purpose of pinpointing near-term expansion goals is just so much statistical flimflam.

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It is of course only too obvious what the administration's critics really have in mind in trying to make the administration put down a specific goal for the current year.

They want such a figure not for purposes of economic analysis but rather for purposes of political attack. What could be sweeter for the opposition than to have the administration "on the hook" by naming any specific figure—if it does not prove right at the mark?

Instead of falling into this trap, the Economic Report offered a piece of pertinent advice to all of those who have a tendency of rushing in with economic predictions where angels fear to tread. Said the report: "At this juncture of our economic life, when confidence is running especially higher, it is well to keep in mind the sobering fact that there is no way of lifting more than a corner of the veil that separates the present from the future. * * * How far the expansion will carry, it is impossible to say with great assurance."

Based on this sober appraisal of the science of forecasting, the 1955 Economic Report sums up the administration's obligation under the Employment Act as follows: "The uncertainty of economic predictions requires that the Federal Government be prepared to adjust its policies promptly if economic events should not bear out current expectations."

This is all the assurance, we believe, that is necessary at this time—and all that can be given.

IV. That Certain Extra

(An editorial in the Journal of Commerce of January 25, 1955)

The old saw that you can lead a horse to water, but that you cannot make it drink, has a direct application in economics.

The President's Economic Report to Congress, in one of its key sentences, draws attention to the role played by confidence in the shaping of economic progress and in the success or failure of specific economic policies.

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This paragraph deserves far greater attention than it has found thus far. Here it is: "It is well to recognize that the reasons for the success of recent policies are not to be found in them alone.

"Tax reductions, however attractive they may seem when the economy is declining, will not necessarily lead to an increase of spending or investing.

"Easier credit conditions, larger bank reserves, even a larger money supply will not necessarily put new money to work in industry.

"Management of the public debt so as to avoid competition with mortgages and other capital issues will not necessarily increase private capital formation.

"If such policies are to be of material help in stemming a contraction, there must be a pervasive feeling of confidence on the part of the people.

"The effectiveness of a particular policy, whatever be its sphere or expression, is conditioned by the mood of the time, and this is bound to reflect people's attitudes toward Government policies at large. It is not merely the intrinsic merit of the individual policies that were pursued but also the fact that each was part of a cohesive program for strengthening the confidence of the people in their own and their country's economic future, that accounts for our recent success in curbing economic contraction."

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This is not a startling new discovery, but it is a valuable piece of homespun economic philosophy that all too often has been ignored in the ideological controversies of our time.

In effect, the President's emphasis of the important role played by confidence in our economic life, is one of the strongest possible arguments for his middle-of-the-road economic policies.

It negates the rather arbitrary point of view—so strongly defended by union economists and other adherents of the purchasing power theory in its crudest form—that the trickle-up theory is always good and the trickle-down theory is always bad for the economy.

These two terms have become quite popular in recent years. The distinction between the two lies in the determination of the starting point for any economic intervention by the Government: should the purchasing power be boosted first in the expectation that the prospect of larger sales will then automatically induce industry to expand at a rapid enough pace to support a rising economic trend.

Or should the economic policy of the Government be directed at the restoration and maintenance of adequate personal and corporate (profit) incentives because such a pattern would be the soundest way of bolstering wage and salary incomes and thereby keep purchasing power and consumer expenditures on a solid basis?

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The answer of the Eisenhower administration to this dilemma is that neither of these theories is sound per se; neither is applicable at all times.

Once confidence has been destroyed, businessmen will pull in their horns and any attempts to stimulate investment spending will be rather hopeless. Similarly, measures designed to stimulate consumer expenditures during a period characterized by a general lack of confidence will not be automatically successful. Nevertheless, under such conditions the only practical policy to be followed by a Government is to channel more purchasing power into the hands of the consumer because this at least promises to get the wheels slowly spinning again.

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From this, it follows that the prime consideration of a government must be to prevent any such loss of confidence.

In this the Eisenhower administration was singularly successful when in mid-1953 storm clouds started gathering. At that time, it made it clear that its future economic policies would be governed by keeping the currency sound, restoring and maintaining adequate economic incentives for the individual and the corporation and working toward a sounder financial structure of the Federal Government.

Not all of its initial goals were immediately reached. For instance, balancing of the budget proved rather more difficult than anticipated.

However, the important thing was that the proclamation of these principles created an atmosphere in which the peddlers of gloom found it extremely difficult to sell their wares.

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By the same token, confidence remains one of the key factors in the shaping of 1955 business trends.

Chances are that the intangible, and yet so real, factor of confidence this year will have to absorb a few unpleasant shocks. Things are not likely to go quite as smoothly as the President and his economic advisers hope.

The crucial question then will be whether or not the Eisenhower administration—and all of us who believe in the current system of free and competitive enterprise in the United States—have succeeded in selling the idea that adherence to these principles is a safer bet for our long-range future than to chase the pot of gold at the end of some beautiful rainbow.

Statement Before the Joint Committee on the Economic Report on the Economic Philosophy and Facts Underlying the President's Economic Report, Presented on Behalf of the Congress of Industrial Organizations, by Stanley H. Ruttenberg, Director, Department of Education and Research, CIO, January 26, 1955

When some economic analysts see neither depression nor inflation in sight, they conclude that the economy is healthy. Under the guise of avoiding these two economic extremes, they complacently assume that nothing needs to be done about the economy's failure to provide "maximum employment, production, and purchasing power." By following this complacent approach, they also ignore the legislative intent and statutory mandate of the Employment Act of 1946.

In his Economic Report, the President seems to have followed their fallacious reasoning: He states:

"Some citizens, lacking faith in the ability of the private economy to generate a high level of activity, espouse a steadily increasing role for Government. * * * Other citizens, adhering to what they regard as the ultimate economic verities, are critical of any governmental action that is designed to prevent or to minimize the rigors of depressed incomes and unemployment.

"These are extreme and doctrinaire positions. If the one is insensitive to the inequities of inflation, the other is insensitive to the misfortunes of depression. * * * The American people believe firmly in economic freedom, but will not passively accept depression or inflation."

However, these two economic bogeymen are not the only alternative economic problems facing the American people. During the past year, no one has predicted a serious depression. Nor has anyone been advocating a policy that will lead to runaway inflation.

At the moment, the economy is operating at relatively high levels compared with those of the 1940's, but in 1954 it was still lagging behind 1953. With a growing and expanding economy and the need for further expansion, we cannot afford to be smug about past achievements. Nor can we gloat over the fact that a depression has been avoided. A realistic appraisal recognize that the serious economic downturn has been prevented, for the most part, because of the many, built-in stabilizers adopted during New Deal and Fair Deal days. But in spite of these builtin stabilizers, the economy still lags behind the levels necessary "to promote maximum employment, production, and purchasing power."

Employment in manufacturing industries is still running more than a million behind a year ago. Unemployment, on the average in 1954, was more than double the average of 1953. Industrial production has advanced in the last few months, but it is still 5 percent below the 1953 peak. Steel production in 1954, at 88 million tons, was the lowest sonce 1949. Auto production, in spite of the spurt in the last 2 months of 1954, was still a little more than 10 percent behind 1953 and almost 20 percent behind peak production. Business expenditures for new plant and equipment for 1954 ran 6 percent behind 1953 and will continue to lag behind during the early part of 1955. Gross national product, while advancing in the fourth quarter of 1954 to an estimated $361 billion, is still 3 percent below the peak reached in the second quarter of 1953. These are just a few examples of the economic factors that indicate that 1954 was below the levels of 1953.

Of course, there are some examples of factors which showed a rise in 1954: Construction, both of new homes and of other types, personal consumption expenditures and expenditures by State and local governments. But these encouraging increases were not enough to offset the declines. As a result, the economy operated at lower levels in 1954 than in 1953.

Within the last 2 or 3 months, there have been signs of an upturn in the economy: Industrial production has regained half of its 1954 loss. Auto production is currently running at a rate higher than at any time during the last 50 months. Steel production is above a year ago, but unfortunately, less than 2 years ago. There has been a slight strengthening in the employment picture, resulting, for the most part, from improvements in the production of automobiles, but unemployment remains a million above a year ago, with part-time employment still greater.

The optimists now conclude that all is well and nothing needs to be done, because the economy was prevented from drifting too far downward in 1954 and now shows signs of improving. Such a conclusion is highly questionable.

The President, in his Economic Report, says, "The vigor of the recent recovery * * * holds out the promise that we shall achieve a high and satisfactory level of employment and production within the current year." If this is the underlying objective of the administration's program for 1955, it shows a disregard for the welfare of the American people. After all, a high level may not be satisfactory.

The President continues: "* * * the wise course for Government would be to concentrate this year on basic policies for fostering long-term economic growth. We should direct our program for 1955 principally to this purpose, rather than seek to impart an immediate upward thrust to general economic activity."

Even though one might agree with the overall intent of this objective, one cannot help sensing the callous disregard for the problems of those hundreds of thousands and millions of workers who are still unemployed or whose skills are being only partially utilized by the American productive processes.

The implication of the President's policy seems to be that an upward thrust now would be inflationary, or in some way, injurious to our economy. As long as capacity is in excess of existing production levels, an upward thrust will not be inflationary. As long as unemployment is in excess of 1¾ million to 2 million workers, an upward thrust is absolutely essential.

To the unemployed worker or to the worker drawing only a partial week's pay, nothing—absolutely nothing—is more important than a job and an income on which he can support himself and his family. To direct economic policies toward the long run is important, but to disregard simultaneously economic policies to alleviate the short-run problems is dangerous. We do not ask the President just to look at the trees and forget the woods. But we do ask him to realize that the woods are made up of very important trees, and that they should be considered of equal importance to the total forest.

It is argued, in the economic report, that we must watch our rate of economic growth because if it is too fast, or if we develop maximum employment, production, and purchasing power year in and year out, the result will be inflationary. Because of this fallacious assumption, the administration fails to take cognizance of the scope of the economic problems confronting the Nation. Emphasis is placed on the negative: Avoid inflation at all costs. Only lip-service is paid to the positive goals of promoting maximum employment, production, and purchasing power. Nowhere in the report can one find—and I have looked rather carefully—a statement of the objectives and goals necessary to the attainment in 1955 and the years immediately following of maximum employment, production, and purchasing power.

Thus the President and his Council have refused to carry out the legislative intent and purpose of the Employment Act of 1946.

In order to set goals for 1955 and succeeding years, two important factors must be considered:

1. Growth in population and labor force: The net increase in the labor force ranges from 600,000 to 800,000 each year. This figure will increase further in the years immediately ahead, because there will be more people in the age categories included in the labor force.

2. Rapid advance of productivity: Large scale expenditures for new plant and equipment in the immediate post-World War II years has brought a great growth in the rate of productivity, a rate equal to, if not in excess of, any period in American history.

With the development of automation and the further application of its basic principle of displacing human labor with machines for nonroutine processes means that productivity growth will be even greater in the immediate future. With the application of automation to the already advanced techniques of technological development, the rate of growth may well be currently, and in the immediate years ahead, close to 4 to 4½ and perhaps even 5 percent.

(As an aside, I should like to insert a recommendation: The possible effect of automation upon the American economy is so far reaching that a serious study and interpretation of the problem should be immediately undertaken by Congress. I recommend that a full-scale investigation of the problems which will accompany automation be undertaken by the Joint Committee on the Economic Report.)

To project future rates of growth of the economy on the basis of only a 2-to-2½-percent increase in productivity (as the administration and even the joint committee—in The Potential Economic Growth of the United States During the Next Decade have done) to come up with a $500-billion gross national product over the next decade, is to fail to provide the goals necessary for "maximum employment, production, and purchasing power."

If the administration looks toward a $500-billion gross national product by 1965, their economic policies during the present year are designed to attain only a gross national product about equal to that of 1953. The administration regards this as a successful reversal of the 1954 downturn. But to return only to 1953 levels will be far short of the levels necessary to provide job opportunities for all Americans able and willing to work.

But the President and the Council seem to gloat over the possibility of a 1955 gross national product in excess of 1954's or even as high as 1953's. We, as Americans interested in the welfare of all our people, cannot be content with such a slow rate of advance in America's economic activity. We cannot see how one can believe in a growing and expanding economy and be satisfied with the possibility of attaining levels of 2 years ago. In 1955, we should have a gross national product in excess of $400 billion. In 1954, we should have had something like $380 to $385 billion. The failure to attain this rate of growth is a failure to meet the obligations of the Federal Government established by the Employment Act of 1946.

To reach at least a $400 billion goal for gross national product in 1955 requires an increase in the rate of consumer expenditures considerably above that anticipated even in the joint committee's own report, The Potential Economic Growth of the United States During the Next Decade. An increased rate of consumer expenditures will necessarily be accompanied by an increased rate of business expenditures.

Therefore, economic policy must be designed to increase consumer income, to establish incentives for American consumers to fill their needs by buying the products of American industry. It should not be designed, as the Republican administration insisted in 1954, to stimulate business incentives first, and thus put the cart before the horse.

As a first step by the Government, individual income taxes must be cut. The best method for accomplishing this reduction is by increasing personal individual income-tax exemptions.

In addition, the minimum wage should be raised to $1.25 per hour and the coverage under the law should be extended. The administration's recommendation for a 90-cent minimum for certain workers and extended coverage with a lower minimum for other workers is not adequate to meet the needs of 1955.

Unemployment compensation benefit amounts, duration, and coverage must be increased. Reliance on State action to meet these goals, as the President and the administration have advocated and practiced, is unrealistic. The States' failure to take adequate action in the past has already brought about the deterioration of our unemployment compensation system—that is, the decline in benefits as a percent of wages, referred to in the President's Economic Report.

In addition, Federal programs designed to provide improved public roads, additional homes, schools, hospitals, and airports, as well as many new community facilities, must be immediately instituted. Efforts to get the construction done by State and local governments, as the administration apparently intends, will not produce the necessary results. The financing of the Federal Government's share through public authorities needs to be examined very carefully before it becomes accepted Government policy.

Collective bargaining in 1955 will make a major contribution toward stimulating the economy through negotiation of wage increases, the guaranteed annual wage, and improved health, welfare, and pension programs.

The combination of these programs will go a long way toward filling the existing gap between current levels of economic activity and those necessary for the attainment of maximum employment, production, and purchasing power.

Statement of Martin R. Gainsbrugh, Chief Economist, National Industrial Conference Board

The 1955 Economic Report, in my opinion, is several cuts above its predecessors in the quality of its analysis, and particularly in the detail with which it describes the rapidly changing current scene. The extended statistical appendix will be appreciated by all concerned with current economic analysis. A comparison with the appendix published with last year's report discloses at least 8 entirely new tables, and at least 4 which have undergone major improvement. The expanded statistical section is of special value at a time when the trend of business is changing so rapidly. In fact, the report draws conclusions which do not seem entirely justified unless they are viewed in the light of the report's own estimates of extremely current figures. The broadly optimistic tone of the report, and the pace of the recovery described therein, rests heavily upon the rough estimates the council draws for the closing months and final quarter of 1954.

Turning to question No. 1, I propose to describe briefly the half dozen or so major influences which to my mind underlie the specific trends in individual statistical series in the period since 1952. Four of these influences were of overriding importance.

First, the economy since 1952 has been undergoing a broad shift of activity and resource allocation away from Government and toward the private sector.

Second, within the private sector there has been a shift away from capital formation, and toward consumption. In combination, these shifts have acted to move the composition of national output and expenditures toward a normal peacetime balance.

Third, there has been a steady and relatively rapid rate of secular national growth in terms of population, and in terms of productive assets.

Fourth, there has been a complete cycle in the inventory demands of business, starting with the sudden exhaustion of steel and automobile inventories in mid-1952, running through rapid accumulation in mid-1953, and rapid liquidation in the first three quarters of 1954. By all indications, 1955 begins with a new phase of inventory accumulation. These basic trends in the economy have been working themselves out in an economic climate very favorable to stability. Six important elements in this favorable institutional environment are:

(1) The shift of activity from the Government to the private sector was facilitated by a balanced program of tax reduction. This acted to cushion th demands of the business sector against the consequences of inventory recession. It similarly cushioned consumption, notably for durables, against the income losses associated with inventory recession.

(2) The consequences of the inventory cycle were offset, to some degree, by a complete and parallel cycle in monetary policy.

(3) Foreign economics were gradually regaining their strength. Improvement in economic conditions abroad meant increased competition in many markets for American exports. But it has also meant that the relatively shallow decline in American imports did not precipitate or accentuate recession abroad. This, in turn, has meant that the world markets have acted to dampen domestic recession, rather than to amplify it.

(4) In the last 2 years, wage adjustments in the American economy have been more reasonably in line with the rate of increase in productivity than previously. In the aggregate, unit labor costs have not changed to any significant degree, although, of course, significant changes have occurred in individual industries. As a result, upward pressures on the general price level from the cost side have been relatively moderate, and the price level itself has been characterized by an extraordinary degree of stability.

(5) In an atmosphere of price stability, both consumers and business over the past few years appear to have developed a substantial degree of confidence, not only in prices, but in the future of general business conditions, in prospective returns on investment, and in their prospective incomes. Documenting this confidence statistically is, of course, rather difficult, although we should know something more about it after the release of first-quarter surveys of anticipated business expenditures for plant and equipment, and the survey of consumer finances. However, I think that the current level of business outlays for plant and equipment, viewed in the light of the rapid decline in the rate of such outlays associated with the accelerated amortization program, is an indication of business confidence in the future. It is also an indication of the increasingly widespread practice of budgeting capital outlays over the longer term, and this practice in itself betokens confidence in the economic future.

(6) Finally, I would stress the favorable background of substantial liquidity in the private sector. While our knowledge of the balance-sheet position of business and consumers is not nearly as well developed as our operating statements for these sectors, I believe that the relative stability reflected in the Nation's operating statements owes much to the strong net-worth position of business and individuals, as reflected in aggregate balance sheets. In this connection, the almost total lack of reference to balance-sheet data is one of the few prominent analytical shortcomings of the Economic Report. As a result, the report ignores what I consider to be one of the substantial influences on personal spending in 1954–55, namely, the huge capital gains, most of them unrealized, accruing to individuals as a result of the advance in security prices during the year.

REPLY TO QUESTION NO. 4

Under this question, I propose to confine my remarks to some agreements and some disagreements, with positions taken in the Economic Report, and then to express some reservations about the confidence of the report in our ability to control the business cycle in the future.

Our economic forum and survey of the board associates' opinions support the view taken in the report that business is now in the recovery phase of a short-term business cycle. The pace of the recovery may be somewhat exaggerated in the latest available figures published with the report, but I do not contest the report's conclusion that the recovery is vigorous. That expansion is now notably concentrated in a few areas—in automobiles, in steel, and generally in inventory demand. Fully three-fifths of the rise in gross national product from the third quarter to the fourth quarter of 1954 was accounted for by the lessening of the rate of liquidation of business inventories. It seems entirely probable that the further rise now occurring in the first quarter of 1955 reflects a swing of inventory policy into significant accumulation. It also seems likely that the rate of accumulation will mount throughout the first half of 1955. Speculative inventory accumulation is, of course, characteristic of the recovery phase of the short-term business cycle; it may well be accentuated this year, in view of the reopening of several pivotal wage contracts.

Residential construction activity is another area in which the recovery is concentrated, and here, too, the vigor of the recovery owes much to the speculative building on easy credit. Construction contract awards are now overwhelmingly concentrated in one-family dwellings built for sale rather than for occupancy.

Without disputing the reality of the recovery, it seems to me essential to point out these speculative elements already present in the recovery. And I believe the Economic Report is somewhat remiss in not pointing to a corollary of this proposition, namely, that in many nonspeculative areas, recovery has not begun, and is not yet evident. In agriculture, for example, incomes are apparently still in a declining phase as a result of price weakness and crop restrictions. Capital goods are still undergoing a period of digestion after the enormous production of the last several years (much of it related to defense demands).

Finally, in one nonspeculative area, retail trade, very rapid recovery may taper off. Inventory accumulation and rising rates of residential construction will generate additional income to bear on retail markets, but the sudden expansion of consumer demand between November and January has brought the personal saving rate to about its lowest level of recent years. It may therefore be reasonable to expect henceforth a somewhat lower marginal propensity to spend in the consumer sector.

This suggests certain reservations about those sections of the report which imply that our control over the business cycle has risen to such a degree that painful fluctuations are now extremely improbable. The evidence favoring the proposition that we now hold virtually complete control over the cycle can be drawn only from the experience of 1953–54. The recovery of 1949 was so dominated by the continuing strength in housing and automobiles, to mention only two of a whole range of postwar backlogs, that it is inapplicable to the atmosphere of the late 1950's; and the experience of 1953–54 while certainly encouraging, is still far from conclusive. Control of the business cycle implies the ability, and the willingness, to control booms as well as recessions. The American record on controlling booms is not notably good.

One remaining acute problem in the fiold of Government-business relations is how to make a Government program effectively counterrecessionary during recession, without distorting ensuing recovery into inflation.

The Government messages of this January illustrate how difficult is this matter of tools and timing. For while the Economic Report describes a recovery which has obviously speculative components, the budget message still includes a number of expansionary programs instituted more than a year ago, when the administration was under extreme pressure to alleviate unemployment.

This illustrates a proposition which was apparently lost sight of in the more enthusiastic sentences about our control over the business cycle: the legitimate range of tools at the disposal of Government for combating business recession is significantly narrowed if it is borne in mind that inflation tomorrow is as inequitable as unemployment today.

Statement of Leon H. Keyserling[1]

HIGHLIGHTS OF STATEMENT

The true level of unemployment, counting not only full-time unemployment but also the full-time equivalent of part-time unemployment and temporary layoffs, rose from 1,844,000 in 1953 as a whole to 4,083,000 in 1954 as a whole, an increase of more than 120 percent. It rose from 2.9 percent to 6.3 percent of the labor force. There has not been much significant improvement in recent months. Allowing for seasonal adjustment, the true level of unemployment in December 1954 was about 3,700,000.

Moreover, a large part of the labor force has been forced to shift from more productive and highly paid work to less productive and less well paid work, which is a burden upon the whole economy. Agricultural employment was fairly stable in 1954, but nonagricultural employment fell by almost 1.4 million, manufacturing employment by about 1.2 million, and mining employment by about 11.7 percent.

Combining manufacturing, mining, and construction, production in the fourth quarter of 1954 was higher than in the fourth quarter of 1953, but employment was down more than 1.1 million, or more than 5 percent. With automation and technology on the march, hard-core unemployment is bound to increase greatly well within 1955 unless the economy expands more rapidly than any current signs now indicate, and much more rapidly than the more optimistic forecasters indicate.

Total output in the fourth quarter of 1954, while about the same as in the first quarter of 1953, was at an annual rate about $30 billion below maximum output—due to growth in productivity and in the labor force. This deficit in output correlates well with the excess amount of true unemployment plus the bad utilization of the labor force caused by the recession.

The Council of Economic Advisers, through the medium of the President's Ecomonic Report, have furnished a good historical account of past events. But they have overlooked the explicitly stated responsibility under the Employment Act (and also the requirements of sound economic analysis as a guide to policy) that they define needed levels of employment, production, and purchasing power. The report offers almost no indications as to whether the advisers believe that unemployment is too high or too low or about right; as to how much total output would need to grow to restore maximum employment and production; or as to what adjustments in purchasing power throughout the economy would help to restore maximum employment and production. Evading this central task, the advisers provide no basis on which to evaluate whether recommended policies and programs are too big or too small, well-directed or misdirected.

The economic advisers make a few forecasts, surrounded by many hedges. But the Employment Act did not set up a forecasting agency. It set up a national economic policy coordinating body, with forecasting to be used mainly as one tool for the formulation of policies. To be sure, there are a number of random policies and programs set forth in the Economic Report. But they do not stem from the economic analysis, because the analysis does not define needs.

Under the circumstances, although the meaning of the Employment Act is unmistakably clear, the joint committee might consider advising the advisers to carry forward the responsibilities which the act imposes upon them.

If the American economy in 1955 averages a 3 percent higher level of output than in 1954, which is in accord with optimistic forecasts, this would not be nearly enough growth to reduce unemployment sufficiently, absorb new entries into the labor force, and keep up with advancing technology. With only a 3 percent rate of growth, the true level of unemployment for 1955 as a whole might average around 6½ million, contrasted with slightly above 4 million in 1954. The level of full-time Census Bureau unemployment might be considerably below 6½ million, due to forced reductions in hours of work to share unemployment, temporary layoffs, etc.

All this can be changed by appropriated policies and programs.

To restore maximum employment and production by the end of 1955, the level of total output for 1955 as a whole needs to be in the neighborhood of $378 billion, or about 6 percent above the $357 billion level for 1954 as a whole. Total output would need to reach an annual rate of about $390 billion in the

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[1] Chairman, President's Council of Economic Advisers, 1950–53; vice chairman, 1946–50. Consulting economist and attorney. President, Conference on Economic Progress.

fourth quarter of 1955, or more than 8 percent above the $361 billion level in the fourth quarter of 1954.

Unemployed manpower and other idle resources are a progressive threat to our economy if their realities are ignored. But unemployed manpower and other unused resources are an enormous potential asset, because they give us the power if brought back into use to enlarge our economic strength, and thus without excessive strain to place a large enough offering upon the altar of freedom. The fact that we could now produce at an annual rate $30 billion higher than we are now producing, and can raise this much further in the year ahead, makes it folly in the face of the rising Communist threat to let any of our fields lie bare. This is the challenge of the Employment Act; and it is as important or more important now than ever before to rise to the challenge and not to evade it.

Answers to the specific questions raised by the joint committee are as follows:

Question 1. What are the facts respecting population growth, labor force, employment, unemployment, layoffs, part-time employment, productivity, production, private investment, consumption, Government demand for goods and services, and savings since 1952?

To answer this question in full would require a complete economic history of the past 3 years; consequently, I shall stress the items which according to my analysis seem to me of greatest significance in the current economic situation and with respect to the economic outlook.

EMPLOYMENT AND UNEMPLOYMENT

Total employment in 1954 averaged about 1 million lower than in 1953, and more than 450,000 lower than in 1952. But unemployment grew faster than employment fell because the labor force grows from years to year.

Full-time unemployment, as shown by the official figures of the Census Bureau, rose from 1,602,000 in 1953 to 3,230,000 in 1954. It rose from about 2.5 percent of the labor force to 5 percent.

I use the term "true level of unemployment" to include not only full-time officially reported unemployment, but also temporary unemployment, part-time unemployment, reduction in hours of work to share unemployment, etc., translated into their equivalent of full-time unemployment. In doing this, I allow for the long-term trend toward reductions in the workweek, at about 0.7 percent a year. On this basis, I estimate that the true level of unemployment rose from 1,844,000 in 1953 to 4,083,000 in 1954, an increase of more than 120 percent. It rose from 2.9 percent to 6.3 percent of the labor force.

In addition, due to scant work opportunity, the labor force in 1954 grew by about 400,000 less than normal growth in a maximum-level economy. So the denial of work opportunity was considerably higher than shown by the figures on unemployment. Furthermore, the years 1953 and 1954 caused millions of people to move from more productive and better paid work to less productive and lower paid work. For example, in 1954 agricultural employment was almost stationary, while nonagricultural employment fell by almost 1.4 million; employment in manaufacturing fell about 1.2 million; mining employment declined about 11.7 percent.

This deterioration in the utilization of the labor force can be shown as follows: In the fourth quarter of 1954, our total national output was running at an annual rate almost 7.7 percent below the maximum production level. But the true level of unemployment was only about 3.7 million, seasonally adjusted. This was only about 2 million, or about 3.1 percent of the labor force, above the maximum employment level of unemployment. The disparity between the production deficit and the surplus unemployment shows that a very large number of workers were being underused and underpaid in agriculture, and in trade and industrial work unprotected either by (*a*) collective bargaining, or (*b*) an adequate—or any—minimum wage base.

The employment and unemployment picture has not changed much for the better in recent months. Total employment declined almost 700,000 from the third quarter of 1954 to the fourth quarter. There is usually a seasonal decline in the final quarter, but total employment in fourth quarter 1954 was still about three-quarters of a million below the level in the last fourth quarter (1952) before the recession started. And these employment figures take no account of the great growth in the labor force in 2 years.

Total full-time unemployment in the fourth quarter of 1954, as officially recorded by the Census Bureau, was 2,825,000, compared with 3,230,000 in the third quarter. But seasonally adjusted, the drop in total full-time unemployment was only about 200,000, and thus seasonally adjusted full-time unemployment in the fourth quarter of 1954 was about 3 million. Full-time unemployment remained more than 1,450,000 higher than in the fourth quarter of 1952, and more than 1 million higher than in the fourth quarter of 1953.

Due to a reduction in temporary layoffs, and some increases in working hours, the true level of unemployment in the fourth quarter of 1954 was reduced to about 3½ million, or about 3.7 million when seasonally adjusted. This contrasted with less than 2½ million, seasonally adjusted, in the fourth quarter of 1953.

There has been little or no real improvement in the most recent months. Total full-time unemployment fell less than 300,000 from September to December, but much of this was due to seasonal factors. In December, full-time unemployment of 2,833,000 was about the same as in November, higher than in October, 1.4 million higher than in December 1952, and about 1 million higher than in December 1953. Seasonally adjusted, full-time unemployment in December 1954 was about 3 million, and the true level of unemployment was about 3.7 million.

In the fourth quarter of 1954, manufacturing employment was about 250,000 higher than in the third quarter. This was due largely to the upswing in new model auto production and its impact upon steel; the maintenance of this rate of upswing is highly dubious. In any event, manufacturing employment in the fourth quarter remained about 1 million lower than in the fourth quarter of 1953. There was practically no improvement in manufacturing employment from month to month during the fourth quarter of 1954. Mining and construction employment in December were lower than in November, and lower than for the fourth quarter as a whole.

The available seasonally adjusted figures are most revealing. The adjusted index for total nonagricultural wage and salary employment showed almost no change in the fourth quarter of 1954; this index stood at 110.3 in December, which was very slightly lower than in the index for 1954 as a whole, and much lower than the 113.6 index for 1953 as a whole. The seasonally adjusted index of employment for manufacturing production workers was 101.8 in December 1954, or no higher than in November. It was lower than the 102.1 index for 1954 as a whole, and distressingly below the 112.0 index for 1953 as a whole.

These figures are most alarming because a sizable increase in production has been accomplished without a comparable increase in employment, due to technological advance. Combining manufacturing, mining, and construction, production in the fourth quarter of 1954 was higher than in the fourth quarter of 1953, but employment was down more than 1.1 million, or more than 5 percent.

With automation and technology on the march, hard-core unemployment is bound to increase greatly well within 1955, unless the economy expands much more rapidly than any current signs now indicate, and much more rapidly than the more optimistic forecasters indicate.

PRODUCTIVITY

The outlook for unemployment is greatly influenced by productivity trends. Higher productivity displaces workers, unless the economy expands sufficiently.

In the postwar years 1947–53, the annual average rise in productivity for the economy as a whole was about 3.7 percent. Generally speaking, years of maximum prosperity have registered an accelerating rate of productivity advance, more so in peacetime than in wartime. Hence, it is fair to conclude that in early 1953, before the recession started, our potential for productivity advance for the economy as a whole was not less than 3.7 percent per year. The recession reflected the failure to expand total output enough to absorb this productivity potential, plus growth in the labor force.

In 1954, according to preliminary estimates, productivity growth for the economy as a whole was much lower. This was due to recessionary influences, and to shifts in the composition of the labor force, as workers were forced into less productive work. But there was no slackening of technological progress; just the contrary. Preliminary estimates for 1954 indicate that the annual rate of productivity gains in manufacturing averaged about 4 percent for the year as a whole, and reached an annual rate of growth of about 6 percent in the fourth quarter.

Technology is still on the march. Any movement toward economic expansion will make the average productivity picture for the economy as a whole come closer to the technological picture. Automation accentuates all this. Thus the true productivity potential of the American economy is higher than ever before. This obviously enlarges vastly the amount of expansion of output and demand required to restore maximum employment and production.

TOTAL PRODUCTION

The annual rate of gross national product was $361.8 billion in the first quarter of 1953. It rose considerably in the second quarter, then dropped sharply through the first quarter of 1954, then stabilized for the 2 middle quarters of 1954 at about $355.5 billion, and then rose to $361 billion in the fourth quarter.

The fourth quarter 1954 annual rate of gross national product, while about the same as the first quarter 1953 level, was about $30 billion below the maximum employment and production level for the fourth quarter of 1954, i. e., about $391 billion. This results from projecting, from the first quarter of 1953, at a 3.7 rate of annual growth in productivity, plus an 0.8 percent rate of increase in total working hours (resulting from a 1.5 percent annual growth in the labor force under maximum conditions less a reduction of 0.7 percent per annum to take account of normal long-range trends in working hours).

This $30 billion deficit in the annual rate of total output, in the fourth quarter of 1954, correlated well with the excess amount of true unemployment plus underutilization of labor due to undesirable shifts in the composition of employment caused by the recession.

CONSUMER EXPENDITURES

To maintain maximum employment and production, consumer expenditures would have needed to rise, at annual rates, more than $21 billion from the first quarter of 1953 to the fourth quarter of 1954. Actually, they rose only about $9 billion, resulting by the fourth quarter of 1954 in a deficiency of consumer spending at an annual rate of about $12.4 billion.

Comparing the same two periods, personal incomes before taxes rose only $5.3 billion, at annual rates. In the absence of the big changes in taxes and in the rate of savings which took place, personal incomes before taxes would have needed to rise about $19.6 billion more than they actually did, or by about $25 billion, to have maintained an adequate level of consumer spending. This $19.6 billion deficiency in consumer incomes before taxes was reduced to a $12.4 billion deficiency in consumer spending by changes in taxes and in the rate of savings having an annual value of about $7.2 billion in the fourth quarter of 1954.

Whether or not the big changes in taxes and in the rate of savings were desirable, these "shots in the arm" cannot indefinitely and in huge magnitudes take the place of the necessary growth in consumer incomes.

The failure to expand consumer incomes and savings sufficiently was central to the onset and maintenance of the recession. There are as yet no signs of the sources for even a nearly sufficient expansion of consumer incomes. The President's economic advisers do not appraise needed levels of consumer incomes; this is the most striking example of their failure to comply with the mandate of the Employment Act that they set forth needed levels of purchasing power.

GOVERNMENT DEMAND FOR GOODS AND SERVICES

Even if consumer outlays had expanded sufficiently, public outlays for goods and services—Federal, State, and local—in the fourth quarter of 1954 were at an annual rate about $10.7 billion below the requirements for maximum employment and maximum production. This was because public spending declined about $8.7 billion over this period, instead of increasing by about $2 billion Since there was an actual rise of $3.3 billion in spending by State and local governments, an adequate level of public outlays would have been maintained if the reduction in Federal spending had been held to $1.3 billion. Instead, the slash in Federal spending was about $12 billion.

The severe slashes in Federal spending had a far greater impact than the bare figures reveal; because every dollar of Federal spending induces 2 to 3 dollars of private spending. Comparing the fourth quarter of 1954 with the first quarter of 1953, a reduction of $12 billion in the annual rate of Federal outlays was accompanied by the development of a $30 billion deficit in total annual output.

If maximum employment and production had been maintained, the higher level of Federal spending requisite to this end would have been consistent with a more nearly balanced budget, especially since in the absence of recession smaller tax reductions would have been necessary.

The Council of Economic Advisers, unfortunately, has presented no analysis of the needed levels of public outlays, consistent with maximum employment and production without inflation. This is one of their serious derelictions under the mandate of the Employment Act. They have not set the Federal budget in the perspective of the national economy.

PRIVATE INVESTMENT OUTLAYS

In the fourth quarter of 1954, total private domestic investment was running at an annual rate about $6.8 billion below the maximum economy level. Of this, however, about $4.5 billion was represented by inventory liquidation instead of accumulation. Only about $2.3 billion represented a deficiency in new construcion and producers' durable equipment.

The deficit in fundamental private investment was not a byproduct of inadequate funds or incentives. If the level of consumer expenditures and outlays, and of public outlays, had been kept high enough, the level of business investment in construction, plant and equipment would have been sufficiently higher than it actually turned out to be.

The changes in the inventory picture have been largely responsive to, rather than the causes of, more fundamental economic maladjustments. The Council of Economic Advisers has, I believe, been seriously in error in terming the recession an inventory recession. Profound forces—productivity, income flow, agagricultural decline, etc.—have been at work, and these advisers do not squarely face, nor do the advisers appraise the significance of these profound forces for the immediate or long-range future.

SAVINGS

The pinch put upon consumers in 1953 and 1954 forced an excessively rapid drawing down of saving, as many consumers were forced to spend a larger part of reduced incomes. The rate of personal saving out of personal income was 7.8 percent in 1952, 8 percent in 1953, and 8.6 percent in the fourth quarter of 1953. It dropped to 7.7 percent in 1954, and to 7.2 percent in the fourth quarter of 1954. Regardless of the desirable level of saving in the long run, this drastic and precipitate reduction worked hardship upon millions of families, as could be clearly demonstrated by looking at the figures on the distribution of savings among American families.

Question 2. On the basis of economic developments since 1952, how would you classify calendar year 1954 in respect to the four phases of the busines cycle identified in the earlier volumes of the National Bureau of Economic Research—as expansion, recession, contraction, and revival?

In the context of the current economic situation, I do not find these four categories particularly meaningful. They seem to me to be based upon a type of economic analysis, as applied to the current American economy, which is now inadequate. This type of analysis, I believe, does not sufficiently measure changes in the economy against the need for growth; it tends to measure changes too much with reference to fixed previous levels, and therefore tends to produce many misleading conclusions.

For example, the gross national product hardly changed at all in the first three quarters of 1954; and in the fourth quarter it was about 1 percent higher than the average for the year as a whole and somewhat under 2 percent higher than in the third quarter. By measurement against previous fixed levels, one would say that the economy moved sideways—neither expanding, receding, nor contracting—for the first three quarters of the year, and then revived or expanded substantially in the fourth quarter. But this seems to me a highly misleading emphasis.

It is closer to reality to say that the economy in the first three quarters of 1954 fell further and further behind "par for the course," which gets higher with the advance in productivity and the growth in the labor force. Consequently, we were much worse off in the third quarter of the year than in the first quarter. This conclusion is not vitiated because, in the short run, concealed unemployment and unfavorable shifts in the use of the labor force may mask some of these highly adverse developments. The best proof of this principle is that there was more than twice as much unemployment in 1954 as in 1953, and this could never be explained simply by looking at the gross national product which declined only from $364.9 billion in 1953 to $357.1 billion in 1954.

Similarly, it is superficial to measure the upturn in output in the fourth quarter simply by comparing it with the third quarter. It must also be compared with the level that would represent maximum output in the fourth quarter, which was higher than the level that would represent maximum output in the third quarter. An "upturn," if not sufficiently sizable, may be entirely consistent with a deteriorating situation insofar as the upturn does not keep up with the growth factor, or at least begin to remedy the accrued deficiencies of previous lack of growth. Some of the already cited figures on unemployment, for example, show little basic improvement.

Furthermore, the economic situation must be evaluated in terms of a wider variety of indices than those commonly used to measure whether the economy is expanding or contracting. For example, the materials in the President's Economic Report, prepared by the Council of Economic Advisers, would convey to the casual reader the impression of a distinct revival or expansion in the fourth quarter. But nowhere do these materials make any claim that the unemployment situation has been substantially changed, when allowance is made for seasonal factors and for the composition of employment. In fact, the advisers systematically avoid real analysis of unemployment, its causes or cures.

My own view is that 1954 could not be characterized as anything other than a year in which we fell dismally short of maximum employment and maximum production—which I deem in accord with the Employment Act to be imperatively valid goals for the American economy. And because the end of the year, allowing for the growth factor, found us further from these goals than the start of the year, I am less optimistic for 1955 as a whole than I was for 1954 as a whole from the viewpoint of levels of unemployment.

Whether 1954 should or should not be called a year of recession or contraction, it certainly was a year in which we lost ground by the tests which I believe to be most valid. At the end of the year, our total output was further below maximum output than at the start of the year. At the end of the year, there was more hard-core unemployment than at the start of the year, the allocation of the labor force was more disturbing, and the corrective distance that we needed to go to restore either maximum employment or maximum production was greater.

Question 3. What purpose, in terms of carrying out the objectives of the Employment Act, is served by defining the needed levels of employment, production, and purchasing power, and for how far ahead should they be defined?

The purpose of the Employment Act is to promote maximum employment, production, and purchasing power, while considering certain other important objectives as well.

If maximum employment means optimum employment, different people may define it in different ways. One person may think that we should have 4 million unemployed, and another person might think we should have 1½ million unemployed. Vastly different consequences of policy and program would result from these two different positions.

But if the needed level of employment is not defined at all, there is no basis for testing whether an asserted current economic condition or outlook is assuring or not because there are no standards against which to measure it. The Council of Economic Advisers does not define maximum employment. They do not even tell us whether they regard the current level of unemployment as far too high, far too low, or just about right. Thus, when they say 1955 looks good, we cannot tell whether they feel that it would be good if unemployment were to be reduced by 2 million, or whether they feel that it would be good even if unemployment were to grow by 2 million.

In my opinion, this is a rejection not only of the philosophy but also of the legal mandate of the Employment Act. It seems to me to be an avoidance of responsibility because national economic policies and programs are designed to achieve objectives, and no adequately concrete objective is stated by the advisers.

Maximum production means a sufficient level of output and demand to be consistent with maximum employment. If maximum employment is not defined, maximum production cannot be defined either. And without defining maximum production, we cannot determine whether the current situation or the outlook for the months and year ahead is good or bad or indifferent. If we have maximum production now, a 4-percent growth in the economy during 1955 would be fairly good; but if we are 20 or 30 billion dollars short of maximum production now, we need a much bigger growth to restore it.

The Council of Economic Advisers, in my opinion, seems to avoid the mandate of the Employment Act that needed levels of production be defined. From reading their materials, one can gather that they feel that the economy ought to grow in 1955, and that it will grow some. But this is far too vague to provide a sound basis for either a formulation or a critique of policies or programs. How much must we grow to absorb productivity? A growing labor force? Those now unemployed?

Only the rash would attempt precise answers to these questions. But no definition whatsoever of the needs reflects no analysis adequate to set forth problems or devise solutions.

Maximum purchasing power means, in the final analysis, a flow and dispersion of income among various sectors of the economy which will promote equilibrium at maximum levels of employment and production. The Council of Economic Advisers undertakes no general analysis of this problem—if they did, how could they possibly have ignored the whole problem of a declining agriculture in a report which purports to deal systematically and comprehensively with the current problems of the American economy? But this is not surprising: If the problems of maximum employment and production are avoided, there is no base upon which to analyze purchasing power needs. What trends in farm income are desirable? What supplements to consumer income, especially for low-income families, are within the range of sound policies and programs?

The Employment Act is, in the final analysis, a vehicle for the prudent and sensible development of consistent national economic policies and programs. But the ultimate purpose of such policies and programs, manifestly, is to promote the utilization of our labor force and other resources in ways which avoid excess waste of manpower and excess waste of opportunity for enjoying maximum output. It would seem obvious beyond the need for argumentation that no systematic formulation or evaluation of such policies and programs can have any sound point of departure, unless that point be a definition of what quantities of employment and production connote maximum employment and production, and what allocations of purchasing power are consistent with maximum employment and production.

The importance of defining these needed levels, as explicitly required by the Employment Act, may quickly be grasped by a reading of the Economic Report. The economic advisers have prepared for the President a thoroughly competent collection of historical data on recent economic trends. But a reading of the report, because it does not define needed levels, reveals no discussion of crucial issues such as these:

How are trends in productivity shaping the size of the task of maintaining maximum employment and production? How are changes in the composition of national income shaping the problem of maintaining maximum purchasing power? Are we progressing or not progressing, measured not against the levels of 6 months or a year ago, but measured against the changing levels required for a maximum economy? What are the implications if the current deficits in output and demand increase, and these deficits may increase even if the economy grows but does not grow enough.

The economic advisers make a few forecasts, surrounded by many hedges. But the Employment Act did not set up a forecasting agency. It set up a national economic policy coordinating body, with forecasting to be used mainly as one tool for the formulation of policy. To be sure, there are a number of random policies and prgrams set forth in the Economic Report. But they do not stem from the economic analysis, because the analysis does not define needs.

Under the circumstances, although I believe that the meaning of the Employment Act is unmistakably clear, I feel that the joint committee might consider advising the advisers to carry forward the responsibilities which the act imposes upon them.

I believe that the Employment Act requires that needed level of employment, production, and purchasing power be defined at least for the full year in which the January Economic Report of the President is submitted. They should now be defined for at least 1955. For certain long-range programs, and as a further guide to our problems of economic adjustment, it is desirable to project some needed levels for several years ahead, say to 1960. But such projections are of little value unless they are used to shed light upon immediate problems, needs, policies, and programs. If a happy portrayal of what we might accomplish by 1960 is used as a substitute for a clear definition of what we should begin doing now, the happy portrayal becomes a mere distraction, and to that extent is injurious.

Question 4. What are the implications of recent trends and present indications for employment, unemployment, hours of work, productivity, total production, private investment, levels of consumption, Government demand for goods and services, and savings for the coming year?

I do not believe that the rate of economic upturn in gross national product and in the industrial production index during the fourth quarter of 1954 can be maintained throughout 1955. Nor do other observers. This upturn was predicated largely upon a rapid fourth quarter expansion of automobile production, with impact upon steel and other industries. On page 24 of the Economic Report, the tentative forecasts made by the economic advisers with respect to investment, consumption, and Government spending, even if achieved in actuality, do not add up to anything like sustained expansion of these indexes at the fourth quarter 1954 rate.

An assumption that, with luck, the economy in 1955 as a whole might have a total output 3 percent above the 1954 level would seem to me a fairly optimistic assumption—and certainly no more pessimistic than what one can derive from reading the Economic Report. I believe that we might, under existing policies and programs, register a 3 percent higher level of total output, at least in the first half of 1955, than in 1954 as a whole.

But those who take comfort in what would result from this rate of expansion, have, like the economic advisers, made no estimates whatsoever of the amount of expansion required to absorb excess unemployment, absorb new entries into the labor force, absorb those who have been kept out of the labor force by recessionary conditions, absorb the growth in productivity which is certain under current technological trends if the economy advances; and, in addition to all this, restore a product mix in the use of the labor force more healthful and less wasteful than that which now exists.

If the level of total output in 1955 should be 3 percent above 1954, that would not be nearly enough expansion to meet these problems. An expansion in these proportions would result in an increase in hard-core unemployment. An expansion of only 3 percent would mean that the level of true unemployment for 1955 as a whole might average around 6½ million, contrasted with slightly above 4 million in 1954. The level of full-time Census Bureau unemployment might be considerably lower than 6½ million, due to forced reductions of hours of work to share unemployment, temporary layoffs, etc. This level of unemployment would be complicated by further pressing of the labor force into relatively less productive areas where more workers cannot be efficiently used under general economic conditions far short of maximum employment and production.

The budgetary intentions of the Federal Government, as now announced, combined with the basic weaknesses in the consumer income structure, the continuing deterioration of agriculture's position, and the high improbability that the downward trend of fundamental business investment will be reversed under these combinations of circumstances, would seem to offer little prospect that the economy as a whole will average sufficient growth in 1955 to prevent the gradual accumulation of hard-core unemployment.

All this can be changed by appropriate policies and programs. But these kinds of programs and policies seem to me to require a much more basic economic analysis and a much firmed adherence to the need—defining requirements of the Employment Act—than the advisers under the act have thus far displayed.

To restore maximum employment and production by the end of 1955, the level of total output for 1955 as a whole needs to be in the neighborhood of $378 billion, or about 6 percent above the $357 billion level for 1954 as a whole. Total output would need to reach an annual rate of about $390 billion in the fourth quarter of 1955, or more than 8 percent above the $361 billion level in the fourth quarter of 1954.

Unemployed manpower and other idle resources are a progressive threat to our economy if their realities are ignored. But unemployed manpower and other unusued resources are an enormous potential asset, because they give us the power, if brought back into use, to enlarge our economic strength, and thus without excessive strain to place a large enough offering upon the altar of freedom. The fact that we could now produce at an annual rate $30 billion higher than we are now producing, and can raise this much further in the year ahead, makes it unconscionable in the face of the rising Communist threat to let any of our fields lie bare. This is the challenge of the Employment Act; and it is as important or more important now than ever before to rise to the challenge and not to evade it.

The CHAIRMAN. The meeting tomorrow will be in the same room at 10 o'clock. We take up the problems of regional and industrial unemployment.

There will be an executive meeting at 9: 30 in room 324.

(Whereupon, at 4: 10 p. m., the committee adjourned until Thursday, January 27, 1955, at 9:30 a. m.)

JANUARY 1955 ECONOMIC REPORT OF THE PRESIDENT

THURSDAY, JANUARY 27, 1955

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

The joint committee met at 10:30 a. m., Senator Paul H. Douglas, chairman, presiding.

Present: Senator Douglas, chairman; Senator Sparkman; Senator Watkins; and Representatives Bolling, Kelley, and Talle.

The CHAIRMAN. Gentlemen, we are very glad, indeed, to welcome you here, and appreciate your taking this time to be with us.

The subject we are going to consider this morning, as you know, is the problem of regional and industrial unemployment. We invited the Secretary of Labor to come, or to send a representative. We are very pleased that Mr. Goodwin, who is the Director of the Bureau of Security of the Department of Labor, is here.

Has the Department of Commerce sent a representative?

Mr. ENSLEY. Yes; Mr. Roterus.

The CHAIRMAN. The procedure which we are going to use is to ask each person rather briefly to discuss the questions which we have submitted. We suggest that you take not more than 5 or 5 to 7 minutes, although representatives of the Departments will be permitted a longer period of time in which to speak.

I think that no questions concerning policy should be submitted to the representatives of the Departments, namely, Mr. Goodwin and Mr. Roterus. They are not policymaking officials, and, therefore, should not be questioned about policy. Nor should they be questioned about conversations which they may have had with other members of the executive department, or any agreements or disagreements which they may have with the executive policy.

We do this in order to preserve the sanctity of the executive department which has not always been carefully followed before certain committees, but which we are anxious to protect.

With that statement, Mr. Goodwin, would you lead off on this question. I am going to ask all of you to discuss question 1 first, before we turn to the second question:

What are the facts respecting employment, unemployment, layoff, part-time work, and living conditions in depressed regions and industries? And in this connection if there is any information on the number receiving food relief I think that would be appropriate.

Mr. Goodwin.

OPENING STATEMENT OF ROBERT C. GOODWIN, DIRECTOR, BUREAU OF EMPLOYMENT SECURITY, UNITED STATES DEPARTMENT OF LABOR

Mr. GOODWIN. Mr. Chairman, I have a brief statement which I would like to make at this time.

I welcome this opportunity to appear again before your committee. I wish to discuss with you our experience with regional and industrial unemployment, some of the conditions which give rise to local unemployment, and programs which are designed to deal with these problems. I would also like to submit, in a few days, a somewhat more detailed statement relating to regional and industrial unemployment over the past year.

A year ago in January claims activities were rising substantially more than seasonally, and instead of declining in February, as it usually does, insured unemployment continued to rise through March and April to 2,181,000. Thereafter, the average weekly volume declined steadily to less than 1.5 million in November.

The rise in insured unemployment was accompanied by a rise in the number of claimants exhausting unemployment benefits. The number of exhaustions rose from 94,000 in January to 171,000 in August, and then tapered off to 152,000 in December. The total number of exhaustions for the year was 1,762,000. As may be expected, the largest volumes of exhaustions generally occurred in those States which experienced the heaviest levels of insured unemployment.

The economy began to improve this past fall, and the seasonal increase in insured unemployment, which usually begins in November, did not develop this year until December when the volume moved up to 1.7 million. Furthermore, the rise this year was somewhat smaller than usual.

During 1954, $2 billion in benefits was paid to about 6.6 million individuals under State unemployment-insurance programs, as compared with $962 million paid to 4.2 million individuals in 1953.

It is too early to tell yet what January will show, but insured unemployment rose as usual in the first week to 1,857,000. Normally insured unemployment begins to turn down toward the end of January and early February.

The volume of insured unemployment varied widely among different regions, States, and areas over the past year. The largest volumes of insured unemployment were experienced in the middle Atlantic and east north central regions which account for about half of the covered workers of the Nation, and which have a heavy concentration of durable goods manufacturing. In these regions which include New York, New Jersey, Pennsylvania, Ohio, Indiana, Illinois, Michigan, and Wisconsin, cutbacks in such industries as steel, autos, military hardware, heavy industrial machinery, machine tools, railroad equipment, and farm machinery contributed significantly to insured unemployment levels. Curtailments in apparel manufacturing also caused some unemployment in New York, New Jersey, and Pennsylvania.

The highest rate of insured unemployment, as distinct from the numbers of workers involved, were experienced in West Virginia, Kentucky, Tennessee, Mississippi, New Hampshire, Oregon, Pennsylvania, Maine, and Rhode Island.

PROBLEM OF LOCALIZED UNEMPLOYMENT, EXTENT AND CAUSES

While the State figures on insured unemployment provide a valuable indicator of the relative impact of unemployment among different sections of the country, they do not, of course, tell the whole story about the problem of localized unemployment. The Bureau of Employment Security classifies 149 major local areas according to their relative degree of unemployment.

Our January 1955 classification shows that 105 areas which account for close to 80 percent of the 32.5 million nonfarm wage and salaried workers surveyed had only moderate unemployment. Some 44 other major areas had substantial unemployment and were classified in group IV in January. Of these, 35 had between 6 and 12 percent of the work force unemployed; the other 9 had unemployment in excess of 12 percent. About one-third of the Nation's total unemployment is centered in areas classified in group IV.

At this point, I wish to emphasize that not all of these areas are confronted with long-term unemployment problems. A very large share of the more than 1 million unemployed workers in the group IV areas are concentrated in areas with short-run unemployment problems, stemming from temporary dislocations in specific industries. No single cause can fully explain serious unemployment in some areas while the Nation as a whole is generally prosperous.

Several contributory factors, however, can be isolated. Among these are:

1. Short-run cutbacks in consumer demand for certain products. The Detroit and Pittsburgh areas early in 1954 illustrate the effects of such cutbacks in the auto and steel industries.

2. Long-term loss of an industry's competitive market position. Employment in some areas has been declining over long periods of time because of the inroads of competing products upon the market position of basic local industries. This has frequently been accompanied by geographic shifts of the industries effected. Many textile areas in New England have experienced this problem. Many Pennsylvania anthracite coal mining areas, such as Scranton, Wilkes-Barre-Hazleton, and Pottsville have suffered employment losses due to competition from other fuels.

3. Exhaustion or depletion of natural resources: Coal-mining areas, where the most accessible veins have been exhausted or depleted, have been hardest hit. To a lesser extent areas dominated by such industries as lead, zinc, and silver mining, and lumber have also developed labor surpluses as a result of the depletion of natural resources.

4. Technological changes: Changes in methods of production or materials used for certain items have resulted in substantial labor surpluses in some areas. For example, the change-over from cotton cord to nylon cord in rubber tires has created heavy unemployment in the Cedartown-Rockmart area of Georgia. Similarly, the change to diesel engines has contributed to labor surpluses in the important railroad and locomotive repair center of Altoona, Pa.

5. Lack of an adequate industrial base: In some areas locally available employment opportunities are not sufficient to support a growing population and labor force on a year-round basis. Among these are the seasonal resort areas of Atlantic City, N. J., Asheville, N. C., and Ronceverte-White Sulphur Springs, W. Va.; the tobacco processing

centers of Durham and Winston-Salem, N. C., and the Great Lakes shipping ports of Duluth, Minn., and Superior, Wis.

6. Shifts in Government activities: Some areas are or have been in the labor-surplus category because of changes in emphasis of our defense program. Cutbacks in ordnance requirements over the past 2 years, for example, have contributed significantly to the development of surplus conditions in many small areas.

PROGRAMS TO ALLEVIATE UNEMPLOYMENT

To over 40 million workers the first line of defense against unemployment is unemployment insurance. It is automatic in the sense that it goes into effect without requiring special State or Federal action. It directly supports the purchasing power of those seeking work and it is of known amount and duration so that recipients and the communities in which they live can plan their own actions with a full knowledge of the facts.

In addition to the system of State unemployment insurance laws which operate in all States, the District of Columbia, Hawaii, and Alaska, there is Federal legislation providing unemployment insurance for railroad workers, Korean veterans, and civilian employees of the Federal Government.

As recommended by the President, State unemployment insurance programs should be improved by broadening coverage and by increasing the amount and duration of benefits. The Secretary of Labor has communicated with the State governors urging that action be taken to revise State laws so that they may more adequately carry out the basic objectives of a sound unemployment insurance system. I want to emphasize that unemployment insurance is a first line of defense, and is one of the built-in economic stabilizers. Unemployment insurance in itself does not spark a resumption of economic activity but it provides time for other programs to get under way.

The nature of the unemployment problem and the kind of action required to deal with the problem differ from one locality to another. For this reason the primary responsibility for dealing with localized unemployment problems rests with the local community whose resources and facilities must be coordinated to overcome the conditions which give rise to the unemployment. State governments share with local governments the responsibility for cooperating with the local community groups to develop action programs which will bring about economic diversification and stimulate employment opportunities. The role of the Federal Government is to cooperate with State and local governments in these efforts. It brings to bear its technical resources in helping to determine the character of the problems and it helps to develop courses of action to deal with the problem. In addition to its general national economic policies and programs it modifies its own operations and activities to provide assistance to local areas experiencing serious unemployment.

Federal programs to alleviate unemployment in labor surplus areas include three broad fields of activity: Technical assistance to the States and the communities primarily through the Departments of Commerce and Labor; certain special provisions in procurement policies benefiting bidders from areas of substantial labor surplus; and assistance through accelerated tax amortization to benefit new or expanded plants necessary to strengthen the mobilization base located in areas of labor surplus.

In addition, programs that are not directly linked to area unemployment may be of some assistance to areas of substantial labor surplus. These include the program for urban renewal under the Housing Act of 1954; Federal assistance for school, road, and hospital construction; the construction or expansion of Federal installations such as Atomic Energy Commission plants and Defense Department installations, and the programs of the Small Business Administration. Unemployment is also a consideration in adjusting many other broad Federal programs such as foreign-trade policy and the development of river basins and harbors, and flood control.

The program of the Department of Labor with regard to local area unemployment includes both the determination and publication of the facts and technical assistance through the State employment security agencies to the communities themselves in organizing their own community resources. Forty-two State unemployment insurance laws specifically provide for programs to alleviate and prevent unemployment. The community employment development program is now one of the important programs in the employment security system. In a typical situation a representative from the Department of Labor is sent to assist State technical staffs and the local office manager in a thorough review of the facts concerning a locality's labor market, the basic causes of the unemployment, and the employment outlook as far forward as key employers in the area can estimate their labor requirements. The local office manager, with the assistance of the Department's representative, stimulates local civic leaders, key employers, and major union leaders to cooperate in working out an overall program for the community. This program lays heavy stress on developing further the assets of the community and correcting weaknesses. It points generally to the types of industries that are necessary not only to provide additional employment but to balance the local economy. Primary stress in all of this work is laid upon local responsibility and local initiative.

The Department of Commerce, through its area development division, works closely with us in providing assistance to communities of substantial unemployment. The Department of Commerce representative, Mr. Roterus, will, I am sure, elaborate on the activities of his Department.

Federal procurement policies to assist areas of substantial labor surplus have now been extended to include offshore procurement. These policies include Defense Manpower Policy No. 4, as amended in November 1953, and Executive Order 10582, which modifies the application of the "Buy American Act." Under DMP-4, a procurement agency may set aside a portion of a procurement for the specific purpose of offering it to firms in labor-surplus areas at an acceptable price determined through free competitive bidding. While this program has not resulted in the redirection of a large volume of contracts to such areas, the wide dissemination of the list of labor-surplus areas has resulted in manufacturers in these areas receiving more attention. The total volume of contracts secured by them has been significant. From January 1 to September 30, 1954, a total of over $900 million in Defense Department contracts was placed in surplus-labor areas.

On December 17, 1954, the President issued Executive Order 10582 to expand offshore procurement. However, the order permits the rejection of a foreign bid in any situation where the domestic low bidder would produce most of the materials in areas of substantial labor surplus, providing such action is determined to be in the national interest. This policy is still too new to measure its results.

A more basic program is the granting of additional accelerated tax amortization to firms that locate in areas of substantial labor surplus. The program is more basic since it creates a permanent business activity. This policy was initiated in November 1953 by the Office of Defense Mobilization and came after a great volume of applications had already been processed, so that relatively few industries remained eligible for accelerated amortization. Nevertheless, through December 1954, some 31 facilities involving a total capital investment of $204 million have been certified for areas of substantial labor surplus. These facilities, when completed, are expected to provide jobs directly for nearly 9,000 workers. As we all know, such employment will create secondary jobs in trade, service, and other supporting activities.

RECENT PROGRAM DEVELOPMENTS

Some months ago the Council of Economic Advisers set up a task force to examine and evaluate programs designed to assist areas of substantial labor surplus. The President's Economic Report recognized that the procurement and tax-amortization policies have been of rather limited assistance, but recommended their continuation. Further, the report strongly urged the strengthening of the technical assistance programs, especially those conducted by the Departments of Commerce and Labor.

The Department of Labor is reviewing past experience in this field and what can be done to assist areas experiencing substantial unemployment. It is obvious, however, that the initiative and responsibility of the local community and State governments are of basic importance in resolving localized unemployment problems.

The CHAIRMAN. Thank you very much.

(Mr. Goodwin's statement, and a supplemental statement subsequently submitted appear at pp. 236, 242.)

The CHAIRMAN. Mr. Roterus.

OPENING STATEMENT OF VICTOR ROTERUS, CHIEF, AREA DEVELOPMENT DIVISION, OFFICE OF TECHNICAL SERVICES, UNITED STATES DEPARTMENT OF COMMERCE

Mr. ROTERUS. Mr. Chairman, members of the committee, members of the panel, I have a rather brief statement, but I have cut it further to stay within the 10 minutes allotted me.

The CHAIRMAN. Thank you.

Mr. ROTERUS. Areas of spot unemployment are principally of two types—the temporal type which appear and vanish with the fluctuations of the national economy and those of a chronic type which may persist even when the national economy is at high levels. The latter areas particularly present special problems and needs. Since Mr. Goodwin, of the Department of Labor, has discussed the extent of these areas and the reasons why they are faced with long-term unemployment problems, I should like to confine myself, first, to several observations about the problems and needs of these areas, and second, to how our particular program attempts to assist these communities in meeting their problems and needs.

NEEDS OF SURPLUS LABOR AREAS

Areas of long-term unemployment have these characteristics, among others:

(1) They need either a complete revitalization of their existing industries, or where these industries face a shrinking future, new activities—a new economic base—are needed to keep pace with national progress and to provide increasing job opportunities.

(2) Many of these areas, exclusively schooled in the development of one type of resource or industry, are not prepared to move incisively into new product fields or to serve new and changing markets.

(3) The know-how with which to take the necessary steps in developing a revitalized local economy based on local resources and advantages is often lacking.

(4) The knowledge and ability to make use of existing State and Federal aids in buttressing local area development efforts are likewise lacking.

(5) Despite the most arduous local efforts at a solution—which usually is determined to be the establishment of new lines of industry—these efforts sometimes die on the vine because effective contact has not been made with the executives of private industry whose decisions as to new and branch plant locations are a vital key to expanding job opportunities.

AREA DEVELOPMENT PROGRAM OF THE DEPARTMENT OF COMMERCE

Acting on suggestions of the President's Advisory Board on Economic Growth and Stability, the program of the Area Development Division of the United States Department of Commerce was expanded last spring to assist labor surplus areas in their efforts to deal with their own problems. The Department gave the Division the assignment of serving as a focal point and clearinghouse in the Federal Government for area groups and delegations seeking assistance to relieve local area unemployment. As a result, the Division has attempted to meet the demands of local delegations and congressional requests with prompt and orderly handling and, when indicated, appropriate units of the Federal Government have been called on and have cooperated on the problems on which they were capable of making a contribution. In addition, the Division began fashioning a program to assist State and local groups in working toward new employment opportunities in the areas of labor surplus.

The elements of this program can be briefly summarized as follows:

1. Several employment development kits and aids were prepared. A canvass was made of local and State programs, and the actions of many communities were summarized in a simple Community and Area Development Checklist, which I have here (exhibit A).

(The exhibits referred to in Mr. Roterus' testimony are on file with the committee.)

Mr. ROTERUS. This checklist is a brief compendium of the types of actions that various aggressive communities had taken to cope with problems of industrial development, retail and service trade expansion, tourist and recreation development, local government aids, and so forth. The checklist also enumerated actions that had been effectively taken by the various States.

Another self-help tool that the Division has provided to meet the know-how needs of many local areas for establishing new industry based on local resources is a Community Industrial Development Kit (exhibit B). This kit covers a range of topics including (*a*) the survey of what prospective industry wants to know about your community; (*b*) promotion stage—how to find the industrial prospects; and (*c*) advice on how other communities have gone about this job.

The Division found that many communities had been successful in establishing new industries through the device of the planned industrial park which in essence is similar to a high-class residential subdivision. To make these experiences available to all communities determined to expand and diversify their economic base, the Division just recently issued a how-to-do-it publication entitled "Organized Industrial Districts; a Tool for Community Development."

That is this document here (exhibit C).

I might add that in the Northern States this device has not been used as much as in developing the West and Southwest.

The second part of the program we are developing goes to the heart of the matter of establishing new industry to take the place of old or declining industries in areas of surplus labor. Once a community has organized for this effort their prime need is to come into direct contact with firms planning expansions. In this connection we have tried various devices to assist communities in need. Several times a month, for example, leading executives from the various types of private industry are called to industry conferences held by the Department of Commerce. Time is allotted on the agenda of these conferences to discuss the problem of surplus-labor areas. the stake of private industry in their solution, and the conference is asked to give earnest consideration to the advantages of these areas in their planning for future plant locations.

Right now there is a meeting of machine-tool executives in the Department of Commerce, and this story is being brought to their attention.

Another effort in the direction of encouraging diversification of the local economies was the new products, new methods, and patents exhibit held in Detroit last October in which State and local governments, labor unions, and private industry cooperated with the Department. The Department of Defense, which has spent billions of dollars in research, put on public view new products, processes, and materials which have commercial development possibilities, and which they are eager to get into civilian production for quick defense conversion when the need arises. We are now engaged with the Department of Defense in looking into possibilities for extending this exhibit to other sections of the country, preferably on a regional basis.

Another effort to enlist private industry into the program for assisting labor surplus areas was in cooperation with the Society of Industrial Realtors. A task force appointed by this society visited Lawrence, Mass., as a test case, and made a report which has general application to the problems of all labor surplus areas. Using the methods outlined in this report members of the task force are actively negotiating with several manufacturing firms with respect to possible locations in that area.

I might add that this type of effort does not have overnight results, and it takes persistent work. For example, Cumberland, Md., from whose representative we are going to hear today, is a case in point. Some time ago the Commerce and Labor Departments, in cooperation with State agencies, conducted an industrial development survey there. This survey and report provided the city's first inventory of available industrial sites. The report also outlined a detailed program for local action with complete responsibility for industrial development work lodged in one agent. The Area Development Division later called to the attention of the industrial development department of the railroad going through Cumberland and to industry executives the available governmental incentives for plant locations in labor surplus areas. A few months ago these various and associated efforts—Federal, State, local, and private—bore fruit in the fact that a large glass company began construction of a $33 million plant which will employ upward of 800 people. With this stride forward and with the aggressive local efforts now active in the Cumberland area, I venture to say that we have not yet seen the end of new development in Cumberland.

Another important activity of the Division which has been limited by the available personnel has been the on-the-spot assistance to State and local groups in combating problems of local unemployment. Division representatives, on request of local delegations and Members of the Congress, have made field visitations to communities in Indiana, Kentucky, Oklahoma, Pennsylvania, Virginia, West Virginia, and a number of communities in New England. These visitations are the perfect time to inform the local development groups how to make full use of aids and programs of the Department of Commerce and other agencies which can be helpful on specific local problems. We have found that most communities are appreciative not only of our technical assistance but apparently get a morale boost in their own efforts through personal contact and assistance.

These visitations are always conducted in cooperation with State planning and development agencies with whom the Division maintains a close working relation through informal bulletins, an annual conference in Washington, and other means. Followups in Washington with other agencies able to provide particular types of assistance and the continuing contact with local and State groups entailed by the field visitations are illustrated by our reports on recommendations made to the President by the Northeast Pennsylvania Industrial Development Commission (exhibit D), and drought relief and area development recommendations, eastern Oklahoma (exhibit E). In these visitations we have received the full cooperation of representatives of the Small Business Administration, the Department of Labor, the Department of the Interior, the Housing and Home Finance Agency, the Department of Defense, and others.

The Economic Report of the President for 1955 recommends further strengthening of the area-development program of the Department of Commerce. If additional funds are made available during the next fiscal year the Division will step up its various activities.

In particular, we shall increase our on-the-spot assistance to labor-surplus areas by stationing area-development specialists in the field. These specialists would give personal and continuing consultation to labor-surplus-area groups in followup of requests for such help made to the Congress and executive branch. They will also keep us informed of what successful devices are being used by various labor-surplus communities in attacking their problems, and this information will be made the subject of a periodical bulletin which will be made available to all local labor-surplus areas.

Further, out of our experience in the field we expect to make suggestions as to what the Federal Government might do further in assisting these spot areas of unemployment to get back in step with national growth.

(The exhibits referred to in Mr. Roterus' testimony are on file with the committee. His prepared statement appears at p. 260.)

The CHAIRMAN. Thank you very much.

In view of the fact that the first two witnesses have not confined themselves, and perhaps it is quite proper that they should not, to the first question, but dealt with the second, third, and fourth questions, I think that the other members of the panel should be free to discuss the subject as a whole.

Mr. Thomas, from Pennsylvania.

STATEMENT OF LESTER THOMAS, INTERNATIONAL REPRESENTATIVE OF THE UNITED MINE WORKERS

Mr. THOMAS. My statement before this committee today will be confined solely to the coal-producing areas of the State of Pennsylvania and the serious problem in unemployment that now exists in these areas.

Anthracite region:

Prospective labor market conditions in anthracite labor market area of Pennsylvania as of November 1954

Definition of classification:
IV–A—6–11.9 percent of labor force unemployed.
IV–B—12 percent or more of labor force unemployed.

POTTSVILLE (SCHUYLKILL COUNTY) AREA

Current area classification—IV–B—Very substantial labor surplus:	
Civilian labor force	82,750
Unemployed	16,350
Employed	66,400
Percent unemployed	19.8

SCRANTON AREA

Current area classification—IV–B—Very substantial labor surplus:	
Civilian labor force	105,050
Unemployed	15,600
Employed	89,450
Percent unemployed	14.9

SUNBURY-SHAMOKIN-MOUNT CARMEL AREA

Current area classification—IV–B—Very substantial labor surplus:

Civilian labor force	68,770
Unemployed	10,500
Employed	58,270
Percent unemployed	15.3

WILKES-BARRE-HAZLETON AREA

Current area classification—IV–B—Very substantial labor surplus:

Civilian labor force	147,650
Unemployed	22,900
Employed	124,450
Percent unemployed	15.5

CLEARFIELD-DU BOIS AREA

Current area classification—IV–B—Very substantial labor surplus:

Civilian labor force	35,900
Unemployed	5,100
Employed	30,800
Percent unemployed	14.2

INDIANA AREA

Current area classification—IV–B—Very substantial labor surplus:

Civilian labor force	21,150
Unemployed	2,800
Employed	18,350
Percent unemployed	13.2

JOHNSTOWN AREA

Current area classification—IV–B—Very substantial labor surplus:

Civilian labor force	102,300
Unemployed	19,100
Employed	83,200
Percent unemployed	18.7

KITTANNING-FORD CITY AREA

Current area classification—IV–B—Very substantial labor surplus:

Civilian labor force	23,400
Unemployed	3,350
Employed	20,050
Percent unemployed	14.3

UNIONTOWN-CONNELLSVILLE AREA

Current area classification—IV–B—Very substantial labor surplus:

Civilian labor force	53,400
Unemployed	13,100
Employed	40,300
Percent unemployed	24.5

PITTSBURGH AREA

Current area classification—IV–B—Very substantial labor surplus:

Civilian labor force	924,300
Unemployed	87,000
Employed	833,200
Percent unemployed	9.4

Labor force, employment, and unemployment in the anthracite region, by labor market area—Bimonthly, November 1953–November 1954

Labor market area	November 1953	1954 January	March	May	July	September	November
Scranton (Lackawanna County):							
Total civilian labor force	105,650	105,050	105,150	105,000	105,900	105,050	105,200
Employment	94,700	92,350	92,200	89,050	87,950	89,450	89,850
Unemployment	10,950	12,700	12,950	15,950	17,950	15,600	15,350
Percent of labor force	10.4	12.1	12.3	15.0	16.8	14.9	14.6
Wilkes-Barre-Hazleton (Luzerne County):							
Total civilian labor force	148,400	146,950	148,050	148,350	149,450	147,600	146,200
Employment	132,600	128,550	126,600	124,750	124,050	124,700	124,650
Unemployment	15,800	18,400	21,450	23,600	25,400	22,900	21,550
Percent of labor force	10.6	12.5	14.5	15.9	17.0	15.5	14.7
Pottsville: [1]							
Total civilian labor force	83,150	83,500	83,950	83,700	83,450	82,750	82,450
Employment	73,150	70,650	70,400	66,750	64,700	66,400	68,070
Unemployment	10,000	12,850	13,550	16,950	18,750	16,350	14,380
Percent of labor force	12.0	15.4	16.1	20.3	22.5	19.8	17.4
Total, 3 labor market areas:							
Total civilian labor force	337,200	335,500	337,150	337,050	338,800	335,400	333,850
Employment	300,450	291,550	289,200	280,750	276,850	280,550	282,570
Unemployment	36,750	43,950	47,950	56,300	61,950	54,850	51,280
Percent of labor force	10.9	13.1	14.2	16.7	18.3	16.4	15 4
Sunbury-Shamokin-Mount Carmel: [2]							
Total civilian labor force	(3)	(3)	68,450	(3)	(3)	68,770	(3)
Employment	(3)	(3)	58,450	(3)	(3)	58,270	(3)
Unemployment	(3)	(3)	10,000	(3)	(3)	10,500	(3)
Percent of labor force	(3)	(3)	14.6	(3)	(3)	15.3	(3)
Total, 4 labor market areas:							
Total civilian labor force	(3)	(3)	405,600	(3)	(3)	404,170	(3)
Employment	(3)	(3)	347,650	(3)	(3)	338,820	(3)
Unemployment	(3)	(3)	57,950	(3)	(3)	65,350	(3)
Percent of labor force	(3)	(3)	14.3	(3)	(3)	16.2	(3)

[1] The Pottsville area covers all of Schuylkill County and the boroughs of Lansford, Summit Hill, Jim Thorpe, and Mauch Chunk Township, in Carbon County.
[2] Area covers Snyder, Union, Northumberland, and Montour Counties and Conyngham Township and Centralia Borough in Columbia County.
[3] INA.

Compensable unemployment compensation claims filed in the anthracite region during 1954, by loca office

Local office	January	February	March	April	May	June	July	August	September	October	November	December	Annual total
Total	168, 269	153, 903	200, 336	197, 552	202, 370	210, 749	191, 061	178, 677	173, 592	147, 716	131, 434	137, 348	2, 093, 007
Carbondale	6, 214	6, 859	8, 913	8, 228	7, 457	7, 729	6, 745	6, 677	6, 394	5, 577	6, 092	6, 501	83, 386
Hazleton	23, 186	17, 857	20, 265	22, 535	21, 714	21, 498	16, 498	14, 755	13, 312	11, 793	12, 074	13, 276	208, 763
Jim Thorpe	4, 365	5, 095	6, 136	7, 060	7, 542	8, 492	8, 566	6, 556	6, 963	5, 119	4, 200	4, 976	75, 070
Mahanoy City [1]	------	------	------	------	------	3, 019	2, 315	2, 469	2, 197	2, 118	2, 097	2, 151	16, 366
Milton	4, 626	4, 505	5, 400	4, 619	4, 228	6, 863	4, 607	3, 584	2, 971	2, 216	2, 277	3, 027	48, 923
Mount Carmel	9, 384	6, 643	12, 930	12, 412	11, 579	11, 021	8, 651	9, 025	8, 400	6, 937	5, 824	6, 554	109, 360
Nanticoke	6, 599	5, 745	7, 955	9, 611	9, 158	9, 958	8, 837	9, 014	8, 543	5, 598	4. 186	4. 373	89, 577
Olyphant	7, 974	6, 991	10, 470	7, 723	9, 869	12, 028	10, 301	10, 056	10, 064	8, 775	6. 582	6, 689	107, 522
Pittston	9, 672	8, 355	11, 220	10. 772	12, 095	14, 176	13, 462	14, 620	14, 704	12, 947	11, 422	10, 995	144. 440
Pottsville	11, 002	10, 108	12, 108	12, 735	13, 758	14, 712	10, 591	10, 065	10, 288	8, 551	7, 288	9. 248	130. 454
Scranton	22. 926	19, 058	22, 838	21, 947	22, 890	25, 829	23, 316	22, 011	20, 223	19, 366	18, 954	20, 903	260, 261
Shamokin	6, 564	6, 280	8. 961	7. 919	8. 370	8, 604	9, 266	7, 197	5. 716	5, 288	5. 278	4, 764	84. 207
Shenandoah	12, 367	9, 890	12, 080	15. 020	13, 157	9, 581	10, 359	10, 138	8, 993	8, 687	7, 060	7, 391	124, 723
Sunbury	9, 540	10, 048	11, 135	10, 507	9, 011	8, 058	7, 493	7, 350	7, 305	6, 676	6. 230	7, 316	100, 669
Tamaqua	5, 873	6, 913	12, 672	11. 869	16, 872	11, 039	20, 369	15, 492	15, 894	12, 563	10. 964	7, 542	148, 062
Wilkes-Barre	27, 977	29, 556	37, 253	34, 595	34, 670	38, 142	29, 685	29, 668	31, 625	25, 505	20, 906	21, 642	361, 224

[1] Office opened June 1954.

Estimated net unemployment compensation benefit payments in the anthracite region during 1954, by local office

Local office:	Amount of benefits paid	Local office—Con.	Amount of benefits paid
Total	$49,274,000	Olyphant	$2,539,000
		Pittston	3,450,000
Carbondale	1,677,000	Pottsville	3,202,000
Hazleton	4,717,000	Scranton	5,972,000
Jim Thorpe	1,911,000	Shamokin	1,984,000
Mahanoy City	720,000	Shenandoah	2,766,000
Milton	1,161,000	Sunbury	2,428,000
Mount Carmel	2,720,000	Tamaqua	3,593,000
Nanticoke	2,124,000	Wilkes-Barre	8,310,000

Exhaustions of unemployment compensation benefits in the anthracite region during 1954, by local office

Local office	January	February	March	April	May	June	July	August	September	October	November	December	Annual total
Total	1,554	1,648	2,010	2,118	2,372	2,911	3,029	3,356	3,962	5,055	4,077	3,348	35,440
Carbondale	64	65	64	81	99	132	107	119	169	179	135	136	1,350
Hazleton	127	171	209	208	240	278	279	359	358	508	424	329	3,490
Jim Thorpe	43	28	46	55	98	100	115	136	135	109	102	110	1,077
Mahanoy City [1]	-----	-----	-----	-----	-----	11	41	64	49	67	391	60	683
Milton	66	76	81	102	94	143	123	91	75	47	74	71	1,043
Mount Carmel	40	35	58	63	94	98	90	130	118	406	207	171	1,510
Nanticoke	119	266	135	78	75	88	127	193	311	481	175	152	2,200
Olyphant	137	98	101	78	106	120	157	134	163	252	373	219	1,938
Pittston	119	93	124	150	140	144	204	270	232	404	383	253	2,516
Pottsville	92	76	125	174	182	179	191	198	205	190	52	175	1,839
Scranton	240	231	292	305	330	346	342	405	395	440	495	426	4,247
Shamokin	64	54	110	92	98	129	117	129	148	165	118	135	1,359
Shenandoah	98	108	162	137	159	346	106	119	126	518	198	209	2,286
Sunbury	63	74	142	170	167	258	175	163	209	144	124	156	1,845
Tamaqua	52	45	75	64	97	114	140	177	568	237	157	142	1,868
Wilkes-Barre	230	228	286	361	393	425	715	669	701	908	669	604	6,189

[1] Office opened June 1954.

In the period November 1953–November 1954, unemployment in the Scranton, Wilkes-Barre-Hazleton, and Pottsville areas combined increased by 18,000. Prior to November 1953, the unemployment problem in these combined areas was very acute. This rise in unemployment in the past year can be attributed directly to the declining employment in the anthracite mines and its adverse effect on railroad and other employment within the area.

In the 3 areas employment in mining decreased by 14,000. Added to this were declines in transportation and other trades, which brought the total drop attributable to mining to approximately 18,000 in a 1-year period.

As recently as January 10 of this year mining employment loss, approximating 1,700, occurred in the Shamokin-Mount Carmel area, which had been already hard hit by unemployment, totaling in the neighborhood of 10,500.

According to the Anthracite Institute, 1954 commercial production of anthracite coal dropped 12.6 percent below the output in 1953 and 36.6 percent below the output of 1952. The decline in production was attributed to the continued competition of domestic and imported fuel oils and natural gas, together with above normal temperatures during the first half of 1954.

Data respecting average man-days worked in the anthracite coal-mining industry during 1954 are not yet available from the Pennsylvania department of mines. However, according to information provided by local employment-office reports, staggered or short workweeks marked the industry through most of the year. The reports show that reduced work schedules were adopted by such large operators as the Glen Alden Coal Co., Lehigh Navigation Coal Co., Lehigh Valley Coal Co., Hudson Coal Co., and the Philadelphia & Reading Coal & Iron Co.

The seriousness of the unemployment problem in the anthracite region can best be described by giving the number unemployed in the various areas of that region:

Pottsville area, unemployed as of November 1954, 16,350; percent unemployed of entire labor force, 19.8 percent.

Scranton area, 15,600 unemployed; 15.9 percent.

Shamokin-Mount Carmel area, 10,500 unemployed; 15.3 percent.

Wilkes-Barre-Hazleton area, 22,900 unemployed; 15.5 percent.

In further describing the seriousness of this situation, I want to point out the amount of moneys that have been paid to unemployed persons in this area. During the year 1954 there was a total of 2,093,007 compensable claims paid in the anthracite area, totaling $49,274,000.

Bituminous region:

Labor force, employment, and unemployment in selected labor market areas in the bituminous region—Bimonthly, November 1953–November 1954

Labor market area	November 1953	1954 January	March	May	July	September	November
Pittsburgh: [1]							
Total civilian labor force	942, 500	938, 800	935, 800	932, 200	930, 700	923, 200	920, 900
Employment	905, 000	879, 800	861, 800	854, 200	844, 700	836, 200	834, 900
Unemployment	37, 500	59, 000	74, 000	78, 000	86, 000	87, 000	86, 000
Percent of labor force	4. 0	6. 3	7. 9	8. 4	9. 2	9. 4	9. 3
Uniontown-Connellsville (Fayette County):							
Total civilian labor force	51, 150	51, 100	52, 200	54, 100	54, 300	53, 400	53, 250
Employment	44, 350	42, 150	39, 850	40, 950	41, 350	40, 300	39, 950
Unemployment	6, 800	8, 950	12, 350	13, 150	12, 950	13, 100	13, 300
Percent of labor force	13. 3	17. 5	23. 7	24. 3	23. 8	24. 5	25. 0
Johnstown: [2]							
Total civilian labor force	102, 700	102, 400	102, 200	101, 800	104, 300	102, 300	101, 900
Employment	93, 150	90, 100	87, 650	84, 550	83, 800	83, 200	83, 000
Unemployment	9, 550	12, 300	14, 550	17, 250	20, 500	19, 100	18, 900
Percent of labor force	9. 3	12. 1	14. 2	16. 9	19. 7	18. 7	18. 5
Indiana (Indiana County):							
Total civilian labor force	21, 400	(3)	(3)	21, 250	(3)	(3)	21, 100
Employment	19, 500	(3)	(3)	18, 450	(3)	(3)	18, 600
Unemployment	1, 900	(3)	(3)	2, 800	(3)	(3)	2, 500
Percent of labor force	8. 9	(3)	(3)	13. 2	(3)	(3)	11. 8
Clearfield-Du Bois: [4]							
Total civilian labor force	(3)	(3)	31, 500	(3)	(3)	31, 900	(3)
Employment	(3)	(3)	29, 100	(3)	(3)	28, 000	(3)
Unemployment	(3)	(3)	2, 400	(3)	(3)	3, 900	(3)
Percent of labor force	(3)	(3)	7. 6	(3)	(3)	12. 2	(3)
Kittanning-Ford City (Armstrong County):							
Total civilian labor force	21, 800	22, 850	(3)	(3)	(3)	23, 400	(3)
Employment	20, 150	19, 250	(3)	(3)	(3)	20, 050	(3)
Unemployment	1, 650	3, 600	(3)	(3)	(3)	3, 350	(3)
Percent of labor force	7. 6	15. 8	(3)	(3)	(3)	14. 3	(3)

[1] Area comprises Allegheny, Beaver, Washington, and Westmoreland Counties.
[2] Area comprises Cambria and Somerset Counties.
[3] INA.
[4] Area comprises all of Clearfield County, and the boroughs of Brockway, Falls Creek, Sykesville, pds Reynoldsville, and the townships of Snyder, Washington, and Winslow in Jefferson County; also Philianburg and South Philipsburg Boroughs and Rush Township in Centre County.

Estimated net unemployment compensation benefit payments in the bituminous region during 1954, by local office

Local office:	Amount of benefits paid		Amount of benefits paid
Total	$45, 867, 000	Kittanning	$1, 693, 000
		Latrobe	2, 020, 000
Barnesboro	1, 095, 000	Mount Pleasant	949, 000
Brownsville	1, 994, 000	New Kensington	4, 583,000
Charleroi	2, 780, 000	Philipsburg	1, 172, 000
Clearfield	1, 117, 000	Portage	1, 062, 000
Connellsville	1, 863, 000	Somerset	2, 466, 000
DuBois	799, 000	Uniontown	3, 623, 000
Greensburg	2, 307, 000	Vandergrift	1, 792, 000
Indiana	1, 837, 000	Washington	2, 771, 000
Jeannette	2, 321, 000	Waynesburg	1, 032, 000
Johnstown	6, 591, 000		

Exhaustions of unemployment compensation benefits in the bituminous region during 1954, by local office

Local office	January	February	March	April	May	June	July	August	September	October	November	December	Annual total
Total	1,834	1,786	2,494	3,269	3,430	3,852	3,832	4,905	4,928	5,145	4,138	4,051	43,66
Barnesboro	46	39	47	56	68	80	82	112	96	123	103	144	996
Brownsville	67	53	76	92	96	134	130	321	219	657	164	131	2,140
Charleroi	156	128	146	150	174	210	174	243	331	371	327	231	2,641
Clearfield	27	42	54	70	56	76	87	88	89	63	94	85	831
Connellsville	88	107	114	131	156	154	135	213	249	205	193	162	1,907
DuBois	51	23	35	63	66	57	66	53	88	68	66	69	705
Greensburg	132	175	184	176	207	241	201	206	210	222	233	264	2,451
Indiana	68	83	105	139	107	164	188	307	167	163	114	143	1,748
Jeannette	77	111	135	165	180	197	222	260	183	178	203	267	2,178
Johnstown	216	216	325	487	433	530	464	606	704	735	755	718	6,189
Kittanning	50	61	112	156	184	139	223	194	107	84	88	87	1,485
Latrobe	74	94	145	189	258	196	176	181	177	215	229	223	2,157
Mount Pleasant [1]	------	------	29	55	67	110	63	116	135	81	68	90	814
New Kensington	271	153	248	378	492	496	476	541	482	456	105	289	4,387
Philipsburg	27	46	62	70	63	69	100	101	157	139	106	110	1,050
Portage [2]	------	------	------	------	------	10	104	93	151	190	117	116	781
Somerset	111	92	109	177	181	190	152	223	241	345	198	220	2,239
Uniontown	180	187	265	307	238	336	337	516	661	370	373	300	4,070
Vandergrift	54	57	135	185	202	202	211	202	175	163	302	114	2,002
Washington	102	89	117	160	138	173	171	282	195	171	104	205	1,907
Waynesburg	37	30	51	63	64	88	70	47	111	146	196	83	986

[1] Office opened March 1954.

[2] Office opened June 1954.

Compensable unemployment compensation claims filed in the bituminous region during 1954, by local office

Local office	January	February	March	April	May	June	July	August	September	October	November	December	Annual total
Total	131, 141	147, 403	192, 322	198, 797	181, 307	194, 121	174, 015	174, 712	158, 968	131, 875	124, 591	132, 577	1, 941, 829
Barnesboro	2, 494	2, 572	4, 070	5, 034	4, 920	5, 164	4, 315	4, 329	4, 439	3, 474	3, 513	3, 798	48, 122
Brownsville	3, 564	4, 622	7, 378	9, 480	9, 298	9, 841	8, 534	8, 421	8, 025	6, 381	3, 855	3, 949	83, 348
Charleroi	8, 628	8, 890	10, 663	10, 570	10, 388	10, 861	9, 196	10, 439	9, 719	8, 132	7, 099	8, 088	112, 673
Clearfield	4, 698	4, 143	5, 281	5, 016	4, 463	5, 013	4, 887	5, 194	3, 881	3, 567	3, 567	3, 982	53, 692
Connellsville	4, 957	6, 235	8, 111	7, 693	6, 616	6, 792	6, 075	6, 220	6, 553	5, 700	5, 759	6, 119	76, 830
DuBois	2, 284	2, 818	3, 414	3, 186	2, 467	2, 665	2, 722	3, 143	2, 850	2, 369	2, 594	3, 155	33, 667
Greensburg	9, 988	11, 276	10, 802	8, 008	8, 336	9, 013	7, 800	8, 319	7, 964	6, 977	6, 673	6, 829	101, 985
Indiana	6, 101	7, 945	9, 607	9, 455	7, 989	6, 005	5, 826	5, 951	5, 395	4, 348	4, 264	4, 816	77, 702
Jeannette	6, 418	7, 897	8, 447	8, 375	7, 785	9, 507	8, 799	8, 444	8, 325	6, 812	6, 514	6, 319	93, 642
Johnstown	18, 410	19, 013	26, 161	29, 709	27, 822	30, 887	27, 116	26, 157	25, 568	22, 285	21, 128	18, 935	293, 191
Kittanning	5, 132	6, 354	8, 094	7, 476	6, 149	6, 581	6, 707	7, 104	5, 129	3, 686	3, 347	4, 246	70, 005
Latrobe	5, 928	6, 597	7, 777	7, 846	7, 650	8, 527	6, 867	7, 604	6, 858	6, 454	5, 565	6, 207	83, 880
Mount Pleasant [1]	-----	-----	2, 477	4, 156	4, 108	4, 129	3, 229	3, 274	2, 940	2, 653	2, 872	3, 037	32, 875
New Kensington	13, 709	16, 072	21, 149	24, 308	20, 138	19, 487	19, 329	15, 673	13, 688	11, 767	9, 880	11, 022	196, 222
Philipsburg	3, 292	3, 623	4, 657	5, 448	5, 212	5, 818	5, 317	5, 024	4, 686	3, 840	4, 036	3, 972	54, 925
Portage [2]	-----	-----	-----	-----	-----	3, 221	4, 360	4, 891	4, 703	3, 981	4, 126	3, 522	28, 804
Somerset	6, 896	7, 703	11, 348	11, 066	10, 209	10, 908	8, 742	9, 301	7, 702	5, 591	5, 484	5, 988	100, 938
Uniontown	11, 318	12, 386	18, 678	18, 627	17, 141	18, 659	14, 852	14, 035	11, 623	9, 055	9, 104	9, 986	165, 464
Vandergrift	5, 717	6, 830	8, 359	8, 567	6, 688	6, 841	6, 094	5, 751	4, 852	3, 816	3, 796	4, 377	71, 688
Washington	8, 817	9, 090	10, 728	10, 014	9, 470	9, 994	9, 853	11, 448	10, 193	8, 380	8, 985	11, 363	118, 335
Waynesburg	2, 790	3, 337	5, 121	4, 763	4, 458	4, 208	3, 395	3, 990	3, 875	2, 607	2, 430	2, 867	43, 841

[1] Office opened March 1954.

[2] Office opened June 1954.

In the period November 1953–November 1954, unemployment in the 3 largest bituminous coal-producing areas, Pittsburgh, Johnstown, and Uniontown-Connellsville, increased by approximately 64,000.

A drop in demand for both primary and fabricating metals is the major reason for the unemployment rise. Decreased production in the metal industry reduced the demand for bituminous coal and for firebrick for the coke ovens. Lowered requirements in all of these fields in turn adversely affected railroad transportation and wholesale and retail trade. Primary metals employment in these 3 areas decreased by approximately 29,000; fabricating metal and machinery by 13,000; bituminous mining by 12,000; transportation by 7,750; stone, clay, and firebrick by 2,150; and trade by 8,700.

Bituminous coal production in 1954 fell substantially below the output in 1953. United States Bureau of Mines reports indicate that 1954 production was down 14.3 percent in the industry as a whole. Principal factors responsible for the decline were substantial reduction in the industrial consumption of coal, particularly by the steel industry; increased use of diesel locomotive power by the railroads; and some reduction in the domestic use of coal, attributable to the milder weather that prevailed in 1954 and the increasing competition of oil and gas as fuel.

During the year 1954 there was a total of 1,941,829 compensable claims paid in the bituminous area, totaling $45,867,000. The amounts paid in both the anthracite and bituminous regions amount to over 38 percent of the total compensation paid in Pennsylvania.

Adding to the seriousness of this question is the fact that the number of unemployment compensation benefit exhaustions is increasing steadily, and has resulted in an annual total of persons exhausting their unemployment compensation amounting to 35,440.

As a result of these exhaustions, the Department of Public Assistance is increasing its caseload to the extent that the Governor of Pennsylvania has this week introduced in the General Assembly of Pennsylvania a deficiency appropriation amounting to over $16 million to provide for the carrying on of public assistance until the end of the present biennium, which occurs on May 31, 1955. The total appropriation of the Department of Public Assistance amounts to over $200 million in a biennium. This despite the fact that the standard of grants by public assistance to the various recipients in no way compares with the amounts granted in other industrial States.

The human side of the picture is equally bad. We see families being broken up, with sons and daughters and husbands unable to find work in the region commuting to nearby States such as New Jersey, Delaware, and Connecticut in order to earn a livelihood for the people remaining at the homestead. We see fathers of families unable to meet the family budget, depending for support on wives and daughters who work in mills and factories in the region. This is not natural, nor do they want this, but too often it is the only way family expenses can be met. What this does to the family relationship between the father and the rest of the family can be easily imagined.

Why do these people stay in the region, you may ask. They are bound by the natural ties that come from living in an area where your ancestors have resided for generations and your parents lie buried.

They have homes which represent lifetime savings and cannot be sold at anything near their real value. These sentimental and financial ties are real and have great meaning to the folk in my region. They are good citizens, and you may refer to the official records of our military establishments, and you will find that the enlistment and draft rates in the region were among the highest in the country.

My organization, the United Mine Workers of America, has tried to take care of the old and the disabled, without having them a burden on the community, through its welfare funds. This program has been in peril of breaking down in the anthracite region because of low production. Originally geared to pay $100 per month to a retired miner, reduced revenue has required cutting this modest sum in half, and even so the income picture is not bright and the fund is not self-sustaining.

Our organization has worked with the owners and coal operators, with the Anthracite Institute, with the Coal Governors' Committee, with community groups, with Congressmen, local officials, with every person or organization that has shown the slightest sympathy or understanding of the plight of the anthracite industry. Our objective has not been to obtain a subsidy, or to ask for Government financial aid of any kind. We want to develop the uses of anthracite, to find wider markets, domestic and foreign, to encourage greater use of our product, and to revitalize the industry through this kind of positive action.

We also feel and sincerely believe that one of the greatest assets this country has is its fuel resources underground. In time of war, oil and gas will immediately be rationed. They will not fill the needs of a wartime economy.

But will the anthracite industry be able to help out, as it did during World War II if it sinks to ever lower levels of production, mines are abandoned to water seepage and gas, and its workers leave for other industries?

You cannot get a mine in working order in a week or a month after the water and gas have had control of it. You cannot put inexperienced people in the mines. The result will be that when the need is greatest the anthracite industry may be unable to bring out of the ground the coal which will be vital to a wartime economy.

On this basis alone the anthracite operators, owners, and the United Mine Workers of America, and every enlightened engineer are in agreement that there should be a national fuel policy which would undertake to conserve and protect for future use the underground coal of our country, and you cannot do this without seeing to it that the industry which operates in this field remains alive and able to undertake the task when needed.

Much that has been said with regard to the anthracite region applies to the bituminous area, except that it applies to a much wider and larger area involving many more people in southwestern and central Pennsylvania. The bituminous industry has been facing increasing competition from many fields, and millions and millions of tons of mined coal are aboveground, reflecting the decreasing demand for this product.

The human side of the situation is not much better than that which I described for the anthracite. One major improvement is the welfare and retirement fund. Because of the national scope of the bituminous industry, the welfare and retirement fund is financially more secure, and stipulated payments of $100 per month have been made regularly, but even with the bituminous welfare and retirement fund, there have been certain cutbacks made in regard to the assistance to disabled mineworkers and hospitalization benefits given to the members of miners' families in prior years, due to financial depletion.

In a number of bituminous areas the situation is one of deeper distress than in the anthracite, because the unemployment is newer and industrial plants have not been built to the same extent as in northeastern Pennsylvania. Therefore, opportunities for younger and single members of the family are less. This is reflected in the unemployment ratio for such an area as Uniontown-Connellsville where, according to the official figures of the Bureau of Employment Security, the unemployment rate is 25 percent of the labor force, a proportion which is not reached anywhere else in Pennsylvania, and which must be compared with the State average of 8.6 percent.

Through Pennsylvania natural gas and oil, lightly taxed, and residual oil imported from foreign countries, are demolishing and destroying the soundness of a basic industry of this country. They are piping in gas and bringing oil right into the coal region, into the heart of the land where coal is mined. If this is not halted and continues, the work force capable of bringing out of the earth our great resource of coal will not be available for an emergency when it comes

The bituminous industry, as the anthracite industry, working with the United Mine Workers of America, does not ask for Government subsidy or financial aid. They only ask that their competitors bear a fair share of taxes so that the coal industry may be restored to proper competitive position. They ask that the importing of residual oil be halted or diminished or heavily taxed, so that this unfair, cheap fuel, brought from a low-wage-paying country, be stopped from destroying an industry which supports hundreds of thousands of American citizens and families.

The records will show that there is a close relationship between the rise of the importation of residual oil and the decrease in consumption of bituminous coal. If there is any one thing which can be pointed to as endangering the well-being, and even the continuance of the coal industry, it is certainly the residual oil problem.

I have not attempted to present a thoroughly documented economic picture of the coal industry in Pennsylvania. I am not an economist nor a statistician. The figures and statements which I have presented, however, are true and accurate. More important is the fact that for almost 20 years I have lived with these problems and have presented them to the legislatures of Pennsylvania in an effort to obtain the assistance of the Commonwealth. But with the increasing complexity of our economy, I think we can all agree that this problem, like so many others, is a national problem which must be considered by the Congress and the national administration. More than anything else it is a human problem involving hundreds of thousands of miners and their families, who are turning to the Congress of the United States for honorable assistance in the making of their livelihoods.

The CHAIRMAN. Thank you very much.

Mr. Fishman.

OPENING STATEMENT OF LEO FISHMAN, PROFESSOR OF ECONOMICS, UNIVERSITY OF WEST VIRGINIA

Mr. FISHMAN. West Virginia and sections of six other States in the Appalachian coalfields are suffering acute economic and social distress. Since I am more intimately acquainted with conditions in West Virginia than elsewhere, my remarks will be confined to the situation existing in that State.

Employment opportunities in West Virginia have been declining since 1948 when nonagricultural employment reached a peak of 543,900. In 1954 employment in nonagricultural industries was only 473,400. Between 1953 and 1954, when nonagricultural employment for the United States as a whole declined by 3 percent, nonagricultural employment in West Virigina declined by 7 percent. During 1954 employment in the bituminous coal industry of West Virginia was only 76,400, roughtly equivalent to what it was during the worst years of the depression.

The drop in employment between 1953 and 1954 in leading West Virginia industries was as follows: Bituminous coal, 16,900; transportation, 3,700; stone, clay, and glass, 1,900; chemical, 1,200; and lumber, wood products, and furniture, 600. Cash receipts from farm marketings in West Viriginia were $6.4 million lower for the first 10 months of 1954 than they were for the first 10 months of 1953. Even in 1953, the most recent year for which such figures are available, the average income per farm from farm sources was lower in West Virginia than in any other State in the Nation.

Unemployment has been a problem throughout the State for some years. Within the past few years this problem has grown steadily worse. In 1954, of the 16 labor market areas in West Virginia 13 were classified as areas of very substantial labor surplus, IV–B, and 3 as areas of substantial labor surplus, IV–A. The median rate of unemployment for all these areas was 13 percent of the labor force. In Beckley, W. Va., an important city in the southern coalfields, the unemployment rate was well over 20 percent.

Twenty-two counties out of the 55 in the State are not included in any labor market area. While precise figures are not available for these rural counties, there is ample evidence to indicate that they too are suffering because of inadequate employment opportunities.

With respect to underemployment, the picture is not quite as clear cut. In the bituminous coal industry, as a result of substantial reductions in the working force and other adjustments, underemployment is not as prevalent now as it was a few years ago. In the glassware industry and on many farms, however, underemployment of labor continues to present a serious problem.

The seriousness of West Virginia's unemployment problem is emphasized by the fact that from April 5, 1950, to July 1, 1954, while population of the United States increased by an estimated 6.3 percent, the population of West Viriginia declined by an estimated 2.9 percent. Only two other States, Arkansas and New Hampshire experienced a population decline in this period, and in neither of these States was the decline as high as 1 percent.

The population decline, 59,000, resulted largely from an outward migration for jobs, and did alleviate the unemployment problem in the State to some extent. With the contraction of employment opportunities elsewhere, however, migration has ceased to be an important alleviating factor. During the fiscal year ending June 1954, the State employment service sent only 868 workers to jobs in other States as compared with 14,120 sent to jobs in other States during the previous fiscal year.

Indeed, there is evidence that a number of those who left the State and found jobs elsewhere, later returned to West Virginia when they lost their jobs. The number of workers who lost their jobs in other States and who filed claims for unemployment insurance in West Virginia increased from 8,364 during the fiscal year ending June 1953, to 21,499 during the last fiscal year.

An unfortunate dilemma exists for the State. As the seriousness of the situation increases, the financial ability of the State to cope with the resulting social problems and to provide for essential public services declines. State revenues have fallen off at an alarming rate. The receipts of the general revenue fund during the last 6 months of 1954 were $3 million less than receipts during the last 6 months of 1953. Since a provision of the West Virginia Constitution prohibits any increase in the bonded indebtedness of the State as a result of deficits in the general fund, prospective deficits must be avoided by reductions in planned expenditures.

All State spending units have, therefore, been requested to reduce their expenditures for the fiscal year 1955 by 5 percent of their appropriated funds. Most State services, including education are affected by this order. Financial grants of the department of public assistance to the aged, the blind, dependent children, and the unemployables, which were already inadequate, have been reduced to 70 percent of a minimum subsistence budget. It is not possible for those who are dependent on these grants to maintain a decent standard of life, and actual deterioration of their physical condition is likely to result.

No financial assistance is available for the 34,360 persons who exhausted their unemployment compensation benefits during 1954 without having found a job, or for those who exhausted their unemployment benefits in previous years and still have not found jobs. Public assistance for these persons is limited to the provisions of the surplus food distribution program. A diet composed largely of available surplus food is not likely to be well balanced. The dietary deficiencies are particularly likely to be serious in the case of infants and small children. Moreover, surplus food is available in only 30 of the 55 counties of West Virginia, since in the other 25 counties there are no distribution facilities for this program. Social workers report that the physical growth of many children is being stunted and their personalities warped. In some instances death is being hastened because of the inadequacies of the public assistance program.

The CHAIRMAN. Mr. Fishman, do you have any estimate as to the total number of persons in West Virginia who are receiving surplus foods?

Mr. FISHMAN. Yes. In May 1954, 136,500 people in 30 countries were receiving food. In 25 counties no surplus food was available for the unemployed.

The CHAIRMAN. That is May of 1954?

Mr. FISHMAN. May of 1954.

The CHAIRMAN. That is the last month for which you have a record?

Mr. FISHMAN. Yes. Conditions have not improved since then.

The CHAIRMAN. I have heard reports that the figure now is larger than that.

Mr. FISHMAN. Quite likely. I inquired of the person in charge of the food-distribution program in Charleston last week and these are the most recent figures he had available for my inquiry.

The CHAIRMAN. We made inquiry and found that there are no readily available national figures on this subject. The figures are scattered among the various States.

Thank you, Mr. Fishman.

Mr. FISHMAN. The fact should be stressed that West Virginia alone cannot cope with its basic economic problems which are structural in character and the result of long-term forces. West Virginia is located in the heart of the Appalachian coalfields. Its cities are relatively small in size and their industries are few in number. Basically, West Virginia's problems stem from the unhealthy condition of the bituminous coal industry. In January 1949, 1 out of every 4 wage and salary jobs was in the cool industry.

The problems of the bituminous coal industry are well known and need not be elaborated on here. Suffice it to say that the displacement of bituminous coal by petroleum and natural gas, and the accelerated mechanization of mining operations since the war are primarly responsible for the declining rate of production and the even greater rate of decline of employment in that industry.

The welfare of the railroad and lumber industries in the State are directly dependent upon the level of operations in the mines. Local trade, public utilities and service industries also mirror the ups and downs of the bituminous coal industry. In certain areas, the situation has been aggravated by the fact that the glassware and pottery industries, which are concentrated in a relatively small number of cities, are suffering from the effects of foreign competition. Recently, imports of glassware from Germany and Japan have increased in value and threaten to cause further reduction in employment this year.

Of all the leading West Virginia industries, only the chemical industry appears to have a bright future, particularly in the Ohio Valley. The decline in employment in that industry last year was probably the result of purely temporary factors.

West Virginia farms are for the most part too small to provide the farm family with a satisfactory income, particularly since lack of sufficient capital and the nature of West Virginia's topography hinder the widespread use of laborsaving devices. Many farm families, therefore, are necessarily dependent on some off-farm employment. During 1954 the problems of these families were intensified since declining opportunities for off-farm employment were accompanied by substantial declines in prices for the produce of their farms, such as beef, chickens, broilers, eggs, and apples, none of which benefit from a support program.

It should be noted that West Virginia has been aware of the need for positive action to attract new industries to the State. The West Virginia Industrial and Publicity Commission, for example, during the current fiscal year is spending approximately $100,000 largely for this purpose. Business taxes and property taxes are relatively low and there are no labor or other laws which businessmen would consider restrictive. Nevertheless, new firms are not coming to West Virginia in sufficiently large numbers to alleviate the problem of unemployment.

None of the recommendations offered in the Economic Report come to grips with the problems existing in West Virginia. The analysis contained in the Economic Report and the recommendations for public policy are based on the assumption that long-term expansionary forces will continue to sustain aggregate income in the United States, and that the essential economic problem is to prevent temporary deflationary influences of a cyclical character and other short-term restrictive forces from gaining the ascendancy.

Since the situation in West Virginia is not the result of purely temporary forces, the recommendations for public policy in the Economic Report are not likely to alleviate that situation. The proposal to extend unemployment insurance coverage from 24 to 26 weeks would be very temporary assistance, assuming that adequate funds for this purpose would be available in West Virginia. The unemployment compensation reserve fund balance at the end of December 1954 was $62,312,486 or 30 percent below the balance at the end of December 1953.

Last year the unemployment fund declined by 30 percent because of the large volume of payments made from it.

The proposal to expand the area development program of the Department of Commerce appears to be a purely formal recommendation. To date the program has in no way contributed to the relief of distress in West Virginia, and it is not likely to do so unless the size of the staff administering the program as well as its administrative powers and funds are greatly enlarged.

Military procurement and construction contracts received by West Virginia have been inadequate to alleviate the economic problems of the State. From July 1950 to March 1954, according to the West Virginia Department of Employment Security, West Virginia firms received contracts amounting to $191,738,000, a mere 0.2 percent of the total value of the contracts awarded during that period.

The CHAIRMAN. A mere two-tenths of 1 percent, not 2 percent.

Mr. FISHMAN. That is right.

Effective measures by the Federal Government to alleviate conditions in West Virginia should include the following:

I. Measures to stimulate the recovery of depressed industries and areas:

1. An increase in the volume of military procurement and construction contracts.

2. Encouragement of private firms, by more effective means than have hitherto been employed, to reopen idle plants formerly utilized for defense production. A rubber plant formerly operated by Goodyear Rubber Co., for example, is now idle in Nitro, and a plant formerly operated by the United States Steel Corp. for naval ordnance, lies idle in South Charleston.

3. Assisting the bituminous coal industry in developing new markets and new uses for coal, and in finding methods to reduce costs, particularly transportation costs. In many areas half the price of

bituminous coal goes to the railroads in payment for the cost of haulage. It should be recognized, however, that no program to aid the bituminous coal industry is likely to improve the employment situation materially.

4. A public works program. West Virginia cities and counties are without funds to provide themselves with sewer disposal plants, adequate waterworks, school buildings and facilities, streets and street lighting, parks and playgrounds.

II. Measures to facilitate continued healthy economic development.

1. A more vigorous Federal program to attract small business to West Virginia.

2. More positive policies for plant dispersal. For strategic reasons, more defense and essential civilian plants should be located in West Virginia. The State is sufficiently far from the primary population and industrial centers to be safe from a military point of view, and sufficiently close to those centers to offer locations which are attractive from an economic point of view.

3. A retraining program for unemployed miners, and if necessary, a resettlement program as well. A successful industrial development program should provide employment opportunities for these men.

III. Measures to relieve existing distress.

1. A greater measure of financial and technical assistance to the State's public assistance program.

2. Assistance in the distribution of surplus foods in areas of need where distribution facilities are at present either inadequate or unavailable.

(Mr. Fishman's prepared statement appears at p. 263.)

The CHAIRMAN. Thank you very much, Mr. Fishman.

Now, we have had two discussions of the coal-mining situation. We also have with us this morning Congressman Gray, of the 25th Illinois District, which is the southernmost district of Illinois, whose major industry is coal. He has kindly agreed to come here and discuss the situation in his district and make some statements about the urgency of the situation.

Congressman Gray.

OPENING STATEMENT OF HON. KENNETH J. GRAY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Representative GRAY. Thank you, Mr. Chairman, members of this committee. I will say it is a distinct pleasure to have the opportunity of coming and talking to you this morning about something close and dear to my heart, and that is the critical unemployment situation.

I had a prepared statement, but to conserve time I would like to talk to you just for a few minutes to tell you about some of the conditions as they exist today in the 25th Congressional District in southern Illinois.

Now, we are comprised of 15 counties. We are predominantly coal mines. We have a little bit of agriculture. We are experiencing not only a recession, but a full-fledged depression in southern Illinois. We have 30,000 able-bodied men and women out of work. We have 30,000 receiving surplus Government food. In just this morning's paper, I find an unemployed carpenter, 45 years old, ended his life by drinking carbolic acid. Now, that is the condition in southern Illinois. I am not here to try to paint a dismal picture, but to talk facts. The people sent me to Congress to stand up and speak out in behalf of their wants and their needs, and I think that in America, the land of plenty, that every man and woman should be entitled to earn a decent living for their family. Now, I want this economic report—I am going to leave the prepared statement I have, and I would certainly appreciate your looking that over.

I am going to introduce in this Congress a public-works bill. I believe it is time that these unemployed people were put back to work. We have the foreign importation of residual oil and other things that is hurting the coal markets, and I hope that this committee can report back some findings that would help correct this situation. I have studied with great interest the Economic Report of the President of the United States, but I find no place in this report where they make mention of such districts as the 25th Congressional District in southern Illinois, which I represent.

Now, folks, it is terrible. My hometown of West Frankfort, Ill., had a population of 15,000 in 1940. The population today is 8,000. We have lost almost 50 percent of our population over prewar, so I believe it is time that something was done for these critical unemployed areas.

I believe that all that glitters is not gold, as you will see in some of these reports that are put out. I say get out and look as some of these areas, such as southern Illinons, and you will see that the people are really suffering. The report this week, in 5 counties in my district there were 20,175 people receiving surplus food. That is only in 5 counties, out of the 15 in my district. It would be upward of 30,000 to 35,000.

I might say in passing we have over 300,000, approximately, in the State of Illinois unemployed, but it is worse down in southern Illinois, where we have the coalfields. I will not take up any more of your time, Mr. Chairman. I appreciate coming over here. I do want to say that I think it is time that something was done.

Last year the President was asked if he did not believe it was time for a public-works program, and he said he did not believe it was time for a slambang public-works program. Well, I say it is time at least for a little pitty-patty public-works program, because these people need to have means of employment.

I thank you.

The CHAIRMAN. Thank you very much.

(The prepared statement of Representative Gray appears at p. 265.)

Senator SPARKMAN. Mr. Chairman, may I add just a word. First I want to thank Congresman Gray for giving us that statement. As he knows, we have a good bit of coal in Alabama, and several of the counties in my State are affected in the same way.

In fact, some 5 months ago I had a report from 1 county that has a population of 43,000, and 24,000 were on emergency rations in that county. I am certain that as the winter has progressed, that number has gone up.

In fact, about a month ago, the director of public welfare for Alabama told me that over 300,000 in the State were on emergency rations. That is 10 percent or better of the population of the State.

Not all of these people are coal people, I want to make it clear, because the impact on the farmer during this fall and winter has been particularly heavy, and the rolls have grown as they have gone on relief.

Representative KELLEY. Mr. Chairman.

The CHAIRMAN. Mr. Kelley.

Representative KELLEY. Mr. Chairman, the same situation is true in Pennsylvania. It is not all coal, of course, as has been pointed out. The anthracite and bituminous areas have contributed to the unemployment but we have many other areas of unemployment—steel, aluminum, and glass, but the latest figure I have is over 900,000 families in the State of Pennsylvania receiving surplus food. That is 10 percent.

Senator SPARKMAN. You mean people, not families.

Representative KELLEY. Yes, over 900,000 people in the State of Pennsylvania receiving surplus food.

Senator SPARKMAN. What is the net ratio to your population?

Representative KELLEY. Well, the population is approximately 10 million. In my own district, which is 1 county, which is an industrial district and also a great deal of agriculture, but there are 38,000 persons obtaining relief surplus food, in that 1 county alone. The problem of unemployment, as I mentioned yesterday, is a severe one in many areas of the United States, and something should have been done about it before this.

I posed the question yesterday that on account of these depressed areas of the United States—and there are many of them—a public-works program should have been in effect long ago, but the answer was that it took too long to do it. Back of that answer was the thought, perhaps, that we are on the way to full employment again, so by the time we had a public-works program operating, we would have no need for it. That is what I dispute, because these depressed areas are not going to recover so soon, as was pointed out yesterday. Some of these economists expected unemployment to be worse in 1955 than in 1954, and certainly worse than 1953. I will ask the panel members Do you not think we should have a national fuel policy, especially for the protection of our fuel industries?

One reason that occurs to me: Coal is basic industry. We can't operate in peace or in war without it. We could not function. There is a limitation to gas. There is a limitation to oil, too, but there are untold billions of tons of coal available in this country. It is very rich, but they are being wasted in such times as these. When you close down a mine and it is down for a while, especially if it is one that has some problem of natural disturbances—you know what I am talking about, Mr. Thomas—you don't go back and open that mine again because it would be too expensive.

The cost of doing that would be prohibitive in many, many cases. Many millions of tons of coal, very good high-grade coal, I know from personal experience, have been lost over the past years as a result of depressions, no fuel policy.

The Federal Government, because it is such a very basic industry, should certainly nurture it and provide that it will be conserved.

What do you think about that?

Mr. THOMAS. I think you are perfectly right, Congressman. There is no question in my mind that, as you say, the reserves of gas and oil in this Nation are limited. It is very difficult to get figures on your oil reserves insofar as this Nation is concerned. Whether that is kept a secret by the oil companies for tax purposes or not, I don't know, but over a 5- or 10-year period, it is hard to get any estimates as to what your oil reserves are in this Nation.

We all know that the coal industry is very valuable, particularly in cases of emergency in this Nation, and if a national fuel policy was established that would possibly maintain the bituminous industry at a 500 million mark, this Nation would then be prepared, or the coal industry would then be prepared to meet any emergency that this Nation would never come face to face with, but dropping below that production mark, I think we are periling ourselves when we do that and periling the Nation as a whole.

Representative KELLEY. Well, that thought occurs to me, too, or the recollection, that much of the very high-grade metallurgical coals that we knew in the past have been exhausted. Not only that, but they were wasted, because in times of depression or low business operation those very high-grade coals have been sold for low-grade use; coking coal has been sold in times past for locomotive fuel, for generating steam, and powerplants—low-grade use.

Certainly some means of conserving those fuels should have been in effect. Those fuels are very necessary for the steel industry, as you know, and now today the steel industry must search around to find coals in which they can beneficiate or clean or prepare for coking purposes, which is very costly, and in many cases they are not satisfactory, either. That is just another example.

Now we are blaming the residual oil for some of our difficulty. There is no question about that. Some of us are attempting to have the Committee on Ways and Means accept a plan to restrict the flow of residual oil from South America from being dumped on our eastern shores and displacing coal. The figures I had, I think, were 32 million tons displaced, 24,000 men out of jobs as a result of residual oil problems. Maybe we can succeed, maybe we cannot, I do not know, but certainly something should be done about it.

Many of us have introduced legislation to that effect and I was one of them. But that is one of the reasons why the coal industry has found itself in a low production period. Mechanization has caused a great deal of it. Nobody can dispute that we do not want to interfere with that, but certainly there are other problems that the Government should take action on in regard to conserving the coal, the good grades of coal that still exist in this country, and to conserve the mining properties that have been in operation. We might need them some day. For instance, suppose we got into an emergency and we needed coal suddenly. We might not have the men to man the mines, just the same as the watch industry. We were fearful that the technicians engaged in the watchmaking industry would be lost and that is one reason why we placed a restriction upon the importation of Swiss watches. The same thing applies to coal. Mining coal is a specialized activity.

We are not going to get them back in the mines again if they are once established in some other work, and they move away from the mining areas. I have made a long speech here about that, but that is because I have been very close to this coal problem for so many years that I hate to say how long.

You might learn how old I am. But at least I have been very close to it all of my life, and I think I know something of its problems. I know that it is a serious matter. The reason that it has not been given more attention by this administration and past administrations is because the average person, the layman, is not aware of the seriousness of the situation in the industry, what it means to the Nation, in time of peace and in time of war.

Mr. THOMAS. Mr. Chairman, I would like to make this statement: In summarizing the work of this committee, I think Mr. Kennedy, vice president of the Mine Workers, is going to appear, and in regard to the national fuel policy, and that I think he would have a very capable explanation of our position and the policy of the United Mine Workers on that.

The CHAIRMAN. Are there any other comments?

Representative TALLE. Mr. Chairman, perhaps I should make my comment later on. What I am saying, Mr. Kelley, is not rebuttal to anything you have said, but you mentioned that public works take a long time, and that was attested to yesterday by one of the panel members, Dr. Gainsbrugh. He was right about that. The Chinese say a journey of a thousand miles begins with but a single step.

Well, I have worked for 15 years trying to get some significant things done on the Mississippi River. There are a lot of flood-control problems there and I feel that I have gone through 999 steps during those 15 years. There is one step left now, and that is to get some money, and I beg of my colleagues here that they assist me this year to get some money to carry out some of those projects and maybe that will help to alleviate some of the job problems we have.

I am not speaking in rebuttal, Mr. Kelley.

Representative KELLEY. No; I understand. I agree with you that it would take some time to get a public-works program in action.

Representative TALLE. There are so many hurdles to jump.

Representative KELLEY. Yes, certainly; I realize that, but I say that we still need it even when we do get it.

Representative TALLE. Oh, yes; I am for such a program.

The CHAIRMAN. Of course, I would like to remark that in 1945–46, very large sums of money were appropriated by Congress to draw plans for public works.

Representative KELLEY. That is right.

The CHAIRMAN. We have never heard what happened to those plans. They are presumably gathering dust somewhere, but presumably there is a back shelf of public works with the engineering plans which were accurate as of 8 years ago, which apparently have never been dusted off or considered.

Senator SPARKMAN. It would take about 4 or 5 years from the time the planning money was set up to get them on the shelf, and then, as Representative Talle knows, it would take about that much longer to get money out of the Appropriations Committee.

The CHAIRMAN. Mr. Barkin.

I think we are moving away from coal to textiles.

OPENING STATEMENT OF SOLOMON BARKIN, DIRECTOR OF RESEARCH, TEXTILE WORKERS UNION OF AMERICA, CONGRESS OF INDUSTRIAL ORGANIZATIONS

Mr. BARKIN. Mr. Chairman, I gather that my formal presentation will be in the record, and I shall not read it.

I should like only to summarize within the 5 minutes, picking up some highlights on this problem.

First of all, let me say that I express complete dissent to the report by the two representatives of the Departments of Commerce and Labor. Both of them have attempted, as does the Economic Report of the President, to create the illusion that this is a local problem and can be solved by local business groups. I appear here to say that it cannot be solved by local people; it is a problem of the National Government. It is a coverup, I think, to create the agencies which now exist in the Departments of Commerce and Labor, and think they will be of any help. They have not been of any help.

The Department of Labor for many years has had feeble results. The Department of Commerce division which Mr. Roterus represents has done practically nothing with respect to the Lawrence situation. Mr. Roterus came out himself after a visit of this group of realtors, and said they were going to give us help. The first statement he gave to the press was that the textile business is finished for Lawrence, Mass. That is not the kind of help we want.

He brought a group of realtors up there before the election of 1954 and they heard stories similar to the one he is trying to pass off now, that he is going to bring employment into Lawrence. Well, nothing has happened.

We do not need headlines by Secretary Weeks, or anybody else who comes up there. We need jobs in those textile areas, and they have not come.

Let me just summarize the major parts of our statement. First of all, strangely and unlike the coal industry, we have not gotten any assistance from the industry itself, the employers of the industry, in trying to highlight the distress and problems of our industry. Massachusetts had a commission in 1949. I appeared before them and indicated what our problems were. The result was a report, and nothing else. The report itself was not a fair representation of the needs and problems of the industry.

My own union enlisted the Joint Committee on the Economic Report back in 1948–49; they stimulated the organization through the National Planning Association of a committee in the South in order to diversify the industry there. We then, through the efforts of the National Planning Association, secured the establishment of a committee of New England. Nothing is happening. The people of New England, the industrial and financial interests of New England, are not organizing to help that region, because apparently their self-interest does not dictate it.

The same thing happened with the report of the Economists Committee of New England frankly which was stimulated by our own efforts through the old Council of Economic Advisers through Mr. Keyserling. That report is on the shelf.

Now we have this current Council of Economic Advisers telling us that they are studying the problem again, but that is as far as it has been going. They have not even begun to initiate full-scale reports, have not brought us in to see what can be done in order to assure a full-scale effort.

This is not a local problem, let me assure you. These problems—we have gotten this fancy word "structural." Structural problems are not local, they are national, and cannot be solved by local efforts of a local individual group.

Let me just say with respect to the Council of Economic Advisers report, we take strong exception to the spirit and contents of the remarks and views, as they relate to the problem which we have here. Fortunately we have gotten some recognition within it. The report says that some industries and localities have suffered from serious unemployment. We are grateful for the recognition. It has not been there before.

But now we are assured, however, that the recovery was largest in the series of industries like my own, in another sentence.

Let me tell you, gentlemen, unfortunately that is not true. There has been so little recovery in the textile industry in terms of employment that it does not matter.

The reasons primarily, as my statement indicates, are twofold: First and most important of all, our man-hour productivity is rising at a tremendous rate, even Government figures indicate, even statistically you can establish that it is over 5 percent per annum since 1948. Now, the report makes no suggestion for aiding the revival and reinvigoration of the industry. It urges the Department of Commerce's alternate program be strengthened, but we are encouraged against expecting much help since these programs can only make a limited contribution toward relieving spot unemployment.

Their major recommendation is to turn it back to the local citizens whom we know. Those of us who have dealt with it, whether it is New England, Middle Atlantic States, and the South, with which I am intimately acquainted, cannot handle these problems.

In your State, Senator Sparkman, the coal and the textile people cannot solve their problems. Their problems are nationwide, and they need nationwide guidance to help them through.

This same report goes on and says it prescribes the encouragement of enterprise and innovation, but the entire report is built on the concept of high employment and not full employment. If you will read this report rather carefully, it says as follows: it declares that although the economy in whole was prosperous, some communities suffered from sizable unemployment. Its major reliance is to be placed upon policies that promise high and stable employment, but not full employment, and that distinction between those of us who believe in full employment as over against the philosophy of the current administration of high employment, is the difference between unemployment in our regions, Congressmen and Senators, and my region, and the figures that concern this administration. We want jobs for all, and they are not ready to give it to us. They are not ready to work for policies which will assure it, and that is why we are very appreciative of this opportunity to speak to you.

It prescribes the encouragement of enterprise and innovation, but not in sufficient volume to overcome the distress of local communities, and the decline of shrinking employments. It is an unfounded presumption that full employment will threaten the integrity of the money in which contracts are expressed and payments made. It has stopped in its tracks an adequate policy. It has desisted from aiding the communities and industries in need as it is fearful of imparting an upthrust to economic activity.

These are mellifluous words that run through this report, but they never seek full-employment conditions. That is what they are evading. It is a worse document than the one we had a year ago because it tries to reassure people when we do not have full employment.

Let me just say, because I do not want to go into it in detail, because it is in my document: President Eisenhower said in 1952, when he came to talk to the people of Lawrence, "We are going to take care of you." The next thing we heard was the Secretary of Labor saying: "Look, we cannot take care of you; take care of yourself." And that is where it has been since.

Later on, Secretary Weeks sent up these realtors who told us, "Boys, the textile industry is finished. We will try to get you something else." But nothing has happened in that area.

We need real help. When we found this to be the condition, the president of our union, Mr. Emil Reave, wrote to the President of the United States. We got the regular runaround, of course. First, it went from him to Mr. Hauge, and Mr. Hauge said "Give us a plan." We gave him a plan. So he shifted it on to Mr. Weeks. Mr. Weeks then sent us a letter of December 7 of last year and said "We will be glad to see you." Well, we have not heard from him again. He told us about some textile industry committee in the Department of Commerce. To the best of our knowledge, there is not any such committee there.

We are, therefore, urging you members of this committee, we have been pleading with every governmental and public body in most States of this Union, and the Congress of the United States, give us a chance to explore the problem. We cannot solve these problems, and, what is more, unfortunately very few of the industrialists in our industry are interested.

I have this sentence which expresses it:

> The stronger elements in the industry have sometimes bemoaned prevailing conditions, but they have looked forward to the pruning out or the profitable absorption—that is a fancy way of calling these mergers which are going on—of the marginal units as a means for rehabilitating their own positions. They have hoped with the shrinkage in capacity or the limitation of competitors, their own operations would improve. They have not undertaken real studies into the fundamentals of their industries to help rehabilitate the entire structure.

In this report we indicate—in my statement we indicate that we have lost between 250,000 and 275,000 jobs since the beginning of 1951. The loss has taken place in the North, South, East, and West, every part of the country. It is not a northern problem, and it is not a southern problem. It is true the northern mills have shrunken and closed up more frequently. If you look on page 6 of my statement you will see the number of mills that have been closed. In the New England area, 236 mills with 92,000 people. In the Middle Atlantic States, 287 mills with 51,000 people. In the South, 117 mills, with 25,000. The southern closings are just on the brink, and if my knowledge of the industry is correct I expect 50 to 75 cotton yarn mills to close during the next year or two.

The problem of our industry is serious, and it needs help. Our communities, both North and South, are in the employment surplus area, and we have got to find some kind of help in order to reintegrate, rehabilitate, and restimulate the industry. In our statement, on page 8, we tell you what are the causes of the present condition in the industry: Loss of domestic outlets, loss of export markets, change in type of garments, changing pattern of consumer expenditures, tardiness in meeting new consumer trends, interfiber competition, general business contracts, the failure to develop new markets, and, let me stress that here is an industry that needs reinvigoration of managerial talent, North, South, East, and West; they have not developed a significant new market during the last 20 or 50 years within this industry, and we have got to find some in order to rehabilitate it, but, particularly, members of the committee, on No. 9, the tax laws, whether it be the capital gains tax or the carryback provisions, have encouraged millowners to abandon plants rather than put their money back into this industry.

We urge you through your report and through your membership in other committees to have a full-scale investigation of this problem. It is a serious problem because the mergers of our country now are being followed up by plant closings.

In our industry, and in other industries, of course we would like to avoid having any problem of further aggravation through imports. The mergers have concentrated our industry. We used to be the classical competitive industry. We are not that any more. You take 40 financial interests in our industry, and they cover well over 75 percent of the productive capacity in this industry, and that is a new thing, Senator Sparkman, as you know. We have become just like the other industries, an industry of giants, and where there is an industry of giants they squeeze out the small guy, but in doing so they have not yet expanded the markets and employment for the industry.

We want a minimum wage because a great many of these companies are forcing lower wages and driving out mills paying decent wages. Local tax subsidies are being established in new areas, and thereby drawing mills away from Southern and Northern States where they now exist.

We would like to suggest to you a number of different courses of action which are noted on page 11.

Fundamentally, we would like to have your joint committee give us a good, full-scale investigation. We have asked for it for years. Nobody seems to worry about the textile industry but ourselves, and we would be much pleased if one were arranged; we have only given you the barest outline of this problem. There are a great many people, employers, distributors, consumers of textiles, who would like to get help, but there is not a personality in an industry of twelve to fourteen billion dollars worth of sales—there is not a personality who is interested in leading a full-scale investigation so that we can rehabilitate it.

We urge specific programs of action, immediate and long term. We need new research. Strangely enough in America there is a big industry of this size where there is no real fundamental research being conducted, and the one institution which was established for fundamental research at the University of Virginia is not permitted to engage in it because there is no one ready to finance textile research.

The CHAIRMAN. What about the local textile research?

Mr. BARKIN. They do not do textile research. There is one man, Professor Schwartz, at MIT, who does a little basic textile research, but we do not have any institutes engaged in basic textile research, and, strangely enough, the English have us all beat in this particular area. We have a few agencies that do applied research for individual manufacturing.

We would like to urge $1.25 an hour minimum, a higher minimum.

Gentlemen, if this were the proper occasion—I have a discussion here—I think the President's Economic Report is frankly untutored on this subject. It represents just misinformation and inadequate guidance. The President of the United States in his Economic Report makes the completely unjustified statement that anything over 90 cents will create unemployment. We know it will not because the fact of the matter is that every previous increase in the minimum wage has been greater than he has proposed.

The rest of our statement is self-evident, and says what we would urge upon you, gentlemen, and we hope that you give us a real chance of presenting the problems of this industry to you.

(The prepared statement of Mr. Barkin and other material from the Textile Workers Union of America appear at p. 266.)

The CHAIRMAN. Mr. Harris.

OPENING STATEMENT OF SEYMOUR HARRIS, PROFESSOR OF ECONOMICS, HARVARD UNIVERSITY, AND CHAIRMAN OF THE NEW ENGLAND GOVERNORS COMMITTEE ON THE TEXTILE INDUSTRY

Mr. HARRIS. Mr. Chairman, I am glad that the distinguished Senator from Alabama is here because I am going to say some things about the South though not particularly about Alabama, I might say.

I have a high regard for the Senator from Alabama, and I hope he does not take too hard some of the things I say about the South in relation to New England.

I want to say at the outset, Senator Douglas, and I will certainly take less than 10 minutes, that I do not associate myself with Mr. Barkin as to what he said about the Department of Commerce and the Department of Labor. I think they are doing an excellent job. The only problem is they are not given adequate resources to do a better job.

I have had two debates with the Under Secretary of Labor, who is responsible for the work on unemployment, and though I am a Democrat I want to say he is doing a very good job.

I shall add, however, that Mr. Barkin knows a great deal about these problems, and his statements should be given careful consideration.

I have a statement which I will not read; I just want to point out the highlights.

Despite the general prosperity of the country in the years since 1940, there have been many serious sore spots. Even $350 billion of military outlays and $250 billion of Federal deficits have been inadequate to solve the problems of the New England textile towns and regions, the Middle Atlantic coal towns, several of the Northwest agricultural States (three actually lost population over 20 recent years). It is of some interest that from 1929 to 1953, New England's share of national income payments dropped by 20 percent, New York State's by 29 percent, and the Southeast's share rose by 34 percent. Relative to New England, the Southeast gained almost 70 percent in a period of 24 years.

This is a remarkable achievement for which the South deserves credit.

I also want to point out there have been gains in the West; the Central States have done well and maintained their position. But the Central States are vulnerable in case of a decrease in military expenditures because 66 percent of their employment is in highly unstable durable goods industries, and there is here a curious inconsistency between isolationistic and economic interests.

The CHAIRMAN. Is this about the Middle West?

Mr. HARRIS. Yes.

Now, large outlays by the Government have to some extent obscured these problems. As you all know, there is a regional struggle for dollars. Every region tries to get the maximum supply of dollars. New England, for example, has to have dollars to pay for its food and raw material, and has to sell goods to pay for these items. If through farm policy the prices of a region's imports of food and raw materials rise, if through tariff policy it faces increased competition for its manufactured goods, if newer industrial regions capture its markets, then it must either capture new industries or suffer a loss of cash, and with the loss of cash, lower prices, lower wages, or if stickiness prevails in the labor market, unemployment.

There is a supplementary paper to be put in the record in which I show how limited are the employments that can replace lost industries. Thus we can explain the transformation of New England from a high- to a low-wage region. In manufacturing, New England's wages are lower than anywhere but the South, and in 18 industries for which figures were available, New England's wages were higher than the national average only in 3 industries.

In my opinion, one of the most important economic problems of the Nation is this serious competition among States for industry with a tendency of competing States to cut services and keep taxes down in order to keep or attract industry. This is evident, for example, in the newer industrial regions aggressively seeking a place in manufacturing by putting minimum taxes on industry as a means of attracting industry and even providing subsidies; by keeping down social security benefits; by fighting trade unions aggressively, and thus keeping wages down—the Taft-Hartley Act tended to freeze relative wages of North and South at a point where the South had a great advantage—using financing through tax-exempt securities as a means of enticing industries from the North.

According to published reports, southern Congressmen succeeded in removing a provision in the 1954 Finance Act which would have stopped this unfair practice of building plants for northern management by the issue of tax-exempt seurities.

Of particular interest is the effect of the social security program on interstate competition. For example, in each of the last 2 years, 1952 and 1953, the 2 major textile States in New England levied taxes of 2.7 percent of payrolls on employers to finance unemployment compensation; but the 3 major southern textile States had average rates of 1.32 and 1.29 percent in these years. This does not include the State of Alabama.

In the years 1946 to 1950, the ratio of benefits to taxable wages was 2.7 percent in Massachusetts and Rhode Island; 0.9 percent, in the Carolinas and Georgia. The average weekly benefits for the 5 most important manufacturing States in the North in 1953 was $25.82; in the 5 major States in the South, $19.60, or an excess of 31 percent for the North. The unemployment compensation program, though it was justified in part as a program which would not result in competition among States to reduce taxes and benefits, has as a result of experience rating become just that. Benefit schedules tend to deteriorate to the lowest common denominator.

Now, the Federal Government—of course, did you say——

The CHAIRMAN. No, I was wagging my finger to indicate I agree.

Mr. HARRIS. It is scarcely necessary to add that the Federal Government has played a large part in this movement of industry from North to South. Generally, cash has been taken from the North and transferred to the South. These transfers are especially costly to the Northeast because they are accompaniel by large transfers of cash via investments of corporations operating on a national level from North to South. Both capital and management go. Labor stays. In 1 year New England seemed to lose about $1 billion, or 7 percent, of its income as the Federal Treasury took out more in taxes than it spent in New England.

These transfers, of course, reduce the competitive position of the North and this is a point which I hope both Senator Douglas and the distinguished Senator from Alabama will consider seriously.

Also relevant is the political strength of southern Congressmen, who though they are theoretically strong in support of free enterprise, nevertheless are willing, even eager, to obtain financial help from the Federal Government for their constituents. Northern Congressmen will have to organize and fight as effectively as southern Congressmen if they want to stop the continued losses of their industries.

The CHAIRMAN. Well, I would say amen to that. They outsmart us every time.

Mr. HARRIS. It is not surprising, then, that New England has been losing its textile industry at a rapid rate. These losses have been going on for a long time; but in the 3¾ years ending September 1954, the drop of employment was 38 percent. At that rate the industry, the most important in New England accounting until very recently for about 10 percent of employment directly and 20 percent indirectly, would be gone in 8 to 9 years.

Now, I may say, Senator Sparkman, as Mr. Barkin said, that this is serious even in the South, and at the rate of loss of employment in the South the industry would be gone in the South in 15 to 20 years.

It is no wonder, then, that in January, July, and September 1952, unemployment in Lawrence, Mass., averaged 19, 25, and 21 percent, respectively; and in the same months in 1953, 18, 18, and 17 percent—in the midst of the greatest prosperity. There were substantial amounts of unemployment in other textile towns, also, no less than 30,000 unemployed at the end of 1954 in four textile towns of medium size. From peak employment in 1949 to 1951, to October 1954, Boston lost 9,400, or two-thirds of its textile jobs; Fall River, 10,000, or two-thirds; New Bedford, 5,900, or one-third; Lowell and Lawrence, 10,600, or one-third; Providence, 33,100, or 60 percent.

A great many people in New England say that the new industries are coming in fast enough to take up the slack. This is not true. For example, from 1919 to 1947 New England gained only 4 percent of the new jobs in the 10 fastest-growing manufacturing industries, a proportion much below the region's share of factory jobs. In the same period, the region had lost 200,000 jobs in textiles and shoes. In the prosperous years of 1947 to 1953, New England added 290,000 jobs; but one-third in manufacturing. The record was better than from 1919 to 1947, in part because the region had been alerted and showed much initiative; but the major factor was Government spending. What is more, the heavy gains in service employments partly reflected the pressure for jobs from those unemployed in declining industries.

So I emphasize that the new industries are not coming in fast enough. Losses of New England and the North stem in part from real advantages of the South, and I might say the South is becoming a great industrial area, and it should become a great industrial area. These losses result from southern access to raw materials and markets, in plentiful supplies of labor eager and willing to work, in cheap power, in aggressive leadership and management, community, and government—it almost seems as though the Civil War is being fought all over again—in the advantage of a new industrial region in being able to adapt its investments to current, instead of past, spending patterns. But in part the gains may be associated with the depression of national standards—for example, social security—and large favors from the Federal Government.

The northern regions must fight as vigorously as the South; must be as modern in research, in management, in worker interest; must seek their fair share of Federal outlays; must expect the leadership of a well-organized political coalition on the southern model; must fight for adequate standards of social security, through Federal standards must fight for higher minimum wages, a fair share of tax subsidies. For example, the accelerated amortization program, of Government contracts, and so forth.

And I would not agree with Mr. Barkin that management is nearly as bad in New England as he makes it out to be. As chairman of the Governors Committee we consulted with 60 management representatives, and the top management of this industry is as fine as we have anywhere in the country. In the prewar days they made some bad decisions, but those who survived had to be awfully good.

And in the allocation of tariff cuts, the Government should consider the net effect of all Federal policies on a region. Can cuts in textiles be justified in view of the total effect of Federal policies and the present state of the textile industry?

The CHAIRMAN. I may say that for 140 years representatives of New England have been appearing before the Congress of the United States saying that unless they had high tariffs that their industry would go to pot.

Mr. HARRIS. You don't want it. I will send you a copy of it.

The problems of jobs for the unemployed in textiles are serious, untenable statements in the Randall report, notwithstanding.

Finally, unhealthy interstate competition will not be treated until the Federal Government assumes a greater responsibility for standards of tax collections, as was intended under unemployment insurance.

Now, I do not go nearly as far as Mr. Barkin does on the Council's report. I merely say on the whole I am disappointed. The Council scarcely touches upon the problem of distressed areas. In earlier years the Council showed much more interest in these problems. With more time I hope the Council will make amends.

First, it should be noted that unemployment has been greater than may be gleaned by the report. Add 3.75 million of unemployed at peak; 1 million partially unemployed—half time for those registered thus; 250,000 temporarily idle; and 500,000 for general cut in hours—this total is cut one-half to allow for duplication with above—the total is then 5.5 million.

Incidentally, the Council says the peak was higher in February 1950 than in March 1954. But note that the rise was much greater in 1954 over 1953 than in 1949–50 over 1948.

And let us not forget the tremendous amount of military expenditures in that period.

Second, the Council refers to the Government's contributions in assisting localities through Government contracts. This has been of little importance. The administration backed down when several Congressmen raised a fuss on this issue, and even then distress areas were to be allowed only to meet bids of others. Accelerated amortization was a gift to the prosperous, not the depressed, regions. It helped bring the depressed industries down.

Third, the Council suggests improved unemployment compensation benefits. But so did the President on several occasions in the past. This is just talk. Until the President and Congress take a hand and insist on Federal standards and remove fear of interstate competition, the program will remain inadequate; and the pressure will grow for guaranteed wages.

Note the state of unemployment compensation:

1. In the 16 years, 1938 to 1953, there were 57 million man-years of unemployment, and but $12 billion of unemployed benefits were disbursed, or about $210 per man-year of unemployment. Even in 1949 benefits equaled one-quarter of wage losses.

2. Duration of benefits was 19 weeks before exhaustion.

3. Taxes collected in 1953 were 1.40 percent instead of 3 percent, with each State, through the unsupportable experience rating, fighting to get rates and benefits down.

4. One-fifth of workers are still uncovered.

5. Half the unemployed workers had their benefits exhausted in 1954. Whereas 96 percent of total wages were covered in 1939, only 72 percent were covered in 1953.

6. The percentage of benefits to wages was 41 percent in 1938 to 1940, and 32.5 percent in 1951 to 1953. In relation to total wages, inclusive of supplement, even less is had.

7. Ceiling benefits were equal to 67 percent of wages in December 1939, and 41 percent in December 1953.

8. No program for Federal reinsurance has been proposed to meet the problems of States with a heavy incidence of unemployment. So far the Federal Government seems to have absconded with $500 million to $1 billion of unemployment taxes, and now has agreed to give back as loans $200 million to be collected in the future.

9. And what about sickness insurance, even more necessary than unemployment compensation?

Finally, in the discussion of international economics, nothing is said concerning the effects of further tariff cuts on the declining industries, or how to help them.

The CHAIRMAN. Thank you very much.

Senator SPARKMAN. Mr. Chairman, I wish time permitted for me to interrogate Dr. Harris, but I do want to ask him one question: Here about 4 years ago we had a panel discussion and one economist from New England—and I have thought all along that it was you, Dr. Harris—said that you did not believe that the Government ought to be called upon to support an uneconomic industry, and that it might be a good time for New England to get rid of its cotton textiles.

Mr. HARRIS. Senator Sparkman, that was not the present witness. It was probably Mr. Neal, vice president of the Boston Reserve Bank. This has always been the Boston Reserve Bank line.

Senator SPARKMAN. I was under the impression it was an economist from one of the colleges.

Mr. HARRIS. It may have been. It may have been Slichter, possibly. I would be glad to answer that, Mr. Chairman, if you like. I don't for 1 minute say that the textile industry is necessarily going to survive in New England. At the present time it is clear that it may not. And, of course, the South is making a bid for the woolen industry and that is more serious than cotton because we have maintained our wool position the last 25 years.

Senator SPARKMAN. We are stepping up wool production.

Mr. HARRIS. I know you are. All I would say is—and I am sure Mr. Barkin will agree with me—it looks bad for textiles in New England, and when you have a weak industry, the Government must not give it another shove downward. Let it lose ground slowly so we can make the adjustment. It makes much difference if it goes in 5 years or in 25 years, and that is all I am asking for. Adjustments are made easier in a long period.

Senator SPARKMAN. I would like to make this comment. About a year ago there was a textile manufacturer from Connecticut talking with me one day, it was a casual conversation, but in the course of conversation he told me he was going to build a new plant at a certain town in Alabama. He named the town to me. He was not going to move his plant from Connecticut. I said: "Why did you decide, when you were ready to expand your plant, to put it down here in Alabama and in this particular town?"

He told me why he wanted to put it in that particular town, but his answer was: "I want to get down here where the cotton is."

And I said: "How much does it cost you extra per pound to ship your cotton from the South to New England over what it would cost you down here?" And he said: "Well, offhand I would say 2 cents a pound."

Now, I don't know how big a factor that is, but it sounds pretty important.

Mr. HARRIS. I got into a disagreement with Mr. Barkin when I was chairman of the Governors Committee, because I said the real factor was wage differences and productivity, and this is what really counts, your vast supplies of labor.

Senator SPARKMAN. I agree that the labor supply has a great deal to do with it, but my own feeling is that the greatest single factor in the removal of cotton textiles from New England to the South has been the change from the freight rate structure over the past several years.

Mr. HARRIS. That counts.

Senator SPARKMAN. As long as we had the official territory and the penalty against the South and the West, we simply did not have much chance of establishing industries to process our raw materials, and I believe that has been the greatest single factor and certainly should not be omitted.

Mr. HARRIS. It is a factor of some importance. We mention it in our report, but I will tell you what is one of your greatest factors. You are on the make as an industrial region and you are doing a tremendous job. The whole community. You have not been established for generations in this field. This makes a difference, and it is important with respect to your labor costs. You will find on the average it is the labor costs that make the greatest differences. This is partly a matter of management, too.

Senator SPARKMAN. I hope you include those figures in your report because I have heard that statement so often, and yet to me it seems rather unrealistic. (See p. 303.)

Representative KELLEY. Is there a differential of wage rates between the North and the South?

Mr. HARRIS. Oh, yes. Mr. Barkin will probably tell you 30 percent. But I will say it is between 10 and 20.

Representative KELLEY. What is the matter with the bargaining position in the South?

Mr. BARKIN. Gentlemen, this gets into many controversies, but I would like to just state this one conviction of mine, which I would like to be the fact. Fundamentally the wage problems in the cotton textile-rayon industry at the present time I would say, the wage differences are rather minimal. That is not the fundamental problem. There are chiseling companies in the South who tend to undermine conditions, but the progressive companies do not pay a wage substantially different.

Now, Professor Harris is correct in saying that the surviving companies are very competent, but unfortunately the decline has come from the companies which have not survived and the fact that he points to the age of the textile managements of many of the textile companies in New England and the North, their inability to adapt themselves to the new market trends, their unwillingness because of various factors, age, third or fourth generation, general discouragement from the Federal Reserve Bank in Boston, and the State Street financial interests to rehabilitate their company; this is a real conspiracy.

Representative KELLEY. Pardon me. Mr. Harris made the statement that there was a difference in wages. That is what I was concerned with, is there a differential. You say no, it is a small one. Then what is it?

Mr. HARRIS. Mr. Barkin is wrong on this, Mr. Congressman.

Representative KELLEY. Are the mills in New England more obsolete?

Mr. HARRIS. Mr. Barkin is trying to apologize for the fact the CIO has not done a very effective job in unionizing the South.

Senator SPARKMAN. I wish you would check the average textile wage in the South, Dr. Harris, and compare it with New England. I do not think there is as wide a differential as you indicated. Of course, our industrial growth is new, but I call your attention to the fact that there was a cotton mill at my hometown, established there, as I recall, about 1830; so at least we have been in the textile business a good, long time.

Mr. HARRIS. I know that. Well, Senator, one reason for the difference is the fringe benefit which accounts for one-third of the difference between North and South.

Senator SPARKMAN. You may be right on that.

Mr. HARRIS. I will send you some material on that, both our report and some recent material.

Senator SPARKMAN. I can't help but make one further suggestion. You talk about cheaper power in the South. I have often felt if New England developed its rivers and power facilities, it could have cheap power.

Mr. HARRIS. Mr. Barkin and I have been trying to convince the New England community on that. There are 186 Federal power developments in this country, and none in New England.

Representative KELLEY. You have a higher power rate than any place in the country, don't you?

Mr. HARRIS. Yes. That does not make much difference in textiles, but it means we do not get anything like the aluminum industry to take the place of textiles.

Senator SPARKMAN. Did you see the article on the front page of the Wall Street Journal yesterday—I am sorry I did not keep it. It told quite a story on how the empty textile mills are filling up with new industries.

Mr. HARRIS. That is nonsense. They fill up with parasitic industries which pay less than textiles. We have had it surveyed. Questions are asked of textile workers: How do you like your new job? Most of them do not like it. Lower wages, much less pleasant work, and so on.

When there are all of these unemployed textile workers in a town, some parasitic industry tries to exploit them. In Lawrence in the past years we have averaged between 18 and 25 percent unemployed.

The CHAIRMAN. We have discussed coal and textiles. Now we come to automobiles.

Representative KELLEY. We have not finished coal. We could never finish that.

(The prepared and supplemental statements of Seymour E. Harris appear at pp. 292, 295, and 303.)

The CHAIRMAN. Mr. Fraser.

OPENING STATEMENT OF DOUGLAS FRASER, ASSISTANT TO THE PRESIDENT, UNITED AUTO WORKERS, CONGRESS OF INDUSTRIAL ORGANIZATIONS

Mr. FRASER. Mr. Chairman, members of the committee, my name is Douglas Fraser, I am an administrative assistant to Mr. Walter Reuther, president of the United Automobile Workers, CIO. May I add that before moving into my present position I worked for 14 years in auto plants in Detroit, holding various official posts in my local union from steward and committeeman to president of the local. I have had opportunities, therefore, of seeing what unemployment means, both through personal experience and many years of helping to deal with the problems of individual workers, as well as concerning myself with the broader problems of national scope with which I have to be familiar in my present position.

Mr. FRASER. I am filing with the Secretary a more lengthy submission which presents in fuller detail the matter which I wish to lay before the committee. The statement which I am about to make is simply a summary of that submission.

Earl in 1953 it became apparent to our union, not only that the country was facing the threat of a recession, but that the automobile corporations in particular, by engaging in a mad production race in the early part of the year, were making it inevitable that there would be heavy cutbacks in the later months. This not only would mean serious unemployment for auto workers, but because of the importance of the auto industry as a purchaser of the products of other industries, a cutback in auto production would be a serious blow to an economy which was already in shaky condition.

The threat of unemployment in Detroit was aggravated by the production-scheduling and labor-recruitment policies of the auto corporations. They had scheduled for production in the first half of the year 60 percent of the volume they projected for the year as a whole. In order to achieve their schedules they were recruiting thousands of workers from other areas in spite of the fact that there could not possibly be more than a few months work for them and their temporary employment would later intensify unemployment for the workers already in the industry.

Mr. Reuther, as president of the union, wrote the corporation presidents urging them to put an end to this kind of folly. He got no satisfactory reply from any of them.

The blow soon hit. Between April and November 1953, employment of production workers in the auto industry nationally fell by 130,000. By September 1954, it had fallen still another 220,000. Out of every 100 jobs available at the peak of production, 43 had disappeared.

In Detroit we faced a mounting tide of unemployment. From 15,000 in April 1953 unemployment increased to 78,000 in September and 107,000 in January 1954. It was at this point that Defense Secretary Wilson assured us: "Come spring and everything is going to be all right in Detroit."

Detroit waited for spring and the robins. But instead of improving, unemployment jumped to 140,000, then to 150,000, and, finally, in September 1954 to 195,000. Both the bird dogs and the kennel dogs got pretty hungry.

Every aspect of the city's life was affected by the lack of jobs. The passenger loads of the Detroit Street Railway, which had previously been declining at the rate of about 5 percent per year now slumped at a rate of more than 14 percent per year. In the first 4 months of 1954, Detroit department store sales fell 8 percent below the same months of 1953, compared with a drop of 3 percent in the Nation as a whole.

Welfare loads began to climb. The number of persons coming for aid to the Detroit Public Welfare Department, as measured by the number of "screening interviews," went up more than 4 times, from 224 per week in April 1953 to 909 per week in February 1954. In the whole of 1954, over 46,000 were forced to seek help in this way, compared with less than 17,000 in 1953. The Detroit County Welfare Department had to employ additional workers, and the Detroit Welfare Department actually had to put on a nightshift to take care of the flood of applications for help. A Detroit welfare commissioner placed the blame squarely on the auto industry's recruitment program in 1953, and said he had warned them at the time that "if Detroit industry didn't stop recruiting workers in every hamlet, village, and crossroad in the country, it would get us into trouble."

Detroit newspapers, specifically the News and the Free Press, which echo faithfully the views of auto industry top management, proposed that the problem be met by refusing public assistance to anyone who had not established 3 years' residence in the State, "thus inducing more of the newcomers to go home." This proposal, it was said, "would erect a more substantial barrier for Michigan taxpayers against those who drift from State to State in search of work." The taxpayers who would benefit most from such an inhuman measure would be the auto corporations which had been responsible for the recruitment of these workers into the State.

What it amounts to is that an unemployed Detroiter who asks for assistance is called a "kennel dog" and told that he should go and look for work in other communities. But if a worker from one of those other communities is sought out by the auto corporations and persuaded to come to Detroit for a job and is then laid off, he is labeled a "drifter," undeserving of public aid.

One of the factors contributing to the heavy demand for public assistance was the complete inadequacy of unemployment compensation, both in amount of benefit and in its duration. During 1954 some 70,000 workers in the Detroit area exhausted their unemployment compensation benefits.

Some of the unemployed were driven to burglary. In February 1954 the head of the hold-up bureau in the police department told the press that burglaries were up 56 percent over the previous year, that most of the increase was the work of "novice criminals and juveniles" resulting from unemployment, and that the police department was "swamped" by it.

This year the auto companies are engaged in another production race still more reckless than that of 1953. If present production is maintained, by the end of June the number of cars produced will total

72 percent of the most optimistic figure estimated by any industry spokesman as the goal for the entire year.

The CHAIRMAN. Mr. Fraser, you are producing at the rate of about 165,000 cars a week there?

Mr. FRASER. Yes; it amounts to annually about 8½ million cars projected over the year, that was as of the week of January 22.

The CHAIRMAN. Is it possible for the industry to maintain that rate of production over the year?

Mr. FRASER. No; the most optimistic estimate of production for 1955 was by the president of General Motors, and he thinks we can reach 5,800,000 in 1955. The other estimates of industry spokesmen have been somewhat lower, substantially lower. So it is easy to see if we are producing at the rate of 8,500,000 currently, and the best we can expect is 5,800,000, we are going to be in serious trouble in the months ahead.

The CHAIRMAN. I have made a hasty computation, and my figures may be wrong, but if in the first 26 weeks of the year you continue to produce at this rate, you produce roughly 4,300,000 cars, and if the figure of 5.8 is correct, that would leave only 1.5 million cars for the last 6 months, or about 35 percent of the rate of production for the first part of the year.

Mr. FRASER. We come up with a figure in terms of percentage going at this rate, we will have 72 percent of the year's production in the first 6 months based upon the most optimistic figure for 1955.

The CHAIRMAN. In June?

Senator SPARKMAN. June 30 or June 1?

Mr. FRASER. That would be the end of June, June 30.

The CHAIRMAN. In other words, in 50 percent of the time you would have done 72 percent of the work, leaving 28 percent for the remainder?

Mr. FRASER. The remaining 6 months.

The CHAIRMAN. Those figures roughly check with mine. You would have a little over a third the rate for the last half year that you have for the first half year. In other words, you expect the decline in the beginning of summer?

Mr. FRASER. Yes.

The unemployment that is inevitable later this year as a result of such scheduling will be aggravated by the enormous increase in productivity brought about by automation and other technological developments that were introduced on a large scale with the changeover to the current models. Even in December 1954—and incidentally, these are the latest figures—when car production totaled approximately 642,000, Detroit had 85,000 unemployed.

While the guaranteed employment plan which our union intends to negotiate this year will put a curb on the kind of irresponsible production scheduling which is again taking place, and will prevent a repetition of the reckless recruitment policies of the past, it is apparent that restoration of full employment in the auto industry, as in other industries, depends upon national policies designed to establish a broad case of expanded purchasing power. Only by such means can we enable millions of American families to achieve adequate living standards, and in so doing to provide a great new market for the products of American industry.

Attached to the submission which I am filing with you is a booklet in which are outlined in some detail the specific measures which we urge.

(The material referred to is on file with the committee.)

Mr. FRASER. In broad outline, they fall into three groups. First, are direct measures to increase purchasing power through such steps as increased income-tax exemption, improved social security and unemployment compensation, increased aid to farmers, and a substantially higher minimum wage. Second, are programs to provide employment while at the same time catching up with the backlog of needed housing, schools, hospitals, highways, and other community facilities. Third, is a substantial increase in aid to underdeveloped countries with a view to assisting them to increase the strength of their own economies, thus strengthening their resistance to communism.

I have two additional immediate recommendations to make. One is that recognition be given to the economic absurdity of continuing the excise tax on automobiles at a time when every means should be used to stimulate their purchase.

The second, which should have the highest possible priority on the legislative list, is a Federal law equivalent to the Forand-Kennedy bill of last year establishing Federal minimum standards for State unemployment compensation laws, especially as regards amount and duration of benefits. Only Federal action can bring about the nationwide improvement in these laws which is essential if we are to meet our moral obligation to make possible even a minimum standard of decent living for those who are unemployed through no fault of their own.

The CHAIRMAN. Thank you very much, Mr. Fraser.

Representative KELLEY. Mr. Chairman, it seems to me that Mr. Fraser makes a strong argument there for the closed shop.

Mr. FRASER. I am sorry, Congressman.

Representative KELLEY. I said, rather facetiously, that what you said about unemployment is a strong argument for the closed shop.

Mr. FRASER. The tragedy is that the recruitment teams from the auto companies go into the South and they give everybody the impression that it is permanent employment. Everybody knows it is only going to be 3 or 4 months. It is unfair to the people they recruit and unfair to the people in the vicinity of the industry.

Senator SPARKMAN. I understood Mr. Wilson to say that when cold weather came those people would go back south anyway.

Mr. FRASER. I could quote Secretary Wilson at length regarding this problem, but that was one of his suggestions.

(Mr. Fraser's prepared statement appears at p. 303.)

The CHAIRMAN. In Illinois we are proud to have the center of the farm-machinery industry of the country, and the biggest center is the so-called Quad Cities of Rock Island, Moline, and East Moline, Ill., and Davenport, Iowa. We are very happy to have the able State's attorney from that area, Mr. Moran, to speak on that industry.

STATEMENT OF BERNARD J. MORAN, STATE'S ATTORNEY, ROCK ISLAND, ILL.

Mr. MORAN. Members of the committee, I am a lawyer and not an economist. I would like to confine my statements to the conditions in the Quad City area to tell you what I know about the economic situation in the community and what the conditions are and the nature of our community which has been classified as having a substantial labor surplus.

Rock Island County contains three of the Quad Cities, Rock Island, Moline, and East Moline, Ill., which, with Davenport, Iowa, comprise an industrial metropolitan area of 246,000 persons. It is the farm-machinery capital of the world and the home of four major farm-machinery manufacturers, Deere & Co., International Harvester Co., J. I. Case Co., and the Minneapolis-Moline Co.

The Quad Cities have a considerable industrial diversification with many other factories whose names and products are well known, producing boots and shoes, sewing machines, bread slicers, electrical appliances, oil burners, men's clothing, paperboard containers (the Container Corp.), batteries, automotive parts, cold-air registers, sash doors, veneer-wood toys, and automotive safety service equipment. There are many large factories.

Corollary to the large plants are independent suppliers in the form of machine shops, tool-and-die shops, sheet-metal shops, foundries, and others who provide full or partial capacity to the needs of the large factories. Highly skilled labor produces quality tools, dies, castings, heat-treating, metal-treating, sheet-metal, and steel fabricating.

The United States Rock Island Arsenal is located offshore in the Mississippi on Arsenal Island, which forms a link in the traffic lanes of the Government bridge between the cities of Rock Island and Davenport. Production shops, arms-development laboratories, and the country's largest ordnance depot occupy a great deal of the 3 square miles of land on this island. The arsenal presently employs 6,000 people.

The new Alcoa $85 million aluminum rolling mill, which has a huge capacity for production of aluminum sheets and plates, is also located in the Quad Cities. Now Alcoa usually maintains an employment force of 2,000 people.

Rock Island County is the home of the Rock Island Lines and has one of the finest classification yards in the country. It is also served by the Milwaukee and Burlington Railroads. Transportation by air, highway, or over the Mississippi River system, which renders an important service and saving to industry in this area, is excellent. River shipping last year exceeded 6 million tons.

This picture of industrial diversification does not yet modify the fact that our prosperity depends upon prosperity in the farm-machinery industry. Seeking ultimate causes, the prosperity of this area is dependent upon the prosperity of the farmer here and abroad.

Farm prices and the confidence of the farmer in his future are the barometers to which the area is most sensitive, partly because some of our largest farm-machinery plants operate tight to demand, and when sales are off men are almost immediately unemployed.

I might also state that the scale of wages is not such that an unemployed person can long maintain himself during a layoff.

In the Quad Cities, when the farm-machinery industry suffers substantial layoffs, there is an immediate reaction in the shops of the independent supplier, foundries, machineshops, tool and die shops, and sheet-metal shops, as well as in all other businesses relating to goods and services.

Until 2 years ago employment in the Quad City area and in the farm-machinery industry was considered normal, subject to seasonal fluctuations and labor disputes. The community was prosperous. However, the sales of new farm machinery declined in 1953 and again during 1954 as farmers restricted their purchases in the face of the third consecutive year of declining farm prices and income.

The farm-machinery industry employs 14,400 of the area's total labor force of 109,500 persons, but other local business and industry is so sensitive to layoffs in the farm-machinery industry that by last year an estimated 10,000 persons were unemployed, and the area was classified as having a substantial labor surplus.

Since that time, and due principally to gains in the farm-machinery industry, employment conditions have improved. The Illinois State Unemployment Service estimates that there are now 6,300 persons unemployed in the Quad Cities, but this figure does not include an unknown number who are not eligible for benefits, those who have not asked for benefits, or those persons who have exhausted benefits. Employment is also somewhat eased by the fact that many workers with low seniority have migrated. The area was reclassified last week by the Department of Labor as having a moderate labor surplus.

There are still an estimated 2,500 persons who have not been recalled by the farm-machinery industry, and while both labor and management are optimistic about the long-range future of the farm-machinery industry, both agree that the prospects for 1955 are as expressed in an address by Bruce Lowry, chairman of the executive committee of the Farm Equipment Institute and vice president of Deere & Co., when he said "I think farm-machinery business next year has a good chance of being about the same as 1954," which was not good.

The CHAIRMAN. Now, that was his optimistic estimate?

Mr. MORAN. That was his best optimistic estimate, and that is the conclusion to which he came. I might say that the conclusion that it is not good is an inference you have to draw from unemployment in the industry.

During 1954, the J. I. Case Co. operated at a loss of $549,252, after giving effect to the tax credit applicable under the carryback provisions of the Revenue Act of 1954. Sales by this company during the fiscal year of 1954 were 17.15 percent less than in 1953, which was also not a good year, and manufacturing operations were approximately 30 percent below the previous year. J. I. Case Co. attributes its unfavorable operating results to the low volume of sales which it connects directly with the fact that farm income in the United States and Canada showed a decline during the year due to lower prices on many farm products.

Prices received by farmers during 1954 averaged more than 3 percent less than prices received for farm products during 1953, whereas, the prices paid by farmers in 1954 averaged approximately 2 percent higher than during 1953, due to higher family living costs.

Total production and marketing this year will probably decline somewhat primarily as the result of more stringent Government controls on production. It is estimated that there will be a further decline in cash receipts from farm marketings based on the outlook for stable or slightly lower farm prices on a somewhat smaller volume of marketings. This decline as estimated will be between 3 and 5 percent.

Lower crop receipts will be responsible for most of the fall in the total receipts. Lower cash receipts will undoubtedly result in lower net income because production expenses will not be reduced as rapidly as the gross farm income. The weather, of course, will also be partly a factor, but the immediate future for the farmer is certainly not much brighter than it was in 1953 and in 1954. Even when buying new farm machinery to replace wornout early postwar models, the farmer's prospect is for an increase rather than a decrease, due to the increased price of steel and the related component parts and of other basic materials and labor.

The solution to this Quad City unemployment problem is partly local and partly national. When the farmer receives adequate prices for his product, or, more basically, when he becomes confident of his economic future, and confident that there will be no further farm-price declines, he will start purchasing needed new farm machinery. This will create employment in the farm-machinery industry, and normal prosperity in the Quad City area.

The locality can help itself with the assistance of the Federal and State Governments by striving for a further diversification of industry. The area is too sensitive to conditions in the farm-equipment industry and its economy will be healthier when employment is diffused with other major industries.

Illinois is 1 of 4 States that does not have an industrial development commission, but sound governmental policy should dictate assistance to the area in enabling it to attain a more stable economy.

We have not, as yet, felt the benefits of the Government's program for tax benefits, or for contract allocation.

The following of the recommendations would be helpful:

1. Consider revising unemployment insurance benefits so that (*a*) the great majority of covered workers are eligible for payments that at least equal half their regular earnings, and (*b*) the term of unemployment insurance benefits is 26 weeks for every person who qualifies for any benefit and who remains unemployed that long (No. 12 of appendix A).

2. Expand the area development program of the Department of Commerce, which is designed to help depressed communities (No. 13 of appendix A).

3. Strengthen the Federal-State Employment Service (No. 9 of appendix A).

4. Continue the program for helping business concerns of small size to obtain access to adequate financing, to a fair share of Government procurement contracts, and to competent counsel; and extend the program's lending authority (No. 27 of appendix A).

I might say that steps have already been taken. The folks in the community are studying the organized industrial district booklet put out by the United States Department of Commerce. The effort was made several weeks ago to bring in an electronics division of the Western Electric Co., with the idea of further diversifying and diffusing employment.

In regard to one question on the sheet, I might say that we have not, as yet, felt the benefits of the Government's program for tax benefits or for contract allocation.

The CHAIRMAN. Do you wish to make any recommendations?

Mr. MORAN. I think that those are probably self-explanatory, Senator. They are in line with the President's recommendations. We feel, of course, that a great majority of the workers to the half or the 26 weeks, that would obviously present a big burden being thrown on the goods and services industries, which are smaller.

The CHAIRMAN. We have this problem: Under the rating system, which virtually all of the States have adopted, an improvement in benefits means higher costs on the part of individual employers, and we are back again to the old difficulty of interstate competition, with one State being afraid to raise its standards lest it put its employers at a competitive disadvantage compared to others. That is the reason why some of us believe we should have national minimums, and it should not be thrown to States, as is recommended by the Council of Economic Advisers and by the President.

Mr. Talle.

Representative TALLE. No questions, Mr. Chairman.

The CHAIRMAN. Mr. McDowell, we come to the Central Atlantic States.

OPENING STATEMENT OF ARTHUR G. McDOWELL, DIRECTOR OF CIVIC, EDUCATION, AND GOVERNMENTAL AFFAIRS, UPHOLSTERERS INTERNATIONAL UNION OF NORTH AMERICA, AMERICAN FEDERATION OF LABOR

Mr. McDOWELL. The Economic Report of the President now before the joint committee, on page 56 cites three special causes for persistence of structural or "spot cases of sizable unemployment in some places."

Those classes of causes are given as follows:

1. Lasting drop in demand for their wares.
2. An exodus of industry to new localities.
3. A vanishing supply of some material basic to the local economy.

The only recommended Federal Government initiative to meet these situations, which "may remain even when the Nation's economy practically reaches full employment," are also three in number, but obviously not as equal in weight of impact on the problem as in number.

The report's recommendations are:

1. Strengthening the area-development program of the Department of Commerce.

That is the only Department mentioned, I believe, although reference was made in previous testimony to the Labor Department which I did not find in the report.

2. Continuing for the time being the policy of special tax-amortization benefits for new defense facilities located in surplus-labor areas.
3. Placing of Government contracts as far as possible in these areas.

This is light artillery, indeed, for attacking as large and as deeply entrenched a problem as is faced by coal communities of Pennsylvania and West Virginia, or the traditional textile areas of New England and Middle Atlantic States. It also carefully avoids any attack on what the left hand of other governmental policies—local, State, and National—is doing to actually accentuate the problem. Nor is any body of principles consulted as to what may be the guiding lines or limitations of public policy which may be wisely and legitimately affected by legislation and administrative actions within the letter and spirit of that legislation.

Agonizing as has been the consequences to my native State of the lasting drop in the demand for our special anthracite coal and our sharing in the drooping fortunes of bituminous type, I would not have the gall to propose to a committee of the National Legislature measures to fetter the development of competing power and fuel resources or the indefinite subsidization of a traditional product of declining competitive efficiency. Nevertheless, a policy of conservation of what will for generations continue to be a basic national resource and, even more basic, the human resources of established communities with their homes, schools, churches, and business life is a concern of the Nation and of all sound economic policy. The report is amazingly brief and even silent on this problem.

I might say that the omission of any figures as indicative of the number of those in receipt of the disposal of surplus foods is quite an indication of the failure of the report to think of the economic problem in warm human terms and realities.

The continuance in Federal tax policy of the extraordinarily generous depletion allowance extended to the prosperous and flourishing petroleum industry is a case in point calling in question the equity and soundness of national policy in dealing with unequally situated natural-resource industries.

The exodus of industry to new localities, so far as it is a natural searching out of more favorable location in terms of raw materials, abundant or trained labor supply, a consumer-deficiency area such as was the west coast for a long time in my own industry, and so forth, is one thing, and not to be interfered with, at the very least, by Government policy.

When, however, as in recent years, this migration of established industry is stimulated by local and State government policies that smack of industrial cannibalism, i. e., new industrial development of old stable agricultural communities at the expense of rupture of older industrial communities and on the basis of subversion of declared national public policies such as the encouragement of collective bargaining, the denial of classification of labor as a commodity, and so forth, it is something else again. When such exodus with all the new problems it creates is actually subsidized by Federal tax policy, such as the extension of the tax-exempt privilege of local municipal-purpose bonds to industrial-purpose bonds to subsidize the practice of Mississippi villages of seduction of northern city factories by offers of virtually free factories, it is time that the Federal Government's right hand should apprise itself of what its left hand is doing.

It was once the conviction of every village in the midwest that it was entitled to a railroad in defiance of all economists and engineers, and the fact that it is farther by rail than by any of Daniel Boone's paths from St. Louis to Kansas City is testimony to the power of that conviction.

Many a county and town bankrupted itself in the railroad era, as probably will many municipalities in the modern Mississippi Bubble empire of municipal industrial purpose bond issues, but there is no reason for Federal taxation and labor policies to be accessories to the crime. The nonsense of a Federal labor law that proclaims its aim as the furthering of collective bargaining, and then carries a clause to encourage and abet the States still preponderantly agricultural, to enact laws to drastically weaken if not throttle in their cradle all collective-bargaining agencies, is obvious.

It is futile to preach sermons to the States apropros the desirability of sustaining the national level of consumer income by adopting uniform high standards of unemployment compensation laws, when there is no even proposed use of the Federal power which alone brought those laws into nationwide enactment by the respective State legislatures in the few years of the late 1930's.

Competition between sections, as well as between industries and services, and particular enterprises, is a great and healthful force, worth the unequal development of particular localities, but there is no health in new legislation or old which encourages competition between State legislatures in creation of low-wage areas, special and peculiar labor systems based on artificially and unequally weakened collective bargaining, cheap undeveloped unemployment and workmen's compensation and factory laws, et cetera. The correction of bad legislation of the past may be as or more pertinent to the problem in hand than new measures.

The CHAIRMAN. Mr. McDowell, would you stop there a moment. You seem to be saying that the so-called right-to-work laws which forbid the union shop, as well as the closed shop and which, therefore, go beyond the Taft-Hartley Act, are inducements for the migration of labor.

Mr. McDOWELL. They have a great bearing on it.

The CHAIRMAN. Do I understand you correctly to say that national labor laws on these points should have priority over State law?

Mr. McDOWELL. Precisely, and it should be equitable legislation and not legislation encouraging action in only one direction, and that negative.

May I inject in here an experience of a Philadelphia hosiery enterprise, giving the factors which lead to migration of an industry. This plant was established for a generation in this area, a new and modern plant, relatively speaking, liquidated its plant at a considerable profit on a real-estate proposition. It arranged for transfer to a Mississippi plant which was supplied to it under this bond subsidy arrangement, virtually free. The local union took a poll of its members and then submitted an offer to meet the wage rates which would be accepted by the labor in Mississippi. The company which could have continued operating where it had been profitable said very cynically "Could you give us a free plant? We get a virtually free plant from Mississippi, and, second, we won't have the interference. We have a labor law that will block your progress in organization."

The CHAIRMAN. Is it correct that these local bond issues to finance the provision of private plants are, therefore, tax exempt?

Mr. McDOWELL. They are tax exempt in two respects. They are tax exempt in the fact that the income from them is federally tax exempt. They are also tax exempt in that the lease or rental fee, if it amounts to a substantial amount for a large investment, goes to a municipality and, of course, is tax free, because the municipality's income is not subject to taxation.

Now, the third cause of regional and industrial unemployment given in the report, as vanishing supply of some material basic to the local economy, is in category of, first, in influence of broad economic developments seldom caused by legislation or its absence, and not easily subject to legislative attack. Nevertheless, while the exhaustion of the Minnesota iron range cannot be legislated against, the research and aid in developing the possibilities of secondary ores should be as legitimate a field of governmental action as subsidization of new river channels for floating in ores from new foreign fields. While the southern movement of wood furniture from Michigan was logical as lumber supply was exhausted, an earlier conservation and replanting policy of the Federal Government would have been a good investment for the whole country, including the South, some sections of which are now repeating Michigan history.

Plants under contract with our union in North Carolina now are proposing to move to other States, particularly Mississippi, because of exhaustion of lumber supply.

It is regrettable and disturbing that the report which would have the Department of Commerce agency strengthened did not correlate the measures with which the Labor Department is concerned, such as increase of rate and coverage of national minimum wage, effective use of Walsh-Healey Public Contracts Act, raising and making uniform of State unemployment compensation, and workmen's compensation act, labor relations legislation, and so forth. These measures, which, taken together and constantly improved, tend to equalize competitive conditions between sections, have great bearing on problems we are considering today.

And, may I say, Mr. Chairman, that the basic question seems to be in such matters as this taxation encouragement in the matter of bonds, is a matter of justice. One of our trade union officers traveling over the supposedly hunger-ridden section of Asia, said he never heard one man complain of hunger. He heard many complaints of injustices, and in this case this injustice is buttressed by the Federal taxation policies, and that is as dangerous as anything in terms of economic impact.

I would say, in conclusion, that a section of the people of our country who, due to circumstances beyond their control, face a crucial burden of need for reorganization of their economic life or have their obvious economic opportunity for advance blocked by natural or social economic obstacles, such as once obstructed the development of our Tennessee Valley, which obstacles can, however, be removed by means easily available to National Government, such sections have a legitimate special call on a national legislature. The interdependence of national and even international prosperity in modern times is a commonplace.

The report is disturbing in its easy dismissal of the menace to the general prosperity of the spreading and almost cancerous nature of these areas where unemployment becomes a continuous proposition. Those of us who are familiar and have lived, as I have, in the coal mining area, saw what occurred in the period before the great depression of 1929 forward. We saw the beginning of that depression spread from textile and coal centers.

I might say as you see the sweep of the heavy burden of unemployment figures in a belt of States in the chart presented there on yonder easel that in our industry, in the furniture industry, in the last year we had a rate of unemployment of 13 percent, which ran in excess of twice the national rate even of unemployment in manufacturing.

When you see the distribution of it, then you see how these communities are tied together, because at a national rate of 13 percent unemployment in the furniture industry last year, in Pennsylvania it was 23 percent, in Maryland it was 18 percent, and so on down the line. In such cases we either prosper or decline together.

(Mr. McDowell's prepared statement appears at p. 314.)

The CHAIRMAN. Are there questions?

Mr. Parsons.

STATEMENT OF VAN PARSONS, GENERAL CHAIRMAN OF THE BROTHERHOOD OF RAILROAD TRAINMEN, WESTERN MARYLAND RAILROAD

Mr. PARSONS. Mr. Chairman, members of the committee, and members of the panel; my name is Van Parsons. I am the general chairman of the Brotherhood of Railroad Trainmen on the Western Maryland Railway, with residence and office in Cumberland, Md. I shall confine myself to that area.

Having lived in the city of Cumberland for the past 20 years, and having worked for the Western Maryland for all of that time, it has been possible for me to observe the drastic change which has occurred in railroad employment within the last 5 years.

Looking at the field of railroad employment on a national basis, we find that in July 1953, railroad employment was 1,239,443. According to the latest report of the Interstate Commerce Commission, December 1954, railroad employment has declined to 1,027,267, a falling off of 212,176 in 18 months.

A decline is evident in my own area. The railroad industry in this city accounts for the employment of approximately 5,000 of the total labor force, which is 40,000 when employment is at a high level—immediate postwar period. At present there are 6,500 persons unemployed in the Cumberland area. This represents an unemployment of 14.4 percent. In contrast with this figure of overall unemployment, the unemployment of 1,500 railroad workers represents a rate of 30 percent in that industry, which is double the rate for the area. This figure includes both employees engaged in transportation and those employed in the shop crafts, such as machinists, boilermakers, car repairmen, et cetra.

The Federal Government has classified Cumberland as a distress area since the spring of 1949. It is designated as an IV–B area, which indicates there is no immediate prospect for the reemployment of those on the unemployment rolls in that area. It has carried the distress area label longer than any other area in Maryland, and perhaps any other area in the country, according to the Department of Labor.

There are three factors which account almost entirely for this condition. One is the decline in manufacturing employment at a synthetic yarn plant; second, is the decline in transportation employment in railroad shops; and third, the decline in bituminous coal-mining employment. All of the above economic activities are the type which import dollars into a community, and the declines have produced a noticeable result in service and trade activities.

According to a survey just released by the Railroad Retirement Board in cooperation with the Department of Labor, it is reported that five-sixths of those unemployed in the railroad industry in Cumberland are unable to obtain other employment in the same city.

I am unable to account for the Department's statement that one-sixth of the unemployed railroad workers have found other employment in Cumberland. I work with and am in constant contact with these people and know from my own experience that it has been impossible for them to find any kind of employment.

I call your attention specifically to the decline in the textile industry in that area. At peak employment there was a total labor force of 10,000 in my area. Of this number only 2,700 are working there today. Hundreds of these people who have lived all of their lives in Cumberland and own their own homes have been forced to go to other areas to seek employment.

It is futile to hope that unemployed railroad workers could find any kind of other employment in an area as depressed as this one, where unemployment extends to several major industries.

As I rode to Washington on the train yesterday, I talked with an official of the board of education of Allegheny County, Md. He acquainted me with the unemployment situation in the city of Frostburg, which is only 11 miles from my home, and is included in the Cumberland labor area. Frostburg has a population of 5,000 people. He told me that for a janitor's vacancy the board of education received 192 applications within a few days. Another example, at the Hercules powder plant, located just outside of Cumberland, which employs 700 full-time workers, there are on file 5,500 applications for employment. I included this in my statement to show the committee how drastic the situation is there.

In the transportation field the decline in railroad employment has resulted from many factors. Among these are the competition from the trucking industry, particularly in short-haul and less-than-carload shipments, the modernization program, including the dieselization of railroads, and other technological improvements, such as automatic control devices, and the decline in the use of coal as a fuel, it being substituted by imported residual fuel oil.

The solution to this problem is not a simple one. As I see it, several remedies could be tried to correct the tight situation in the Cumberland area. There could be an increase in the payment of unemployment-insurance benefits, both as to the amount of the payment, and the duration of the payments. Public works and Federal construction could be increased in the Cumberland area.

In line with what the Congressman said, we read daily about the crying need for more schools. School construction could provide a shot in the arm for the building trades, and its stimulation would reflect itself in associated industries.

For many years the Brotherhood of Railroad Trainmen has plugged for the elimination of grade crossings. In the Cumberland area are many such highway hazards, the elimination of which through Federal work projects would not only increase employment, but eliminate a constant threat to rail-highway accidents.

The Government can also provide a measure of relief by reducing the Federal income tax burden on wage earners in the lower tax brackets. Increasing personal exemptions and exemptions for dependents will provide more purchasing power than any other single remedy available. Distressed areas should be given priority in the allocation of Government contracts. It may be necessary to award the contracts on a noncompetitive basis, but we think it is a necessity in view of the urgency for stimulating employment among the area's large number of unemployed.

As far as increasing business in the railroad industry in this area, not too much emphasis can be laid on the fact that this decline in the transportation industry is directly related to the drop in the production and hauling of coal. The Western Maryland Railway is chiefly a coal-hauling railroad. In recent years the heavy increase in the importation of residual fuel oil for use in the eastern section of the country has contributed to the decline in the use of coal as a fuel.

If the President of the United States under the authority granted him in the Trade Agreements Act would see fit to limit the importation of residual oil, it would be possible to restore the depressed coal industry to greater production.

I am grateful for the opportunity to appear on this panel to acquaint you with the unemployment situation in the Cumberland area, and hope this committee will be able to make some recommendations that will relieve the hardships being experienced in the Cumberland area.

I have some figures here I would like to quote for the committee.

The continued increase in the number of barrels of imported residual oil reflects itself directly in the decrease in railroad employment in the eastern section of the country. Current figures on residual oil imports for 1954, up to and including the week of December 24, indicate there have been imported 128,327,160 barrels. This figure equals 30,557,500 tons of coal, using the ratio of 4.167 barrels of residual oil as being equivalent to 1 ton of bituminous coal.

To take the matter further, this loss of over 30 million tons of coal by rail results in the loss of 509,291 carloads of coal, based on the loading of 60 tons of coal to a carload. The Association of American Railroads states a coal haul averages about 300 miles per car from the mine to the consumer on the Atlantic seaboard. Using 80 cars per train for an average, the 509,291 carloads would equal about 6,366 trains. Since railroad operating employees are paid on a 100-mile basis, and the average mine haul is 300 miles, the actual loss would justly be 3 times the 6,366 trains, or 19,098 trains or train crews.

But this still is not the complete picture. We have spoken so far only of carloads of coal lost. The other side of this movement is the hauling of empty cars to mines for the transportation of coal to consumers. To obtain the whole effect, and to determine the total number of trains and crews displaced by this operation, the number of 19,098 trains must be doubled, since there would be a like movement of empty cars to the mines before there could be the same movement of loaded cars out of the mines. By this process we see that a total of 38,196 trains are affected.

There are not less than 5 employees on each train crew; after multiplying this by the number of trains affected, we discover this equals 190,980 man-days lost.

The above figures cover railroad employment in the eastern section of the country, which is the area affected by the importation of residual oil—the coal fields of Pennsylvania, West Virginia, western Virginia, eastern Tennessee, eastern Kentucky, and western Maryland, embracing the three coal districts; namely, the Eastern, Allegheny, and Pocahontas.

Sources: National Coal Association, Washington, D. C.; Association of American Railroads, Washington, D. C.

That concludes my statement.

The CHAIRMAN. Thank you very much, Mr. Parsons.

I am going to ask Mr. Goodwin at this time if he would submit for the record the latest figures dealing with two subjects:

First, the list of plants getting tax amortization because of labor surplus in their area and, second, a list of the defense contracts and the amounts which have been set aside for distressed areas in the United States.

Mr. HARRIS. Senator, may I make a footnote there?

The CHAIRMAN. Yes.

Mr. HARRIS. It would be very helpful if we would also have the total amount involved for the whole country as well as the populations of these distressed areas. That will give us some ideas whether they are really doing anything for these distressed areas. Is that possible?

The CHAIRMAN. Third, let us ask Mr. Goodwin if he would get the population of these distressed areas, and, fourth—I think we know the total tax amortization, which, as I remember it, is around $30 billion at the present time; then we could get a total, if it is not classified, on the total defense contracts for the country as a whole.

(The following information was subsequently received for the record:)

List of accelerated tax amortization certificates where additional allowances were authorized for facilities located in areas of substantial labor surplus, through December 1954

Name of company	Location of facilities	Number of additional employees	Product	Amount	Normal	Certified
					Percent	*Percent*
Dumont-Airplane & Marine Instrument Co	Clearfield, Pa	100	Airplane components	$87,000	70	80
Allis-Chalmers Manufacturing Co	Terre Haute, Ind	213	Electrical equipment	4,250,000	50	75
Niles-Bement-Pond Co	Providence, R. I	46	Aircraft engine accessories	50,843	65	75
Do	do	229	do	200,000	40	50
Industrial Rayon Corp	Covington, Va	200	Nylon staple fiber	4,327,000	40	65
Wright Machine Co	Durham, N. C	16	Aircraft components	106,000	65	75
Terminal Warehouse Corp	do	15	Freight terminal, motor	58,000	60	70
Ward Terminal, Inc	DuBois, Pa	20	do	98,800	60	70
United States Steel Corp	Corbin, Ky	90	Coal cleaning plant	7,800,000	50	60
United Metal Box Co	Pottsville, Pa	600	Containers, ammunition	3,262,750	50	70
Wynn Coal & Coke Co	Uniontown, Pa	10	Coal cleaning plant	147,000	60	70
General Electric Co	Scranton, Pa	100	Magnetron electronic tubes	303,000	65	75
American Enka Corp	Asheville, N. C	2,000	Nylon	35,000,000	40	65
Trifari, Krussman & Fishel, Inc	Providence, R. I	41	Ordnance items	54,544	70	80
Wright Machinery Co	Durham, N. C	187	Scientific instruments	91,053	65	75
Curran & Barton, Inc	Providence, R. I	76	Jet fuel storage tanks	909,500	40	50
			Buildings	35,500	15	25
Kaiser Aluminum Co	Ravenswood, W. Va	2,600	Aluminum welded tubing	1,734,000	50	75
Do	do		Aluminum sheet and plate	66,052,000	50	75
Westinghouse	Blairsville, Pa	400	Metallurgical research and development laboratory.	7,975,000	50	75
Pittsburgh Plate Glass Co	Cumberland, Md	820	Precision plate glass	33,600,000	60	85
Mine Safety Appliance Co	Providence, R. I	120	Minesweeper cutters	450,000	65	75
Allegheny Instrument Co	Cumberland, Md	100	Rocker-testing instruments	201,500	60	70
Wright Machinery Co	Durham, N. C	10	Aircraft components	47,100	65	75
Aircraft Products Co	Bridgeport, Pa. (Philadelphia area)	5	do	7,100	70	80
American Enka Corp	Enka, N. C	5	Research and development (nylon)	1,130,000	40	50
Aluminum Co. of America	Davenport, Iowa	600	Aluminum sheets and plates	35,626,000	50	60
Holly Carburetor Co	Van Dyke, Mich. (Detroit area)	250	Aircraft turbine controls	132,200	60	70
M-C Manufacturing Co	Lake Orion, Mich (Detroit area)	39	Aircraft parts	134,800	60	70
Mueller Brass Co	Port Huron, Mich	30	Aluminum forgings	656,900	65	75
Liquidometer Corp	Bellows Falls, Vt	26	Scientific instruments	35,000	45	55
J. W. Fecker, Inc	Pittsburgh, Pa	65	do	150,000	40	50
Total		9,008		204,712,590		

Grand total, tax amortization certificates granted

Period	Number of certificates issued	Amount applied for	Amount certified
October to December 1950	149	$1,401,290,000	$1,353,525,000
1951	5,322	10,570,465,000	10,080,342,000
1952	9,528	13,278,729,000	12,639,496,000
1953	3,756	5,006,630,000	4,807,211,000
1954	1,405	1,894,888,000	1,823,877,000

Source: U. S. Department of Labor, Bureau of Employment Security, Division of Reports and Analysis, Washington 25, D. C., Jan. 27, 1955.

Military supply contracts in labor surplus areas and industries—Dollar value of debit procurement actions of $25,000 or more, Jan. 1, 1954 through Sept. 30, 1954 [1]

Labor market area or industry	Date of labor surplus designation [2]		Total [3]				Amounts placed as a result of preference [3]			
	Approved	Withdrawn	Total	Army	Navy [4]	Air Force	Total	Army	Navy [4]	Air Force
Grand total			$900,588,983	$313,488,757	$246,646,360	$340,453,866	$13,162,131	$5,225,164	$1,557,325	$6,379,642
Textile industry	June 4, 1952		19,249,124	16,300,433	2,553,371	395,320	335,414	319,200	16,214	0
Labor-surplus areas, total [5]			881,339,859	297,188,324	244,092,989	340,058,546	12,826,717	4,905,964	1,541,111	6,379,642
Alabama:										
Alexander City	May 1954		0	0	0	0	0	0	0	0
Anniston	Mar. 31, 1954		426,577	426,577	0	0	0	0	0	0
Decatur	June 21, 1954		0	0	0	0	0	0	0	0
Gadsden	January 1954		60,674	0	60,674	0	0	0	0	0
Jasper	Nov. 5, 1953		78,750	0	78,750	0	15,750	0	15,750	0
Talladega	Mar. 31, 1954		14,490	0	14,490	0	14,490	0	14,490	0
Arkansas: Fort Smith	July 1954		0	0	0	0	0	0	0	0
Connecticut: Bristol	July 1954		0	0	0	0	0	0	0	0
Georgia:										
Cedartown-Rockmart	Nov. 5, 1953		0	0	0	0	0	0	0	0
Columbus	July 1954		0	0	0	0	0	0	0	0
Cordele	Apr. 27, 1954		28,200	0	28,200	0	28,200	0	28,200	0
Illinois:										
Aurora	May 1954	September 1954	703,528	565,611	34,070	103,847	0	0	0	0
Herrin-Murphysboro-West Frankfort.	Mar. 13, 1952		434,757	387,661	47,096	0	23,850	0	23,850	0
Joliet	May 1954		1,524,817	1,154,897	326,420	43,500	0	0	0	0
Litchfield	Mar. 31, 1954		40,105	0	40,105	0	0	0	0	0
Mount Vernon	Apr. 27, 1954		0	0	0	0	0	0	0	0
Peoria	May 1954		636,412	602,547	0	33,865	0	0	0	0
Indiana:										
Evansville	do		43,572	32,592	10,980	0	0	0	0	0
Fort Wayne	do		7,848,100	2,716,306	1,185,905	3,945,889	0	0	0	0
Michigan City-La Porte	March 1954		15,736,800	15,036,254	21,204	679,342	0	0	0	0
Muncie	Aug. 10, 1954		49,146	49,146	0	0	0	0	0	0
South Bend	Feb. 19, 1954		23,962,912	2,793,788	5,615,993	15,553,131	0	0	0	0
Terre Haute	Mar. 25, 1952		1,343,554	1,096,696	246,858	0	0	0	0	0
Vincennes	Apr. 12, 1952		69,402	0	69,402	0	0	0	0	0
Iowa:										
Burlington	May 1954		158,010	158,010	0	0	0	0	0	0
Davenport-Rock Island-Moline, Ill.	Feb. 19, 1954		7,380,602	1,842,573	405,542	5,132,487	0	0	0	0
Ottumwa	Mar. 31, 1954		0	0	0	0	0	0	0	0
Kansas: Pittsburg	May 1954		0	0	0	0	0	0	0	0

See footnotes at end of table.

Military supply contracts in labor surplus areas and industries—Dollar value of debit procurement actions of $25,000 or more, Jan. 1, 1954, through Sept. 30, 1954 [1]—Continued

Labor market area or industry	Date of labor surplus designation [2]		Total [3]				Amounts placed as a result of preference [3]			
	Approved	Withdrawn	Total	Army	Navy [4]	Air Force	Total	Army	Navy [4]	Air Force
Kentucky:										
Corbin	Nov. 5, 1953		$10,000	0	$10,000	0	0	0	0	0
Frankfort	May 1954		0	0	0	0	0	0	0	0
Hazard	Nov. 5, 1953		0	0	0	0	0	0	0	0
Henderson	Mar. 31, 1954		0	0	0	0	0	0	0	0
Madisonville	Nov. 5, 1953		546,708	0	546,708	0	$11,400	0	$11,400	0
Middlesboro-Harlan	Nov. 5, 1953		33,000	0	33,000	0	10,120	0	10,120	0
Morehead-Grayson	Aug. 10, 1954		0	0	0	0	0	0	0	0
Owensboro	May 1954		428,181	$315,544	112,637	0	0	0	0	0
Paintsville-Prestonburg	Nov. 5, 1953		100,676	0	100,676	0	0	0	0	0
Pikeville-Williamson, W. Va.	Nov. 5, 1953		0	0	0	0	0	0	0	0
Maine: Biddeford	March 1954		317,871	303,237	14,634	0	0	0	0	0
Maryland: Cumberland	Mar. 12, 1952		1,524,113	1,524,113	0	0	1,236,952	$1,236,952	0	0
Massachusetts:										
Fall River	May 1954		31,259	0	0	$31,259	0	0	0	0
Lawrence	Mar. 13, 1952		7,248,056	251,426	60,525	6,936,105	0	0	0	0
Lowell	Mar. 12, 1952		3,669,408	249,935	41,781	3,377,692	2,826,695	0	0	$2,826,695
Milford	May 1954		39,700	39,700	0	0	0	0	0	0
New Bedford	January 1954		12,563,486	12,500,801	62,685	0	47,320	0	47,320	0
North Adams	March 1954		63,696	63,696	0	0	0	0	0	0
Southbridge-Webster	January 1954		1,146,690	910,127	0	236,563	0	0	0	0
Michigan:										
Adrian	May 1954		602,401	0	545,485	56,916	0	0	0	0
Ann Arbor-Ypsilanti	Apr. 16, 1954		1,762,194	155,583	1,073,487	533,124	0	0	0	0
Battle Creek	Feb. 19, 1954		2,850,528	567,840	1,341,862	940,826	249,425	0	249,425	0
Bay City	March 1954		16,007,953	1,942,731	14,065,222	0	0	0	0	0
Benton Harbor	May 1954		739,347	325,355	0	413,992	0	0	0	0
Detroit	Feb. 19, 1954		152,773,817	92,022,295	12,076,719	48,674,803	1,311,260	1,069,672	11,008	230,580
Ionia-Belding-Greenville	January 1954		2,770,021	2,770,021	0	0	0	0	0	0
Iron Mountain	Apr. 16, 1954		2,573,515	2,010,998	409,735	152,782	0	0	0	0
Jackson	do		5,408,644	4,735,762	278,321	394,561	0	0	0	0
Monroe	March 1954		911,861	121,681	0	790,180	0	0	0	0
Muskegon	January 1954		9,839,396	1,311,834	103,512	8,424,050	0	0	0	0
Owesso	July 1954		0	0	0	0	0	0	0	0
Port Huron	May 1954		320,995	193,206	48,094	79,695	0	0	0	0
Minnesota: Duluth-Superior, Wis.	March 1954		82,408	30,408	52,000	0	0	0	0	0
Mississippi: Jackson	May 1954	September 1954	26,952	0	26,952	0	0	0	0	0
Missouri:										
Joplin	do		0	0	0	0	0	0	0	0
St. Joseph	do		97,710	97,710	0	0	0	0	0	0
St. Louis	do		65,825,951	39,504,886	13,217,528	13,103,537	1,283,113	1,240,313	42,800	0
Springfield	do		4,496,991	0	4,496,991	0	0	0	0	0

New Jersey:									
Atlantic City	Mar. 13, 1952	25,469	0	25,469	0	0	0	0	0
Paterson	March 1954	218,712,438	8,334,270	52,826,162	157,552,006	0	0	0	0
New Mexico: Albuquerque	Nov. 5, 1953	852,813	451,722	40,134	360,957	0	0	0	0
New York:									
Albany-Schenectady-Troy	May 1954	27,369,708	1,400,899	22,303,989	3,664,820	0	0	0	0
Amsterdam	June 21, 1954	0	0	0	0	0	0	0	0
Buffalo	May 1954	32,958,637	7,617,085	19,424,202	5,917,350	0	0	0	0
Gloversville	May 3, 1952	0	0	0	0	0	0	0	0
Hudson	Feb. 19, 1954	172,899	0	172,899	0	0	0	0	0
Jamestown-Dunkirk	May 1954	143,609	0	115,779	27,830	0	0	0	0
Oswego-Multon	June 21, 1954	324,533	78,358	246,175	0	0	0	0	0
Utica-Rome	May 1954	9,245,416	6,047,690	209,975	2,987,751	0	0	0	0
North Carolina:									
Asheville	Mar. 13, 1952	4,142,793	0	95,473	4,047,320	1,276,310	0	55,685	1,220,625
Durham	Nov. 5, 1953	124,134	60,649	63,485	0	0	0	0	0
Kinston	June 21, 1954	11,100	0	11,100	0	0	0	0	0
Waynesville	March 1954	53,988	0	0	53,988	0	0	0	0
Winston-Salem	June 21, 1952	23,899,623	4,403,180	12,514,413	6,982,030	0	0	0	0
Ohio:									
Canton	Apr. 7, 1954	3,547,095	1,493,278	226,738	1,827,079	366,370	0	0	366,370
Findlay-Tiffin-Fostoria	July 1954	0	0	0	0	0	0	0	0
Mansfield	July 1954	17,500	0	17,500	0	0	0	0	0
Newark	June 24, 1954	81,296	0	81,296	0	33,600	0	33,600	0
Sandusky-Fremont	July 1954	0	0	0	0	0	0	0	0
Springfield	June 21, 1954	1,573,508	0	56,696	1,516,812	1,044,282	0	0	1,044,282
Toledo	Feb. 19, 1954	5,558,642	2,615,326	2,775,606	167,710	0	0	0	0
Oklahoma:									
McAlester	September 1954	0	0	0	0	0	0	0	0
Muskogee	September 1954	0	0	0	0	0	0	0	0
Oregon: Portland	March 1954	2,826,720	2,208,251	508,298	110,171	11,680	0	11,680	0
Pennsylvania:									
Altoona	June 6, 1952	552,939	525,026	0	27,913	0	0	0	0
Berwick-Bloomsburg	May 1954	18,998,847	18,998,847	0	0	0	0	0	0
Clearfield	Nov. 5, 1953	1,242,883	0	1,242,883	0	230,310	0	230,310	0
Erie	May 1954	863,877	736,213	127,664	0	0	0	0	0
Indiana	January 1954	593,064	167,280	425,784	0	208,860	167,280	41,580	0
Johnstown	July 1, 1953	115,881	88,560	0	27,321	0	0	0	0
Kittanning-Ford City	March 1954	42,000	0	42,000	0	0	0	0	0
Lock Haven	June 21, 1954	65,447	0	0	65,447	0	0	0	0
New Castle	Mar. 31, 1954	13,370	0	13,370	0	0	0	0	0
Oil City-Franklin-Titusville	September 1954	0	0	0	0	0	0	0	0
Philadelphia	May 1954	64,959,056	7,877,232	27,228,273	29,853,551	478,735	0	43,065	435,670
Pittsburgh	May 1954	20,382,085	6,568,245	10,671,737	3,142,103	0	0	0	0
Pottsville	Mar. 12, 1952	1,135,981	32,660	1,103,321	0	91,260	0	91,260	0
Reading	May 1954	1,421,517	1,273,928	147,589	0	0	0	0	0
Scranton	Mar. 5, 1952	15,158,826	14,782,474	376,352	0	0	0	0	0
Sunbury-Shamokin-Mount Carmel.	June 27, 1952	1,009,690	264,193	745,497	0	0	0	0	0
Uniontown-Connellsville	Mar. 18, 1952	0	0	0	0	0	0	0	0
Wilkes-Barre-Hazleton	Mar. 5, 1952	6,134,115	1,331,071	922,848	3,880,196	1,191,492	1,128,422	15,150	47,920
Williamsport	March 1954	5,705,268	1,106,396	0	4,598,872	0	0	0	0

See footnotes at end of table.

Military supply contracts in labor surplus areas and industries—Dollar value of debit procurement actions of $25,000 or more, Jan. 1, 1954, through Sept. 30, 1954 [1]—Continued

Labor market area or industry	Date of labor surplus designation [2]		Total [3]				Amounts placed as a result of preference [3]			
	Approved	Withdrawn	Total	Army	Navy [4]	Air Force	Total	Army	Navy [4]	Air Force
Rhode Island: Providence	Mar. 5, 1952		$12,930,699	$5,791,534	$5,429,350	$1,709,815	$207,500	0	0	$207,500
Tennessee:										
Bristol-Johnson City-Kingsport.	May 1954		18,066,237	126,615	17,939,622	0	0	0	0	0
Chattanooga	March 1954		6,107,571	5,860,514	0	247,057	0	0	0	0
Knoxville	May 1954		3,382,391	2,799,738	582,653	0	10,400	0	$10,400	0
LaFollette-Jellico-Tazewell	January 1954		14,000	0	14,000	0	0	0	0	0
Newport	Nov. 5, 1953		0	0	0	0	0	0	0	0
Texas:										
San Antonio	Mar 1954		638,032	172,916	0	465,116	0	0	0	0
Texarkana	January 1954		136,262	0	27,855	108,407	0	0	0	0
Virginia:										
Big Stone Gap-Appalachia	Nov. 5, 1953		325,972	0	325,972	0	43,080	0	43,080	0
Covington-Clifton Forge	January 1954		0	0	0	0	0	0	0	0
Radford-Pulaski	March 1954		213,565	181,075	0	32,490	0	0	0	0
Richlands-Bluefield	June 21, 1954		0	0	0	0	0	0	0	0
Vermont:										
Burlington	Aug. 10, 1954		0	0	0	0	0	0	0	0
Springfield	July 1954		0	0	0	0	0	0	0	0
Washington: Tacoma	July 23, 1952		2,009,768	1,918,637	91,131	0	0	0	0	0
West Virginia:										
Beckley	Nov. 5, 1953		22,032	0	22,032	0	0	0	0	0
Bluefield	March 1954		401,411	0	401,411	0	5 ,160	0	51,160	0
Charleston	do		2,107,899	233,607	1,827,557	46,735	0	0	0	0
Clarksburg	do		290,835	0	290,835	0	51,960	0	51,960	0
Fairmont	Nov. 5, 1953		172,784	0	0	172,784	0	0	0	0
Huntington-Ashland, Ky	March 1954		3,669,325	567,495	2,614,526	487,304	63.325	$63,325	0	0
Logan	March 31, 1954		1,136,629	0	1,136,629	0	239,658	0	239,658	0
Morgantown	Nov. 5, 1953		469,032	0	469,032	0	106,510	0	106,510	0
Parkersburg	Nov. 3, 1952		0	0	0	0	0	0	0	0
Point Pleasant	July 22, 1952		0	0	0	0	0	0	0	0
Ronceverte-White Sulphur Springs.	Apr. 29, 1952		109,557	0	77,000	32,557	0	0	0	0
Welch	Feb. 19, 1954		643,126	0	643,126	0	61,650	0	61,650	0
Wheeling-Steubenville, O	March 1954		73,360	52,316	21,044	0	0	0	0	0
Wisconsin:										
Beaver Dam	May 1954		0	0	0	0	0	0	0	0
Kenosha	Nov. 5, 1953		154,893	113,574	41,319	0	0	0	0	0
La Crosse	Feb. 19, 1954		64,030	0	64,030	0	0	0	0	0
Racine	March 1954		1,903,552	1,578,079	18,565	306,908	0	0	0	0

Hawaii: Honolulu	July 1954		547,775	367,622	180,153	0	0	0	0	0
Porto Rico:										
Mayaguez	June 17, 1952		84,112	0	84,112	0	0	0	0	0
Ponce	June 17, 1952		99,914	99,914	0	0	0	0	0	0
San Juan	June 17, 1952		174,393	50,308	124,085	0	0	0	0	0

[1] Data cover the period Jan. 1 through Sept. 30, 1954, except that those areas and industries which have been designated as labor surplus areas subsequent to Jan. 1, 1954, include only contracts awarded after the date of designation. Contracts awarded prior to Jan. 1, 1954, are summarized in a preceding issue of this report, published on Mar. 1, 1954.

[2] Prior to Jan. 1, 1954, the date of Office of Defense Mobilization approval. Beginning with Jan. 1, 1954, this is the date the Department of Labor designated the area as group IV (area of substantial labor surplus).

[3] New contracts (all debit actions, omitting any credit actions) for the period of time each area was a designated labor surplus area since Jan. 1, 1954.

[4] Department of Navy includes contracts of $10,000 and over.

[5] Contracts awarded to the textile industry are excluded from the data on contracts awarded in the geographic labor surplus areas.

NOTE.—Grand total, Defense Department procurement, January-September 1954, $10.3 billion.

Source: Office of Assistant Secretary of Defense (Supply and Logistics), Statistics Branch, Nov. 16, 1954.

1950 population of major areas classified as group IV areas of substantial labor surplus

Name of area	Classification, January 1955	Population, 1950	Name of area	Classification, January 1955	Population, 1950
Hawaii: Honolulu	IV-A	353,020	Ohio:		
Indiana:			Canton	IV-A	283,194
Evansville	IV-A	160,422	Toledo	IV-A	395,551
Fort Wayne	IV-A	183,722	Oregon: Portland	IV-A	704,829
South Bend	IV-A	205,058	Pennsylvania:		
Terre Haute	IV-B	105,160	Altoona	IV-B	139,514
Massachusetts:			Erie	IV-A	219,388
Fall River	IV-A	139,400	Johnstown	IV-B	291,354
Lawrence	IV-B	125,935	Philadelphia	IV-A	3,671,048
Lowell	IV-A	143,100	Pittsburgh	IV-A	2,213,236
New Bedford	IV-A	157,100	Reading	IV-A	255,740
Michigan:			Scranton	IV-B	257,396
Battle Creek	IV-A	120,806	Wilkes-Barre-Hazelton	IV-B	392,241
Muskegon	IV-A	121,500	Puerto Rico:		
Minnesota: Duluth-Superior	IV-A	151,200	Mayaguez	IV-B	87,300
Missouri: St. Louis	IV-A	1,681,281	Ponce	IV-B	126,000
New Jersey:			San Juan	IV-A	465,000
Atlantic City	IV-A	139,000	Rhode Island: Providence	IV-A	737,203
Paterson	IV-A	1,040,600	Tennessee:		
New Mexico: Albuquerque	IV-A	145,673	Chattanooga	IV-A	246,453
New York:			Knoxville	IV-A	337,105
Albany-Schenectady-Troy	IV-A	514,490	Washington: Tacoma	IV-A	275,876
Buffalo	IV-A	1,089,230	West Virginia:		
Utica-Rome	IV-A	284,262	Charleston	IV-B	322,072
North Carolina:			Huntington-Ashland	IV-A	245,795
Asheville	IV-A	124,403	Wheeling-Steubenville	IV-A	354,092
Durham	IV-A	101,639	Wisconsin: Racine	IV-A	109,585
Winston-Salem	IV-A	146,135			

Source of population data: Bureau of the Census.

Source: U. S. Department of Labor, Bureau of Employment Security, Division of Reports and Analysis, Washington 25, D. C., January 28, 1955.

The CHAIRMAN. Thank you very much, gentlemen. I think we have brought out a series of facts which need to be considered. There is always a tendency for people in Washington to see things with rosy-colored glasses. I think this has furnished a very healthy corrective. I want to thank you for taking the time and trouble to come here.

(The prepared statements of the panel are as follows:)

STATEMENT OF ROBERT C. GOODWIN, DIRECTOR, BUREAU OF EMPLOYMENT SECURITY, UNITED STATES DEPARTMENT OF LABOR, TO THE JOINT COMMITTEE ON THE ECONOMIC REPORT, JANUARY 27, 1955

I welcome this opportunity to appear again before your committee. I wish to discuss with you our experience with regional and industrial unemployment, some of the conditions which give rise to local unemployment, and programs which are designed to deal with these problems. I would also like to submit, in a few days, a somewhat more detailed statement relating to regional and industrial unemployment over the past year.

A year ago in January claims activities were rising substantially more than seasonally, and instead of declining in February as it usually does, insured unemployment continued to rise through March and April to 2,181,000. Thereafter, the average weekly volume declined steadily to less than 1.5 million in November.

The rise in insured unemployment was accompanied by a rise in the number of claimants exhausting unemployment benefits. The number of exhaustions rose from 94,000 in January to 171,000 in August and then tapered off to 152,000 in December. The total number of exhaustions for the year was 1,762,000. As may be expected, the largest volumes of exhaustions generally occured in those States which experienced the heaviest levels of insured unemployment.

The economy began to improve this past fall, and the seasonal increase in insured unemployment, which usually begins in November, did not develop this year until December when the volume moved up to 1.7 million. Furthermore, the rise this year was somewhat smaller than usual.

During 1954, $2 billion in benefits was paid to about 6.6 million individuals under State unemployment-insurance programs, as compared with $962 million paid to 4.2 million individuals in 1953.

It is too early to tell yet what January will show but insured unemployment rose as usual in the first week to 1,857,000. Normally insured unemployment begins to turn down toward the end of January and early February.

The volume of insured unemployment varied widely among different regions, States, and areas over the past year. The largest volumes of insured unemployment were experienced in the middle Atlantic and east north central regions which account for about half of the covered workers of the Nation and which have a heavy concentration of durable goods manufacturing. In these regions which include New York, New Jersey, Pennsylvania, Ohio, Indiana, Illinois, Michigan, and Wisconsin, cutbacks in such industries as steel, autos, military hardware, heavy industrial machinery, machine tools, railroad equipment, and farm machinery contributed significantly to insured unemployment levels. Curtailments in apparel manufacturing also caused some unemployment in New York, New Jersey, and Pennsylvania.

The highest rates of insured unemployment, as distinct from the numbers of workers involved, were experienced in West Virginia, Kentucky, Tennessee, Mississippi, New Hampshire, Oregon, Pennsylvania, Maine, and Rhode Island.

THE PROBLEM OF LOCALIZED UNEMPLOYMENT: EXTENT AND CAUSE

While the State figures on insured unemployment provide a valuable indicator of the relative impact of unemployment among different sections of the country, they do not, of course, tell the whole story about the problem of localized unemployment. The Bureau of Employment Security, classifies 149 major local areas to their relative degree of unemployment.

Our January 1955 classification shows that 105 areas which account for close to 80 percent of the 32.5 million nonfarm wage and salaried workers surveyed had only moderate unemployment. Some 44 other major areas had substantial unemployment and were classified in group IV in January. Of these, 35 had between 6 and 12 percent of the work force unemployed; the other 9 had unemployment in excess of 12 percent. About one-third of the Nation's total unemployment is centered in areas classified in group IV.

At this point, I wish to emphasize that not all of these areas are confronted with long-term unemployment problems. A very large share of the more than 1 million unemployed workers in the group IV areas are concentrated in areas with short-run unemployment problems, stemming from temporary dislocations in specific industries. No single cause can fully explain serious unemployment in some areas while the Nation as a whole is generally prosperous. Several contributory factors, however, can be isolated. Among these are:

1. *Short-run cutbacks in consumer demand for certain products.*—The Detroit and Pittsburgh areas early in 1954 illustrate the effects of such cutbacks in the auto and steel industries.

2. *Long-term loss of an industry's competitive market position.*—Employment in some areas has been declining over long periods of time because of the inroads of competing products upon the market position of basic local industries. This has frequently been accompanied by geographic shifts of the industries affected. Many textile areas in New England have experienced this problem. Many Pennsylvania anthracite coal-mining areas such as Scranton, Wilkes-Barre-Hazleton, and Pottsville have suffered employment losses due to competition from other fuels.

3. *Exhaustion or depletion of natural resources.*—Coal-mining areas, where the most accessible veins have been exhausted or depleted, have been hardest hit. To a lesser extent areas dominated by such industries as lead, zinc, and silver mining, and lumber have also developed labor surpluses as a result of the depletion of natural resources.

4. *Technological changes.*—Changes in methods of production or materials used for certain items have resulted in substantial labor surpluses in some areas. For example, the changeover from cotton cord to nylon cord in rubber tires has created heavy unemployment in the Cedartown-Rockmart area of Georgia. Similarly, the change to diesel engines has contributed to labor surpluses in the important railroad and locomotive repair center of Altoona, Pa.

5. *Lack of an adequate industrial base.*—In some areas locally available employment opportunities are not sufficient to support a growing population and labor force on a year-round basis. Among these are the seasonal resort areas of Atlantic City, N. J., Asheville, N. C., or Ronceverte-White Sulphur Springs, W. Va.; the tobacco processing centers of Durham and Winston-Salem, N. C.; and the Great Lakes shipping ports of Duluth, Minn., and Superior, Wis.

6. *Shifts in Government activities.*—Some areas are or have been in the labor surplus category because of changes in emphasis of our defense program. Cutbacks in ordnance requirements over the past 2 years for example, have contributed significantly to the development of surplus conditions in many small areas.

PROGRAMS TO ALLEVIATE UNEMPLOYMENT

To over 40 million workers the first line of defense against unemployment is unemployment insurance. It is "automatic" in the sense that it goes into effect without requiring special State or Federal action. It directly supports the purchasing power of those seeking work and it is of known amount and duration so that recipients and the communities in which they live can plan their own actions with a full knowledge of the facts.

In addition to the system of State unemployment insurance laws which operate in all States, the District of Columbia, Hawaii, and Alaska, there is Federal legislation providing unemployment insurance for railroad workers, Korean veterans, and civilian employees of the Federal Government.

As recommended by the President, State unemployment-insurance programs should be improved by broadening coverage and by increasing the amount and duration of benefits. The Secretary of Labor has communicated with the State governors urging that action be taken to revise State laws so that they may more adequately carry out the basic objectives of a sound unemployment-insurance system. I want to emphasize that unemployment insurance is "a first line of defense" and is one of the built-in economic stabilizers. Unemployment insurance in itself does not spark a resumption of economic activity but it provides time for other programs to get underway.

The nature of the unemployment problem and the kind of action required to deal with the problem differ from one locality to another. For this reason, the primary responsibility for dealing with localized unemployment problems rests with the local community whose resources and facilities must be coordinated to overcome the conditions which give rise to the unemployment. State governments share with local governments the responsibility for cooperating with the local community groups to develop action programs which will bring about economic diversification and stimulate employment opportunities. The role of the Federal Government is to cooperate with State and local governments in these efforts. It brings to bear its technical resources in helping to determine the character of the problem and it helps to develop courses of action to deal with the problem. In addition to its general national economic policies and programs, it modifies its own operations and activities to provide assistance to local areas experiencing serious unemployment.

Federal programs to alleviate unemployment in labor-surplus areas include three broad fields of activity: technical assistance to the States and the communities primarily through the Departments of Commerce and Labor; certain special provisions in procurement policies benefiting bidders from areas of substantial labor surplus; and assistance through accelerated tax amortization to benefit new or expanded plants necessary to strengthen the mobilization base located in areas of labor surplus.

In addition, programs that are not directly linked to area unemployment may be of some assistance to areas of substantial labor surplus. These include the program for urban renewal under the Housing Act of 1954; Federal assistance for school, road, and hospital construction; the construction or expansion of Federal installations such as Atomic Energy Commission plants and Defense Department installations, and the programs of the Small Business Administration. Unemployment is also a consideration in adjusting many other broad Federal programs such as foreign-trade policy and the development of river basins and harbors, and flood control.

The program of the Department of Labor with regard to local area unemployment includes both the determination and publication of the facts and technical assistance through the State employment security agencies to the communities themselves in organizing their own community resources. Forty-two State unemployment insurance laws specifically provide for programs to alleviate and prevent unemployment. The community employment development program is now one of the important programs in the employment security system. In a typical situation a representative from the Department of Labor is sent to assist State technical staffs and the local office manager in a thorough review of the facts concerning a locality's labor market, the basic causes of the unemployment, and the employment outlook as far forward as key employers in the area can estimate their labor requirements. The local office manager, with the assistance of the Department's representative, stimulates local civic leaders, key employers, and major union leaders to cooperate in working out an overall program for the community. This program lays heavy stress on developing further the assets of the community and correcting weaknesses. It points generally to the types of industries that are necessary not only to provide additional employment but to balance the local economy. Primary stress in all of this work is laid upon local responsibility and local initiative.

The Department of Commerce, through its Area Development Division, works closely with us in providing assistance to communities of substantial unemployment. The Department of Commerce representative will, I am sure, elaborate on the activities of his Department.

Federal procurement policies to assist areas of substantial labor surplus have now been extended to include offshore procurement. These policies include Defense Manpower Policy No. 4, as amended in November 1953, and Executive Order 10582, which modifies the application of the Buy American Act. Under DMP-4, a procurement agency may set aside a portion of a procurement for the specific purpose of offering it to firms in labor surplus areas at an acceptable price determined through free competitive bidding. While this program has not resulted in the redirection of a large volume of contracts to such areas, the wide dissemination of the list of labor surplus areas has resulted in manufacturers in these areas receiving more attention. The total volume of contracts secured by them has been significant. From January 1, 1954, to September 30, 1954, a total of over $900 million in Defense Department contracts was placed in surplus-labor areas.

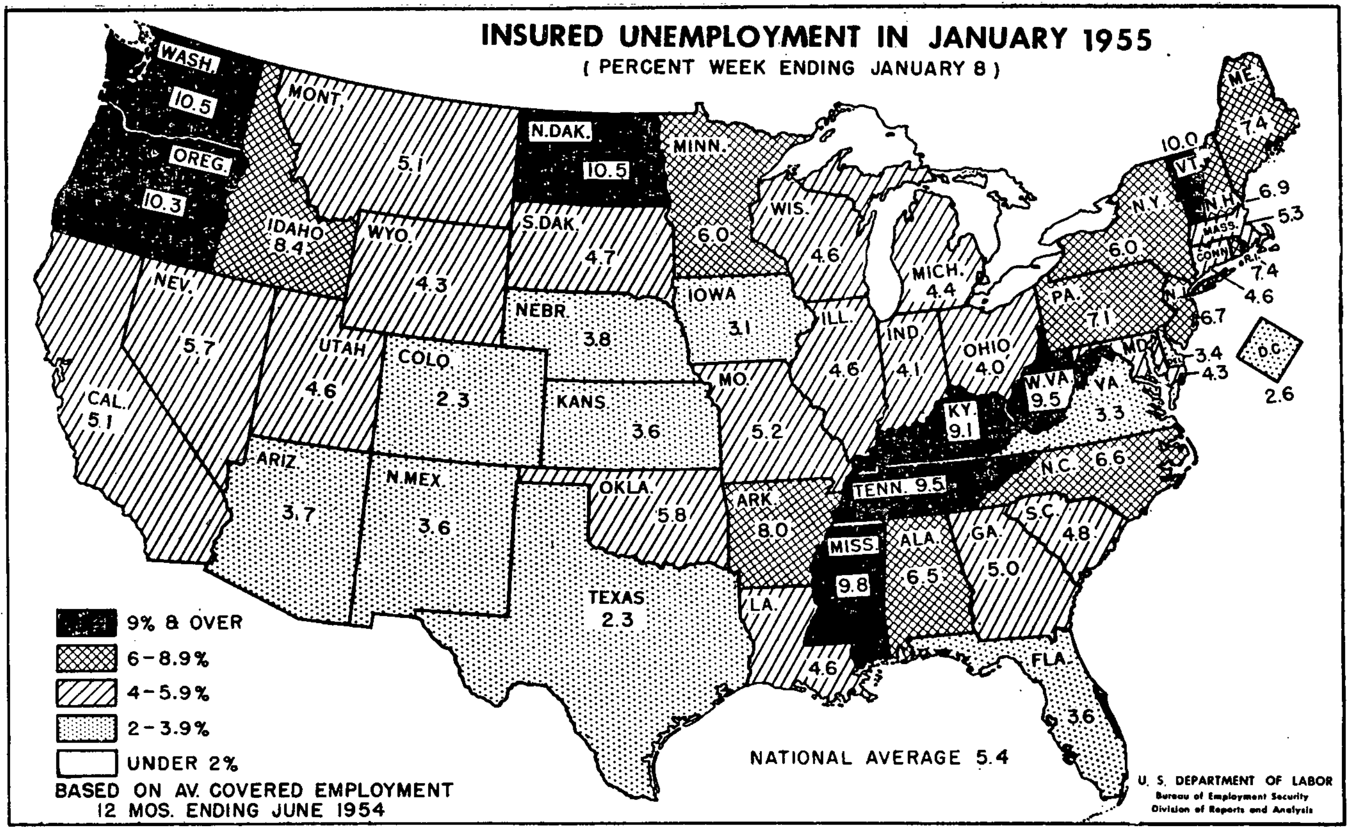
On December 17, 1954, the President issued Executive Order 10582 to expand offshore procurement. However, the order permits the rejection of a foreign bid in any situation where the domestic low bidder would produce most of the materials in areas of substantial labor surplus, providing such action is determined to be in the national interest. This policy is still too new to measure its results.

A more basic program is the granting of additional accelerated tax amortization to firms that locate in areas of substantial labor surplus. The program is more basic since it creates a permanent business activity. This policy was initiated in November 1953 by the Office of Defense Mobilization and came after a great volume of applications had already been processed, so that relatively few industries remained eligible for accelerated amortization. Nevertheless, through December 1954 some 31 facilities involving a total capital investment of $204 million have been certified for areas of substantial labor surplus. These facilities, when completed, are expected to provide jobs directly for nearly 9,000 workers. As we all know, such employment will create secondary jobs in trade, service, and other supporting activities.

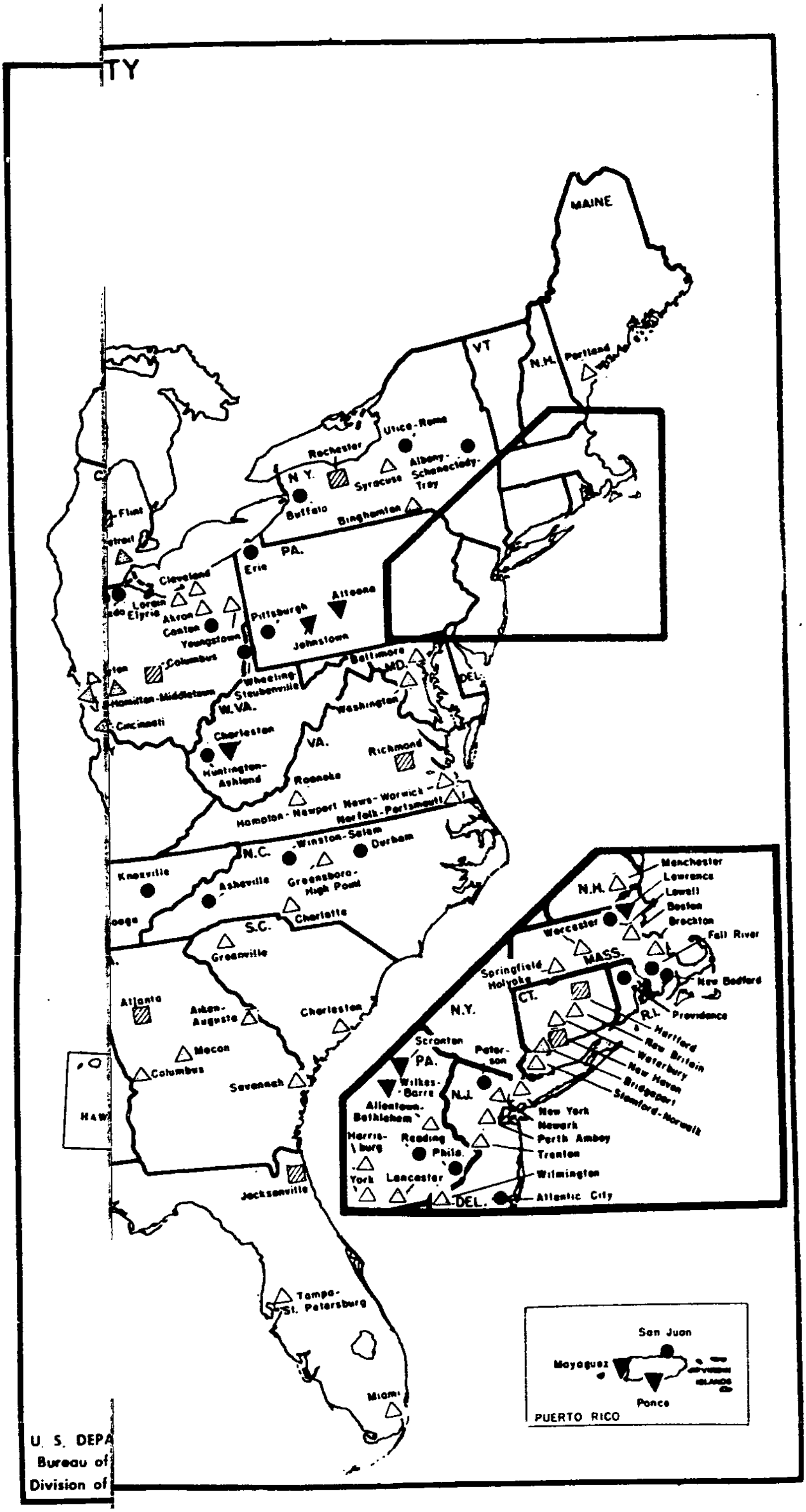
RECENT PROGRAM DEVELOPMENTS

Some months ago the Council of Economic Advisers set up a task force to examine and evaluate programs designed to assist areas of substantial labor surplus. The President's Economic Report recognized that the procurement and tax amortization policies have been of rather limited assistance, but recommended their continuation. Further, the report strongly urged the strengthening of the technical assistance programs, especially those conducted by the Departments of Commerce and Labor.

The Department of Labor is reviewing past experience in this field and what can be done to assist areas experiencing substantial unemployment. It is obvious, however, that the initiative and responsibility of the local community and State governments are of basic importance in resolving localized unemployment problems.



U. S. DEPARTMENT OF LABOR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Canton
Youngstown
Columbus
Wheeling-Steubenville
Hamilton-Middletown
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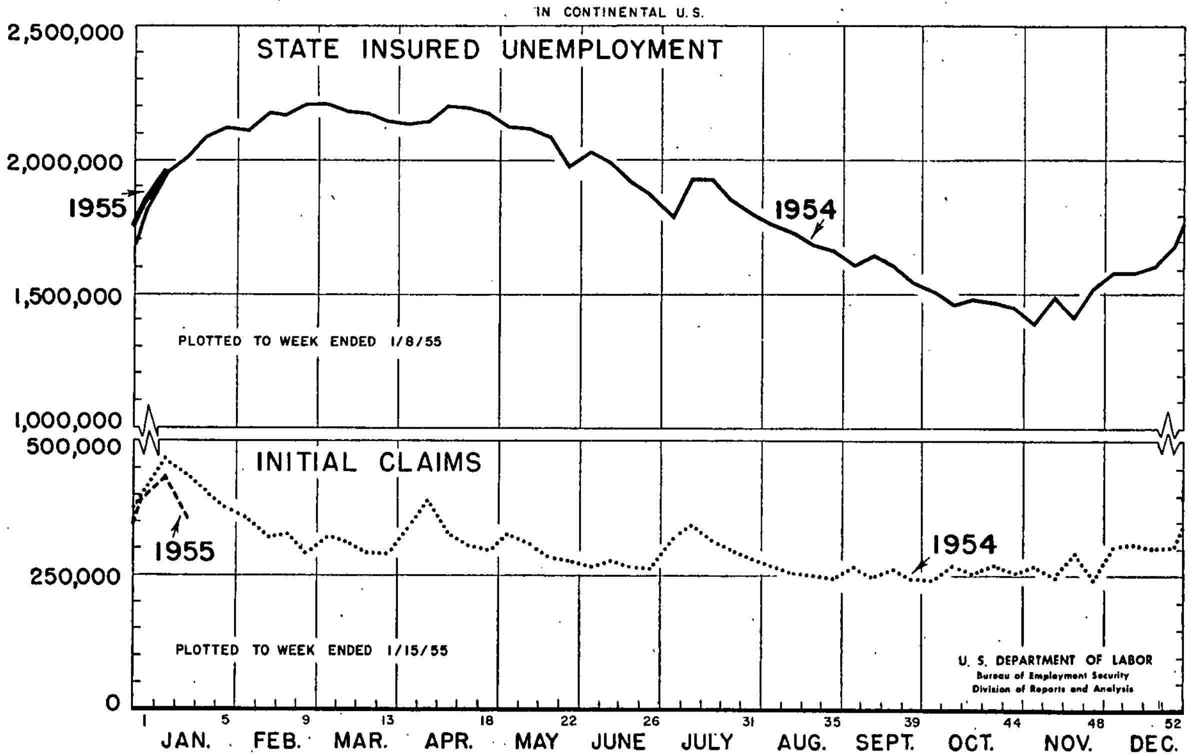
STATE INSURED UNEMPLOYMENT AND INITIAL CLAIMS BY WEEKS 1954 - 1955



SUPPLEMENTAL STATEMENT SUBMITTED BY ROBERT C. GOODWIN, DIRECTOR, BUREAU OF EMPLOYMENT SECURITY, UNITED STATES DEPARTMENT OF LABOR, TO THE JOINT COMMITTEE ON THE ECONOMIC REPORT

REGIONAL AND INDUSTRIAL UNEMPLOYMENT IN 1954

In 1954 the economy moved to a more normal peacetime pattern. The transition involved major adjustments in broad sectors of the economy, particularly during the earlier part of the year. This statement will summarize some of these adjustments on a national basis as they were revealed by unemployment insurance activity, and will indicate the different regional, State, and area experience during the year. Selected statistical data and charts are appended.

The year 1954 began with claims activities rising substantially more than seasonally. Normally both new and insured unemployment rise at the beginning of the year as a result of the postholiday contraction in trade and services, and the further curtailment in outdoor work. In 1954, however, the rise was accelerated by a mounting volume of nonseasonal layoffs resulting from overall adjustments in inventory-demand relationships.

Initial claims, which indicate new unemployment among covered workers, rose from an average of 346,500 per week in December 1953 to 416,500 in January 1954, a postwar high for the month.

Insured unemployment (representing completed weeks of unemployment), which normally begins to decline toward the end of January and early February, in 1954 edged up through March and April to 2,181,000—the highest April average in the postwar period. During these months, the unemployment among covered workers was mainly concentrated in durable-goods manufactures such as autos, military hardware, steel, heavy industrial machinery, machine tools, railroad equipment, and farm machinery. Soft-goods industries such as apparel, textiles, and shoes also contributed to the claims load, although to a lesser extent.

Initial claims began to decline seasonally in February, reaching a low of 265,000 in November and averaging 303,500 per week for the year, as compared to a weekly average of 218,300 in 1953. Insured unemployment, by late spring, began to indicate that the economic decline was leveling out. Normal seasonal influences were beginning to dominate the Nation's labor markets to a greater extent than earlier in the year and the employment situation in general was showing evidences of more stability. Insured unemployment began a steady decline after April as record levels of construction activity, gains in other outdoor work, and some improvements in soft goods and a number of durable-goods industries eased the job situation. Generally, the employment situation evidenced marked stability during the summer months of 1954, while the fall brought unmistakable evidences of some recovery.

Insured unemployment continued downward in the fall months, reflecting improvements in trade and manufacturing and the continuing high level of building activity. A number of industries which had been experiencing market uncertainties showed evidences of increased strength—including steel, machinery, furniture, apparel, and textiles. However, claims arising from the automobile industry indicated sizable layoffs as a result of the earlier, and longer than usual, model changeover period. By the latter part of October and November, automobile manufacturers had recalled thousands of workers from insured unemployment status, and automobile plants were fast resuming full production. The significant rise in automobile output stimulated many related industries. As a result, in sured unemployment, which normally rises in November, this year registered a slight decline, averaging 1,463,000 for the month. As a result of normal seasonal influences, the weekly volume rose in December to 1,463,000, and the rise continued in the early weeks of January.

On a seasonally adjusted basis, insured unemployment continued to decline in October, November, and December, although the unadjusted figures indicated no change between October and November and a sharp rise of 200,000 in December (see appendix 1).

For 1954 as a whole, insured unemployment averaged 1,857,000, as against 988,000 in the preceding year. However, while the 1954 level was nearly twice that of 1953, it was about 100,000 under the weekly average in 1949, the previous year of heavy insured unemployment volumes.

CLAIMANTS EXHAUSTING BENEFIT RIGHTS

The increased volume of insured unemployment in 1954 was accompanied by a rise in the number of claimants exhausting their benefit rights. The number of exhaustions rose rapidly in the early part of the year reaching 156,000 in April, and then showed a more gradual rise to 171,000 in August. Thereafter the volume of exhaustions tapered off to 141,000 in November and then showed a moderate seasonal increase to 152,000 in December. The total number of exhaustions for the year was 1,762,000, compared with less than 759,000 in 1953. The largest volumes of exhaustions were generally experienced among the States having the heaviest levels of insured unemployment. In 1954, there were 200,000 exhaustions in Pennsylvania and more than 100,000 each in New York and Michigan. Other States with more than 75,000 exhaustees during the year were Illinois, Indiana, Ohio, New Jersey, Massachusetts, and California. (See appendix 2.)

Employment security records contain no evidence of how long claimants who exhaust their benefit rights remain unemployed, since such persons are not required to appear regularly at local offices once they have used up their benefits. Thus without special comprehensive surveys it cannot be definitely determined how many of those who have exhausted their benefits are still unemployed at a given time, that is, not working and still seeking work.

PARTIAL UNEMPLOYMENT

Approximately 7 percent of the insured unemployed workers in 1954 claimed benefits for partial unemployment, as compared to nearly 9 percent in 1953. The decline in the relative number of claimants who were partially employed reflected, in part, a change between 1953 and 1954 in the economic outlook. During a large part of 1953 layoffs were frequently of very short duration resulting from temporary impediments in the production process. Consequently, employers tended to maintain their work force on a part-time or a partial week basis. As production and employment declined in the early part of 1954, however, layoffs both increased in number and in duration and the proportion of partial unemployment to total unemployment among insured workers declined.

WOMEN AMONG THE INSURED UNEMPLOYED

There was a smaller proportion of women among the insured unemployed in 1954 than there was in 1953. Women comprised about 36 percent of the insured unemployed in 1954, as compared to 41 percent in the previous year. The proportion of women was lower because the major employment declines in 1954 occurred in durable goods manufacturing where the bulk of the work force is male. Moreover, many light industries which normally employ large numbers of women fared relatively well during the year. There was considerable variation among the States in the proportion of women among the insured unemployed. The heaviest ratios were in the New England States, New Jersey, the Carolinas, Georgia, and Florida, where such industries as textiles, apparel, leather products, and tobacco processing, which normally employ a high proportion of women, are important.

REGIONAL AND STATE DEVELOPMENTS DURING 1954

The largest volumes of insured unemployment during much of the year prevailed mainly in the Middle Atlantic and East North Central regions which account for about half of the covered workers of the Nation and have a heavy concentration of durable goods manufacturing. (See appendix 3.) In these regions, which include New York, New Jersey, Pennsylvania, Ohio, Indiana, Illinois, Michigan, and Wisconsin, cutbacks in a variety of heavy industries such as steel, autos, industrial machinery, machine tools, railroad equipment, and farm machinery contributed significantly to insured unemployment levels, particularly during the earlier part of the year. A considerable part of Pennsylvania's unemployment was attributable to weaknesses in coal mining, while curtailments in apparel manufacturing contributed to the loads in New York and New Jersey as well as in Pennsylvania.

New York had the highest volume of insured unemployment in the Nation during 1954, with a weekly average of 239,000. The weekly volume of insured unemployment in this State reached a peak of 279,000 in June, with the apparel, machinery, fabricated metals, leather, and carpet industries contributing substantially to this load. The summer and fall months witnessed an improvement, with the weekly volume of insured unemployment falling to 184,500 in September and October. Toward the end of the year insured unemployment moved upward as a result of normal seasonal influences. Despite the high volume, the rate of insured unemployment for New York State for the year as a whole was about the same as that for the Nation—5.3 percent.

Pennsylvania had the second highest volume of insured unemployment during the year—a weekly volume of 220,000. The peak was reached in April and May as a result of curtailments in primary metals, construction, anthracite mining, fabricated metals, electrical machinery, and apparel. The weekly average of insured unemployment in the State thereafter dropped steadily until December and then showed a small seasonal rise. The 7-percent rate of insured unemployment in Pennsylvania was well above the national average.

Illinois and Michigan had nearly equally heavy volumes of insured unemployment in 1954, with average weekly levels of 129,000 and 113,000 respectively. Illinois experienced its peak volume in May when curtailments in coal mining, apparel, leather, fabricated metals, machinery, and electrical equipment contributed sizably to the load. Thereafter, as improvements occurred in most of the State's important industries, the volume of insured unemployment declined steadily until December. As was the case in most other States, the volume of insured unemployment rose in December but the increase was of moderate proportion and mainly attributable to the usual seasonal forces. Michigan experienced two peaks in the weekly volume of insured unemployment. The first peak was reached in March, when layoffs in fabricated metals, machinery and some layoffs in the automobile industry raised unemployment loads. Unemployment then declined through June; thereafter, a rise occurred which continued through September when the average weekly volume reached a high for the year of 159,100. The high volumes in this period were primarily due to curtailments in the auto industry which was experiencing an earlier-than-usual and longer-than-usual model changeover period. In each of the last 3 months of the year insured unemployment in Michigan dropped substantially reflecting the resumption of full production of 1955 models in automobile manufacturing and the favorable effect this had on related industries. By December the volume of insured unemployment in Michigan was less than one-half what it had been in September. The Michigan rate of insured unemployment for the year as a whole was 6.2 percent while the rate in Illinois was the same as the national average at 5.2 percent.

The only other States in the east north central and middle Atlantic regions with insured unemployment levels of substantially more than 50,000 per week were Ohio, with 97,000, and New Jersey, with 83,000. Ohio reached its peak unemployment insurance load during the year in March, primarily because of employment reductions in the rubber and tire industries, and some curtailments in autos and in primary metals, fabricated metals, nonelectrical machinery, and ordnance. The annual rate of insured unemployment for the State was 3.9 percent, well below the national average. In New Jersey the peak volume of insured unemployment was reached in May and was largely attributable to cutbacks in apparel, autos, ordnance, and electrical machinery. For the year as a whole, New Jersey's rate of insured unemployment was 5.7 percent—only slightly above the national average.

California and Massachusetts also experienced substantial volumes of insured unemployment during the year (averaging 136,000 and 68,000, respectively) although both States had unemploymene rates that were well below the national average.

The highest annual rates of insured unemployment, as distinct from the numbers of workers involved, were experienced in West Virginia, Kentucky, Rhode Island, Tennessee, Mississippi, New Hampshire, Oregon, Maine, and Pennsylvania. The rates in these States ranged from approximately 7 percent in Maine, Oregon, and Pennsylvania to a high of 10.9 percent in West Virginia and 10.3 percent in Kentucky. On a broad regional basis, the east south central region and the middle Atlantic region had the highest rates of insured unemployment during the year. On the other hand, the rates of insured unemployment for the west north central, west south central, and mountain regions were substantially below the national average of 5.2 percent.

Depressed conditions in coal mining contributed to the high rates in Pennsylvania, Kentucky, and West Virginia. The latter two States were also affected by the return of displaced workers from nearby industrial States. Tennessee's rate reflected layoffs in such industries as chemicals, textiles, apparel, ordnance, and tobacco. Mississippi was affected by declines in nonmanufacturing industries and in apparel. In Rhode Island unemployment in textiles, costume jewelry, and in machinery were mainly responsible for the high rate of unemployment while Maine and New Hampshire felt the effects of cutbacks in textiles and leather goods. Oregon's heavy rate resulted primarily from rises in unemployment in the logging and lumber industry.

In the first week of January 1955 when both the level and rate of insured unemployment normally approaches a peak, there were 10 States with insured unemployment rates of 8 percent or more (see appendix 4). These States included Oregon, Washington, Kentucky, West Virginia, Tennessee, and Mississippi, whose insured unemployment rates had remained consistently high during much of 1954. Three additional States—Maine, Rhode Island, and Pennsylvania—which had also experienced consistently high rates of insured unemployment during 1954, reported unemployment rates of approximately 7 percent in early 1955.

AREA DEVELOPMENTS IN 1954

The employment and unemployment developments of the past year reflected changes in the employment situation in practically all of the country's leading production and employment centers. Area unemployment levels, which had been rising slowly throughout the autumn of 1953, increased sharply as the year 1954 got underway. In the 2 months preceding January 1954, more than nine-tenths of the 149 major labor markets covered by the BES regular area classification program reported increases in their jobless rolls. Reflecting these changes, the Bureau's January 1954 area classification indicated that only about one-third of the 149 major areas continued to have a tight, or balanced, labor supply (groups I or II classifications) during that month, with the remaining two-thirds reporting some labor surplus—groups III and IV (see appendix 6). The number of areas in group I and II had been nearly equal to those in groups III and IV during most of 1953.

Unemployment continued to climb in most areas during the winter and early spring months of 1954 as employment declines, previously limited to a few selected lines, such as autos and farm machinery, spread to a wide range of industries. Major centers of production for steel and steel products, ordnance materials, nonferrous metals, shipbuilding, electronics and electrical equipment, tires and tubes, and textiles all reported measurable job decreases. These employment declines and unemployment increases resulted in large-scale shifts in area classifications in the early months of 1954. Labor supply classifications of 45 of the 149 major areas were changed between January and March—by far the largest number of changes for any single classification period since the present system was inaugurated in July 1951. All of the shifts were to categories reflecting a loosening labor supply. Between March and May, another 21 areas were transferred to categories reflecting higher unemployment.

By mid-May, when the trend toward looser labor supply was arrested, only 16 major areas remained in the balanced category, as compared with 49 at the beginning of the year; none continued to be classified as a group I area of overall labor shortage. Although there was only a minor increase in the number of moderate surplus group III areas between January and May (from 79 to 82), the number of areas with a relatively substantial surplus increased markedly during the period, from 20 to 51. Such key centers as Detroit, Philadelphia, Pittsburgh, St. Louis, and Buffalo were among those placed in group IV at that time.

In mid-May also, the group IV category was split into two separate groupings (IV–A and IV–B) in order to isolate areas with the most serious unemployment problems. The group IV–B category was used to designate areas with very substantial labor surpluses—where unemployment (apart from seasonal and temporary factors) affects about 12 percent or more of the area's work force. Seven major areas were placed in group IV–B in May.

The year-long downtrend in area employment totals began to level off between May and July. Three-fifths of the 149 major labor markets reported employment gains over this 2-month period. While seasonal pickups in construction—a bulwark to the economy of most areas during all of the past year—and other outdoor activities provided the primary impetus for the rise, manufacturing employment also increased in almost half of the areas. Unemployment continued to trend upward in many areas, however, where the usual influx of students and graduates into the labor force, as schools closed for the summer, more than offset the rise in employment. On balance, these diverse trends had little net effect on the overall labor supply situation in most job centers. Only five areas changed classification between May and July, in contrast to the sweeping classification changes reported earlier in the year.

Employment conditions in most of the Nation's key employment centers remained relatively stable during the midsummer. Unemployment edged downward between July and September, except in a few areas mainly producing automobiles, nonelectrical machinery, steel, and coal. The area unemployment decreases, while widespread, generally continued to be on a small scale during this period, however. As in the preceding 2 months, few localities reported sufficient change in their unemployment level to significantly affect their overall labor supply-demand situation. As a result, classifications of only 6 major areas were revised between July and September; 4 of these changes were to categories indicating a smaller volume of unemployment and tighter labor supply. This period marked the first since May 1953 that the number of areas which shifted to more favorable ratings outnumbered those reflecting a higher level of unemployment.

The late autumn months (mid-September to mid-November) were characterized by a continued slow improvement in employment conditions in most of the 149 leading production centers. While seasonal factors again represented a predominant influence, many areas reported better-than-seasonal downtrends in unemployment since early fall. Large-scale call backs by auto plants as production on the 1955 model cars got under way contributed significantly to these declines. Employment increases in steel, metal products, and electrical machinery were also noted in some areas, with gains stemming, in part, from the pickup in demand for auto components. Manufacturing employment, measuring on an overall basis, reached its high point of the year in mid-November. Initial hirings of extra workers by trade and service establishments getting ready to handle peak-volume Christmas traffic were, of course, also a factor in the year-end employment gains.

These improvements were reflected in a shift to more favorable classification ratings for 3 major areas between September and November, while only 1 area was reclassified to a category indicating a higher level of unemployment. The November area classifications marked the first time since early spring that fewer than 50 major employment centers were listed in labor supply groupings denoting a relatively substantial or very substantial labor surplus (groups IV–A and IV–B). Coal, steel, auto, and textile producing centers continued to account for a large share of the areas still classified group IV in November.

As the year 1954 drew to a close, Christmas hiring in trade and service, and the recall of automotive manufacturing workers, increased end-of-1954 employment totals to the high point for the year in many areas. Some rise in unemployment was reported in early January 1955, however, reflecting usual winter-season curtailments in construction and other outdoor activities. Despite these seasonal curtailments, the trend toward an overall improvement in area job market conditions continued. Employment increases in auto plants again played a major role in this improvement, with gains in primary steel products and machinery also noted in some centers. In a number of instances, however, increases in production were accompanied by increases in hours of work, rather than in employment. A few areas reported that new defense contracts were contributing to recent additions in employment.

In mid-January 1955, the employment outlook for manufacturing industries—particularly in the durable goods sector—appeared to be the most favorable in recent months. Employer hiring plans, as reported to local public employment offices near the turn of the year, pointed to continued job gains to early spring in motor-vehicle manufacturing, aircraft, primary iron and steel production, and farm machinery. Employment increases were also expected in furniture and "service-industry and household machinery"—a group which covers such major household appliances as refrigerators, washing machines, air conditioners, sewing machines, and vacuum cleaners. Apparel and shoe producers were also scheduling some additional hires over the next few months.

Six major areas (including Detroit) were reassigned in January to classification categories denoting a smaller volume of unemployment and tighter labor supply. Improved conditions in several other areas did not result in classification changes because employment gains in basic industries were obscured by seasonal increases in unemployment. For the first time in the past 3 years the number of areas moving to more favorable ratings between November and January outnumbered those moving to categories reflecting a higher level of unemployment. (See appendix 7.)

THE PROBLEM OF LOCALIZED UNEMPLOYMENT: EXTENT AND CAUSES

The January 1955 classification shows that 105 areas—which account for close to 80 percent of the 32.5 million nonfarm wage and salaried workers in the 149 major areas regularly surveyed—had only moderate unemployment as the new year opened. Some 44 other major areas had substantial unemployment and were classified in group IV in January. Of these, 35 had between 6 and 12 percent of the work force unemployed; the other 9 had unemployment in excess of 12 percent.

As indicated previously, the number of major areas with substantial labor surplus has receded to some extent over the past 6 months. At the high point in July 1954; some 53 major areas were listed in group IV as compared with 44 today. Among the important industrial centers dropped from the substantial unemployment category during this period were such areas as Detroit; the Davenport-Rock Island-Moline area in Iowa and Illinois; Kenosha, Wis.; and San Antonio, Tex. There has been some increase in the number of smaller areas in group IV during this period. This increase does not necessarily reflect current economic trends or recent changes in local economic conditions, however, since the number of smaller group IV areas depends to some degree on the extent to which the Department of Labor is requested to undertake special surveys.

As has been true during most of the past several years, areas dominated by the coal mining and textile industries were heavily represented on the group IV list in January. Employment in these two industries has been declining since 1948. Several auto- and steel-producing centers—despite the recent overall improvement in these activities—also continued to be characterized by substantial labor surpluses. Almost two-thirds of the 144 major and smaller areas now in the group IV category are located in the following nine States: Pennsylvania, West Virginia, Michigan, Kentucky, Indiana, Massachusetts, New York, Ohio, and Alabama.

Not all of the group IV areas are confronted with long-term unemployment problems however. A very large share of the more than 1 million unemployed workers in the group IV areas are concentrated in areas with short-run unemployment problems, stemming from temporary dislocations in specific industries. No single cause can fully explain serious unemployment in some areas while the Nation as a whole is generally prosperous. Several contributory factors, however, can be isolated. Among these are: Short-run cutbacks in consumer demand for certain products; long-term loss of an industry's competitive market position due to the inroads of competing products; exhaustion or depletion of natural resources; technological changes; lack of an adequate industrial base to support a growing population on a year-round basis; and shifts in Government activities such as may occur because of changing emphasis in the defense program.

How some of these factors have contributed to local labor surpluses is illustrated in the following brief description of the unemployment problems in some representative group IV areas.

Altoona, Pa.

Generally this area has been a one-industry chronic unemployment area whose economy has depended upon railroad equipment production and maintenance. In recent years, partly because of dieselization, local employment in this industry has declined sharply.

Atlantic City, N. J.

The chronic labor surplus in this resort-trade area is only temporarily absorbed at the midsummer seasonal peak. The area is characterized by a serious lack of industrialization and diversification. The small, local manufacturing industry is dominated by apparel.

Cumberland, Md.

This area has had a chronic surplus even during periods of peak mobilization, since there has been little or no industrial expansion to keep pace with population growth. The area's four major establishments (rayon, paper, rubber tires, and railroad shops) are controlled by firms located outside the area. The local rayon, paper, and tire plants are marginal operations. The competitive market for textiles has necessitated modernization of equipment in the rayon plant, cutting job totals about in half. Publicity on labor disputes in previous years has discouraged new industries.

Duluth-Superior, Minn.-Wis.

Lack of off-season jobs for workers engaged in the area's dominant activity—lake shipping of iron ore—and lack of diversification of industry are responsible for heavy unemployment in this area. The gradual depletion of the high-quality Mesabi ore resources has affected the area, although taconite and other new developments will make more ore shipments possible in the future. On the other hand, the St. Lawrence seaway and the increased utilization of Labrador and South American ores may have adverse effects on the future of Duluth.

Gloversville, N. Y.

Gloversville, N. Y. has experienced declining employment for a number of years due to the problems of the local glove industry. A decline in sales of fine leather gloves and competition of foreign glovemakers and manufacturers in the Middle West tended to depress the economy of this virtually one-industry area.

Lawrence, Mass.

The Lawrence area has had the relatively most severe labor surplus in the Nation, with unemployment representing more than 20 percent of labor force during most of 1954. The longstanding labor surplus, dating from World War II, has been caused by general decline in wool textiles, the area's major industrial activity. Several important local textile plants have shut down completely or moved out of the area in the past few years. Despite its recent sharp decline, textiles still remain largest single source of factory employment.

Muskegon, Mich.

The labor-surplus problem in this area is not chronic. However, the Muskegon area is characterized by sharp economic fluctuations, usually of the boom-and-bust variety. The area had an extreme shortage of labor during most of World War II but had a large surplus during 1949–50 recession. Labor supply had been relatively well-balanced during most of period since the outbreak of hostilities in Korea, but cutbacks in both civilian and defense orders—affecting three major industries (refrigerators, foundries and auto equipment)—pushed the area into group IV at end of 1953. More recently, the area improved from group IV–B—very substantial labor-surplus classification to IV–A—substantial surplus rating, however.

Portland, Oreg.

The unemployment problem in this area is not chronic. During World War II especially, the area had severe labor shortages because of shipbulding. In the postwar period, like most of Pacific Northwest, the Portland areas has had a large population increase and has not expanded job opportunities at equal pace. Slackening demand for plywood, lumber, other wood products and declines in food processing were chiefly responsible for the sharp drop in employment which resulted in a group IV classification for the area. Currently, shipbuilding is only of minor importance in area's economy.

Providence, R. I.

The sharp slump in textile employment in recent years is largely responsible for the persistence of heavy unemployment in the Providence area. Costume jewelry has succeeded textiles as the area's major factory activity, but this industry is characterized by sharp seasonal peaks and valleys.

San Juan, Puerto Rico

Government, trade, and service are the largest sources of employment in the San Juan area, with manufacturing representing only about 12 percent of total nonfarm jobs as compared with an average of 33 percent for the continental United States. The local manufacturing industry is largely centered in apparel, food processing, stone-clay-glass, and furniture. This limited industrialization has contributed to a severe lack of job opportunities. At the same time, the area's rapid population growth has induced workers to migrate to the mainland, when possible. Despite some factory employment pickup in the past year, the area's unemployment total has remained high.

Scranton, Pa.

The longstanding chronic labor surplus in the Scranton area (primarily males) reflects the increasing mechanization of coal mines and the declining importance of anthracite coal to the national economy. An energetic local community development program has succeeded in attracting many new industries to the area.

Despite the construction of 50 new plants, and the expansion of 65 others since World War II, providing thousands of new jobs, and despite extensive outmigration to other industrial centers, unemployment in the Scranton area has been above 12 percent during all of the past year. Many of the new industries which have located in the area are textile and apparel plants which employ women primarily. As a result, unemployment among male workers has remained at a very high level.

Tacoma, Wash.

The Tacoma area has had large population growth in last decade, but expanding job opportunities have failed to keep pace with the population increase. The area's major industrial activities—logging, lumbering, plywood—are highly seasonal and the area normally develops a substantial labor surplus during the winter months. Because of the diminishing local supply of saw and peeler logs, this labor surplus has been more severe during recent years.

Appendix I

Average weekly volume for State insured unemployment, unadjusted and adjusted for seasonal variations, 1954 and 1953

[In thousands]

Month	1954		1953	
	Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted
January	2,034	1,696	1,156	964
February	2,170	1,829	1,084	914
March	2,175	1,925	1,014	898
April	2,180	1,975	961	870
May	2,070	1,950	889	837
June	1,924	1,888	833	817
July	1,862	1,825	861	844
August	1,692	1,825	816	880
September	1,580	1,993	779	983
October	1,466	1,939	840	1,111
November	1,463	1,765	1,115	1,345
December	1,666	1,708	1,509	1,546

Source: U. S. Department of Labor, Bureau of Employment Security, Division of Reports and Analysis, January 31, 1955.

APPENDIX 2

Number claimants exhausting benefit rights by quarter in 1954, by region and by State and annual totals in 1953 and 1954 (continental United States)

Region and State	January to March 1954	April to June 1954	July to September 1954	October to December 1954	Year, 1954	Year, 1953
Total	349, 144	467, 042	503, 730	442, 199	1, 762, 115	758, 718
New England	32, 262	37, 910	39, 965	35, 967	146, 104	71, 774
Maine	4, 816	986	2, 549	2, 625	10, 976	6, 836
New Hampshire	1, 529	147	871	2, 863	5, 410	3, 209
Vermont	665	138	933	1, 020	2, 756	1, 040
Massachusetts	16, 892	22, 899	21, 280	18, 145	79, 216	42, 082
Rhode Island	6, 552	9, 059	7, 437	5, 265	28, 313	14, 335
Connecticut	1, 808	4, 681	6, 895	6, 049	19, 433	4, 272
Middle Atlantic	61, 192	105, 294	128, 663	118, 756	413, 905	174, 069
New York	19, 634	33, 751	41, 007	32, 989	127, 381	65, 671
New Jersey	12, 927	20, 990	23, 147	21, 926	78, 990	36, 393
Pennsylvania	28, 631	50, 553	64, 509	63, 841	207, 534	72, 005
East North Central	96, 124	107, 814	121, 967	111, 308	437, 213	119, 618
Ohio	9, 473	20, 656	25, 812	22, 397	78, 338	13, 315
Indiana	22, 089	30, 030	24, 855	16, 389	93, 363	21, 711
Illinois	24, 847	8, 419	30, 089	34, 584	97, 939	35, 309
Michigan	23, 055	33, 064	30, 588	26, 261	112, 968	27, 828
Wisconsin	16, 660	15, 645	10, 623	11, 677	54, 605	21, 455
West North Central	22, 276	31, 846	27, 625	24, 814	106, 561	42, 669
Minnesota	3, 313	6, 188	6, 174	5, 836	21, 511	10, 254
Iowa	5, 178	5, 296	3, 600	2, 249	16, 323	7, 716
Missouri	7, 145	11, 335	12, 637	11, 507	42, 624	13, 260
North Dakota	397	728	109	425	1, 659	1, 146
South Dakota	524	780	211	290	1, 805	907
Nebraska	1, 066	2, 204	1, 222	1, 071	5, 563	2, 709
Kansas	4, 653	5, 315	3, 672	3, 436	17, 076	6, 677
South Atlantic	47, 475	56, 559	78, 975	64, 335	247, 344	121, 820
Delaware	747	1, 284	1, 091	946	4, 068	1, 074
Maryland	7, 491	3, 255	11, 549	9, 068	31, 363	12, 398
District of Columbia	1, 249	2, 130	2, 248	1, 669	7, 296	3, 152
Virginia	9, 661	6, 399	11, 205	7, 486	34, 751	19, 931
West Virginia	3, 933	7, 592	11, 159	11, 676	34, 360	12, 626
North Carolina	7, 215	10, 226	11, 877	8, 271	37, 589	22, 233
South Carolina	6, 657	9, 455	8, 507	6, 157	30, 776	14, 511
Georgia	6, 830	10, 465	10, 743	9, 571	37, 609	15, 941
Florida	3, 692	5, 753	10, 596	9, 491	29, 532	19, 954
East South Central	22, 221	36, 655	46, 278	34, 560	139, 714	62, 605
Kentucky	4, 416	7, 762	11, 104	10, 002	33, 284	12, 212
Tennessee	6, 664	11, 595	18, 044	11, 852	48, 155	20, 255
Alabama	6, 317	9, 938	11, 002	8, 660	35, 917	18, 824
Mississippi	4, 824	7, 360	6, 128	4, 046	22, 358	11, 314
West South Central	25, 938	37, 499	32, 243	22, 495	118, 175	63, 371
Arkansas	3, 927	6. 691	5, 092	3, 627	19, 337	10, 848
Lousiana	6, 354	8, 896	9, 003	5, 979	30, 232	16, 139
Oklahoma	4, 169	5, 508	4, 673	3, 932	18, 282	12, 586
Texas	11, 488	16, 404	13, 475	8, 957	50, 324	23, 798
Mountain	7, 536	11, 769	7, 058	5, 616	31, 979	14, 509
Montana	642	1, 142	556	614	2, 954	1, 683
Idaho	1, 887	2, 405	254	439	4, 985	2, 915
Wyoming	641	861	487	392	2, 381	1, 190
Colorado	1, 063	2, 252	1, 304	779	5, 398	1, 809
New Mexico	1, 002	1, 448	1, 282	992	4, 723	1, 871
Arizona	1, 118	1, 522	1, 428	1, 066	5, 134	2, 455
Utah	690	1, 403	1, 296	899	4, 288	1, 809
Nevada	493	736	451	435	2, 115	777
Pacific	34, 120	41, 696	20, 956	24, 348	121, 120	88, 283
Washington	9, 237	12, 014	857	2, 094	24, 202	17, 572
Oregon	7, 721	8, 910	962	2, 570	20, 163	13, 746
California	17, 162	20, 772	19, 137	19, 684	76, 755	56, 965

Source: U. S. Department of Labor, Bureau of Employment Security, Division of Reports and Analysis, Jan. 26, 1955.

APPENDIX 3

Average weekly insured unemployment under State programs, by quarter, and annual averages, 1953 and 1954, continental United States

Region and State	1954								January–December 1954		January–December 1953	
	January–March		April–June		July–September		October–December					
	Average	Rate [1]	Average	Rate [1]	Average	Rate [1]	Average	Rate [1]	Average	Rate [1]	Average	Rate [1]
Total	2,126,114	5.8	2,058,422	5.6	1,711,331	4.8	1,531,771	4.3	1,856,909	5.2	988,074	2.7
New England	158,617	5.6	162,688	5.8	134,305	4.8	120,882	4.4	144,122	5.2	78,516	2.8
Maine	14,337	8.0	14,982	8.4	9,113	5.2	10,534	6.0	12,241	7.0	8,457	4.7
New Hampshire	9,763	7.3	12,209	9.1	9,803	7.4	8,695	6.5	10,117	7.6	6,937	5.2
Vermont	3,616	5.5	3,817	5.8	2,905	4.5	3,500	5.5	3,460	5.4	1,490	2.3
Massachusetts	76,693	5.2	74,089	5.0	61,317	4.2	59,374	4.1	67,868	4.6	40,084	2.7
Rhode Island	26,549	11.1	25,688	10.7	19,638	8.6	13,018	5.7	21,223	9.3	11,919	5.0
Connecticut	27,659	3.8	31,904	4.4	31,528	4.4	25,761	3.6	29,213	4.1	9,629	1.3
Middle Atlantic	576,462	6.2	618,315	6.7	509,868	5.6	464,304	5.1	542,238	6.0	303,383	3.3
New York	263,911	5.8	277,468	6.1	211,796	4.7	202,980	4.5	239,039	5.3	158,793	3.5
New Jersey	89,312	6.1	91,959	6.3	77,551	5.4	73,598	5.1	83,105	5.7	46,164	3.1
Pennsylvania	223,239	6.9	248,887	7.7	220,521	7.0	187,727	6.0	220,094	7.0	98,426	3.1
East North Central	459,603	5.2	459,585	5.2	428,363	5.0	334,009	3.9	420,390	4.9	164,462	1.9
Ohio	108,170	4.3	105,357	4.2	91,315	3.7	81,358	3.3	96,550	3.9	33,215	1.3
Indiana	64,410	6.1	57,296	5.4	46,447	4.6	34,395	3.4	50,637	5.0	18,318	1.7
Illinois	123,046	4.8	160,886	6.3	131,687	5.3	99,513	4.0	128,783	5.2	55,742	2.2
Michigan	121,594	6.5	103,996	5.5	135,256	7.5	91,313	5.0	113,040	6.2	40,780	2.2
Wisconsin	42,383	5.3	32,050	4.0	23,658	3.0	27,430	3.5	31,380	4.0	16,407	2.0
West North Central	125,837	5.1	103,428	4.2	72,853	3.0	82,495	3.4	96,154	3.9	52,308	2.1
Minnesota	36,612	6.1	31,678	5.2	17,797	3.0	21,932	3.7	27,005	4.5	14,063	2.3
Iowa	16,296	4.4	9,908	2.7	6,351	1.7	6,473	1.8	9,757	2.7	5,960	1.6
Missouri	41,793	4.7	45,121	5.1	38,007	4.4	39,576	4.6	41,124	4.7	20,802	2.4
North Dakota	4,882	9.8	1,829	3.7	321	.6	1,857	3.6	2,223	4.4	1,689	3.4
South Dakota	2,986	5.5	1,122	2.1	472	.9	1,009	1.8	1,397	2.5	848	1.6
Nebraska	8,037	4.3	4,103	2.2	2,496	1.3	3,066	1.6	4,426	2.4	2,615	1.4
Kansas	15,231	4.8	9,667	3.0	7,410	2.4	8,580	2.7	10,222	3.2	6,331	2.0
South Atlantic	220,062	5.3	239,098	5.8	205,837	5.1	156,667	3.9	205,416	5.1	107,769	2.6
Delaware	4,405	3.8	3,371	2.9	3,146	2.7	3,019	2.6	3,485	3.0	1,428	1.2
Maryland	26,410	4.1	32,611	5.1	28,301	4.5	21,253	3.4	27,144	4.3	11,426	1.8
District of Columbia	7,115	3.2	5,789	2.6	4,769	2.2	4,545	2.1	5,554	2.5	3,025	1.4
Virginia	22,330	3.9	25,300	4.4	20,679	3.7	13,068	2.3	20,344	3.6	10,673	1.9
West Virginia	36,757	10.3	45,715	12.8	36,653	10.8	28,558	8.4	36,921	10.9	15,945	4.5
North Carolina	54,384	7.5	56,747	7.8	40,637	5.7	31,368	4.4	45,784	6.4	26,493	3.6
South Carolina	21,416	5.8	20,208	5.4	17,266	4.8	14,659	4.1	18,387	5.1	11,263	3.0
Georgia	33,207	5.5	33,588	5.5	29,633	4.9	23,706	3.9	30,034	5.0	15,039	2.5
Florida	14,038	2.8	15,769	3.1	24,752	4.8	16,492	3.2	17,763	3.4	12,477	2.5

Average weekly insured unemployment under State programs, by quarter, and annual averages, 1953 and 1954, continental United States—Con.

Region and State	1954								January–December 1954		January–December 1953	
	January–March		April–June		July–September		October–December					
	Average	Rate [1]	Average	Rate [1]	Average	Rate [1]	Average	Rate [1]	Average	Rate [1]	Average	Rate [1]
East South Central	148,451	9.0	155,758	9.5	126,617	7.9	110,527	6.9	135,338	8.4	68,951	4.2
Kentucky	45,039	10.3	51,977	11.9	41,558	9.9	35,203	8.4	43,444	10.3	19,719	4.5
Tennessee	54,611	9.7	54,662	9.7	42,846	7.7	39,939	7.2	48,015	8.7	23,811	4.2
Alabama	28,725	6.5	31,204	7.1	28,297	6.5	23,226	5.3	27,863	6.4	15,662	3.5
Mississippi	20,076	9.9	17,915	8.8	13,916	7.0	12,159	6.1	16,016	8.0	9,759	4.8
West South Central	102,793	4.1	93,039	3.7	70,958	2.9	67,305	2.7	83,524	3.4	49,911	2.0
Arkansas	20,794	8.7	17,985	7.6	13,018	5.6	12,622	5.4	16,105	6.9	9,853	4.1
Louisiana	24,393	4.7	23,277	4.5	19,140	3.7	17,324	3.4	21,033	4.1	12,490	2.4
Oklahoma	17,814	5.6	14,738	4.7	11,819	3.8	11,957	3.8	14,082	4.5	9,761	3.1
Texas	39,792	2.8	37,039	2.6	26,980	1.9	25,403	1.8	32,304	2.3	17,807	1.2
Mountain	56,484	5.9	35,494	3.7	21,768	2.3	24,734	2.6	34,620	3.6	20,401	2.1
Montana	7,487	7.0	3,755	3.5	1,655	1.5	2,755	2.6	3,913	3.7	2,844	2.7
Idaho	10,830	11.2	4,307	4.4	2,085	2.2	4,095	4.3	5,329	5.6	3,910	4.0
Wyoming	3,246	5.4	2,166	3.6	909	1.5	1,172	2.0	1,873	3.2	689	1.1
Colorado	9,061	3.8	5,773	2.4	3,176	1.4	3,464	1.5	5,369	2.3	2,569	1.1
New Mexico	6,251	5.2	4,938	4.1	3,380	2.9	3,064	2.6	4,408	3.7	2,477	2.1
Arizona	6,517	4.5	6,026	4.2	5,158	3.6	4,334	3.0	5,509	3.8	3,535	2.4
Utah	9,443	6.6	6,225	4.4	3,922	2.8	3,671	2.6	5,615	4.1	3,118	2.2
Nevada	3,649	6.8	2,303	4.3	1,483	2.7	2,180	4.0	2,404	4.4	1,259	2.3
Pacific	277,806	7.0	191,017	4.8	140,763	3.6	170,852	4.3	195,110	5.0	142,372	3.6
Washington	59,029	10.7	25,262	4.6	24,597	4.5	36,289	6.6	36,295	6.6	27,872	5.0
Oregon	39,568	12.0	16,558	5.0	14,440	4.5	20,795	6.5	22,840	7.1	19,008	5.8
California	179,209	5.8	149,196	4.9	101,726	3.3	113,767	3.7	135,975	4.4	95,472	3.1

[1] Percent insured unemployment of covered employment.

Source: U. S. Department of Labor, Bureau of Employment Security, Division of Reports and Analysis, Feb. 1, 1955.

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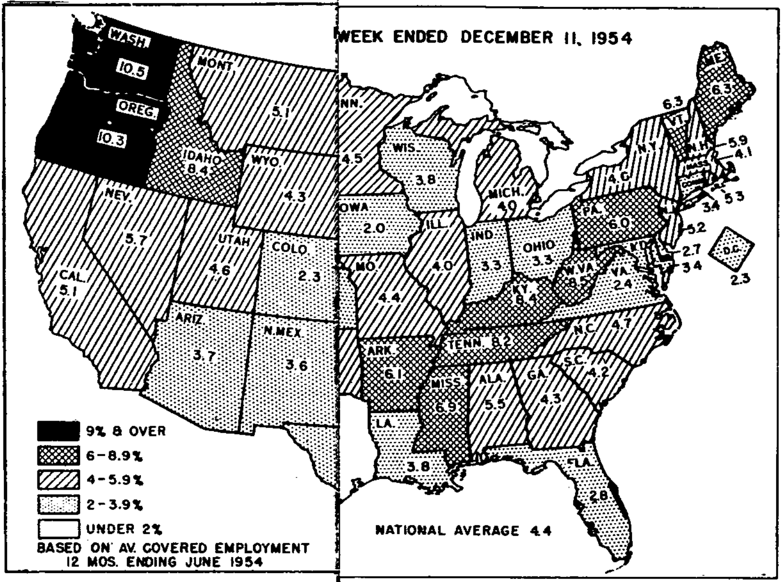

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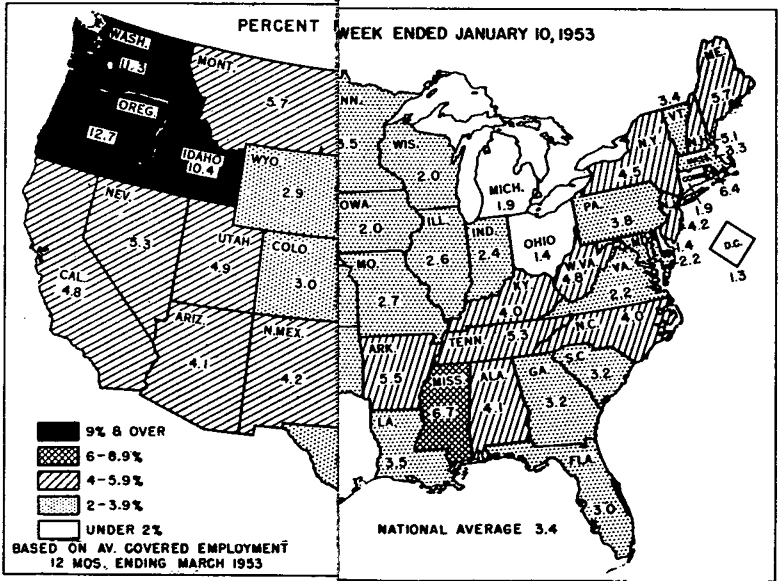
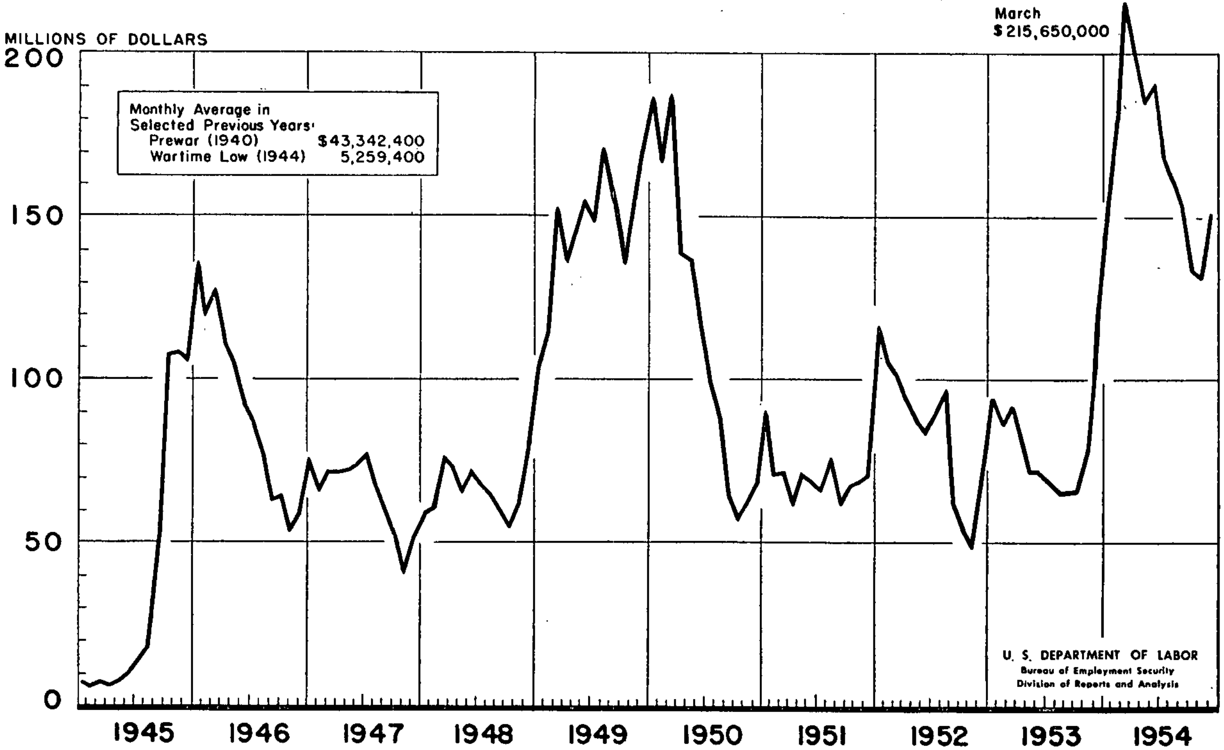


U. S. DEPARTMENT OF LABOR
Bureau of Employment Security
Division of Reports and Analysis

UNEMPLOYMENT INSURANCE BENEFITS PAID, 1945-1954



Appendix 6

Classifications of labor-market areas according to relative adequacy of labor supply—149 major areas, bimonthly, January 1954–January 1955

Classification groups	Number of areas						
	January 1954	March 1954	May 1954	July 1954	September 1954	November 1954	January 1955
Group I	1	0	0	0	0	0	0
Group II	49	20	16	16	17	16	15
Group III	79	95	82	80	81	85	90
Group IV	20	34	51	53	51	48	44
Group IV-A			44	45	42	39	35
Group IV-B			7	8	9	9	9
Total	149	149	149	149	149	149	149

Distribution of employment in major areas by classification groups—149 major areas, bimonthly, January 1954–January 1955

Classification groups	Percent of nonagricultural wage and salaried employment						
	January 1954	March 1954	May 1954	July 1954	September 1954	November 1954	January 1955
Group I	0.6						
Group II	30.6	15.2	7.2	7.3	8.1	7.9	7.3
Group III	64.8	72.1	66.7	66.1	65.5	66.8	71.7
Group IV	4.0	12.7	26.1	26.6	26.4	25.3	21.0
Group IV-A			24.3	24.0	24.1	22.9	19.5
Group IV-B			1.8	2.0	2.3	2.4	1.5
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 local labor shortages which will impede "essential activities" exist or are expected to occur in the near future.

Group II—Areas of balanced labor supply: Areas in which current and prospective local labor demand and supply are approximately in balance.

Group III—Areas of moderate labor surplus: Areas in which current and prospective local labor supply moderately exceeds labor requirements.

Group IV—Areas of substantial labor surplus: Areas in which current and prospective local labor supply substantially exceeds labor requirements.

Group IV-A—Areas of substantial labor surplus.

Group IV-B—Areas of very substantial labor surplus.

Appendix 7

[Advance release of Bimonthly Summary of Labor Market Developments in Major Areas]

Area Classification Summary, January 1955

United States Department of Labor, Bureau of Employment Security, Division of Reports and Analysis

The new year opened on a note of optimism in most of the Nation's leading production and employment centers. Brisk Christmas hiring in trade and service plus the large-scale recall of automotive manufacturing workers boosted end-of-1954 employment totals to the high point for the year in many areas. Some rise in unemployment was reported in early January, reflecting usual winter season curtailments in construction and other outdoor activities. The employment outlook for manufacturing industries—particularly in the durable goods sector—appears to be the most favorable in recent months. Employer hiring plans, as reported to local public employment offices near the turn of the year, point to continued job gains to early spring in motor vehicle manufacturing, aircraft, primary iron and steel production and farm machinery. Employment increases were also expected in furniture and service-industry and household machinery—a group which covers such major household appliances as refrigerators, washing machines, air conditioners, sewing machines, and vacuum cleaners. Apparel and shoe producers also scheduled some additional hires over the next few months. These are the principal findings resulting from the latest survey of area manpower conditions in 149 major labor markets conducted by the Bureau of Employment Security in cooperation with affiliated State employment security agencies.

The survey also indicated that, despite the recent seasonal curtailments in employment, the trend toward an overall improvement in area job market conditions has been maintained. It was even accelerating slightly as the year 1955 got under way. Employment increases in auto plants as production on the 1955 model run moved into high gear again played a major role in this improvement, with gains in primary steel products and machinery also noted in some centers. In a number of instances, increases in production were accompanied by changes in hours of work, rather than employment, however. A few areas also reported that new defense contracts were contributing to recent additions in employment.

Revisions in the Bureau of Employment Security January listing of area classifications according to relative adequacy of labor supply are based on the improved labor market situation and favorable employment outlook indicated in the area manpower survey. Six major areas—among them the key industrial center of Detroit—have been reassigned to classification categories denoting a smaller volume of unemployment and tighter labor supply. Improved conditions in several other areas did not result in classification changes because the effects of employment gains in basic industries were obscured by temporary increases in unemployment stemming from seasonal influences. Only three areas were transferred to classification groupings indicating a loosening in labor supply since the mid-November area classification. For the first time in the past 3 years the number of areas moving to more favorable ratings between November and January outnumbered those moving to categories reflecting a higher level of unemployment.

A summary of January classifications for the 149 major areas, along with comparable figures for November and January 1954, is shown in the table below. The number of smaller areas classified because of the existence of substantial unemployment during each period is also indicated.

Classification	January 1955	November 1954	January 1954	Description of classification
Major areas	149	149	149	
Group:				
I	0	0	1	Areas of labor shortage.
II	15	16	49	Areas of balanced labor supply.
III	90	85	79	Areas of moderate labor surplus.
IV	44	48	20	
IV-A	35	39		Areas of substantial labor surplus.
IV-B	9	9		Areas of very substantial labor surplus.
Smaller areas:				
Group:				
IV	100	97	31	
IV-A	55	56		Areas of substantial labor surplus.
IV-B	45	41		Areas of very substantial labor surplus.

The turn-of-the-year area classifications highlight the spectacular rise of automotive production and employment as compared with the reduced levels of most of the past year. With model changeover schedules of most leading auto producers already completed by mid-November, production on the 1955 model cars began to build up very rapidly in the closing weeks of last year. December auto production—according to industry reports—reached an annual output rate of more than 7½ million vehicles; preliminary data indicate that this high rate of production is being continued into January. These production gains resulted in very sizable unemployment decreases in a number of key auto centers. In the Detroit area itself—which accounts for about two-fifths of all auto industry employment—joblessness has been more than cut in half since early fall. Other important auto centers reporting moderate-to-sizable unemployment declines during recent weeks were Flint and Lansing, Mich., Fort Wayne and

South Bend, Ind., Toledo, Ohio, and Kenosha, Wis. Not all of these declines resulted in changes in area classification, however.

Classification of the following major areas was revised between November and January:

IV–A to III: Davenport-Rock Island-Moline, Iowa-Ill., Detroit, Mich., Joliet, Ill., Kenosha, Wis.

II to III: Dayton, Ohio.

IV–B to IV–A: Muskegon, Mich., Providence, R. I.

IV–A to IV–B; Mayaguez, P. R., Terre Haute, Ind.

In addition to these changes, four smaller areas—Harrisburg, Ill., Connersville, Ind., Auburn, N. Y., and Cambridge, Ohio—were added to the list of smaller group IV areas between November and January. One area—Ann Arbor-Ypsilanti, Mich.—was deleted because it was no longer experiencing substantial unemployment. The number of smaller group IV areas included on the list does not necessarily reflect current economic trends or recent changes in local economic conditions, since this number depends, to some degree, on the extent to which the Department of Labor is requested to undertake special surveys. Three of the new group IV areas (Harrisburg, Ill., Auburn, N. Y., and Cambridge, Ohio), were classified in the IV–B, very substantial surplus category. The Burlington, Vt., area, listed as a smaller group IV–A area in November, was also classified in the IV–B category in January.

MOST AREAS ANTICIPATE JOB GAINS TO EARLY SPRING

Area employer hiring plans to mid-March as reported to local public employment offices, indicate slight job gains to early spring in about two-thirds of the areas covered by the survey. Factory industries are expected to account for the major share of the rise. In many areas, however, scheduled manufacturing increases may be offset, in part, by the usual wintertime curtailments in seasonal nonmanufacturing activities.

Durable goods producers—hardest hit by the employment cutbacks of a year ago—are expected to lead the manufacturing advance, although scheduled gains in these industries also are not likely to be large. If employer hiring plans materialize, the auto industry will continue to account for a significant part of the overall uptrend. Planned employment increases to mid-March are not scheduled to match the rapid expansion registered during the past few months, however. The anticipated continued high level of auto production is also reflected in increased employer requirements in several major iron and steel producing centers, particularly in the Chicago area. Smaller steel gains were also scheduled in Pittsburgh, Youngstown and Canton, Ohio, and in Johnstown, Pa.

The important aircraft industry—now ranking as one of the Nation's largest employers of factory workers—was among those planning a modest payroll expansion to mid-March. On the basis of the information supplied by employers, the largest increases appear to be in prospect for the key Los Angeles area, and in Baltimore, Cincinnati, St. Louis, Seattle, and Tulsa, Okla. Among other durable goods industries, Detroit and Grand Rapids, Mich., Columbus, Ohio and York, Pa., list prospective expansions in the service-industry and household machinery group, while the Davenport-Rock Island-Moline area in Iowa and Illinois is expected to lead the gains in farm machinery. Reports from key production centers for electrical machinery and shipbuilding indicate that employment in these industries may edge down slightly during the winter but should be leveling off by mid-March. In the nondurable goods sector, slight employment gains are anticipated by apparel and shoe producers, while textiles and petroleum refining are expected to hold steady.

A brief summary of the factors prompting classification changes for each of the areas shifting to new categories between November and January follows:

CHANGED FROM GROUP IV–A TO GROUP III

Detroit, Mich.: Unemployment down by more than 50 percent since autumn as high level auto production spurs sharp employment pickup. Factory job totals reach highest level since July 1953. Auto plants, other factory industries schedule additional gains during first quarter.

Davenport-Rock Island-Moline, Iowa-Illinois: Recent gains in farm machinery, food processing, service cut area unemployment. Locally important ordnance holds steady. Pickup in dominant farm machinery plants scheduled to continue through early spring.

Joliet, Ill.: Important nonelectrical machinery paces recent employment increases; transportation, Government hires also contribute. Scheduled employment uptrend to early spring due to be led by primary metals and machinery.

Kenosha, Wis.: Sharp employment pickup, concentrated in important auto industry, augmented by slight gains in most other factory activities. Improved area situations expected to continue with further hiring in autos.

CHANGED FROM GROUP II TO GROUP III

Dayton, Ohio: Lack-of-order layoffs in home appliances, smaller cutbacks in electrical machinery, transportation equipment bring factory payroll dip. Construction, Government also down seaasonally. Some losses to mid-March expected in rubber products, electrical machinery, machine tools, and construction.

CHANGED FROM GROUP IV–A TO GROUP IV–B

Mayaguez, P. R.: Area joblessness rises as migrants return from continental United States and apparel cutbacks due to lack of orders. Further declines in apparel scheduled; beginning of sugarcane cutting and grinding season not expected to reduce unemployment significantly by March.

Terre Haute, Ind.: Recent food processing, chemical, other scattered manufacturing, construction declines reduce employment, boost area's already substantial number of unemployed. Fabricated metal, seasonal construction, trade losses likely to cut employment further through early spring.

CHANGED FROM GROUP IV–B TO GROUP IV–A

Muskegon, Mich.: Eighteen-month downtrend in employment halted as new defense orders, demand for auto components spur sizable factory job rise. Out-migration, other labor force withdrawals also help reduce unemployment. Continued uptrend in durables in prospect to March, led by primary metals, auto parts, lumber.

Providence, R. I.: Unemployment decline continues. Rubber products, textiles, electrical machinery lead recent factory gains. Important textiles schedules uptrend through early spring; nonelectrical machinery, apparel, instruments also plan increases.

SMALLER GROUP IV AREAS

Added to Group IV–A List

Connersville, Ind.: Sharp declines in durable-goods manufacturing—centered in important nonelectrical machinery industry—primarily responsible for current substantial labor surplus. Losses in auto parts and fabricated metals also contribute to jobless increase.

Added to Group IV–B List

Harrisburg, Ill. (classified IV–B in December): Over-the-year reductions in mining of fluorspar and bituminous coal, plus retrenchments in trade, boost unemployment to very substantial proportions.

Auburn, N. Y.: Durable goods payrolls drop one-third in past year. Loss heaviest in ordnance, but cutbacks in other lines (diesel engines, tank parts, air conditioners) contribute. Past year also marked by shutdown of plants producing farm machinery, shoes and wood and metal products.

Burlington, Vt. (reclassified from group IV–A): Shutdown of important textile firm, further defense-item cutbacks, retrenchment in trade boost area joblessness to very substantial labor surplus level. Additional reduction in manufacturing and service anticipated.

Cambridge, Ohio.: Joblessness up nearly one-third since year ago as several local plants leave area. Sizable recent cutbacks in electrical machinery also add to jobless total.

Removed from Group IV–A

Ann Arbor-Ypsilanti, Mich.: Sharp gains in key auto industry, accompanying increases in metals and metal products and machinery result in sizable factory uptrend. Callback of local auto workers to jobs in nearby Detroit area also contribute to recent unemployment declines.

Classification of labor market areas according to relative adequacy of labor supply, January 1955

REGION I

Group II: Hartford, Conn., New Haven, Conn.

Group III: Bridgeport, Conn., New Britain, Conn., Stamford-Norwalk, Conn., Waterbury, Conn., Portland, Maine, Boston, Mass., Brockton, Mass., Springfield-Holyoke, Mass., Worcester, Mass., Manchester, N. H.

Group IV—IV-A: Bristol, Conn.,[1] Biddeford, Maine,[1] Fall River, Mass., Fitchburg, Mass.,[1] Lowell, Mass., Milford, Mass.,[1] New Bedford, Mass., North Adams, Mass.,[1] Providence, R. I., Springfield, Va.[1] IV-B: Lawrence, Mass., South bridge-Webster, Mass.,[1] Burlington, Vt.[1]

REGION II

Group II: Rochester, N. Y.

Group III: Newark, N. J. Perth Amboy, N. J., Trenton, N. J., Binghamton, N. Y., New York, N. Y., Syracuse, N. Y.

Group IV—IV-A: Atlantic City, N. J., Paterson, N. J., Albany-Schenectady-Troy, N. Y., Buffalo, N. Y., Hudson, N. Y.,[1] Oswego-Fulton, N. Y.,[1] Utica-Rome, N. Y., San Juan, P. R. IV—B: Amsterdam, N. Y.,[1] Auburn, N. Y.,[1] Gloversville, N. Y.,[1] Mayaguez, Ponce, P. R.

REGION III

Group II: Richmond, Va.

Group III. Wilmington, Del., Washington, D. C., Baltimore, Md., Charlotte, N. C., Greensboro-High Point, N. C., Allentown-Bethlehem, Pa., Harrisburg, Pa., Lancaster, Pa., York, Pa., Hampton-Newport News-Warwick, Va., Norfolk-Portsmouth, Va., Roanoke, Va.

Group IV—IV-A: Asheville, N. C., Durham, N. C., Kinston, N. C.[1], Waynesville, N. C.[1], Winson-Salem, N. C., Berwick-Bloomsburg, Pa.[1], Erie, Pa., New Castle, Pa.[1], Oil City-Franklin-Titusville, Pa.[1], Philadelphia, Pa., Pittsburgh, Pa., Reading, Pa., Williamsport, Pa.[1], Radford-Pulaski, Va.[1], Clarksburg, W. Va.[1], Huntington,W. Va.-Ashland, Ky., Parkersburg, W. Va.[1], Wheeling, W. Va.-Steubenville, Ohio, IV-B; Cumberland, Md.[1], Altoona, Pa., Butler, Pa.[1], Clearfield-DuBois, Pa.[1], Indiana, Pa.[1], Johnstown, Pa., Kittanning-Ford City, Pa.[1], Lock Haven, Pa.[1], Pottsville, Pa.[1], Scranton, Pa., Sunbury-Shamokin-Mt. Carmel, Pa.[1], Uniontown-Connellsville, Pa.[1], Wilkes-Barre-Hazelton, Pa., Big Stone Gap-Appalachia, Va.[1], Covington-Clifton Forge, Va.[1], Richlands-Bluefield, Va.[1], Beckley, W. Va.[1], Bluefield, W. Va.[1], Charleston, W. Va., Fairmont, W. Va.[1], Logan, W. Va.[1], Morgantown, W. Va.[1], Point Pleasant, W. Va.[1], Ronceverte-White Sulphur Springs, W. Va.[1], Welch, W. Va.[1]

REGION IV

Group II: Jacksonville, Fla., Atlanta, Ga.

Group III: Birmingham, Ala., Mobile, Ala., Miami, Fla., Tampa-St. Petersburg, Fla., Columbus, Ga., Macon, Ga., Savannah, Ga., Jackson, Miss., Aiken, S. C.-Augusta, Ga., Charleston, S. C., Greenville, S. C., Memphis, Tenn., Nashville, Tenn.

Group IV—IV-A: Alexander City, Ala.[1], Anniston, Ala.[1], Decatur, Ala.[1], Florence-Sheffield, Ala.[1], Gadsden, Ala.[1], Talladega, Ala.[1], Cedartown-Rockmart, Ga.[1], Cordele, Ga.[1], Walterboro, S. C.[1], Bristol-Johnson City-Kingsport, Tenn.-Va.[1], Chattanooga, Tenn. Knoxville, Tenn. IV-B: Jasper, Ala.[1], LaFollette-Jellico-Tazewell, Tenn.[1], Newport, Tenn.[1].

REGION V

Group II: Flint, Mich., Columbus, Ohio.

Group III: Louisville, Ky., Detroit, Mich., Grand Rapids, Mich., Kalamazoo, Mich., Lansing, Mich., Saginaw, Mich., Akron, Ohio, Cincinnati, Ohio, Cleveland, Ohio, Dayton, Ohio, Hamilton-Middletown, Ohio, Lorain-Elyria, Ohio, Youngstown, Ohio.

Group IV—IV-A: Frankfort, Ky.,[1] Owensboro, Ky.,[1] Adrian, Mich.,[1] Battle Creek, Mich., Bay City, Mich.,[1] Benton Harbor, Mich.,[1] Ionia-Belding-Greenville, Mich.,[1] Jackson, Mich.,[1] Monroe, Mich.,[1] Muskegon, Mich., Owosso, Mich.,[1] Port Huron, Mich.,[1] Canton, Ohio, Findlay-Tiffin-Fostoria, Ohio,[1] Mansfield, Ohio,[1] Newark, Ohio,[1] Sandusky-Fremont, Ohio,[1] Springfield, Ohio,[1] Toledo, Ohio. IV-B: Corbin, Ky.,[1] Hazard, Ky.,[1] Henderson, Ky.,[1] Madisonville, Ky.,[1] Middlesboro-Harlan, Ky.,[1] Morehead-Grayson, Ky.,[1] Paintsville-Prestonsburg, Ky.,[1] Pikeville, Ky.-Williamson, W. Va.,[1] Iron Mountain, Mich.,[1] Cambridge, Ohio.[1]

REGION VI

Group II: Madison, Wis.

Group III: Aurora, Ill., Chicago, Ill., Davenport, Iowa-Rock Island-Moline, Ill., Joliet, Ill., Peoria, Ill., Rockford, Ill., Indianapolis, Ind., Minneapolis-St. Paul, Minn., Kenosha, Wis., Milwaukee, Wis.

Group IV—IV–A: Connersville, Ind.,[1] Evansville, Ind., Fort Wayne, Ind., Muncie, Ind.,[1] South Bend, Ind., Duluth, Minn.-Superior, Wis., Beaver Dam, Wis.,[1] La Crosse, Wis.,[1] Racine, Wis. IV–B: Harrisburg, Ill.,[1] Herrin-Murphysboro-West Frankfort, Ill.,[1] Litchfield, Ill.,[1] Mount Vernon, Ill.,[1] Michigan City-La Porte, Ind.,[1] Terre Haute, Ind., Vincennes, Ind.[1]

REGION VII

Group II: Cedar Rapids, Iowa, Des Moines, Iowa, Wichita, Kans.

Group III: Kansas City, Mo., Omaha, Nebr.

Group IV—IV–A: Burlington, Iowa,[1] Ottumwa, Iowa,[1] Joplin, Mo.,[1] St. Joseph, Mo.,[1] St. Louis, Mo., Springfield, Mo.[1] IV–B: Pittsburg, Kans.[1]

REGION VIII

Group II: Tulsa, Okla., Dallas, Tex.

Group III: 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., Houston, Tex., San Antonio, Tex.

Group IV—IV–A: Fort Smith, Ark.[1], McAlester, Okla.[1], Muskogee, Okla.[1], Texarkana, Tex.-Ark.[1]

REGION IX

Group II: Denver, Colo.

Group III: Salt Lake City, Utah.

Group IV—IV–A: Albuquerque, N. Mex.

REGION X

Group III: Phoenix, Ariz., Fresno, Calif., Los Angeles, Calif., Sacramento, Calif., San Bernardino-Riverside, Calif., San Diego, Calif., San Francisco-Oakland, Calif., San Jose, Calif., Stockton, Calif.

Group IV—IV–A: Honolulu, T. H.

REGION XI

Group III: Seattle, Wash., Spokane, Wash.

Group IV—IV–A: Portland, Oreg., Tacoma, Wash.

GEOGRAPHICAL BOUNDARIES OF NEW SMALLER GROUP IV AREAS

(Not Previously Listed in "Directory of Important Labor Market Areas")

Name of Area: Auburn, N. Y., Cambridge, Ohio.

Area definition: All of Cayuga County, N. Y.; all of Guernsey and Noble Counties, Ohio.

EXPLANATION OF AREA CLASSIFICATIONS

Area classification 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 since the area classification program was initiated during World War II.

A brief description of area classification codes is shown below:

Group I—Areas of labor shortage: Areas in which local labor shortages which will impede "essential activities" exist or are expected to occur in the near future.

[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.

Group II—Areas of balanced labor supply: Areas in which current and prospective local labor demand and supply are approximately in balance.

Group III—Areas of moderate labor surplus: Areas in which current and prospective local labor supply moderately exceeds labor requirements.

Group IV—Areas of substantial labor surplus: Areas in which current and prospective local labor supply substantially exceeds labor requirements.

IV–A—Areas of substantial labor surplus.

IV–B—Areas of very substantial labor surplus.

A total of 149 major labor market areas throughout the Nation are classified every 2 months. A labor market area consists of a central city or cities and the surrounding territorv 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 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. Definitions of all classified areas (both major and smaller) are listed in the "directory of Important Labor Market Areas.

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, and 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 Bureau of Employment Security 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. These preliminary classifications are cleared with the State employment security agencies through the regional offices of the Bureau of Employment Security. In this clearance, the most recent significant changes in local labor market conditions 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 1 week after clearance with the State agencies.

The extent of unemployment in a particular area is one of the major factors in determining the area classifications assigned to each locality. Other criteria used 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.

ADMINISTRATIVE REGIONS OF THE BUREAU OF EMPLOYMENT SECURITY

Region I: Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont.

Region II: New Jersey, New York, Puerto Rico.

Region III: Delaware, District of Columbia, Maryland, North Carolina, Pennsylvania, Virginia, West Virginia.

Region IV: Alabama, Florida, Georgia, Mississippi, South Carolina, Tennessee.

Region V: Kentucky, Michigan, Ohio.

Region VI: Illinois, Indiana, Minnesota, Wisconsin.

Region VII: Iowa, Kansas, Missouri, Nebraska, North Dakota, South Dakota.

Region VIII: Arkansas, Louisiana, Oklahoma, Texas.

Region IX: Colorado, Montana, New Mexico, Utah, Wyoming.

Region X: Arizona, California, Nevada, Hawaii.

Region XI: Idaho, Oregon, Washington, Alaska.

STATEMENT OF VICTOR ROTERUS, CHIEF, AREA DEVELOPMENT DIVISION, OFFICE OF TECHNICAL SERVICES, UNITED STATES DEPARTMENT OF COMMERCE, BEFORE THE JOINT COMMITTEE ON THE ECONOMIC REPORT, RE PROBLEMS OF REGIONAL AND INDUSTRIAL UNEMPLOYMENT

Areas of spot unemployment are principally of two types—the temporal type which appear and vanish with the fluctuations of the national economy and those of a chronic type which may persist even when the national economy is at high levels. The latter areas particularly present special problems and needs. Since

Mr. Goodwin, of the Department of Labor, is discussing the extent of these areas and the reasons why they are faced with long-term unemployment problems, I should like to confine myself, first, to several observations about the problems and needs of these areas, and, second, to how our particular program attempts to assist these communities in meeting their problems and needs.

NEEDS OF SURPLUS LABOR AREAS

Areas of long-term unemployment have these characteristics among others:

(1) They need either a complete revitalization of their existing industries, or where these industries face a shrinking future, new activities, a new economic base, are needed to keep pace with national progress and to provide increasing job opportunities.

(2) Many of these areas, exclusively schooled in the development of one type of resource or industry, are not prepared to move incisively into new product fields or to serve new and changing markets.

(3) The know-how with which to take the necessary steps in developing a revitalized local economy based on local resources and advantages is often lacking.

(4) The knowledge and ability to make use of existing State and Federal aids in buttressing local area development efforts are likewise lacking.

(5) Despite the most arduous local efforts at a solution—which usually is determined to be the establishment of new lines of industry—these efforts sometimes die on the vine because effective contact has not been made with the executives of private industry whose decisions as to new and branch plant locations are a vital key to expanding job opportunities.

AREA DEVELOPMENT PROGRAM OF THE DEPARTMENT OF COMMERCE

Acting on suggestions of the President's Advisory Board on Economic Growth and Stability, the program of the Area Development Division of the United States Department of Commerce was expanded last spring to assist labor surplus areas in their efforts to deal with their own problems. The Department gave the Division the assignment of serving as a focal point and clearinghouse in the Federal Government for area groups and delegations seeking assistance to relieve local area unemployment. As a result, the Division has attempted to meet the demands of local delegations and congressional requests with prompt and orderly handling and, when indicated, appropriate units of the Federal Government have been called on and have cooperated on the problems on which they were capable of making a contribution. In addition, the Division began fashioning a program to assist State and local groups in working toward new employment opportunities in the areas of labor surplus.

The elements of this program can be briefly summarized as follows:

1. Several employment development kits and aids were prepared. A canvass was made of local and State programs, and the actions of many communities were summarized in a simple community and area development checklist. This checklist is a brief compendium of the types of actions that various aggressive communities had taken to cope with problems of industrial development, retail and service trade expansion, tourist and recreation development, local government aids, and so forth. The checklist also enumerated actions that had been effectively taken by the various States.

Another self-help tool that the Division has provided to meet the know-how needs of many local areas for establishing new industry based on local resources is a community industrial development kit. This kit covers a range of topics including (*a*) the survey of what prospective industry wants to know about your community, (*b*) promotion stage—how to find the prospects, and (*c*) how other communities have gone about it.

The Division found that many communities had been successful in establishing new industries through the device of the planned industrial park which in essence is similar to a high-class residential subdivision. To make these experiences available to all communities determined to expand and diversify their economic base, the Division just recently issued a how-to-do-it publication entitled "Organized Industrial Districts: A Tool for Community Development."

2. Another vital part of the program we are developing goes to the heart of the matter of establishing new industry to take the place of old or declining industries in areas of surplus labor. Once a community has organized for this effort, their prime need is to come into direct contact with firms planning expansions. In this connection, we have tried various devices to assist com-

munities in need. Several times a month, for example, leading executives from the various types of private industry are called to industry conferences held by the Department of Commerce. Time is allotted on the agenda of these conferences to discuss the problem of surplus labor areas, the stake of private industry in their solution, and the conference is asked to give earnest consideration to the advantages of these areas in planning future plant locations.

Another effort in the direction of encouraging diversification of the local economies was the new products, new methods, and patents exhibit held in Detroit last October in which State and local governments, labor unions and private industry cooperated with the Department. The Department of Defense, which has spent billions of dollars in research, put on public view new products, processes, and materials which have commercial development possibilities, and which they are eager to get into civilian production for quick defense conversion when the need arises. We are now engaged with the Department of Defense in looking into possibilities for extending this exhibit to other sections of the country.

Another effort to enlist private industry into the program for assisting labor surplus areas was in cooperation with the Society of Industrial Realtors. A task force appointed by this society visited Lawrence, Mass., as a test case and made a report which has general application to the problems of all labor surplus areas. Using the methods outlined in this report, members of the task force are actively negotiating with several manufacturing firms with respect to possible locations in that area.

3. Another important activity of the Division which has been limited by the available personnel has been the on-the-spot assistance to State and local groups in combating problems of local unemployment. Division representatives, on request of local delegations and Members of the Congress, have made field visitations to communities in Indiana, Kentucky, Oklahoma, Pennsylvania, Virginia, West Virginia, and a number of communities in New England. These visitations are the perfect time to inform the local development groups how to make full use of aids and programs of the Department of Commerce and other agencies which can be helpful on specific local problems. We have found that most communities are appreciative not only of our technical assistance but apparently get a morale boost in their own efforts through personal contact and assistance.

These visitations are always conducted in cooperation with State planning and development agencies with whom the Division maintains a close working relation through informal bulletins, an annual conference in Washington, and other means. Followups in Washington with other agencies able to provide particular types of assistance and the continuing contact with local and State groups entailed by the field visitations are illustrated by our reports on recommendations made to the President by the Northeast Pennsylvania Industrial Development Commission, eastern Kentucky survey, and drought relief and area development recommendations, eastern Oklahoma. In these visitations we have received the full cooperation of representatives of the Small Business Administration, the Department of Labor, the Department of the Interior, the Housing and Home Finance Agency, the Department of Defense, and others.

FUTURE PLANS

The Economic Report of the President for 1955 recommends further strengthening of the area development program of the Department of Commerce. If additional funds are made available during the next fiscal year, the Division will step up its activities.

In particular, we shall increase our on-the-spot assistance to labor surplus areas by stationing area development specialists in the field. These specialists would give personal and continuing consultation to labor surplus area groups in follow up of requests for such help made to the Congress and executive branch. They will also keep us informed of what successful devices are being used by various labor surplus communities in attacking their problems, and this information will be made the subject of a periodical bulletin which will be made available to other local areas.

Further, out of our experience in the field we expect to make suggestions as to what the Federal Government might do further in assisting these spot areas of unemployment to get back in step with national growth.

STATEMENT BY LEO FISHMAN, PROFESSOR OF ECONOMICS AND FINANCE, WEST VIRGINIA UNIVERSITY

West Virginia and sections of six other States in the Appalachian coalfields are suffering acute economic and social distress. Since I am more intimately acquainted with conditions in West Virginia than elsewhere, my remarks will be confined to the situation existing in that State.

Employment opportunities in West Virginia have been declining since 1948 when nonagricultural employment reached a peak of 543,900. In 1954 employment in nonagricultural industries was only 473,000. Between 1953 and 1954, when nonagricultural employment for the United States as a whole declined by 3 percent, nonagricultural employment in West Virginia declined by 7 percent. During 1954 employment in the bituminous coal industry of West Virginia was only 76,400, roughly equivalent to what it was during the worst years of the depression.

The drop in employment between 1953 and 1954 in leading West Virginia industries was as follows: Bituminous coal, 16,900; transportation, 3,700; stone, clay, and glass, 1,900; chemical, 1,200; and lumber, wood products, and furniture, 600. Cash receipts from farm marketings in West Virginia were $6.4 million lower for the first 10 months of 1954 than they were for the first 10 months of 1953. Even in 1953, the most recent year for which such figures are available, the average income per farm from farm sources was lower in West Virginia than in any other State in the Nation.

Unemployment has been a problem throughout the State for some years. Within the past few years this problem has grown steadily worse. In 1954, of the 16 labor-market areas in West Virginia 13 were classified as areas of very substantial labor surplus (IV–B) and 3 as areas of substantial labor surplus (IV–A). The median rate of unemployment for all these areas was 13 percent of the labor force. In Beckley, W. Va., an important city in the southern coalfields, the unemployment rate was well over 20 percent.

Twenty-two counties out of the 55 in the State are not included in any labor-market area. While precise figures are not available for these rural counties, there is ample evidence to indicate that they too are suffering because of inadequate employment opportunities.

With respect to underemployment, the picture is not quite as clear cut. In the bituminous coal industry, as a result of substantial reductions in the working force and other adjustments, underemployment is not as prevalent now as it was a few years ago. In the glassware industry and on many farms, however, underemployment of labor continues to present a serious problem.

The seriousness of West Virginia's unemployment problem is emphasized by the fact that from April 5, 1950, to July 1, 1954, while population of the United States increased by an estimated 6.3 percent, the population of West Virginia declined by an estimated 2.9 percent. Only two other States, Arkansas and New Hampshire experienced a population decline in this period, and in neither of these States was the decline as high as 1 percent.

The population decline (59,000) resulted largely from an outward migration for jobs, and did alleviate the unemployment problem in the State to some extent. With the contraction of employment opportunities elsewhere, however, migration has ceased to be an important alleviating factor. During the fiscal year ending June 1954 the State employment service sent only 868 workers to jobs in other States as compared with 14,120 sent to jobs in other States during the previous fiscal year.

Indeed, there is evidence that a number of those who left the State and found jobs elsewhere, later returned to West Virginia when they lost their jobs. The number of workers who lost their jobs in other States and who filed claims for unemployment insurance in West Virginia increased from 8,364 during the fiscal year ending June 1953 to 21,499 during the last fiscal year.

An unfortunate dilemma exists for the State. As the seriousness of the situation increases, the financial ability of the State to cope with the resulting social problems and to provide for essential public services declines. State revenues have fallen off at an alarming rate. The receipts of the general revenue fund during the last 6 months of 1954 were $3 million less than receipts during the last 6 months of 1953. Since a provision of the West Virginia constitution prohibits any increase in the bonded indebtedness of the State as a result of deficits in the general fund, prospective deficits must be avoided by reductions in planned expenditures.

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All State spending units have, therefore, been requested to reduce their expenditures for the fiscal year 1955 by 5 percent of their appropriated funds. Most State services, including education are affected by this order. Financial grants of the department of public assistance to the aged, the blind, dependent children, and the unemployables, which were already inadequate, have been reduced to 70 percent of a minimum subsistence budget. It is not possible for those who are dependent on these grants to maintain a decent standard of life, and actual deterioration of their physical condition is likely to result.

No financial assistance is available for the 34,360 persons who exhausted their unemployment compensation benefits during 1954 without having found a job, or for those who exhausted their unemployment benefits in previous years and still have not found jobs. Public assistance for these persons is limited to the provisions of the surplus food distribution program. A diet composed largely of available surplus food is not likely to be well balanced. The dietary deficiencies are particularly likely to be serious in the case of infants and small children. Moreover, surpus food is available in only 30 of the 55 counties of West Virginia, since in the other 25 counties there are no distribution facilities for this program. Social workers report that the physical growth of many children is being stunted and their personalities warped. In some instances death is being hastened because of the inadequacies of the public-assistance program.

The fact should be stressed that West Virginia alone cannot cope with its basic economic problems which are structural in character and the result of long-term forces. West Virginia is located in the heart of the Appalachian coalfields. Its cities are relatively small in size and their industries are few in number. Basically, West Virginia's problems stem from the unhealthy condition of the bituminous coal industry. In January 1949 1 out of every 4 wage and salary jobs was in the coal industry.

The problems of the bituminous coal industry are well known and need not be elaborated on here. Suffice it to say that the displacement of bituminous coal by petroleum and natural gas, and the accelerated mechanization of mining operations since the war are primarily responsible for the declining rate of production and the even greater rate of decline of employment in that industry.

The welfare of the railroad and lumber industries in the State are directly dependent upon the level of operations in the mines. Local trade, public utilities, and service industries also mirror the ups and downs of the bituminous coal industry. In certain areas, the situation has been aggravated by the fact that the glsslware and pottery industries, which are concentrated in a relatively small number of cities, are suffering from the effects of foreign competition. Recently imports of glassware from Germany and Japan have increased in volume and threaten to cause further reductions in employment this year. Of all the leading West Virginia industries, only the chemical industry appears to have a bright future, particularly in the Ohio Valley. The decline in employment in that industry last year was probably the result of purely temporary factors.

West Virginia farms are for the most part too small to provide the farm family with a satisfactory income, particularly since lack of sufficient capital and the nature of West Virginia's topography hinder the widespread use of labor-saving devices. Many farm families, therefore, are necessarily dependent on some off-farm employment. During 1954 the problems of these families were intensified since declining opportunities for off-farm employment were accompanied by substantial declines in prices for the produce of their farms, such as beef, chickens, broilers, eggs, and apples, none of which benefit from a support program.

It should be noted that West Virginia has been aware of the need for positive action to attract new industries to the State. The West Virginia Industrial and Publicity Commission, for example, during the current fiscal year is spending approximately $100,000 largely for this purpose. Business taxes and property taxes are relatively low and there are no labor or other laws which businessmen would consider restrictive. Nevertheless, new firms are not coming to West Virginia in sufficiently large numbers to alleviate the problem of unemployment.

None of the recommendations offered in the Economic Report come to grips with the problems existing in West Virginia. The analysis contained in the Economic Report and the recommendations for public policy are based on the assumption that long-term expansionary forces will continue to sustain aggregate income in the United States, and that the essential economic problem is to prevent temporary deflationary influences of a cyclical character and other short term restrictive forces from gaining the ascendancy.

Since the situation in West Virginia is not the result of purely temporary forces, the recommendations for public policy in the Economic Report are not likely to alleviate that situation. The proposal to extend unemployment insurance coverage from 24 to 26 weeks would be of very temporary assistance, assuming that adequate funds for this purpose would be available in West Virginia. The proposal to expand the area development program of the Department of Commerce appears to be a purely formal recommendation. To date the program has in no way contributed to the relief of distress in West Virginia, and it is not likely to do so unless the size of the staff administering the program, as well as its administrative powers and funds, are greatly enlarged.

Military procurement and construction contracts received by West Virginia have been inadequate to alleviate the economic problems of the State. From July 1950 to March 1954, according to the West Virginia Department of Employment Security, West Virginia firms received contracts amounting to $191,738, a mere 0.2 percent of the total value of the contracts awarded during that period.

Effective measures by the Federal Government to alleviate conditions in West Virginia should include the following:

I. MEASURES TO STIMULATE THE RECOVERY OF DEPRESSED INDUSTRIES AND AREAS

1. An increase in the volume of military procurement and construction contracts.
2. Encouragement of private firms, by more effective means than have hitherto been employed, to reopen idle plants formerly utilized for defense production. (A rubber plant formerly operated by Goodyear Rubber Co., for example, is now idle in Nitro, and a plant formerly operated by the United States Steel Corp. for Naval Ordnance, lies idle in South Charleston.)
3. Assisting the bituminous coal industry in developing new markets and new uses for coal, and in finding methods to reduce costs, particularly transportation costs. In many areas half the price of bituminous coal goes to the railroads in payment for the cost of haulage. (It should be recognize, however, that no program to aid the bituminous coal industry is likely to improve the employment situation materially.)
4. A public works program. West Virginia cities and counties are without funds to provide themselves with sewer disposal plants, adequate waterworks, school buildings and facilities, streets and street lighting, parks and playgrounds.

II. MEASURES TO FACILITATE CONTINUED HEALTHY ECONOMIC DEVELOPMENT

1. A more vigorous Federal program to attract small business to West Virginia.
2. More positive policies for plant dispersal. For strategic reasons, more defense and essential civilian plants should be located in West Virginia. The State is sufficiently far from the primary population and industrial centers to be safe from a military point of view, and sufficiently close to those centers to offer locations which are attractive from an economic point of view.
3. A retraining program for unemployed miners, and if necessary, a resettlement program as well. A successful industrial development program should provide employment opportunities for these men.

III. MEASURES TO RELIEVE EXISTING DISTRESS

1. A greater measure of financial and technical assistance to the State's public-assistance program.
2. Assistance in the distribution of surplus foods in areas of need where distribution facilities are at present either inadequate or unavailable.

STATEMENT OF KENNETH J. GRAY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. Chairman, I am here on behalf of the people of southern Illinois, an area suffering the ravages of a complete economic depression almost without comparison in this Nation. The economy of the United States as a whole may be sound; but that is not true of southern Illinois. The people of our great country may be enjoying, by and large, what the present administration calls "a growing prosperity"; but that is not true of the people of southern Illinois. What is true of southern Illinois is that it suffers near-total economic disaster, a tragedy and a suffering comparable only to the very dark days of the early 1930's.

Mr. Chairman, yesterday morning I read in the papers of my district of a jobless man committing suicide; and every morning of families fleeing the area; of want and despair. Try to imagine, Mr. Chairman, that in our land of plenty, there are in southern Illinois over 30,000 people who are forced to get food from the Illinois Public Aid Commission, or else literally starve. Try to picture over 30,000 heads of families without work, without much hope, without a future. I will, separately, supply you with statistics, which are heart wringing. The facts are available, but they cannot impart the feeling of misery these people are going through. And the real tragedy, the most terrible fact of them all, is that this situation is not even remaining stable; each day it gets worse. Day after day there are more shutdowns; day after day the roster of the unemployed, the hungry, and the hopeless gets longer; day after day the suffering increases. The first news greeting me this morning, for example, was the shutdown of another mine, another 200 heads of families to line up for food and the dole.

Mr. Chairman, I do not have the power to fully paint for you the sad details of this dreadful picture; no one can. But I can speak out and ask, is it not time to do more than merely lend a sympathetic ear to the problems of our own people? Is it not time to balance the human budget before balancing the monetary budget? Mr. Chairman, the people of southern Illinois have a right to be heard; they have a right to work; they have a right to live with their families in their own homes. It is my honor and privilege to represent them. In their name, I plead for equity, and for them voice the hope of desperation that justice will be done. I intend to introduce a public works program bill and I hope it will receive every consideration. I hope this committee will seek out the true facts of conditions and make recommendations for immediate assistance.

Thank you.

STATEMENT OF SOLOMON BARKIN, TEXTILE WORKERS UNION OF AMERICA, RESEARCH DEPARTMENT, NEW YORK, N. Y., BEFORE THE JOINT COMMITTEE ON THE ECONOMIC REPORT ON THE TEXTILE INDUSTRY AS A DEPRESSED INDUSTRY

The President's Economic Report speaks of some industries and localities suffering from serious unemployment. The textile industry has been in a depressed state since 1951 and has not yet recovered. Textile communities throughout the country have been hard hit and many have not been rehabilitated through the development of alternative employment. Tens of thousands of textile workers dependent upon unemployment benefits have exhausted their claims and therefore have had to fall back upon their families for maintenance. Many older textile workers have been turned away from the employment offices by other employers and have found themselves "too old to work and too young to retire."

APPEALS TO PRIVATE INITIATIVE

The past and current depressed conditions in the textile industry have been brought to the attention of the Federal authorities for a number of years. The Texile Workers Union of America, CIO, has been most alert to these developments and has been calling for remedial action by State, regional, and National governmental bodies. We first appeared before the Massachusetts Special Commission on the Textile Industry on October 31, 1949 urging at that time that "the problems which beset us now arise from the deficiencies of individual manufacturers who are showing lack of enterprise and who are refusing to build up through adequate modernization of equipment, management and merchandising, research facilities, product development and sales organization, the type of enterprise required in this day and age in the textile industry * * *. The competent New England manufacturers who are following current lines of progressive development will flourish. Those who are unfortunate enough not to have fully fathomed the fundamental changes within the industry and reorganized their properties to meet these trends will not survive * * *. They will sacrifice the thousands of workers who are now employed and who have investments of their lives and skills in serving in these mills * * *. The main problem * * * is to find a means of stimulating enterprise among manufacturers and improving their skills in meeting the developments of the day."

Unfortunately, little was done by the commission to rally the employers and help stimulate the industry's progressiveness in the areas and places where it was most laggard, particularly in the northern areas.

As an active member of the National Planning Association the present witness promoted the organization of the Committee of the South of that body, which prepared a report on means of stimulating the growth of that region. Our conviction has been that the development of a diversified field of industrial activity in that region was essential to the advance of the textile industry and the improvement of the lot of the textile worker and his family. Much progress, we are glad to report has been made in this direction.

Finding the regional organization unwilling to initiate the research necessary for the solution of the economic problems of the New England textile industry and the region as a whole, the present witness as representative of the Textile Workers Union of America, CIO appealed to the Council of Economic Advisers urging it to assume the responsibility for the promotion of work for regional rehabilitation. The result was the appointment by the Council of Economic Advisers of a Committee on the New England Economy in the spring of 1950, and the submission of a report on June 28, 1951, entitled "The New England Economy."

We also hoped that there would be a local effort and therefore urged that the National Planning Association develop a Committee of New England which, at the request of the Joint Committee on the Economic Report of the United States, prepared a report, published in 1954, entitled "The Economic State of New England."

In the meantime, the conference of New England governors, at the urging of many interests, and particularly the Textile Workers Union of America, CIO, appointed a special Committee on the New England Textile Industry of which Mr. Seymour E. Harris was chairman, which rendered a report on April 1, 1953.

The one common result of these many efforts has been the failure of any responsible body to follow up the recommendations or proposals with a specific program for action. The highly individualistic nature of the industrialists in the textile industry, and for that matter, the financial and industrial leaders of New England, has frustrated industrywide efforts.

The stronger elements in the industry have sometimes bemoaned prevailing conditions, but they have looked forward to the pruning out or profitable absorption of the marginal units as the means for rehabilitating their own positions. They have hoped that with the shrinkage in capacity or elimination of competitors their own operations would improve. They have not undertaken real studies into the fundamentals of their industries to help rehabilitate the entire structure. This short-run approach has netted the promoters tremendous profits collected largely from tax concessions.

The raw-cotton interests, with the aid of Federal funds and the United States Department of Agriculture, have promoted their products, as have the synthetic-yarn producers. Only recently the Carded Yarn Association acknowledged that its sector faced an industrywide problem of shrinking markets and uses. But no wider public confessions of difficulties have been heard.

Industrial interests have resisted concerted efforts at the study and promotion of textiles, textile products and uses. A few subdivisions have tried limited advertising campaigns. But there has been no extensive undertaking for the broadening of markets and the opening of new ones.

APPEALS TO THE PRESENT ADMINISTRATION

The current administration promised much but has done little to relieve distress in the textile industry. The President's Economic Report acknowledges that "some industries and localities suffered from serious unemployment" but we are reassured that "the recovery was largest in the * * * textile industries." There are no suggestions in the report of means for aiding the revival and reinvigoration of the industry and its expansion. The only recommendation is for assistance to "depressed communities to develop workable solutions of their problems." The Department of Commerce's area development program is to be strengthened. But we are cautioned against expecting much help since "these programs can make only a limited contribution to relieving 'spot' unemployment." Moreover, the adjustment is to be left to "the local citizens themselves." Major reliance is to be placed upon policies that "promise a high and stable level of employment in the Nation at large."

But it is quite obvious, as the Economic Report declares in the preceding paragraph, that "although the economy as a whole was prosperous, some communities suffered from sizable unemployment." Certainly the philosophy underlying the President's Economic Report, which sets its goal at high rather than full employment, offers us no confidence that these industrial and geographical difficulties will be relieved. A government which does not seek to assure a job opportunity for all will only provide verbal solace to the victims of industrial change, unenterprising industrial managers and unfair competition built upon wage cutting and substandard labor conditions.

It prescribes the encouragement of "enterprise and innovation" but not in a volume sufficient to overcome the distress of local communities and the decline of shrinking employments. Its unfounded presumption that full employment will threaten the "integrity of the money in which contracts are expressed and payments made" has stopped it in its tracks. It has desisted from aiding the communities and industries in need as it is fearful of action which will impart "an immediate upward thrust to economic activity." Economic policies inspired by this philosophy are not likely to generate a full employment economy essential to the solution of the problems of the economic "sorespots" in our country.

The history of the treatment of the textile problem by this administration reflects these current attitudes. Candidate Eisenhower came to Lawrence, Mass., and other New England textile communities and promised help in speeches to the people. After the election local unions appealed for assistance. Nothing was done. The first Secretary of Labor in the present administration then spoke to the citizens of that community and told them to look to their own resources for help because nothing else would be forthcoming. Nothing else happened until the issuance of a Government order for 6 million yards of worsted uniform cloth, representing less than 1 percent of the industry's capacity. This was offered as a substantial contribution. Actually, only a portion of the order went to the distressed areas. Moreover, it came too late for many closed mills and abandoned workers.

A woven and worsted industry conference held by the Secretary of Commerce was closed to the Textile Workers Union of America despite several requests for representation. The same division of the Department of Commerce which is to be in charge of area development was then sent up before the election of 1954 to visit Lawrence, Mass. with a troop of realtors. The only solace resulting from this visit was that Mr. Victor Roterus publicly declared that "the textile business is finished" in Lawrence. Obviously nothing resulted from this visit though vague suggestions were offered by the visiting group that some negotiations were being carried on by new companies.

Having been estopped from effective consultation with the lower echelons of the present administration, Mr. Emil Rieve, president of the Textile Workers Union of America, on September 23, 1954, wrote to President Eisenhower after the public announcement of a plan to spend $150 million to buy coal for shipment overseas, to ask him to "take a similar approach to textiles." He noted that "the world's people are as much in need of cloth as of coal; the materials to clothe the ragged would be more than welcome in the far corners of the earth." He urged that the President act on his statement that "never will we desert any section or people who need help that only the Federal Government can provide."

Mr. Gabriel Hauge answered on behalf of the President that "he will be glad to have any such proposal as you wish to present carefully considered by cognizant officials of the executive branch" (letter of September 30). A program was transmitted in a letter of October 27, a copy of which is attached. The receipt of this proposal was acknowledged by Secretary of Commerce Weeks on December 7 in which he indicated that he would be happy to "arrange for you and your associates * * * to meet with our people." We accepted this invitation but no arrangements have been made by the so-called Department of Commerce Textile Industry Committee or anybody else within the United States Department of Commerce to meet with us. We are still waiting for such an offer.

We are therefore eager that the Joint Committee on the Economic Report address itself fully to the problems and maladies of this industry so that a fully constructive program be developed to reinvigorate and provide it with the wherewithal to reestablish its legitimate position within the American economy.

We urge upon the joint committee that there is too great an inclination to concern ourselves with the global figures and overlook the individual deficiencies in our economy. This failure to analyze the weaknesses and the shrinking areas can be as fatal now as it was in the twenties. We know that the troubles of the textile and coal industries during those years proved to be harbingers of the oncoming disaster. The shortages in buying power and the heartless competition at the expense of the worker which demoralized the industry and the wage structure of these industries during the latter part of the twenties were precursors of the disaster that befell us in 1929. Had we then addressed ourselves as we are urging you to focus now upon the problems of the distressed areas and industries and the problems of economic rehabilitation and recovery in them, we might well have avoided the depths of the depression of the early thirties.

The need for such a far-reaching investigation has been recognized not only by textile labor organizations and the Congress for Industrial Organizations, which called for such an investigation at its last convention (a copy of the resolution is attached), but also by an independent newspaper such as the New York Times, which, in an editorial on June 7, 1954, declared as follows:

"The textile unions have sought to cooperate in increasing the efficiency of the industry and the productivity of its workers. But the industry has been losing ground in the face of competition from imported fabrics, synthetics and nonunion producers in the South.

"It is clear that no general upturn in the economy will automatically restore the prosperity of the mines or the textile mills. The sooner the administration gets together with management and labor in these industries to seek answers to their basic problems, the sooner remedial programs can get underway."

DISTRESSED CONDITIONS IN THE TEXTILE INDUSTRY

Employment has declined significantly from the more active days within the industry. In 1948, there were 1,280,000 production workers. This number dropped to 1,200,000 in 1950. In both 1952 and 1953 the total was about 1,100,000. The low point in 1954 was in July with 953,000 workers. Recovery since July has been minor: in December the total was 998,000 compared to 980,000 in June and August 1954. There has not therefore been any such recovery as the President's Economic Report suggests. The net drop from 1948 has been 282,000 and from 1951, 177,000 persons.

What has happened, however, which is most welcome, has been an increase in the hours of work. In December 1954, the average weekly hours for the first time during the year exceeded 40 hours per week. They had dropped to 37.1 hours per week during April.

The shrinkage in employment has taken place in all regions of the country. Attached is a comparison of the employment of both wage and salaried workers in each State between February 1951 and October 1954. A total shrinkage of 283,000 jobs occurred in the 45 months (table I). (Employment of salaried and wage earners increased by some 7,800 from October to December.) One hundred and seventeen thousand jobs were lost to the industry during this period in New England, 85,000 in the Middle-Atlantic States and 52,000 in the South. The largest reductions in employment were suffered in Massachusetts (58,200) and Pennsylvania (36,800). North Carolina saw a shrinkage in employment of 20,000. No single textile State could report an increase in employment between February 1951 and October 1954.

As textile mills are generally located in nonmetropolitan areas, frequently comprising one-industry or one-mill communities, alternative employments in the locality are lacking. The slump in textile employment therefore depresses entire communities and leaves workers and their families stranded. The significance of this concentration is borne out by the fact that 5 of the 8 major areas in the continental United States which are designated "areas of very substantial labor surplus" by the Bureau of Employment Security, are textile areas. In addition, four smaller textile areas are classified in this category (having 12 percent or more of the labor force unemployed). There are also 20 textile areas (including 7 major communities) in the "substantial labor surplus" classification, i. e., with more than 6 but less than 12 percent of the labor force unemployed. (See table II.) These communities have not prepared for this situation with new industrial developments. The people have a lifetime investment of skills in tle textile industry.

The concentration of textile manufacturing in the States along the Atlantic seaboard makes these areas peculiarly dependent upon the industry. The proportion of total manufacturing employment accounted for by the textile industry is in excess of 50 percent in North and South Carolina and more than 25 percent in Rhode Island and Georgia. In addition, substantial proportions of the factory employment in New Hampshire, Maine, Massachusetts, Vermont, Connecticut, Pennsylvania, New Jersey, Virginia, Alabama, and Tennesee are provided by the textile industry.

The inability of these communities to get out of this chronic state is attested by the fact that they have remained distressed for long periods of time. We have kept records of such communities as those in Massachusetts and find that Lowell had an unemployment rate of 6.16 percent in February 1951 and in September

1954, 10.2 percent; Lawrence had an unemployment rate of 10.8 percent in February 1951 and its September 1954 rate is 23.5 percent. In New Bedford the rate has risen from 2.9 percent to 12.0 percent; and in Fall River from 3.6 percent to 12.3 percent.

What this actually means is suggested by the fact that 5,200 people were unemployed in Lowell; with only 3,613 being paid unemployment benefits; 12,100 were unemployed in Lawrence with only 6,070 receiving unemployment benefits; New Bedford with 8,350 unemployed had only 6,152 receiving benefits; Fall River with 7,200 unemployed had 6,189 unemployment insurance beneficiaries.

Nor do these figures fully illustrate the problem since many older persons, and particularly older women, have been canceled out of the labor market because their age prevents them from finding jobs and they are no longer considered eligible for employment in the vast pools of unemployed living in these areas.

The effects of such hidden unemployment is most depressing since they shift the burden of support to the relatives and families and thereby weigh heavily upon them with unfortunate consequences on their standard of living and the children's opportunities.

The shrinkage in employment has been produced by two major factors. First has been the mill closings and the other is the impressive rise in man-hour productivity within the industry. The mill closings, of course, have practically completely shut out new employment opportunities for the affected person. A survey of textile mill closings reveals that during the period from 1946 through 1954, 640 eastern plants were closed employing 168,000 persons in the major textile divisions (exclusive of very small plants). The distribution was as follows:

Textile mill liquidations in Eastern States, 1946–54 [1]

	Total		New England		Middle Atlantic		South	
	Plants	Employees	Plants	Employees	Plants	Employees	Plants	Employees
1946–49	233	49,095	87	24,775	89	11,600	57	12,720
1950–52	200	50,715	72	30,745	115	16,845	13	3,125
1953–54	207	68,135	77	36,315	83	22,800	47	9,020
Total	640	167,945	236	91,835	287	51,245	117	24,865

[1] Includes spinning, weaving, knitting, dyeing, finishing, and carpet plants.

Many of these plants are located in isolated communities where no other opportunities exist. This is reflected in the fact that for the year ending June 30, 1954, almost 100,000 New England workers, unable to find jobs during the period covered by unemployment compensation, exhausted their insurance benefits.

It is also apparent that a large proportion of those found in the unemployment survey as having been unemployed in excess of 26 weeks, who in December 1954 numbered 376,000 persons, included many textile workers.

The difficulties which older textile workers encounter in securing new employment has been told in many places. We have made a survey of the liquidation of the Oakes Mill in Bloomfield, N. J., and the liquidation of the Esmond Mill in Esmond, R. I. The staff of the Committee of New England of the National Planning Association made studies of the postliquidation experience of employees of two New Hampshire woolen and worsted mills. Professors Myers and Schultz of the Massachusetts Institute of Technology made a study of the closing of the mills in Nashua, N. H. A further study is to appear by Prof. William H. Miernyk of Northeastern University. They all tell the story that older persons have difficulties in getting jobs; younger persons may find jobs; textile workers seek jobs within the textile industry since they find other employers reluctant to hire them; most of those who get jobs in other industries have to take severe wage reductions. Most of the textile workers are relatively immobile. Professor Miernyk concludes that "workers displaced by the liquidation of textile mills in New England are not being absorbed in large numbers by the industries which are expanding in this area * * * The highly aggregate comparisons of recent employment trends in New England conceal the fact that industrial growth and decline do not always coincide in the same areas." He further adds that "a number of writers have implied, while others have explicitly stated, that displaced textile workers are being absorbed by growth industries, notably electronics. Our findings do not bear out these statements * * * Instead of employing displaced textile workers in large numbers it appears that the growth industries are employing new entrants into the labor force." His final conclusion is that "there is no reason to expect a larger proportion of displaced workers to be absorbed by other industries in the future than has been true in the past."

RISING PRODUCTIVITY

The second major cause of the reduction in employment in this industry is increased man-hour productivity. One major factor in this rise has been the use of new equipment. Since World War II, the industry's expenditure for modernization and expansion has amounted to over $4 billion. The bulk of these expenditures was for the purchase of new equipment rather than new buildings. More innovations are impending.

But these expenditures are only part of the cause for higher output. The textile industry has learned the techniques of other American industries and has assiduously applied them during the past several years. There are new processes, procedures and management techniques. In addition there are new fibers, which have challenged the older ones. These changes can be found in each division of the industry. The combined effect of these changes has been a rise in man-hour productivity in excess of 5 percent per annum particularly since 1948, when the effects of the earlier investments became apparent.

The nature of the problem is illustrated by the fact that employment during the month of November 1954 in the textile industry was 993,000 persons which was 20 percent below the average employment level of 1947–49. According to the Federal Reserve Board, textile mill production for the month was actually 103 percent of the base period of 1947–49. Twenty percent less workers in November 1954 were producing 3 percent more product than in the base period of 1947–49. This rough measure indicates an increase in productivity of 29 percent in the period.

CAUSES FOR THE PRESENT CONDITION

There have been many causes for the present state of affairs in the industry. These hearings cannot provide the forum for an adequate discussion of these problems. We shall therefore limit our presentation to an enumeration of these problems.

1. Loss of domestic outlets

The industry has lost many major outlets for textiles. These are reflected by the loss of textiles for wrapping, packing and bagging to paper and plastics. Window shades have been replaced by blinds. Tablecloths, aprons and curtains have lost out to plastics. The losses have been particularly large in industrial and household uses.

2. Loss of export markets

The industry has lost major export markets. From a level in excess of 1.5 billion yards in 1947, the volume of cotton fabric exports has dropped below 600 million yards, with every likelihood that even this level will not be maintained.

3. Changes in types of garments

There has been a drop in the per capita consumption of textiles due to the diminished use of such garments as overcoats. Casual attitudes and habits have reduced consumption and turnover, particularly as clothing lasts longer. Many significant changes in clothing patterns such as the substitution of blouses and skirts for suits and dresses for women and the acceptance of slacks and sport shirts instead of suits among men have sharply affected total output.

4. Changing pattern of consumer expenditures

The inadequacy of income, the appeal of other expenditures, particularly consumer goods, the heavy burden of mortgage debt, have all contributed to a reduced expenditure on apparel. Despite the seeming diversity of apparel items and the high turnover of style, they have not significantly affected per capita fiber consumption. Increased population has not raised total consumption.

These conditions are reflected in the fact that the ratio of apparel expenditures to total consumer expenditures amounted to 6.9 percent in 1954 as compared with 7.7 percent in 1951, 8.5 percent in 1949, 9.5 percent in 1945 and 8.7 percent in 1939.

Per capita consumption of textile fibers has apparently not risen over the prewar levels. From 27.3 pounds in the period from 1925–29, per capita consumption increased to 28.1 pounds in 1935–39. Actually in 1937 and 1939 it reached 31 pounds. In the year 1954, the consumption level was 32 pounds per capita.

5. *Tardiness in meeting new consumer trends*

Apparel has been designed for urban living despite the large number of people now living in suburban areas. People want washable items. Rayon and woolen fabrics which have been tardy in meeting this demand lost markets which were not entirely filled by other fibers.

6. *Interfiber competition has discouraged buying*

The excessive claims of the fiber manufacturers have done much to repel the American consumer. Many apparel manufacturers and fabric producers put fabrics on the markets without proper testing for specific end uses. Their shortcomings finally led to their withdrawal and the bad experience brought a revulsion among many consumers who have been wary about buying unproven items.

The substitutions have provided bonanzas for the innovators but later failures followed as the items did not stand up under actual wear. In the meantime demoralization has ensued and the older industries such as woolens and rayons have suffered. New substitutions are rendering obsolete even new innovations. In tire cord, rayon displaced cotton. Now nylon is battling it out with rayon. Already we hear of a nonfabric tire.

7. *General business contraction*

The industry has also suffered from the contraction in overall business which reduced income and therefore cut more sharply into apparel expenditures, which have become a residual claim on expenditures. The drop in manufacturing activity eliminated much demand for industrial textiles.

8. *The industry has not developed any significant new markets*

The textile industry has intensified the competition for established markets. As traditional end uses have been eliminated, the remaining producers have more feverishly developed the remaining markets. Few have ventured to open up new demands through research and intensive surveys of possible outlets.

A much discussed new potential market is that for conveyors which was developed by the rubber manufacturers.

There is little organized research for new markets in the industry.

9. *Many textile owners have abandoned their mills*

The textile industry has suffered from unprogressive managements.

In the first place many mills have been owned by the same interests for several generations. They had survived the depression and were capitalized at very low values.

(*a*) Some of these older interests sold out to other textile interests, textile users or financial speculators, during or immediately after the war, who were primarily interested in avoiding the excess-profits tax. They paid high prices, which gave the original owners large capital gains. The purchasers financed the transaction with the cash accumulated in the old business and then could continue business with a high capitalization and therefore pay little or no excess-profit taxes.

(*b*) Others sold out to established textile interests, particularly since the carryover provisions of the corporate income-tax law have become more attractive. They thereby profited through a merger and acquired the stock of the successor corporation which was generally a nontaxable transaction. The successor corporation has been able to use the carryover provision as a means of escaping future taxes. In some instances these tax savings have amounted to 20 and 30 millions of dollars. These mergers, based on the capitalization of the loss position of the merged companies, have been widespread within the textile industry and are matters for real public investigation.

In the second place, a number of interests have been unwilling to invest to modernize their operations. No mill can survive unless it has the latest type of equipment and those owners who have been unwilling to keep abreast of the times have often abandoned their mills in preference to modernizing them. This procedure was attractive particularly at times and places where the real estate was of substantial value and when a market existed for the used equipment.

In the third place, the decline in the market for certain products has limited the capacity required in them. Older managements have in those cases been unwilling to move into new product areas and start afresh in the competitive struggle.

We urge a thorough investigation into the effect of our tax structure upon the process of plant abandonment and mergers and purchases. Our tax system has inordinately encouraged these movements. And the textile industry has been one of the most important areas for the utilization of the tax laws for personal aggrandizement accompanied by widespread plant abandonment.

10. Imports have seriously affected some divisions of the industry

While the textile industry as a whole has not been particularly affected by imports, the woolen and worsted division has been seriously injured from time to time as the volume of imports has risen in the face of a shrinking market. These imports have then tended to aggravate and demoralize an already difficult situation. The industry must look with alarm at any increase of imports of serious proportions since they would aggravate what is now a seriously disturbed condition. It is an industry which must be maintained.

The hard and soft fiber cordage and twine division has also felt the impact of rising imports and is in need of protection as an essential industry. The threat of a major increase in cotton textile imports from Japan as a result of impending tariff negotiations is a real one. Any action which would compound the difficulties of this depressed industry must be avoided.

11. Prices have been set by the highly efficient mills

In this highly competitive market, prices have been driven to very low levels. Mill margins have also been very low. With the industry now highly concentrated in a relatively few hands, the major mill and selling organizations have set their prices at levels which reflect the southern wage scales and their high efficiencies. As a consequence the less efficient mills and those paying more than the southern wage scales on products predominantly produced in the South have had severe pressure on their income levels.

12. The high rate of mergers and mill purchases has concentrated the industry

The mill mergers and purchases have continued in large numbers since they began during the last war. The movement from 1944 through 1948 has been revived during the last few years so that we are now in a new period of consolidation. This has been stimulated by the tax laws; the decline of the woolen and worsted industry; the drive for diversification; and the practice of integration which has brought production, selling, and factoring within the same interest grouping.

13. The absence of a realistic wage floor has maintained an inordinate pressure on union scales

The intense competition and the high rate of unemployment have enabled employers to resist union demands for wage increases and resulted in the deterioration of existing wage standards. Employers in the northern cotton-rayon and woolen and worsted industry have taken the union to arbitration and forced wage reductions upon the workers. Northern manufacturers continue to pressure for southern wage standards though they are quite willing to maintain higher standards if wage levels were equalized throughout the country.

In the South, the low-wage mills have continued to undermine the wage structure. Some of the southwestern mills have even threatened the wage levels in the Southeastern States. The internal southern competition has brought wage reductions in a number of nonunion shops.

The injunctions which have nullified the Secretary of Labor's orders for $1 prevailing minimum wage in cotton-rayon and $1.20 in the woolen and worsted industries under the Walsh-Healey Public Contracts Act have accelerated the demoralization within the industry.

14. Local tax and finance subsidies create unfair advantages leading to unnecessary migration

Another stimulant to disorganization and unfair competition has been the local inducements offered by communities in the form of tax exemptions, profitable lease arrangements and local financing of plants and equipment. These have encouraged companies to abandon existing locations and move to new properties with little cost and investment. The result has been an unhealthy competitive situation which has called forth protests both from labor and management in the North and in the South.

PROPOSED COURSES OF ACTION

To help deal with the problems raised by the large scale distress and the decline in the textile industry many approaches and programs have to be considered. Some are designed to stimulate the industry; others to aid the victims of change and unenterprising management; others to prevent greater demoralization; and still others to prevent unfair competition within the industry.

The following are recommendations which have been offered at various times and which are herewith submitted for full consideration by the Joint Committee:

1. We urge a full investigation of the problems of the textile industry and a consideration of the problems of the textile industry and a consideration of each of the proposals listed below. No governmental agency in the present administration has been willing to undertake this responsibility.

2. As an immediate program to help the industry, we propose the following:

(*a*) Distribution of textiles to needy nations overseas.

(*b*) Distribution of clothing to the needy in our own country on the same principles as are applied to surplus food.

(*c*) Reestablishment of textile stockpiles for our Armed Forces to stimulate immediate employment.

(*d*) Contracts should be granted to mills in distressed manpower areas. The present provision is unsatisfactory. The allocations have been minimal and have provided little or no relief to the distressed areas.

3. As a long-term effort toward stimulating the growth and expansion of the textile industry, we urge a research program such as has been conducted for the raw cotton industry. It should be designed primarily to study present and potential markets, consumer preferences and needs, and industrial requirements to open up new applications for textiles. In the case of the woolen and worsted industry there is a need for a wool fabric "library" to stimulate new design and aggressive merchandising.

4. Unfair competition at the expense of workers has been widespread. In order to recover the wage cuts which have been imposed upon the industry and to prevent further wage cuts and unfair use of workers, and to establish fair competition the following are essential:

(*a*) A national minimum wage of $1.25 per hour. We believe that the President's proposal of 90 cents will be inadequate. It will have little or no effect in the textile industry where the Secretary of Labor has already found that the prevailing minimum wage is $1 for the major division (cotton-rayon and miscellaneous textiles) and $1.20 for the woolen and worsted industry.

We believe that the President's Annual Economic Report takes an indefensible position in its attack against a higher than 90-cent minimum wage. It is completely contradicted by the factual report issued a few days ago by the Department of Labor on the effects of the 75-cent minimum wage of 1950. All evidence on the experience with minimum-wage legislation during the past 20 years belie the President's bears about a higher than 90 cents an hour statutory wage.

The statements in the President's Annual Economic Report that a "higher minimum (than 90 cents) might well cause lower production and substantial unemployment in several industries and * * * bring generally higher prices in its wake" is a reiteration of a stock argument used through the years by the opponents of any legislation setting fair minimum wages. The facts are that each increase in the basic minimum rate in the past has been accompanied by increases in production and greater employment. Price increases, where they have occurred at all, have been so minor as to be insignificant.

Actually the 1950 increase from 40 to 75 cents—as demonstrated by the current Department of Labor study—was more substantial than the rise now recommended by the President. In 1950 we had an 88-percent increase on the 40-cent-an-hour rate which directly affected over 6 percent of covered employees. A 90-cent minimum would be a 20-percent boost on the 75-cent rate and would directly affect less than 5 percent of eligible workers.

The above report finds that the 1950 increase to 75 cents resulted in "only minor effects other than pay increases * * * (and) minor effects on such variables as employment, plant shutdowns, prices, technological change, hiring, and overtime."

The President's message completely misses the point when he states that "minimum wages do not deal with the fundamental causes of low income and poverty." The fact is that the weak bargaining power of unorganized workers in certain industries and areas is a fundamental cause of their not receiving decent wages. The minimum wage law partly corrects this imbalance in bargaining power which is the principal cause of substandard wages. The purpose and actual result of minimum-wage legislation is to enable workers who have little or no bargaining power to achieve a progression in wages not too far behind the levels enjoyed by other American workers.

The adoption of a realistic minimum wage in 1955 will have no greater consequences than those experienced in 1950. A statutory wage of $1.25 is justified by the rise in living costs and the sharp increases in man-hour productivity during the past 4 years. A minimum rate of $1.25 per hour is required to enable large numbers of underprivileged employees to achieve living standards not too much below what could be properly described as a decent American standard.

(*b*) We urge the repeal of the Fulbright amendment to the Walsh-Healey Act which has frustrated any revision of the prevailing minimum wage.

(*c*) We urge a further protection for the self-organization efforts of workers in unorganized mills of giant industrial corporations to protect them from the vengeance and unequal economic powers of these huge economic units.

(*d*) We urge a full-scale study of the 35-hour week for this industry at 40 hours' pay during the current period of distress.

5. Regional and local development are essential: The present administration has recommended the expansion of its area development program. Until now it has been a stepchild with little support. It has largely been engaged in making occasional political forays into distressed areas. It has sometimes captured a local news headline, but it has few resources and means for implementing a program. We welcome the expansion of this program but it must be more than a Department of Commerce undertaking. It must have the concentrated support of the full administration and the command over the facilities of many different agencies. Moreover, in all but the distinctly local problems, development is dependent upon extensive regional and area research and planning. Agencies for such purposes do not now exist.

More study and thought must be provided for the stimulation of small enterprise.

6. Mergers and abuses of tax system: Congress has a distinct responsibility to study the abuses of the tax system with particular reference to circumstances surrounding the present merger movements in the textile industry. Some phases which we believe require searching inquiry are the following:

(*a*) The disallowance for tax purposes of the deduction of rent from taxable income by industrial companies which lease plants built from the proceeds of municipal bond issues. The ultimate aim should be the elimination of State and local tax exemption and other subsidies to private enterprise which artifically stimulate migration of plants.

(*b*) The elimination of the use of the capital gains tax provisions in our Federal income-tax laws for the purpose of liquidating businesses or acquiring businesses for the purpose of their later abandonment.

(*c*) The elimination of the use of the carryover provisions by corporations which utilize them for the acquisition of corporations looking to the later abandonment of properties and operations.

(*d*) As an alternative the imposition of a special tax on the gains resulting from such use of the capital gains tax or the carryover provisions for the specific purpose of using such proceeds for local development, worker adjustment programs and local public works.

7. Exemption of textile products from further tariff reductions: In view of the demoralization of the textile industry and the undue burden already imposed upon the textile workers and because the increasing productivity within the industry will reduce costs even more sharply than they have to date, with the consequence that foreign producers will not be able to maintain a permanent foothold in our markets, we urge that rates of duty on textile items in the tariff schedules not be further reduced in the negotiations with Japan or any subsequent or concurrent negotiations with foreign countries.

8. Assistance to workers victimized by the shrinkage of textiles and the wholesale abandonment of plants: We endorse the recommendation in the President's Economic Report for policies "to ease the movement of people to new areas or new occupations." Similarly we concur that people should be provided for minimum needs in their old age or in the event of misfortune." Unfortunately, the definition of minimum needs presented in the Economic Report is grossly inadequate.

We therefore propose the following:

(*a*) Liberalization of the unemployment insurance provisions so that they provide two-thirds of the average weekly earnings to unemployed persons. For workers displaced by abandoned plants we urge a longer period of qualification for unemployment benefits, such as 2 years.

(*b*) In case of abandoned plants we urge consideration of the application of the principles already applied in the railroad industry under the Transportation Act of 1940, which provides that whenever facilities are coordinated or consolidated (and later defined as including abandoned), employees are to receive displacement and dismissal allowances, reimbursement for movement expenses and wage losses if required to move to new residences and reimbursement for losses incurred in sale of home or cancellation of leases if required to move.

(*c*) There is need of establishing preferential hiring rights for new jobs established by the same corporation or industry for a period of 2 years subsequent to plant liquidation.

(*d*) Eligibility for early retirement, at age 60, is necessary for persons displaced as a result of the abandonment of plants.

(*e*) Federal assistance is necessary for retraining of workers displaced as a result of plant abandonment.

TABLE I.—*Employment in the textile-mill products industry by State, February 1951 and October 1954*

State	Employment (wage and salary workers)		Change from February 1951 to October 1954	
	February 1951	October 1954	Aggregate	Percent
	Thousands	*Thousands*	*Thousands*	
United States [1]	1,365.0	1,082.0	−283.0	−20.7
New England	286.1	169.5	−116.6	−40.8
Maine	27.5	20.8	−6.7	−24.4
New Hampshire	21.1	14.1	−7.0	−33.2
Vermont	5.2	2.4	−2.8	−53.8
Massachusetts	125.0	66.8	−58.2	−46.6
Connecticut	41.6	26.9	−14.7	−35.3
Rhode Island	65.7	38.4	−27.3	−41.6
Middle Atlantic	307.2	222.6	−84.6	−27.5
New York	96.1	69.0	−27.1	−28.2
New Jersey	65.8	46.0	−19.8	−30.1
Pennsylvania	141.7	104.9	−36.8	−26.0
Delaware	3.6	2.7	−0.9	−25.0
South [1]	658.1	605.7	−52.4	−8.0
Maryland	11.6	7.6	−4.0	−34.5
Virginia	42.7	38.4	−4.3	−10.1
North Carolina	244.2	[2] 224.3	−19.9	−8.1
South Carolina	139.8	132.4	−7.4	−5.3
Georgia	114.8	104.1	−10.7	−9.3
Alabama	55.5	47.9	−7.6	−13.7
Tennessee	39.9	[3] 34.9	−5.0	−12.5
Texas	10.2	8.9	−1.3	−12.7
Mid West	22.1	17.3	−4.8	−21.7
Illinois	13.5	11.1	−2.4	−17.8
Minnesota	4.9	3.1	−1.8	−36.7
Missouri	3.7	[3] 3.1	−0.6	−16.2
Far West	8.2	6.3	−1.9	−23.2
California	8.2	6.3	−1.9	−23.2

[1] Data include States not shown separately.
[2] October 1954 figure is not available; figure shown is for August 1954.
[3] October 1954 figures are not available; figures shown are for September 1954.

Source: State Departments of Labor and U. S. Bureau of Labor Statistics.

TABLE II.—*Textile areas of substantial labor surplus September 1954*

Substantial surplus [1]	*Very substantial surplus* [2]
MAINE	
Biddeford	
VERMONT	
Burlington	
MASSACHUSETTS	
Fall River [3]	Lawrence [3]
Lowell [3]	Southbridge, Webster
Milford	
New Bedford [3]	
North Adams	
RHODE ISLAND	
	Providence [3]
NEW YORK	
Hudson	Amsterdam
Utica, Rome [3]	
NEW JERSEY	
Paterson [3]	
PENNSYLVANIA	
Reading [3]	Altoona [3]
Williamsport	Scranton [3]
	Sunbury, Shamokin, Mt. Carmel
	Wilkes-Barre, Hazleton [3]
MARYLAND	
	Cumberland
WEST VIRGINIA	
Parkersburg	
GEORGIA	
Cedartown, Rockmart	
Columbus [3]	
ALABAMA	
Alexander City	
Anniston	
Decatur	
Gadsden	
Talladega	

[1] Unemployment from 8 up to 12 percent of labor force.
[2] Unemployment 12 percent or more of labor force.
[3] Major area.
Source: Bureau of Employment Security, U. S. Department of Labor.

OCTOBER 27, 1954.

Mr. GABRIEL HAUGE,
Administrative Assistant to the President,
The White House, Washington, D. C.

DEAR MR. HAUGE: Your letter of September 30 indicates that President Eisenhower would be glad to consider any plan we might submit for relieving unemployment and general depression in the textile industry. We hope you were entirely in earnest, for the problem is so grave, so complex and has persisted so long that the need for a remedy outweighs political considerations.

I will attempt in this letter to enumerate the specific steps we believe should be taken by the Federal Government. I will not attempt to discuss their implementation in detail; this can better be done through conferences with the appropriate Government officials if the President decides to take action.

Let me begin by outlining very briefly the scope of the problem:

Since 1950 the textile industry has suffered a sharp and continuous shrinkage. Some 270 yarn and weaving mills have been liquidated, the largest number of them in the woolen and worsted division. Employment of production workers has fallen by 275,000 since the first quarter of 1951. Less than a million are still employed, and many of these are on short time. Many factors have contributed to this shrinkage, including a major shift in consumer buying habits and a remarkable procession of technological improvements that have increased man-hour productivity by an average of 5 percent a year.

In any other basic industry this degree of dislocation and distress would long since have attracted national concern. But the textile industry is the most widely dispersed, both in ownership and in physical plant, of all the basic industries in our country. Instead of a few large, spectacular failures, as would result under similar circumstances in the steel or auto industries, we have undergone a multiplication of small, local disasters, none especially newsworthy in itself but having a devastating impact in sum.

The problem is further complicated by the fact that the typical textile mill is in a small community, where it is the largest or perhaps the only source of employment. Also, the typical textile worker is older than the average in other industries. These factors greatly hinder the absorption of displaced textile workers elsewhere.

We believe the national interest requires prompt and constructive action by the Federal Government with both immediate and long-range objectives. To meet the immediate need we propose the following:

1. Action by the President, under the Mutual Security Act, to add textiles to the commodities distributed to needy nations overseas. As you know, coal and agricultural products are already included in this program. Obviously such a plan must be carried out with discretion, to avoid damaging the textile industries of other countries where they exist. But just as obviously, a large proportion of the world's people are inadequately clothed. Textile contributions from us could help to build the international good-will we sorely need.

2. Distribution of clothing to the needy in our own country, on the same principles followed with surplus food. No American should lack warm and serviceable clothing while textile mills stand idle.

3. Reestablishment of textile stockpiles for our Armed Forces. This is especially needed in view of the rapid disappearance of woolen and worsted mills, whose productive capacity, then far greater than now, was strained to the utmost during World War II.

4. A program of supplementary Federal unemployment benefits to extend the duration of payments to those in distressed areas who have exhausted their State insurance. This is a desperate need in the "one-industry towns" hit so hard by textile mill closings.

The long-range objective, of course, must be the restoration and maintenance of healthy economic conditions in the textile industry. Spokesmen for the Federal administration of which you are a part have said repeatedly that Government's best role is to guide and stimulate American enterprise, not to take over its functions. We believe our proposal is consistent with this position.

What we suggest is a textile research program, a greatly-broadened equivalent of the work which has been successfully carried on for some years for the benefit of the cotton industry alone. Such a program should study consumer trends and investigate possible new uses and new markets for textiles. A great many specific projects could be undertaken under this program; we would be glad to outline a number of them at the appropriate time.

Government leadership is needed in this undertaking because the wide dispersal of the industry has prevented it from carrying out broad, basic research of its own. Perhaps if the Government takes the initiative the industry itself will ultimately develop sufficient sense of industrywide responsibility to correct this shortcoming.

Certainly the need is there; not only among textile workers and hard-hit textile communities, but in the Nation as a whole, for let us remember that in its own, undramatic way the textile industry is as vital to the defense and to the well-being of our country as the blast furnace, the auto plants and the mines.

Very truly yours,

EMIL RIEVE, *General President.*

Textile Industry Problems

(Resolution Adopted at 16th Convention of the Congress of Industrial Organizations, Los Angeles, Calif., December 6–10, 1954)

The textile industry preceded the rest of the American economy in the descent to mass unemployment and suffering. Today some 300,000 textile workers are idle, more than 50,000 as a result of permanent mill closings during the last 2 years. Several hundred thousand are working part time. Employment is less than in 1932. Thousands have exhausted unemployment compensation benefits and have been forced onto local relief rolls. The depression in the industry has caused widespread hardship in textile communities throughout the country.

The plight of the industry is due to the failure of managements to fulfill their responsibilities to their customers and workers. Fabric and apparel design has not kept pace with the changing living habits of American consumers. Instead of fashioning materials to whet the appetites of the new suburbanites, the mills have continued to produce fabrics designed for more formal urban living. There is a dearth of fabric and apparel designs suitable for this era of the long, casual weekend, backyard sports, TV-viewing and the home workshop. Expenditures on advertising and sales promotion have been woefully inadequate. Research is needed on the potentialities of textiles for new industrial applications as well as for expansion of old uses.

Consumer per capita expenditures on apparel have not increased in proportion to the rise in total consumer spending because the textile industry has not moved to maintain its position in the consumer market. Employers have resigned themselves to shrinking the industry's capacity without consideration for their public responsibilities. Some have carried their irresponsibility to the point of capitalizing on tax loopholes and local government subsidies to reap financial gain by closing their plants. The welfare of the workers and the community has been ignored in the ruthless drive of a few men to profit from the low tax rate applicable to gains from the sale of capital assets. Others have exploited the industry-hungry towns which used their tax-exempt authority to float municipal bonds to pay for new plants and equipment.

Many companies were forced out of business because of their failure to reinvest the excessive profit earned during previous boom periods. Others were unable to complete in a "buyers' market" because they lacked enterprising management. Their inability to keep pace with new methods, style changes, and merchandising developments made their demise inevitable.

In contrast, there are many companies whose efficiency and superior merchandising have continued to yield profitable financial returns. Corporations with strong financial backing have grown through the acquisition of additional plants. These mergers and acquisitions have resulted in an unprecedented concentration of control in the industry. Some 50 textile giants control half of the industry's basic capacity.

Rapid improvements in textile technology have added to the workers' problems by reducing the amount of labor required per unit of production. Management has taken advantage of these developments to extend work assignments inordinately and has refused to share the gains from increasing productivity. Man-hour productivity has risen at the annual rate of 4.5 percent since 1946 with a total cumulative rise of 36 percent. Combined with a declining total production to an annual rate of 12.7 billion yards from a rate of 14.76 billion yards at the end of 1950, these developments have permanently eliminated thousands of textile jobs.

Imports of textiles, including woolens and worsteds, cordage and twine, fine cottons, silk scarves and others, have increased markedly and have accentuated the problems of the industry. In the woolen and worsted branch the impact of imports has been most severe because of the shrinking American market and the concentration of foreign exporters of lightweight fabrics for this country.

The Federal Government has abdicated its responsibilities in the textile field. The defense manpower policy which authorized allocation of some Government orders to areas of high unemployment has been scuttled. The protection promised by the Walsh-Healey Public Contracts Act to employers with decent wage scales in bidding for Government contracts has been wiped out by the Fulbright amendment which authorizes court action to prevent minimum wage regulations from being put into effect. Increases in the minimum wage for work on public contracts, from $0.87 to $1 in cotton-rayon and from $1.05 to $1.20 in woolen and worsted, have been blocked by such litigation. The Government has refused to implement a provision of the tariff agreement which authorizes higher rates to protect the woolen and worsted industry from growing imports. On the other hand, the Government maintains a duty on raw wool which adds to the cost of wool products without protecting the wool farmer.

It also supports an artificially high price for cotton which results in the accumulation of a huge cotton surplus and prevents the consumer from enjoying the benefits of lower cotton costs: Now, therefore, be it

Resolved, 1. We call upon the Federal Government to take affirmative action to stem the tide of depression in the textile industry:

(*a*) An agency should be set up by Congress to represent the textile industry, labor, and the public for the purpose of enforcing a basic 35-hour workweek in the industry at 40 hours' pay. The agency should be empowered in periods of distress to limit machine operations to two shifts per day.

(*b*) A program of stockpiling needed military fabrics should be created now so that production orders can be released immediately.

(*c*) American textiles should be used in the same fashion as surplus food and coal for the relief of needy nations overseas. In similar fashion, textiles should be distributed to needy Americans as surplus food is now distributed.

(*d*) Contracts should be negotiated with mills in distressed manpower areas to reemploy the unemployed.

(*e*) A systematic investigation should be undertaken of ways to broaden the use of wool fibers as well as cotton. The Department of Agriculture should provide leadership in establishing a wool fabric "library" to stimulate new design and aggressive merchandising.

(*f*) Industrial expansion programs must be revised to locate new plants in areas where surplus manpower is available.

2. We support the proposal of the House Ways and Means Committee to disallow, for tax purposes, the deduction of rent from taxable income by industrial companies which lease plants built from the proceeds of municipal bond issues. This action would be a suitable first step in eliminating State and local tax exemptions and other subsidies to private enterprise.

3. All profits and capital gains resulting from the liquidation of mills should be taxed at a special rate of 25 percent and the proceeds used to finance local development programs, to aid workers to adjust themselves and to set up public works and the development of local resources and facilities.

4. We call upon the Senate Committee on Labor and Education to look into the use of capital gains taxes, local subsidies and corporate mergers as stimuli to the liquidation of business enterprises.

5. The Federal Government should provide a research organization for studying methods of broadening the markets for textile fabrics.

[From This Week magazine, New York Herald Tribune, November 9, 1952]

THE CASUAL ERA

THE TEXTILE WORKERS' RESEARCH CHIEF SAYS THAT SUBURBAN LIFE AND EARLY MARRIAGES ARE RUINING THE HIGH-STYLE DRESS BUSINESS

By Clive Howard

The modern American woman, according to Solomon Barkin, is a terrible problem.

Solomon Barkin is a big, loose-limbed, earnest man who is research chief for the CIO Textile Workers Union. It is his job to keep a constant eye on the state of the clothing business, which means more or fewer jobs for the textile workers—and what he sees nowadays often gives him cause for pause.

We sat having dinner in a Fifth Avenue hotel. He looked around him and right then and there spied something that nobody in the clothing business could be very happy about.

"Take a quick look at the women here," he said. "I count 12 of them. Five are wearing suits. Three of them are wearing a skirt and blouse. One has a skirt and sweater. That leaves just three who are wearing a dress—that good old-fashioned sartorial institution."

He shook his shaggy head. "Take your own poll right here—and then tell me if you'd like to be in the dressmaking business. Or count the hats. I see quite a few blondes and brunettes and 1 redhead, but I only see 4 hats. How would you like to be in the millinery business?"

Obviously our own Roper poll that night in the dining room did not seem very favorable. But why?

"It's the postwar trend," Barkin said. "It used to be that a woman would never think of eating at a place like this in anything except a dress. She would have felt naked without a hat."

Perhaps modern women have lost their pride in personal appearance?

"No, sir," said Barkin. "Cosmetic sales haven't fallen; if anything they're going up. I haven't heard of any mass bankruptcies among beauty shops, and the home permanent industry is just about the biggest success story of the decade. It's just that women nowadays don't feel they have to have a lot of clothes on their backs to be in the swim. That may be mixing metaphors a little, but that's the way it is.

"Take the suburban housewife. In the morning she puts on a skirt. Over it she throws a smock—that's a big item in clothing sales nowadays, the smock—and she's ready for her housework. Or if she hasn't too much work to do and thinks somebody might drop in, she wears a brunch coat over the skirt. That's a kind of three-quarter length housecoat. Looks pretty good, especially when it has gold designs on it."

BIG DAYS IN THE TWENTIES

"In the afternoon she's got a little fancy shopping to tend to, or a bridge party or something. So what does she do? She takes off the smock and puts on a blouse or a sweater. Or one of her husband's old shirts—even that's considered perfectly respectable for most purposes nowadays.

"Then she combs her hair and does a careful job with the lipstick and vanity case. She feels dressed up just by putting a new face on. That's all that today's customs require."

From what I remembered offhand about my own wife and her friends, Barkin's analysis made a lot of sense. But what did the war have to do with it?

"Now you get into sociology," he said. "That's my hobby, you know; I write books on sociology when I have the time. You sure you want me to get wound up on it?"

I gave him the green light.

"Well, the dressmaking industry really got started during the twenties. Before that everything was mostly done by local dressmakers and seamstresses. Then came the factory-made dress. It was cheaper, lasted longer and gave you your choice of just about anything you wanted at any price you wanted to pay.

"Those were the days for the dress industry. You could take a $200 Paris gown and make a pretty exact copy to sell for $100. You could make another copy to sell for $50. And so on all the way down the line to $6.98.

"Women liked dresses in those days and snapped them up. It was an era of city living. The suburbs didn't amount to much as yet. There weren't too many automobiles or too many commuters. Life was much more formal than nowadays. If you had a car, you used it to visit friends or just go out for a Sunday drive—and you dressed up to do it. The movies were the biggest form of entertainment—and that meant dressing up again."

CAME THE WAR

Barkin looked around the restaurant and his eye fell upon a couple in the corner. They were young, extremely young. The girl was wearing a skirt and sweater, no hat.

"Watch her left hand when you can catch a glimpse of it," he said, "I'll bet she's wearing a wedding ring."

I watched; the hand came into view—and she was.

"That's another thing," said Barkin. "People weren't marrying so young in those days. Women stayed single longer and in a sense were competing for the attention of men. That meant dressing up. I call it display competition—and all fashion is really display.

"The dress industry grew even during the depression. People didn't have enough money to get married. A lot of them couldn't afford houses or automobiles or electric iceboxes or any of the other big expensive things. What did they buy? They bought clothes. Clothing was cheap; you could afford it even if you couldn't afford anything else."

"And then," I reminded him, "came the war."

"Right," Barkin said. "and now you've got to put a couple of things together. In the first place, the marriage rate went sky high. So did the birthrate. Marriages and babies have been the biggest boom of the last 10 years. And where do all these new married couples live? In the suburbs. There, in a nutshell, is what's happened to the clothing industry."

I had to admit that I didn't quite get it.

"Just think for a minute about that suburban housewife," Barkin went on. "She's got a house to take care of, with no help. She's got a couple of children. What's she going to wear while she's with the kids in the back yard? A Paris creation?

"Not on your life. She's a skirt and blouse woman. Or maybe even slacks and blouse, except that many women don't look good in slacks.

"And what does she do for entertainment? She and her husband watch television and you don't have to dress up for that. Or they drop in on some neighbors who dress just as casually as they do. Or they go to a drive-in. Still no dressing up.

"This is the most informal and casual era in the history of American clothes. Even the wealthiest people are dressing casually; it's the first time they've copied a style from the lower income groups, rather than vice versa. Come back to my office and I'll show you the figures."

Barkin's office, down on University Place, always comes as a shock to his visitors. The desks and tables are littered with papers—books, booklets, pamphlets, memos. On his own desk that night the stack was 6 inches high, and there was hardly enough bare space to hold a pencil or postage stamp.

"Don't let the office throw you," he said. "This represents my own personal filing system. Only way I can find what I need when I need it."

He thumbed through 3 feet of papers piled on a table and, sure enough, came up with the figures he wanted.

"Take a look at this. The average family used to spend 10 percent of its income for clothing. Now watch how the line on the graph goes down. Today it's only 7 percent—and believe me, it's still dropping. Everybody's got more money. Everybody's got more kids. You'd think that the line would be going up, but it's just the opposite.

"Of course, the men are responsible, too. During the war they got used to wearing casual clothes in the Army—the Eisenhower jacket, for example, or the Army windbreaker. They found out you could keep warm and still be comfortable.

"When the soldier got back he probably bought one dress-up suit, but then he started looking for something cheaper and more casual. He started buying sports jackets and slacks. He began wearing sports shirts instead of white shirts. Another blow at formality. Now do you get the picture?"

It began to add up. The shift to the suburbs. The concentration on home and children. Television and the drive-in.

THE STYLISH TEENS

"Exactly," said Barkin. "And don't forget that houses are expensive. So are furnishings. Nowadays families are putting their money into their homes, instead of on their backs. In the matter of keeping up with the Joneses, the main thing is the house. And of course the car you need to live in the suburbs.

"The average young married man spends 5 days a week working for the boss. Then he goes home and puts in 2 days of what I call working for the mortgage. He mows the lawn, puts in a garden, does some painting, takes down the screens and puts up the storm windows. His wife works right with him. And who needs fancy clothes?"

I was beginning to feel a little sorry for Barkin's workmen in the textile industry, not to mention the businessmen who hire them, and I said so. Barkin grinned.

"Don't worry; we'll lick the problem yet," he advised me. "The real trouble is that the industry just hasn't caught up with the trends; it didn't realize what was happening. One of these days the industry will start making clothes designed for our times—and you'll see that there's some life in it yet.

"Besides, who can say how long a trend will last? You know who the most fashion-conscious women in America are today? You may not believe it, but they're the teen-agers. The bobby-sox era is dying. The teen-agers are taking to quilted dresses and crinolined party dresses with layers of petticoats underneath. They're more high-style conscious today than their mothers—and who knows what will happen when they get a little older?"

[Journal of Commerce, New York, Thursday, July 22, 1954]

WOOL MILLS, CIO SAY MODERNIZATION OFFERS SOLE SOLUTION TO INDUSTRY ILLS

(By Charles F. Davis)

Wool-cloth mill management's failure to modernize manufacturing methods, styling, and merchandising is more directly the cause of the industry's present depressed state than the wage demands of organized labor, according to an executive of the Textile Workers Union of America, CIO.

While few cloth producers will go along with the premise that wages are a secondary problem, many of them will admit that the industry has been remiss in the development of new products, textural effects, and in other respects has been hidebound.

If there is anything incongruous in this near-agreement on the part of organized labor and management, it is no less so than the fact that one of the most important divisions of the United States textile industry may well be disappearing, at least in its present concept.

Solomon Barkin, TWUA's director of research, pointed out to the Journal of Commerce in an interview that the woolen and worsted industry has in the past decade shrunken drastically and will shrink even more unless management takes corrective action.

MANY MILLS LIQUIDATED

In 1947, he pointed out, the industry employed about 167,000 workers and now the figure is between 58,000 and 60,000. Since the end of World War II about 50 mills have been liquidated, he added.

The worsted end of the business has been the hardest hit and is the most culpable, Mr. Barkin stated.

Although Government fabric needs during the Korean war provided worsted producers with a reprieve, their products even then were losing ground to cottons, particularly in regards to lightweight cloth and more recently it has been even more overshadowed by various types of synthetics.

This business was forfeited by management almost without a struggle, according to Mr. Barkin.

In contrast to the worsted division, woolen fabrics have more than held their own due a growing demand for casual wear which, for the industry, manifested itself in calls for new textures in sport coatings, and a willingness on the part of woolen-cloth producers to develop new designs.

Woolen-cloth producers were quick to grasp the signifiance of the casual-wear trend and the new emphasis on sport coats, among other things, having been made acutely aware of the call here for cloth to be thus used by British exploitation of the market, Mr. Barkin pointed out.

More serious, in Mr. Barkin's view, than the tendency for the wool-cloth industry to move South where labor is mostly unorganized is the possibility that in doing so wool-cloth production will come into the hands of interests who are essentially cotton or synthetic fiber fabric producers. This will tend to further reduce emphasis on wool as a self-sufficient, adaptable, and desirable apparel component, he believes.

To the extent that from January 1951 through June 1953, about 140,000 American system spindles have been installed by the industry, this is already coming about, he said. The American system is an adoption of cotton-spinning techniques and is of southern origin and development.

Recently announced and pending mergers of old-line New England wool-cloth mills with cotton and synthetic fiber interests is the latest and even more ominous sign that wool may be relegated into a secondary position, he added.

While admitting that the TWUA's most immediate concern is and has been the continuation of equitable wage scales and working conditions, Mr. Barkin said that it has long been appreciated by the union that these cannot be maintained unless the industry is healthy.

Questioned as to whether or not the union's willingness to take a wage cut this year—which in most instances came to about 9½ cents per hour—was not an admission that it's wage demands in the previous 2 or 3 years were unreasonable, Mr. Barkin strongly denied it.

"Last year the arbitrators turned down a reduction sought by management stating that the mills must face and solve its own problems of marketing deficiencies, sales, and administration," Mr. Barkin said.

"By 1954, the arbitrators found that management had not solved the problems but in the interest of the industry's survival the reduction was essential. Fundamentally, however, the problem of finding new markets and buyers are still the key issue which must still be solved by management," he added.

Referring to an 11-point program the union recently formulated and forwarded to Secretary of Commerce Sinclair Weeks, Mr. Barkin said that it stressed Government contracts and relief work in order to give management more time to solve these problems.

Mr. Barkin said that the program also included Government assistance in research comparable to that which has proven so successful in the cotton industry and to otherwise provide Government facilities by which management can expand the market for wool cloth.

Depression in Textiles: A Warning to America

(Chapter 3 of Executive Council Report, Eighth Biennial Convention, Textile Workers Union of America, CIO, May 3–7, 1954)

Although the American economy as a whole operated in high gear through the first three-quarters of the last 2 years, the textile industry did not. The Nation's output broke all records as tremendous plant improvement and expansion programs were completed; more people were employed than ever before, and consumer income reached new peaks. Yet the textile industry was unable to sustain the level of activity it had reached in the first quarter of 1951, when it was producing at an annual rate of 14.8 billion yards of cotton, synthetic and wool woven fabrics.

Textile production declined in the second quarter of 1952 to 78 percent of the first quarter's volume. Man-hours of work shrunk almost as much though employment dropped only 12 percent, since about half the adjustment came through reduction in hours. There was a pickup at the end of 1952 which touched its height in the first half of 1953, when production reached 90 percent of the first quarter of 1951. The rise in man-hours was only slightly less and employment was at about 93 percent of the 1951 level. But the recovery faltered and production declined through the last half of 1953 to 80 percent of the 1951 first quarter. By the end of 1953 employment had dropped more than total man-hours; employment was about 4 percent below the second quarter of 1952 but man-hours were about equal. The overall contraction in production, accompanied by many mill closings, has therefore begun to reflect itself sharply in complete liquidation of textile-mill jobs.

Thus the textile industry was operating at a low level at a time when output in other major industries was slowed only by material shortages or other production bottlenecks. In addition, the textile industry had failed to share equally in the growth of consumer demand stemming from the high level of economic prosperity. From 1939 through 1953 our physical national product doubled and the consumer actually enjoyed 70 percent more in services and goods, but the increase in textile yardage was only about 30 percent.

While the total number of workers actually employed in the nation rose from 45.8 million in 1939 to 62 million in 1953—an increase of 35 percent—the number actually employed in the textile industry dropped by 3 percent, with workers averaging less than 40 hours a week.

As in the 1920's the textile industry was sick while the rest of the economy flourished. Government, management and the public, unfortunately, remained oblivious to the fact that this was a harbinger of more far-reaching economic difficulties.

Production of broad-woven fabrics

[In millions of linear yards]

	Cotton	Syntehtic and silk	Wool	Totals	
				Quarterly	Annual rate
Capacity [1]	2,850	710	130	3,690	14,760
1952:					
1st quarter	2,395	557	86	3,038	12,152
2d quarter	2,275	518	81	2,874	11,496
3d quarter	2,314	569	88	2,971	11,884
4th quarter	2,539	623	96	3,258	13,032
1953:					
1st quarter	2,612	624	85	3,321	13,284
2d quarter	2,616	622	93	3,331	13,324
3d quarter	2,414	577	84	3,075	12,330
4th quarter [2]	2,400	530	80	3,010	12,040

[1] Per quarter—based on production in 4th quarter of 1950 and 1st quarter of 1951.
[2] Estimated.

One reason why the textile industry did not participate fully in the general prosperity was its failure to design and promote new products suiting the Nation's changes in living habits and patterns. These have been transformed by the vast growth of suburban housing developments, with their emphasis on do-it-yourself activities, and the increased leisure time available to the mass of people in a period of full employment.

In 1953 Americans had about $138 billion in discretionary spending power (income left after their basic needs are satisfied) compared to $26.5 billion in 1940. Construction of more than 7 million new one- and two-family houses since the war converted millions of apartment dwellers to suburban homeowners puttering around the house. Gardening took on the aspects of a major industry as consumers in 1952 spent some $836 million for flowers, seeds, and potted plants.

FOLKS DON'T DRESS UP TO STAY AT HOME

The do-it-yourself movement mushroomed into a multimillion dollar business supplying paint, tools, flooring, wallpaper, wood, outboard motors, etc., to suburbanites; outdoor furniture and cooking equipment also enjoyed tremendous expansion as the people spilled out of their houses into patios, lawns, and backyards. These new interests arose from the need of homeowners to supply such services themselves rather than depend upon landlords or builders.

Equally significant has been the widespread popularity of television, bringing the family back into the home and making it the focal point for leisure-time activities. In short, household life in America is now predominantly casual, both in attitudes and attire.

At the same time, outside-world tastes also shifted. Dressy affairs have given way to sports like hunting, fishing, and boating, and to drive-in movies. Travel expenditures alone exceeded $9 billion last year, with motels soaring to a billion dollar a year level. These leisure-time activities are of the type that accentuate casual apparel—a hybrid of sports and work clothes. In 1947 dress shirts made up 3 out of 4 men's shirts sold; in 1953 sport shirts outsold dress shirts 2 to 1. Another major change in men's clothing was the growth of separate dress and sport trousers, from 38 million pairs in 1948 to 46 million in 1952 and over 50 million in 1953. In women's fashion, the trend toward informality is evidenced by the shift from dresses and suits to skirts, blouses, and sweaters. Thus while dress and suit cuttings in the first half of 1953 went down 6 and 11 percent, respectively, skirt output rose by 16 percent.

The net effect of suburban living, long weekends, backyard sports and home workshops has been to lessen interest in attire and encourage the use of clothing which not only consists of fewer items but lasts longer. As a result, civilian per capita consumption of textiles (in terms of fibers) is only 36 pounds in the postwar years in comparison with 29 pounds before the war—a rise of 24 percent when compared with the 50 percent rise in real per capita disposable income.

The heavy burden of consumer debt has also had a restrictive effect on textile consumption. Mortgages make first claim on the income of the more than 7 million families who have bought their own homes since the war. Between the end of 1945 and 1953, the amount of mortgage debt outstanding on 1- to 4-family houses rose from $18½ billion to $65 billion.

Other types of consumer debt have also dampened current expenditures. Consumer credit outstanding has soared in the last few years as more and more people have used this means to purchase automobiles, furniture, television sets, and household appliances. Total consumer credit rose from $5.7 billion at the end of 1945 to $28.9 billion at the end of 1953; automobiles alone account for $11 billion of this total.

Thus there is a total consumer-homeowner debt of nearly $95 billion, which takes a big bite out of consumers' current income. This reduces consumer expenditures for items which can be postponed, with apparel one of the chief victims. The proportion of the consumer's dollar spent on apparel has declined steadily since the war.

Apparel expenditures as a percent of total consumer expenditures

1946	10.4	1949	8.8	1952	7.8
1947	9.6	1950	8.0	1953	7.3
1948	9.5	1951	8.0		

For the last 4 years the proportion spent on apparel has been below the prewar level (8.6 percent in 1939).

A concerted drive by the textile and apparel industries is needed to recapture consumer interest. Designers have barely tapped the potentialities for greater sales to the newly leisure-conscious suburbanites. Research has been sadly neglected. Expenditures for advertising and sales promotion have been pitifully small compared to the outlays by producers of durable goods. Textile manufacturers must start an industrywide program, in cooperation with apparel manufacturers, to revive the appeal of clothing and whet the appetite of consumers for new things to wear.

While there has been considerable expansion in the use of textile products in the home, it has hardly been enough to keep abreast of the vast new needs. The opportunities for industrial application have remained almost untouched.

The last 3 years have witnessed a series of aggressive advertising campaigns to promote new textile fibers like orlon, dacron, acrilan, and dynel. However, great irresponsibility has marked the launching of these new products as "miracle fibers." Consumers found the claims for these synthetics to be exaggerated. Moreover, many spinning mills lacked proper equipment or know-how to process the new fibers, and often resorted to shortcuts which resulted in inferior yarn and fabric.

The widespread disillusionment of consumers hurt the market for these new fibers. Also creating confusion was the multitude of different blends of natural and synthetic fibers, generally marketed without reporting the proportion of each fiber or the special advantages offered. Nevertheless, the bulking quality which enables the new fibers to be used as a wool substitute or for blends, plus their superior crease resistance and launderability, makes them a formidable threat to the older fibers.

Spinners and weavers of wool, rayon and acetate have all suffered from the inroads of the new fibers. Although there is no assurance that they will hold their present position, they have seriously upset the industry, especially the older branches, and discouraged consumer buying. Cotton, on the other hand, has recovered part of the market it had previously lost to rayon and acetate.

Percentage distribution of fiber consumption

	1946	1950	1952
Manmade fibers:			
Rayon and acetate	13.5	19.8	18.9
Other	.9	2.1	4.0
Cotton	74.1	68.5	69.6
Wool	11.4	9.5	7.4
Silk	.1	.1	.1
Total	100.0	100.0	100.0

These shifts in the distribution of consumption among the various textile fibers reflect the following developments:

1. Improved styling and finishes on cotton fabrics for women's wear stimulated their use in dresses, blouses, skirts, and woven fabric underwear and nightwear, as indicated by the following figures on percentage of cotton to total garments cut:

	1949	1953 [1]
Dresses (unit priced)	20	29
Blouses	26	49
Skirts	25	37
Underwear and nightwear	[2] 40	55

[1] Estimate based on data for 1st half.
[2] 1950.

2. The superior launderability of cottons enabled them to recapture the bulk of the men's woven fabric sport shirt market:

Percentage of cotton sport shirts

1950	49
1951	42
1952	49
1953 [1]	55

[1] Estimates based on data for first 10 months.

3. Lower cost, improved finishes, and superior styling made it possible for rayon and the newer synthetics to take over part of wool's markets in men's summer suitings, separate trousers, and women's suitings:

Percent of garments made of man-made fibers

	Men's summer suits	Trousers	Women's suits
1949	46	40	34
1950	50	49	42
1951	61	63	60
1952	69	61	61
1953 [1]	70	61	55

[1] Estimate.

In addition to the displacement of natural fibers by synthetics, the textile industry has suffered from the substitution of nontextiles in various household and industrial uses. Plastic film has made major inroads in the upholstery fabric market and in automobile seat covering and door paneling. When added to the earlier displacement in window and shower curtains and tablecloths, these developments assume major importance.

Failure of the woolen and worsted branch of the industry to protect its competitive position stands in marked contrast to the success of the cotton interests in improving their styling, finishing and merchandising. With Government aid in studying the properties of cotton and its potential uses, growers and manufacturers cooperated in developing new processes and staging an effective promotion campaign. Research is needed in the wool field to improve its qualities with respect to shrinkage and mothproofing. Fabric design has lagged behind the times as domestic mills generally gave up the initiative to foreign producers. While many woolens have been styled to meet the shift in consumer preference toward casual wear, worsteds have not yet been adequately adapted to this trend. Many mills are also unable to compete because of obsolete plant and equipment. The woolen and worsted industry will have to bestir itself to meet the growing challenge of the newer synthetics. Creative answers must be forthcoming to the problems posed by product design, technology, merchandising and sales promotion.

MORE RESEARCH IS REQUIRED

The same problems confront the rayon and acetate branch of the industry. The dressy appearance of many filament yarn fabrics bars them from a major place in the current vogue. New fabric designs will be needed; better finishes are required; standards of launderability must be improved and enforced. The industry has made a start on a sales promotion program but this will have to be supplemented by attractive styling and fabric qualities to meet our new suburban civilization.

Certain broad areas of use for textiles have hardly been explored. For example, laminated glass fibers are currently being used in experimental production of automobile bodies. If successful this development will open up a vast new field for the use of fibers in labinates. Research is needed on the potentialities of textiles for various new industrial applications as well as the possibilities of expanding old uses.

The rate of mill liquidations increased substantially in the last 2 years, leaving a train of ghost towns and some 50,000 jobless workers. Management deficiencies which had been glossed over in the textile booms that followed World War II and the Korean war were glaringly exposed by intensified competition. Companies whose stockholders enjoyed a bonanza in dividends from highly profitable operations in 1946–48 and 1950–51 found that their failure to plow back sufficient funds to modernize plant and equipment left them at a serious disadvantage in 1952–53. The necessity of cutting costs posed financial problems for which they had not prepared themselves and many mills were forced out of business.

REASONS WHY MILLS LIQUIDATE

Other companies gave up the ghost because they lacked the enterprising management necessary for survival in a highly competitive era. Mills whose original owners had been alert and aggressive enough to build up the business lost their momentum as ownership passed into the hands of the family's second and third generations. Absence of research work left many firms unable to improve their products or bring out new fabrics in keeping with changing demands. The importance of styling and merchandising grew as competition increased and those who had nothing special to offer or lacked the ability to promote sales were doomed to failure. Also inevitable was the closing of plants where labor relations had deteriorated as a result of inflexible management attitudes.

A number of mills were liquidated as a result of deliberate schemes by management to achieve maximum financial gains. The welfare of the workers who had devoted the major portion of their lives to these mills was ignored in the ruthless drive of a few men to profit from loopholes in our tax laws, under which capital gains (such as a gain from the sale of a plant) are taxed at only 26 percent compared to a maximum rate of 92 percent on ordinary income. No consideration was given to the fate of communities whose entire economic life depended upon the operation of these mills. Instead, every opportunity was seized to exploit communities in other parts of the country through acquisition of new plants and equipment paid for by industry-hungry towns which used their tax-exempt authority to float municipal bonds.

The American economy is headed for a general decline unless consumer spending is increased. The total output of our economy rose to a new peak of $367 billion in 1953, a boost of 5 percent over the previous year. This rise was shared by all three types of domestic activity—consumer expenditures, business investment and Government purchases. However, this year the latter two are moving down. Business has been reducing inventories and plans to spend less on new plants and equipment. The Federal Government has announced a $5 billion reduction in its budget. Consequently an increase in consumer buying will be needed to fill the gap thus created. There is little evidence that this will be achieved. The weakness of consumer demand for apparel in 1953 was a forerunner of the declining strength being exhibited by total consumer demand in 1954.

While the industry as a whole reported fairly modest financial returns in 1952 and 1953 (earning 4½ percent on sales before taxes in 1952 and 5½ percent in 1953), many firms were able to score notable successes. Returns well over 5 percent on sales were recorded by Bates Manufacturing Co. (7.6 percent), Berkshire Fine Spinning Associates, Inc. (9.5 percent), Beaunit Mills, Inc. (6.2 percent), Consolidated Textile Co. (9.4 percent), Erwin Mills, Inc. (5.8 percent), Pepperell Manufacturing Co. (9.5 percent), Standard-Coosa-Thatcher Co.

(14.1 percent), Sagamore Manufacturing Co. (6.6 percent), S. Stroock & Co., Inc. (20.2 percent) and Woodside Mills (10.0 percent). Financial reports have not yet been made public by many other companies whose efficiency and superior merchandising in this competitive period have yielded handsome returns. The performance of these profitable firms can be used as a yardstick to gage the management deficiencies of companies which failed to measure up.

BIGGEST COMPANIES GET BIGGER

Corporations with strong financial backing found many opportunities during the last 2 years to augment their position in the market by acquiring control of additional plans. Among major acquisitions were those by J. P. Stevens & Co. (Utica & Mohawk Cotton Mills), Burlington Mills Corp. (Peerless Woolen Mills, Inc.), United Merchants & Manufacturers, Inc. (A. D. Juilliard & Co., Inc.), Textron, Inc. (F. Burkhart Manufacturing Co.), Abney Mills (Erwin Mills); Pepperell Manufacturing Co. (Dunson Mills), Berkshire Fine Spinning Associates, Inc. (Lincoln Bleachery & Dye Works). In addition, a number of companies were merged to form new industrial giants; these include Flagg-Utica Corp. (J. T. Flagg Knitting Co. and Utica Knitting Co.), and the consolidation of U. S. Finishing Co. and Aspinook Co.

Number of production workers in United States textile manufacturing industries, 1940–53

Industry	December 1940	December 1945	December 1947	December 1949 [1]	December 1951 [1]	December 1953
Total [2]	1,308,000	1,230,000	1,431,600	1,323,000	1,277,000	1,165,000
Yarn and broad woven fabric [3]	769,800	721,200	786,700	697,400	671,300	589,100
Cotton, silk, and synthetic	587,000	559,400	611,300	549,600	555,800	503,700
Woolen and worsted	182,800	161,800	175,400	147,800	115,500	85,400
Knitting and hosiery	246,100	201,000	237,400	232,100	215,800	212,400
Dyeing and finishing	76,800	74,800	80,900	85,600	83,600	81,400
Carpets and rugs (wool)	28,600	21,700	39,000	35,800	28,700	28,200
Finished textiles [4]	55,300	77,000	96,600	103,800	112,400	95,800
Synthetic fibers	51,200	57,700	59,800	53,600	51,900	45,600

[1] Figures differ from previous reports for same periods due to subsequent BLS revisions.
[2] Includes miscellaneous textile mill products industries not shown separately (jute goods, narrow fabrics, cordage, twine, etc.) but excludes hats and hat bodies.
[3] Includes cotton, silk, synthetic, and wool.
[4] Includes textile bags, handkerchiefs, curtains, draperies, and other housefurnishings.

Source: U. S. Bureau of Labor Statistics.

These mergers and acquisitions continued the postwar trend toward concentration of control in the hands of larger and larger textile giants. The 50 largest interests in the spinning, weaving, and finishing branches of the industry now employ almost 400,000 workers, or about half the total labor force in these branches.

TECHNOLOGY STILL MOVES AHEAD FAST

In contrast with the inert managements referred to in our earlier discussion of liquidations, these aggressive companies have placed heavy stress on modernization. The pressure for cost reduction in the last 2 years resulted in the expenditure of over $500 million for plant improvement and expansion. The bulk of the postwar expansion program had been completed by 1951 so subsequent capital expenditures were concentrated in improvement of existing facilities. Altogether, the industry has spent more than $3½ billion on new plant and machinery since the war. By the end of 1953 more than half the gross value of the industry's capital assets was made up of postwar installations.

Along with improved technology the textile industry has transformed its methods of operating along the lines of the most modern American industries. Centralized controls have been instituted over scheduling and production, and systematic checks imposed on quality. Plant layouts have been revamped to provide a straight-line flow of production. Materials handling has thereby been reduced to a minimum and, where actually necessary, mechanical means have been substituted for labor. Technically trained supervisors and time study engineers have combined to tighten labor standards. Manhour output has been substantially increased. With the decline in activity at the end of 1953, many companies pared their overhead and work force. Demands for higher machine assignments for workers were more numerous than ever.

With the woolen and worsted industry operating at depressed levels, the problem of imports assumed serious proportions. Imports of wool top were particularly onerous because of the marked rise in the quantity of Uruguayan tops brought into the United States as a direct result of Uruguay's foreign exchange manipulation. Uruguayan producers were given a higher exchange rate on top exports than on raw wool—a Government subsidy which enabled them to boost their exports to the United States from 6 million pounds in 1951 to 16 million pounds in 1952. Altogether, 23 million pounds of wool tops were imported in 1952 compared to 10 million in 1951 and 4 million in 1950.

TWUA cooperated with the wool trade in urging the United States Customs Bureau to impose a countervailing duty on Uruguayan wool top imports. After considerable delay, the Bureau levied an 18 percent countervailing duty effective last June. As a result, top imports declined to about 6 million pounds in 1953.

Imports of woolen and worsted fabrics increased to a point where they captured a substantial portion of the American market. While domestic production declined steadily from 786 million square yards in 1946 to 470 million in 1953, imports rose from 4 million to 25 million square yards.

Imports as a percent of domestic production

[In millions of square yards]

	Imports	Production	Percent
1946	4	786	0.5
1950	19	586	3.2
1951	19	509	3.7
1952	24	501	4.8
1953 [1]	25	470	5.3

[1] Partly estimated.

The impact of imports was especially heavy because of the concentration of foreign producers on lightweight fabrics. In 1953 more than half the total imports were in cloths of 8 ounces a square yard or less. Imports of the lightest types (6 ounces a square yard or less) constituted 12 percent of domestic output in 1953.

To protect the industry from further destruction, TWUA in 1953 requested the United States Tariff Commission to implement a provision of the general agreement on tariffs and trade which authorized raising tariff rates on woolen and worsted fabrics when imports exceed the "trigger point" of 5 percent of production. This request was rejected on a technicality. Early in 1954 the union again urged the Commission to raise the tariff rate from 25 percent to 45 percent as soon as imports in any weight category reach 5 percent.

While woolen and worsted imports have been rising, exports of cotton goods (the only textile item which the United States exports in substantial quantities) have been dropping sharply. Shipments of cotton fabrics declined from 802 million square yards in 1951 to 762 million in 1952 and 630 million in 1953, a drop of 21 percent in 2 years. Foreign markets for cotton goods have been contracting as domestic textile industries have been built up in the underdeveloped areas of the world. Japan and India have expanded their capacity to a point where their exports exceed those of the United States. Great Britain's industry is also geared to supply a larger portion of the world cotton goods market. The United States, therefore, faces a shrinking foreign market.

The economic problems faced by the textile industry call for vigorous action by the Federal Government to aid in making the necessary adjustments. In the 1952 Presidential election campaign, General Eisenhower made specific promises to aid distressed areas and to effectuate other policies leading toward a recovery in textiles. However, campaign pledges which would have aided hundreds of thousands of textile workers were quickly forgotten after the Republican administration took office.

LAWRENCE EXPOSES IKE'S DOUBLETALK

In Lawrence, Mass., where more than 20 percent of the labor force of 53,000 was unemployed as a result of woolen-mill closings, the President had promised preference for distressed areas in obtaining Government contracts. The Truman administration's policy of setting aside parts of contracts to be let in distressed areas had not been sufficient because of the requirement that the lowest bid be matched. At the end of 1953 President Eisenhower announced he favored strengthening the set-aside program to assist distressed areas, but withdrew his support before any alleviation could be worked out. He explained that it was not his intention to offer special assistance to any area, but rather to improve conditions throughout the Nation; the only result was continued unemployment in Lawrence and other hard-hit cities.

Meanwhile, total unemployment rose from 1.2 million in October 1953 to over 2.4 million at the beginning of 1954, not counting the people who had dropped out of the labor market and young workers who could not find jobs.

One of the final actions of the Truman administration had been an order by the late Secretary of Labor Maurice J. Tobin setting $1.20 as the minimum wage for the woolen and worsted industry under the Walsh-Healey Public Contrast act. This would have protected unionized mills from cutthroat competition on Government contrasts. However, the order was nullified by Martin P. Durkin, Eisenhower's first appointee as Secretary of Labor, who insisted on holding additional hearings. Only at the end of January 1954 did the new Secretary of Labor, James P. Mitchell, reissue the order. The delay frustrated the purpose of the Walsh-Healey Act. Further delay is expected from employer court action challenging the order.

FEDERAL POLICIES SHRINK MARKETS

Tobin's earlier order of a $1 minimum wage in cotton-rayon has been in court since February 1953. Here again the Labor Department has been most dilatory in pressing the matter.

The slowness with which the Republican administration moved on all other economic problems confronting textiles has aggravated the industry's difficulties. While they objected to the Brannan plan for farm price flexibility proposed by the Democrats, the Republicans had no substitute to offer which would stimulate demand for agricultural products through lower prices. Instead, 90 percent of parity was supported by the Government for basic crops, including cotton, and huge surpluses piled up in Government warehouses. Cotton prices have been maintained between 32½ and 33 cents a pound in spite of a sharp decline in demand. The bulk of the current bumper crop of 16 million bales is going into Government storage under the loan program. A more realistic Government policy is needed to permit marketing of cotton at lower prices while sustaining farmers' income.

Another Government policy which increases the cost of textiles without affording genuine protection to the farmers is the duty on raw wool imports. The loss of two-thirds of the apparel wool market to foreign wools is sufficient evidence that the import duty does not protect the farmer. It merely adds to the cost of the wool product. Direct payments to the farmer instead of a duty on imports would benefit the farmer without penalizing the woolen and worsted industry.

State and local governments also played their part in intensifying the problems of the textile industry. Several Southern States have authorized municipalities to issue bonds to finance new plants for lease to private interests. Such bonds enjoy the tax-exempt status of municipal issues and therefore afford the private users of the new plant a competitive advantage over companies which must get financial backing in the corporate bond market. Moreover, companies which lease such plants do not have to make the initial capital investment normally required to build and equip new factories. Many of these communities have also offered tax abatement as a further inducement. These various incentives proved attractive to textile interests; their devotion to private enterprise was not strong enough to deter them from accepting public subsidies. The beneficiaries include not only northerners; southern millowners have also been induced to move to new locations. A bill to eliminate the unfair competition arising from such subsidies has been bottled up in Congress.

MANY MANAGEMENTS FAVOR THE SQUEEZE

TWUA has proposed many positive steps designed to maintain the textile industry in a prosperous condition, but management has refused to join in supporting these measures. The successful firms, in fact, have hoped for the elimination of the marginal mills. Civic and business leaders in distressed areas have looked to other industries to replace textile plants. The Eisenhower administration is disinclined to seek a solution for specific problems; with callous disregard for the woes of workers and communities, it has retreated behind the smug self-assurance that this is the price to be paid for our political and economic freedom. TWUA has literally been the sole defender of the victims of economic disaster; even affected employers have not asserted themselves, preferring to liquidate in silence.

* * * * * * *

The textile industry faces a period of continuing challenge. The problems of the past are likely to be heightened as the American economy goes through what has been described as a "readjustment" but which may well become a real slump. Total demand for textile products cannot rise substantially as long as unemployment grows. Competition will therefore become more intense and merchandising activities more crucial.

The gray goods market has declined in importance in the cotton and synthetic fields. Progressive managements do not rely on undifferentiated products to support their operations. Fabrics need to be distinctively designed and identified for purposes of advertising and sales promotion. Brand names known by consumers as well as the trade assure a market for particular products even when general demand is low; labels are the assurance of quality. The development of new products and new finishes, colors, and textures creates new uses which can open up vast new markets.

These are the avenues for growth in our changing economy. To maintain its stability, the textile industry more than ever needs careful insulation from foreign low-wage competition, and realistic Federal minimum wage laws are required to maintain wage levels within the industry.

The Problems of Older Economic Regions in a Dynamic World

By Seymour E. Harris, Professor of Economics, Harvard University

Credentials: I have served on several expert committees on the New England economy, inclusive of the Report of the Committee on the New England Economy (a report to the President, 1951). I have been chairman of the New England Governor's Committee on the Textile Industry, have represented the New England Governors at public hearings, and am the author of the Economics of New England and numerous other books.

SUMMARY AND GENERAL COMMENTS

Trends in the economy

Despite the general prosperity of the country in the years since 1940, there have been many serious sore spots. Even $350 billion of military outlays and $250 billion of Federal deficits have been inadequate to solve the problems of the New England textile towns and regions, the Middle Atlantic coal towns, several of the Northwest agricultural States (3 actually lost population over 20 recent years). It is of some interest that from 1929 to 1953, New England's share of national income payments dropped by 20 percent, New York State's by 29 percent, and the Southeast's share rose by 34 percent. Relative to New England, the Southeast gained almost 70 percent in a period of 24 years. Nor did all "old" States lose relatively: cf. Connecticut, Maryland, New Jersey, Michigan, and Ohio, on the one hand, with Massachusetts, Rhode Island, New York, Pennsylvania, on the other.

The large relative gains have been in the South and Far West (8.47 to 12.10 percent for the latter) and the large losses in New England and the Middle East (a decline of 33.7 to 27.06 for the latter). The Central States and Northwest roughly maintained their relative position of 1929.

But the Central States (Michigan, Illinois, etc.) are vulnerable in this respect. Manufacturing recently accounted for 37.6 percent of their wages and salaries (30 percent for the Nation) and 66.5 percent of the employment in manufacturing was in the highly unstable durable goods industries (substantially tied to military outlays). There is here a curious inconsistency between political views (isolationism) and economic interests.

Trends obscured by Government outlays

It is scarcely necessary to add that these relative losses and gains underline important adjustment problems. Large outlays by Government have to some extent obscured the problems. Some of the additional public spending spills over to the depressed regions. But it is also clear that an unjustifiable increase of deficit spending would be required to solve these problems through general fiscal measures.

The regional struggle for dollars

Too little attention has been paid to regional problems. Most of our trade is interregional, not international. Each region has a dollar bill to pay for services and commodities purchased from the outside. If through farm policy the prices of a region's imports of food and raw materials rise; if through tariff policy, it faces increased competition for its manufactured goods; if newer industrial regions capture its markets—then it must either capture new industries or suffer a loss of cash, reduced prices, and reduced wages; or if stickiness prevails, unemployment. In this paper I show how limited are the employments that may replace lost industries.

New England a low-wage region

Thus, to some extent we can explain the transformation of New England from a high- to a low-wage region. In manufacturing New England's wages are lower than anywhere but the South, and in white-collar work her wages are even below those of the South. Of 18 industries for which figures were available, New England's wages were higher than the national average only in 3 industries: textiles, chemicals and allied products, and stone, clay, and glass products. In 1950, average manufacturing hourly wages in the United States were $1.46, as compared with $1.38 in New England. Had New England been able to find adequate alternative employments in the last generation, she would not have suffered from the unfavorable balance of payments, relative loss of cash, and pressure on costs—a pressure that is also felt in unemployment as national trade unions interpose obstacles to wage cutting.

The dangerous competition for industries

In recent years there has developed a dangerous competition among States for industry, with the tendency of competing States to cut services and keep taxes down in order to keep or attract industry. This is evident, for example, in the newer industrial regions aggressively seeking a place in manufacturing by putting minimum taxes on industry as a means of attracting industry and even providing subsidies; by keeping down social-security benefits; by fighting trade unions aggressively and thus keeping wages down (the Taft-Hartley Act tended to freeze relative wages of North and South at a point where the South had a great advantage); using financing through tax-exempt securities as a means of enacting industries from the North. (According to published reports southern Congressman succeeded in removing a provision in the 1954 Finance Act which would have stopped this unfair practice of building plants for northern management by the issue of tax-exempt securities.)

Of particular interest is the effects of the social-security program on interstate competition. For example, in each of the last 2 years (1952 and 1953), the two major textile States in New England levied taxes of 2.7 percent of payrolls on employers to finance unemployment compensation; but the 3 major southern textile States had average rates of 1.32 and 1.29 percent in these years. In the years 1946 to 1950, the ratio of benefits to taxable wages was 2.7 percent in Massachusetts and Rhode Island; 0.9 percent, in the Carolinas and Georgia. The average weekly benefits for the 5 most important manufacturing States in the North in 1953 was $25.82; in the 5 major States in the South, $19.60, or an excess of 31 percent for the North. The unemployment compensation program, though it was justified in part as a program which would not result in competition among States to reduce taxes and benefits, has as a result of experience rating become just that. Benefit schedules tend to deteriorate to the lowest common denominator.

Federal Government and interregional competition

It is scarcely necessary to add that the Federal Government has played a large part in this movement of industry from North to South. Generally cash has been taken from the North and transferred to the South. These transfers are especially costly to the Northeast because they are accompanied by large transfers of cash via investments of corporations operating on a national level from North to South. Both capital and management go. Labor stays. In 1 year New England seemed to lose about $1 billion or 7 percent of its income as the Federal Treasury took out more in taxes than it spent in New England. The Government used part of this cash to reduce power costs in the South, expand research facilities, etc., and thus to weaken New England's position. Freight rates are lower in the South, in part because of Government policy.

Political strength of the South

Also relevant is the political strength of southern Congressmen, who though they are theoretically strongly in support of free enterprise nevertheless are willing, even eager, to obtain financial help from the Federal Government for their constituents. Northern Congressmen will have to organize and fight as effectively as southern Congressmen if they want to stop the continued losses of their industries.

It is not surprising then that New England has been losing its textile industry at a rapid rate. These losses have been going on for a long time; but in the 3¾ years ending September 1954, the drop of employment was 48 percent. At that rate the industry, the most important in New England accounting until very recently for about 10 percent of employment directly and 20 percent indirectly, would be gone in 8 to 9 years.

It is no wonder, then, that in January, July, and September 1952, unemployment in Lawrence, Mass., averaged 19, 25, and 21 percent, respectively; and in the same months in 1953, 18, 18, and 17 percent (in the midst of the greatest prosperity). There were substantial amounts of unemployment in other textile towns also—no less than 30,000 unemployed at the end of 1954 in 4 textile towns of medium size. From peak employment in 1949–51 to October 1954, Boston lost 9,400, or two-thirds of its textile jobs; Fall River, 10,000, or two-thirds; New Bedford, 5,900, or one-third; Lowell and Lawrence, 10,600, or one-third; Providence, 33,100, or 60 percent.

The influx of new industries

What is more, the new jobs or new industries do not always make up for these losses. Between two census years (1919 to 1947), New England gained only 4 percent of the new jobs in the 10 fastest growing manufacturing industries, a proportion much below the region's share of factory jobs. In the same period the region had lost 200,000 jobs in textiles and shoes. In the prosperous years of 1947 to 1953, New England added 290,000 jobs; but only one-third was in manufacturing. The record was better than from 1919 to 1947, in part because the region had been alerted and showed much initiative; but the major factor was Government spending. What is more, the heavy gains in service employments partly reflected the pressure for jobs from those unemployed in declining industries.

New industries in textiles and shoe towns less desirable

Despite these gains, the problems of the textile and until very recently the shoe towns continue to trouble the region. The incoming industries were less desirable generally than those that had left. The new jobs were not adequate to employing new workers as well as the displaced workers.

Advantages of the South

Losses of New England and the North stem in part from real advantages of the South—in access to raw materials and markets, in plentiful supplies of labor eager and willing to work, in cheap power, in aggressive leadership of management, community, and Government (it almost seems as though the Civil War is being fought all over again), in the advantage of a new industrial region in being able to adapt its investments to current, instead of past, spending patterns. But in part the gains may be associated with the depression of national standards (e. g., social security), and large favors from the Federal Government.

The task for the North

The northern regions must fight as vigorously as the South; must be as modern in research, in management, in worker interest; must seek their fair share of Federal outlays; must expect the leadership of a well-organized political coalition on the Southern model; must fight for adequate standards of social security (through Federal standards); must fight for higher minimum wages, a fair share of tax subsidies (e. g., the accelerated amortization program), of Government contracts, etc.

And in the allocation of tariff cuts, the Government should consider the net effect of all Federal policies on a region. Can cuts in textiles be justified in view of the total effect of Federal policies and the present state of the textile industry? The problems of jobs for the unemployed in textiles are serious, untenable statements in the Randall report notwithstanding.

Finally, unhealthy interstate competition will not be treated until the Federal Government assumes a greater responsibility for standards and tax collection as was intended under unemployment insurance.

Treatment of unemployment by the President's Council

On the whole, I am disappointed. The Council scarcely touches upon the problem of distressed areas. In earlier years the Council showed much more interest in these problems. With more time I hope the Council will make amends.

First, it should be noted that unemployment has been greater than may be gleaned by the report. Add 3.75 million of unemployed at peak; 1 million partially unemployed (half time for those registered thus); 250,000 temporarily idle; and 500,000 for general cut in hours (this total is cut one-half to allow for duplication with above)—the total is then 5.5 million. Incidentally, the Council says the peak was higher in February 1950 than in March 1954 (p. 88). But note that the rise was much greater in 1954 over 1953 than in 1949–50 over 1948.

Second, the Council refers to the Government's contributions (p. 20) in assisting localities through Government contracts. This has been of no importance. The administration backed down when several Congressmen raised a fuss on this issue, and even then distress areas were to be allowed only to meet bids of others. Accelerated amortization was a gift to the prosperous, not the depressed, regions. It helped bring the depressed industries down. (See New England Textile Report, pp. 282–283: "With more than 50 percent of textile employment, the South received 90 percent of the tax amortization expenditures. * * * New England with 25 percent of employment received 1 percent.")

Third, the Council suggests improved unemployment compensation benefits (pp. 91–92). But so did the President on several occasions in the past. This is just talk. Until the President and Congress take a hand and insist on Federal standards and remove fear of interstate competition, the program will remain inadequate; and the pressure will grow for guaranteed wages.

Note the state of unemployment compensation:

1. In the 16 years, 1938–53, there were 57 million man-years of unemployment and but $12 billion of unemployed benefits were disbursed, or about $210 per man-year of unemployment. Even in 1949 benefits equaled one-quarter of wage losses.
2. Duration of benefits was 19 weeks before exhaustion.
3. Taxes collected in 1953 were 1.40 percent instead of 3 percent, with each State through the unsupportable experience rating fighting to get rates and benefits down.
4. One-fifth of workers are still uncovered.
5. Half the unemployed workers had their benefits exhausted in 1954. (Whereas 96 percent of total wages were covered in 1939, only 72 percent were covered in 1953.)
6. The percentage of benefits to wages was 41 percent in 1938–40 and 32.5 percent in 1951–53. (In relation to total wages, inclusive of supplement, even less is had.)
7. Ceiling benefits were equal to 67 percent of wages in December 1939 and 41 percent in December 1953.
8. No program for Federal reinsurance has been proposed to meet the problems of States with a heavy incidence of unemployment. So far the Federal Government seems to have "absconded" with $500 million to $1 billion of unemployment taxes and now has agreed to give back as loans $200 million to be collected in the future.
9. And what about sickness insurance, even more necessary than unemployment compensation?

Finally, in the discussion of international economics, nothing is said concerning the effects of further tariff cuts on the declining industries or how to help them.

Supplementary Statement by Seymour E. Harris

1. THE BALANCE OF PAYMENTS OF REGIONS AND WAGE RATES

In many ways regional relations are more important than international relations, and especially for large countries. Trade among regions is much larger in the United States than between this country and other countries. For example, in

1 year exports of the United States were 5 percent of national income; but exports from New England (regional and international) were about 25 percent. Of course, the smaller the region (e. g., a State), the greater becomes the importance of regional trade.

Regional trade raises some problems common to international trade and some that are not. A region, of course, has the problem of the balance of payments. New England, for example, only produces 3 percent of its income from agriculture (10 percent for the Nation), and hence has to import its major foods and raw materials, paying for them primarily through exports of manufactures and secondarily through exports of services. The region also pays for its agricultural and mining products through receipts on income from past investments abroad or in other regions. A great manufacturing region tends to export most of its manufacturing product—obviously if it accounts for 6 percent of the national consumption, it will export, say 94 percent of the textiles. Though if its total manufacture of textiles is 25 percent of the Nation's it will export some textiles and import others—still its net exports would be several times its consumption.

A region, like a nation, is concerned with the problem of paying its bills. If the prices of its imports rise vis-a-vis those of its exports, the balancing of accounts may cause difficulties. For example, both because of natural forces and also the intervention of government (raising agricultural prices and through tariff policy depressing relatively prices of industrial production), the terms of trade of industrial regions have tended to deteriorate relative to agricultural regions in the years since 1933–55. Hence the balance of payments of the industrial regions becomes precarious; and especially for older industrial regions if, as a result of increased competition of newer industrial regions, the competitive position of older industrial regions tends to deteriorate.

A region may well experience even greater difficulties than a nation. A large part of labor in manufacturing is organized on a national basis, and, therefore, tends to set a national wage level—for example, this is true of the steel industry and automobiles. Hence, should the Middle West lose ground in iron and steel to the South, it cannot easily recoup its loss by cutting wages. Even when trade unions are of unequal strength in different regions or do not set wages on a national basis, adjustments may be greatly impeded. For example, according to 1 estimate, the percentage of workers organized in 11 Southern States was 25 percent of the national level in apparel and 43 percent in textiles.[1] Hence, wage rates are likely to be lower in the South in these industries. Here is a peculiar situation. Wages generally are higher in the North than in the South. Hence it is very difficult for trade-union leaders in the North to accept cuts in wages in industries suffering losses in the North; for the wage level is set to some extent by the high-wage industries. If the unions do not agree to wage levels (and labor costs) commensurate with those in the South, however, unemployment in these industries rises.

Here we may all agree that the adjustment to unfavorable balance of payments, whether the occasion is a deterioration in the terms of trade or loss of competitive position, is beset with difficulties. Nevertheless, there is evidence of adjustments. For example, whereas textile wages were about 50 percent higher in New England than in the South early in the century, 50 years later they were but 10 to 20 percent higher. These adjustments result from the pressure of unemployment in the regions losing cash as their competitive position suffers; and even the rigidities introduced by institutional factors yield to some extent. Another bit of evidence of the consumption of adjustments is to be found in net income payments. Thus, from 1929 to 1948, per capita income payments of New England rose by 79 percent, of the 7 most industrialized States outside of New England by 99 percent, and of the 5 most important industrialized States in the South by 197 percent.[2]

2. RELEVANCE OF GOVERNMENT POLICY

Rigidities in wage rates, related to some extent to the policies of labor unions operating nationally, do indeed interfere with adjustments. But the problem of regions suffering competitive losses may also be aggravated by Government policies. Thus the Federal Government, through its agricultural policies, raises prices of raw materials and foods for the industrial regions; provides power

[1] F. T. DeVyver, Labor Factors in Industrial Development of the South, Southern Economic Journal, October 1951, p. 194.

[2] The New England Economy: A Report to the President by the Committee on the New England Economy, July 1951, p. 31.

and tax subsidies for the newly industrialized regions; and introduces social-security programs which put a greater burden on old than on new industrial regions. For all of these reasons, the competitive position of the South as against the North improves. Ultimately, of course, the pressure of demand for labor and other factors should increase costs and retard the movement to the South. But the large reservoir of labor on the farms being squeezed out by technological gains greatly slows up the upward pressure on costs. Compare the New England situation where immigration as a source of labor is no longer available, and where there is virtually no reservoir on the farm.

Not alone Federal Government, but also State and local government influence the competitive power of regions. In the competition for employment, each government tries to keep taxes down and social services to a minimum. In the fierce competition to hold or attract industries, State and local government avoid new taxes, economize on school, health, relief programs. Where incomes are lower and services less advanced, industry tends to move. The South in particular tends to keep their costs down. Not only does the South keep their costs down, but they provide tax systems that hit consumers rather than business; and they use taxes disproportionately to subsidize industries which they seek to import.

Obviously with costs much lower in the South and with relatively free flow of management and capital, the South tends to gain at the expense of the North. Variations in the cost of living in the country seem to be about one-third as high as in wage rates. In fact, when budgets applicable to each region are studied, it is found that the annual cost in a recent year for a family budget for 10 southern cities was but 1½ percent less than for 3 New England cities. But the differences are larger when consideration is given to the fact that a new industrial area tends to establish itself in the smaller cities disproportionately—where costs are low. Thus in a recent year 30 percent of the Nation's population was in North Atlantic States and 28 percent in southern States; but the former accounted for 34 percent of the 199 largest cities and the latter only 19; and similarly for other categories of large cities.[3]

The reader will find statistical material on regional variations in costs, inclusive of payroll taxes, all taxes, hydroelectric power, on relative supplies of labor, etc., in the Report on the New England Textile Industry.[4]

Governmental activities then tend to influence the location of industry; and in the United States at least to favor the new industrial regions. In international relations, no government would allow a foreign nation to capture its markets at a rate (say) that the South has captured some of the Northern markets. Governments would interpose obstacles to trade. But in the United States not only has the Federal Government (and other governments) not intervened but they have tended to accelerate the movement. There is one notable exception, however. By setting minimum wages (both on a general level and on an industry basis), the Federal Government has tended to deprive the South to some extent of one of its most important competitive assets—plentiful supply of labor and low wages. But both because of the level at which minimum wages were set and the administrative weakness, the effects of minimum wages were not large.

3. SOUTH-NORTH COMPETITION: REAL AND OTHER ADVANTAGES

South-North competition raises difficult problems. Without a question, the South has important advantages and is bound to develop into a great industrial region. Proximity to rich raw materials and markets, a dedication on the part of labor, management, and the community to attract industry, the large supplies of labor—these are among the great advantages. With these great advantages, capital and management move easily into the South. The only question that can be raised is a noneconomic one. Should a region, with these great advantages, also be encouraged to depress standards of living, of government services, etc., below a level deemed desirable by the Nation? In other words, on top of the great advantages of markets, and of resources, should the South also through governmental measures be allowed to obtain additional advantages at the expense of northern rivals—e. g., through an excess of Federal spending over

[3] See Handbook of Labor Statistics. 1950, pp. 121–122 and BLS Serial No. 2, 1949. Calculated from the City Worker's Family and Budget, 1948, p. 22.

[4] By the committee appointed by the Conference of New England Governors, 1952. Also see S. E. Harris, Economics of New England, 1952, and The New England Economy: A Report to the President by the Committee on the New England Economy, 1951.

receipts[The question may even be raised whether northern wages should be depressed relatively in response to wages set by the large supplies of labor in the South, not held in check by strong trade unionism? The real issue comes down to the rate at which the South should be allowed to gain, not whether she gains or not.

4. PROBLEMS OF ADJUSTMENT

According to the theory of international trade, a county (or region) that loses ground in some industries then moves on to other industries. This will involve, of course, changes in occupations of workers and often of movement to other locations, investments in other industries, etc. All kinds of difficulties arise. Workers often do not want to write off skills acquired in an industry, and there is great reluctance for management and investors to move into regions or localities which have suffered from economic dislocations. When there is much unemployment, the movement into new industries faces additional obstacles—as British experience in the interwar period showed. When economic conditions are improving and especially when overfull employment prevails, the adjustments are made more easily—as United States and British experience in the forties show. Though even in this period, part of the success stemmed from special measures taken by Government and also enterprise to implement the free-market forces. Even in the prosperous forties and fifties there have been many coal and textile towns which have continued to experience large and long-continued spells of unemployment.

That the problem of adjustment can be serious is suggested by the fact that the outlets for the unemployed (say in textiles, shoes, or apparel in the Northeast and in coal in Pennsylvania and West Virginia) are distinctly limited, though in a growing economy some of the slack may be taken up. This follows because most employments are necessarily restricted to given localities; and hence a region suffering from unemployment cannot easily capture employment from other regions.

Elsewhere I have discussed this problem more fully. Here I present several paragraphs from this study. The major conclusion to be drawn is that losses can be recouped only out of a limited area of economic activity.[5]

"The major competition faced by American industry is interregional, not international. For example, exports out of the country are but 4 to 5 percent of the gross national product. Obviously, most sales are at home. In fact, a large part of all sales are within the region or even city of production. This is perhaps even more true of services than of movable goods. A large part of our services are almost exclusively free of interregional competition—medical, local, and State government, public utilities, domestic service, local transport, public education, etc. Here competition outside the city or region is distinctly limited. This point is of importance because it underlines the limited area within which adjustments in response to losses in interregional competive position must be made.

"It is well to remember that manufacturing income in 1952 accounted for but 31 percent of all income. The major adjustments in the competitive position of a region have to be concentrated to a considerable extent on this part of the economy. Hence, large losses in interregional competition, say in textiles and shoes, if they are to be made good in substitute exports, must largely be made good in improvements in manufacturing 'export' industries. Agriculture, forestry, fisheries, and mining account for but 9 percent of the national income. Here competition is relevant but the limits of adaptability are determined largely by the resources available.

"An estimate of approximately 40 items included in service employments and accounting for 60 percent of all income suggests that only about 10 percent of all income and corresponding employments included here are largely subject to interregional competition. Thus for retail trade, public utilities, transportation, telephone services, most services (education, religion, cinema, private households), local and State government, and a large part of Federal Government, the location of activities for the most part is determined by the present distribution of population and income. Only as population and income are redistributed will the services be redistributed. They are determinates, not determinants. Substantial parts of wholesale trade and of insurance are examples

[5] S. E. Harris, Interregional Competition: With Particular Reference to North-South Competition, Proceedings of the American Economic Association, 1954, pp. 370–372.

of services subject to interregional competition. (See Survey of Current Business, July 1953, p. 16.)

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"An indication of the areas of competition is given by the distribution of various types of incomes by regions. * * * We compare for each region the percentage of incomes earned by different employments relative to the region's share of the Nation's income. Thus in the seven regions of the country, for 1952, the average percentage of trade and service income to the region's total income payments varied only from 24.1 to 28.0 percent (the United States average was 25.6). In construction, the range was from 3.4 percent (New England) to 5.0 percent (Southeast). Here the differences are explained largely by the slow advance of New England and the rapid industrial growth of the South—not by the South selling construction services to other regions. Where the percentage of income accruing to particular employments does not vary much from region to region, it may be assumed that competition is distinctly limited. In some instances, where percentage of employment varies generally, e. g., transportation, the explanation may well be that differences reflect geography rather than interregional competition. Heavy concentration of population explains a low proportion of employment in transportation in New England and Central Stataes, and large distances explain high relative employment in transportation in the South, Northwest, and Far West. Differences in the proportion of service income may also reflect variations in spending patterns in part: the right Northeast spends more on services than the poor South.

"For agriculture, government, and manufacturing, the minimum and maximum figures (taken from the Survey of Current Business, August 1953, p. 9) were as shown in the following table.

	National average	Minimum		Maximum	
		Area	Percent	Area	Percent
Agriculture (income)	6.7	Middle East	1.5	Northeast	20.3
Government (income payments)	15.9	Central	12.5	Southeast	20.3
Manufacturing (payrolls)	24.5	Northwest	10.6	New England	32.9

"If a manufacturing region loses heavily in exports, its losses must be recouped largely in manufactures, with some help from services. Yet even in manufactures there are segments where adjustments are not easily made. For example, in 1951, the distribution of manufacturing employment was as follows:

"1. Seven industries with location predominantly determined by access to raw materials (and to some extent to proximity to markets) accounted for 35 percent of the value added in 1951.

"2. The location of 7 industries accounting for 46 percent of the value added was determined to a substantial degree by the need of being near the raw materials.

"3. The other 5 industries (textiles, apparel and related, printing and publishing, leather and leather products, instruments and related products) accounting for 19 percent of value added were industries which might be located largely independently of the proximity to the sources of the raw materials.

"The last group would especially be subject to pressures for any adjustments that have to be made."

Ricardo's theory of international trade was based on the assumption that labor and capital do not move across national frontiers; and that there are no impediments to movements within a country. On both assumptions Ricardo was wrong. In the 19th and early 20th centuries, both capital and labor moved across national frontiers in large amounts and numbers. Relatively speaking these movements have become a trickle since 1914. Across State or regional boundaries, movements are not as unrestricted as Ricardo assumed. Indeed, there are no immigration laws to contend with; exchange control or discrimination against foreigners. Yet it is interesting that in 1948, for example, per capita income in Mississippi was $758 as compared with $1,891 in New York State, $1,817 in Illinois, and $1,651 in California, or 40, 42, and 45 percent of the per capita incomes in these States.

5. REGIONAL DIFFERENCES OF INCOME

Despite the great gains of the South, there are still substantial differences of income between South and North. In a recent year the per capita income in Mississippi was 40–45 percent of that in several Northern States. Why is this not corrected by movements of population from South to North and capital and management from North to South? (In part the differences are fictitious.)

How can one explain such large variations of per capita income within a country? To some extent these may be explained by statistical incomparability. Mississippi has more children relative to total population; more agricultural workers (low income); more Negroes (low income); lower cost of living and hence smaller real differences. But genuine differences still remain. Yet, why do not the agricultural workers and particularly the Negroes move to higher income occupations and States? Indeed, there is movement from farm to city, from South to North, from North to West, and not from South to West. For example, from 1929 to 1948, whereas the population of New England, the Middle Eastern States, and the Pacific Northwest rose 1.1, 1.2, and 4.3 times as much as the national income, in the Southeast and West North Central, the percentages were 0.5 and 0.6.[6] And as has been noted earlier, the per capita incomes rose much more in the South than in the North. That the rise has been disappointing in the Far West (108 and 77 percent in the Pacific Northwest and Pacific Southwest, respectively, as compared with 107 percent in the country and 179 percent in the Southeast), is to be explained by the large influx of people into that region.

But why have differences not associated with equalizing factors (e. g., number of children) not been eliminated. Ignorance; lack of resources required for movement; noneconomic factors (e. g., a preference for living in Mississippi to living in California)—these are among the explanations. The sluggishness of movement relates especially to labor, and to some extent to management. But capital moves with great ease across regional frontiers. Under modern corporate enterprise with more than 90 percent of capital of corporations obtained without appeals to the market, the corporation allocates its capital on the basis of returns to be expected. A northern steel or textile firm compares costs of producing and selling North and South, East and West, and on the basis of estimated returns the corporation then invests. With large supplies of labor available, rich resources, and proximity to rich markets, the steel company will divert some of its capital to the South. With capital so mobile and labor considerably less mobile, labor in the regions experiencing competitive losses suffer the more because it loses so easily its complementary agent, capital.

6. REPLACEMENTS FOR DECLINING INDUSTRIES

Obviously a region that has a disproportionate investment in industries that are losing ground must find outlets elsewhere; and for the reasons given is likely to lose ground. Here, for example, is the trend of various industries:

Percentage of employment

	1899	1939	1951
Textiles, apparels, and shoes	28.5	20.7	19.4
Chemicals, petroleum, and rubber	4.6	6.6	7.5
Primary metals		8.6	8.6
Metals, machinery, instruments, etc. (5 major industries)		24.0	33.1

Source: U. S. Census of Manufactures, 1947, II, various pages; and 1951 Annual Survey of Manufactures, Advance Report, Series MAS 5/24, Mar. 11, 1953, p. 7.

Again, here is a comparison of employments in 3 rather soft and rather weak manufacturing industries (textiles, apparels, and leather and products of leather) with 8 relatively strong industries (chemicals and allied, rubber products, primary metal industries, fabricated metal, machinery—both electrical and other, transportation equipment, instruments and related). The 1947 census gave the following percentages of employment in the 3 weak to the 8 strong industries: South Atlantic, 204; East South Central, 89; New England, 83; Middle Atlantic, 62; West North Central, 40; West South Central, 32; Pacific, 19; Mountain, 12; and East North Central, 10. It would be expected that Northern States with

[6] U. S. Department of Commerce, Economic Development Atlas, 1950.

high wages and a substantial percentage of employment in the three weak industries would experience difficulties; and southern States would also not grow so rapidly as other regions given their industry-mix, though an important offset would be their low costs.

7. EMPLOYMENT TRENDS, 1929 TO 1949

An examination of employment trends over 20 years (1929 to 1949) shows that despite New England's problems her gains in manufacturing have been small. For the whole country the relative proportion of manufacturing employment had risen by 1.84 percent; for New England, only 0.31 percent; for the Central States, 4.03 percent; Southeast, 3.77 percent; Middle East, 2.77 percent. Nor do gains in noncommodity producing industries (tertiary) necessarily accrue to the high-income regions. The South has a larger percentage than New England; and the high-income Central States have but 46.22 percent of employment in these industries as compared with 61.25 percent in the Far West and 56.60 percent in the Middle East. Among these industries, Government, trade, and miscellaneous especially gained, and transportation, finance, industry and real estate have especially lost ground relatively. When there are gains made by regions suffering losses, they are likely to be made in the growing employments, though not necessarily.[7]

8. CONCLUSIONS ON INTERVENTION BY GOVERNMENT

In summary, factor movements tend to bring about an equalization of income among regions. The equalization may be quickened by Government aid for the regions gaining ground. (Though it should be noted that Government operations may also prevent or slow up losses for low-income regions as for example in the attempts in the thirties to keep incomes in agricultural regions from declining precipitously.) For the regions losing ground, the intervention of the Government on behalf of low-income (newly industrialized) regions may aggravate the problems of adjustment. Without the usual obstacles to trade or movement of capital and labor prevailing in the relations among countries, the losses of some regions and gains of others may be at an uncomfortable rate. The outlets for capital and labor displaced in the losing regions are limited, though the seriousness of the situation may be concealed by large Government outlays and resultant high levels of employment. Under these conditions, mobility improves. Factor movements are large, even when no serious obstacles to trade prevail, whereas among countries with factor movements greatly restricted and hence the gains of trade correspondingly increased, trade restrictions are on an unusual scale.

9. EXPLANATION OF TRENDS IN NEW ENGLAND

For many reasons, New England grows less rapidly than other regions. Among the more important explanations are its early industrialization, its great dependence on textiles and shoes, the two slowest growing of all census industries in the last 50 years, its location in the northeast corner of the Nation and therefore its inability to attract industries which require bulky raw materials and produce products expensive to transport, and finally certain institutional factors and notably those related to politics, Federal policy, etc.

Here are some figures which show the trends in New England:

(*a*) Percentage rise of nonagricultural employment, 1939–53: United States, 63.3; New England, 37.4 (lowest of all 10 regions).

(*b*) Percentage change in nonagricultural employment, 1939–53:

	United States	Northeast	West-North Central	South Atlantic	Pacific
Construction	124	79	102	119	210
Manufacturing	71	35	98	54	140
Government	68	39	32	94	139
Trade	60	32	51	89	75
Service	59	49	48	65	84
Finance	49	51	61	104	79
Transportation and public utilities	46	26	52	53	70
Mining	1.4	−79	29	−1.7	−11

[7] These figures are all based on Regional Trends in the United States, 1953.

Again, New England's gains are less than those of all other regions with few exceptions, other than in finance. But it is especially in the last 10 years that New England's relative losses have been large. Her nonagricultural employment rose only by 4.9 percent as compared with 20.7 percent for the country.[8]

10. TRENDS IN NEW ENGLAND TEXTILES

In textiles the trends are more serious as they are, though not to an equal degree, in leather and shoes. In 1919, New England accounted for 440,000 textile jobs; in 1947, 283,000. There was little change from 1947 to 1951 (net) but by 1954 the total seems to have fallen by about 100,000 additional. Hence the net decline since 1919 is considerably more than 200,000 jobs, or more than one-half of the textile jobs available in 1919. Earlier in the century New England had accounted for about 80 percent of the cotton spindles; her proportion of spindle activity now seems to be less than 10 percent. Total United States employment in textiles seems to have been relatively stable from 1919 to 1951. Again, in the last few years, New England has experienced serious losses in woolens, an industry in which she maintained her relative position almost unchanged from 1919 to 1947. Even in recent years, textile employment accounted for about 10 percent of the employment in New England, and, of course, in terms of the secondary effects of losses of a textile job perhaps 20 percent of all jobs are involved.[9]

Since 1951, the textile industry has suffered substantial losses in the country, though especially in New England. Note in this same period all industrial production rose by about 10 percent and real gross national product by about 12 percent. The table below reveals a significant downward trend from 1951 to 1954. In fact, total textile jobs declined by 268,000, or 20 percent; in New England by 107,000, or 38 percent; and in the South by 41,000, or 7 percent. Generally New England's relative losses are several times those of the South, but in fine goods New England's output fell by 31.5 percent in 3¼ years, while the South gained 10.6 percent.

Percentage change in textile activity, 1951 to 1954, United States, New England, and South

	Change, September 1954 from January 1951			Change, September 1954 from September 1953		
	United States	Northeast	South	United States	Northeast	South
Cotton consumption (per working day in bales)	−22.2	−48.9	−19.0	−7.6	−21.6	−6.5
Spindle activity in cotton fibers (average hours per working day)	−16.1	−47.3	−10.0	−8.0	−25.7	−5.1
Spindle activity in synthetic fibers (average hours per working day)	−5.7	−9.1	−5.9	+13.4	−16.7	+17.5
Production, fine goods (millions of linear yards)	[1] −11.2	[1] −31.5	[1] +10.6	[2] −4.3	[2] −13.3	[2] +2.7
Production, synthetic broad woven fabrics (millions of linear yards)	[1] −25.4	[1] −41.4	-------	[2] −16.4	[2] −10.8	-------
Employment (in 1,000's):						
(a) Cotton and synthetic textile mills (broad woven fibers)	-------	−48.2	[3] −7.7	-------	−26.7	[3] −4.6
(b) Textile mill products	−19.9	−38.2	−7.2	−9.7	−20.3	−3.6

[1] Change 1st quarter 1951 to 2d quarter 1954.
[2] Change 2d quarter 1953 to 2d quarter 1954.
[3] Georgia, North Carolina, South Carolina, Tennessee, and Virginia.

Source: Adapted from Northern Textile Association Study (based on Census Facts of Industry).

11. TEXTILE LABOR REMAINS UNEMPLOYED

In the most careful study yet made of the mobility of textile workers, Dr. Miernyk, in tracing the subsequent history of employees of 6 mills that shut down in 6 textile towns in New England, found that 45 percent were presently employed, 43 percent were unemployed, and 12 percent had abandoned the labor market. He also found that about one-third of those who obtained jobs moved on to other

[8] All figures are from the BLS Monthly Review, July 1954, pp. 740–743.
[9] Figures from Report of the New England Textile Industry by Committee Appointed by the Conference of New England Governors, 1952, p. 96, and U. S. Census, Facts of Industry.

textile jobs, suggesting that in view of the declining employment in the textile industry they merely squeezed other textile workers out. The employees of closed mills generally found their new job less satisfying than their textile employment, and suffered a deterioration of skills used and a reduction in pay.[10]

Additional Information Submitted by Seymour E. Harris

WAGE AND FRINGE DIFFERENTIAL, NEW ENGLAND AND THE SOUTH

Cotton and Synthetic Textile Mills, January 1954: Total differential, 25.7 cents per hours; wage differential, 16.4 cents; fringe differential, 9.3 cents.

Wage differential

	Average straight time hourly earnings
New England	$1.338
South	1.174
Differential	.164

NOTE.—New England earnings based on report by the U. S. Bureau of Labor Statistics entitled, "Wage Structure, Cotton and Synthetic Textiles, March 1952," and adjusted by wage changes since March 1952.

Southern earnings as reported by BLS in March 1952. No change has taken place in the level of southern wages as noted in a BLS report issued in February 1954 entitled, "Cotton and Synthetic Textiles, Wage Trends, 1950–53." Further substantiation of the fact that no change has taken place is found in comparing average gross hourly earnings as reported monthly by the BLS.

Fringe differential

[Cents]

	New England	South	Differential
Vacation pay	4.86	2.91	1.95
Paid holidays	3.69	.09	3.60
Holiday premium	.21	0	.21
Third shift premium	1.10	.83	.27
Group insurance	3.57	1.00	2.57
Retirement separation pay	.67	0	.67
Total	14.10	4.83	9.27

NOTE.—New England costs taken from a survey of expenditures by mills for these items. Prevalence of these fringes substantiated by BLS Wage Survey of March 1952.

Southern costs computed on basis of prevalence of these practices as shown by BLS Survey (1952) and average straight time hourly earnings in the South.

Statement by Douglas Fraser, Administrative Assistant to the President, UAW–CIO

PROBLEMS OF REGIONAL AND INDUSTRIAL UNEMPLOYMENT

My name is Douglas Fraser. I am an administrative assistant to Mr. Walter Reuther, president of the United Automobile Workers, CIO. May I add that before moving into my present position I worked for 14 years in auto plants in Detroit, holding various official posts in my local union from steward and committeeman to president of the local. I have had opportunities, therefore, of seeing what unemployment means, both through personal experience and many years of helping to deal with the problems of individual workers, as well as concerning myself with the broader problems of national scope with which I have to be familiar in my present position.

You have asked me to discuss problems of regional and industrial unemployment. I should like to tell you something of what widespread unemployment in the automobile industry has meant for the Detroit metropolitan area, which is to a very large extent dependent on that industry. It is, I am afraid, typical of what has happened to many cities in the past two years.

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[10] W. H. Miernyk, Inter-Industry Labor Mobility: The Case of the Displaced Textile Worker, Boston, Mass., especially ch. II (mimeographed and preliminary).

The wave of layoffs and short workweeks that hit the automobile industry in the second half of 1953 and continued to afflict us through 1954 did not catch us by surprise. As early as March 1953 President Reuther warned in a report to the 14th Constitutional Convention of the UAW-CIO that: "The national economy is now headed for a long-postponed showdown with basic economic realities." He pointed out that full production and full employment could be maintained only if there were a substantial increase in consumer purchasing power to match the increasing productivity of industry and take up the slack resulting from declining expenditures for defense and business investment.

It soon became apparent, moreover, that the jobs and pay checks of workers in the auto industry were threatened not only by the possibility of a general economic decline, but by the reckless, irresponsible production scheduling and labor recruiting policies of the automobile industry itself. On May 11, 1953, Mr. Reuther wrote to the presidents of 14 major automotive corporations with whom our union had agreements, protesting these policies. He said in part:

"The UAW–CIO is deeply disturbed by the prospects that there may be substantial layoffs and widespread hardship in the automobile, truck, and parts industries during the second half of 1953. This threat of widespread layoffs results from the fact that management is planning to produce a disproportionately high percentage of their annual projected 1953 production schedules during the first 6 months of this year."

* * * * * * *

"Efforts on the part of industry to produce in excess of 60 percent of their annual production during the first 6 months is both economically unsound and morally wrong. If management persists in these efforts, it must assume the full responsibility for the unemployment and the hardships that thousands of workers and their families will experience.

"The UAW–CIO feels that management's policy of crowding an abnormally high percentage of the total annual production in the first 6 months of the year is irresponsible and antisocial and will result not only in disrupting the lives and security of individual workers and their families, but it will seriously affect many communities by placing upon them costly burdens resulting from the economic dislocation and unemployment.

"The UAW–CIO has on various occasions questioned the desirability of the hiring policy of many of the companies in the automobile industry who have carried on extensive recruiting programs in the deep South and other nonindustrial areas of our country in an effort to attract workers into the automotive centers in numbers far beyond the reasonable possibilities of maintaining such workers in steady and continuous employment. Such a policy of recruiting workers from other sections of the country is unfair to such workers, it is unfair to the regular workers in your plants, and it is unfair to the communities."

* * * * * * *

"Workers being recruited in the South and in other nonindustrial areas are being asked to uproot themselves from their home communities for a few months of work in the auto plants followed by unemployment of unpredictable duration in strange surroundings. They are being brought into areas where housing facilities are already overtaxed. When their jobs end many will become public charges to be provided for by the citizens of the automotive production centers, who will thus be forced to pay the price for the unrealistic and unsound scheduling of the auto corporations. Recruitment of these inmigrants will intensify later unemployment for those workers who are normally attached to the auto industry.

"The prospect of substantial layoffs is a matter of grave concern to our union and its members. We urge most strongly that you take all steps possible to level out production by your company over the remainder of the year to avoid the consequences that will inevitably flow from present production scheduling.

"I can assure you that the UAW–CIO will be glad to cooperate in any way we can with your company and with the industry as a whole to prevent unemployment and the resulting personal and community hardships later in the year. We will sincerely appreciate and will give the most careful consideration to any suggestions you may have to meet the situation outlined above."

The replies received to this letter indicated that the managements of the automobile corporations either suffered from delusions as to the market prospects of their respective corporations or were totally unconcerned as to the consequences their irresponsible scheduling would have on their workers and the communities in which they live.

Subsequent events proved that Mr. Reuther's warning had been timely and amply justified. Although some companies were able to enlarge their shares of an inadequate market at the expense of others, the industry as a whole failed to maintain the production pace recklessly established in the first part of 1953. In the latter half of the year, and continuing into 1954, automobile employment fell drastically. Employment of production workers in the industry nationally, which had reached a peak of 816,000 in April 1953, had fallen by November 1953 to 686,000. It recovered only slightly in December with the introduction of the new models, then continued its downward plunge to the low point of 466,000 in September 1954, a decline of 43 percent from the peak.

Although the workers brought in from outside, being recent recruits to company payrolls, were among the first to bear the brunt of layoffs, they were not alone affected. The crowding of production into the first half of 1953 meant that in the second half there was insufficient work for the regular employees. Many thousands were laid off and thousands more had their paychecks drastically cut by short workweeks.

The effects in Detroit were most serious. Unemployment in the Detroit metropolitan area increased from 15,000 in April 1953 to 78,000 in September. By January 1954 it had risen still further to 107,000. With great difficulty we succeeded in persuading the Department of Labor in February to classify Detroit a distressed labor area so that it could have a priority rating for defense contracts.

Defense Secretary Wilson, however, indicated that he didn't "know particularly of any such contracts which might be channeled into the city." He had previously expressed the opinion that "Detroit is well able to look after itself." He told the press: "Come spring, and everything is going to be all right in Detroit."

Detroit waited for spring to bring back the robins and the workers' jobs. The robins came, but not the jobs, and both the bird dogs and the kennel dogs got pretty hungry. From 107,000 in January the number of unemployed jumped to 140,000 in February. For a few months it hovered slightly below that figure, then jumped again to 150,000 in July, to 153,000 in August, and, finally, to 195,000 in September. In 19 months unemployment had multiplied itself by 13 times. Even that figure is probably an understatement, because it fails to include the many thousands of older workers, housewives, and others who, finding jobs impossible to get, had given up the search and were thus counted out of the labor market.

The rising tide of unemployment affected every aspect of the community's life. Passenger travel on the Detroit Street Railway, for example, slumped badly. From the beginning of 1952 through the first half of 1953 it had been declining at a rate of about 5 percent per year. From the middle of 1953 through the end of 1954 the decline was speeded up to more than 14 percent per year. In the first half of 1953 the DSR carried an average of 21,750,000 passengers per month. By the last half of 1954 the monthly average had fallen to 17,380,000, a decline of 20 percent.

Retail trade was similarly affected. While department-store sales slumped across the Nation, the decline in Detroit was two or three times as severe. Before the change to this year's models brought a temporary pickup, in the period from January 1 to October 30, 1954, department-store sales in Detroit had fallen 5 percent below the same period of 1953, compared with a 2-percent decline for the same period nationwide. Even this comparison disguises the full extent of the drop, since the latter part of 1953 was already a period of recession in Detroit. Thus, for the period January 1 to May 1, 1954, which compares with the good months of 1953, department-store sales in Detroit were 8 percent below the previous year, as compared with a nationwide decline of only 3 percent.

The same factors which reduced department-store buying, of course, affected the trade of small merchants. The corner grocer, the restaurant owner, the filling-station operator, all felt the pinch when auto assembly lines ground to a halt and tens of thousands of workers found themselves without jobs and without paychecks, or with incomes drastically reduced by short workweeks.

Among those in most direct contact with the distress and misery suffered by unemployed workers were the city's welfare agencies. One method of measuring the impact of unemployment upon those who have had little in resources with which to meet it, or whose resources have been eventually exhausted, is the number of "screening interviews" of relief applicants given by the Department of Public Welfare of the City of Detroit. These figures are substantially larger than those for the number of relief applications issued, since they include those who had to be advised at the screening interview that they were not eligible for assistance. The number of screening interviews does indicate the number of people who were driven by necessity to ask for public assistance, whether or not that assistance was forthcoming.

Although the number of screening interviews began to climb slowly as soon as automobile employment passed its peak in April 1953, the increase was not marked until the fall and winter, when the cumulative effects of increasing layoffs and exhaustion of other resources by workers and their families, including exhaustion of unemployment compensation benefits, began to be felt. From 224 interviews per week in April 1953 the number crept up to 252 per week in July. In August the weekly average jumped to 329, in September to 379, and by December the July figure was more than doubled, with 521 screening interviews per week. In January 1954 the number was 762, in February it was 909, and it fluctuated about this latter figure until August 1954, when it jumped again to 1,025.

For the whole of 1954 the number of such interviews totaled 46,177, compared with 16,761 in 1953.

All the above figures, of course, are for the city of Detroit. They do not include the additional thousands of persons in need in the metropolitan area whose applications were made to agencies in communities outside the city.

Some of the attached photostats of press reports published in January and February of 1954 may give a more graphic picture of the community problems arising out of widespread unemployment. Under the heading "County Relief Cases Offer Added Burden," dated January 19, 1954, we read that the Wayne County Social Welfare Department needed additional clerical help to deal with growing relief rolls. On February 6, 1954, the city welfare department reports "Welfare Relief Pleas Doubled" in comparison with the previous year; and by February 17, 1954: "Welfare Department Adds Night Shift." The report under this heading reads:

"The Detroit Welfare Commission yesterday approved a night shift at its central intake office, 6750 West Fort, beginning next Monday.

"Welfare Superintendent Daniel Ryan said his present staff was unable to keep up with the tremendous increase in welfare applicants."

The welfare agencies well knew what was a large part of the cause of their increased burdens. The Detroit Free Press on February 3, 1954, reporting an interview with Welfare Commissioner Irving Small, stated:

"Small placed blame for the Detroit area's estimated 107,000 unemployed squarely on industry. He said he warned a year ago that industry's national program of worker recruitment would cost Detroit millions of dollars."

The Free Press quoted Mr. Small as saying:

"I hate to say I told you so, but as long as a year ago I said that if Detroit industry didn't stop recruiting workers in every hamlet, village, and crossroad in the country it would get us into trouble. Now it looks like it's going to happen."

Manifestations of irresponsible disregard for the welfare of workers who had been lured into Detroit by these recruiting practices did not cease when the workers were dumped on the streets. Detroit newspapers which have gained a reputation for being faithful echoes of the opinions held by top management in the large auto corporations proposed that the problem of swelling relief rolls be dealt with by new restrictiotns that would deny public assistance to anyone who had not established 3 years of residence in the State. Attached are reproductions of two editorials, both dated February 4, 1954, from the Detroit Free Press and the Detroit News, putting forward this callous and inhuman proposition.

The Free Press editorial, entitled "New Detroiters Ineligible for Dole," minced no words. It called directly for "a bill changing the legal settlement period to 3 years," giving as a reason that:

"It would erect a more substantial barrier for Michigan taxpayers against those who drift from State to State in search of work."

If an unemployed Detroit worker asks for assistance he is called a "kennel dog" and told that he should go and look for work in other communities. But if a worker from one of those other communities is sought out by the auto corporations and persuaded to come to Detroit for a job and is then laid off, he is labeled a "drifter," undeserving of public aid.

The News was less specific in its recommendation, but equally casual in its disregard of the human needs that lie behind unemployment statistics. It said:

"What has happened in the past 12 months, including the recruitment 'excesses,' will continue to happen for as long as the industry remains as vitally and competitively enterprising as it fortunately has been until now. * * *

"The process concededly is and has been rough on the taxpayers. And, of these, let us remember, the auto companies themselves are among the biggest. But there really is no practicable cure for it, barring the palliative of tightening the residence requirements for welfare and thus inducing more of the newcomers to go home. Aside from that, the option is open to any serious objector to sell out and remove to some locality where life is more placid and less exciting than we find it, here in dynamic Detroit."

The auto corporations had made all the profit there was to be made out of the labor of the recruited workers, and then had turned them out as casually as one would toss away an old shoe. When this process was found to be "rough on the taxpayers," who had to support the laid-off workers, the News could suggest no better palliative than denying the workers even public assistance so that the corporations as taxpayers could be excused from having to pay even a small portion of the social cost of their own irresponsibility.

An important cause of the increased burden of the welfare department was the insufficient duration of unemployment compensation benefits. This did not present a serious problem in the early months of the recession, but as the length of layoffs was extended the number of workers whose unemployment compensation benefits became exhausted mounted rapidly. Even in April 1953 there were an average of 172 exhaustions per week in the Detroit area. It remained at about this figure until September, but in October the number jumped to 283 per week, in November to 466, and in December to 750. In February 1954 it passed the 1,000 mark, and by April had reached 1,937. It declined in July and August with the implementation of amendments to the State law extending duration but in August jumped again to 2,419. From there with the gradual introduction of new models, the number again declined, but the preliminary figure for December 1954 was still over 950 per week.

All told, the number of workers exhausting their benefits each week averaged 1,370 in 1954, compared with 255 per week in 1953.

It should be emphasized that these figures tend in part to be cumulative—that is, the workers who exhaust their benefits in 1 week are for the most part still without benefits the next week when they are joined by those who have exhausted their benefits in that second week, and so on, less, of course, any who find employment or whose benefits are resumed as the result of the beginning of a new benefit year. At the very least, an average rate of exhaustions of 1,370 per week during 1954 means that somewhere near 70,000 workers in the Detroit area were unemployed and without unemployment compensation benefits for some period in the course of the year.

Despite the extension of duration of unemployment compensation benefits to 26 weeks by amendments to the State law made last year, it is quite likely that the number of workers exhausting their benefits this year will be as high as last year or higher. Contrary to the recommendations made by President Eisenhower, the State legislators refused to provide uniform duration for all eligible workers and insisted on continuing the practice of relating the individual worker's duration of each year to the length of his employment during the preceding year. This means that workers who suffered extensive unemployment in 1954 will be able to draw fewer benefit checks when laid off in 1955.

Welfare agencies were not the only institutions in the community to feel the effect of growing unemployment. A press report of February 23, 1954, a reproduction of which is attached, was headed "Blame Theft Rise on Job Pinch—Burglaries Up 56 Percent This Year." The news story, based on an interview with Detective Inspector Carl Falk, of the holdup bureau, said:

" 'Burglaries are the work of novice criminals and juveniles in many cases,' Falk said.

"He said most of the increase in burglaries can be attributed to juveniles whose allowances have been cut because of unemployment or to men who are jobless.

" 'The increase has swamped the undermanned police department,' Falk said."

The members of the committee may recall reading an article in the Washington Star of January 17, 1954, headed "Second Best Year for Motor City Will Still Mean Unemployment Distress," and carrying a graphic photograph of crowded workers lining up for unemployment compensation benefits. As the writer pointed out, in spite of the fact that Detroit had just completed its second biggest auto production year in history (and financially, its best year) there were then 107,000 workers unemployed—a figure that was soon to increase substantially. He referred to the heavy unemployment that might be expected later in the year simply because the industry was scheduling 60 percent of its anticipated production for the first half of the year and leaving only 40 percent for the second half, and showed also how with this sort of production scheduling any unexpected dip in sales could result in still more drastic cutbacks in the latter part of the year.

Those warnings are of particular importance again today because the auto industry is again showing every sign of engaging in the same kind of reckless production race as it engaged in during the first half of 1953. The most optimistic forecast from an industry source that we have been able to find is an estimate by the president of General Motors of 5.8 million passenger cars in 1955. Yet in the 1 week ending last Saturday, January 22, the industry produced 163,416 cars, representing an annual rate of 8.5 million. At this rate it would require less than 36 weeks of production to reach the year's goal of 5.8 million. If the production pace is maintained only for 6 months it will mean production for the first half of the year of more than 4.2 million cars, or 72 percent of the year's total, leaving only 1.6 million for the second half. Production would be cut back from 163,000 per week to less than 62,000.

The business press has indicated that one motive behind current abnormal production scheduling is the desire of the corporations to build up inventories of finished cars in order to strengthen their hand in forthcoming negotiations with our union. If this is a factor, it is further testimony to the total irresponsibility of the automobile corporations. In order to achieve an advantage in bargining, they are ready to plunge whole communities into local depressions. Regardless of the reason, continuation of production at current rates in the face of the industry's estimate of the total size of its market can only mean that scores of thousands, perhaps hundreds of thousands, of auto workers will face a long stretch of unemployment in the later months of this year while excessive inventories are worked off. Every businessman, every professional in the auto-production centers who is dependent on workers' paychecks will suffer along with the auto workers and their families.

No matter which corporation wins the auto production race, auto workers are bound to lose. Last year it was Chrysler and the independents that lost, and many thousands of Chrysler, Hudson, and other workers were on the streets for weeks, or only working a few days a month. If, in 1955, Chrysler and the independents regain the ground they lost, it will merely mean cutbacks at Ford and General Motors, with resulting unemployment for their workers.

As long as the corporations devote their energies to a fight for larger shares of an inadequate market, instead of pressing for national policies to reestablish an expanding economy in which all companies can grow and prosper, we shall have to anticipate this kind of trouble.

Even under the best of conditions, Detroit faces the threat of serious permanent unemployment unless we reestablish an expanding economy in which the auto industry can grow. The use of automation and other technological improvements has already progressed so far in the direction of increasing productivity that output of 642,000 cars was achieved in December 1954 without providing jobs for some 85,000 Detroit workers who were still unemployed. Only a rapidly increasing market, based on expanded purchasing power, can make up the gap and match the increases in productivity that are still to come so that auto workers again can be assured of regular jobs.

I have outlined the unemployment situation with which we have been faced in the Detroit area, the many problems it has created for workers and their families, and for the community as a whole, and the reason for our fears that at least equally serious difficulties lie ahead of us in 1955. What suggestions do we have to make as to solutions to that problem?

A partial solution will be found by the auto workers themselves in negotiation of a guaranteed employment plan, more commonly known as the guaranteed annual wage. The guaranteed employment plan, by causing layoffs to be reflected in costs directly on the employer's books, will go a long way toward eliminating layoffs that now result from irresponsible production scheduling or from other causes within the direct control of the employer. Managements will find it more profitable to schedule production with a view to minimizing layoffs than to engage in reckless production races that in the long run can only hurt everyone concerned. When layoffs do take place, the maintenance of the purchasing power of laid-off workers will not only protect them and their families against the insecurity and loss of living standards that come with unemployment today, but in an automobile city like Detroit will be of substantial help in preventing the slump in local business that now results when large-scale unemployment strikes.

We in the UAW–CIO, however, have never suggested that the guaranteed employment plan would be an economic cure-all. It has an important contribution to make toward achievement and maintenance of full employment, and not the least important of the effects we hope for from it is that when it has been negotiated we may expect to see some management representatives down here in Washington and at the State capitals pressing you and your colleagues to adopt a good deal of legislation designed to maintain full employment which they have in the past, for the most part, opposed.

In order to achieve full employment and maintain it we must have national policies geared to that purpose. I am filing with this submission copies of a pamphlet issued by the UAW–CIO in which we have outlined in some detail what we think those policies should be. I shall summarize our proposals only briefly here.

We see the root cause of our present economic difficulties in a lack of sufficient purchasing power in the hands of the great majority of American families. We know, from surveys of the Federal Reserve Board and other sources, that they have unmet needs sufficient to absorb vast quantities of the products of industry. All that is required is to make the purchasing power available to them. Additional means of making the best possible use of our actual and potential production are to be found in connection with unmet community needs for more and better homes, health and educational facilities, transportation facilities, etc., and the even greater needs of the hundreds of millions who live on the bare edge of subsistence in other lands.

Our proposals, therefore, fall into three main categories:

First, we suggest direct measures to increase the amount of purchasing power available to these families through such steps as increasing the personal income tax exemption, improved social security and unemployment compensation, increased rather than decreased assistance to small farmers, and a substantial increase in the minimum wage.

Second, we suggest initiation at the Federal level, as well as assistance to action by the States where appropriate, in large-scale programs of housing, expansion and modernization of schools and hospitals, highway construction and improvement, and projects for the conservation and development of our natural resources.

Third, we propose that by a substantial increase in technical and material aid to underdeveloped countries, particularly with a view to assisting them to increase the strength of their own economies, we would not only open up vast new markets for the products of American industry, but would do far more than can be achieved in any other way to strengthen them as allies and bulwarks against the spread either of Communist armies or Communist ideologies.

In conclusion, I should like to make a special plea for two specific measures, one because it is of direct concern to the automobile industry and its workers, and the other because it relates to the most immediate problem facing unemployed workers, that of maintaining themselves and their families until work is available.

Among the factors that limit sales of certain consumers goods are the Federal excise taxes. The present tax on automobiles is 10 percent. Any excise tax is undesirable as a source of revenue because it is a tax on consumption. It tends to restrict consumption and sale of goods and thus to lessen the number of jobs available in the production of those goods. In fact the excise tax traditionally has been regarded as a kind of sumptuary tax, a special tax levied on luxuries or on goods whose consumption it is desired to discourage, in order to persuade us to spend our money on more essential things. As such, the imposition of an excise tax on automobiles is an absurdity in the light of present-day conditions. The automobile today is a necessity. It is a necessity to millions of Americans who would be unable to go about their daily business without it, and it is a necessity to our communities which no longer have public transportation facilities sufficient to replace it. Yet a penalty of 10 percent is placed on every person who purchases a car in order to discourage him from doing so. Elimination of the tax on the understanding that it would be accompanied by a 10 percent reduction in car prices would be of assistance to every automobile buyer and to the thousands of unemployed auto workers in this country. We would, of course, favor similar action with respect to other excises of the same general character as the excise tax on autos.

The second measure which requires the highest possible priority on the legislative agenda is a Federal law equivalent to the Forand-Kennedy bill of last year which would establish Federal minimum standards for State unemployment-compensation laws, particularly with regard to the amount of benefit provided and the duration of that benefit.

The State unemployment-compensation laws came into being originally as a result of action by the Federal Congress. The Federal Government has a continuing responsibility to see to it that they accomplish the purpose for which they were enacted.

We ask for more than lip service to the principle of improvement in unemployment compensation laws; we ask for action. A year ago, the President recommended improvements in the State laws asking particularly that benefit levels be raised so as to assure to the great majority of workers benefits equal to at least half their regular earnings. The members of the President's own party in the State legislatures either ignored his recommendations entirely or twisted them into something less and totally inadequate.

We are struck by the marked contrast between the silence of the administration in the face of inaction on unemployment compensation and the vigor with which it moved to secure the enactment of its tax program. When members of his own party in the State legislatures ignored or rejected the President's unemployment compensation recommendations—which would have benefited millions of low-income families—the President failed to raise a finger; but when passage of his relief-for-the-rich tax program was challenged by members of the opposition party, the President himself took to the national airwaves to secure its enactment.

When it became obvious that those States whose legislatures met last year would refuse to enact the President's unemployment compensation recommendations, neither the President nor the majority of Republicans in either House of Congress saw fit to throw their support behind the Forand-Kennedy bill which would have established minimum standards in line with the President's recommendations.

The President has renewed his recommendations to the States this year. We of the UAW–CIO are again appealing to the State legislatures to make the improvements in their laws called for by the President. We would welcome his vigorous personal support which, if it is to be effective, must be directed particularly toward influencing State legislators of his own party.

But we recognize realistically that reactionary majorities in many State legislatures will resist enactment of the President's recommendations, and that their refusal to improve their laws will be used as an excuse for inaction in other States on the ground that employers within such States would be placed at a competitive disadvantage. I have already referred to the large number of workers in Detroit who were forced to ask for public assistance because they had exhausted their unemployment-compensation benefits. It would be interesting to know how many others were forced to ask for help because the benefits they received were insufficient to maintain their families. Unfortunately I do not have those figures, but I do know that the present scale of benefits is insufficient to maintain any adequate standard of living, and many States pay less than Michigan.

It is highly desirable, on grounds of equity to employers and workers alike, that adequate minimum standards be set by this Congress, to apply in every State in the Nation. I urge your support for this measure as one of extreme urgency at this moment.

[From the Detroit News]

WILSON SAYS CITY NEEDS NO JOB AID—FERGUSON URGES UNITED STATES TO MAKE USE OF STANDBY PLANTS

Detroit today won a top priority rating for defense contracts, but the chances of getting them vanished when Secretary of Defense Wilson, amid protestations from Senator Ferguson, said no contracts are available.

Wilson's statement came from Washington as Governor Williams announced the opening of a Detroit office to help manufacturers seeking defense work.

"I do not know particularly of any such contracts which might be channeled into the city," Wilson said.

This followed a Washington conference between Wilson and Ferguson in which the Senator said he told Wilson that the Defense Department should make an immediate decision regarding idle standby defense plants.

Earlier, Wilson had said he was not worried about Detroit.
"I would say Detroit is well able to look after itself," he commented.
"I would not worry about Detroit.
"A great many people do not properly understand the automobile business.
"The business is never good in winter.
"Come spring and everything is going to be all right in Detroit."

RECALLS "OLD DAYS"

Wilson recalled that he had been in Detroit (as president of General Motors Corp.) for a long time and said he remembered the "old days" when there was unemployment.

"I used to worry about it every January and February," he said.

"People do not understand that when auto production and sales get a little out of balance, there is always an adjustment. It has always been that way."

Governor Williams ordered the opening of the Detroit office to aid manufacturers when he was informed the area had been given the priority rating.

OUR JOBS IN THEIR HAIR

Action of Secretary of Labor Mitchell in designating Detroit as an area of critical unemployment brought dissent from Secretary of Defense Wilson. The former G. M. president said in part: "I would not worry about Detroit. Come spring and everything is going to be all right there." Mitchell's action made Detroit the first major United States city in the critical classification.

ECONOMISTS DOUBT 1954 WILL BE BLEAK

WASHINGTON, February 9.—Several economists told Congress today that the United States public has a lot of money and is ready and willing to spend it.

That fact, they said, should change the business dip into a rise around the middle of the year—although the economy probably will not hit the peaks of 1953.

The economists gave their views to the congressional economic committee at a discussion of the 1954 consumption outlook.

FORD ECONOMIST HEARD

George P. Hitchings, Ford Motor Co. economist, said it appears "the worst of the decline in general business activity has already taken place." He said consumer spending in 1954 probably will be "5 to 10 percent below the abnormally high rate of 1953, but at least as high as 1952."

[Detroit Times, February 6, 1954]

BLAME THEFT RISE ON JOB PINCH

COUNTY RELIEF ROLLS OFFER ADDED BURDEN

Walter J. Dunne, director of the Wayne County Social Welfare Department, today said growing relief rolls may force him to ask for additional clerical help.

Dunne said the number of families requiring supplemental assistance has been edging upward since the Korean truce. Supplemental aid is given families where the breadwinner's wages are not enough to cover living costs.

There are now 995 cases on the rolls, an increase of 246 since August.

WELFARE RELIEF PLEAS DOUBLED

Applications pending with the city welfare relief are more than double the requests at the same time last year, it was announced today by the department of public welfare.

The welfare department said it has 1,162 applications before it today, while the figure stood at 437 in 1953.

However, the total number of welfare cases this year has dropped appreciably below the 1953 total, from 3,568 to 2,406.

CASES RISE, WELFARE PLANS NIGHT HOURS

Because of a flood of applications, the welfare department's central intake office at 6750 West Fort will be open at night beginning next week.

Superintendent Daniel J. Ryan requested permission from the welfare commission to keep the office open because of what he called a stampede of relief applicants.

The office will not be open to new applications. It will serve only persons returning to central intake with completed applications, Ryan said.

WELFARE DEPARTMENT ADDS NIGHT SHIFT

The Detroit Welfare Commission yesterday approved a night shift at its central intake office, 6750 West Fort, beginning next Monday.

Welfare Superintendent Daniel Ryan said his present staff was unable to keep up with the tremendous increase in welfare applicants.

Thirty-two more workers will be hired and six transferred from other departments to handle exclusively on the night shift the important second interviews.

Ryan said original applications for welfare will be accepted only by the regular day shift.

He declared the welfare department now has a caseload of 2,468 and a backlog of 1,324 applications. This compares with 3,500 cases last year at this time and 415 applicants.

For the last 2 weeks applications have averaged 260 a day with 50 percent of them persons who have exhausted their Michigan employment security benefits.

Ryan said new applications will be accepted only from persons who have exhausted these MESC benefits, their bank accounts and savings bonds.

The night shift will operate from 3 : 20 to 11 : 20 p. m.

[From Detroit Free Press]

BURGLARIES UP 56 PERCENT THIS YEAR—EXPERT GIVES RULES TO AVOID ROBBERIES

By Joe Dowdall, Free Press staff writer)

Burglaries have increased 56.5 percent over last year, much of it traceable to the fact that 221,000 persons in the Greater Detroit area are unemployed, police say.

Thirty-one burglaries were reported Monday morning alone, bringing the total for this year to date to 1,801, compared to 1,150 for the same period last year.

In each of the 31 burglaries, the householder violated antiburglar rules, according to Detective Inspector Carl Falk, head of the holdup bureau. He gave this advice for householders to help them protect their property:

1. If you receive mysterious phone calls and there is no answer on the other end of the line, it may be a burglar trying to find whether you're home.

2. Leave at least one light on when you go out at night, preferably where it cannot be seen directly from outside windows, so that it appears someone is home.

3. Leave by the front door, locking the door and side doors and both storm doors. Lock the front door and leave the front screen or storm door open instead.

Burglars are sneak thieves who hate direct contact with their victims and dread the added risk of cutting through or jimmying two doors. At the front door, there is more chance of their being seen.

4. Close the garage door so they cannot tell whether your car is there.

Burglaries are the work of novice criminals and juveniles in many cases, Falk said.

He said most of the increase in burglaries can be attributed to juveniles whose allowances have been cut because of unemployment or to men who are jobless.

The increase has swamped the undermanned police department, Falk said.

Falk had a last warning for householders who plan to leave their homes for any extended period: Cancel milk and paper deliveries. Ask the neighbors to take the mail and leave the house and garage locked.

JOBLESS START RUSH ON WELFARE—WORKER RECRUITING BLAMED FOR SITUATION

(By Dale Nouse, Free Press staff writer)

Detroit unemployment is about to catch up with the welfare department.

Welfare Superintendent Daniel J. Ryan warned the welfare commission Tuesday that the city's jobless are flooding relief offices.

His alarm, reflecting increased applications and emergency relief orders, drew from Commissioner Irving Small an "I told you so" rejoinder.

Small placed blame for the Detroit area's estimated 107,000 unemployed squarely on industry. He said he warned a year ago that industry's national program of worker recruitment would cost Detroit millions of dollars.

Ryan pointed out that the welfare department's caseload of 2,393 is the lowest it has been in 27 years.

"But, from all indications, we've reached the low point," he explained. "The load is about to begin climbing."

Pending applications, generally considered an accurate barometer of the city's economy, now number 1,138, more than 4 times the average of recent years.

Ryan also said about 200 persons a day, more than double the normal number, are applying for assistance. Only about 30 to 35 percent of the relief seekers will be accepted, he added.

Most of the 1,138 pending applications, which represent destitute families who are living on emergency grocery orders issued by the department, will become regular relief cases unless the city's job picture improves suddenly, Ryan said.

In a 10-day survey made at central intake, where all relief applicants are screened, more than half of those who applied were out of work and had exhausted their savings, he said.

Many of the others were wives and mothers whose husbands had deserted them, Ryan explained.

The department, he continued, has shifted 8 experienced welfare workers to the central intake office at 6750 West Fort and has hired 12 additional workers to handle the increased load.

Ryan said unemployment-compensation benefits, which run for 20 weeks, act as a "cushion" for the welfare department.

"But when the compensation ends and the savings are exhausted, we catch it," he said. "We are at that point now."

Small, who calculated that the volume of applications could boost the caseload as much as 1,600 a month, said:

"I hate to say I told you so, but as long as a year ago I said that if Detroit industry didn't stop recruiting workers in every hamlet, village, and crossroad in the country, it would get us into trouble. Now it looks like it's going to happen."

[The Detroit News—Editorial page—Thursday, February 4, 1954]

FEVER AND CHILLS—EMPLOYMENT IN DETROIT

Once again the complaint is heard that local relief rolls are being swelled by the past excesses of the auto industry in worker recruitment.

A member of the welfare commission modestly recalls that he warned of this last year when the industry was combing the country for people willing to come to Detroit and help make cars. The warning went unheeded. The people came, and now, with savings and unemployment insurance exhausted, are finding their way to the welfare offices where their support becomes a burden on the taxpayer.

The auto industry last year was engaged in making more cars than in any previous year, save one. The value of its product was the highest on record and to create this value it needed and hired more people than it ever had hired before. Amid the accompanying acclaim and abounding prosperity, a suggestion that the industry restrict its payrolls was assured of falling on deaf ears. Certainly any single company to which a request might have been addressed would have rejected it as doubtless a dirty trick inspired by its competitors.

Alternate periods of feverish activity and of lull are as old as auto manufacture. What has happened in the past twelve months, including the recruitment excesses, will continue to happen for as long as the industry remains as vitally and competitively enterprising as it fortunately has been until now. It is thanks to such excesses that Detroit has more than the 286,000 population it boasted in

1900. Some of those recruited always go home; others have remained to make this a bigger and on the whole a better and more prosperous metropolis.

The process concededly is and has been rough on the taxpayers. And of these, let us remember, the auto companies themselves are among the biggest. But there really is no practical cure for it, barring the palliative of tightening the residence requirements for welfare and thus inducing more of the newcomers to go home. Aside from that, the option is open to any serious objector to sell out and remove to some locality where life is more placid and less exciting than we find it, here in dynamic Detroit.

[Detroit Free Press, February 4, 1954]

RELIEF OFFICIAL REMINDED NEW DETROITERS INELIGIBLE FOR DOLE

Welfare officials are anticipating an increase in relief rolls as a result of unemployment in Detroit.

Already, applications for public assistance and the granting of emergency relief orders for food are beginning to climb.

This occasioned some boasting on the part of Welfare Commissioner Irving Small.

He was quoted as saying: "I hate to say I told you so, but as long as a year ago I said that if Detroit industry didn't stop recruiting workers in every hamlet, village, and crossroad in the country it would get us into trouble."

Just to keep the record straight, the people of Detroit should know that there is no factual basis for Small's remarks.

The facts are that no person who came to Detroit within the past year is eligible for public assistance here.

Legal settlement laws state that a person must reside in a community a full year and be entirely self-supporting during that period before he is eligible for welfare aid.

If, during the first year, he is forced to seek help from friends or charity organizations, or obtains free medical care, his settlement is said to be broken. He must start all over again to gain legal settlement.

Persons who apply at the Detroit Welfare Department for aid and who are found not to be legally settled here are referred to the Wayne County Welfare Department.

The county agency arranges to send the persno back to the place where he is legally settled . He may refuse to go but, in that case, he is entirely responsible for the support of himself and family and cannot receive any aid from public-assistance agencies.

Legal settlement laws are basic to the public-assistance programs in all States.

The fact that Small apparently overlooked them in his boastful "I told you so" remarks again illustrates his unfamiliarity with his job.

Nevertheless, Michigan's legal settlement laws do need a change from the 1-year residence requirement to 3 years.

This has been urged by Detroit welfare officials and other public-assistance leaders throughout the State.

It would erect a more substantial barrier for Michigan taxpayers against those who drift from State to State in search of work.

By requiring 3 years residence in the State before a person becomes eligible for public assistance, Michigan taxpayers would be more sure that the person being helped intends to live in this State and to resume all the responsibilities of a self-supporting citizen when able to do so.

It is hoped that a bill changing the legal settlement period to 3 years will be introduced and passed at this session of the legislature.

STATEMENT OF ARTHUR G. McDOWELL, DIRECTOR OF CIVIC, EDUCATION, AND GOVERNMENTAL AFFAIRS OF UPHOLSTERS' INTERNATIONAL UNION OF NORTH AMERICA, AMERICAN FEDERATION OF LABOR, AND CHAIRMAN OF SUBCOMMITTEE ON MIGRATION AND SUBSIDIZATION OF INDUSTRY OF A. F. OF L. NATIONAL LEGISLATIVE COMMITTEE

The Economic Report of the President now before the joint committee, on page 56, cites three special causes for persistence of structural or spot cases of sizable unemployment in some places.

Those classes of causes are given as follows:

1. Lasting drop in demand for their wares.
2. An exodus of industry to new localities.
3. A vanishing supply of some material basic to the local economy.

The only recommended Federal Government initiative to meet these situations, which may remain even when the Nation's economy practically reaches full employment, are also three in number but obviously not as equal in weight of impact on the problem as in number.

The report's recommendations are:

1. Strengthening the area development program of the Department of Commerce.
2. Continuing for the time being the policy of special tax amortization benefits for new defense facilities located in surplus labor areas.
3. Placing of Government contracts as far as possible in these areas.

This is light artillery, indeed, for attacking as large and as deeply entrenched a problem as is faced by coal communities of Pennsylvania and West Virginia or the traditional textile areas of New England and Middle Atlantic States. It also carefully avoids any attack on what the left hand of other governmental policies—local, State, and national—is doing to actually accentuate the problem. Nor is anybody of principles consulted as to what may be the guiding lines or limitations of public policy which may be wisely and legitimately effected by legislation and administrative actions within the letter and spirit of that legislation.

Agonizing as has been the consequences to my native State of the lasting drop in the demand for our special anthracite coal and our sharing in the drooping fortunes of bituminous type, I would not have the gall to propose to a committee of the National Legislature measures to fetter the development of competing power and fuel resources, or the indefinite subsidization of a traditional product of declining competitive efficiency. Nevertheless a policy of conservation of what will for generations continue to be a basic national resource and even more basic the human resources of established communities with their homes, schools, churches, and business life is a concern of the Nation and of all sound economic policy. The report is amazingly brief and even silent on this problem. The continuance in Federal tax policy of the extraordinarily generous depletion allowance extended to the prosperous and flourishing petroleum industry is a case in point calling in question the equity and soundness of national policy in dealing with unequally situated natural resource industries.

The exodus of industry to new localities so far as it is a natural searching out of more favorable location in terms of raw materials, abundant or trained labor supply, consumer deficiency area such as was west coast for a long time in my own industry, etc., is one thing and not to interfere with at very least, by Government policy. When, however, as in recent years, it is stimulated by local and State government policies that smack of industrial cannibalism, i. e., new industrial development of old stable agricultural communities at expense of rupture of older industrial communities and on basis of subversion of declared national public policies such as the encouragement of collective bargaining, the denial of classification of labor as a commodity, etc., it is something else again. When such exodus with all the new problems it creates is actually subsidized by Federal tax policy such as the extension of tax exempt privilege of local municipal purpose bonds to subsidize the practice of Mississippi villages of seduction of northern city factories by offers of virtually free factories, it is time that the Federal Government's right hand should apprise itself of what its left hand is doing. It was once the conviction of every village in the Midwest that it was entitled to a railroad in defiance of all economists and engineers and the fact that it is farther by rail than by any of Daniel Boone's paths from St. Louis to Kansas City, is testimony to the power of that conviction. Many a county and town bankrupted itself in the railroad era as probably will many municipalities in the modern Mississippi bubble empire of municipal industrial purpose bond issues, but there is no reason for Federal taxation and labor policies to be accessories to the crime. The nonsense of a Federal labor law that proclaims its aim as the furthering of collective bargaining and then carries a clause to encourage and abet the States still preponderantly agricultural, to enact laws to drastically weaken all collective-bargaining agencies, is obvious. It is futile to preach sermons to the States apropos the desirability of sustaining the national level of consumer income by adopting uniform high standards of unemployment-compensation laws, when there is no use of the Federal power which alone brought those laws into nationwide enactment by the respective State legislatures. Competition between sections, as well as industries and services and particular enterprises, is a great and healthful force, worth the unequal development of particular localities but there is no health in new legislation or old which encourages competition between State legislatures in creation of low-wage areas, special and peculiar labor systems based on artificially and unequally weakened collective bargaining, cheap undeveloped unemployment and workmen's compensation and factory laws, etc. The correction of bad legislation of past, may be as or more pertinent to problem in hand, than new measures.

The third cause of regional and industrial unemployment given in the report as vanishing supply of some material basic to the local economy is in category of first, in influence of broad economic developments, seldom caused by legislation or its absence and not easily subject to legislative attack. Nevertheless, while the exhaustion of the Minnesota iron range cannot be legislated against, the research and aid in developing the possibilities of secondary ores should be as legitimate a field of governmental action as subsidization of new river channels for floating in ores from new foreign fields. While the southern movement of wood furniture from Michigan was logical as lumber supply was exhausted, an earlier conservation and replanting policy of Federal Government would have been a good investment for the whole country including the South, some sections of which are now repeating Michigan history.

It is regrettable and disturbing that the report which would have the Department of Commerce agency strengthened did not correlate the measures with which the Labor Department is concerned such as increase of rate and coverage of national minimum wage, effective use of Walsh-Healey Public Contracts Act, raising and making uniform of State unemployment compensation, and Workmen's Compensation Act, labor relations legislation, etc. These measures which taken together and constantly improved tend to equalize competitive conditions between sections, have great bearing on problem we are considering today.

Certain principles probably would get general assent, with a sharp divergence in the specific only where interest or special local problem is bringing extraordinary pressure to distort judgment.

First, most of us today concur with idea that activity of Government should direct itself to create conditions favorable to general prosperity and continuous development. Government should not prescribe the content of that prosperity or the expanding standard of living that is aimed at. Consumer choice and private initiative should determine development save in an overriding consideration such as national defense.

Government policy should, with some defense exception, not be utilized for economic favor of one section at expense of another or in a discriminatory fashion which it should be noted is not less discriminatory for being achieved by applying same arbitrary rule or permission to very unequal sections.

At same time a special sectional practice which does not meet general national approval as a public policy is not entitled to subsidization or special legal sheltering of its weaknesses. For a remote example, chattel slavery which tied up its capital in its labor supply and fettered its own agricultural as well as commercial and industrial development by attachment to a backward labor institution did not have a sound basis for asking for Federal public works which other sections provided themselves with by other means.

Finally, however, a section of the country or our people in modern times who, due to circumstances beyond their control, face a crushing burden of need for reorganization of their economic life or have their obvious economic opportunity for advance blocked by natural or social economic obstacles such as once obstructed the development of our Tennessee Valley, which obstacles can be removed by means easily available to National Government, such sections have a legitimate special call on a National Legislature. The interdependence of national and even international prosperity in modern times is commonplace.

(Whereupon, at 1:20 p. m., the committee adjourned until Friday, January 28, 1955, at 10 a. m.)

JANUARY 1955 ECONOMIC REPORT OF THE PRESIDENT

FRIDAY, JANUARY 28, 1955

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

The joint committee met at 10 a. m., Senator Paul H. Douglas, chairman, presiding.

Present: Senator Douglas, chairman, Senator Sparkman, Vice Chairman Patman, and Representatives Bolling, Mills, Kelley, Wolcott, Talle, and Curtis.

The CHAIRMAN. Our session this morning is on fiscal policies. We invited the Secretary of the Treasury, Mr. Humphrey, and the Director of the Budget, Mr. Hughes, to come or to send a representative. I have received letters from them declining the invitation to appear. The reason ascribed is that they cannot participate in a panel which could include persons not directly connected with the congressional committee itself.

Representative CURTIS. Mr. Chairman, is it your intention to put their letters in the record?

The CHAIRMAN. If you wish to have the letters put in the record——

Vice Chairman PATMAN. Let us evaluate that just a moment, Mr. Chairman. Does that mean he is declining the invitation because people other than Members of Congress could interrogate him?

The CHAIRMAN. Well, the reason stated is—I will read first from Secretary Humphrey's letter:

> However, I feel that we cannot accept your invitation to participate in a panel discussion which would include persons not directly connected with the committee itself.

And the identical sentence is used by Mr. Hughes.

Vice Chairman PATMAN. Well, we can correct that. In fact, I think there is something to what they say, and we can correct that.

The CHAIRMAN. I would like to point out that last year, in hearings in the panels which we held, each department, with the exception of the Treasury, I think, did send a representative to the roundtables. The Department of Commerce sent Mr. Meehan, the Department of Labor sent Mrs. Wickens. Mr. Manville, of the Census, which is under Commerce; Mr. Wells, Agricultural Marketing Service, under Agriculture; Mr. Vernon, Department of State; Mr. Riefler, assistant to the Chairman, Federal Reserve Board, testified. So that last year, with the exception of the Treasury, I think the departments sent representatives to the roundtables.

Vice Chairman PATMAN. Now, this involves a policy I think we might settle sometime, Senator. I think we should concede their point. I think their point is well taken from their viewpoint, and I think we should state that they will only be questioned by Members of Congress.

I would not want a substitute. If they cannot come, I would just excuse them.

The CHAIRMAN. Of course, I said, if they sent a substitute, subordinates would not be questioned on policy.

Vice Chairman PATMAN. Well, I would not have a substitute. There is no use taking their time on that. But I think that you should urge them to accept the invitation with the understanding that only Members of Congress, members of his committee, will question them.

The CHAIRMAN. I wonder if this is not a matter that we can take up in executive session?

Vice Chairman PATMAN. Is it your wish that these letters be made a part of the record?

Representative CURTIS. I think they should, rather than just an interpretation of what they say, and, Mr. Chairman, might I say this: That was one reason I was anxious for us to get that point ironed out ahead of time, and, as I stated before, I had thought that Senator Watkins and you had reached an agreement.

In my discussion with you informally yesterday it became obvious that there was not agreement on that point as to whether or not the panel itself should interrogate these witnesses. It is a serious problem. I do not know for certain what is right on it, but I do believe the committee should reach some conclusions.

The CHAIRMAN. Without objection, these letters will be made a part of the record at this point.

(The letters from the Secretary of the Treasury and the Director of the Bureau of the Budget are as follows:)

THE SECRETARY OF THE TREASURY,
Washington, January 26, 1955.

Hon. PAUL H. DOUGLAS,
Chairman, Joint Committee on the Economic Report,
Washington, D. C.

DEAR SENATOR DOUGLAS: The original of a letter, dated Wednesday, January 19, never did reach the Treasury, but I do have a copy of the letter which arrived early this week.

Representatives of the Treasury, including myself, are, of course, available to testify before congressional committees upon matters within our jurisdiction whenever the committees concerned desire. However, I feel that we cannot accept your invitation to participate in a panel discussion which would include persons not directly connected with the committee itself. We will always attempt to accommodate ourselves to your convenience and supply all the information which we can possibly provide.

Best personal regards.

Sincerely,

G. M. HUMPHREY.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D. C., January 26, 1955.

Hon. PAUL H. DOUGLAS,
Chairman, Joint Committee on the Economic Report,
United States Senate, Washington, D. C.

MY DEAR MR CHAIRMAN: Thank you for your letter of January 18, 1955, in which you invite me or a representative of the Bureau of the Budget to participate in a panel discussion on fiscal policy on Friday, January 28, 1955. I regret that I must decline your invitation.

Whenever any congressional committee desires a representative of the Bureau of the Budget, including myself, to testify about any matter on which we can properly supply information I shall be happy to arrange for such appearance before the committee for that purpose. However, I feel that we cannot accept your invitation to participate in a panel discussion which includes persons not connected with the committee itself.

As in the past, the Bureau of the Budget will gladly supply the joint committee and its staff with all the information we can provide.

Sincerely yours,

ROWLAND HUGHES, *Director.*

The CHAIRMAN. The subject this morning is Fiscal Policy. We have addressed a series of questions to members of the panel.

In the main, we look forward to a discussion of what our fiscal policy in 1955 should be.

The first question is whether we should balance the budget, whether we should allow expenses to exceed income. If so, why, and the consequences.

I assume we are speaking of the year 1955–56, that is the one on which we are determining policy. (See correspondence, p. 1146 for budget estimates, fiscal year 1955.)

I would suggest that we go to subsequent questions later.

Mr. Buehler.

OPENING STATEMENT OF ALFRED G. BUEHLER, PROFESSOR OF PUBLIC FINANCE, UNIVERSITY OF PENNSYLVANIA, PHILADELPHIA

Mr. BUEHLER. Mr. Chairman, gentlemen, members of the committee, I would like to make the assumption at the outset, that we have, in general, weathered the readjustment, or recession, of 1954 and that we are now apparently on the road to recovery. The appropriate fiscal policy for the fiscal year 1956, as I see it, would be one calling for balancing the cash payments and cash receipts. In this manner, the impact of the budget upon the economy would be approximately neutral.

The CHAIRMAN. You advocate balancing the cash budget?

Mr. BUEHLER. That is right.

The CHAIRMAN. When that idea was advanced in the 1930's it met with great objection from some of the people who are now suggesting it.

Senator SPARKMAN. Mr. Chairman, may I amend that, and say also during the forties.

The CHAIRMAN. I am interested in seeing the revival of interest in this idea that it is the cash budget and not the administrative budget that is important. A few days ago we were talking about the cash budget, and not the administrative budget.

Do you have any idea why there has been this change of sentiment, that the cash budget, which was something that was abhorred, is now something that is set up as the test of fiscal solvency?

Mr. BUEHLER. Actually, of course, both budgets are important—both the so-called administrative budget and the cash payment and receipts budget.

I think, Senator, that during and after the war the cash payments and receipts analysis came into some vogue, because of the interest of economists in inflation, and it was felt that the immediate impact of the budget on the economy could better be measured by referring to the cash receipts from the public and the cash going out to the public.

The CHAIRMAN. Is it not true that from the years 1946–51, if you take the cash basis, that the total budgets were more than balanced, and the total cash collections and total receipts by the Government appreciably exceeded expenditures by the Government? Isn't that true?

Mr. BUEHLER. Yes, Senator, if you mean the fiscal years ending in 1947 through 1949. In the fiscal year ending in 1950 there was a cash deficit.

The CHAIRMAN. So if that is the test applied for a deficit, there were no deficits during that period?

Mr. BUEHLER. Well, of course, actually, as we know, the administrative budget is also important.

The CHAIRMAN. Oh, certainly.

Mr. BUEHLER. It gives us a clue as to what is coming—for example, to accrued obligations. For the long-range point of view, we need the administrative budget.

The CHAIRMAN. The administrative budget is the most important part of the cash budget, but it is not the entire story because of social-security payments.

Mr. BUEHLER. That is right.

The CHAIRMAN. So what you say is that for the year 1955–56 the cash budget, in your judgment, should be balanced because you believe it will be recovered?

Mr. BUEHLER. Yes.

The CHAIRMAN. Do you think the budget submitted by the administration on a cash basis will be balanced?

Mr. BUEHLER. Well, I have not had an opportunity to study thoroughly the budget as reported; I believe it has a cash surplus of $600 million.

The CHAIRMAN. The deficit, as predicted, is $4½ billion. For 1955–56 it estimates a deficit of $2.4 billion, and social-security payments you estimate as in excess of $3 billion, so there is a surplus.

(Mr. Buehler's prepared statement appears at p. 387.)

The CHAIRMAN. Mr. Elder.

STATEMENT OF ARTHUR ELDER, TAX CONSULTANT, AMERICAN FEDERATION OF LABOR

Mr. ELDER Mr. Chairman, and members of the committee, I will confine myself to 1 or 2 points that are of particular interest to the American Federation of Labor for 2 reasons:

First, I believe there are questions that have been outlined here by Senator Douglas that are of more particular immediate, and perhaps even long-term interest, to our members and others, and also because I feel that there are people who will speak here this morning who are more competent to discuss some of these other points than I am.

At the outset, I would like to say that the $2.4 billion deficit for fiscal 1956 we know is predicated on the ability of the Department of Defense to cut requested authorization for $35.75 billion in spending to $34 billion. Should these savings not materialize the deficit may be as high as $4.15 billion. Neither figure takes into account the additional obligations the Federal Government may assume in connection with the continuance of existing programs or possible initiation of new programs that may be financed outside of the conventional budget.

I assume we will discuss that later on.

In addition to the anticipated deficit for 1956, a deficit of $4.5 billion is expected for the current fiscal year. These deficits raise serious questions as to the wisdom of Congress in having made tax reductions of the nature and in the amount authorized last year.

Because the economy has made only a limited recovery from the 1954 recession in our belief a moderate Federal deficit at this time is not alarming. However, to the extent any portion of the $7.4 billion in tax reductions made last year were premature or ill advised, they contributed to bringing about unnecessary deficits.

Another somewhat disturbing aspect of present fiscal policy is the increasing emphasis that is being placed on State and local governmental assumption of financial responsibility for the support of existing or contemplated services. State and local governments which have become increasingly dependent on regressive forms of taxation have increased their indebtedness by 85 percent during the past 5 years—$20.9 billion in 1949 to $39.9 billion in 1954.

The variations in taxpaying ability among the States are obvious—per capita income, $834 in Mississippi, $939 in Arkansas, $2,304 in Delaware, and $2,194 in Connecticut. There is an equally widespread in the proportion of income being paid by States in local and State taxes, less than 6 percent in Ohio, more than 11 percent in North Dakota. Federal fiscal policies, in our opinion, should be directed at minimizing the excessive drain on resources in those States where taxes are excessively high in proportion to income, yet are inadequate to provide necessary local and State services.

The CHAIRMAN. Thank you very much, Mr. Elder.

Since the remainder of your paper deals with these other questions, I think perhaps we will stop there.

Vice Chairman PATMAN. Mr. Chairman, may I present a personal statement about something which I think is timely because of the announcement in the paper yesterday.

The offer of the 40-year 3-percent bonds should be withdrawn by the Treasury.

This offer is intended to set the future borrowing rate at one-half percent higher than the rate at which the last financing was financed. This will result in a needless cost of billions upon billions of dollars in extra interest charges. The 40-year 3-percent bond interest represents the culmination of a second attempt to establish a long-term interest rate that cannot be sustained by the basic conditions underlying the American economy.

The long-term trend in interest rates is closer to the 2½-percent rate than it is to the 4-percent rate of the 1920's that Secretary Humphrey and Mr. Burgess are trying to restore.

This second effort threatens to undermine the economic stability of the country in precisely the same fashion that the first abortive effort did in 1953.

This bond issue will force up the cost of all public and private borrowing. It will further depress the farm parity ratio as the farmers' interest costs rise in the face of a continuing drop in farm prices.

This issue represents a deliberate effort to permanently freeze the one-half percent increase in interest rates arbitrarily imposed on veterans' home mortgages by the Secretary of the Treasury in May 1953, 4 days before the Federal Reserve moved to loosen the credit supply.

In the 2 years since the hard-money crusade began the interest share of personal income has risen 11 percent. The wage and salary share is lower today that it was in 1952 and 1953. The farm and business proprietor shares are at their postwar lows.

It is time to call a halt to the campaign for the enrichment of the lenders.

Thank you, Mr. Chairman.

Representative CURTIS. Mr. Chairman, just a minute.

Mr. Patman, was that your statement?

Vice Chairman PATMAN. My personal statement, yes.

Representative CURTIS. Mr. Chairman, I would just like to suggest at this point that this committee is supposed to be, as I understand it, a study group, and I hope that we won't have political remarks read by any of the members, myself included, in conducting our studies. I do not think that is the purpose, and I think it interferes with the orderly procedure of the committee, and I would suggest that the remarks be withdrawn from the record of this committee.

The CHAIRMAN. Do you so move?

Representative CURTIS. No, I am suggesting, first.

Vice Chairman PATMAN. I want to be heard on that, Mr. Chairman.

I think I am about the least political—I should not say that—but I try to be as nonpartisan as possible. Certainly I have worked in a bipartisan climate and atmosphere, and tried to create one.

Representative CURTIS. Will the gentleman yield for clarification?

Vice Chairman PATMAN. Yes.

Representative CURTIS. My point was not as far as the statement itself was concerned. On the floor of the House, or somewhere else, I think it is highly proper, and I was not going to the merits of it. I was simply raising the propriety of that kind of statement being injected into the record of this committee which is attempting to make studies.

Vice Chairman PATMAN. Well, we never would get anything done if you wanted to say that you should not say anything——

Representative CURTIS. If this were in the nature of a question, sir, directed to the panel it would have propriety, but I could see how this would get completely out of bounds if I were to take on that public statement of yours to challenge its accuracy.

Vice Chairman PATMAN. I wish you would. If it is not accurate, I hope you challenge it.

Representative CURTIS. I would, sir, on the floor of the House, where I think is the proper place, but I do believe that it interferes with what our committee is trying to do.

Vice Chairman PATMAN. I will look forward with pleasure to your doing that.

Representative CURTIS. Well, I do not think it will further the efforts of this committee, as I see this.

Vice Chairman PATMAN. I could have embodied this in a question.

Representative CURTIS. Had you done so I think it would have been in much better form.

Vice Chairman PATMAN. Well, I disagree with the gentleman, and I know something about the practices of this committee in the past.

Representative CURTIS. Without any rules, that is what I have already found out, that everything has been found apparently without any rules or procedure or anything.

Vice Chairman PATMAN. We have never had any trouble.

Representative CURTIS. As long as I am a member of this committee I am going to do my best to see that it does follow orderly procedure, and to see that there is some semblance of order.

The CHAIRMAN. Mr. Galbraith.

Representative CURTIS. Mr. Chairman, I made a suggestion that that be withdrawn from the record.

Now, Mr. Patman does not want to do that.

Vice Chairman PATMAN. Well, let us see if the panel disagrees with the statement.

Representative CURTIS. Well, if you want to proceed in that fashion, if you are going to ask the question, that is one thing, but if it is just a statement for the newspapers, that is another.

Vice Chairman PATMAN. I would like to ask the panel if the panel disagrees with that statement.

The CHAIRMAN. Does anybody want to volunteer?

Mr. GALBRAITH. Mr. Chairman, I agree essentially with Mr. Patman's statement. I think the effort to extend the period of the bonds, and the increased interest rate that is involved are unwise.

Mr. LUTZ. Mr. Chairman, I would disagree with the statement.

Mr. VICKREY. I propose to disagree with the statement. I will disagree in my turn.

The CHAIRMAN. Does anybody else wish to volunteer any information?

Senator SPARKMAN. I wonder, Mr. Chairman, since we are submitting this to the panel, if I could ask this question: Do the members of the panel now, regardless of what your attitude may have been back when the 3¼ percent issue was put out, do you now believe it was a mistake to put out that issue?

Mr. GALBRAITH. Mr. Chairman, I think I was misunderstood. I said I essentially agree with Mr. Patman's statement.

Senator SPARKMAN. I understood that. Then I was asking about the 3¼ percent issue that was put out. I am asking with the advantage of hindsight—I am not asking what your viewpoint was at that time, but now looking back, do you think an error was made in the issuance of those bonds?

Mr. LUTZ. May I ask, Senator, are you referring now merely to the 3¼ percent rate?

Senator SPARKMAN. The bond issue put out at the 3¼ percent rate which precipitated that whole thing.

Mr. LUTZ. Is your question directed to the 3¼ percent rate, or the length of maturity of the bond?

Senator SPARKMAN. I would combine. I say the bond issue as it was put out.

Mr. LUTZ. Well, it seems to me——

Senator SPARKMAN. Of course, I think the rate would be primarily the thing, but the term naturally would be a factor.

Mr. LUTZ. The rate would be a function of the term of the bond.

Senator SPARKMAN. Yes, I realize that.

Mr. LUTZ. As I recall the trend of yield on long-term issues, at that time they had no issue quite as long as the proposed 3¼ maturity.

Senator SPARKMAN. Nor a rate that high.

Mr. LUTZ. The rate was moving up to and actually attained about $3\frac{1}{4}$ in the months before the bonds were put out. If the only guide that the Treasury has is the present attitude of the market, then it seems to me if they have proposed a long-term issue they could hardly have made any other decision with respect to the interest rate offered on that particular issue.

Senator SPARKMAN. Now, you speak of the trend, and it is true that the trend was up, but wasn't that influenced very largely by the feeling that was freely advertised all over the country to the effect that the Government was going to increase interest rates?

Mr. LUTZ. I could not answer that.

Senator SPARKMAN. And is it not true that the yield itself never exceeded 3 percent until this issue was put out? The interest rate did not actually climb to $3\frac{1}{4}$ but was probably around 3 percent, even with that emphasis.

Mr. LUTZ. It is my recollection that in April it was 3.16 and in May it rose to 3.24 or 3.25.

I am speaking now from memory.

Senator SPARKMAN. Of course, this was announced, as I recall, about the first of April.

Mr. LUTZ. I cannot say.

Senator SPARKMAN. I believe it was. It was issued May 1.

I am reminded by a staff member it was proposed in March.

Representative CURTIS. Would the gentleman yield?

Senator SPARKMAN. And the $3\frac{1}{4}$ rate was not reached until in April; is that right?

Mr. LUTZ. Yes, it was just under 3 percent back in March and April.

Senator SPARKMAN. On a similar panel we discussed this last year. I remember Dr. Nourse stating his position, that he felt it was too much too fast. I believe that is what he said.

Representative CURTIS. Will the gentleman yield a minute for a question of procedure?

Mr. Chairman, I would like to point out that we have a series of questions that were prepared for this panel. I think that is what we should be on, and I understand that Monday we take up this question on monetary matters, and that was really the reason, Mr. Patman, that I raised the question of bringing in these extraneous things at that time.

I am interested in your question, too, but I would like to suggest that we proceed in order on the questions prepared for the panel.

Senator SPARKMAN. Mr. Chairman, let me say that I fully agree with Congressman Curtis in that statement. However, I thought we were discussing fiscal matters now. I thought that was this question before us.

Representative CURTIS. I think it says monetary policies.

Senator SPARKMAN. If you will notice, it says our fiscal policy for 1955. That is the question we are on now.

Representative CURTIS. Yes, sir; but if the Senator will read the questions that have been prepared to ask the panel you will see that we have some specific things to go over, and I think it includes other matters.

The CHAIRMAN. These questions are suggestions. They are not definite rules of the committee.

Senator SPARKMAN. Well, I am perfectly willing for it to go over, but I do think it is a subject that ought to be discussed, because I may say that I think that 3¼ issue probably gave us more real troubles during the last 2 years than any other single thing in fiscal affairs of the Government.

Mr. Bolling.

Representative BOLLING. Mr. Chairman, speaking of the matter of procedure, it is not my understanding that the panel or the committee are limited to the discussion of only four questions or whatever the questions are. We are discussing a general area.

The CHAIRMAN. That is right. These questions were thrown out for the purpose of aid.

Mr. Galbraith, do you want to discuss question I now?

Representative KELLEY. Mr. Chairman.

The CHAIRMAN. Mr. Kelley.

Representative KELLEY. Let me get this clear. Is there objection raised to a statement coming from a Member of Congress in regard to the subject matter? Can the Members of Congress not express an opinion? Is that the objection?

If that is true, then I suggest we might fold up our papers and go home.

Representative CURTIS. No, sir; I would be very glad to speak to that. My objection was to the timeliness of whether or not it was within the purpose of this committee to bring in matters at that time. I was suggesting if that was a statement, the proper place for it was the floor of the House; if it was a question propounded to this panel, I was suggesting that this panel had been set up with a view toward discussing certain questions, and then we have the questions that would fit along the line that the Congressman was speaking. Naturally, any Congressman can say what he pleases, but I am very much concerned that this committee keep its eye on what appears, to me at any rate, to be its object, which is to study the economic report and break it down, as has been broken down in these panel discussions, and take it up as we have been doing in an orderly manner.

Representative KELLEY. I had the impression that what Mr. Sparkman said was related to the subject matter today.

Representative CURTIS. That, of course, is a question of opinion and I was suggesting that the way to determine it would be to look at the suggested questions to this panel and then look at the suggested questions for Monday.

Senator SPARKMAN. I am very glad to waive my questions until Monday.

The CHAIRMAN. You are not moving to strike from the record?

Representative CURTIS. No, sir; not as long as he asked it in the form of a formal question to this panel; no, sir.

The CHAIRMAN. Mr. Galbraith.

OPENING STATEMENT OF JOHN K. GALBRAITH, PROFESSOR OF ECONOMICS, HARVARD UNIVERSITY

Mr. GALBRAITH. Mr. Chairman, question 1 asked briefly about our fiscal policy for this coming year. This requires an assumption as to what the economy will be like during the coming year, and without going into detail on matters the committee has always covered, let me express my own view very quickly.

There is much that is admirable in the report of the council this year. I think it has shown considerable grace and ease in getting away from the cliches of a balanced budget and the unspeakable evils of deficit financing. Indeed the administration as a whole has shown a remarkable flexibility of mind in the speed with which it has moved away from these slogans.

I am reminded, Mr. Chairman, that the late Lord Keynes said in 1935, in a letter to George Bernard Shaw, that he was engaged in witing a book which he thought, in 10 years, would revolutionize thinking on economics. That was in 1935, 20 years back. I think, however, if he had been pressed he might have allowed himself an extra 10 years to capture a Republican administration.

I hope, Mr. Curtis, you understand that I am being purely scientific in this. There is no partisanship involved.

Representative CURTIS. The panel can say anything they want.

Mr. GALBRAITH. Much of this year's report, as I say, is admirable. It does, it seems to me, reach two conclusions that are worth examining. It concludes that the economic policy of the Government has been conducted during the last 2 years with impeccable wisdom and insight, and that no mistake of any sort has been made. I do not know that that is so important for our consideration here. I do think we should ask ourselves sometime who it is that is fooled by this kind of ritualistic claim. I do not think either Democrats or Republicans should suppose that on economic matters they are really quite that wise. We should allow ourselves a little more room for error. However, what is much more serious, the report concludes that everything in this coming year will be perfect, that we shall have full employment, no inflation, and that there will be no tendency for the kind of high-level stagnation of this past year to continue. This should worry us, because I think if the committee were looking for bad news it could find some.

We have a business administration which prides itself on being hardheaded. My secretary wrote "hardhearted", but I want it clearly understood that the word was "hardheaded", and it seems to me that the essence of the realism of a hardheaded administration is to look things in the face. It should emphasize the bad news rather than the good and always be prepared for the worst. We can properly wonder whether that has been done in this report.

I, myself, would place much more emphasis than the report does on the fact that private investment is still declining and that the farm picture is still not good, and that we might be in something like an inventory cycle in housing, and that part of the upswing in the past year was undoubtedly the result of the special situation in the automobile industry. Now if these things are important, Mr. Chairman, it seems to me that our fiscal policy should reflect them. Our fiscal policy should reflect the bad news rather than the good news. On this assumption I should like to make 2 or 3 suggestions on that policy.

My first suggestion would be that we don't pare expenditures for purely fiscal reasons. We should pare them as required for reasons of efficiency. We should not spend money unnecessarily. But on purely fiscal grounds, we should not be kept from making up the very important backlog of work that needs to be done in this country.

There are things, as we all know, of great urgency that need to be done. These include roads, education, health—I am rather sorry that I mentioned roads first because they are not the most urgent—housing, area redevelopment program, resource development, and so forth. Then on purely fiscal grounds——

Senator SPARKMAN. May I interrupt there? I did not get your purpose for saying you were sorry that you mentioned roads first.

Mr. GALBRAITH. Well, I must say, Senator Sparkman, that some things here disturb me and I will mention them in response to a later question. I hope the Congress will look very carefully at the new road program and at the proposal to tie it to its own source of financing. This device would give roads a preference over other needed services of the Federal Government. Important as roads are there is danger that they will somehow achieve a magic priority over other things of equal or greater importance. That is the only reason that I said that.

Senator SPARKMAN. Now I will just throw out this thought, since I probably shall not be here when you take the other question. The Senate meets at 11 and I want to go over.

I hope that when the roads program is discussed, some thought will be given to what I think is a real weakness in the proposed roads program, particularly for the smaller States or those States that will have a relatively small mileage on the interstate system.

My State, for instance, will not be as well off under the new program as it is now, and it cannot even match the funds that the Federal Government provides now, so how is the new program going to be helpful to a State like mine?

Representative TALLE. Mr. Chairman.

The CHAIRMAN. Mr. Talle.

Representative TALLE. Perhaps Dr. Galbraith will be good enough to include in that list of important things the item of flood control.

The CHAIRMAN. On the upper Mississippi.

Representative TALLE. Thank you for helping me.

Representative CURTIS. Well, St. Louis.

Mr. GALBRAITH. Mr. Chairman, I am not advocating a frantic spending program. It does seem to me that the useful things this year should not be cut on purely fiscal grounds.

On the tax side, I would urge that the Congress keep an open mind for the time being. If things are as good as the administration expects—if the rule works out that has been so much practiced in the past year, namely, that the future will be not what we make it, but what we say it will be—then I would be against any tax cut. I would support the President in continuing the corporate rate, high though it is, and in continuing the excises. If it should develop, come April or May, or even as late as June that we still have substantial unemployment, three or four millions unemployed, then I would urge a tax cut. However, I would not urge a cut in the corporation rate or even in excises.

The stock market has been very strong and I think it would be unstabilizing to cut corporate rates at this time. This is something that should be done later at a more propitious time. It is evident that an increase in corporate earnings is not urgent at the moment. A tax cut this spring would be for the purpose of stimulating expenditures or adding to purchasing power in the economy. This means that the cut should be in the personal income tax, and I myself would urge that it be accomplished by lifting the exemptions.

I hesitate to make these suggestions in the presence of people who are much more expert than I am. I hope that Congressman Mills, for example, understands that these are not the suggestions of a profound tax expert.

Mr. Chairman, my other comments have to do with the specific questions that were asked, and I assume that you want to come back to those later.

The CHAIRMAN. That is right.

(Mr. Galbraith's prepared statement appears at p. 389.)

The CHAIRMAN. Mr. Groves.

OPENING STATEMENT OF HAROLD M. GROVES, PROFESSOR OF ECONOMICS, UNIVERSITY OF WISCONSIN

Mr. GROVES. Senator Douglas, members of the committee, I will confine my remarks to about three specific points. In general, I agree quite well with the statement that was just made, with one exception, that I shall come to.

I have outlined here some six alternative possibilities (and there are more) with regard to the matter of budget balance. I have selected the last of these for endorsement. This may be described as calling for a somewhat higher level of expenditures, and of taxes. The tax adjustment would not take the form of higher rates, but of tightening the tax structure, particularly at points commonly called loopholes.

Secondly, with regard to tax reduction in general, I am somewhat skeptical of the recession-curing quality and character of tax reduction. Of and by itself, I have no doubt that it is effective, but the trouble with tax reduction is that it carries with it a constant urge to also cut expenditures.

I suppose there is engraved in the subconscious of all of us a notion that an unbalanced budget is sinful, even though we may talk to the contrary. If we cut taxes, we have the urge to cut expenditures. The orthodox position with which I am not going to quarrel is that a balanced reduction of taxes and expenditures is not counterrecessionary or counterdeflationary, but quite the contrary.

However, my position with regard to increasing public expenditures, is not so much based on economics, as upon the interest in the public services—in other words, it is based upon the proposition that the public needs at the present time are, on the whole, somewhat greater than private needs, and that consequently certain expenditure increases for things like education, foreign aid, and so forth, are warranted.

I do not think we should have a deflationary budget, and consequently I am recommending a balanced strengthening of both the tax side of the equation and the expenditure side.

I might make one further general remark, and that is that I am always skeptical about increasing income-tax exemptions, because with as high-powered a revenue system as we have, it is necessary to reach a very large number of people, and have a broad base, and if we do not do it by taxes that are rational and direct and progressive, we are almost sure to do it by taxes, looking at it from the standpoint of the long run, that are distinctly inferior in quality. A long-run trend toward prewar exemption levels would hardly make for an improved tax system.

(Mr. Groves' prepared statement appears at p. 393.)

The CHAIRMAN. Mr. Heller.

OPENING STATEMENT OF WALTER W. HELLER, PROFESSOR OF ECONOMICS, UNIVERSITY OF MINNESOTA

Mr. HELLER. Mr. Chairman, I would like to start out by taking just a little exception to Mr. Galbraith's comments that Keynesian on economics has been embraced by the present administration, if that is in effect what he is saying. Although the administration has incurred continual deficits, they have done so with evident distaste. This distaste is certainly not as strong in the Council of Economic Advisers, whose excellent and beautifully written statement acknowledges the need for deficits at times, as it is in the Treasury Department, where the distaste seems to be both strong and persistent. It seems to grow out of a failure to distinguish between what one might call constructive deficits and destructive deficits. Constructive deficits are those to which the economy's response is higher production, higher employment, and higher real national income. Destructive deficits are those to which the response is inflation and distortion of the economy.

Turning to the 1955 fiscal-policy question, I feel that we are now in a period in which deficits are constructive. As others have pointed out to the committee, our rate of production is runing some $20 billion short of our potential, maybe more. Therefore, Federal deficits are more likely to evoke a higher production response than a higher price response.

Now, if we do not increase our deficits (or our tax-financed expenditures, if that be the route preferred) in order to meet our pressing defense and economic development needs, both at home and abroad, I think our economy can afford the risk of further tax reduction.

The suggestion has been made to the committee that a reversible tax reduction be undertaken. In other words, tax reductions in the corporation and excise taxes and personal exemption increases should be put into reversible form, that is, made temporary and subject to recall. Rather than wait and see, as Mr. Galbraith proposes, I should prefer this route with the possibility of reversing action, if this is found to be necessary.

In proposing tax reductions now, I am relying in part on the tremendous capacity to absorb inflationary pressure that the United States economy has demonstrated. Remember that the terrific inflationary pressures after Korea led to only about 9 months of inflation and that we have had essentially 4 years of price stability since early 1951. Remember that we have had that price stability in spite of, or possibly because of, a tax level of about 33 percent of national income, which incidentally seems to give the final and conclusive lie to Mr. Colin Clark's 25-percent tax limit idea. These facts lend strong support to the proposition that, if there is unemployment to be overcome, we can and should take a greater risk of inflation than we had thought advisable in earlier times.

(Mr. Heller's prepared statement appears at p. 395.)

The CHAIRMAN. Mr. Lutz.

OPENING STATEMENT OF HARLEY L. LUTZ, NATIONAL ASSOCIATION OF MANUFACTURERS, NEW YORK, N. Y.

Mr. LUTZ. Mr. Chairman, I interpreted your questions with the same freedom that you described them, that they are not firm directives, but merely suggestions. I have a statement on the economic report which is rather brief, in the course of which I shall probably answer a good many of your questions.

The CHAIRMAN. I think that is fine. If it is possible for you to treat primarily of question 1, that is fine, because I checked Mr. Elder, but he was in his statement possibly going on to subsequent points, but we believe in latitude.

Proceed, please, Mr. Lutz.

Mr. LUTZ. I think I shall get to that, Mr. Chairman.

In the time at my disposal I shall discuss briefly the economic and political philosophy of government which is revealed in the economic report at different points and in various ways. My interpretation is that this report undertakes, rather unsuccessfully, to steer a course between a free, private economy and a planned economy. It is natural, no doubt, that a report prepared by and for the Government should place the major emphasis on what the Government has done.

In my view, however, the reasons for concern go deeper than recognition that a Government agency is naturally inclined to extoll and support its employer. The fact that the Council of Economic Advisors is a Government agency, gives its views and its proposals a weight of authority that no nongovernmental organization could carry in expressing the same ideas.

The tone of the report is set, on page 2, by an enumeration of basic tenets which are said to underlie the administration's economic actions and its future program. Four of the six propositions advanced there deal with what the Federal Government is doing or intends to do, and only two relate to the private economy as a matter of major concern. Another example of the emphasis on the superior role of government is in this sentence from page 48:

> Budget policies can help to promote the objective of maximum production by wisely allocating resources first, between private and public uses; second, among various governmental programs.

This is a disturbing statement because, in my view, it points directly toward the planned, and eventually the socialized, economy. It says, in so many words, that maximum production can be promoted by permitting the budgeting authority, in its superior wisdom, to determine the allocation of total resources between private and public uses.

From this it follows that if the budget authority should decide to increase the public share of total resources, the private share would be correspondingly diminished. Concretely applied, this means that if in its superior wisdom the Government should increase its budget in order to apply more of it to the production of particular goods such as steel, rubber, aluminum, electric power, or other things, there would be less private resources and a smaller total of private production than would otherwise be the case. It is impossible to avoid the implication that total production can be increased by getting the Government into business through absorption via the budget of a larger share of total resources.

Economic production is the peculiar domain of private capital and effort. Government encroachment into that domain is not conducive to a larger total, particularly in a society which is as well equipped as is our own with private managerial competence and all else that contributes to productive efficiency.

Long ago Adam Smith observed that the functions of sovereign and trader could not be merged without detriment to the performance of one function or the other. The business of government is to govern and our society will advance most rapidly if the public functions and services are kept within that sphere, and if the portion of total resources drawn into public use is held to the minimum required for the efficient performance of the necessary public services.

This conception of the nature and function of the budget rejects the doctrine that the chief purpose of the budget, and of the spending and taxing power, is to pump money into or out of the economy as determined by the aims and intentions of a superplanning agency. Adam Smith said that when a ruler attempted to superintend the industry of private people and to direct it toward the employments most suitable to the interest of the society, he was undertaking a duty in the attempting to perform which he must always be exposed to innumerable delusions, and for the proper performance of which no human wisdom or knowledge could ever be sufficient.

I would direct your particular attention to the gap between certain expressions of our national objectives, and aspirations, on one hand, and the omissions from the report of adequate recognition of the actions required if these lofty and worthy ends are to be attained.

On page 4 are these statements:

> Our economic future depends on the full use of the great treasure house of intelligence, skill energy, and confidence of the American people.

And again, from the same page:

> * * * unless there are satisfactory jobs for those who seek useful employment, and unless human labor is devoted increasingly to the production of goods and services that improve the quality of life, our gains in productivity may be dissipated.

One more, on page 6:

> Public policy must also protect incentives and encourage a spirit of enterprise and innovation among people. The man or woman who, in the hope of personal betterment, works harder, designs a new product, creates a new method, invests is a new business, moves to a better job, or suggests a new idea to his employer must believe that the rewards of initiative and efforts are worth while. Through all of its policies the Government must encourage enterprising action by business managers, investors, and workers, in an environment that is kept basically free and competitive.

These are splendid statements of our personal and national objectives and aspirations. They are entitled to command, and I believe that they do command, universal approval and support. With a platform such as these passages provide, anyone who continued to read through the report would expect to find an equally forthright and constructive program whereby the objectives set out there are to be attained.

In this respect, however, the report is disappointing. It fails to recognize adequately the great importance of private capital formation as one of the most essential conditions for the provision of satisfactory jobs, for the increased production of goods and services that improve the quality of life, and for the desired advance of the level of well-being.

There are references to the things that Government is doing to aid small business, to curb monopoly, to expand so-called public assets, and to extend social-security benefits. These and the other actions described, which constitute a combination of policing and paternalistic measures, may have beneficial effects. They cannot possibly serve, however, as adequate substitutes for the growth of the Nation's stock of the private capital which increases our productive potential.

This lack of emphasis on, or adequate recognition of, the importance of steady growth of our capital is the more surprising in view of the rate at which the labor force is growing and of the capital investment which is required, on the average to provide a productive, well-paid job for each new worker. It is equally amazing to find that, although there is a clear grasp of the bearing of heavy taxes on incentive and the provision of job opportunities, there is so little concern about the defects of the Federal tax structure. On page 49 it is said:

> It should nevertheless be recognized that present taxes are still a heavy burden. Lower taxes would tend to encourage work, promote more efficient business practices, and create more jobs through new investments.

This is an excellent description of an important line of action that must be taken if we are to have that glorious economic future which, on page 4, we are told may be ours. But on the subject of tax relief, the report offers stones instead of bread. It is said that there can be no tax reductions this year, not even those that were agreed upon a year ago. Maybe there can be something, next year, if expenditures are reduced.

As for next year, the report says, on page 49:

> Congress might then consider enacting a general, though modest, reduction in taxes and, at the same time, continue the program which was begun last year of reducing barriers to the free flow of funds into risk-taking and job-creating investments.

In my judgment, here is another weakness of the Economic Repart, namely, the failure to carry through from the perfectly clear perception of the bad effects of heavy taxes to a firm and definite position on the necessity of prompt, corrective action. The removal of other barriers to the free flow of funds into risk-taking and job-creating investments is a desirable step, but it will be relatively futile unless there is also removed the very obstructive barrier of the high taxes on incomes, and the gross discriminations of the steeply progressive rates of tax on individual incomes.

There are two sources of tax reduction. The traditional measure of such reduction has been the amount by which the public spending has been, or can be, reduced. The Economic Report places the principal prospect for tax cuts on this traditional basis.

Another sources of tax reduction which hitherto has been generally disregarded is economic growth. This factor has been recognized in the President's recent messages. The National Association of Manufacturers has published within the past week a new tax program which proposes to utilize the growth factor as a source of tax reduction. This is, of necessity, a long-range program, the projections of which are based on the historic growth trend without regard to the annual variations or temporary reversals of that trend. As a first step, a series of tax-rate reductions in the rates of corporation and individual tax is projected over a 5-year period.

My time does not permit lengthy exposition of the plan, but copies can be made available to members of the committee, or for inclusion in the record, if desired.

Mr. Chairman, may I request that the report be included in the record.

(The report referred to is on file with the committee.)

The Chairman. Thank you very much.

Mr. Lutz. The two points at which the tax-rate reductions would be made under this plan are the corporation tax rate and the progressive element of the individual rate scale.

The Chairman. Mr. Lutz, I do not want to interfere with your presentation, but since you now seem to be coming into topics covered under question 2, I wonder if you would defer comments on that.

Mr. Lutz. Certainly.

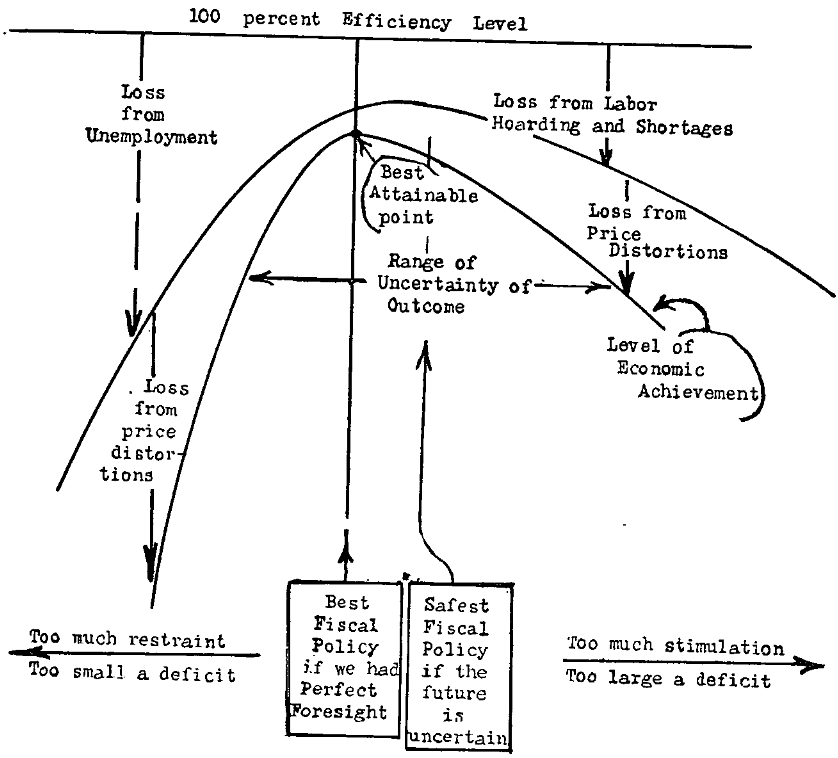
(Mr. Lutz's prepared statement appears at p. 400.)

The Chairman. Mr. Vickrey.

OPENING STATEMENT OF WILLIAM S. VICKREY, PROFESSOR OF ECONOMICS, COLUMBIA UNIVERSITY

Mr. Vickrey. I would first like to say that I concur very heartily with Walter Heller and Harold Groves, and perhaps would want to go just a little further than Mr. Heller in urging very strongly that in view of the inevitable range of uncertainty as to just what the ideal fiscal policy will be we ought to err on the side, first of all, of more stimulating action than less.

This is just a general proposition, not one that is merely applicable to this particular juncture, because, in general, the ill effects of overstimulation, are very much less serious in many ways than the effects of understimulation, and perhaps I can show what I mean by drawing a simple diagram over here on the board.



We can perhaps measure a baseline here which might be called the ideal fiscal policy, just the right amount of stimulus to achieve the best possible adjustment in our resources, and perhaps we can take the top line here to represent the economy running at a hundred percent of efficiency. Then if we err on one side or the other we will get two kinds of losses; by and large, one will be the loss resulting from ineffective use of our labor force, and we can think over here on the downward side too little stimulus will result in fairly severe loss due to unemployment.

Too much stimulus on the labor side results in a little loss, not nearly so severe, resulting from inability to find people for particular jobs at the strategic moment; that kind of thing.

But in addition to the distortions due to inadequate use of labor and other resources, we have another kind of loss due to possible price dislocations that would occur if, on the one hand, we have an inflationary situation, or, on the other hand, we have a deflationary situation. Those probably, I would judge, just from my own feelings about it, would be much less serious, and we can put the losses due to price dislocations and something like that there [indicating].

If we add these two things together we get a picture more or less like this [indicating].

Thus over on this side, we have the losses due to unemployment; over on this side we have the losses due to inflation.

My point is merely that we do not really know—I certainly cannot, and I do not think there are any gentlemen here who would be prepared to, guarantee that they could hit this best possible type of fiscal policy right on the nose. But if we have a range of error, and we happen to fall short a good deal, it is very much worse to fall short on this side than on the other, and I think that we should aim somewhere in here, that is to have more stimulation to the economy rather than less, and as Mr. Heller has just said, our recent experience seems to indicate that there is really in fact very little danger to be feared from a mild overstimulation of the economy. I do not think there is any danger that in the next 18 months or so almost any measure that is likely to get through Congress is likely to overstimulate the economy so seriously that we need to be afraid of the consequences.

Moreover, there is another point that is often overlooked, and that is that too often in fixing these overall goals of fiscal policy we talk as though there was no monetary policy to be used, and very often in discussing monetary policy we talk as though monetary policy was to be considered in isolation and apart from fiscal policy.

In a way I am a little bit sorry that you have decided to hold hearings separately on these 2 matters on 2 different days, because I think that they really should be considered jointly and together, and one of the reasons, moreover, why I would like to see a higher deficit rather than a smaller one is if we overshoot the mark and overstimulate the economy, the Federal Reserve System has the power to put on the brakes. But if we undershoot the mark, there is often very little that the Federal Reserve System can do to correct that mistake. We can correct the mistakes on the upward side; we cannot correct them on the downward side without congressional action.

Then over a longer period I think we have a definite policy decision to make which often is not made deliberately. It should be clearly realized that in the long run, at least, we can achieve full employment either with a cheap-money policy and a relatively small deficit, or equally well with a tight-money policy and a larger deficit.

Now, while these two policies may lead to approximately the same level of employment, and the same degree of utilization of our resources, the detailed effects on the economy will differ. One policy will lead to a different distribution of income as between rents, profits, and dividends, as against wages. It will lead also to a different level of the current standard of living; in general, a higher deficit would mean that we were using more of our resources to enhance the current standards of living, and less of our resources to stimulate private capital formulation. This is something that I think we ought to discuss and decide deliberately, and we cannot make a decision in this general field unless we bring the two policies together.

If we always have a fixed fiscal policy, and we are trying to find a monetary policy, then we have to fit our monetary policy to our existing fiscal policy in light of current economic conditions, whereas they ought to be considered together.

I often picture the economy as a steam engine. That is an analogy in which you use fiscal policy to get up steam, and then monetary policy to throttle the steam. You certainly want to have enough steam in the boiler so you are in no danger of stalling the engine. When you don't have very much steam in the boiler the Federal Reserve Board may be rather afraid, as I think it has been very legitimately on occasion, to apply the brakes for fear the whole thing will generally shut down.

Well, Mr. Chairman, I think that about concludes what I have to say on the first question.

(Mr. Vickrey's prepared statement appears at p. 402.)

The CHAIRMAN. Thank you.

Mr. Kelley.

Representative KELLEY. I would like to direct a question to Mr. Lutz.

He said that more emphasis should be placed upon the operation of the free-enterprise system as compared to Government policy, and he criticized the report to that effect.

I wonder what he would say, however, if the Government did not emphasize the part that the Government should play in our economy, how could the Congress carry out the mandate set forth in Public Law 304 of the 79th Congress in the declaration of policy there, that the Government should use all of its powers consistent with its needs and obligations to promote maximum employment, maximum production, and maximum purchasing power?

We have a mandate there. We have got to do something about these things.

Mr. LUTZ. I suppose you are referring to the Full Employment Act in that citation?

Representative KELLEY. That is right.

Mr. LUTZ. Well, as I recall that mandate, it says that the Congress shall use all practicable means, consistent with its other obligations, to provide the conditions under which full employment will be provided.

Now, if I could pursue my answer just a minute——

Representative KELLEY. It says "maximum employment," also "maximum production" and "maximum purchasing power," those three things.

Mr. LUTZ. That is right, and I am very glad that you linked those things together because it brings to my mind something Mr. Vickrey was just saying, that seems to be the general consensus of the panel, aside from myself: "Sure, we want everybody to have a job that can work and ought to be working." We want to have him have as good a job as possible, and earn just as much money as possible.

Now, you are going to have a million new workers every year for the next 10 years. How can you provide 10 million new jobs without providing the capital which will provide jobs in which they will earn the income they are entitled to expect, and maintain the standard of living that they ought to enjoy in this country?

I say that one of the things that has been neglected in the Economic Report, and I think neglected by implication in the way in which our tax system operates, is that we are not getting the stage set for the increase of the private capital formation by which these jobs can be provided, and you can legislate, Mr. Kelley, all you please, but unless you have got those economic facts in the picture I do not think your legislation will achieve its purpose.

Representative KELLEY. Well, you will have to admit, I think, that the Government has a function in these matters.

Mr. LUTZ. Oh, I am not saying at all that there is no place for the Government in our society, that there are not many things that the Government can very wisely and properly do. I do question, however, the advantage of assuming that the Government shall undertake not even a major role, but a substantial role, in this business of supplanting the private economy in order to provide jobs and income and to increase production. That is my central point of criticism of the report. It does not seem to recognize the importance of our tremendous treasure house of skill, energy, and initiative of the American people. We are not giving that a fair shake in doing its part, as long as we have the ball-and-chain kind of tax system.

The report admits that lower taxes will create more jobs, will create more investment, and will provide more opportunity.

Representative KELLEY. Where the lower taxes are given is another point of disagreement.

Mr. LUTZ. The place to apply those reductions is where the restrictions are the most severe against achieving these objectives.

Representative KELLEY. Will you not admit that lower taxes on income would stimulate purchasing power and also production?

Mr. LUTZ. I think that you would get a slight effect if you were going to raise exemptions, but I think that you cannot get the kind of dynamic effect on the economy through raising exemptions and reducing the taxable income base and reducing the number of people who are paying taxes in the same degree that you would get if you reduced the high and discriminatory and excessive rates on corporations and individual income, because that is where you have got to rely mainly for the increased investment funds by which the new generation of workers are going to be provided with jobs.

Representative KELLEY. Let me ask this final question: Why would corporations and individuals invest their money in business or an enterprise if they are not assured of a market for their goods? That means purchasing by the public, the wage earner.

Of course then you go back to the old question of which comes first.

Mr. LUTZ. Have you got the answer to which one comes first there?

I would say there are many areas in which markets are assured. There are many new areas and of those no one today has any conception of what they are or can be in which there is a very substantial element of risk involved, and we have got to encourage the spirit of risk taking, the spirit of new enterprise, the willingness to gamble, if I may use that word in the proper sense, on the development of a new product or such an improvement of an old product that it becomes, in effect, a new product, and the finding of new opportunities for the use of capital in the employment of labor: I will simply stand on my fundamental thesis that we must have that kind of advantage and stimulus and improvement in our fiscal and economic structure if we are going to do anything at all for the 10 million new workers that are going to be on the scene within 10 years.

The CHAIRMAN. Mr. Galbraith.

Mr. GALBRAITH. I wonder, Mr. Chairman, if I would be out of order if I asked my respected former Princeton colleague a question?

I have been concerning myself for the past year or so with matters of history, a book on the 1929 crash and on the happenings of the early 1930's. I would like to ask Professor Lutz, if I might, what in his judgment went wrong then? That was a time when taxes, as a result of Mr. Mellon's tax reductions, were almost infinitesimal by present standards. In late 1929 the Treasury cut the taxes on a man with $10,000 income by half. That meant his tax went down from around $120 to around $60 a year. This was also a time when I think by Professor Lutz' standards the Government was keeping its hands out of the economy admirably. Yet I think he would agree with me that this was perhaps not, economically speaking, the brightest period in the history of the Republic.

Mr. LUTZ. Mr. Chairman, if I were to attempt to answer Mr. Galbraith's question I would have to write a book on the twenties to parallel the book that he is writing on the thirties, because it involves all of the things that went wrong, and I am not referring now merely to Mr. Mellon's reductions of the tax rates, and Mr. Coolidge's balancing of the budget, and paying off of the debt, and so on, but there were a great many other things, as he knows, as well as the chairman, I am sure, does, and the other members of the committee, that would require, as I say, another book, equal in size to that one that Mr. Galbraith is writing about the 1930's.

Representative BOLLING. I would gather, then, Professor Lutz, that you do not feel the manipulation of the tax rate is a panacea in itself?

Mr. LUTZ. No, I do not think that anything that governments attempt to do in directing or controlling or running the economy is a panacea. In fact, I think too many people look on it as the final answer to all of our problems, and I am inclined to agree with one thing that Mr. Vickrey said, and unfortunately we are not covering that in our discussion today, and that is that we are overlooking the tremendous powers of the money and credit management invested in the Federal Reserve Board to correct a great many of these things that we attempted to do by spending money and taxing away money through the budget itself.

We need certainly to have full recognition of the things that can be done through the control, regulation, the increase of money supply, or, if necessary, the reduction of the available credit through actions that the Federal Reserve Act gives the Federal Reserve Board the power to undertake, instead of trying to do many of those things, or too many of them through the manipulation of the budget.

The CHAIRMAN. Mr. Curtis.

Representative CURTIS. Yes, Mr. Chairman.

I would like to pose some elementary questions just for my own information to see whether any of the panel disagree, really.

First of all, this is an elementary statement, but I want to be sure that economists generally agree that unbalancing or having an unbalanced budget is inflationary? Is it my understanding that there is no disagreement among economists on that, that it is an inflationary impetus?

Mr. LUTZ. May I ask a question for clarification?

Representative CURTIS. Yes, sir.

Mr. LUTZ. Well, if the budget is unbalanced the question of whether the financing of that deficit is going to be inflationary or not would depend upon the manner in which the Government gets the money to cover its deficit.

Representative CURTIS. I do not think I am being as fundamental as I wished.

Regardless of how Government does it, it might, by using the terms that were used by Mr. Vickrey, a motor and a brake, you might be able to "brake" that inflationary impetus, but my sole question is, Is deficit financing actually an inflationary factor? Is there agreement on that?

Mr. HELLER. Well, it may just be a matter of terminology. But perhaps we should put in the word "expansionary" along with "inflationary," if you mean by inflation, as many people do, that it causes a rise in the price level.

It does not necessarily do so if there are unemployed resources so that the response is a rise in production rather than a rise in prices. Consequently, I would simply amend it by saying that economists generally agree that a deficit is either expansionary or inflationary.

Representative CURTIS. Or to apply Mr. Vickrey's metaphor, it is part of the engine that would produce steam, and possibly there are other devices that might apply the brakes.

Now, the next question would be this: The amount of inflationary effect, and I am solely confining myself again, using this metaphor, to the amount of steam, depends on the amount of deficit in a particular year, but it also does it not, depend on the amount of your debt as it exists at that time, the Federal debt, or do you think it makes a difference?

In other words, let us illustrate this way: If you impose an additional $5 billion of Federal debt, when the debt level were only, say, $20 billion, would that $5 billion have the same amount of steam if you imposed $5 billion when we have a debt of $270 billion?

Now, I am eliminating for the sake of that question the ratio of the public debt to GNP, or something of that nature.

In other words, does the amount of the Federal debt affect the amount of inflationary effect an additional deficit has or is it just a constant amount in the opinion of the panel and the economist generally?

Mr. VICKREY. Well, if I could hazard an opinion, I would say that there might be some difference but it would be minor.

Representative CURTIS. You think it would tend to be pretty constant, for every billion you added it would not make too much difference what your previous debt was?

Mr. VICKREY. No; it would make a difference, of course, what the relation was to the gross national product.

Representative CURTIS. I am eliminating that.

Mr. VICKREY. At the same level of gross national product I think you would get approximately the same amount of stimulating effect.

Representative CURTIS. Do you know, sir, whether there is any general agreement among economists on that? Has there been any attempt to measure inflationary power, how much steam?

Mr. VICKREY. This, as far as I know, has not been examined in the literature, this specific question.

Mr. LUTZ. Mr. Chairman, may I comment on that question?

The CHAIRMAN. Surely.

Mr. LUTZ. I think, Mr. Curtis, it would make a very considerable difference, in this way: Let us suppose that with our present level of gross national product we had a national debt of only $50 billion, and the Government proposed to float, as you say, another $5 billion, I think the chances are that they could very easily dispose of that much additional debt among private investors who would be glad to add to their portfolios in that particular respect, and there would be no particular occasion to go into the banks for it.

Now, this comes back to the distinction that I tried to make in regard to your first question, whcih is that essentially the inflationary effect of public borrowing is conditioned pretty largely on whether the borrowing is done from the private economic community outside of the banks, or whether the borrowing is done through the banks. If it is money taken from private investors who have already received income and are waiting for a chance to use it, it is merely a transfer of funds; it does not create any additional purchasing power in the whole economy. It is only when they go into the banks that you create additional purchasing power.

Now, with a debt of 275 or 280 billion dollars, I hazard the guess that perhaps you have approached close enough to the saturation point of what private nonbank investors want to carry in that field, so your only alternative or principal alternative if you wanted to get another $5 billion, would be to get it out of the banks, and that means a direct addition to the purchasing power, and obviously inflationary effect.

The CHAIRMAN. Is it monetary purchasing power?

Mr. LUTZ. Yes.

Representative CURTIS. I want to thank you for that observation because, in my own feeble way, that is about the conclusion I had reached, when you got to a point where actually the Federal Government is creating credit in order to finance these things it is almost a geometrical proportion when you reach there, for every billion you add you are probably going to have that much additional steam as opposed to these levels where you suggest it could be absorbed in private enterprise.

Mr. HELLER. Mr. Chairman, may I just make an observation there that pertains to Mr. Patman's earlier statement? Apparently there is a feeling that we can draw money from long-term investment sources today or the Treasury would not be proposing a 40-year bond issue. In other words, that is more likely to compete with the type of, shall we say, noninflationary sources of funds of which Mr. Lutz is speaking, than would the short-term borrowing.

Representative CURTIS. I think that is a fair observation. Rather than get into actually the techniques, I was interested in the basic powers that exist, or the basic trends that these things create.

Mr. HELLER. All I was getting at was that this could take place apparently, at $275 billion of debt as well as at 50 or 25 billion dollars.

Representative CURTIS. Would it actually, though? If it were at lower levels you would find investors looking for places to put their money, whereas at a higher level you pretty well have saturated your market, and you have to figure out devices to encourage them, and you actually become, then, much more in competition with private investment.

The CHAIRMAN. Before the discussion has finished might I add a matter of fact to the discussion of this issue—on the question of personal savings.

On page 24 of Economic Indicators, the current issue, we have added some pencil figures for the last quarter. You find in 1939 total personal savings were estimated at $2.9 billion, or only 4.1 percent of disposable income. Whereas in the year 1954 the total for the year is estimated at $19.6 billions, or virtually $20 billion, or 7.7 percent of personal income. So that over the last 15 years what has happened has been that not only has the total volume of personal savings increased enormously by nearly 7 times, but it has almost doubled, relatively, to personal income. I would like to have those facts thrown out into the discussion as to whether people really think there is a drying up of personal savings.

Mr. Groves.

Mr. GROVES. I would think the marketability of bonds to individuals depend on two factors. One is the availability of money, and the other is confidence. As to the availability of money, Senator Douglas just covered that point. As to confidence, I would think the question in the mind of an investor in Government bonds would be more a matter of whether we face inflation than whether our debt market is so saturated with bonds that the Government at some future time might default on its obligations.

The CHAIRMAN. Anything further, Mr. Curtis?

Representative CURTIS. My next observation, and again it is thrown out for comment, as I analyze this thing, inflation actually could be interpreted to be another form of taxation as far as the Federal Government is concerned.

I wondered if that generality is acceptable to the panel, and whether it would be acceptable to economists generally?

Mr. LUTZ. Isn't it more accurate to say that it is a practice which has many of the worst effects of the wrong kind of taxation in that it penalizes the people with fixed incomes and limited opportunity for equalizing income against the force of the inflation?

Representative CURTIS. I certainly would say that if it is a tax, and I personally have come to the conclusion that it is a method of taxing, it is the rottenest there is. It is the worst form of taxation. But the question I am posing is whether there is any disagreement that inflation actually is a form of taxation, and whether economists generally recognize that, or whether there is a dispute on that subject.

Mr. GALBRAITH. May I say a word on that, Mr. Curtis?

Representative CURTIS. Yes.

Mr. GALBRAITH. I think there is a fundamental distinction to be made, and that is the distinction between an economy where there is a great deal of slack, a great deal of unemployment and idle factory capacity, and so forth, and an economy that is working at full capacity.

The principal effect of a deficit in the first instance will be horizontal, that is, of people going back to work, of factory capacity being used more fully. It will be only to a small extent expressed in increasing prices. In this sense Mr. Vickrey was disposed to refer to the expansionary effect rather than the inflationary effect. Of course, if prices are not going up and people are not paying more for the goods, there is no tax effect.

Representative CURTIS. I think that is a fair observation.

Mr. GALBRAITH. When, by contrast, an economy that is working all out, the tendency will be for prices to rise, and the observation that you make, I think, is a very acute one. Then inflation is the equivalent of taxation.

Representative CURTIS. Under those circumstances of expansion, as far as people on fixed income is concerned, pensions, retirement, where there is no chance of their increasing their income unless we were able to rectify through the brakes on our monetary policy, that it would, as far as those people are concerned, be a tax.

Mr. GALBRAITH. Well, not if prices are rising. Take the extreme case of the thirties. At any time, then, when new orders came in, factories did not raise their prices. They increased their output.

Representative CURTIS. I agree.

Now, then, the next observation I have is one of concern on reading the Economic Report, and also the many, many discussions that we have had in the Ways and Means Committee. There seems to be a great tendency to look upon just increasing a tax rate as thereby increasing the tax take, and I think every one here in discussing taxes, and the reduction thereof, is just assuming that reducing taxes will reduce the take, or that increasing the rate will increase the take.

Isn't it generally agreed among the members of this panel, and economists, that you can have tax rates at a point where you get diminishing returns, where in actually raising your rates you get less in take rather than more? Is there any disagreement on that fundamental observation?

Mr. ELDER. Mr. Chairman, it is my understanding that that was the theory under which tax cuts were made in the twenties, one of the theories, at any rate, and I do not think in terms of the results that that was borne out necessarily.

Representative CURTIS. In other words, you do not think that a tax rate, any rate, I do not care what it is on, can reach the point where actually the take is diminished, and I would suggest to you, sir, if you do not believe that, let us take tariffs, where exactly that device has been used, to increase the rates for entirely different purposes from tax take, and, of course, the net result has been that we do not collect anything from our high tariffs. I think my question now is broadened again.

Isn't that true of any tax rate? I do not care what you are taxing; you could tax it at such a high rate that your take would be less.

Mr. BUEHLER. May I say something on that?

Representative CURTIS. Surely.

Mr. BUEHLER. As tax rates go up the point will eventually be reached where a tax will have some effect on the behavior of the individual.

Consider, for example, the effects of a tax rate of a hundred percent. We would imagine a man saying "Why should I work; why should I invest?"

Representative CURTIS. Well, it is 87 percent for some.

Mr. BUEHLER. The tax rate is one thing. There is also another effect of high tax rates: The taxpayers may seek ways to avoid a tax legally, or evade it illegally, and thus reduce revenue. There is a third observation that I think ought to be made, which is that it is frequently very difficult to measure the effects of taxes to prove precisely that a tax does this or that, probably because so many factors are involved, and the motivation of the individual is not simply economic.

You spoke, Mr. Curtis, of the effects of the tariff. We have a somewhat similar problem in State taxation: The question in Pennsylvania, where we have relatively high corporation taxes, is whether these taxes have any effect on the movement of industry into the State, or out of the State. We have been trying to collect data for years over there, and occasionally one turns up an illustration where the effects can be measured.

We know, however, as taxes increase and get heavier and heavier they are bound to have some effect on initiative, investment, employment, and business.

I would say that as taxes become heavier and heavier they do have an effect on economic activity and revenue. We do not know exactly where the "bite" comes. I have had another thought: Consider, for example, the situation of the young men and women going out to work in the world from our colleges and universities and compare their reactions to taxes with those of their fathers and grandfathers. A boy or girl now stepping out into life goes out into a world with what the older people would think of as relatively high taxes. A young person accepts the environment of high taxes. He starts out that way. An older person who grew up when there was no income tax, or very little income tax, however, looks at it differently.

What I am saying is it is that our reactions to taxes depend partly on what we are accustomed to paying. New taxes, for example, bite harder and have more effect than old taxes to which we are accustomed.

Mr. ELDER. Mr. Chairman, I wonder if you are not entering topic No. 2 now?

Mr. Curtis, you referred to the fact that you had a high rate of 87 percent and I believe that Dr. Lutz emphasized that.

Now, question No. 2, at least to me, raises the question as to whether or not we actually do have rates.

Yes; the personal income-tax schedule does go up into the higher areas, 87 percent, and approaches 90 percent. But if you are looking at the overall picture you have to look at it realistically, and if you do that you have to recognize that you must look at the effective tax rate.

Now, if you look at the effective tax rate in terms of the statistics of income, I think you will find the figures for 1951, for example, that if you get up even into the very highest bracket, if you take the half-dozen people who have incomes of about $5 million, you will find that the effective rate on those taxpayers is considerably less than 60 percent.

Now, a tax schedule which leaves an income with $5 million or upward with a net income of $2 million does not seem to me to be excessively high. Indeed, it raises the question directly as to whether or not some of these items that are mentioned in topic No. 2 should not be discussed with a view to determining to what extent these various legalized tax-escape areas have operated to weaken the income-tax structure. It seems to me that is very important.

Representative CURTIS. Mr. Chairman, I think the panel has gotten way ahead of me because I am still on question No. 1 and I was just asking some very basic questions. Of course, the discussion that the panel has engaged in follows logically from this, but my question was solely confined to whether or not there was agreement that tax rates could be so high, not referring to any particular tax, and one came in to illustrate the point that tax rates could become so high that the tax take was less in reference to this question of allowing expenses to exceed income because when we talk about income we are talking about taxes.

Now, I gather from the discussion that there is not any real basic disagreement among economists—and that is true—that any tax rate could become so high that it would actually produce less tax take.

Now, if there is disagreement on just that fundamental question, that is all I am confining myself to.

Mr. BUEHLER. Could I add another comment to this effect: One should distinguish, and I do not know if Dr. Elder had this in mind—I am sure he is familiar with it—between what might be called the marginal rate in a progressive income tax and the average rate. The taxpayer is more affected, as I see it, by the rate on the marginal, or additional, income than he is by the average rate, and I am sure Dr. Elder had that in mind. A progressive tax imposes increasing rates on increases in income.

Mr. VICKREY. I would perhaps like to ask another question, and that is a tax rate may in theory become so high that the immediate yield of that particular rate goes down. I myself doubt whether we have any of those outside of your tariff, for example, but there is also the possibility that reducing the tax on transportation, let us say, might produce enough stimulus to the economy as a whole so that over a period of years, perhaps not immediately, but over a period of years, the result might be that the income tax yield might go up, as a result of cutting down on the transportation tax.

Representative CURTIS. I agree with that observation. The question of whether or not we have any other like I illustrated on tariffs is the immediate question that we get into, and we do get into these details, but I think you would agree that on anything you could have a rate so high that you would have diminished returns.

I would like to make one other observation and then ask one final question, if I may:

You used the metaphor of arsenic, as far as tax rates are concerned. I prefer the metaphor of a rudder on a ship, that when the ship is not going very fast, you have a pretty hard time controlling it, but if it has pretty good way on, just a little deflection of the rudder will have a tremendous effect. I think that is true of tax rates. When they are going pretty strong, you can have a tremendous effect by changing the wording slightly in the tax.

My final statement is this, and I hope everyone agrees with it: Your tax take comes essentially from tax rate times tax base. Now, tax base, in my opinion, is private-capital investment because it is the only place we can get our taxes, and therefore isn't it important to know the ratio of private-capital investment to public-capital investment in going into this field, and I would refer to the figures I have picked out, the Tax Foundation figures. I know they have, incidentally, the same chart exactly, without any additions for the year 1952, the facts and figures on Government finance in 1954 and 1955, on page 32, in their chart 16, Estimated Annual Wealth.

Take the 1929 figure, public wealth, 44.1; private wealth, 383, and that is a 9-to-1 ratio, in 1948, the last figure, it is public wealth, 71.6, and private wealth, 390.2, or just a little better than a 5-to-1 ratio.

Now in the Economic Report there is some attention paid to that, and in considering this question of expenses and income I think that the tax formula has to be considered because we could increase our tax base by continuing to move Government out of these many fields that they have gone into and we could actually reduce the tax rate and have the same tax take.

Now is there anything wrong with that logic that any of the gentlemen of the panel see? You may not agree that we should do that. I am not posing that, but whether the mathematics are accurate.

I judge by the silence that there is no disagrement.

The CHAIRMAN. Mr. Mills.

Representative MILLS. Mr. Chairman, is it the concensus of the panel that it would be unwise for the administration and the Congress to attain a balanced budget in any fiscal year involving any segment of the calendar year 1955 by reducing expenditures to do so or by raising taxes to do so?

Mr. LUTZ. Are you referring to fiscal year 1955–56, the one that the new budget covered?

Representative MILLS. It would have to be that, because there is nothing much Congress can do about the expiring budget.

Mr. LUTZ. I think you can balance the budget in 1956 and I think you ought to.

Representative MILLS. It is your opinion that it should be done. I am trying to bring out what has been said in just a few words. I understood that most of the members of the panel thought it would be unwise to do that. Is Professor Lutz the only one who thinks it would be wise to balance the budget by either reducing expenditures or raising taxes in the fiscal year 1956?

Mr. GALBRAITH. I think, Mr. Mills, it should be pointed out that, under conditions of less than full employment, a hike in taxes or a reduction in expenditures might have the effect of lowering the tax yield and increasing the deficit. This is one of the perverse features of modern life, with which we must reckon.

Representative MILLS. Those of you who do not feel that the budget should be balanced, what are the dangers, if any, to our economy, from continued deficit financing for the coming fiscal year?

Mr. LUTZ. Would you state that question again?

Representative MILLS. As I understood it, all of the members of the panel except you, Professor Lutz, felt it might be unwise to balance the budget in fiscal 1956. I am asking those members of the panel now if there are any dangers in a continuation of an unbalanced budget for fiscal year 1956 which they desire to call to the attention of this committee.

Mr. HELLER. May I speak to that point?

The CHAIRMAN. Mr. Heller.

Mr. HELLER. I think essentially what we are saying is this: Yes, there are some dangers that the deficit might have inflationary consequences if there is a tremendous resurgence in the private economy that we do not now foresee. But these dangers or "costs" of the deficit are potentially so much smaller than the potential gains from running the deficit, that we prefer the deficit to a balanced budget or surplus situation.

Representative MILLS. Now what size deficits should the Congress permit, or what size deficits should the Congress not permit in the fiscal year coming?

Mr. GALBRAITH. Could I add just a word to Mr. Heller's comment on that? I have discussed that at some length in the statement I have submitted. I think there is one thing that needs to be done in addition to minimize the danger. I said earlier that I would like to see the decision on tax cuts and hence the decision on a larger deficit deferred for as long as possible.

In addition, should the economy become strong later in the year, should there be pressure on prices and wages, should there be, in short, signs of serious or incipient inflation, then there must be a willingness to reverse direction. This places a heavy responsibility on the Executive. It must be willing to defer new capital commitments and postpone expenditures wherever it can. It will call for a strong Federal Reserve policy to the extent that this is effective and it could conceivably call for a special session of Congress to replace taxes that were cut. Such a change in direction does not involve a confession of error. We do not know what is going to happen later in the year. The administration does not know. We should be most tolerant of an administration which keeps an open mind on these matters and does reverse direction.

The thing I want to emphasize is this: The willingness to reverse direction is our source of safety in this policy. This is not a completely safe policy. Very little is safe in this world. The policy can be made safe if we are willing to change direction when it is clearly called for.

Mr. ELDER. I would go along with that, and I would go beyond that to this extent: I would say that if Congress approved additional expenditures in those areas, that it would be businesslike to consider an upward tax revision, as Dr. Galbraith suggests, to take care of those programs, and I have the feeling that they would not be too difficult to sell if they are approached on the basis of the need.

Now the dilemma, as far as these services are concerned, seems to be this: That the Federal Government up to this point has not assumed responsibility. On the other hand, the States and local governments clearly are not assuming the responsibility, and taking into account their present tax setups, it is not likely that in the immediate future they will assume responsibility much beyond what we are currently assuming.

That being the case, it seems to me we should realistic and recognize that the Federal Government, with its greater taxing power, with its greater credit resources, should not only step in for the sake of providing these needed services, but also for the sake of seeing that they are provided in a businesslike way.

Representative MILLS. Well, it is the thought of the panel that if additional services are provided by Congress, that additional revenues should be requested by the Congress of the people to compensate for those services during the coming fiscal year?

Mr. ELDER. I would say that that is a matter for Congress to determine.

Representative MILLS. We are seeking your advice on it.

Mr. ELDER. There are many factors. My feeling would be if these programs are initiated in terms of an emergency, that it might not be necessary at this particular time to consider upward adjustments in the tax rates.

On the other hand, if they are long-term programs, it would seem to me that financing should be approached on a long-term basis.

Mr. BUEHLER. Mr. Chairman, I am one of those who think that conditions are sufficiently promising, although I agree that the future is unknown to every man, to predicate action in the fiscal year 1956 on a Federal budget which would be approximately neutral.

In the budget as proposed, and of course it can be modified and probably will be subsequently, there is, I believe, a surplus of cash receipts over cash payments of approximately $600 million. I do not know how, personally, to discount the Formosa action, whether that may lead to stepped-up defense spending or not, but it does involve possibilities of inflationary spending. It seems to me that we, as a Nation, are more likely to resist recession and to respond to the challenge of a depression than we are to respond to the promise of mild inflation. We do not seem to be too much concerned about continued inflation. It is easier to reduce taxes than it is to increase them, and once we take them off, or raise the exemptions of the personal income tax, there is the difficulty of getting them back. But I do think that our fiscal policy should be flexible and that it should be related to our guess as to what the economic outlook will be.

Now another related point is that of the responsibilities of the States and the local governments. We have been working over in Pennsylvania, as they have in other States, on studies of intergovernmental relations. The work of the Federal Commission on Intergovernmental Relations has been supplemented by the studies of quite a few State commissions.

We are not a wealthy State as compared with, say, New York or California, Connecticut, Maryland, and some of the other States, but Pennsylvania ranks about 13th in per capita income payments. As one appraises our financial and economic resources, he learns that we can support education and build our schools if we want to. I am not saying, of course, that our taxes are distributed in the same way over the population as the Federal taxes are, with their heavy emphasis upon the progressive personal income tax.

I think there is this important consideration to be kept in mind: The more inclined the Federal Government is to step in and support public education and other services, the less inclined the State and local governments are to assume responsibilities. If the governor of any State, the major of any city, can look to Washington for increased Federal aid, it makes his local tax problem an easier one, and the citizens are inclined to feel that the money coming out of Washington somehow or other is money for which they do not have to pay taxes.

Mr. Elder. Mr. Chairman, if I may, Dr. Buehler's comment with regard to Pennsylvania—I am perfectly willing to accept his knowledge with respect to the experience in Pennsylvania, particularly with reference to his conclusion that the citizens of Pennsylvania are able to perhaps support schools more liberally than they are. I think we have to recognize that in Pennsylvania, as Dr. Buehler said, you have a State with above-average income, which is paying about less than 6 percent of income in local and State taxes. You have a good many of the poorer States with much below average income that are taxing their people 11 and 12 percent of their income, and are still unable to maintain services even approaching the type of services that you have in Pennsylvania. I would agree with Dr. Buehler that in approaching this whole question of Federal aid, it should not be on the basis of handout. It should be on the basis of maximum assurance that our States and our local government are really trying to do a job to provide services, and formulas can be devised that will ensure that that be done.

The CHAIRMAN. You are getting away from the first topic.

Representative MILLS. I think Mr. Lutz had some comment on that.

Mr. LUTZ. Very briefly, I think it would be proper for me to make one observation. I have already indicated the impression I gather from the views of the members of the panel, that all of them believe that the Government should keep on doing a little more to support the people. Now I am probably old fashioned. I have subscribed to the view of that great President of your own party a generation ago who said the people should support the Government and not be supported by it.

Now, let's make it concrete and get the way clear. With the kind of tax rate reduction which I am advocating here, you have, I think, a greater prospect and assurance of the economic growth that you all want than you will if you keep on needling the economy by Government deficits with or without direct inflationary tendencies. In other words, let's set a halt to this idea that it is the function and the duty and the capacity of the Government to support the people all of the time and give the people a chance to support themselves, and the Government, too.

Representative MILLS. Incidentally, we have not come to that halt yet.

Mr. LUTZ. We have not reached that turning point yet.

The CHAIRMAN. Mr. Heller.

Mr. HELLER. Just one rather important footnote to any discussions of how much of a deficit we need and whether we need a deficit: We ought to be certain that we recognize that the economic content and significance of Federal budget figures change and is changing from year to year. That is to say, a cash deficit of a given size next year might have a different economic significance than a cash deficit of the same size this year. To illustrate this, let me refer explicitly to the Mills plan for speedup of corporate income-tax collections. That has been adding about $2 billion a year, as I understand it, to Federal receipts, without a corresponding reduction of private income. It has been a speedup of collection of liabilities that had already accrued.

Now that extra collection won't occur next year, since the Mills plan cycle will be completed this spring. The result is this: If, say, we had a balanced cash budget this year and a balanced cash budget again next year, the economic impact of the two budgets might not be the same at all. Assuming no other changes, the balanced cash budget in the coming year would be more deflationary than the balanced cash budget this year. No longer having the extra collections of accrued taxes under the Mills plan, next year's budget would have to draw in funds that represent an actual withdrawal from the private income stream. This is, of course, no criticism at all of the Mills plan (which was designed to put corporations on a somewhat more comparable basis with individuals as to income-tax collection), but is merely an illustration of the care we must exercise in using budget data for economic analysis and policy.

Now this is only one of several changes currently taking place in in the economic meaning of budget figures. We are presumably going to come to that in question 6 later on, but we need to take it into account here so we don't just say $2 billion of deficit next year would mean the same thing as $2 billion of deficit this year. It might mean something quite different economically.

Representative MILLS. On that point, Mr. Chairman, you will recall that the administration last year, in connection with H. R. 8300, requested Congress to move forward corporate payments into the fall of the preceding year or the year in which the profits were earned in order to overcome the deficit of, I think, $200 million that will occur in the year.

Mr. BUEHLER. May I add a note on that, if it is germane: The things that are done in Washington are sometimes copied by the States. Referring again to Pennsylvania, we have had a speedup in State corporate tax payments, and have therefore been interested in the effects of the acceleration of corporation taxes. It would seem that during the period of acceleration of corporate income tax payments, the ratio of taxes to corporate earnings increased. It is like a wave coming in on the ocean shore, when the water rises and then subsides. During the period of acceleration there is a heavier tax payment, a larger collection of revenue. Then the wave subsides, you are back at the previous tax rate. With this new speedup in Federal corporation income tax payments that is to come into effect in the autumn of this year, corporation taxes are increased over a 5-year period.

Representative MILLS. Well, that would be permanent in that corporations would estimate earnings for the calendar year.

Mr. LUTZ. That keeps it in the same fiscal year instead of moving it from one to another.

Representative MILLS. Yes. The fiscal effect of the suggestion to force corporations to pay their taxes in March and June, rather than give them 4 quarters to pay, was to require corporations during the 5 transition fiscal years to pay on the basis of 110 percent of liability, whereas in the calendar year they would still continue to pay on the basis of 100 percent and it did give the Treasury 10 percent more corporate revenue during those 5 transition years.

Mr. BUEHLER. Yes; that was the point in which I was interested.

Mr. LUTZ. Mr. Chairman, I think one point ought to be brought out here. That $2.4 billion deficit is, to a certain extent, illusory, because at least $1.7 billion of it is interest on the trust accounts and accrued discount on the savings bonds which does not represent tax payment to the public.

The administrative budget carries an interest charge of about $6.3 billion, and only about 4.6 or 4.7 billion dollars of that interest is cash payment to the public. The rest is added to the principal of the public debt in the trust accounts and in the accounting for discount bonds, so that in talking about the effect of a deficit or whether we need one or not, we ought to recognize that about three-quarters of the estimated deficit is an illusion, as far as any economic effect is concerned.

The CHAIRMAN. But there is also the $1¾ billion which it is said the Secretary of Defense is to make from the assigned expenditures without any specific allocation, and if he is not able to make those economies, the deficit on the figures presented by the Secretary of the Treasury would be slightly over $4.1 billion.

Representative MILLS. That is all, Mr. Chairman.

(Whereupon, at 12:20 p. m., a recess was taken to 2 p. m.)

AFTERNOON SESSION

The joint committee met at 2 p. m., the Honorable Wright Patman (vice chairman) presiding.

Present: Representatives Patman, Mills, Kelley, and Talle.

Vice Chairman PATMAN. May we come to order.

Senator Douglas will not be here this afternoon. He is attending the session of the Senate, which is a very important one, as you all know.

We will continue where we left off this morning. This morning all of the members of the committee had propounded questions, except Mr. Talle, Mr. Wolcott, and myself.

Since they are not here, I will ask a few questions before starting out on these other questions that are posed by the Council. Mr. Ensley suggests that after we get through with the questioning on the first one, that we give each member of the panel, say, 5 minutes to explain his views on anything that is related to or closely related to the matters under investigation and study by this committee, which will be satisfactory.

First I would like to ask Professor Lutz a few questions, if you please, Professor.

Mr. LUTZ. Certainly.

Vive Chairman PATMAN. This morning you said something about if we had a national debt of, say $50 billion and a gross national product of, say $370 billion; is it not a fact, Professor, that the only reason we have the high gross national product is because we have the high national debt; and that it would have been impossible to have had a $370 billion gross national product with a $50 billion national debt considering the circumstances during the period that the debt was increased to its present amount?

Mr. LUTZ. Well, I think, Mr. Patman, that to a certain degree the expansion in dollar terms of our gross national product is a result of the inflation that has taken place through the increase of the debt from the roughly $50 billion in 1939 or 1940 to the $275 billions or $280 billions that we have at the present time.

Vice Chairman PATMAN. Well, in view of the emergency that we were going through, wasn't it absolutely necessary for the Government to do that, because in order to have been successful in the war and in order to take care of our domestic economy, we had to have the money, and there is no other way to get money under our fine capitalistic system except creating debts; is there?

Mr. LUTZ. Well, you raise a very interesting, although at the present time quite academic question, as to how we could have paid for World War II. I happen to have been among the few back in 1940 and 1941 who believed that it was possible to finance or very substantially finance——

Vice Chairman PATMAN. I was on your side. That was my contention.

Mr. LUTZ. Finance that war by an increase of revenues. Now if we had been able to do that, first the cost of the war would have been very much less, and, secondly, we would not have had this very large burden of debt which we now have to carry, and so in that sense the growth of our economy in current dollar terms is undoubtedly in part a product of the increase in productivity and in part an increase in the number of dollars available in which we attempt to measure that.

Vice Chairman PATMAN. Suppose I pinpoint that real question that I think is involved here, and that is the creation of money. Now, you mentioned this morning that if the bonds are sold to the commercial banks, they create the money with which to buy those bonds. I agree with you 100 percent, and for that reason I am in favor of not permitting the commercial banks to buy bonds.

I do not mean I would cut it off suddenly, but I would adopt a policy which would eventually result in commercial banks not being able to buy those bonds at all. If there is any excess left after savings of the people, life-insurance companies, and the like have been tapped, and if it is necessary to still sell bonds, I would let the Federal Reserve banks take them, rather than the commercial banks. I think it would be in the interest of the country that that be done, for the reason that the creation of money is the same either way.

In the first instance the Government would save some money as the interest would flow back into the Treasury, and in the other you have the total interest burden that the taxpayers would have to pay.

But the main question I want to ask you, Professor Lutz, is this: Under our system you agree that that is the only way we have money, by the creation of debt; is that right?

Mr. LUTZ. We get some of our money by direct Treasury action, such as the purchase of silver and the issue of silver certificates.

Vice Chairman PATMAN. Well, that is the minor part. I am talking about the billions. Now if everybody paid their debts, it would be that way, we would not have any money except the silver and the silver certificates and the Civil War greenbacks, and not very much money.

If everybody had to pay their debts, what would we do for money?

Mr. LUTZ. To whom would they pay these debts?

Vice Chairman PATMAN. To whom they owed them.

Mr. LUTZ. Then the other fellow would have the money.

Vice Chairman PATMAN. But originally the money is created and it gets back to destroying the creation.

Mr. LUTZ. I am not sure it destroys money to pay debts. An individual who owes money, and if he has a bank account, he would give his creditor a check on his account in order to settle that debt; now the debtor's bank account goes down by the thousand dollars he paid, but the creditor's bank account goes up by the thousand dollars. You have not destroyed any money in that process.

Vice Chairman PATMAN. Suppose you borrow a thousand dollars from the bank and then you go in and pay that. First you create the $1,000, at least the bank did on its books and next you extinguish it.

Mr. LUTZ. That is true. The process of borrowing from the bank creates that, and the taking up of the note extinguishes that much of the bank-deposit credit.

Vice Chairman PATMAN. You mentioned the balanced budget this morning. I am in favor of that, and I would be willing for Congress to stay in session until we do balance it. But if we cannot reduce expenditures enough, I am in favor of making it up with taxes.

Are you in favor of that?

Mr. LUTZ. I think that would depend on what kind of taxes you are going to use.

I think we might consider it this way: The maintenance of a balanced budget means that the Government is not obliged to increase its debt. Now as I pointed out this morning, three-quarters of the $2.4 billion deficit we have now is illusory.

Vice Chairman PATMAN. That is a small point.

Mr. LUTZ. That is three-quarters of the present deficit.

Vice Chairman PATMAN. Well, there is another verse to that, Professor Lutz. Overall, involving tens of billions of dollars, would you be in favor of where Congress could not reduce expenses, would you be in favor of them levying taxes such as they are willing to levy in order to balance that budget?

Mr. LUTZ. As a general rule, as a general procedure, yes, I am in favor of a balanced budget.

Vice Chairman PATMAN. And you would be in favor of taxes to do it?

Mr. LUTZ. I would be in favor of some kind of taxes for that purpose much more than I would some other kind of taxes.

Vice Chairman PATMAN. Even though you would not favor the particular kind of taxes, you would favor any kind of taxes to an unbalanced budget?

Mr. LUTZ. If the budget is seriously unbalanced, yes.

Vice Chairman PATMAN. How much would you consider serious?

Mr. LUTZ. Let me answer it negatively. I would say, disregarding the three-quarters of the present deficit that is illusory and merely a paper bookkeeping matter, that the other $600 million is not serious unbalance. I do not know how far I would want to go before I would say you were in danger. It depends on how the Government is going to borrow the money necessary to keep it balanced. If it is possible to raise the necessary funds by nonbank borrowing, it has a neutral effect, really, on the economy.

If you have to go into the banks for a large amount, then I think it is very serious.

Vice Chairman PATMAN. Now this morning you mentioned more than once that the Federal Reserve Board could affect the supply of money and credit, as I understood you. In actual practice, the Open Market Committee is the only body that affects money and credit, isn't it?

Mr. LUTZ. Well, the Open Market Committee, and possibly changes in the reserve requirements of member banks.

Vice Chairman PATMAN. Well, of course, there are the reserve requirements, but I don't think they have interfered with the reserve requirements much in recent years. They have not used that as the method. They have used the Open Market Committee as the method. Of course, the rediscount rate could be used for psychological reasons, but since the banks are not borrowing, it has no practical effect. It is sort of an understanding between all of the people in the business that that means harder money if they raise it, and easier money if they lower it; isn't that right?

Mr. LUTZ. The rediscount process does not come into play until the banks are close enough to their reserve margins so that they have to transmit some of their earning assets to the central bank in order to build up their reserve position.

Vice Chairman PATMAN. That is right, and my criticism of the Open Market Committee is that it is composed of 4 members of the board when there are 7 members of the board; there are 6 now, and 5 representatives of the private banks, and the private banks have charge of the Open Market Committee now.

It is all done in the Federal Reserve bank in New York, as you know, and it is under the jurisdiction and direction of the Federal Reserve bank there. In other words, the private bankers are operating it, and when they buy a bond, say, of a billion dollars, they in effect go to the Bureau of Engraving and Printing and get a billion dollars of Federal Reserve notes to pay for that bond; is that not right?

Mr. LUTZ. That might be one of the ways they pay for it.

Vice Chairman PATMAN. Of course, in practice they give credit. It is all bookkeeping. But it is a charge on that money printed by the Bureau of Printing and Engraving. They have got to use something to buy the bond. The only thing they can use is created money. That money is created at the Bureau of Printing and Engraving.

Mr. LUTZ. As far as it consists of Federal Reserve notes, that is so.

Vice Chairman PATMAN. Well, that is what they use. That is all they can use.

Mr. LUTZ. You know more about that than I do, but my impression was instead of issuing to a member bank or to an individual any large mass of Federal Reserve notes they would probably give him a deposit credit.

Vice Chairman PATMAN. Yes, but if they wanted the money they would use the notes.

Just like when you borrow a thousand dollars from a bank, if you want the money they give you the money right now, although they did not create it right then like your deposit there. Just like if the bank calls for the actual currency it gets Federal Reserve notes.

Mr. LUTZ. I was not aware that the Federal Reserve banks issued notes except to member banks on their requisition, because the member banks feel that the people of the community want more folding money, and the notes are not entered into the Reserve bank's balance sheet until they are set up as a liability because of having been distributed to the member banks.

Vice Chairman PATMAN. Well they issue them, Professor Lutz, to buy Government bonds. Now, they do not always issue them, as you say. They just give the person from whom the bond was purchased, or the corporation is given credit, but if they want the money they get Federal Reserve notes for them. That is the only way they have to pay. That is the only money that the Open Market Committee has. They just create that much money whenever they buy a bond. And they create $25 billion worth of it to buy $25 billion worth of bonds. So, in effect, when you say Federal Reserve Board, you mean the Open Market Committee having the influence.

Mr. LUTZ. As the operating agent of the Board in this particular connection, the Open Market Committee.

Vice Chairman PATMAN. Mr. Vickrey, I believe you mentioned this morning that we need probably more stimulation in purchasing power; is that right?

Mr. VICKREY. Yes.

Vice Chairman PATMAN. Well, that we can run the risk of some inflation better than we can run the risk of some deflation?

Mr. VICKREY. Yes.

Vice Chairman PATMAN. That is the point you made?

Mr. VICKREY. That is part of it; yes.

Vice Chairman PATMAN. And I agree with you on that, but, therefore, why should you not agree with the statement I made in opposition to these new 3-percent bonds? You know that is just siphoning off more purchasing power from people who will use it to buy goods and services, and diverting it and turning it into the hands of people who will not use it for that purpose at all. They will just wait for another investment.

Mr. VICKREY. Well, I think I would probably agree with you at this immediate juncture, that perhaps this is not the time to attempt to lengthen Federal debt, although I would disagree as to the amount of effect that has.

In effect, the Government budget runs a certain deficit, and has to borrow the corresponding funds one way or another. It is going to get those funds out of the money market, assuming that the Federal Reserve takes no action to increase the amount of money in circulation, and it can get that money either by the way of long-term borrowing or by short-term borrowing.

Vice Chairman PATMAN. And you think that we should stay by the 2½-percent rate on 20 years, for instance?

Mr. VICKREY. In the short run, yes; for a longer pull, no.

By this I mean that this is not the time to attempt to raise interest rates. The immediate present is not the time.

Vice Chairman PATMAN. Yes, sir; I agree with you.

Mr. VICKREY. But I do believe that we should run such a deficit, that it would be necessary in order to keep the economy under control to close the throttle a little bit. That is after we get to a stage of full employment, and we begin to be threatened with a price rise. Then we ought to be in a position where the Federal Reserve could take action to raise interest rates, to go out into the money market and sell Government securities, take money out of circulation.

That action on the part of the Federal Reserve, or the Open Market Committee, can be taken much more rapidly than any action that Congress can take as a rule.

Vice Chairman PATMAN. Certainly. They are taking action every minute, I guess.

Mr. VICKREY. So the point I wanted to make was that unless there is steam under the boiler, unless there is a tendency for inflation to take place when interest rates are kept low, then there would not be any room for them to take action if the interest rates are already low and they wanted to do something about heading off a recurring recession, then you can open up the throttle——

Vice Chairman PATMAN. Now, do you think the Treasury might have had in mind the proposed road bond program where they expect to have 3 percent long-term bonds, and this is sort of a pattern for it? Do you think that might have been considered in issuing this 40-year 3-percent bond?

Mr. VICKREY. I do not really know.

Vice Chairman PATMAN. I notice the Treasury today for the first time has admitted something that the Treasury has never admitted before, about these 3¼ percent bonds. They say the conditions are different now. This is from the Washington Star which also says, "Conceding the 3¼ percent bonds did have some deflationary effect on markets, they insisted that other factors such as Federal Reserve Board policy also affected the market." It is the first time the Treasury has ever admitted, ever conceded, that those 3¼-percent bonds had a deflationary effect. The paper notes, too, that Treasury officials said 3 percent still indicates cheap money in comparison to other countries where 3½ percent financing has been common.

Is it your understanding that the only major power that has been charging as much as 3 percent, you might say the wholesale rate for money, was England, and England only raised the rate yesterday to 3½ percent?

Mr. VICKREY. Well, I am not quite sure that I understand.

Vice Chairman PATMAN. I say, isn't it a fact that the only major power in the world that has been charging as much as 3 percent for money, that is what we term the wholesale rate for money, is England, but it was only yesterday that England raised the rate to 3½ percent? Is that your understanding?

Mr. VICKREY. Well, when you say "England," is this an action taken in the way in which bonds are offered, or is this an action taken by the banking system in an attempt to control the situation?

Vice Chairman PATMAN. The Bank of England, as I understand it, raised the rate to 3½ percent.

Mr. VICKREY. Well, that would correspond more nearly to the open market selling bonds at a point where the rate goes up to 3½.

Vice Chairman PATMAN. But this article refers to other countries charging 3½, but I do not know of any other major country charging 3½ except England, and that was just last year.

Mr. VICKREY. I am not familiar with that.

Representative TALLE. In that same article, it is also stated that typically the bank rate of the Bank of England has relatively little effect on the commercial rates, and that the commercial rates in England would likely remain as before, or at least would not be affected by this action of the bank to a significant degree.

Vice Chairman PATMAN. Do you believe that is possible, Dr. Talle?

Representative TALLE. Yes, I think they did it for a specific purpose. They wanted to attract money from foreign countries into their country.

Vice Chairman PATMAN. Do you believe they can hold down their domestic rate and do that?

Representative TALLE. Well, I think the domestic rates will be determined by the supply of and the demand for loanable funds.

Vice Chairman PATMAN. Perhaps they can, but I have my fingers crossed on that one.

Dr. Galbraith, I wanted to ask you a question about this proposed road program. I wanted to ask you later on, I had just as well ask it now:

On these toll roads you pay about a cent a mile. If you use the average amount of gasoline that the average vehicle uses, about 13¼ miles to the gallon, that would mean at least 17 or 18 cents extra for every gallon of gasoline, would it not?

Now, have you evaluated this proposed road program to the extent that you can tell us what you thing about the proposals to encourage toll roads in the program?

Mr. GALBRAITH. Mr. Chairman, there are really two questions here. There is the question of the principle of the toll road.

Vice Chairman PATMAN. That is right.

Mr. GALBRAITH. There is also the matter of financing. That I understand is still undergoing revision in the executive branch.

On the matter of toll roads, I pretend to no very profound judgment. I have an uneasy feeling that the old idea of free roads may have been the right one, and that we are getting a rather messy situation of different levels of tolls and tollgates, and the time might come when we would have another free road movement.

We have been through that cycle once before. The old turnpikes, as you know, were toll roads. One of the great reform movements of the last century brought us free roads again.

But let me leave that aside. I do feel very strongly about the proposals that are being made in connection with the financing of this new program. I hope Congress will look at these very carefully.

I am not normally on the side of Senator Byrd, but I think he is right on this particular issue. There is a process of elaborate and, if I may say so, expensive self-delusion in this notion that special bonds should be issued for the road program, and that they should have earmarked revenue. The purpose is partly to keep the road program from bumping into the debt limit. The simple answer to that, if the roads are essential, is to increase the debt limit. The other purpose of this financing is simply to keep the debt out of sight. The administration of late has been busy inventing devices to this end.

I have said in my statement here that a good housekeeper does not like to sweep the dust under the rug, but she would a lot rather have the dust under the rug than on the dinner table. That apparently is the way the administration feels about the debt. It does not worry nearly so much about it if it can somehow keep it out of sight.

Well, the CCC loans are being gotten out into the banks.

Vice Chairman PATMAN. The RFC was broken out that way.

Mr. GALBRAITH. We are using insurance, contingent liabilities, and now we come to this thing. We are grown up; we can carry our debt like men. Perhaps, if you won't take me seriously, I might say we have a big debt worthy of a big country.

Vice Chairman PATMAN. Well, we could not have a gross national product as big as we have without it.

Mr. GALBRAITH. As I say, I am not serious on this. I am serious when I say that this self-delusion is childish, and moreover it is going to be expensive. We are going to pay more interest in order to borrow by special arrangement for the road programs.

Vice Chairman PATMAN. Well, we are doing it now through Commodity Credit. That is an example.

Mr. GALBRAITH. Now, the test of these things should be the old-fashioned test of how we get the most for the least—how we keep down the cost as much as possible for the service that we are getting. As a taxpayer I feel unwilling to pay these extra costs for this process of self-delusion. I think there is nothing whatever to be said for the proposals that are presently being discussed in connection with the road program, and I hope the administration will revise those proposals before it submits them to the Congress, and if it does not revise them, then I hope the Congress will reject them. I hope I am sufficiently definite on that.

Vice Chairman PATMAN. Yes, as definite as you can be, I think, under the circumstances.

I agree with you that if we are going to have debts they should be in the national debt and not try to hide them. It will cost us more that way, as you suggest, and on the road program I think if we put a small gasoline tax, 2 cents a gallon, on all of the gasoline used, if we use this report as the basis for the amount used, it is probably about as much money as we could spend, and we would pay it as we went along.

I have a statement here about this debt. I asked Secretary Humphrey to furnish me a statement of financial obligations guaranteed by the United States Government which are outside of the statutory debt limit, and I have the statement here, and, without objection, I will place it in the record. The amount of indirect and direct Government obligations will surprise you.

They aggregate in all about $294 billion. That is added to the $281 billion national debt.

I will put it in the record.

Of course, it includes obligations on bank deposits, Canal Zone bonds, United States postal savings, Federal Reserve notes—Federal Reserve notes are not carried in the debt limit, although they are a direct obligation of the United States Government; every note says so. Insurance in force; Federal deposit insurance, Veterans' Administration; the guaranties of private obligations, public housing, all those, and the commitments for future loans like Farmers' Home Administration, public housing, and all of the rest of them. They aggregate about $294 billion.

(The material is as follows:)

TREASURY DEPARTMENT,
FISCAL SERVICE,
Washington, January 21, 1955.

Hon. WRIGHT PATMAN,
House of Representatives, House Office Building,
Washington, D. C.

MY DEAR MR. PATMAN: In further reply to your letter of January 12, 1955, there is enclosed herewith a statement of financial obligations and guaranties of the United States Government which are outside of the statutory debt limit.

As you know, the type of guaranteed obligations included within the debt limit are those described by the House Committee on Ways and Means, as published in House Report 246 of the 79th Congress, 1st session, while those contained in the attached statement are authorized by numerous acts of Congress covering guaranteed loans, insurance, and other programs administered by various Government corporations and agencies.

Very truly yours,

E. F. BARTELT,
Fiscal Assistant Secretary.

LONG-RANGE COMMITMENTS AND CONTINGENCIES OF THE UNITED STATES GOVERNMENT AS OF NOVEMBER 30, 1954

The attached statements and schedules cover all major financial commitments of the United States Government, except the public debt outstanding subject to limitation and those involving recurring costs for which funds are regularly appropriated by the Congress and are not yet obligated, such as aid to States for welfare programs and participation in employee-retirement systems. It includes guaranteed and insured loans and mortgages and other pledges of the full faith and credit of the United States.

Caution should be exercised in any attempt to combine the amounts in these statements with the outstanding public debt in order to avoid double counting and misleading results, as explained in the following examples:

1. Deposits in the United States Postal Savings System on November 30, 1954, amounted to $2,154,089,600. Behind these deposits, however, were cash in depositary banks amounting to $30,600,398, public-debt securities having a face value of $2,140,318,080, cash in possession of the System, and other net assets. Deposits of the Canal Zone Postal Savings System on November 30, 1954, amounted to $6,475,135. These deposits were offset by public-debt securities with a face value of $7,100,000, and other net assets. The faith of the United States is pledged to the payment of the deposits made in the Postal Savings Systems and the accrued interest thereon.

2. The face value of life-insurance policies issued to veterans and in force on November 30, 1954, approximated $42,784,212,443. This does not represent the Government's potential liability under these programs. Some policies will be permitted to lapse. On those which are continued in force, the future premiums, interest, and invested reserves amounting to $6,472,104,000, should cover the normal mortality risk. The reserves are invested in Government securities, reflected in the public-debt total. The Government will continue, however, to bear the cost of deaths attributable to war service.

3. Under the Servicemen's Readjustment Act of 1944, as amended, loan guaranties up to 50 percent on each loan for the acquisition of farms and businesses, provided guaranties do not exceed $2,000 if for personal property, and $4,000 if for real property; and 60 percent for the acquisition of homes, provided guaranties do not exceed $7,500, are made to veterans. Such loan guaranties totaled approximately $9,618,000,000 as of June 30, 1954. These loans for the acquisition of home, farm, and business property are secured by the underlying assets and are being liquidated through installment payments.

SCHEDULE 1

United States direct obligations—bonds and securities which are outside the statutory debt limit as of December 31, 1954

Panama Canal loan of 1961	$49, 800, 000
Postal Savings bonds	34, 936, 860
Matured debt on which interest has ceased:	
Old debt matured—issued prior to April 1, 1917 (excluding Postal Savings bonds)	1, 376, 510
2½ percent Postal Savings bonds	1, 694, 300
First Liberty bonds	1, 323, 500
Treasury savings certificates	88, 100
Debt bearing no interest:	
United States notes (less gold reserve)	190, 641, 585
Deposits for retirement of national bank and Federal Reserve Bank notes	242, 264, 592
Other debt bearing no interest	5, 731, 733
Total	527, 857, 180

NOTE.—In accordance with sec. 21 of the Second Liberty Bond Act as amended by the act approved April 3, 1945, obligations guaranteed as to principal and interest by the United States are included within the statutory public debt limitation. As of December 31, 1954, such outstanding guaranteed obligations amounted to $33,942,186.

SCHEDULE 2

Unliquidated obligations as of June 30, 1954

Total as reported by Government agencies, exclusive of Post Office Department, against appropriations and contract authorizations:	
Department of the Army	$9,009,591,578
Department of the Air Force	16,019,068,931
Department of the Navy	11,252,998,941
Secretary of Defense	5,185,478,686
Other agencies	7,965,765,834
Total unliquidated obligations	[1] 49,432,903,970

[1] The amount of unliquidated obligations contained in this figure is a mixture of actual liabilities plus uncompleted contracts, purchase orders, etc., for materials or services as of June 30, 1954. Some of the uncompleted contracts may not be completed for 1 or more years and as of June 30, 1954, represent commitments for future deliveries of materials or services. The agencies have not been able to furnish the actual liability portion of the unliquidated obligations. The above figure includes unliquidated obligations of appropriated funds of Government corporations; does not include any of the liabilities or unliquidated obligations of Government corporations arising from the activities of their own or borrowed funds.

SCHEDULE 3

Securities and other liabilities of Federal agencies not guaranteed by the U. S. Government as of Dec. 31, 1954

Banks for cooperatives:	
Notes payable to commercial banks	$36,000,000
Collateral trust debentures	120,000,000
Commodity Credit Corporation: Certificates of interest (Nov. 30)	1,308,339,335
Federal home loan banks: Federal home loan bank obligations	272,000,000
Federal intermediate credit banks:	
Debentures	635,060,000
Notes payable to commercial banks	5,250,000
Total	[1] 2,376,649,335

[1] Excludes obligations due other Federal agencies.

NOTE.—Does not include privately owned Federal land bank bonds of $1,029,750,900 and notes payable of $15,195,040 as of December 31, 1954.

On January 11, 1955, the U. S. Treasury, on behalf of the Federal National Mortgage Association offered for cash subscription $500 million of notes of the Association.

SCHEDULE 4

Conditional obligations as of Nov. 30, 1954

A. Obligations issued on credit of the United States:	
Funds due depositors:	
Canal Zone Postal Savings System	[1] $6,475,135
United States Postal Savings System	[2] 2,154,089,600
Federal Reserve notes (face amount)	26,435,896,598
Total obligations issued on credit of the United States	28,596,461,333
B. Insurance in force:	
Export-Import Bank of Washington	227,878
Federal Crop Insurance Corporation	[3] 353,470,000
Federal Deposit Insurance Corporation	[4] 106,214,999,000
Federal Savings and Loan Insurance Corporation	[4] 22,602,000,000
Veterans' Administration:	
National service life insurance:	
Regular	39,004,359,087
Other	2,006,621,000
United States Government life insurance	1,773,232,356
Total insurance in force	171,954,909,321
C. Guaranties of private obligations, etc.:	
Commodity Credit Corporation	855,679,318
Export-Import Bank of Washington	107,285,460
Farmers' Home Administration	66,715,486
Federal Housing Administration:	
Property improvement loans	[5] 233,994,207
Mortgage loans	16,811,222,410
Foreign Operations Administration	[6] 37,822,800
Maritime Administration	658,333
Public Housing Administration	2,583,125,465
Secretary of the Treasury:	
Reconstruction Finance Corporation (in liquidation)	10,631,228
Defense Production Act of 1950, as amended	2,052,000
Federal Civil Defense Act of 1950, sec. 409	2,115,000
Small Business Administration	7,798,765
Defense Production Act of 1950, as amended	395,388,224
Veterans' Administration	[4] 9,618,000,000
Total guaranties of private obligations, etc	30,732,488,696

[1] Excludes accrued interest.
[2] Excludes accrued interest, and represents an estimated amount.
[3] Represents estimated insurance coverage for the 1954 crop year.
[4] Figure is as of June 30, 1954, the latest available.
[5] Represents the Administration's portion of insurance liability. Estimated outstanding balance of insurance in force is $1,420,451,674. Insurance on loans shall not exceed 10 percent of the total of such loans.
[6] Figure is as of Sept. 30, 1954, the latest available.

SCHEDULE 5

Other commitments as of Nov. 30, 1954

A. Commitments to make future loans:	
Commodity Credit Corporation	$646,060
Disaster loans revolving fund	2,361,825
Export-Import Bank of Washington:	
Regular activities	539,521,405
Defense Production Act of 1950, as amended	25,502,308
Farmers Home Administration	7,762,634
Housing and Home Finance Administrator:	
Liquidating programs	1,004,300
Loans for educational institutions	42,226,200
Urban renewal fund	84,122,240
Public Housing Administration	86,175,706
Rural Electrification Administration:	
Electric program	425,736,295
Telephone program	126,001,269
Secretary of the Treasury:	
Reconstruction Finance Corporation (in liquidation)	[1] 17,147,145
Defense Production Act of 1950, as amended	[1] 86,802,310
Federal Civil Defense Act of 1950, sec. 409	3,122,340
Small Business Administration	9,943,984
Total commitments to make future loans	1,458,076,021
B. Commitments to insure mortgage loans: Federal Housing Administration	3,145,481,351
C. Commitments to purchase mortgages insured by Federal Housing Administration or guaranteed by the Veterans' Administration: Federal National Mortgage Association	546,740,627
D. Unpaid subscriptions to capital stock of the International Bank for Reconstruction and Development (Dec. 31, 1954)	2,540,000,000

[1] Includes loans sold subject to repurchase agreement.

Mr. GALBRAITH. Could I make one further comment, Mr. Chairman, in that connection:

I have in my statement here a suggestion to this committee that it ask the Bureau of the Budget for just precisely this information. I hope the record will show that there was not any collusion between us, that it is evident that good minds run along the same channel.

Vice Chairman PATMAN. I think the latter is so.

Mr. GALBRAITH. I also addressed a comment to Mr. Talle. I have been, I am afraid, a bit severe on the administration in connection with this road program, so far as it has emerged.

Let me suggest to you, sir, that my comments reflect the stoutest traditions of the Republican Party. In the 1930's under the New Deal two proposals were made by the administration to the Congress to adjust the concept of the budget. One of them was the notion that we should shift over to the cash budget. The Republican minority at that time rejected that idea, mistakenly in my judgment, but it rejected it nonetheless.

Also in the 1930's Mr. Roosevelt proposed a budget; he proposed breaking the budget into current and capital accounts. This also ran into strenuous objection of the Republican minority. On this I think the Republican minority was right. I think the capital budget does conceal more than it reveals, and I think we owe a debt to the Congressmen and Senators of that time who talked the administration out of the proposal.

What I am saying is that the tradition of the Republican Party has been very austere on these matters, and I trust that it will continue to be austere and resist these efforts to keep the debt out of the budget—these efforts to deal surreptitiously with the debt. I hope it will continue in its old tradition of keeping the debt out where we can see it and facing up to it.

Representative TALLE. If I may answer that?

Vice Chairman PATMAN. Mr. Talle, it is your time to interrogate the panel, anyway. If you will just take over.

Representative TALLE. Thank you. I do not want to cut in on your time.

Vice Chairman PATMAN. No, sir; I have finished.

Representative TALLE. Just two comments, Dr. Galbraith: One, I do not believe in concealing debt.

The English for a long time have had the practice of concealing assets. That is much better, safer practice. Second, whatever reference you make to the finest traditions of the Republican Party has my approval, and I am willing to sing hosannas to those fine traditions.

Now, if I may refer in passing to what Mr. Patman said, not in the form of rebuttal except to state the discount rate of any central bank is certainly a variable thing. At the present time I understand the discount rate is 5½ percent in Denmark, 2¾ percent in Sweden, 4½ percent in Mexico, 10 percent in Greece and Ecuador; and if it is 4 in England there is obviously a wide variance in these countries. Some rates are lower, some higher, but those are matters that are often done for government reasons, and I understand the British want to attract money to London. They are interested in getting more dollars for one thing.

I am intrigued by question No. 6 among the President's recommendations. After that I have one other item I should like to deal with, but No. 6 was touched upon by Dr. Galbraith, and I should like to pursue it first.

It says: "Increase the present statutory debt limit to permit greater flexibility in the management of Federal finances."

As we know, the increase made by the last Congress was temporary. Perhaps that is a question that will not need very much discussion. I am sure that you gentlemen who are scholars in the field have made up your minds as to what should be done with reference to that, and I would appreciate knowing what you in your scholarly judgment think should be done.

May I start with you, Dr. Buehler?

Mr. BUEHLER. Surely. What question is that?

Representative TALLE. No. 6. Increase the present statutory debt limit to permit greater flexibility in the management of Federal finance. That is a recommendation made by the President in his Economic Report on pages 49 and 50.

Mr. BUEHLER. Pardon me. Then your question is whether permission should be given to increase——

Representative TALLE. Yes. Should it be done or not?

Mr. BUEHLER. Well, I believe in being realistic in a situation. If you put the teakettle on the stove the pressure is there, the lid is going to be blown off, and if the budget is being financed in such a way that the debt limit is necessary for the financing; yes.

I am answering my own question, in a way. Of course, that may be related to the question of whether the budget ought to be cut, and we should avoid borrowing by reducing expenditures. I am not sure that that is the question that you had in mind.

Representative TALLE. Yes; what you have said is relevant.

Mr. BUEHLER. Well, there are items in every budget, I know we have them in budgets at the local and State, as well as at the Federal, level, which are wasteful. Good management would eliminate such expenditures, and the Nation's resources could be utilized to better advantage.

Then there is the question as to the function or responsibility. Of course, the big money is spent because we undertake national-defense programs. It is not a question of whether we should spend for national defense, but what sort of a program we should have, and how far we should go in developing that program; or put it the other way, what is the essential minimium for defense and other expenditures?

Representative TALLE. The Secretary of the Treasury, Mr. Humphrey, has said repeatedly that he needs flexibility in the interest of good management.

Dr. Elder.

Mr. ELDER. Well, actually in the light of what I have heard here, irrespective of what my opinions might have been upon coming here, it seems to me that the budgetary limit does not mean very much. As I understand it, the chairman of the committee pointed out that the Government is obligated to many billions over and above the obligations that have been incurred under the conventional budget.

Representative TALLE. That is, in the form of contingent liabilities?

Mr. ELDER. That is right. Which obviously must be met, and those obligations must be paid.

Representative TALLE. The Government must pay its bills.

Mr. ELDER. That is right.

Representative TALLE. Dr. Galbraith.

Mr. GALBRAITH. I agree with Mr. Elder. I think the Federal debt limit is something of an anachronism and should either be lifted or abandoned entirely. In the last analysis, the volume of the Federal debt is settled by the taxes that are raised by the authority of Congress, and the money spent under the authority of Congress. It is not set by the Federal debt limit. If we are honest with ourselves I think we will conclude that in the last 20 years the Federal debt limit has been used only for one purpose: It has been used by the minority party to bedevil the majority party, and for no other useful purpose. We have had a lot of fun at it. We have enjoyed it. But I think that probably the time has come when we should give up our pleasure and get rid of the thing.

Representative TALLE. Thank you. Dr. Groves.

Mr. GROVES. I agree that the debt limit does not serve a very useful purpose at the present time. I do not go along with the view that the size of the debt is of no importance at all. It seems to me that it is of some importance, if for no other reason than that debt management is more severe as the debt gets larger. But I am inclined to think that this consideration is not major. The fact is that the growth in wealth and income is one of the dimensions of the debt, and really is more important than the size of the debt itself.

I certainly agree with the remarks that have been made to the effect that there should not be a surreptitious increase in the debt. In any case where borrowing creates a burden on future Federal tax revenues, the data should be included in the debt statistics. The new highway program does create such a burden.

Representative TALLE. Thank you.

Dr. Heller?

Mr. HELLER. By and large I would concur with what has already ben said. It may be worth adding that some of this mischief of taking some debt items out of the public debt and some expenditure items out of the budget in the past couple of years has simply been a response to the squeeze put on the administration by the debt limit. For example, the expansion of off-the-budget financing of CCC support loans by $1.2 billion in the past fiscal year was largely a case of necessity being the mother of invention.

The financing of those by the regular type of debt would have pushed our Federal debt through the limit. So, apart from the other objections that have been mentioned to the debt limit, it leads to mischief in financial reporting and financing.

Representative TALLE. Thank you.

Dr. Lutz.

Mr. LUTZ. Mr. Chairman, Mr. Talle, I find myself in the minority once more.

I think there is virtue in a debt limit. True, we have never tested it because whenever we get into any trouble in trying to spend more than we are willing to provide we raise the debt limit, but I think there is genuine virtue in saying we are not going to go beyond this point.

Now, I will tell you why we go beyond that point, and why we are up against it now in connection with the proposed road program, and if that gets through then there are a half-dozen others right around the corner that are going to be brought forward by one or maybe both parties in Congress in order to expedite certain current benefits.

The reason we have to go outside of the debt limit, or outside of the budget, is that we want to spend more, right now, in a hurry, than we are willing to pay for right now in one way or another, and I would say that if we have to engage in a great national highway program, or a great national school construction or hospital or housing or any other program, that the limit to the annual expenditure on any of those programs should be the amount that you can get inside of a balanced budget.

We do not have to build the highway program in 10 years; we can take 20 years for it, and here is another reason why I do not think we should pile up a mountain of debt: It is not as if once we built a new set of roads, or rebuilt the old set, we would have the job done from now on. By the time we get around the circle with our 40,000 miles of highway you are going to have to start rebuilding the first batch of them, and if we borrowed for the first batch and have not done anything about the debt we are going to have to borrow again when we start rebuilding them.

The end of that road I do not need to describe to you. You know what it is.

So I say that on any of these programs, assuming that they are sufficiently important to have the Federal Government participate in them in any substantial degree, that it should be done only at a rate and on a scale that can be financed currently.

Now, I think that the chairman referred to the embarrassment that the Treasury finds itself laboring under on account of the present debt limit. We proposed as a policy of the National Association of Manufacturers a year or so ago, a margin of six or eight billion dollars that would give them enough leeway within that limit, and this does not refer to concealing indebtedness, Mr. Patman. What we proposed was that the tax anticipation certificates issued and maturing within a given fiscal year should not be included in the debt limit, and for this reason: A tax anticipation certificate is nothing but a receipt for prepaid taxes and, therefore, since it will be retired in the other part of the Government's fiscal year out of the tax cash payments by the individual or company that has acquired those certificates, it does not mean a permanent addition to the public debt.

Of course they should never be refunded. They should never be carried over to the next fiscal year.

The only thing we are worried about, and the reason we want a debt limit, is to avoid this continual addition to the public debt, and a tax certificate is not of that nature, when they are treated as they should be, which is a tax paid 3, 6, or 9 months in advance of when the law says that tax is due.

So I think we take an awfully long, deep step into the unknown if we start talking about getting rid of the public-debt limit, or any kind of finagling by which you can set up a lot of direct obligations of the Government outside of a limit that is intended to be a limit.

So to these contingent liabilities, Mr. Patman, if you view them realistically, we know that the Government is, in all likelihood, in the position where it will never have to meet anything like $294 billion of obligations. The thing the Government will have to do is be in a position to liquidate such obligations for housing, or insurance, or any of the things as may enter into contingent liabilities. In most cases the Government may not have to put up taxpayers' money in order to cover any shortage there.

Therefore, I think we ought to view those so-called contingent liabilities in a little different way than we would the hundred percent complete direct obligations of the Federal Government, because there is nobody else that is going to do anything about those, as there is in the case of mortgages, and the bank deposits, and the Federal Reserve notes, and so on.

Vice Chairman PATMAN. Well, the Federal Reserve notes are not carried in the national debt, and they are direct obligations.

Mr. LUTZ. I know. But I understood you to refer to these as part of the contingent obligations.

Vice Chairman PATMAN. They are listed by Secretary Humphrey, but they are direct obligations like any of the national debt.

Mr. LUTZ. Yes. But so are the greenbacks.

Vice Chairman PATMAN. That is the greenbacks.

Mr. LUTZ. I mean the old United States note.

Vice Chairman PATMAN. Yes; they are.

Mr. LUTZ. Well, the silver certificates are, too, as a matter of fact.

Vice Chairman PATMAN. Certainly they are.

Representative TALLE. Thank you.

Shall we hear from Dr. Vickrey?

Mr. VICKREY. Briefly, I also feel there is no virtue in the statutory debt limit, or for that matter in placing the debt in different categories, separating tax-anticipation certificates, Federal Reserve notes, greenbacks, or what have you. They are, I think, all in the same category as far as their economic effects are concerned, and that is the important thing.

Representative TALLE. I surely appreciate this response to my question.

Mr. BUEHLER. Might I supplement my brief remarks?

Representative TALLE. Surely.

Mr. BUEHLER. I think there is some usefulness to this debt limit. You know, the American Government is rather peculiar in having hearings and discussions on taxes, on the budget, and on monetary policy. I do not know too much about the foreign practice, but I think we are one of the few countries that has open hearings.

Now, as to this question of the debt limit. It provides an opportunity periodically to review and discuss the problems of the budget. It has the advantage of requiring a reappraisal of the changing financial situation and bring the issue out in the open. This is not the issue of the debt limit, basically, but the question of whether we should undertake the road program and other projects, and if we are going to undertake them, how we are going to finance the programs involved.

Representative TALLE. If the Chairman will permit me, I should like to turn to capital formation for small business.

Vice Chairman PATMAN. Go right ahead, sir.

Representative TALLE. In years past, at least years ago, a corporation could engage in some economic activity and a large part of its gross profits could be plowed back into the business, and so the business grew by being successful. The excess-profits tax bore very heavily on business, and particularly small business. Much business in Iowa is small. Most business generally is small, and I am reminded frequently that the excess-profits tax bore heavily on small business. It was dropped a year ago.

Even so, under the very high corporation tax there is not enough left after the tax is paid so that it would make much difference whether the remainder is plowed back in the business or not. At least the take by the Government is so large that small business comes to Congress for help, and in lieu of the RFC we set up a Small Business Administration to meet their needs. In other words, small business comes to Government to borrow from a fund it has, in effect, been forced to pay tax money into.

Under the former plan, the corporation could make its own decision, but under the loan plan whoever administers the Small Business Administration has something to say about whether there shall be expansion or not by granting or denying the loan. The corporation itself cannot make the complete decision.

Now as I have said, a part of the money that is borrowed, if indeed the loan is approved—it seems to me it is much easier to get a 2 or 3 million dollar loan for somebody than to get a loan of $10,000—was paid as a tax by the borrower. If growth is stopped, the growth that would have occurred without the high tax does it not appear that that is a rather damaging tax, both as to healthy business expansion and the creation of jobs that goes with expansion?

Vice Chairman PATMAN. It was repealed nearly a year ago, Mr. Talle.

Representative TALLE. Yes, it was dropped a year ago, January 1, 1954. But the corporation rate is still very high and bears heavily on small business, I would say.

Vice Chairman PATMAN. I want to make the record plain that, although I am in favor of a balanced budget, there are certain conditions under which I would be in favor of deficit financing, if unemployment becomes a problem and it was necessary to have deficit financing to solve the unemployment problems and to carry out the mandates of the Maximum Employment Act. We have seven members of the panel here and we would like to hear from you, gentlemen.

You are all acquainted with these other questions. We have covered 1, I believe, and there are 7—6 more, and if you gentlemen will just elaborate on the answers to these questions, your own views, around 5 minutes each, it would be appreciated very much.

Let's see, we will start down here with Mr. Vickery, and go up this way.

Mr. VICKREY. Well, under changes in tax structure, back in 1938, I think it was, Henry Simons made some rather caustic reference to the business of digging deep into high incomes with a sieve. Since then we have dug more deeply but the sieve has gotten bigger and better and different sizes and shapes of holes in it. Just generally speaking, I think we do need to think about the whole tax structure and how to make it make a little bit more sense.

The tax treatment of corporations badly needs overhauling. The recently enacted dividend credit does serve to moderate very slightly the differentials between corporations and other forms of organizations, but as a means of doing anything substantial toward dealing with this problem, it seems to me this is a dead end, because to equalize the burden, the credit would have to be several times higher than the level that it is proposed to reach in the presently enacted legislation. It is easy to see that this can never take us very far toward an equalization of the burden as between incorporated forms and unincorporated forms of business. This needs some form of recognition of the difference between corporations that accumulate earnings and corporations that do not. I have a rather extended proposal in this direction which I think it is not appropriate to elaborate here.

Again, the President's Economic Report speaks of the free flow of funds into investments, implying that this must wait until tax reductions become feasible. In the capital gains tax we have a chance to encourage the free flow of capital by raising tax rates and exempting. A taxpayer puts his money in a venture. His interest in the venture has increased greatly in value, and under the present law if he turns his funds into a new venture, he will first have to pay a 25 percent capital gains tax. That is not the worst of it. The fact is that if he holds on to that interest in one way or another until he dies, he can escape taxation entirely. Whereas, if we require some final accounting by the taxpayer at the time of his death, and payment then of a capital gains tax on the gains thus revealed, the deterrent to his shifting his investment from this now mature and well-ripened investment into some new investment would be merely the fact that he would have to pay the tax now, rather than later on, and that would not be such a serious deterrent to the free flow of funds.

Another step in the same direction might be taken with respect to the tax-exempt bonds. A great deal of the funds of high income taxpayers are now locked up in tax-exempt bonds which really belongs in equity investments of various kinds. And I would suggest that we might remedy this situation without unduly disturbing the market for such securities by converting the exemption into a tax credit, the tax credit being at such a rate as to maintain, approximately, the market value of such bonds, and this would operate in such a way as to encourage high income taxpayers to get out of these investments and turn these over to lower income taxpayers and release funds in this way for equity investment.

On the excise taxes——

Vice Chairman PATMAN. I did not get your point there, how you would get the wealthy people in the high-income brackets to stop buying tax-exempt bonds?

Mr. VICKREY. Well, now, you see, a person in the top brackets gets an exemption from a 60- or 70-percent tax by buying tax-exempt bonds.

Vice Chairman PATMAN. You see, the basic question there is whether or not you can disturb those tax-exempt bonds, isn't it?

Mr. VICKREY. There may be a constitutional question there.

Vice Chairman PATMAN. There is, a serious one.

Mr. VICKREY. And that is a question I would not want to address myself particularly to.

Vice Chairman PATMAN. Well, that is the one that stops the whole deal, I think.

Mr. VICKREY. But the one that is more likely to stop it in practice is the practical argument that if you disturb this exemption you will be making it more difficult for the localities to borrow and you will be upsetting capital values and all that.

Vice Chairman PATMAN. Thank you very much, and we will get back to you again when we go through the panel.

Professor Lutz, please.

Mr. LUTZ. Mr. Chairman, I will concentrate my remarks in this limited period to question No. 2, which really includes 7 or 8 questions in itself. What changes, if any, should be made in the tax structure with regard to preferential treatment of dividends? We in the National Association of Manufacturers have gone along with that proposal, but, frankly, I think we must recognize that the seriousness of that question is due almost entirely to the present high rates of individual income tax, and if we can get those rates down to a reasonable level, then the principle of the issue is not resolved, but the seriousness of the practical application of it greatly diminishes.

Depletion allowances, yes, we approve those, and we do so without venturing into the specific detail of a particular percentage rate of depletion for any industry, but the principle of allowing depletion, certainly in the more hazardous and speculative type of industry, where you never know what is under the ground until you dig a hole, is eminently sound.

Capital gains; we think that the rate of tax on capital gains could very reasonably be reduced. I think even the present rate of tax has probably prevented a considerable amount of shifting into more venturesome enterprises that might have been allowed to go on if you had not had that much of a deterrent.

On family partnerships we have no position and I have no opinion, because it is a peculiar aspect of the tax situation that we have not had occasion to go into.

Questions E and F, as to whether to raise the exempt limit or change the rates of income tax up and down, I would answer very definitely that the first move should be to reduce the income-tax rates. You would use up more tax-reduction tickets in a very small increase in the exemption than you can afford to use up in that way when you consider the relative seriousness of releasing the brakes on invention and enterprise and initiative, thrift, and aggressiveness in promoting the economic growth of the country on which we all depend for our future.

With respect to excise taxes, I again would probably be in a minority here because I believe there is a very definite place in the Federal revenue structure for a broadly based system of Federal excise taxes, and in our tax program which has been submitted for the record, you will find our views on that set out in some detail.

As to the matter of estate taxes, again my personal view is, and that is the view of the association that I am representing here, that the whole field of estate and gift taxes should be relinquished once more to the States where it was begun and developed and where it could be a substantial source of revenue, whereas in the Federal revenue picture it is about 1 percent.

Vice Chairman PATMAN. On that point, Professor Lutz, wouldn't you have this situation prevail, that each State would be competing with the other States on having low rates or no rates? I remember one State advertised all over this country at one time: Come to this State and you will have no estate or inheritance taxes, and no income taxes. They have it written into their constitution.

Mr. LUTZ. I remember, Mr. Patman, when this matter came up after World War I, the National Tax Association, in which I was rather active at that time, had taken the position on numerous occasions that the whole estate-tax field should go back to the States. The reason it was not done and the source of the 80-percent credit in the act of 1926 was the opposition of New York, Pennsylvania, and 1 or 2 of the States of the eastern seaboard, who raised precisely that point.

Now we have heard a good deal in the course of today about the financial difficulties of some of the—well, I do not like to use the word "poorer States"—but those with less well developed economic resources than other States, and I cannot quite believe in the present condition of State and local finance that there would be any State that would go as far as to offer complete exemption from death taxes unless they felt that they could attract enough wealth in there so that by income taxes or some other method they could pick up as much or more as they would out of the death taxes.

I do rely on the competition of the States to avoid the kind of excessive rates on estates at death that we now have in the Federal law. More than that, however, I think it is of very great significance in the whole State fiscal picture to have this additional revenue or this additional revenue source, and I do not think it makes any difference to the Federal Government at all, as far as the Federal budget is concerned.

Vice Chairman PATMAN. Thank you very much, Professor Lutz.

Mr. Heller.

Mr. HELLER. Mr. Chairman, I would like to comment very briefly on 2 or 3 things. First, with respect to the sixth of the committee's questions regarding the comprehensiveness of the budget, I would just like to note that the budgetary developments on highways and so forth are still in their opening stages, as far as the different methods of financing and accounting are concerned. As we move further into them, I think it is important to do three things: First, to maintain fidelity in showing the costs and the debt of Government; second, to promote accuracy in the economic interpretation of Government deficits and surpluses; and third, to make sure that if we decide to adopt capital budgeting in this country, we make our decision a conscious one rather than something done piecemeal on the appeal of particular programs like the highway program, the TVA, and the other things that have been proposed for separate financing.

Secondly, I would like to comment on the tax structural question, No. 2. Perhaps to conserve time I might read a few sentences from my statement:

> One is disappointed to find in the administration's documents no expression of concern and no proposal for action to counteract the growing erosion of the income-tax base. This point Mr. Vickery mentioned about dipping deeper and deeper with a sieve has reached alarming proportions.
>
> It was not unexpected that a great flood of liberalizations in the tax structure to stimulate business incentives and provide tax reliefs to individuals was vigorously pushed through last year. But having attended to these myriad adjustments (with only very minor loophole-closing efforts), the Treasury might have been expected to turn its attention to such gaping holes as the tax exemption of State and local bond interest, excessive percentage depletion, the failure to recognize capital gains at death, and various income-splitting devices such as family partnerships. Some of these gaps, surely, must offend the Treasury's sense of fairness and even-handedness in the application of the income tax.
>
> At the same time, the Treasury would find much sympathy for its undoubted view that top-bracket rates of 70, 80, and 90 percent are unrealistically and damagingly high. Even under a policy permitting of no revenue loss, a combined program of cutting back the top rates and offsetting the modest revenue loss by restoration of the base would have been very much in order.

And I would hope that steps along that line would be taken.

Third, may I comment briefly on the level of taxation. Underlying some of the discussion here today has been a rather persistent suggestion that the country can afford more defense, more technical assistance and foreign aid, more school programs, more highway programs, and so on. One asks oneself why, in the last analysis, those programs are not endorsed and recommended by the administration. Judging by the Treasury's pronouncements and the President's statements in his budget message relating to the damaging effects of taxation, I think the answer traces back directly to the fear of the damaging economic effects of high taxes.

Now what evidence exists to support this fear that high taxes will have such serious disincentive effects and will so weaken the sinews of our economy that we ought to tailor our defense and development programs to these presumed dangers of taxation?

No conclusive evidence exists, so no firm answer can be given. But it is worthwhile to point out that the most extensive study that has ever been undertaken of this subject, namely, the Merrill Foundation project at the Harvard School of Business Administration under the general direction of Prof. Dan Throop Smith concluded more or less as follows——

Mr. GALBRAITH. If I may interrupt, is that by any chance the Professor Smith who now has some association with the Treasury?

Mr. HELLER. Yes, thank you for this clarifying question. He is Assistant to the Secretary of the Treasury in connection with tax matters. The basic conclusion of the project as to taxes and investment incentives could be characterized essentially as follows:

If the underlying market strength for the products of industry exists, even the comparatively severe tax rates of recent years do not seriously inhibit investment and productive incentives. Or rather than take the chance of paraphrasing incorrectly, let me quote directly the conclusion presented by the associate director of the project, Prof. Keith Butters:

> If a general statement has to be made in flat, unqualified terms, the striking fact is that, by and large, the tax structure seems to have had only a relatively limited and specialized impact both on the basic incentives which motivate the private economy and on the structure of the economy. The effects of the tax structure on the aggregate levels of employment and real income realized over the last 10 to 15 years have been even more limited, as is obvious from the record levels achieved in both employment and income during this period.

But this is a question that is open to a great deal of difference of opinion and difficulty of measurement. Therefore, I respectfully suggest that the Joint Economic Committee create a subcommittee (drawing especially on its members who are also members of the two taxing committees) to make a thorough study of the economic effects of the tax structure. Such a study should, if possible, cover both the economic effects of the disparities in tax structure about which the panel has spoken and the economic effects of the overall level of taxation. If this were undertaken soon, it could make a very valuable contribution to tax legislation, especially next year.

Vice Chairman PATMAN. Thank you very kindly.

Mr. Groves.

Mr. GROVES. Mr. Chairman, I went along with the proposition which was suggested by Dr. Galbraith that we should not have hidden debt, and I also take the position, by and large, that it is as bad to have hidden subsidies in the tax system. If we must have subsidies, it is better usually to have them open rather than hidden. If it be true that the discovery and exploitation of our natural resources requires a subsidy (which I doubt) it would be better to grant it directly than hiding it in the tax system. I take it the depletion feature which allows a taxpayer to deduct the value of his assets several times over could quite reasonably be interpreted as a hidden subsidy in the tax system.

Nothing has been said about the dividend proposition which was mentioned in the questions and I will say a few words about that. I was one of those who took the position that there is a valid consideration of equity involved in the so-called double-taxation argument, but I am not in favor of the dividend-received credit that was enacted by the last Congress. I think it should be recalled, for two reasons: One economic and the other a matter of equity.

As to the economic one, I would say that the response of private investment to the tax incentives which were given in the last Congress, particularly in new capital of business enterprise, has not been of the magnitude to absorb large increases in the incomes of large taxpayers. Considering this and the present level of the stock market, I conclude that the repeal of the excess-profits tax and the changes in the rules with regard to depreciation (which I support) are all the business tax relief which is economically warranted under present circumstances.

As to the equity matter, I think that structurally the dividend-received credit stepped off on the wrong foot. On the assumption that only right rules of taxation are likely to show any stability for the future, I predict that this innovation will prove to be a bone of contention for a long time. Objections to the dividends-received credit in terms of equity are, first, that it violates the fundamental rule that the measure of a personal tax should include all of an individual's personal income. If a corporate tax is to be considered a tax collected at the source for the individual, then that corporate tax, as in the case of wages and salaries, should itself be part of the tax base.

It is a complicated point, but I think it goes to one of the fundamental differences between the dividend-received credit and the dividen-paid credit.

The second point is related to the first. The degree of doubling in the corporate and personal tax, decreases as the bracket increases, and thus is not recognized by a dividend-received credit. The final point is that in the case of certain corporations, notably public utilities, where the tax is more or less automatically shifted on to the consumer, there isn't any doubling.

However, I do not think there is any solution for this problem as long as American business takes the position that a differential tax, differential as between undistributed and distributed profits, is unacceptable.

I might say just a word about the excises. I think some of them are pretty bad, particularly the excise on communications and transportation, and that they should be retained in the tax system only with an uneasy conscience. But probably their repeal can wait until a time more favorable from the standpoint of the public needs of the country and the economic situation.

I would hope that some attention might be given to the estate tax at long last. That it is very much in need of attention most impartial critics will concede. But the last answer to the problem would be to turn it back to the States. The States and subdivisions of the country are vulnerable to a very persistent problem of tax competition. They are constantly under pressure of taxpayers threatening to move and in some cases of taxpayers actually moving because of the tax rates.

Incidentally this is the most valid ground for the expansion of Federal aid. The Federal tax system imposes a blanket levy over the whole country, but the States always have to go out on a limb whenever they increase tax burdens.

Vice Chairman PATMAN. Thank you.

Mr. Galbraith.

Mr. GALBRAITH. Mr. Chairman, the previous witnesses, Mr. Groves, Mr. Vickrey, and Mr. Heller, covered a number of points that I would have covered. In the interest of conserving the committee's time, I will just pass those by. I will also say that these men speak with more authority on tax matters than I do so that the committee will not have missed anything by my omitting them.

I am going to confine myself to just two brief points. I mentioned before the question of taking the debt outside of the budget and of the cost of doing so. This practice is not confined to the debt. The private leases negotiated by the post-office system are the same sort of thing. I also suspect that a careful examination would show that they are costing the Federal Treasury more money than the old-fashioned system of borrowing it and building post offices. Many other such devices are being invented for ostensibly shifting responsibilities away from the Government.

I view with some concern this whole development. It is based on the assumption that it is worth spending the taxpayers' money in order to do things in a particular way.

The old-fashioned test was efficiency. The Government did those things for itself which it would do most efficiently. It left to private enterprise the things that private enterprise would do at the lowest cost. Just as there is no case to be made, in my judgment, for the socialist view that the Government should enlarge its activities willy-nilly, so I do not think there is any case for shoving things out to private concerns if the result is higher cost.

We have had a number of manifestations of that in recent times. We have talked about several of them today—private leases of the post office, the shoving out of the Federal debt. We have all heard the name of Dixon-Yates.. I hope that we will get back quickly to the old rule of doing things at the lowest cost, regardless of questions of ideology.

The other point I want to make concerns the proposal to reduce taxes by 14 percentage points on overseas investments. It is a recommendation of the Randall Commission. I would hope that the Ways and Means Committee would look very carefully at that proposal. It is assumed that this will stimulate investment abroad. It was so assumed in the Randall Commission's report and it is so assumed in the report of the Council of Economic Advisers. That assumption, I think, is unexamined. I do not think it is more than an assumption. And in my own judgment it is an implausible assumption.

My own guess is that capital responds to profits. When profits are high, it will go abroad. When profits are inadequate, it won't. I also suspect that one of the reasons we have not been a great exporter of capital on private acount has been that domestic investment has, generally speaking, been more profitable than foreign investment, and a good thing, too. The private investor will send his money to Abyssinia if he can get more on it with the same security than he can get in Texas or Arkansas or Iowa or Missouri.

Representative KELLEY. And Pennsylvania.

Mr. GALBRAITH. Of course. But if he can get more in those areas, that is where the money will go, and this is the decisive question, not the matter of taxes.

Now the Randall proposals, if they are properly hedged in, if they are not made retroactive, which I assume they would not be, would not cost the Treasury much, but I think it would be a great mistake if it raised false hopes that this would stimulate the export of capital.

Vice Chairman PATMAN. If money is invested in England, can an investor draw that money back without difficulty?

Mr. GALBRAITH. As far as exchange control is concerned?

Vice Chairman PATMAN. Yes. I thought they had some restriction on capital coming out of England.

Mr. GALBRAITH. Well, you would have to get a Treasury license. However, if it were new investment—if it were postwar investment—my impression is you probably could get a license. I am not an expert on that.

Representative MILLS. Mr. Patman, I will make this observation: I do not know about England, but I do know that there are sufficient profits being brought back to the United States in the year 1954, for example, from investments abroad that the 14-point differential in tax for that year would have resulted in a loss in revenue to the Treasury of $147 million, according to the Treasury estimate, so profits are coming from some foreign sources, at least.

Mr. GALBRAITH. That would be if it were granted to past investment.

Representative MILLS. Existing investment; that was the way the proposal was last year and as it passed the House.

Mr. GALBRAITH. It would have applied to past investment.

Representative MILLS. Yes.

Mr. LUTZ. Mr. Chairman, the only way you can get profits earned in a foreign country back into this country is to be able to use the pounds or francs or kroner in that foreign country to buy a dollar draft on New York, let us say, and if there are no dollar balances available in that country, I do not see how anybody over there—the Treasury or any private bank—could sell you a dollar draft, unless they first borrow the money over here which they use to sell you that draft.

Vice Chairman PATMAN. I was referring to Dr. Talle's statement that the rate was raised in England to attract outside capital—foreign capital. I assume that they would expect to get a large part of that capital from the United States, and I was just wondering if they would not have difficulty getting it back once it was over there.

Representative TALLE. It was stated in the article I read that probably one reason for that rate was to attract money from us. Dollars were involved, but as to the second point, I cannot say. I will say, though, that when other matters have been cleared up, I would like an expression from the panel on the item that was just referred to, with respect to the second provision of the President on the 14 points.

Vice Chairman PATMAN. Yes; we will get to that.

Thank you, Mr. Galbraith.

Mr. Elder.

Mr. ELDER. Mr. Chairman, with regard to most of these points relating to areas in which the Treasury is losing revenue, I would agree with Mr. Vickrey, Dr. Heller, Dr. Groves, and Dr. Galbraith—particularly under the categories labeled A—that is, having to do with preferential treatment of dividends; B, depletion allowances for extractive industries; C, the taxation of capital gains; D, family partnerships; and H, the estate and gift taxes.

Then I would add to them, as 1 or 2 other members of the panel have, the tax-exempt State and local bonds, and then the split-income provisions which have been applied in several areas.

Reference has been made earlier to the need for balancing the budget. I do not think that there is any question but that if preferential treatment under these various categories had not been extended by Congresses during the last 10 or 12 years, that the Treasury, at present rates—that is, at the present corporate tax rates and the present personal tax rates—would be receiving from 3½ to 5 billion dollars more revenue than is now likely to be forthcoming. That very fact in itself would, it seems to me, in effect, eliminate the need for some of this discussion we have had with regard to balancing the budget.

We had a deficit last year. I believe we anticipate a deficit this year of approximately $4 billion and something in the nature of 2 to 4 billion dollars next year.

Now this raises a number of other questions, too. I agree with Dr. Heller that assuming there were equality of treatment, as far as these various areas were concerned, that it would be feasible to think in terms of lowering the top bracket rate in the personal income-tax structure, lowering it conceivably to 60 percent.

I think from the standpoint of income that the Treasury would be much better off with a top rate of 60 percent, if at the same time we could look forward to eliminating the favored tax treatment in these several categories I referred to. But I would like to comment on 1 or 2 items that have not been dealt with adequately, at least from my point of view.

There is a reference to the raising of the exemption limit. Dr. Groves referred earlier to his belief that raising the exemption limit would be a very costly business. I think we all recognize that, but it is my understanding, and I think it is generally the understanding of people who are very much in favor of the income-tax principle that exemptions were established in the first place with some relation to maintaining a reasonable minimum standard of living. That does not seem to be the case in 1954 with an exemption of $600. Certainly for an adult taxpayer $600 is inadequate.

I think I should say, further, that I recognize each increase of $100 costs $2½ billion in revenue loss, and reference has been made to the possible inflationary effect of an increase of $100 or $200. If there is a real desire to do something in the way of raising the exemption to help the people that really need help, it can be done in such a way as to mitigate the inflationary effect and even to lessen the possible loss of revenue.

If, for example, instead of raising the exemption $100, the tax relief were given in the form of a $20 tax credit in lieu of each $100 raise in the exemption, that would certainly relieve your low-income-group taxpayers and at the same time would lessen the possible loss of revenue.

That would be one way of taking care of that. There obviously are other suggestions that might be just as practical.

On the matter of changing the rate of income taxation either up or down, I referred earlier to my belief that if you had an upper limit of 60 percent that was generally applicable, it might be more practical than the top rates that you have now. On the other hand, at the lower rate it seems obvious that a 20-percent beginning rate on the first $2,000 of taxable income is too high. It might have been justified at one time, but we should be looking forward to the time when we should be considering a beginning rate, perhaps by establishing a $1,000 bracket and assume that we can start with a beginning rate of 10 percent or possibly 15 percent.

In any case, a 20-percent beginning rate on first-bracket income works a very definite hardship on your low-income taxpayers and I have a feeling in this connection that we are too prone to think solely in terms of the Federal taxpayer. If we look at the picture as a whole, if we take into account State and local taxes, I think we have to recognize that the State and local tax systems are becoming increasingly regressive and are being borne in a disproportionate manner by the people in the income groups below $5,000. In that connection I was very much interested, Mr. Talle, in your reference to the fact that a high corporate income-tax rate is really burdensome for small corporations.

That may be true, and I recognize a very serious problem. By the same token I think we also recognize that in those areas where the large corporations dominate, and those areas are quite extensive, the corporation tax might be regarded as more and more of a consumer tax—a tax on the consumer rather than actually a tax on the corporations that pass the money over to the Treasury. I think it is pretty generally accepted that as the corporation tax continues, a larger and larger proportion of it, is incorporated into the price structure and that is particularly true in those areas of business which are controlled by large corporations.

That is about all, Mr. Chairman, that I care to say.

Vice Chairman PATMAN. Thank you, sir.

Mr. Buehler.

Mr. BUEHLER. Mr. Chairman, I would like to comment on 2 or 3 points, if I may, one following up on Dr. Elder's remarks, and also relating my remarks to what Professor Groves said about the taxation of dividends.

This so-called double taxation of dividends is related to the question of the incidence of the corporation tax. Is the tax shifted or isn't it?

The orthodox opinion had been for many years, I think, that the tax was not shifted. There seems to be a growing opinion among economists and business people that there is shifting of the tax but there is no agreement on how much is shifted. Of course, if the tax is entirely shifted, there is no double taxation, in the economic sense, and the tax acts like a sales tax. It has no exemption for food, clothing, or anything else, and, therefore, if one is opposed to sales taxes he should argue for the removal or moderation of the corporate-income tax.

If it is assumed that corporate-income tax is not shifted, then you are in a different position because in an economic sense there is double taxation, there is an inequity there which falls on the stockholders, or at least on the common-stock holders, and it is not wiped out entirely by the capitalization of the tax discrimination. Prices of stocks in the market are affected by many things, and certainly are not closely correlated, with the differences in taxing dividends and other income.

So I have felt that there has been inequity in the treatment of dividends. Instead of a matter of preferential treatment, it seems to me to be a problem of correcting an inequity.

I cannot think of any good reasons, as my mind goes back over history, why dividends were considered pure profits and this so-called double taxation arose. We allow interest to bondholders, rentals on leased property, and payments of wages and salaries, as expenses, but we allow nothing as an interest return on the capital of the shareholders in computing corporate net income. We got deeper and deeper into the tangle of double taxation as the corporate and personal income-tax rates increased, and when we wanted to do something about it, we found that large amounts of revenue were involved.

There is much to be said for the British system. The last time I checked there was a corporate rate of 47½ percent, which was about midway in their personal-income-tax rate, and apparently the British consider that there is no shifting of the tax on corporation income, or they look at it as a method of withholding an income tax from the individual. So dividends are considered to be already subjected to a tax, and the persons receiving dividends report the tax paid by the corporation along with cash dividends, and an adjustment is made in relation to gross dividends and total income.

Now, speaking of the question of corporation income tax shifting, we might argue for practical purpose that the goal would be, let us say, that we would work out a system whereby about half of the tax would be assumed to stay with the stockholders. Or we might take the initial rate of the personal-income tax and work out a credit at that rate to be allowed to shareholders. A series of steps, so the market is not disturbed too much, might be taken to relieve gradually the double taxation of dividends. I realize that this dividend problem is part of the overall tax question, and must be related to it.

Another point has not been mentioned in the discussion, but it occurred to me, as I looked over the economic report and considered some of the provisions in the Revenue Act of 1954. The revenue bill came out with a provision permitting partnerships to be taxed corporations.

Mr. Patman has always been interested in small business, and we have talked over the years about that. When the Revenue Act of 1954 came through it did the opposite of what many of us were interested in doing. I inquired at the Treasury and they told me yesterday that the revenue considerations were apparently important. It would cost about $50 million to permit corporations to be taxed as partnerships, but if we were to make taxation neutral so that a small business could organize either as a partnership, a proprietorship, or a corporation, according to the advantages of that business form, then we would arrange it as best we could so that there would not be any tax penalty for either being a corporation or not. Small corporations would then have the option, now denied to them, to be taxed as partnerships.

I think that is a question that might be looked into in relation to the problems of small business and economy.

Another point: There has been quite a bit of publicity given in the last several months to the authority method of financing public school improvements. In the report of the President's Council there was a reference to the authority method, and a suggestion, as I got it, that this might be studied. That is of great interest to us in Pennsylvania, and perhaps to persons in some of the other States. We have had hundreds of local school authority applications coming to the State public school building authority for assistance in constructing school buildings. The State authority was organized to enter into the construction of school buildings and lease them to the school districts. Out of the rentals the State is repaid its share of the cost. About half of the total cost is put up by the State.

The public school authority has some advantages. It may be the quickest and easiest way of financing new school buildings. Borrowing by the State is subject to the constitutional limitation that only $1 million can be borrowed without a referendum. Local governments also encounter constitutional debt limits. It may very well be that our old debt limits ought to be changed. This particular method of financing school construction has, however, provided us with uncoordinated public school building construction. Interest rates are also higher on revenue bonds than they would be on full-faith and credit bonds. I do not think we have evidence in Pennsylvania to show that authority financing has been an orderly method to meet cyclical economic problems or long-range problems of economic growth. It would seem to be desirable to look into the question of authority financing, study it further, see just what the economic effects are, and determine what reforms are desirable.

Thank you.

Vice Chairman PATMAN. Thank you sir.

Mr. Heller, do you want to make an additional statement?

Mr. HELLER. Just a very brief statement underscoring what Professor Groves and others have said about the dividend credit.

I want to go beyond my personal opinion to the conclusions reached by Dr. Daniel Holland on the basis of an exhaustive study of dividend taxation that he has conducted for the National Bureau of Economic Research.

Here, I would be inclined to entertain another question from Mr. Galbraith. We know, of course, who has been the research director of that organization.

Mr. GALBRAITH. I am not sure that it is fully on the record. Maybe you should make clear who it is.

Mr. HELLER. The Chairman of the Council of Economic Advisers, Mr. Arthur Burns, is the former director of Research of the National Bureau. I do not mean to say that he subscribes to these conclusions, but the study comes from the excellent organization he directed.

Now, Dr. Holland has applied the findings of his study to the dividend credit enacted last year, and here I want to quote just three sentences presenting his conclusions:

> The tax credit by providing a constant amount of relief at all income levels operates in such a way that a greater degree of relief is obtained, the higher the stockholders' income level.

Representative TALLE. May I ask you, Dr. Heller, if you are familiar with Professor Alvin Hansen's paper on that subject?

Mr. HELLER. Yes, thank you; I am.

> In summary, our major conclusion—

Holland continues—

> is that the relief provisions of the Internal Revenue Code of 1954 are inappropriate measures for the hardship they seek to alleviate. They are not geared directly to the basic features of this "hardship," namely, that it becomes increasingly less severe the higher the marginal personal income tax rates to which stockholders would be subject.

Vice Chairman PATMAN. Thank you.

I think the hour is about 4 o'clock, now, almost 4. I wonder if we could not poll the panel on certain issues without having them express them unless they desired to do so, but we would like to have expressions from them briefly, if they would like to express themselves on some points.

Representative KELLEY. I would like to direct a question to Dr. Buehler, in regard to the Pennsylvania manner of financing the school systems.

Mr. BUEHLER. The school buildings?

Representative KELLEY. I suppose that was brought about by the fact that Pennsylvania says it is in trouble, financially, and also in many areas of Pennsylvania the local people are in difficulty in financing school construction. I know there is one municipality in my district, East Vandergrift, where the taxation rate for schools is 45 mills, which is exceedingly high, and it is in difficulty. It does not know what to do to help itself. It cannot appeal to the State. The State says it cannot do it. So I think this matter of setting up an authority is to get around that difficulty.

Mr. BUEHLER. Well, I do not think that is entirely the issue, Mr. Kelley, although it is an important part of it. The State help is, however, geared to the resources of the community. The school board can set up an authority, or the citizens can. Then the State will contribute through the State authority.

I think the State subsidy averages out about half of the school construction costs. The State contribution is supposedly related to the needs of the district. Applications for aid are acted upon in the order they are received, however, and this does not give priority to the communities with the most urgent needs.

Representative KELLEY. You mean they have to match the funds?

Mr. BUEHLER. Yes, there is a matching principle, but the wealthy school district must pay a greater share of the cost than the poor ones.

Mr. LUTZ. Before you proceed with the poll, may I have permission to refer to one point in Mr. Elder's comments, namely, the idea that the corporation taxes are passed on to the consumers.

I have here a couple of paragraphs and a brief tabulation, which, if you permit, I will hand to the reporter for inclusion in the record.

Vice Chairman PATMAN. Certainly, we would like to have it.

(The material referred to is as follows:)

EXPLANATION OF NATIONAL ASSOCIATION OF MANUFACTURERS POLICY ON 5-PERCENTAGE-POINT REDUCTION IN THE NORMAL CORPORATE TAX

The association's policy, as revised in October 1954, is that "the 5-percentage-point reduction in the normal corporate rate now scheduled for March 31, 1955, should be effectuated without further postponement."

The Taxation Committee has reviewed this policy in light of the administration's recommendation that the 52-percent rate be continued for another year.

Its conclusion is that the policy should stand, as further extensions of the 52-percent rate would compound the tax discrimination against American industry and have an adverse effect on economic growth.

Tax discrimination comes both from the steepness of the 52-percent rate, and the fact that there already has been one postponement of the 5-percentage-point reduction originally set, in the Revenue Act of 1951, for April 1, 1954. Prior to March 1954, the association's policy had called for termination without any postponement. Policy was revised to accommodate some continuation of the 52-percent corporate rate, but it was specifically provided that the 5-percentage-point reduction "should not be postponed for more than 1 year."

This action was taken to strengthen industry's support of the Revenue Act of 1954, although a large if not the major part of the relief provided was of no direct benefit to industry. A major influence was the dividend credit included in the revenue legislation which, however, was later scaled down from 10 percent to 4 percent.

It will be recalled that the initial postponement of the 5-percentage-point reduction followed a 6-month postponement of the termination of the excess-profits tax; a tax which came to be almost universally recognized as unsound in principle and inequitable in application.

The postponements of corporate tax terminations are in sharp contrast to attitude and action in regard to the individual tax reductions scheduled for

December 31, 1953. There was no thought of postponing these reductions; rather there was considerable sentiment for moving up the effective date. These reductions provided only scaled down relief in the higher tax brackets.

Tax discrimination against American enterprise is further compounded by the speedup in corporate taxpayments. The original speedup, the so-called Mills plan, will be completed with payments of 100 percent of corporate tax liability in March and June of this year. The 1954 legislation provides for a further speedup, namely, the prepayment of corporate taxes in September and December. The law provides for a 10-percent prepayment in 1955, rising to 50 percent in 1959. The result of the two speedups is to move up nearly a year the payment of one-half of corporate tax liability. During the 5-year transition, the effect on corporate finances of the new speedup will be roughly equivalent to a 10-percent increase in the corporate rate. Unlike the situation when the individual income tax was put on a pay-as-you-go basis, there is no forgiveness of corporate tax to smooth the transition.

The request for further postponement of the 5-percentage-point reduction poses a vital issue for the American people. If the national standard of living is to continue to advance in the face of population increases estimated at 20 million a decade, and good jobs are to be provided for new workers who will number up to a million a year, an increased volume of capital formation will be required in the years ahead. Capital formation has a double effect in regard to employment. First, the process itself provides jobs. Second, the plant, equipment, and other facilities produced both improve the productivity of existing jobs and provide jobs where none existed before.

The most critical element of capital formation is venture or equity capital, the two principal sources of which are retained earnings of business and savings in the middle and higher income group. It is the pressing need for an increased flow of venture capital which has led the association to develop its new plan for orderly reduction of the high and discriminatory rates of both individual and corporate tax over a 5-year period. The 5-percentage-point corporate reduction is a first step in this plan.

There is no room for complacency over continuation of the 52-percent corporate rate on the notion that the burden is largely passed on to consumers. The record since 1948 indicates quite the contrary. The years since 1948 have been one of substantial growth in every respect—except for net corporate profits which have remained virtually unchanged.

During the 7 years in question, net profits have varied over a range of only $1 billion—from a high of $18.2 billion to a low of $17.2 billion. During the same period, the volume of corporate sales has risen from less than $400 billion to over $500 billion. The statistical record, as published by the United States Department of Commerce except for the 1954 estimates, is as follows:

Year	Profits [1] (after tax)	Corporate sales
	Billions	*Billions*
1948	$18.1	$388.7
1949	17.7	370.1
1950	17.2	431.9
1951	17.4	488.4
1952	18.2	498.7
1953	17.3	523.5
1954 [1]	[2] 17.7	[3] 510.0

[1] Profits are shown excluding inventory profits. However, inclusion of this element would leave the point of the tabulation unchanged—profits would still show no growth from 1948 to 1954.
[2] Estimate by Council of Economic Advisers.
[3] Advance estimates by NAM, based on published figures for first 9 months of year.

In 1948, the top corporate rate was 38 percent, it has been 52 percent since 1951 (leaving out the excess-profits tax, 1950–53). This amounts to a 30-percent increase in the corporate tax and accounts in large measure for the stagnation of net profits in recent years.

In the face of this record, it is clear that the association would fail in its leadership responsibilities if it acceded to further continuation of the 52-percent rate. The 5-percentage-point reduction will do little if any more than offset the impact on corporate finances of the speedup in corporate taxpayments to begin in September. This offset should be provided by allowing the reduction which was promised in 1951 and which already has been once postponed.

Mr. LUTZ. It shows from 1938 to 1954 corporate profits after taxes and after adjustments for the so-called inventory against losses, have varied only $1 billion during the whole period, and yet corporate sales have gone up from less than $400 billion to $500 billion, and the corporate tax rate has gone up from 38 to 52 percent, and yet the corporate profit level has remained practically constant.

Vice Chairman PATMAN. Yes, sir.

Now, without objection, and I am sure there is no objection, the members of the panel may extend their remarks to elaborate on what they have said, or even answer what others have said. You will be furnished a transcript of your testimony, and you may change your remarks as you desire, or add to them.

I would like to ask the panel how many of you believe that estate, gift, and inheritance taxes should be left up to the States, and the Federal Government laws on the subject repealed?

How many of you believe that?

Mr. LUTZ. I believe that.

Mr. BUEHLER. I do think, Mr. Chairman, that the credit against the Federal tax, as Professor Groves and other economists have stressed, that there ought to be a more liberal sharing of that.

Vice Chairman PATMAN. That is a different question. It is related all right, but it is different.

Is there just one in favor of that?

How many would be opposed to it?

(There was a show of hands.)

Vice Chairman PATMAN. There are six opposed to it.

Now, there is a question about limiting Federal taxes to 25 percent, that no tax shall exceed 25 percent against individuals and corporations.

How many of you would favor that provision, that constitutional amendment, that would limit taxes to 25 percent?

Mr. LUTZ. I should like to say that I am in favor of the principle. I do not think that the formula you suggest there is acceptable or adequate, but I certainly would believe in the principle of a constitutional limitation on the rates of income taxation, both individual and corporate, and it can be done, I am convinced, without impairing the ability of the Federal Government to support itself.

Vice Chairman PATMAN. Do you mean to 25 percent?

Mr. LUTZ. No, no, I am not talking about that.

Vice Chairman PATMAN. You think there should be a limit?

Mr. LUTZ. I think there should be a limit.

Vice Chairman PATMAN. Well, of course, that is a little bit different.

So there is no one here who agrees with the 25-percent limitation.

Now, on accelerated depreciation, how many believe that the present law as administered now should be continued on accelerated depreciation?

Mr. LUTZ. You mean under certificates of necessity?

Vice Chairman PATMAN. Under the Revenue Act of 1954, to make it more understandable.

Mr. LUTZ. I would go along with that. I think in general the decisions of business management as to how you are going to handle that part of your accounting should be left to business.

Vice Chairman PATMAN. Are you in favor of the changes made in the Revenue Act of 1954 concerning depreciation?

How many of you favor that?

(There was a show of hands.)

Vice Chairman PATMAN. Five.

Mr. HELLER. Can I put a footnote on that? That is a tough one.

Vice Chairman PATMAN. I will ask how many oppose, and then you can put your footnotes.

Well, put your footnotes in.

Mr. VICKREY. I would be much happier about it if there were more complete taxation of capital gains.

Vice Chairman PATMAN. You mean more than 25 percent?

Mr. VICKREY. Yes.

Vice Chairman PATMAN. What would you advocate?

Mr. VICKREY. Eventually I would like to see them treated as ordinary income.

Vice Chairman PATMAN. In other words, have a program that would ultimately cause them to be classified as ordinary income?

Mr. VICKREY. Right.

Vice Chairman PATMAN. Any other footnotes on this?

Mr. HELLER. I favor it in principle, but have some misgivings because of the revenue loss. The staff of the Joint Committee on Internal Revenue Taxation has estimated the net revenue loss over the next 18 years or so at roughly $20 billion. In the 1954–55 economic situation, we might better have made a tax reduction of that magnitude in a way which would stimulate purchasing power.

Mr. GALBRAITH. I think I agree with Dr. Heller, but with this difference. He favors it with that qualification. I would oppose it for that reason.

Mr. ELDER. Mr. Chairman, I feel it is poorly timed. It is on the books, now, and I suppose it will stay there, but our experience with the special provision for writing off wartime facilities has shown that there is a way to get facilities when it is necessary to get them, and I have a feeling that the 1954 provision was poorly timed. If it was needed, it was decidedly premature, and I do not believe that it is going to at least immediately within the next few years accomplish what its proponents tell us they hope it will accomplish.

Vice Chairman PATMAN. Did you want to add a footnote to this?

Mr. GROVES. I have just a minor reservation on the subject; I am skeptical about its effect with regard to new assets and old assets. It is something that I have not explored with any great study, but the fact that advantages are confined to new assets, and I suppose it was impossible from the revenue standpoint to make them general, may introduce an inequity in competition.

Mr. BUEHLER. Mr. Chairman, I wanted to add a note. I am uncertain about the effects of this. I do thing, though, it is a step forward in the sense we have been talking about, but I think the question will have to be studied. This is not the final solution, in my opinion.

Vice Chairman PATMAN. Any others?

All right. Now, would you like to poll the panel on a question?

Representative MILLS. Let me ask one thing: We have had discussion of this dividend credit. I wonder if you would present a question——

Vice Chairman PATMAN. You present it.

Representative MILLS. All right.

What is the position of the panel with respect to the present divident credit provision? Would you leave it or would you repeal it? Those who would repeal it, raise your hands.

(There was a show of five hands.)

Mr. VICKREY. I am not happy about it. I do not know that I would want to repeal it as it stands without putting something in its place.

Representative MILLS. Those who would not want to see it repealed?

Mr. LUTZ. Mr. Mills, I am not free to vote on your question because I think it is a matter of association policy to support that, but I am sure that even in the association, and for myself personally, there are many who are unhappy about the way in which it was approached. We feel that it is another one of those gadgets by which you try to get out from under the impact of particularly high rates.

Representative MILLS. Let me ask the question this way: I wonder how the panel feels on this question:

Do you think that it is the proper approach to the so-called elimination of double taxation of dividends?

Those who thing it is, I would like to see your hands.

Mr. BUEHLER. Could I say something? It is not the dream approach, that is certain, but it is one of those questions that has been debated and controversial. We were in the mood to do something, and we have done something. I would like to see what the results are, and stick with it for the time being. It is far from a perfect approach to the problem. So I will answer with that qualification.

Representative MILLS. It may be again considered. That is the reason I asked the question.

Vice Chairman PATMAN. All of the rest are against it; is that right?

Representative MILLS. I understand that the panel does not feel that it is the ideal solution for the elimination of the double taxation of dividends. I do not want to put myself, Mr. Chairman, in the position of saying that I thoroughly believe there is such a thing as double taxation of dividends. I am not thoroughly convinced on that point.

Representative TALLE. Mr. Chairman.

Vice Chairman PATMAN. Mr. Talle.

Representative TALLE. Before the session closes I would like to say for myself, at least, I appreciate very much that you gentlemen of the panel have come here to educate me. I appreciate it very much, just as I am grateful for this association with my esteemed colleagues in a calm discussion of important matters.

Now, I should like to ask a "quickie" before you go; What is the effect of the capital-gains tax on the stock market?

Vice Chairman PATMAN. Suppose we have brief comments on down. Would any of you like to comment on it?

Representative MILLS. Mr. Talle, may I ask that you divide that into two parts, first of all the tax rate itself, and the holding period? There are two elements there that I think would undoubtedly affect the situation, if I may make that amendment to your question.

Representative TALLE. That is quite all right with me.

I would be glad to have answers, accordingly.

Vice Chairman PATMAN. Mr. Heller?

Mr. HELLER. I want to make just one or two comments on the rate itself. I am not going to deal with the holding period, if I may sidestep that one.

A few weeks ago, the Washington Post had an editorial saying that one of the ways to stop the stockmarket boom was to repeal the capital gains tax, and I should like to speak out against that. It is quite true that certain transactions are now inhibited by the capital gains tax. People are perhaps reluctant to switch from one stock to another when it means realizing a capital gain and having the Internal Revenue Service snip out a piece of their capital in the process. In this respect the repeal of the capital gains tax would mean more churning around and activity in the stock market. But I cannot see how it would reduce any speculative or upward pressure in that market because its net effect would be to leave a larger amount of funds in the stock market. Proceeds of a sale of stock involving a gain would be available for reinvestment undiminished by any tax. It therefore appears that repeal of the capital-gains tax would not diminish the stock market boom but would actually intensify it.

Mr. GALBRAITH. Could I add just one word to that?

It seems to me there are two issues here, Mr. Talle. One is the effect of the capital-gains tax on the funds available for the stock market. The other is the effect of it on participation.

It seems to me that the effect of the capital-gains tax is probably to cut down somewhat the participation in the market and to cut down the number of transactions.

Now, since the essence of the speculative market is a large volume of participation, and also a large volume of trading, we have a depressing effect from the capital-gains tax there.

The other thing that the capital-gains tax has done in a period like this past year has been, of course, to force people to hold a considerable volume of liquid assets against their tax liability. Just how big that is one doesn't know, but it is substantial, and this, of course, has a further depressant effect. I would certainly agree with Professor Heller that on the prima facie evidence, the capital-gains tax does provide a restraint on security speculation.

I must say, however, that I would not like to be interpreted as agreeing entirely with my friend, Mr. Vickery, that we should go on from this level of capital gains to tax capital gains like income. I would be a little uneasy about that for the time being.

Vice Chairman PATMAN. Anyone else who would like to comment on that?

Any other questions?

Mr. GROVES. Mr. Chairman, I might add just a word.

Vice Chairman PATMAN. Certainly, Mr. Groves.

Mr. GROVES. Mr. Chairman, I mentioned this in connection with the relief that was given to large taxpayers in the last session. Either 1 or 2 things must happen when such relief occurs, on the assumption that the national income remains the same. One is that there be more private investment, and the other is that more money becomes available for existing private paper assets. And insofar as there is no more private investment, that money becomes available to inflate the stock market, and I think that is an important factor at the present time.

An easier capital-gains tax, along with tax relief for business income and the large taxpayer make more money available to inflate the stock market.

Vice Chairman PATMAN. Does anyone else have a comment?

Mr. ELDER. With regard to the capital-gains rate, I can see the objection to bringing it up to parity all at once to the present income-tax rate. There are a number of other approaches, averaging over the holding period, for one. Certainly another matter to be considered is the application of the capital-gains tax even at the present rate of debt prior to the application of the estate tax.

Vice Chairman PATMAN. Mr. Groves brought out a point that I am very much interested in. I have a feeling that with so much more money being diverted to the paying of higher interest rates this has placed into the hands of people additional funds to go into the market and bid up stocks. I think that has been a contributing factor.

What do you think about that, Mr. Groves?

Mr. GROVES. I am not quite sure that I follow you, Mr. Chairman, but I do think it is important that if you get an increase in the income in the higher brackets, and you do not get an increase in private investment, that the money becomes available for speculation in paper.

There are two kinds of investments. One is in wheels, the other is in paper. If available funds do not go into wheels, they go into paper. When that money becomes available, and isn't used, the only place for it to go is into paper.

Vice Chairman PATMAN. And this hundred-dollar dividend top exemption, wouldn't that have the tendency to encourage the use of that money for further speculation?

Mr. GROVES. You mean the hundred dollars on the individual incomes?

Vice Chairman PATMAN. I am talking about the dividends from stocks.

Mr. GROVES. Yes; I would.

Vice Chairman PATMAN. I think you will notice in this report that more and more money has been required for the use of interest payments, and that money normally flows into the hands of people, does it not, Dr. Groves, who would not use it for purchasing the ordinary things of life, but would have it and would normally use it for further speculation and for further investment?

Mr. GROVES. That is true to some extent, but, of course, it is also true that interest is much more a poor man's income than dividends, and you would find that relief in terms of dividends and business income would have a greater tendency to go into the stock market than draining off money by interest, though I think both would have an effect.

Vice Chairman PATMAN. Any other statements?

Representative MILLS. Mr. Chairman, I just had one question. It is one of the basic questions that has been asked, and I do not believe we have touched on it very much. I believe we could cover it in just a few seconds, or minutes: The question of what effect the Revenue Act of 1954 may have had upon reversing the downturn in business activity. I might state that I had not thought that it could have any material effect in that respect because it really did not become operative by the time business seemed to have leveled off or turned back uphill.

Now, I wondered if it really did have any effect, in the opinion of any of the members of the panel?

Vice Chairman PATMAN. You mean in restoring the country from a recession——

Representative MILLS. The downturn in business activity is reversed now, we are told. Did the Revenue Act of 1954 play any part in the reversal of that trend?

Mr. BUEHLER. I would say there were two things there: One would be more funds available for investment, and the other could be the psychological factor which the Economic Report emphasizes. I would suppose the effects are not measured.

Representative MILLS. I would see where your second might have some effect, but I wondered how much importance you could attach to the first, because I do not know whether additional money became available.

Mr. BUEHLER. Well, the excise taxes——

Representative MILLS. No; I am talking about the rewrite of the general code, not the excise taxes.

Mr. LUTZ. Well, I would think the effect on the individual investors to increase incentive was greater than any direct effect under the new provisions of the code.

Representative MILLS. The increased depreciation allowance would have had an effect if it resulted in expansion of business facilities. I do not know whether or not that has occurred.

Mr. GALBRAITH. There is an interesting point there, Congressman Mills. The thing that kept the downturn from going too far last year was a very strong position of consumer spending. Consumer spending and consumer spending for construction—residential housing—held up. The things which one would presume to have been affected by the Revenue Act of 1954 for a psychological point of view—business investment, and, of course, in the early part of the year the inventory situation—were the weak parts of the economy.

Vice Chairman PATMAN. Mr. Heller.

Mr. HELLER. Mr. Chairman, may I just say that if the joint committee does undertake a study of the economic effects of taxation, we should certainly like to turn this question back on you. I am sure that the country would be very much interested in any conclusions the committee might draw on the basis of a little bit longer run operation of the new code.

Vice Chairman PATMAN. Your suggestion will be brough to the attention of Chairman Douglas, and I am sure he will bring it to the attention of the committee, and I am sure he will give it serious consideration. I think it is a good suggestion, myself.

Representative MILLS. I just want to say this, Mr. Chairman: In my opinion it is a subject matter for consideration by some committee of the Congress. I think it should be considered.

The suggestion is very valuable.

Vice Chairman PATMAN. Mr. Kelley, any questions?

Representative KELLEY. I have no questions, Mr. Chairman.

Vice Chairman PATMAN. Dr. Talle, any more?

Representative TALLE. Just a remark, that what we may now consider psychic income, that cannot be measured, may perhaps be measurable after the proposed tax study is completed.

Vice Chairman PATMAN. Monday the committee will meet at the Banking and Currency Committee in the New House Office Building. The committee is indebted to the members of the panel for spending so much time with us and being so helpful. We appreciate it.

Mr. GROVES. May I say for the panel that we very much appreciate being invited.

Vice Chairman PATMAN. Thank you, sir. The committee will recess until Monday morning.

(The prepared statements of the panel are as follows:)

STATEMENT OF ALFRED G. BUEHLER, PROFESSOR OF PUBLIC FINANCE, UNIVERSITY OF PENNSYLVANIA, PHILADELPHIA

The American economy has, in general, succeeded in weathering the readjustments of 1954 and is now apparently on the road to recovery. Currently, the uneasy situation in Formosa adds to the uncertainties of the future and suggests possibilities of increased defense spending, with its inflationary tendencies. Until the situation becomes more definitely clarified, the policy of balancing Federal cash payments to the public with cash receipts from the public is a logical one.

Within reasonable limits, our fiscal policies should be flexible and adapted to changing economic situations. While our objectives of stability and growth may conflict somewhat with each other, we can, within limits, attain both. Americans generally seem to want a dynamic and growing economy, at some cost of stability. We also appear to be more worried about recession and depression than we are about inflation.

In considering public finance and the problems of the economy, it is well to keep in mind that public finance, both in theory and practice, involves ethics and political science, as well as economics. The individual is inclined to favor those measures which improve his economic status and to oppose those which are costly to him, whether they are good for the economy or not. Those who hold public office are accountable to the people and naturally want to please their constituents. Social goals may conflict with the desire for economic stability, and inflationary programs of public construction may, for example, be advanced in spite of their economic effects.

A further difficulty arises from the fact that the effects of Government spending, taxing, and borrowing policies and operations upon the economy are not altogether clear. There may be uncertainty and debate not only over the economic outlook but also over the appropriate measures to be taken in coping with the problems of economic stability and growth. In our system of government, we depend upon a multitude of counsels upon public discussion and debate, and the formulation of measures through our particular legislative and administrative processes, cumbersome as they may be.

The impact of modern governmental activities and their financing—Federal, State, and local—upon the economy is tremendous. Government finances should, therefore, to the fullest extent possible, be consistent with our economic and social objectives.

Fiscal policy is not without limitations, however. Tax measures, for example, must usually be concerned with classes of taxpayers rather than particular individuals. A highly selective fiscal policy would call for actions adapted to individual situations.

The Federal tax revisions which became effective in 1954, or will subsequently become effective as a result of 1954 legislation, were no doubt the outcome of various considerations. Like other major tax changes, they engendered much debate.

Among the measures reducing taxes were the repeal of the excess-profits tax, the reduction in the personal income tax, the lowering of the excises, and revisions in the Internal Revenue Code for the benefit of individuals as income recipients, consumers, investors, owners of farms and businesses, and otherwise engaged in economic activity.

Some important tax increases were also approved. Old-age insurance contributions were advanced in rate from 1.5 to 2 percent in 1954. Starting next fall, corporations with net incomes over $100,000 are required to accelerate their income-tax payments in order to place them more nearly on a current basis. The effect of the acceleration is to increase substantially the ratio of tax payments to corporate income during the transition period required to convert tax payments over to the new basis. A steadier flow of corporation income-tax collections will result and Government borrowing operations will be reduced in the latter part of each year. Both the taxpayers and the economy are thus affected by the acceleration program.

The removal of the excess-profits tax reduced the taxes of the corporations to which it applied. More funds were available for reinvestment and the payment of dividends. Certain stimulating tendencies were thus at work. On the other hand, the use of an excess-profits tax along with the corporate net income tax to impose high-tax rates upon the corporations affected, has some tendency to ease the resistance of management to higher expenses. That is, an excess-profits tax may have some inflationary as well as anti-inflationary effects, although its effects, on balance, would appear to be restrictive and its removal expansionist.

The excess-profits tax involves so many complications and inequalities that its use, short of outright war, should, if possible, be avoided. Equivalent revenues could be raised otherwise from corporations, if necessary, with less difficulty. Its chief value in a period of inflation is psychological and political as a part of an overall program of curbing inflation.

The individual income tax and excise reductions of 1954 placed more money in the hands of individuals, directly and indirectly, and thus had stimulating effects upon consumer spending and saving. While excises are commonly thought of as taxes on spending, they may restrict saving rather than spending, especially among the middle and upper income groups.

The effects of excises on retailing are more apparent than those on manufacturing. When a tax is imposed at the retail level, the consumer can see it as an addition to price; when it is reduced or withdrawn, the consumer can ordinarily anticipate a price reduction. From this viewpoint, excises at the retail level have advantages over taxes at the manufacturing level in influencing consumer behavior.

The alleviation of the taxation of dividend income received by investors may be defended on grounds of equity and also as a stimulus to investment. Interest, property rentals, wages, salaries, and other expenses of corporations are deductible in determining taxable net income, but nothing is allowed for a return to the stockholders on their investment. The earnings of corporations going out in dividends are taxed again in the hands of individuals after the earnings have been taxed to corporations. No other type of income is subject to such double taxation. It is both inequitable and something of a discouragement to equity investments.

Some argue that the discrimination against dividend income has been allowed for in the capital markets by a tax capitalization process. To some extent this may happen, but stock prices are determined by many factors and the capitalization process is certainly an imperfect one. Alleviating the double taxation of dividends does not give dividends "preferential treatment." Instead, its purpose is that of alleviating an existing discrimination against dividend income, a discrimination which seems to have no rational economic foundation.

A difficult problem is that of balancing the taxation of investment and consumer expenditures. An expanding economy requires expanding investment and consumption. Neither can be penalized without injury to the whole economy.

Taxes, in general, have restrictive effects upon those who pay them and feel their influence. The taxpayers may forget that taxes are imposed to pay for the costs of Government services, and that Government spending restores the money taken in taxes to the income stream. Both consumers and investors may therefore resist the payment of taxes.

As the budget is reduced and taxes can be lowered, taxes should be lightened upon both consumption and investment, upon both individuals and business. They should be lightened upon the lower, middle, and upper incomes so that the restrictive effects of taxation upon consumer spending and productive investment will be minimized.

No doubt any formula for tax reduction will be an occasion for debate and differences of opinion. The tax reduction program, when it becomes feasible, should be formulated in relation to the objectives of a reasonably stable and growing economy and a fairly distributed national income.

It is not possible here to discuss all of the important policy questions involved in the 1956 budget program. If the inflationary pressures should prevail, it will be desirable to reduce Federal expenditures to the extent possible, maintain a surplus of revenues over expenditures, and reduce the debt.

In closing, there is one aspect of the Economic Report which I would like to mention. It illustrates some of the problems involved in fiscal policy. It is the suggestion that when State and local governments encounter outmoded debt limits in contemplating the construction of public school buildings and other capital improvements, they may find the authority device a desirable alternative to conventional methods of finance.

We have been experimenting in Pennsylvania with both State and local authorities in financing public schools and other improvements. They provide a ready loophole by which our archaic constitutional debt limits may be circumvented and are undoubtedly a means by which increased public construction can be financed.

It is not yet clear that authority financing is generally an orderly method of financing needed public improvements in our State. Its use is limited ultimately by the good judgment of those responsible for authority financing, the tax and credit resources of the State and the local communities involved, and the willingness of investors to buy authority bonds. Immediately, public improvements may be undertaken regardless of their cyclical effects.

STATEMENT BY JOHN KENNETH GALBRAITH PROFESSOR OF ECONOMICS, HARVARD UNIVERSITY

I should like, first, to comment on the economic outlook for 1955 and the tax and expenditure policy which seems appropriate in light of that prospect. Then I will address myself briefly to some of the questions on which the committee has requested specific answers.

This year's report of the Council of Economic Advisers, which the committee has before it, is a lucid and workmanlike review of the state of the economy. It is a credit to the distinguished economists who authored it. The administration, in turn, is to be congratulated on the talent it commands.

I am also impressed, as anyone must be, by the grace and ease with which the administration has dispensed with its slogans and abandoned its clichés about the absolute virtues of hard money, the absolute necessity of a balanced budget, and the unspeakable evils of deficit financing. It has now concluded, it seems clear, that these things are not good or bad in themselves. Rather they must be viewed in their context. There are times when a balanced budget is sound policy. There are times when it is not. (At the moment the administration obviously favors a modest deficit.) Once those who toyed with such ideas were regarded as dangerously avant garde if not a trifle reckless. Now they are pedestrian and commonplace and lost in the multitude—a common fate of the youthful liberal.

In 1935, in a letter to George Bernard Shaw, the late Lord Keynes said: "I believe myself to be writing a book on economic theory which will largely revolutionize—not I suppose at once but in the next 10 years—the way the world thinks about economic problems." That, to be sure, was 20 years ago. Still, had Keynes been pressed, he might have allowed himself a little more time to capture a Republican administration.

II

Although there is much that is good in this year's report, it would be a mistake to accept too uncritically its estimate of the future or its recommendations. The Council, as everyone is aware, takes an exceptionally rosy view of both the past and the future. Economic policy in the past 2 years, it concludes, has been guided by undeviating wisdom and perfect insight. Even the Treasur 's adventure with high interest rates in early 1953—an adventure which was quickly abandoned and which, if those who take monetary policy seriously are to be trusted, must have had some bearing on the recession that followed—now emerges as an act of remarkable prescience. This may not be so.

Perhaps it was a mistake. And perhaps it is also a mistake—one, I hasten to say, that antedates the present administration—to assume, in writing these reports, that the Government, where economic decisions are concerned, must always bat exactly 1,000—or shoot par on every round. In economics, whether Republicans or Democrats, we are not that good. It would be interesting to know who is fooled by this ritualistic claim of total wisdom.

The present report also continues and enlarges on an equally unfortunate attitude toward the future. It assumes, whatever the evidence or lack of it, that the future will be completely wonderful and that everything will work out precisely to perfection. These annual reports could, in time, degenerate into repetitive exercises in fatuous optimism. The present one is not wholly reassuring in this regard.

This is disconcerting for another reason. We have, at the moment, an administration which prides itself on taking a hardhearted, businesslike view of its problems. The essence of such realism, we have anciently been told, is a rejection of any tendency to self-delusion and a willingness to face facts and be prepared for the worst. This should mean, where economics is concerned, a willingness to search out any lurking or latent threat of recession or stagnation or inflation. These should then be brought sternly to the attention of the Congress. By being so forewarned we would have a better chance of being forearmed with a policy.

It is discouraging that the present practice is almost the precise opposite. We are told in the report that recovery is certain to continue. The possibility of a setback is not mentioned. There is no hint that we might continue with a kind of high-level stagnation. We are told we can count on full prosperity, full employment, and there is apparently no serious concern about inflation. Things may work out this way. But would it not be wiser, more reassuring, and also more businesslike to assume something a little less than the best?

I am sure that the Council is sincere in its optimism. Yet, had it been looking for an excuse to take a less rosy view, there is evidence that it could have cited. Private investment in capital plant and equipment is cyclically one of the most important of all indicators. It is falling and will continue to fall in the near future. The recent upswing in business activity in general may have an unhealthy dependence on the automobile industry and even on the struggle for leadership in that business. The Council sets great store by the housing industry, and it has certainly behaved well so far. But just as we had an inventory cycle elsewhere in the economy, we could have one here as the backlog is made up and supply outruns demand. Export demand for farm products continues weak. (It is not completely easy to sell our surplus for free.) As a result, net farm income is expected to decline still more this year.

Finally, we noticed during the thirties and we saw again during the forties that once the economy was well launched on a course of behavior it tended to persist in that behavior. The great depression lasted a long while. So did the postwar expansion. Both, in their durability, confounded the experts. This is at least a warning that the present stagnation may not liquidate itself automatically and at once.

I am not predicting continued stagnation. I would like to avoid making any prediction, for it is an insecure, uncertain, and vastly underpaid profession. I do question the wisdom of the Council's total optimism as a practical working assumption. It would be better and safer, and also more conservative, to assume that the coming year will be like the past year; not bad but not good enough. It would be sufficient were the administration guided by its own fears. During the past year high administration officials have talked hopefully about full employment, but no one can doubt that unemployment was what dominated their secret thoughts. This uneasiness lay behind the numerous predictions of an imminent upturn. In our time there is a widespread belief that the future is not what you make it but what you say it will be.

III

If the possibility of continued stagnation—or a new setback—is kept open, the general outlook on economic policy must be revised. There should be no curtailment of needed expenditures on strictly fiscal grounds. On the contrary—and always assuming that national security is being properly taken care of—this would be a favorable time to go ahead with needed public works and improvements. Obviously there should be no frantic expansion: we should be ready to accept curtailment if overemployment and inflation should appear. But we have a great backlog to make up on health and education facilities, in urban redevelopment and low cost housing, in roads, in recreational facilities—the national parks, for example, urgently need an infusion of new money—and in resource development. A modest expansion in all of these areas would now make good sense.

I would support the administration in its request that the corporation tax due to expire on April 1 be extended. This is because it is the wrong tax to reduce at this time. The corporate tax is now as high as it should be and perhaps higher; it would be a good rule of thumb if we were to think of 50 percent as a firm ceiling for this tax. However, if we reduce taxes this spring it will be to encourage economic expansion. In light of the recent behavior of the stock market, there is no evidence that the economy needs the stimulus of a further increase in corporate earnings. On the contrary, this might add unwisely to speculative inflation in securities prices.

The most efficient (and at the moment the safer) way to encourage expansion, if it is needed, is through encouraging consumer spending. The best way of achieving this is to cut the personal income tax, and the best kind of cut is an increase in exemptions. If the economy is still weak this spring and summer I would urge such a reduction to replace and supplement the corporate tax reduction. (The case of the excises is less clear. On balance, I would continue these and cut the personal tax instead.) If the economy is strong—as the Administration expects—then there should be no tax reduction of any kind. A substantial surplus on cash account would seem probable were this to happen, and it should be welcomed and used for debt reduction.

In summary, then, I would assume some unemployment and some need for general expansion until this hypothesis is disproved by events. As a first consequence we should start in on the large accumulated backlog of needed Federal expenditures. Because we have just had a substantial tax reduction and because the civil functions of the Federal Government—education, health, housing, roads, recreation, resources—have been starved in relation to need for some years, I would make the first move on the expenditure side. If by next May or June there is still marked slack in the economy—say three or four million unemployed—there should, in addition, be a tax cut. It should be designed for maximum effect on consumer spending. This means an increase in exemptions. Should signs of inflation develop during the course of the year, there should be no tax cuts of any sort and the Executive should promptly retrench on spending. Such willingness to change direction is essential. It should not imply a confession of error. It is essential if we are to have an approach to full employment and, at the same time, avoid inflation and loss of value by the dollar.

The policy I suggest means budgeting for a larger deficit than at present—slightly larger if only needed spending is increased, and substantially larger if unemployment persists and exemptions are raised. However, we should be clear as to the ultimate effect of this policy. The real enemy of a balanced budget in the United States—as we are learning this year as so often before—is insufficient production. The measures here proposed are for the purpose of bringing the economy back to full production. The larger earnings and the larger revenues which result will—if past experience is a guide—bring us closer to balance than a policy that allows of continuing stagnation.

IV

Let me turn now to 2 or 3 specific questions on which the committee has asked for suggestions. (I pass over some of these because I am not sufficiently informed. Thus I have never been sure that I fully understand the doctrine of percentage depletion, although what I have heard of it sounds very nice. It would seem to me important that it be promptly applied to professors. There is no group where depletion of what is called intellectual capital proceeds so immutably and leaves a more hideous void. Surely, we should be permitted to deduct from our taxes each April an allowance for this annual deterioration. I am told that Powers models have an analogous case.)

The committee is probably wise in raising a question over the way debt transactions are being taken out of the budget. With a little ingenuity, direct liabilities of the Federal Government can be translated into indirect, insured, or contingent liabilities; although they remain liabilities nonetheless. The long-term lease on a new post office, designed to cover the interest and amortization costs of the private landlord, is just as much a liability of the Government as the debt which, in old-fashioned times, was incurred to construct such facilities. The same principle applies to the underwriting of CCC loans, other loan guaranties, and, of course, to the special obligations which are being discussed (as this is written) in connection with the new highway plan.

The common purpose of these arrangements is to keep the debt out of sight. This avoids collision with the debt limit. Also, it is evident that the anxieties of both the public and the administration over the size of the debt are substantially mitigated by keeping it invisible. A good housekeeper doesn't like dust under the rug. But she infinitely prefers it to dust on the dinner table.

The disadvantages of crypto- as distinct from forthright debt are several. We are grown up. Presumably we can shoulder our debt like men. The cost of these subterfuges may be substantial. It would be most surprising indeed if the Post Office were not paying more for its leases than it would in interest on money borrowed by the Government. There are similar added costs with the other devices.

Most serious, there is a tendency which is already evident to favor Government activities for which the debt can be kept out of the budget. There is a grave danger that highways, under the new plan, will get a special priority over health, education, or other outlays simply because it has its own financing plan attached to it. As proposed at this writing, the highway plan has the additionally objectionable feature of earmarking revenues. This unnecessarily complicates the whole Federal housekeeping in the interest only of unduly elaborate self-delusion. If we must fool ourselves, we should do it in a simple, uncomplicated way.

This committee might profitably ask the Bureau of the Budget for a comprehensive survey of the present structure of direct, indirect, contingent, and guaranteed liabilities and their cost. The Congress might also look more critically on the present and future use of these devices. In the past, Congress has been rather austere on these matters. It has been reluctant—too reluctant in my view—to accept the concept of a cash budget. In the thirties, an effort by President Roosevelt to promote a capital budget—with borrowing confined to capital outlays—met a hostile reception. Such double budgeting was attacked as a device to show balance where there wasn't and to conceal a deficit where there was one. Although I was less certain at the time, I now believe the Congress was right. The capital budget confused at least as much as it clarified. Congressmen should look with at least equal suspicion on the practice of moving the debt outside the budget.

V

This effort to get the debt out of Government hands is part of a larger tendency in the administration which would seem to justify some reflection. A business administration, we should expect, would be singularly immune to ideology. Romance would not play a part in decisions where the consequence is costly to the taxpayer. Instead, cold-blooded efficiency—getting the most for the least—would be the sole or at least the overriding consideration.

In fact, ideology appears to play a disturbingly large role in current decisions. This is true even when it is costly. The turning over the CCC loans to banks and Federal buildings to private landlords seems to be in pursuit of the conviction that private enterprise is preferable whatever the price. Ideology takes absolute precedence over efficiency. There are other manifestations. State, local, or private resource development is held to be preferable even though the public cost is higher or the benefit is less. There is, one hears, the case of Dixon-Yates. According to an old and valuable rule, the Government should never do what private enterprise can do better and for less. Socialists have been given very bad marks for letting ideology override welfare and insisting willy-nilly on Government enterprise. But Government should also do—and without concealment or embarrassment—the things it can do best and most cheaply. The old-fashioned rule on these matters has been to let efficiency be our guide. It is a good rule.

VI

I should like to say a final word on a very different matter—on the recommendation of the Randall Commission that taxes on foreign-earned corporate income be reduced to encourage investment abroad.

We should be on the lookout for anything which will encourage capital exports. Nonetheless, I trust that the Congress will examine this measure carefully, if only to avoid acting in pursuit of false hopes.

The Randall Commission has assumed that taxation is a barrier to American investment abroad. If so, the easing of taxes will encourage such investment. However, no proof seems to have been advanced on this point. The critical role of taxes has merely been assumed. There is a strong probability that taxes have very little to do with the matter. In the case of oil, copper, nickel, bauxite, and the like, American capital has gone abroad because the profits were very promising. In other cases it hasn't gone abroad because more money was to be made with less risk in Texas or California than in Ethiopia or Ecuador. Profits are the central motivation which in our economy should hardly surprise us. Taxes are of secondary or tertiary significance.

We should bear in mind, incidentally, that our situation on capital export is very different from that of 19th century England. Then capital was exported from England because the domestic rate of return was relatively low. Foreign countries compete in our capital markets against an excellent domestic rate of return. The domestic return will probably still be more attractive whatever the tax situation.

Not much damage would be done by enacting the Randall proposal. It presumably would not apply to past investment—to do so would be to give some existing concerns an unjustified bonanza—and the extractive industries might conceivably be excluded as a category. But no one should suppose that the measure will have much effect on overseas investment, and the Randall report may perhaps be criticized for raising false expectations in this regard.

Statement of Harold M. Groves, Professor of Economics, University of Wisconsin

Most of the time we academicians have you Senators and Congressmen at a disadvantage. You have to make the decisions and we can criticize to our hearts' content without even forming, much less announcing, any decision of our own. Today the situation is reversed; you have us over the barrel.

The major theme of this session is fiscal policy and the heart of fiscal policy is the balance (or unbalance) of budgetary revenues and receipts. As I see it, we are now offered at least six alternative programs or packages. These may be summarized in tabular form as follows:

Package	Budget	Expenditures	Taxes
A	Balanced	Reduced	As recommended.
B	do	Much reduced	Somewhat reduced.
C	Unbalanced	As recommended	As recommended.
D	Much unbalanced	do	Reduced.
E	Unbalanced	do	Reduced at some points; raised at others.
F	do	Increased	Increased (though not necessarily by higher rates).

It will be noted that package C is the President's program. Packages E and F which call for some increases in some taxes need not involve an increase in tax rates. Of course there are other ways of strengthening the tax system.

At the risk of appearing to be an irresponsible spendthrift, I support the last of these alternatives, package F. This involved a budgetary deficit of the magnitude recommended by the President; it also involved a conservative increase in public expenditures, no further cuts in taxes, and the strengthening of the tax system by what is popularly termed "plugging loopholes."

As for the urge to balance the budget, I concede the desirability of keeping this objective always dangled before us. Such procedure reminds us that it is easier to spend money than to raise it. But we still have too much unemployment of men and resources to adopt a deflationary budget now. Our cash budget as projected is already overbalanced.

As for economy, of course I am for it in the sense that there is waste in government that calls for elimination. But in an overall sense I am for increased expenditure because in general I think our public needs (military, foreign aid, domestic school facilities) are greater right now than our private needs.

As for the public debt, it is an important problem, but a modest annual increase in debt not greater than that anticipated in national economic growth, is surely not our worst anticipated headache.

As for tax reduction, it might be supported as a recession measure. Its weakness here lies in the fact that along with the urge for a further reduction in taxes will go another for the further reduction of public expenditures. A balanced reduction of taxes and expenditures is not counterdeflationary—quite the contrary.

Some of our taxes are not good enough to warrant easy retention. Particularly vulnerable to criticism, I think, are the excises on communication and transportation. By no stretch can these taxes be called luxury levies and their incidence is probably about as capricious and regressive as that of a general sales tax. But their elimination can wait for a time (hopefully) when the pressure of public needs has slackened.

As for an increase in personal income-tax exemptions, it is always tempting and popular. But it would constitute a step very hard to reverse and I doubt that a trend toward prewar tax exemptions would make for the improvement of our long-run tax system. Experience shows that a high-powered revenue system must be broadly based; if we don't use the income tax for this objective, we will use taxes regressive and less rational in distribution.

Major attention, I am convinced, should be given to closing the so-called loopholes in our existing tax system; this is partly to raise more revenue and partly to revive the canon of equity in taxation. Three general remarks on this subject seem in order:

The first is that the revision of the revenue act last year, whatever may have been its score in other respects, gave only lip service to the principle of equity. None of the major devices for minimizing taxes were removed; in some cases they were considerably extended.

The second is that the impression is widely shared that the Congress deliberately throws a high rate schedule to the public as a demagogic bone and then as deliberately allows escapes from taxes that makes these rates specious.

The third is that, generally speaking, it is better to subsidize directly than through the tax system. If the discovery and exploitation of natural resources is so risky a business and so clothed with public interest that it needs a subsidy, which I doubt, it would be sounder to grant one openly.

Time does not afford opportunity to present details, but, very briefly, support can be given to either the elimination or drastic downward revision of percentage depletion; the taxation of capital gains presently eliminated from the tax base by death transfer; the inclusion of the receipts of minor children in the income of the parents; a separate and higher schedule of rates for married taxpayers; and the amalgation or integration of the estate and gift taxes.

The list is only a partial one, but it indicates some of the areas needing attention that last year's revision did not revise.

Of all of these areas the one that cries loudest is percentage depletion. A system that permits the taxpayer to recover his capital over and over again would be unbelievable if it were not a fact to behold. It is generally regarded as a symbol of what organized pressure can do to legislative bodies and it undermines respect for the entire tax system.

A word may be added about the controversial so-called preferential treatment of dividends. I accept the view that there is an inequity in the double taxation of profits but I think the so-called dividend received credit, recently enacted, stepped off on the wrong foot. It is so vulnerable to objection in terms of equity that it better be recalled. A change is not likely to rest easily in prospects of a stable future unless it is done right in the first place.

The credit as enacted violated a fundamental principle of income taxation namely that all of the income of the personal taxpayer should be used in measuring the base of the personal tax. If the corporate tax is to be regarded as a personal levy collected at the source then the tax itself should be included in the individual's tax base. This is the rule that we now follow in the case of wages and salaries. Moreover the dividend received credit disregards the fact that the double-tax factor decreases as income gets larger. It also disregards the fact that corporate taxes, particularly those of public utilities, are sometimes shifted forward to consumers.

There is no solution of the problem as long as American business refuses to accept the proper one—a differential rate on undistributed as compared with distributed profits. Moreover, considering the present state of the stockmarket and the level and prospective level of business investment, I am inclined to the view that the repeal of the excess-profits tax and the concessions to depreciation, both of which can be supported, are as much relief for the business taxpayer as the present economic situation and the status of fiscal needs will permit.

OBSERVATIONS ON FEDERAL TAX AND FISCAL POLICY IN 1955 BY WALTER W. HELLER, UNIVERSITY OF MINNESOTA

(Notes for panel discussion on fiscal policy before the Congressional Joint Committee on the Economic Report, January 28, 1955, Washington, D. C., submitted in accordance with the invitation of the chairman, Senator Paul A. Douglas.)

In undertaking a critical appraisal of the Eisenhower administration's fiscal policy, one is somewhat disarmed by the excellence of its budgetary and economic documents. The United States Budget for the fiscal year 1955 represents another forward step in the steady improvement of this document since World War II. The new Economic Report of the President is a model of superb writing and persuasive reasoning. The fault one finds, therefore, is not so much in the specific fiscal policies that are spelled out in the President's documents. One's misgivings and differences fall mainly under the heading of what is left out of, or merely implied in, these documents as they relate to the Government's fiscal program.

In the limited time and space available to me, I wish to examine three major shortcomings in Federal budgetary and tax policy today: first, the combined fear or high taxes and unduly unbalanced budgets which appears to be depriving us of the full measure of military security and civilian well-being which is within our grasp; second, the failure to acknowledge and explain that Federal surplus and deficit figures have a different economic meaning today than they did 2 or 3 years ago as a result of changes in methods of financing certain activities and changes in the timing of certain expenditures and tax collections; third, the lack of any attempt to stem or reverse the tide of tax concessions which, in combination with excessive top-bracket rates, have seriously distorted our income tax structure.

1. THE FEARS OF HIGH TAXES AND UNBALANCED BUDGETS

In the face of a large gap between actual and potential-employment and output, the administration's 1955 fiscal program is suffused with a certain timidity—some might wish to call it "restraint" or "conservatism." Although encouraging signs indicate that gross national product for 1955 may reach or even exceed a bit of the 1953 level of $365 billion, this falls short by some $20 billion of what the economy is capable of producing at reasonably full employment. At the same time, well-informed experts inside and outside of Government present strong evidence of pressing but unfulfilled needs for more civilian and military defense, more aid to Asia, more schools, more conservatism and resource development. Why, then, do we find no bold programs to draw on our underutilized capacity to fill these needs?

(a) *Tax fears*

Much of the answer appears to lie in the fear of high taxes as such, coupled with an unwillingness to incur deficits exceeding some limit of political tolerance and presumed economic danger. In the light of frequent administration references to the damaging impact of high taxes on our economy, one finds it difficult to escape the conclusion that America's capacity for defense, foreign aid, school construction, and so on is being closely linked with a narrow definition of taxable capacity. Are the fears of tax damage well founded? Are taxes so detrimental that they should be calling the tune on the Government's military and civilian programs?

This fear of the economic consequences of high taxes generally takes two forms. The first is the fear that taxes will seriously damage incentives, retard investment, and thereby limit our economic potential and performance. In the words of the recent budget message, "The present tax take of nearly one-fourth of our national income is a serious obstacle to the long-term dynamic growth of the economy which is so necessary for the future." The second form is best illustrated by the now famous thesis developed by Colin Clark (and reiterated by him in uncompromising terms in 1954 in Welfare and Taxation) that taxes exceeding roughly 25 percent of the national income inevitably bring inflation in their wake.

As far as the disincentive effects of taxation are concerned, no conclusive evidence exists. However, we are fortunate in now having the results of the most extensive research ever undertaken on this subject. I refer to the Merrill Foundation project that has been going forward at the Harvard Graduate School of Business Administration during the past 10 years or so under the direction of Prof. Dan Throop Smith (who since early 1953 has been on leave as Assistant to the Secretary of the Treasury in connection with tax matters). As reported a year or so ago to the American Economic Association, the study's basic finding may be characterized as follows: If the underlying market strength for the products of industry exists, even the comparatively severe tax rates of recent years do not seriously inhibit investment and production incentives. To put it in the words of Prof. J. Keith Butters, associate director of the project:

"If a general statement has to be made in flat, unqualified terms, the striking fact is that, by and large, the tax structure seems to have had only a relatively limited and specialized impact both on the basic incentives which motivate the private economy and on the structure of the economy. The effects of the tax structure on the aggregate levels of employment and real income realized over the last 10 to 15 years have been even more limited, as is obvious from the record levels achieved in both employment and income during this period.

"Just as there is little evidence that individuals in the aggregate have gone on an investment strike or have significantly reduced the intensity of their effort and activity because of taxes, so there is little evidence that taxes have curtailed corporate and business investments to undesirably low levels in postwar years."

What of the Colin Clark proposition that inflation takes over when taxes exceed 25 percent of national income? Whatever validity it might have in economies of less resiliency and capacity than ours, the performance of our own economy in the past 4 years has pretty well discredited Clark's thesis as it might apply to the United States. (Joseph A. Pechman and Thomas Mayer had already demolished—in the Review of Economics and Statistics, August 1952—the statistical underpinnings Clark had brought forward from the experience of other countries to establish his thesis.) In spite of the great inflationary jolt given the economy by the Korean war, prices stabilized after only 9 months of inflation. Since then, side by side with a combined Federal-State-local tax burden hovering around 33 percent of national income, we have enjoyed essential price stability for almost 4 years.

Our economy has demonstrated an astounding capacity to roll with an inflationary punch. Combined with our increasing concensus and skill in the handling of anti-inflationary monetary and tax policies, this great capacity of our economy to deliver higher production rather than higher prices in response to injections of purchasing power provides a primary guidepost for fiscal policy today and in the future. When actual production seriously lags behind potential production, as it does today, the fear of inflation need not choke off reasonable additions to military and civilian outlays, even if they are not fully matched by tax increases. Alternatively, if we hold the line on Government spending, we need not shrink from the legally scheduled reductions of excises and corporation taxes and the politically scheduled increases in personal exemptions. The idea that these tax cuts should be made on an explicit subject-to-reversal basis has much to commend it. It would reassure those who fear inflation and strengthen the hand of policymakers in the unlikely event that inflation does develop. It would do little, of course, to abate the fears of those who abhor deficits as such.

(*b*) *Deficit fears*

The present administration has a record of continual deficits to date. Yet one gains the impression that it regards these with strong distaste, especially now that taxes have been reduced. (I speak here more of Treasury pronouncements and point of view than of the Council of Economic Advisers' apparent position.) This distaste is part and parcel of the traditional view which automatically associated surpluses with virtue and deficits with sin. Traditional reverence for the balanced budget is well founded in personal and business finance and in State and local government budgeting: Failure to live by the balanced-budget rule (with exceptions, of course, for nonrecurring capital investments) may lead to insolvency and bankruptcy. Not so, in the case of the Federal Government. It is armed with central banking and monetary powers and charged with the duty of maintaining maximum employment and economic stability. Its responsibility for a balanced economy—one in which resources are fully employed and productivity is growing without inflation—must often prevail over its desire for a balanced budget.

Instead of associating surpluses with good and deficits with evil through thick and thin, a much more useful distinction in Federal finance is between constructive deficits and destructive deficits. (A parallel distinction can be applied to surpluses.)

Constructive deficits are those to which the economy's response is higher real consumption and investment, higher employment, and higher real national income. In other words, these are deficits which more than pay for themselves. They can be incurred by lowering taxes and increasing Government transfer payments to enable private enterprise and consumers to guide resources back into productive employment. Or they can be incurred by increasing Government outlays for public works and other projects or services. Such constructive deficits may be called for under three general sets of circumstances: (1) To counter a downturn of the business cycle; (2) to combat a persistent reluctance of the private economy to absorb new manpower and other productive resources as rapidly as they become available; (3) to overcome a failure of the private economy to generate enough liquid funds to finance continuing growth and expansion of the economy.

Destructive deficits are those to which the economic response is inflation and distortion of the economy rather than a real increase in output and employment. Such deficits lead to deadweight increases in the national debt which can claim no counterpart in the form of increased employment or productivity.

At the present time resources stand ready and waiting to be absorbed in productive employment. Federal deficits in this setting are constructive. To increase them by reducing taxes would not go beyond the bounds of prudent finance, especially if the reductions are explicitly made reversible.

(c) *Conclusion*

If the foregoing paragraphs seem to suggest a position favoring, on one hand, higher taxes, and on the other lower taxes, the answer is, they are intended to. But this is the case where the right hand does know what the left is doing. If, on one hand, the fear of disincentive effects and possible inflationary consequences of high taxes is curbing needed defense and development expenditures, then I should like to speak for higher taxes. The available evidence on incentives and inflationary aspects of taxation provides no warrant for cutting back military and civilian programs of government to avoid the damaging economic effects of taxation.

If, to get back to "the other hand," decisions are made not to expand defense and development programs and thereby put currently unused resources to work on Governments undertakings, then I should like to speak for lower taxes to put these resources to work in private undertakings. Tax reduction can help us realize our full potential which requires putting $20 billion of unused resources to work. It seems unnecessary to run the risk of letting the economy lose $20 billion of potential production for lack of adequate markets.

2. CHANGING CONTENT OF BUDGET FIGURES

Apart from intelligent attitudes toward Federal deficits, sound fiscal policy requires accurate economic measurement of deficits (and surpluses). In this connection, one should commend the Council of Economic Advisers for its unequivocal adoption of the cash-consolidated budget as the basis for measuring the Government's fiscal impact on the economy. But in the same breath, one should warn against making the cash budget a sacred economic cow. For its content and economic comparability change from year to year. This is particularly true currently. Government policymakers owe it both to themselves and to us to identify, explain, and take account of changes in financing and timing which alter the content of the budget as an economic yardstick of Government activity.

Let me cite a few recent cases of shifts in methods of financing or timing which changed the relationship between the size of the Government's cash deficit and the size of the Government's additions to or subtractions from private income flows. A prime example is the price-support program of the Commodity Credit Corporation. By extending to wheat and corn the financing methods that had been previously restricted to cotton price supports, the Commodity Credit Corporation in fiscal 1954 took an additional $1.2 billion of price-support operations off of the Federal budget and out of the Federal debt. This was done by pooling the price-support loans and selling certificates of interest to the banking system. The Government acted as a sort of broker, but bore the interest charges on the certificates sold to the banking system. The Federal budget and the public debt were relieved of the $1.2 billion throughout the 1954 fiscal period. Much of this came back onto the budget this fiscal year, when the support loans matured, but a large counterbalancing amount was again taken off by the renewed sale of certificates of interest.

Another new operation, conducted under the Lease-Purchase Act of 1954, has a similar but much smaller effect on the net budget figures as contrasted with prior practice. Under prior practice, Government post offices, courthouses, and other buildings were constructed and paid for as current expenditures, presumably to be financed by taxation under the general goal of a balanced budget. After a long drought in construction of new public buildings, the new program provides that under proper safeguards, contracts may be let for private financing and construction of these buildings. They are then leased back to the Government and eventually taken over at the end of the lease. According to the Wall Street Journal, the Federal Government will be able to construct upward of $250 million of public buildings within a 3-year span, with only about $50 million showing up in the budget during that same span of time. While the particular figures may be wide of the mark, the relationship is representative. The impact on the economy is considerably greater than is reflected in current Federal expenditures. Under prior budgetary practices, the deficit in this example would have been $200 million greater or the surplus $200 million smaller over the time span involved.

Many other fields may be cited in which changes of financing are taking place that ought to be interpreted for us in terms of their impact on the economic meaning of Federal budget figures. I refer, for example, to the sale of certificates of interest to the banks as part of the process of liquidating RFC loans; to the new methods of financing FNMA operations (which appear to change public debt and administrative budget figures, but not the net cash surplus or deficit); to the proposed change in financing certain TVA operations; and to some of the proposed methods of financing General Clay's $50 billion highway program. Analogous in their impact are shifts of certain activities more or less entirely off the budget (with repurchase of services in some cases) as exemplified by the proposed Dixon-Yates contract and the substitution of private for public construction of dams.

It is worth noting that the foregoing developments in some cases represent and in other cases foreshadow a piecemeal movement toward capital budgeting. The splitting off of capital investments and lending activities combined with substitution of loan financing for tax financing of initial outlays is the essence of capital budgeting. To the extent that this takes place, Federal deficits shrink and surpluses grow. Yet the programs continue or even expand. Economic policymakers should adjust their readings of cash surpluses and deficits accordingly.

Not all of the changes in the economic significance of budget figures involve changes in the coverage or comprehensiveness of the budget. To the extent that they do, consolidation of extrabudgetary with budgetary figures will serve most of the economists' needs. But consolidation would be no solution, for example, in the case of a change in timing of tax collections as under the Mills plan. This plan for speeding up corporate tax collections is completing its 5-year cycle this year. The speedup has added $1 to $2 billion a year to both conventional and cash receipts figures (but not those of the Department of Commerce income and product account). The deficit has been reduced by this amount. But since the plan involved merely speedier payment of liabilities already accrued, the change in budget figures is not accompanied by a parallel change in the flow of private income. As a consequence, a deficit or surplus in fiscal 1956 will have a different economic meaning than a like deficit or surplus would have in fiscal 1955.

I do not mean to suggest that we were ever able to use cash surplus and deficit figures as a comprehensive and unchanging picture of Government's impact on the economy. Government activity was strongly inflationary in the period just after Korea even though the budget showed a cash surplus. Also, the economic lines between actual lending activities on one hand (which are recorded in the budget) and guaranties and insurance (which are not) are thin and difficult to draw. So the economic reading of Federal budget figures always has to be undertaken with caution and understanding.

But it is high time that warning signals be hoisted for policymakers, economists, and citizens generally that the content of Federal budgetary figures is changing. It is time to note, if this be the case, that a cash surplus of $1 billion by today's budgetary practices and definition might have been a $1 billion deficit by yesterday's. It does not seem unreasonable to ask the Government's budgetary and economic agencies to follow this general rule: that whenever there is a significant change in the treatment of a Federal program in the budget without a corresponding change in the extent to which that program affects private income flows, those who use budgetary data in economic analysis and policymaking should be given full, clear-cut notice.

3. STRUCTURAL DEFECTS OF THE INCOME TAX

Moving from questions relating to the level of taxes and deficits and their interpretation, to questions of the structure of taxation, one is disappointed to find in the administration's documents no expression of concern and no proposal for action to counteract the growing erosion of the income tax base. It was not unexpected that a great flood of liberalizations in the tax structure to stimulate business incentives and provide tax reliefs to individuals was vigorously pushed through last year. But having attended to these myriad adjusments (with only very minor loophole—closing efforts), the Treasury might have been expected to turn its attention to such gaping holes as the tax exemption of State and local bond interest, excessive percentage depletion, the failure to recognize capital gains at death, and various income-splitting devices. Some of these gaps, surely, must offend the Treasury's sense of fairness and even-handedness in the application of the income tax. At the same time, the Treasury would find much sympathy for its undoubted view that top-bracket rates of 70, 80, and 90 percent are unrealistically and damagingly high. Even under a policy permitting of no revenue loss, a combined program of cutting back the top rates and offsetting the modest revenue loss by restoration of the base would have been very much in order.

That the need for such action has become urgent, even critical, was underscored again at the meetings last month of the American Economic Association. As one speaker (Prof. Paul Strayer, of Princeton) put it: "Let us remember that a truly effective income tax with more modest pretensions is worth more than one riddled and weakened for political reasons. It seems to me that the choice now before us is between the salvage of the income tax and the return to a greater dependence upon indirect taxation. * * * No tax law can be perfect. It is clear, however, that few can be as bad as the current income tax law and still command the respect of any intelligent citizen or economist."

Ironically, in the opinion of many, one of the features that cries loudest for correction is the dividend credit provision enacted just last year. By providing no relief at all for dividend recipients falling below the income tax exemptions and by providing greater relief, proportionately, the higher the taxpayer's income, the new dividend credit represented "wrong-way relief." In this connection, let me quote from a report on the National Bureau of Economic Research study of dividend taxation by Daniel M. Holland: "In summary, our major conclusion is that the relief provisions of the Internal Revenue Code of 1954 are inappropriate measures for the hardship they seek to alleviate. They are not geared directly to the basic feature of this hardship, viz, that it becomes increasingly less severe the higher the marginal personal income tax rates to which stockholders would be subject."

Although a program for restoring the even-handedness of the income tax is critically needed, one cannot be very optimistic about the prospects of achieving it as long as the current attitude toward preferential tax treatment prevails. There appears to be a strong preference for methods of granting subsidies which do not apear in the budget as expenditures but rather take the form of guaranties, insurance, and above all, tax reduction. The proposal for tax benefits to foreign investors is part and parcel of this movement. In terms of serving national economic and political objectives, it is probably one of the least objectionable tax concessions. If it were acompanied by the elmination of some of the indefensible concessions that now exist, one would have a good deal more optimism about the fate of our Federal income tax.

STATEMENT ON THE ECONOMIC REPORT OF THE PRESIDENT BY HARLEY L. LUTZ, PROFESSOR EMERITUS OF PUBLIC FINANCE, PRINCETON UNIVERSITY, AND TAX CONSULTANT, NATIONAL ASSOCIATION OF MANUFACTURERS

In the time at my disposal I shall discuss briefly the economic and political philosophy of government which is revealed in the Economic Report at different points and in various ways. My interpretation is that this report undertakes, rather unsuccessfully, to steer a course between a free, private economy, and a planned economy. It is natural, no doubt, that a report prepared by and for the Government should place the major emphasis on what the Government has done. In my view, however, the reasons for concern go deeper than recognition that a Government agency is naturally inclined to extoll and support its employer. The fact that the Council of Economic Advisers is a Government agency gives its views and its proposals a weight of authority that no nongovernmental organization could carry in expressing the same ideas.

The tone of the report is set, on page 2, by an enumeration of basic tenets which are said to underlie the administration's economic actions and its future program. Four of the six propositions advanced there deal with what the Federal Government is doing or intends to do, and only 2 relate to the private economy as a matter of major concern. Another example of the emphasis on the superior role of government is in this sentence from page 48:

"Budget policies can help to promote the objective of maximum production by wisely allocating resources first, between private and public uses, second, among various governmental programs."

This is a disturbing statement because, in my view, it points directly toward the planned, and eventually the socialized, economy. It says, in so many words, that maximum production can be promoted by permitting the budgeting authority, in its superior wisdom, to determine the allocation of total resources between private and public uses. From this it follows that if the budget authority should decide to increase the public share of total resources, the private share would be correspondingly diminished. Concretely applied, this means that if in its superior wisdom the Government should increase its budget in order to apply more of it to the production of particular goods such as steel, rubber, aluminum, electric power, or other things, there would be less private resources and a smaller total of private production than would otherwise be the case. It is impossible to avoid the implication that total production can be increased by getting the Government into business through absorption via the budget of a larger share of total resources.

Economic production is the peculiar domain of private capital and effort. Government encroachment into that domain is not conducive to a larger total, particularly in a society which is as well equipped as is our own with private managerial competence and all else that contributes to productive efficiency. Long ago Adam Smith observed that the functions of sovereign and trader could not be merged without detriment to the performance of one function or the other. The business of government is to govern and our society will advance most rapidly if the public functions and services are kept within that sphere, and if the portion of total resources drawn into public use is held to the minimum required for the efficient performance of the necessary public services.

This conception of the nature and function of the budget rejects the doctrine that the chief purpose of the budget, and of the spending and taxing power, is to pump money into or out of the economy as determined by the aims and intentions of a superplanning agency. Adam Smith said that when a ruler attempted to superintend the industry of private people and to direct it toward the employments most suitable to the interest of the society, he was undertaking a duty in attempting to perform which he must always be exposed to innumerable delusions, and for the proper performance of which no human wisdom or knowledge could ever be sufficient.

I would direct your particular attention to the gap between certain expressions of our national objectives and aspirations, on one hand, and the omissions from the report of adequate recognition of the actions required if these lofty and worthy ends are to be attained.

On page 4 are these statements:

"Our economic future depends on the full use of the great treasure house of intelligence, skill, energy, and confidence of the American people."

And again, from the same page:

"* * * unless there are satisfactory jobs for those who seek useful employment, and unless human labor is devoted increasingly to the production of goods and services that improve the quality of life, our gains in productivity may be dissipated."

One more, on page 6:

"Public policy must also protect incentives and encourage a spirit of enterprise and innovation among people. The man or woman who, in the hope of personal betterment, works harder, designs a new product, creates a new method, invests in a new business, moves to a better job, or suggests a new idea to his employer must believe that the rewards of initiative and effort are worth while. Through all of its policies the Government must encourage enterprising action by business managers, investors, and workers, in an environment that is kept basically free and competitive."

These are splendid statements of our personal and national objectives and aspirations. They are entitled to command, and I believe that they do command, universal approval and support. With a platform such as these passages provide, anyone who continued to read through the report would expect to find an equally forthright and constructive program whereby the objectives set out there are to be attained.

In this respect, however, the report is disappointing. It fails to recognize adequately the great importance of private capital formation as one of the most essential conditions for the provision of satisfactory jobs, for the increased production of goods and services that improve the quality of life, and for the desired advance of the level of well-being. There are references to the things that Government is doing to aid small business, to curb monopoly, to expand so-called public assets, and to extend social-security benefits. These and the other actions described, which constitute a combination of policing and paternalistic measures, may have beneficial effects. They cannot possibly serve, however, as adequate substitutes for the growth of the Nation's stock of the private capital which increases our productive potential.

This lack of emphasis on, or adequate recognition of, the importance of steady growth of our capital is the more surprising in view of the rate at which the labor force is growing, and of the capital investment which is required, on the average, to provide a productive, well-paid job for each new worker. It is equally amazing to find that, although there is a clear grasp of the bearing of heavy taxes on incentive and the provision of job opportunities, there is so little concern about the defects of the Federal tax structure. On page 49 it is said:

"It should nevertheless be recognized that present taxes are still a heavy burden. Lower taxes would tend to encourage work, promote more efficient business practices, and create more jobs through new investments."

This is an excellent description of an important line of action that must be taken if we are to have that glorious economic future which, on page 4, we are told may be ours. But on the subject of tax relief, the report offers stones instead of bread. It is said that there can be no tax reductions this year, not even those that were agreed upon a year ago. Maybe there can be something, next year, if expenditures are reduced. As for next year the report says, page 49:

"Congress might then consider enacting a general, though modest, reduction in taxes and, at the same time, continue the program which was begun last year of reducing barriers to the free flow of funds into risk-taking and job-creating investments."

In my judgment, here is another weakness of the Economic Report; namely, the failure to carry through from the perfectly clear perception of the bad effects of heavy taxes to a firm and definite position on the necessity of prompt, corrective action. The removal of other barriers to the free flow of funds into risk-taking and job-creating investments is a desirable step but it will be relatively futile unless there is also removed the very obstructive barrier of the high taxes on incomes, and the gross discriminations of the steeply progressive rates of tax on individual incomes.

There are two sources of tax reduction. The traditional measure of such reduction has been the amount by which the public spending has been, or can be, reduced. The Economic Report places the principal prospect for tax cuts on this traditional basis.

Another source of tax reduction which hitherto has been generally disregarded is economic growth. This factor has been recognized in the President's recent messages. The National Association of Manufacturers has published within the past week a new tax program which proposes to utilize the growth factor as a source of tax reduction. This is, of necessity, a long-range program, the projections of which are based on the historic growth trend without regard to the annual variations or temporary reversals of that trend. As a first step, a series of tax rate reductions in the rates of corporation and individual tax is projected over a 5-year period. My time does not permit lengthy exposition of the plan, but copies can be made available to members of the committee, or for inclusion in the record, if desired.

The two points at which the tax rate reductions would be made, under this plan, are the corporation tax rate and the progressive element of the individual rate scale. By a series of annual reductions over 5 years the top rate in each case could be brought down to 35 percent. On the assumption that there would be, on the average over this period, a continuation of economic growth at the historic rate of 3 percent, there would be provided as much revenue through the period as is now obtained from the present high rates.[1] As an illustration, if the Federal revenue requirement over the next 5 years were not to exceed, say $60 billion a year, this level of revenue could be maintained because of the expansion of the taxable corporate and individual income bases, even with the proposed annual-rate reductions. The possibility of a serious military crisis canot be ruled out in any period, much less the present, but this ever-present possibility provides no reason to forego constructive planning for national growth and prosperity. If and when the Nation should again be faced with a great military crisis, it will be better prepared to meet the situation if investment and production have been maximized in the meantime.

The reason for concentrating the reductions that are realizable from the growth factor on the high rates of income tax is that these rates are the most penalizing on incentive, effort, enterprise, and capital formation. The case for action here fits perfectly with the excellent statements which I have already read from the report concerning the release of our creative energies, the provision of enough satisfactory jobs, the importance of letting every industrious, ambitious, creative person realize that the rewards for his efforts will yield personal betterment. The reduction of penalizing, discriminatory taxes is the one effective and convincing way of demonstrating that we really mean what is said on this matter.

The plan does not deal expressly with the first bracket rate of the individual tax, but it is emphasized that during and after the execution of the plan, every opportunity of further tax reduction arising from budget cuts or a more rapid rate of economic growth than is assumed in the plan, should be applied to a reduction of the first bracket rate.

If it be said that inasmuch as the plan assumes continued growth, why should the available tickets for tax reduction be used in this particular way. My answer is that there is no assurance that the growth will continue, and especially is this so if we do not work and plan for it. The report says, correctly, that there is no way of lifting more than a corner of the veil that separates the present from the future, and that we shall achieve the grand economic future awaiting us only by wise management of our national household. The best assurance we can give that economic growth will continue is to remove the barriers and impediments most likely to prevent it. Chief among these barriers is the ball and chain of high and discriminatory tax rates.

Statement of William Vickrey

Gentlemen, I would like if I may to address my remarks primarily to the first two paragraphs of the suggested agenda for today.

Err, if at all, on the inflationary side

First, as to the appropriate overall fiscal policy for 1955, there are others coming before you who have made a more diligent study of the recent annals than I, and I would not want to presume to recommend a specific level for the deficit or surplus to be aimed at. But I would want to urge very strongly that in view of the inevitable range of uncertainty as to just what the ideal fiscal policy would be, we should err, if at all, on the side of too much stimulus, too large a deficit, rather than too little. This is because in my judgment the damage done by too much stimulation to the economy is much slighter, and is more easily dealt with, than the loss incurred if the stimulus is too mild.

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[1] In chart 1, on p. 3 of the report, there is a hypothetical projection of gross national product from about $360 billion in 1955 to $500 billion in 1965. This is a growth rate of 3.3 percent a year, compounded. Our assumption of 3 percent thus appears reasonable, or even slightly on the conservative side.

Unemployment worse than inflation

The losses from an over- or under-stimulation of the economy are felt chiefly in two areas: employment and prices. In the price area, losses occur both when prices rise unduly and when they fall unduly; these losses are in the shape of wrong production decisions made because of distortions in the price structure and inability to forecast prices correctly, and in the shape of inequities that arise when legitimate expectations are upset: debts becoming more burdensome as prices fall, savings losing their value as prices rise. In the employment area, there is on the inflationary side often a loss from inability to find labor for strategic jobs, and from hoarding of labor in partial idleness to avoid such a contingency, but this is relatively slight compared with the very substantial and measurable loss of output that occurs when large numbers are unemployed; the inequities and disappointments that arise out of unemployment also are much more serious than those which occur from mere changes in the price level. I think that there are many who will agree with me in judging that the evils and losses accompanying unemployment are far more serious than those accompanying any degree of inflation that there is the remotest likelihood of our getting into in the near future. Accordingly, I would suggest that it is well worth while running even a quite appreciable risk of a mild inflation, rather than risk causing the present level of unemployment to continue for a week longer than is absolutely necessary. The accompanying chart will perhaps make this point a bit clearer.

(The chart referred to appears at p. 334.)

Small deficit and easy money versus large deficit and tight money

Another point I would emphasize in fixing overall goals is that fiscal policy and monetary policy should be considered jointly. Too often each type of policy is discussed as though the other were impotent or nonexistent. It should be clearly realized that in the long run, at least, a full-employment economy with stable prices can be achieved either with a cheap money policy and a relatively small deficit (or perhaps even a surplus), or equally well with a tight money policy and a larger deficit. Of course, while these two alternative policy combinations may lead to the same level of employment and prices, the detailed effects on the economy will differ, but the choice should be made deliberately on the basis of these differences and not as a result of political and administrative accidents. Thus a tight-money and large-deficit policy is likely to lead to a higher current standard of living at the expense of a lower level of private capital formation; to a larger share of the national income being distributed in the form of interest, dividends, profits, and rents, and a smaller share in the form of wages; what is often overlooked is that such a policy provides a greater leeway for the use of monetary policy in checking an incipient deflation or recession. For example, if we had come to the summer of 1953 with the same level of employment, incomes, and prices, but with a larger annual deficit and higher interest rates, there would have been more room for the Federal Reserve System to maneuver, and it is even possible that a reduction of interest rates from around say 6 percent to the rates actually reached at the beginning of 1954 might have turned the tide, whereas with actual rates ranging from 2 percent to slightly over 3 percent in the summer of 1953, by the time it became apparent that substantial stimulative action would be needed, the utmost that the Federal Reserve System could do proved insufficient, as the available range of action then allowed permitted only a reduction in interest rates of 1.8 percent for Treasury bills, and much less than this for the more widely significant rates.

Too much deficit can be corrected by FRS; too little cannot be

There is a great deal to be said in favor of firing up the boilers of the economy with a substantial budget deficit and then throttling this steam with high interest rates: throttling by the Federal Reserve System can be adjusted from week to week as developments warrant, while changes in fiscal policy take considerably longer to put into effect. If more than enough steam is produced by more deficit financing under the boiler than is absolutely necessary, this can always be throttled down by tight money policy on the part of the Federal Reserve System. On the other hand if there is too little deficit financing, or too large a surplus, the economic machinery may stall even with the throttle wide open. An error in the direction of too large a deficit can readily be corrected, at least insofar as the tendency to inflation is concerned, by monetary policy producing higher interest rates; there is no equally ready corrective for an error in the direction of too low a deficit or too large a surplus.

Present dividend credit method is a dead end

As to changes in the tax structure, the tax treatment of corporations badly needs overhauling. The recently enacted dividend credit does serve to moderate very slightly the differentials between taxes on enterprise organized as corporations and other forms of organization. But as a means of doing anything really substantial toward dealing with this problem it is essentially a dead end. In its present form the dividend credit is not really large enough to reduce the discrimination very much, and if increased to a level where it would produce even a very rough equalization on the average, it would at the same time produce intolerable inequities. Preferred stockholders would receive what is essentially a windfall. Dividend recipients in the upper income brackets would be relatively undertaxed, while those in the lower income brackets would still be overtaxed, in the case of corporations distributing their income, while nothing effective could be done by this method to mitigate the discriminations arising with respect to corporations accumulating earnings.

Ending double tax on corporation income

Any serious attempt to achieve a major abatement of the discriminations now involved in the taxation of corporations must take some account of the differences between corporations that distribute most of their earnings and those that do not. About the most satisfactory simple way of doing this that I can think of would be to impose an annual tax of say 2 percent upon the accumulated undistributed profits of corporations, as an interest charge on the tax not paid by individuals. The way would then be open to treating the present corporation tax at least in part as a tax withheld at source; if this is done by means of a tax credit such as the present one, then either the dividend must be "grossed up" to obtain the individual's net income before the tax was withheld, or the amount of the tax credit added in to his net taxable income.

Capital gains at death of taxpayer

The President's Economic Report speaks on page v and again on page 49 of lowering tax barriers to the free flow of funds into risk-taking and job-creating investments, in a context implying that this must wait until rate reductions become feasible. But in the field of capital gains there is at least one place where this objective can be promoted with a gain rather than a loss of revenue. Under present law, taxpayers are often "frozen in" to their existing investments by consideration of the fact that if they hold on to these investments until their death there will be no capital gains tax to be paid on whatever appreciation in value there may have been, either by themselves or by their heirs. A provision requiring a tax at capital gains rates to be paid on the excess of the value of these assets as appraised for estate-tax purposes over their tax basis would go far toward eliminating this barrier to the free switching of investments, and would in addition produce a small amount of revenue which would permit the lowering of tax barriers in other areas. There is no reason either in equity or in public policy for thus retaining a tax discrimination in favor of those who refrain from turning over their assets until their death. Such an enactment would make it possible for those who had invested in profitable growth ventures to switch, when these ventures have reached maturity, to new risk ventures, without thereby losing a valuable tax exemption, since the exemption would no longer exist.

Tax credit for Government bond interest

Another step in this same direction would be the conversion of the exemption of interest on State and local bonds into a tax credit at a rate calculated to be just sufficient to preserve the market value of these bonds. Conceivably, an appropriate credit would be 30 percent of the interest received, to be applied as a reduction against the tax. For top-bracket taxpayers the net yield after taxes obtainable from such bonds would no longer be quite so far out of line with after-tax yields on other securities, and some of the funds thus released would presumably become available for risk investment, while the Government bonds would pass into the hands of low-bracket taxpayers to whom the credit would be more valuable than the exemption was previously. The demand for the bonds from such investors would, if the rate of the credit is properly determined, be just sufficient to maintain the value of the bonds on the market. Since the market values would be maintained there would be no ground for objection from government bodies, since new issues could still be floated at comparable yields, and institutional owners would be protected from capital loss.

Drop transport and communication excises

Concerning excises, I would suggest chiefly the elimination at the earliest possible moment of the taxes on transportation and communication. These are decreasing cost industries, and taxes on such industries have a double burden: not only must the users of these services pay the tax, but as the tax causes a reduction in use, average costs per unit of service rise because of the lower level of utilization of the facilities, and these higher average costs must be borne either in the form of higher charges or lower profits. Each dollar of revenue obtained from such taxes as these may well cost taxpayers $1.20 or more when all of the repercussions have been worked out. In theory, at least, a good case can be made for subsidizing such industries; while one may not want to go so far as to provide an outright subsidy, at least there is no excuse for singling them out for special and extra tax burdens.

Percentage depletion unsound.

I cannot pass over the subject of depletion allowances without expressing my conviction that they have no place in an individual income tax. Recovery of actual investment, yes; but anything above this is income to the person receiving it. Nor is there any public policy to be served: rather the reverse; the percentage depletion allowances encourage excessive development of domestic mineral properties rather than foreign, encourage early exhaustion of oud own resources and increase our ultimate dependence on foreign sources, and increase the dollar shortage abroad by curtailing imports of minerals.

Estate taxes are badly in need of strengthening and simplification. Several lines of approach are possible, but no real progress can be made without fundamental overhaul.

On the experience of 1954, I cannot pretend to have any expert opinion; my judgment would be that the main contribution made by tax changes to the arrest of the economic decline would be from the reduction in individual income taxes; the major effect of the other changes probably was felt only considerably after the bottom had been reached. In my judgment the built-in stability of any set of rate schedules is inherently incapable of doing more than mitigating swings after they have arisen, and so I would not wish to depend on such built-in stabilizers as a protection against inflation in the long run. On the other hand I see no immediate danger of conditions arising during the next year to 18 months that would call for increased rates for fiscal policy purposes. Nor over a longer run does it seem likely that deficits of the order proposed for 1956 would give rise to inflation; indeed I would feel that much larger deficits may be needed to provide the pressure needed for the satisfactory operation of monetary controls.

If I were asked to suggest a specific fiscal prorgam, I would propose the immediate and permanent elimination of the transportation and communications excises, to take effect as soon as feasible; not only would this have a desirable stimulative effect, but since these taxes are a part of costs, there would be a tendency for such a repeal to keep prices down and thus inhibit any possible inflationary influence that a stimulative fiscal action might have at this time.

In addition, I would like to see an immediate temporary tentative cut in personal income taxes, such as to involve a reduction in the withholding rates of say 20 percent, beginning March 1, or as soon thereafter as would be feasible. Then toward the end of the present session of Congress, say in June, Congress should take another look at the then trend of the economy and establish the withholding rates for the remainder of the year and set the final rates for the income of the year 1955 in such a way as to agree with the overall level of withholding that thus results for the entire year. I would make the cut entirely in the rates rather than the exemptions, in the expectation that it would be easier to put the rates back up later in the year if that should prove to be indicated than would be the case if cuts were made in the personal exemptions.

In deciding on the final level of rates for the year, I would like to see this done on the assumption that the aim is a budget situation which in and of itself would produce a mild degree of inflation in the absence of any action by the Federal Reserve Board, with the presumption and legislative direction, if necessary, that that body act to control any inflationary pressures that do develop by adequate increases in reserve requirements, increases in rediscount rates, and by adequate sales of securities on the open market so as to tighten the money market and drive interest rates up to levels where undue expansionary activity would be throttled off. The Federal Reserve System may still operate to facilitate the orderly absorption of large issues of Government securities, but it should be relieved of any responsibility for the keeping of interest of rates on Government securities at any particular level. If restrictive action appears to it to be necessary to avoid undue inflation, such policies should be pursued regardless of their effects in raising the rates of interest payable on Government issues.

If this is done, Congress can then adjourn with the feeling that the economy is under some degree of control, and is not merely drifting, as at present, with the throttle almost wide open, but with not enough steam in the boiler to produce full employment.

(Whereupon, at 4:25 p. m., the committee adjourned until Monday, January 31, 1955, at 10 a. m.)

JANUARY 1955 ECONOMIC REPORT OF THE PRESIDENT

MONDAY, JANUARY 31, 1955

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

The joint committee met at 10 a. m., Senator Paul H. Douglas (chairman) presiding.

Present: Senator Douglas (chairman), Senator Sparkman, Representative Patman (vice chairman), and Representatives Bolling, Mills, Kelley, Wolcott, Talle, and Curtis.

The CHAIRMAN. As you know, we meet this morning to discuss monetary policies, with particular reference to the Economic Report of the Council of Economic Advisers. We appreciate you gentlemen taking the time to discuss this with us. We are very grateful.

We have invited a representative of the Secretary of the Treasury or the Secretary to attend, but the Secretary has declined on the same grounds that he gave on Friday.

We are very glad that the Federal Reserve Board has designated Mr. Riefler, who is Assistant to the Chairman, as a representative. We are happy to have him here.

I think perhaps it would be a good idea if we took each of the subjects in turn and went through the panel and then the members of the committee could ask questions of the members of the panel and perhaps there could be some discussion within the panel itself.

Vice Chairman PATMAN. Mr. Chairman, before you ask a question, since you have someone representing the Chairman of the Board of Governors, do you expect to have the Chairman later on?

The CHAIRMAN. We invited either the Chairman or someone designated by the Chairman. I understand that Mr. Riefler appears here in response to our invitation.

Vice Chairman PATMAN. Well, I think you ought to have the Chairman here. If you do not have him this time, you ought to have him another time. My feeling is the same way about the Treasury. I do not see how we can go into the study unless we have the policymaker here. I do not think we should have anyone less than the policymaker.

Now, I am not saying that we should not hear Mr. Riefler; we will do the best we can, but I am hoping it is not a precedent—that it is not an established policy to accept substitutes.

The CHAIRMAN. This does not constitute a binding precedent and the question of later appearance, I think, can be discussed inside the committee.

Vice Chairman PATMAN. Just one thing, did you invite the Chairman, Mr. Martin?

The CHAIRMAN. Yes.

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Vice Chairman PATMAN. And Mr. Martin sent his representative down?

The CHAIRMAN. Well, it is perfectly true that he could designate someone as his representative.

Vice Chairman PATMAN. You stated that.

The CHAIRMAN. Yes.

Vice Chairman PATMAN. Well, that would be a good reason.

The CHAIRMAN. The first question I should like to address to the panel is this: What should be our monetary policy in 1955 with respect to the quantity of money and credit? Should we have (*a*) a fixed quantity of bank credit, (*b*) a decrease in the quantity, (*c*) an increase in the quantity comparable to the increase in physical production, or (*d*) an even more rapid increase in quantity?

I shall ask Mr. Riefler to begin the discussion.

OPENING STATEMENT OF WINFIELD W. RIEFLER, ASSISTANT TO THE CHAIRMAN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. RIEFLER. The monetary and credit policies pursued by the Federal Reserve System in 1955 will continue to be guided by the philosophy emboided in the Employment Act, that is, the nurture and cultivation of sustained economic growth and stability at high levels of resource use.

In more concrete terms, this means that credit and monetary policy will be directed toward furnishing the reserves needed by the commercial banks to perform efficiently their function of financing the economy at a high level of resource utilization without contributing either to inflation or deflation, and without encouraging developments that will make for instability. So far as the cost and availability of credit are concerned, it means that the System will try to promote a pattern of finance that will find a market for the economy's savings in constructive activities. So far as the quantity of credit is concerned, it will work for a rate of growth in the active money supply appropriate to the growth in the resources available to the economy.

It would not be wise to establish a fixed or mechanical formula to govern the relationship between growth in the money supply and growth in the economy. Both businesses and individuals hold cash balances for a variety of reasons which may change from time to time. The result will be registered both as a change in the velocity of circulation and a change in the appropriate relation between growth in the money supply and growth in real output.

The CHAIRMAN. Mr. Riefler, I hope you will forgive me if I make this comment: The very guarded nature of your comment reminded me of the statement that language is a device designed to conceal thought.

Now, in response to the particular question here, do I understand you to say that you believe that the total supply of money should be expended with production taken into account, taking in mind the philosophy of maintaining a constant price level, neither an increase in prices nor a decrease in prices?

Mr. RIEFLER. I thought I said that.

The CHAIRMAN. Do you think you have a very good measure of the velocity of circulation?

Mr. RIEFLER. Not too good, and you have to take into account all of the lags and leads which there may be in the situation.

The CHAIRMAN. Do you regard the figures which we have on page 30 of Economic Indicators, namely, demand deposits adjusted, as a correct measure of the total supply of money?

Mr. RIEFLER. We are using demand deposits plus currency in circulation as the statistical measure of the active money supply. I think that is as close as you can get to it statistically. Of course money is what people use for money. The statistical measure is never a complete expression of the concept.

The CHAIRMAN. I have often wondered if currency in circulation was not misleading. A great deal of it has been lost, a great deal of it is in safety deposit boxes, and so on.

Mr. RIEFLER. I think that, after the bank closings in 1933 and during the period of controls and black-market operations, currency in circulation seemed to increase faster than was indicated by the economic situation, and I also think that during the period of currency instability abroad, quite a bit of our currency got over there with the troops, and tended to remain.

My impression is that the trend is the other way now, that that kind of locked-up currency is being released.

The CHAIRMAN. That is my impression, too.

Mr. RIEFLER. So far as changes in the active money supply are concerned, that trend would tend to conceal or understate the increase at the present time. But the amounts are relatively small and I do not think they would be worth particular attention. That is my impression.

The CHAIRMAN. That is all.

Mr. Talle.

Representative TALLE. No questions.

Vice Chairman PATMAN. Mr. Riefler, I listened with interest to your statement which is on page 3 of your written statement, as I understand it. You state that you hope to help the economy by furnishing the needed reserves to the banks. Is that a fair statement?

Mr. RIEFLER. Yes.

Vice Chairman PATMAN. In other words, if the banks need more money you will change the reserve requirements so they can issue more money on their reserves?

Mr. RIEFLER. Well, we might. The reserves are furnished to the bank in three ways—well, two ways. When we change reserve requirements we are not furnishing reserves to the banks. We are changing the amount of reserves they are required to hold. But when we furnish reserves actively, it is either by buying securities or by lending to the banks through the rediscount window.

Vice Chairman PATMAN. I notice last year you state the total loans of all commercial investments increased about $11 billion, of which about $4 billion was in active money supply. How was that brought about?

Mr. RIEFLER. The bulk of the increase in loans and investments in the commercial banks was reflected by a growth in their deposits. Of the deposit growth part was time deposits, and part was demand deposits. That $4 billion is the increase in demand deposits plus currency in circulation.

Vice Chairman PATMAN. Do you mean most of that was obtained by people borrowing at commercial banks? In other words, they increased their deposits by making loans?

Mr. RIEFLER. Yes; people borrow from commercial banks and get deposits and then pay them out. The people that receive the payments put them back in the banks. Some of them put them back in the form of time deposits. That activity is reflected in the growth of time deposits. Part of them put them back in the form of demand deposits, and that is reflected in the growth in the active money supply.

Vice Chairman PATMAN. Now, on this one question, I assume that your answer would be that if we keep our economy growing and our national product increasing, it will be necessary in a proportionate manner to expand the money supply; is that right?

Mr. RIEFLER. Yes, not necessarily by a formula, though. You look for growth in the money supply with growth in the economy. It is very important.

Vice Chairman PATMAN. There is no fixed rule to govern it, though.

The CHAIRMAN. Mr. Kelley?

Representative KELLEY. No questions.

The CHAIRMAN. I regret that I seem to have violated my own rule by questioning Mr. Riefler before the other members had a chance to question.

(Mr. Riefler's prepared statement and supplemental information appear at pp. 489, 491.)

The CHAIRMAN. I shall now call on Mr. Hansen.

OPENING STATEMENT OF ALVIN HANSEN, LITTAUER PROFESSOR OF POLITICAL ECONOMY, HARVARD UNIVERSITY

Mr. HANSEN. Mr. Chairman, with respect to the question you asked, I have a very, very brief statement which I would be glad to read with respect to the matter of the quantity of money and what should be our policy during the next year. I will make this first general statement.

I suggest that for a rich industrial country the correct quantity of money is not any precise fixed amount. It may be anything within a rather wide range. A rich, highly developed country desires and is capable of holding a very large amount of liquid assets in relation to its income. A poor, undeveloped country is not. In a rich country there is no close relation between the quantity of money and aggregate spending. In a poor country there is. That is why the quantity theory of money applies quite well to poor countries. The quantity theory has very little relevance for rich advanced countries.

If the level of economic activity is low, we should actively promote high liquidity and a policy of easy credit. If activity is running very high, the monetary authorities should lean moderately against the inflationary pressures. Monetary policy should make a modest contribution toward the containment of inflation, but primary reliance should be placed upon fiscal policy and selective controls.

The monetary authorities should, I believe, follow no rigid formula with respect to the quantity of money. A rich advanced society does not hold money merely for transactions purposes, and therefore the old velocity concept is more or less meaningless. A rich society cannot function well without large liquid assets, ready to take advantage of changing investment opportunities and prepared to meet unforeseen contingencies. Such a society cannot prosper without a highly elastic monetary system.

I might add that it seems to me with respect to the coming year I see no reason why we should move toward monetary restraint. As I see it, we are currently some 25 billion below our output potential, and I estimate this not on an overfull employment basis, but on a basis that is lower than in the high peak quarters. Even in these high peak quarters, as a matter of fact, we had no inflation.

So I see no reason why we should move even as has been suggested, from "active ease" to "just ease." I would suggest a continued utmost ease in the monetary field in the year ahead.

The CHAIRMAN. Thank you.

(Mr. Hansen's prepared statement appears at p. 491.)

The CHAIRMAN. Mr. Reierson.

OPENING STATEMENT OF ROY L. REIERSON, VICE PRESIDENT AND ECONOMIST, BANKERS TRUST CO., NEW YORK, N. Y.

Mr. REIERSON. Mr. Chairman, I find myself in substantial agreement with the general objectives as stated by Mr. Riefler, and partial but not complete agreement with the point of view presented by Professor Hansen.

As a general objective, I would support the thesis that we should provide a money supply sufficient to keep pace with the requirements of an expanding economy, that is, promote a gradual increase in the money supply in line with increase in the output and in the monetary needs of an expanding economy. By implication, this means that I am in general agreement with benchmark (c), listed in the question.

I would suggest, however, that the application of this general concept to a particular situation is a very complex and difficult problem, and certainly would agree with both previous speakers that we cannot use an arithmetic formula in trying to apply the principle. The principle provides some very rough benchmarks, but probably no more than that.

I take it that we are interested in avoiding twin evils. We certainly wish to avoid, in a period of economic slack, an inadequate money supply. We wish to avoid policies of credit restraint that would accentuate credit contraction and deflation in a period of business weakness, and which would by their nature be restrictive and restraining upon the money supply. Likewise, I take it that we wish to avoid the other evil of an excessive growth in the money supply, that is, an increase at a rate far above the increase in the volume of output in the economy. In the past, this has frequently brought inflationary pressures and increases in prices.

The most dramatic example of an oversupply of money is, of course, provided by war financing when military operations are financed through the banking system and contribute to inflationary pressure during and after the war.

I suggest, Mr. Chairman, that a rapid increase in the money supply under conditions other than war could have similar but perhaps less drastic results, especially if the situation should arise where large amounts of credit were being used for purposes that did not increase the flow of goods entering the market. I am not suggesting that we are in that position at the present time.

The application of this general principle to any particular situation is obviously complicated by a variety of factors. One of them may be long-term changes in the monetary habits of the population. It appears that the active money supply relative to gross national product is currently a little higher than it was in the period of prosperity in the twenties. However, these changes in monetary habits are probably fairly gradual and can be largely ignored in the short run.

However, we also have cyclical fluctuations in the relationship between money and economic activity. In a period of business decline, particularly if the decline is of significant proportions, we frequently have a slower rate of turnover of the money supply as measured by these inadequate indexes, and, consequently, perhaps need a somewhat higher money supply relative to gross national product.

The reverse probably is true in periods of prosperity when a faster turnover of the money supply may reduce the need for as large an increase in the volume.

What I am suggesting, Mr. Chairman, is that the application of this very rough and general principle should be made in light of the cyclical situation in the economy, that in a period of business decline, credit policies should be used that would create an environment in which the money supply could increase faster than the average rate of growth. In a period of initial business recovery, I would think that the money supply should remain adequate and credit conditions not be restricted. But as business expands, if the cyclical patterns with which we are accustomed tend to prevail in the future, then the thought occurs to me that we shall approach a time when a less liberal credit policy and a slower rate of increase in the money supply would be perfectly appropriate.

Specifically, I think that the increase in money supply in 1954 was resonably in line with this long-term growth benchmark. I think that the present business situation warrants continued application of the general benchmark; an increase in annual terms of perhaps 3 to 4 percent would seem reasonable. But I suggest that we should maintain flexibility in our thinking, adapt our thinking to the cyclical changes in business activity and restrain the rate of growth of the money supply as we approach full employment.

In the application of this general principle, another complication is that of seasonal fluctuations. The seasonal fluctuations in demand deposits are of substantial importance, and the seasonal fluctuations in money in circulation are likewise large enough so that they cannot be ignored. This complicates the use and interpretation of the data on the money supply.

The CHAIRMAN. Thank you very much.

(Mr. Reierson's prepared statement and supplemental information appear at pp. 486–488.)

The CHAIRMAN. Mr. Stein.

OPENING STATEMENT OF HERBERT STEIN, ASSOCIATE RESEARCH DIRECTOR OF THE COMMITTEE FOR ECONOMIC DEVELOPMENT

Mr. STEIN. Mr. Chairman, I would like to state first for the record that I appear here today to present my own views and not to represent the Committee for Economic Development, with which I am associated.

I do not believe that the question of the appropriate rate of increase in the money supply can be answered for a period as long as 1 year ahead without an ability to forecast economic conditions that I do not believe anyone has.

One's opinion of appropriate monetary policy at any one time depends, or should depend, upon one's appraisal of the economic situation as it exists and as it is foreseen for a short period ahead.

It is one of the great advantages of monetary policy that the forward look need not be very long, since the policy can be changed in time if developments in the more distant future call for a change.

In general, I agree with the diagnosis of the economic situation contained in the Economic Report. This diagnosis is that we are experiencing a recovery, which is not yet complete, and that continued rapid movement to full recovery is possible, even "promised," but not assured.

In my opinion, this diagnosis calls for a prescription of continued active monetary ease. This means that banks should be so well supplied with reserves that they will be actively seeking opportunities to extend credit and will be increasing their investments in Government securities.

I do not see anything in the President's Economic Report that is necessarily inconsistent with this prescription. However, I believe that the report could have been clearer on this point.

Possibly before the end of this year we shall need an anti-inflationary monetary policy. But this possibility does not means that we do not need, or cannot have, an active stimulating monetary policy now. The meaning of flexibility in monetary policy is that we can have a stimulating policy now and a restrictive policy 6 months from now.

(Mr. Stein's prepared statement and supplemental information appear at pp. 494, 495.)

The CHAIRMAN. Mr. Whittlesey.

OPENING STATEMENT OF CHARLES R. WHITTLESEY, PROFESSOR OF FINANCE AND ECONOMICS, UNIVERSITY OF PENNSYLVANIA, AND ECONOMIST, THE PENN MUTUAL LIFE INSURANCE CO.

Mr. WHITTLESEY. May I say that in the letter I received from the chairman there was this statement: "We shall ask each member to summarize his views on the assigned topic in an opening statement of 5 to 7 minutes."

I am going to have to break into my subject and I am not sure that my thoughts will be revealed as well as they would have been otherwise, but they certainly will not be concealed if I can avoid it. Addressing myself to the questions you have put before us, I have combined may answer with that to the second question presented to the panel. When that comes up, I shall have to pass.

The first two questions seem to call for some simple and categorical rule of thumb which is to remain valid throughout 1955. But monetary policies are contingent at all times upon the conditions that prevail in the country. It will be the task of the monetary authorities to choose from among the alternatives mentioned here, and others not named, the policies which are appropriate to conditions as they unfold.

It is entirely conceivable that within the coming year conditions will alter to such an extent that quite opposite measures will be called for at different periods. To suggest, as these two questions seem to do, that particular policies can be laid down this far in advance, is largely to deny the necessity of having a central monetary authority.

The effect of changes that have taken place in the economy has been to increase the importance of those instruments of policy which relate primarily to the use of money as contrasted with those which relate primarily to its quantity. It follows that I consider the present exclusive concentration on the general instruments of credit control, notwithstanding a nostalgic hankering for them, not merely misplaced but anachronistic. For the same reason I feel that other selective controls such as regulations W and X should be made available to the Federal Reserve on a standby basis. I am convinced that the Korean inflation would have been far more moderate if the Board had had these instruments at their immediate command and had employed them promptly and vigorously.

That unfortunate and unnecessary experience was the price paid for our pathological fear of bureaucracy, a fear which keeps us from giving our monetary authorities the power they require to do their job adequately, lest they abuse that power. This is in spite of the self-evident fact that any limitation on the power of the monetary authorities to do harm, as in restricting the use of particular instruments of credit control, is likewise a limitation on their power, under other circumstances, to do good. It is in spite of the further fact that the history of Federal Reserve operations shows that the Board has often suffered from an excess of caution but seldom if ever from an excess of adventurousness in the exercise of its powers.

In speaking of supplementing the present arsenal of stabilization measures I have gone somewhat beyond a discussion of monetary policies for 1955. At least I hope and expect that this year will present no crisis that will expose the inadequacies of present monetary powers. But I have no confidence that we shall escape such a crisis before the decade is out. And I firmly believe that the time to prepare for crisis is before crisis descends.

To summarize certain things I had said elsewhere, I would go much further than the Economic Report goes in urging that a full complement of powers be available for more serious tests that surely lie ahead.

The CHAIRMAN. Thank you very much.

(Mr. Whittlesey's prepared statement and supplemental information appear at pp. 496–498.)

The CHAIRMAN. Mr. Wood.

OPENING STATEMENT OF ELMER WOOD, PROFESSOR OF ECONOMICS, UNIVERSITY OF MISSOURI

Mr. WOOD. Mr. Chairman, I would agree with Mr. Stein's statement that there is no reason to discontinue a policy of active ease. The ultimate tests of monetary policy that seem useful resolve into facts about prices and about employment. As long as employment is no higher than it is at the present, and as long as prices are not rising significantly, it seems desirable to follow a policy of monetary ease—about such as we had in the latter part of last year.

If we should have still further recession, monetary expansion should be stepped up. If prices should start rising significantly during 1955, while there is still considerable unemployment, we should compromise. Everything considered, we should be willing to see some rise of prices if unemployment remains as great as it is now. On the other hand, we should not be willing to purchase full employment—with the percentage of unemployment, say, at the early 1953 level—at the expense of inflation at the rate, say, of 5 percent a year for very many years. These figures are illustrative and are not intended to suggest a formula. I do not think we can operate on a formula.

As I consider that last statement again, it seems that it might be thought slightly equivocal. I do not mean to be indefinite about the matter. There should be no question about monetary expansion when we are having recession and falling prices—and it should be of the required order of magnitude. And we should even change our arrangements for issuing money if that seems necessary in order to have the expansion needed. Also, when prices are rising and there is overemployment, or what is commonly referred to as that, we should restrict to the required extent.

Because of upward pressures on prices from the supply side we are probably faced with creeping inflation over the long run. The monetary authorities cannot be expected to hold back these upward pressures simply by monetary restriction. The innocent would suffer more than those responsible.

In other words, if the monetary authorities are going to discipline the economy, and punish with unemployment, an upward pressure, say, in industrial prices——

The CHAIRMAN. Do you mean from monopolies?

Mr. WOOD. Yes, sir.

The CHAIRMAN. From the labor movement, and so on?

Mr. WOOD. Administered prices. And suppose then the monetary authorities say "We will show you. We will cut off your water to a certain extent and stop any further increase and bring those prices down." They are punishing innocent people who were not responsible for that administered price rise. I do not think we want to say unconditionally that we would give that kind of disciplining to avoid such a rise of prices. If the problem cannot be dealt with adequately by policing the power groups, the monetary authorities will compromise in favor of some inflation. The public will demand that they behave that way; maybe not immediately, but sooner or later they will.

We come now to a different aspect of the question as stated. The question seems to imply that the amount of money is the appropriate measure of monetary ease or pressure at any given moment. Actually the amount of money reflects mainly the demand for balances arising out of the given cost-price structure and level of economic activity. Of course, there are some other elements in the demand for cash, but those are the two main ones; and since they do not respond immediately to the administrative procedures available to the authorities, but only slowly and cumulatively, the amount of balances shows a similar lack of responsiveness.

Thus the amount of balances is a historical result of cumulative forces and not a measure of monetary tendencies at a given moment. What the authorities need is an instant pointer reading of the change in the monetary ease or pressure which they are exerting with the controls in their hands. This pointer reading is the prices of various types of debts.

Nor is the amount of money a very useful test of longer-run policy. The longer-run tests are prices and the volume of employment. Finally, let us note, a change in the quantity of money is not an instrument of procedure. No board decides administratively what it shall be.

Money is socially costless, and if every treasurer and every individual consumer should change his target of the amount of balance he wants to hold, let them all have what they want. That does no harm. Let us have no preconceived idea that money ought to increase at such-and-such percent a year. Let us suppose the public become worried and want to shift from debt assets that are not money into money. There is no reason why the monetary authorities should exact harder terms as a condition to permitting the public to have those balances.

The reason why I do not approach the matter from the standpoint of the velocity of circulation is that I believe the public can ordinarily have all the balances they want at any given time, and without any serious change in the sacrifice necessary to obtain them. A change in the demand for balances is associated with, causes, a change in their amount, and not with a change primarily in the rate of turnover of some given amount determined by the authorities or by the banking system independently of the public. And it ought to be that way. If, however, there is inflation, the terms on which the public adjust their balances should be hardened. This may have little effect on the amount of balances they choose to hold, but it will have a cumulative effect on the volume of commitments and prices—which is presumably the final objective.

I think the question involved is one of criteria. You cannot use your monetary procedures and watch the pointer reading of prices and employment change instantly. They register effects slowly and cumulatively. But you can get an instant reading of whether you are applying additional pressure by looking at the prices of debts. If the Treasury bill rate goes up to 3 percent, we know there is more pressure applied regardless of the volume of reserves and of deposits.

(Mr. Wood's prepared statement and supplemental information appear at pp. 498–500.)

The CHAIRMAN. Thank you. I would like to ask one or two technical questions and then I will ask Congressman Patman to lead off. First, what is the amount of excess reserve, so-called, now in the Federal Reserve System?

Mr. WOOD. I have not looked lately, Mr. Chairman, but my guess would be that it is of the order of six or seven hundred millions.

The CHAIRMAN. Is that correct?

Mr. RIEFLER. Yes, it would be a little larger.

The CHAIRMAN. And what do you use as a multiplier now as to the potential expansion, five and a half?

Mr. RIEFLER. The technical one would be something like that.

The CHAIRMAN. So, roughly, the banks would have a lending capacity of something over $3 billions?

Mr. RIEFLER. Well, more than that, because the discount rate is only 1½ percent. That is quite a promotive rate. Member banks can borrow at that rate. They get reserves through borrowing, the discount rate, that is a fairly promotive rate, 1½ percent.

The CHAIRMAN. But they are not resorting to rediscount. They could expand credit something over $3 billions with the present reserves.

Mr. RIEFLER. Of course, they do not rediscount and borrow to lend and expand credit, but what happens is they have excess reserves or they have liquid assets easily converted into reserves, as far as an individual bank is concerned, and it goes out to put its money to work, to lend.

The CHAIRMAN. I am not speaking of the potential reserve but the present reserve.

Mr. RIEFLER. The actual present reserve would be something like that.

The CHAIRMAN. Something over $3 billion. Would you say this is appreciably larger than usual, or this is a normal figure?

Mr. RIEFLER. I do not know whether it is normal. It is within the range. It has been larger, it has been smaller.

The CHAIRMAN. Isn't it true normally in a recession that the excess reserves rise?

Mr. RIEFLER. Yes.

Mr. WOOD. I do not know that I should make quite the inference there that you and Mr. Riefler are making. Those excess reserves are, to a large extent, irrelevant. They are held by small banks that do not want to sharpen their pencils too much, and prefer a convenience margin in their deposits at the Federal Reserve to adding a little more to their balances with correspondents or to their Treasury bills, etc. The real expansion potential is indicated by the terms on which balances can be maintained, and what is likely to happen to those terms as economic expansion proceeds.

The members of the economy can convert debts into money at their option, and it ought to be without a stepping up of the pressure on them, as long as prices do not register a move upward.

The CHAIRMAN. In other words, I infer you are somewhat allergic to an increase in the interest rate on Government securities?

Mr. WOOD. Yes; I see no reason for doing it at the present time.

The CHAIRMAN. One other technical question I would like to ask, Mr. Reierson. I think you made a very interesting and fruitful suggestion in altering the rate of growth of your money supply to take into account cyclical changes in the velocity of circulation. I wondered if you had any estimate as to how much of an adjustment that would be in the period of sharp revival and intense activity. On the other hand, how much of an adjustment would be required to speed up the quantity in a period of rather sharp recession?

Mr. REIERSON. Mr. Chairman, I would hesitate to express any views for the record in specific quantitative terms. I think credit policy has to be determined in the light of a lot more considerations than have been mentioned before this panel. In interpreting and appraising data on the money supply, I think consideration has to be given to the changes on the asset side of bank balance sheets that show what factors are contributing to the change in the money supply. All these make it very difficult to come out with and apply arbitrary, categorically quantitative measures.

At the risk of being misinterpreted and misunderstood, I might suggest that in a period of depression, if we take a normal rate of growth in money supply of somewhere between 3 and 4 percent, that perhaps

4 to 5 percent might not be worrisome. In a period of intense boom, I would hope that the rate of increase would be substantially less than the average rate of growth.

The CHAIRMAN. You seem to be suggesting about 1 percent.

Mr. REIERSON. One or two percent, perhaps, as a rough criterion.

The CHAIRMAN. Thank you very much.

Vice Chairman PATMAN. Professor Hansen, I noticed you stated that you do not believe any restraint is necessary at this time?

Mr. HANSEN. Yes, sir.

Vice Chairman PATMAN. Do you believe that phrase that has been used by the Federal Reserve, "active ease" is generally understood throughout the country as to what it actually means?

Mr. HANSEN. Well, I should imagine it is pretty generally understood. We have had a condition of active ease for a year or more, and I would imagine people thinking about these problems understand what is meant by that phrase, active ease. I would say a continuation of active ease means a continuation of the easy availability of credit on easy terms that we instituted shortly after May and June in 1953.

Vice Chairman PATMAN. You mean commencing May 11, 1953, when they went into the market and bought some securities?

Mr. HANSEN. I mean when the Federal Reserve, in May and June of 1953, entered into large market operations, and in June and July I think they lowered the reserve requirements.

Vice Chairman PATMAN. Senator Sparkman called my attention to the fact that it was May 6. I think that is the time they had their meeting when they agreed they would do it, but they did not actually go into the market until May 11. Incidentally, May 6 was just 2 or 3 days after the rates on veterans' loans and FHA loans had been raised.

What is strange to me is that there was not some coordination there so that the monetary authorities would let the people who were contemplating raising the mortgage rates know that it would be unnecessary to raise those rates. In just 3 or 4 days they were going to change their policy and take an about-face and the raising of the rates would be unnecessary.

Do you understand that, Professor Hansen?

Mr. HANSEN. I would agree with you.

Vice Chairman PATMAN. And those rates have not been eased, actively or otherwise. Now, Professor Hansen, I notice that the President's report said the income shares of both farm and business proprietors were at postwar lows in 1954. That is on page 83 of the report.

Do you see anything in the present actions of the monetary authorities that will be helpful in restoring to a normal condition or a prosperous condition these two groups, the farm and the small business groups that were at alltime postwar lows in 1954?

Mr. HANSEN. Yes, but I think the monetary authorities could not alone bring about that desirable result. The monetary authorities could, however, continue easy credit and easy availability of credit, and that along, with other measures, fiscal measures, could, I think, accomplish a great deal, in another 12 months, in raising the incomes of the groups you have referred to.

Vice Chairman PATMAN. Doesn't it occur to you, though, that they are picking out for special help the people who do not need it so much?

Now I refer to the fact that I have a statement here of Guaranty Trust, showing profits increased 23 percent last year. The Chase

National's profits increased 34 percent last year. Now all of these actions of monetary authorities in raising interest rates and permitting more speculation in the Government-bond market will help out the very people who have been prospering the most, won't it, Professor Hansen?

Mr. HANSEN. Well, I am not quite sure that that is so. It is true the moneylenders would profit from higher interest rates but business corporations in general would not, because it would tend to restrain expansion that might otherwise take place, and I think business corporations profit from expansion, and not from a rise in the rate of interest. They are not moneylenders.

Vice Chairman PATMAN. Isn't it a fact that it squeezes the little businessman who will not only suffer because of the rise in interest, but also because the policies have not presented industrial raw material prices from being increased? I refer to steel, copper, and aluminum. The small, unintegrated company will be squeezed there because that company is not in a position to take care of itself.

Don't you agree with that?

Mr. HANSEN. Yes; all industrial enterprises would be squeezed to some extent by a restrictive monetary policy.

Vice Chairman PATMAN. And don't you think a policy of definite restraint and restriction is going on right now?

Mr. HANSEN. I see signs of it and I should be opposed to it.

Vice Chairman PATMAN. Don't you see signs that the money-lenders are shooting for a 4 percent wholesale rate in money, I means a Government rate?

Mr. HANSEN. I do not know what rate they are shooting at, but they are moving in that direction at a time when they should not do so, in my judgment.

Vice Chairman PATMAN. In 1953, when there was some complaint about the increase in the interest rate to 3½ percent, Secretary Humphrey said he compared it with the 1920's. He said it was still much lower than in the 1920's, indicating to me that perhaps he was using that as his guide, that he was shooting for that 4 percent rate in the 1920's, and then the other day, when something was said about this 3 percent rate being high, the Treasury noted it is still low in comparison to rates charged in other countries, and every time you mention a high rate they seem to think it ought to be higher.

So I cannot figure it out any other way except that they are shooting for 4 percent money like they did in the 1920's. Now the farmer is the other small-business man that is involved in this thing. I do not think it is intentional propaganda. I share the chairman's views on the Wall Street Journal. I think it is a wonderful publication. I do not always accept 100 percent what they say, but it is certainly thought-provoking, and it is a fine publication, but sometimes they do not always tell the whole story.

I see here this morning's Wall Street Journal, January 31, it says that prices farmers got for their wares rebounded 2 percent in the month ended January 15. The upturn carried the Government index of agricultural prices to 144 percent, 5 points above the month earlier, when the index hit a new low.

Benson expects agricultural prices to climb and approach the year-ago figures. That would indicate to the people who read it that the farmers are doing mighty well, that they have had this jump, 2½ percent in prices. But the Wall Street Journal overlooked the fact that there was a report gotten out just a few days ago, in which it said. I am quoting the Government figures, "the level of prices paid by farmers for goods and services used in family living and in farm production increased nearly 1½ percent during the month ended January 15, offsetting the increase in farm price levels."

Don't you think the Wall Street Journal could use that figure, too? If they are pointing out that the farmer is doing so well one month, they should also point out that the cost of what they buy has increased 1½ percent during the same period.

I will not ask you to answer that particular one, but on this shooting for 4 percent money, we asked Mr. Humphrey about that before this committee once, and about how that would affect the market when he got ready to make these announcements, and he gave as an illustration that it had no more effect on the market than a farmer's wife going in and selling a dozen eggs on the open market.

You do not agree with that, do you?

Mr. HANSEN. I read that statement and was quite interested in it.

Vice Chairman PATMAN. You do not agree with it, do you?

Mr. HANSEN. No, I think he left out quite a few things in the illustration.

Vice Chairman PATMAN. The newspapers reported that the market was waiting on the announcement of the Treasury, it kept the market in suspense a long time. That was your understanding, was it not?

Mr. HANSEN. Yes.

Vice Chairman PATMAN. It said the expectancy over the new United States issue almost halts trading in Governments, so Mr. Humphrey was certainly mistaken about that. I noted a statement recently by a government bond dealer to the effect that the flexible tactics of the monetary authorities are turning the long-term bond market into a financial roller coaster. Don't you think that too much is being done to aid and encourage speculation in Government bond markets, Professor Hansen?

Mr. HANSEN. Well, as I said before, I would not undertake this program that seems now to be under way to raise some rates.

Vice Chairman PATMAN. You think that is a mistake?

Mr. HANSEN. I think that is a mistake.

Vice Chairman PATMAN. Don't you think it is unusual, too, for the Treasury to break the traditional policy not to issue bonds that are payable beyond a generation, that that is a pretty good policy to stick by, one which they have violated in both the 3¼ percent and the 3 percent?

Mr. HANSEN. This, of course, is a very complicated question. I would, in general, lean toward short-term issues, but I think it is a problem and it varies with conditions. A primary consideration would be to tailor the maturities to the demands of the market. The demands of the market, however, are fixed to a great extent by Government policies, including the policies of the monetary authority, but I lean toward short maturities and not long maturities.

Vice Chairman PATMAN. And these bonds are not callable, these 40-year bonds, and it should be pointed out, too, I think, that the last time we had such a long-term issue was in 1911, when the Panama Canal bonds were issued at 3 percent. They were 50 year bonds. Here we are issuing a 40-year bond for 3 percent.

By the way, on this farmer situation that I pointed out awhile ago, the farmers' parity ratio is down to 86 now. Don't you see in that an alarming situation and something that should be receiving the attention of the monetary authorities, Professor Hansen?

Mr. HANSEN. Well, it is an index of a larger movement.

Vice Chairman PATMAN. Now I would like to ask the whole panel, Mr. Chairman, how they feel—or should I do that later on?—on supporting Government bonds at par.

The CHAIRMAN. I would suggest that be handled later.

Vice Chairman PATMAN. I shall certainly defer to the wishes of the chairman. I will yield for the present, Mr. Chairman.

The CHAIRMAN. Mr. Wolcott.

Rpresentative WOLCOTT. No questions.

The CHAIRMAN. Senator Sparkman.

Senator SPARKMAN. No questions, Mr. Chairman.

The CHAIRMAN. Mr. Talle.

Representative TALLE. Mr. Chairman, I have a question which is not strictly related to this, so I will pass for the moment.

The CHAIRMAN. Mr. Kelley.

Representative KELLEY. No questions.

The CHAIRMAN. Mr. Curtis.

Representative CURTIS. No questions.

The CHAIRMAN. Well, let us take up question No. 2 then. How should these monetary policies be carried out: A, through open market operations; B, through changes in reserve requirements; or C, through changes in the rediscount rate.

Mr. Riefler.

Mr. RIEFLER. I did not think it would be appropriate for me to discuss prospective policies. I thought I would try to make my contribution to that question by describing concretely the way policies have worked.

During the greater part of 1954, when inventories were being liquidated and the normal business customers of banks had less occassion to borrow, the system sought to achieve its stated objectives by twice lowering, its rediscount rätes, first from 2 percent to one and three-quarters of 1 percent and, second, from 1¾ to 1½ percent. It also, in the summer, lowered reserve requirements on time deposits to 5 percent, on demand deposits to 20 percent at central reserve city banks, 18 percent at reserve city banks. and 12 percent at country banks.

Continuously throughout the year, open market operations were used to supplement or offset other factors supplying or absorbing reserves in such a way as to insure that there would be a volume of reserves in the market sufficient to stimulate banks to seek outlets for their funds.

Taking the year 1954 as a whole, total loans and investments of all commercial banks expanded by nearly $11 billion, of which about $4 billion was reflected in a growth in the active money supply. The growth for the year in the active money supply was around 3 percent, as compared with a growth of a little over 1 percent in the gross national product from the first quarter to the last quarter of the year. In each case, this growth was concentrated in the later months of 1954.

It seems to me that the question should be phrased a little differently. The result is a composite one achieved by a pattern of rediscount rates, open-market operations, and possibly reserve requirement adjustments. It is the composite that should be looked at, rather than any one activity.

The CHAIRMAN. Mr. Hansen.

Mr. HANSEN. I think I have nothing to add to that. I certainly agree that it is the general pattern, rather than any one specific measure. I would maintain monetary ease. I would not move in the direction of tightening up reserves. I would not move in the direction of raising interest rates. I think the move last summer, the lowering of those requirements, was a good one.

On the other hand, I also felt that once we had introduced monetary ease, there was not much use in "pushing the string." I rather doubted that much more could be accomplished than we had accomplished in late 1953 and early 1954 by monetary ease, and my own view was we ought to move further in the direction of tax reduction and increased consumption.

The CHAIRMAN. What about the effect of the earnings of the Federal Reserve System?

Mr. HANSEN. Well, that flows back to the Treasury, so I do not much care what they earn. Do you mean the commercial banks?

The CHAIRMAN. The open-market operation, the Federal Reserve System will receive about 18 percent; will it not have the profits through an increase in the money supply? Whereas by lowering reserve requirements, the entire increase accrues to the banks.

Mr. HANSEN. You are now referring to the commercial banks?

The CHAIRMAN. Yes.

Mr. HANSEN. Well, I would not primarily consider that. When I am considering monetary policy, I would not primarily consider the matter of the earnings of the commercial banks. That, of course, is an important question by itself, but I think we would do well not to mix that too much with the desirable monetary policy.

If commercial banks are earning too much, it may well be that they are in a short period earning too much by reason of a higher rate of interest, and if that is true over a long period, it can easily be taken care of by special tax measures applying to commercial banks.

I would not allow my monetary policy to be fixed by the question of commercial bank earnings.

The CHAIRMAN. Mr. Reierson.

Mr. REIERSON. Mr. Chairman, I agree that the objectives of monetary and credit policy should be achieved by use of all three of the major tools; open-market operations, reserve requirements, if needed, and changes in the rediscount rate. I might add—and this is, I think, related to this question—that I am of the opinion that the powers of the Federal Reserve are sufficient for it to perform its functions as a central bank, except under conditions of pronounced inflationary pressures and emergencies. I further suggest that the use of the three tools depends upon the objectives of Federal Reserve credit policy.

If time permits, Mr. Chairman, I have a few comments on the outlook for the application of these principles in 1955. With reference to the open-market operations, the present operating procedures of the Federal Reserve involve major reliance upon the use of open-market operations to effect changes in the money market and in the reserve position of the member banks.

I would anticipate continued reliance upon this tool as a major instrument of day-to-day operating credit policy in 1955. I think we should point out that involved in the use of this tool are some very complex and very difficult estimates.

The authorities are continuously engaged in trying to forecast the forces that will be operating in the money market, and some of the factors are sometimes very difficult to estimate; these estimates are made weekly, daily, and in some cases hourly.

The second instrument, change in reserve requirements, has been used relatively infrequently. It has not been relied upon as to a day-to-day operating tool; rather, the practice has been to limit its use to occasions and situations in which rather substantial actions are appropriate. This, to me, seems to be a sound policy and practice.

We had reductions in reserve requirements in 1953 and 1954, to which reference has already been made. Behind those reductions, presumably, and I have no direct information on this point, were a number of considerations. One consideration was a desire to get reserve requirements down below their statutory maximums in order to give flexibility for their future use in time of need. Another consideration may have been a belief that the reserve requirements were higher than were needed under the circumstances. I would point out that reserve requirments in the United States are still substantially higher than in other important financial nations.

Another consideration in the mid-1953 reduction may have been a desire to provide unmistakable evidence to the financial markets of a change in credit policy, to underline the shift in direction of credit policy that was first evident in the early part of May, and to ease the way for the impending financing operations of the Treasury. You will recall, Mr. Chairman, that the fiscal position of the Treasury deteriorated very badly, or at least the expectations deteriorated when the tax receipts came in during March and April, 1953. As a result, the second half-year financing requirements of the Treasury increased in amount above earlier expectations.

Much as commercial bankers would like to see further reductions in reserve requirements, conditions are probably not favorable to such action as long as business expansion continues. Therefore I would be surprised if we had a further reduction in reserve requirements in the near future.

A sharp resurgence of inflationary pressures, and in this world it is hard to tell what is going to transpire, might occasion an increase in reserve requirements.

But I come back to my initial point that, now that open-market requirements have been freed as a tool of credit policy, there is a desire on the part of the authorities to minimize changes in reserve requirements.

Finally, as to changes in the rediscount rate, these, of course, are related to the use of the lending facilities of the Federal Reserve banks. The past 2 to 3 years have shown an increased use in these lending facilities on the part of the member banks. The volume of member-bank borrowing averaged about a billion and a quarter, or a little higher, in early 1953; by mid-1954 it had been reduced to $200 million; it is running a little higher than that now, but certainly is not at high levels.

With the present operating procedure and practice, there is a reluctance on the part of member banks to borrow from the Federal Reserve, and I believe some feeling, at least on some occasions, on the part of the Federal Reserve, that regular and continuous borrowing on the part of member banks may be inappropriate and undesirable. Consequently, bank reserves provided by member bank borrowing are obtained with greater reluctance than reserves obtained through the sale of Treasury bills to the Federal reserve, that is, through open-market operation.

If the Federal Reserve wishes to foster easy conditions in the market, it can provide reserves by open-market purchases. If it is desirous of following a less-easy policy, it can provide fewer of the reserves required by the economy through open-market purchases.

If the banks are put in a position where they find it necessary to increase their borrowing from the Federal Reserve banks, short-term interest rates may be expected to increase, and in due course the expectation is that this will be followed by a higher rediscount rate. May I say that I think it is difficult to substantiate the point of view that the Federal Reserve is following, at the present time, a policy of credit restraint.

May I add that if we are committed to the principle of a flexible credit policy, then it seems to me that to follow a credit policy which is appropriate when business is going down, or stable, at a time when business shows a turn-around is not appropriate.

I think that there is another general principle that should be recognized, namely, that if we freeze interest rates and thus prevent economic forces from having their normal impact upon interest rates, then we have effectively destroyed the instrument of flexible credit policy. Since it is my personal belief that general credit policy can make a contribution to economic stability and sound long-term growth, such a course of events would be accepted by me with the greatest of reluctance. This would undo the results achieved in March 1951 in the Treasury-Federal Reserve accord. I need only refer to the excellent reports prepared by the subcommittees of this committee for a discussion of the underlying problems involved.

There is one further matter which I should like to mention. It seems to me by implication this question involves the expression of an opinion as to the need for selective-credit controls. It has been my opinion for some time that it might be appropriate to grant to the monetary authorities standby authority to use selective-credit controls in the fields of consumer and real-estate credit. It would be my philosophy that such controls would not be used normally or regularly, but that their use would be reserved for emergency conditions.

If a kit of tools is being readied for possible emergency use—and that I do not know—then I think the question might be considered as to whether provision should be made for the inclusion of standby authority to regulate consumer credit and real-estate mortgage credit.

However, I am impressed by the administrative difficulties and problems involved in the use of selective-credit controls, and by the difficult problems of compliance and enforcement. There is a further fact, which I think is clear from the record, that selective-credit controls are really not effective unless they are supported by general credit policy. It is futile, I think, to have selective-credit controls if we are following an easy-credit policy.

For all of these reasons I am not addicted to the regular use of selected-credit controls, but I do agree with Professor Whittlesey that the grant of standby authority would be appropriate.

The CHAIRMAN. Mr. Kelley, do you have a question?

Representative KELLEY. No, Mr. Chairman.

The CHAIRMAN. Mr. Stein?

Mr. STEIN. I would agree with what has been said here by the previous speakers about the need for using all of these instruments in various circumstances.

It seems to me that especially in the present circumstances, when it is very important for us to feel our way fairly gently, we should place main reliance on a day-to-day instrument over the open market policy.

I would like to comment, if I may, on points made by two previous panel members. Professor Hansen has said, and I believe entirely correctly, that monetary policy should not be judged to any significant degree by its effects upon earnings on the member banks. There are much more important standards by which we should judge its importance.

I think the same thing can be said about debt management, that the policy of the Treasury in determining what kinds of securities to issue should not be significantly influenced or judged by their effects upon the relative earnings of different classes of investors or different sectors of the economy. I think there are much more important consequences involved.

What we should be looking for is, Does this policy—does the decision to issue a 40-year bond at this time—contribute to present stability or present high level of activity, or the future stability of the economy, or not? If it is decided that the issuance of a 40-year bond or some other security will contribute over the long run, or presently, to economic stability, I think it is perfectly appropriate for the Treasury to be paying the price that is required to get those bonds sold. I think there is no evidence that the Treasury is paying a price greater than is necessary, or offering a price more than is necessary, to have those bonds sold.

It seems to me a wise position, that in the long run we do want to have a somewhat larger proportion of the Federal debt in long-term securities than we have recently had. The question of timing of that movement is, of course, a very delicate and difficult one. Nevertheless, I think it would be a mistake to proceed on the assumption that since the Treasury could issue a 90-day bill for less than 1 percent, and it has chosen to issue a 40-year bond for 3 percent, it is giving something to somebody. It is buying a quite different thing when it issues a 40-year bond than when it issues a 90-day certificate.

One might just as well say that the Department of Defense is giving something to somebody when it buys a very expensive four-engine jet bomber instead of a Piper Cub, since they are both airplanes, and one could get the Piper Cub cheaper. A 40-year bond does an entirely different thing for the economy, and for the Treasury, than a 90-day note, and one should expect to pay a different price for it.

I would like to comment on what Mr. Reierson said, that now that we are on the way up, flexilibity calls for a change in the degree of tightness in the monetary policy. That raises an important question, namely whether the standard by which you judge your action is your position or your direction. It is true we are on the way up, but it is lower than where we would like to be.

As long as we are below desirable levels of employment and are not experiencing inflation it would seem to me that no change in the policy is called for.

The CHAIRMAN. Mr. Whittlesey.

Mr. WHITTLESEY. I said I would pass on this question.

The CHAIRMAN. Mr. Wood.

Mr. WOOD. The problem of the criteria of monetary ease or pressure is involved in question 2, also.

The Federal Reserve should make its policies effective through open market operations, allowing their influence to override all other influences. In other words, if you retain the discount privilege, which it seems desirable to do, especially for small banks, it should be purely as a convenience to those banks and not as a means of regulating the money market. Since the immediate criteria of pressure should be the prices of debts, in practice, Government securities of different types, they should determine the prices of the Government securities directly—but always with reference to the more ultimate aims of policy.

The Open Market Committee should be free to enter all sectors of the Government securities market. Short rates reflect mainly the immediate degree of pressure. Long rates reflect expected monetary conditions over an extended period. The Federal Reserve by entering the long-term market can influence the market's expectation of policy in more than the immediate future.

The present procedure of changing the volume of reserves, as such, with operations confined to bills and other very short-term securities, allows unnecessary variations in rates, and particularly in long rates.

Mr. Chairman, we remember how long terms went down in June 1953. There isn't any reason to think that that was exactly intended, but with the procedure the manager of the account was operating under he could not intervene in the long-term market. It seems to me that the Committee could have indicated directly what their intentions were, The market got a wrong idea of what their intentions were. The market got the impression that this was a hard-money policy with teeth in it, and that there was no telling what levels securities might go to. They could have corrected such an impression if they had entered the long-term market.

The Federal Reserve must, of course, allow for changes in the debt structure and changes in the demand for debts of different maturities, but these are minor factors affecting the rates compared with monetary ease or pressure.

The objection to the use of the discount mechanism as a means of control is that it produces accidental changes in monetary ease or pressure, changes which have no meaning from the standpoint of control. There is no reason for allowing interest rates to reflect such irrelevant facts as the need of member banks to borrow as the result, say, of changes in the currency in circulation, or changes in the Treasury deposits, and the like.

I do not mean to give the impression that such accidental changes in reserves and in the consequent need of member banks to borrow ordinarily cause great variations in rates, but there is no use making a virtue of something which is a less accurate tool than one which they might use. And in May and June of 1953 I believe the procedure used was to an important extent responsible for the rise of rates.

One difficulty about regulating market rates by varying member bank indebtedness—by amounts determined partly by accident—and by changes in the Federal Reserve discount rate is that it tends to give credence to the theory that market rates are determined by the natural forces of supply and demand. It tends to give the impression to the public that the change in the market is something over which the Federal Reserve authorities have no control or very limited control.

In the past the discount rate has been a general symbol of policy, as well as an instrument, but there is the difficulty that the need to keep the rate at a level that will not permit the banks to profit from borrowing at the Federal Reserve interferes to some extent with its use as a symbol.

On the whole, it seems better not to go back to earlier analogies for procedure, but to start from the procedure developed during the past 15 years.

Changing the member banks' reserve requirements should not be used as a flexible instrument, but simply for influencing the earnings of the commercial banks and of the Federal Reserve banks. In recent years, especially, changing the reserve requirements seems to have been used as a symbol of policy to some extent, but that use of the power interferes with its purpose for influencing the division of profits from money creation.

At the present time some officials inside the Federal Reserve, but not all, consider that changes in yields on Government securities reflect mainly the natural forces of supply and demand in the market. Long rates, of course, do reflect to some small extent other than monetary factors, but in the main they show the market's reaction to what the Federal Reserve officials have done, and what this seems to portend for future action.

Mr. WHITTLESEY. Mr. Chairman, could I make one remark?

The CHAIRMAN. Mr. Whittlesey, yes.

Mr. WHITTLESEY. What I have to say is important, it seems to me, and has been overlooked. It is the relation of changes in the Reserve requirements to the interest rates.

Reference has been made a number of times to the dispute as to the extent to which the price of Government bonds is something that exists outside policy; in other words, outside the policy of the Federal Reserve, and outside the policy of the Treasury.

As I look back over the events of the last 2 years I am convinced above all else that basic economic forces, the state of business conditions, have had very little to do with the level of interest rates whereas the expectations put by the market upon actions to be taken or contemplated by the Treasury and Federal Reserve have been dominant.

The CHAIRMAN. Action by the Federal Reserve or action by the Treasury?

Mr. WHITTLESEY. Both, at different times.

We are familiar with the extent to which there was a reversal in the middle of 1953. That reversal was signalized by two events. The first was an indication that the Federal Reserve would intervene, notwithstanding what had been said by Treasury and Federal Reserve officials very shortly before that.

It was also and even more directly affected by the reduction of Reserve requirements, because the reduced Reserve requirements enabled banks to buy in the open market. Thus there was an addition to demand. Purchases of Government bonds by banks went up rapidly, and I am convinced that that was a factor which directly caused Government bonds to rise. That was the means by which the rise came about.

The other influence of the same sort was manifest in the middle of 1954, and some weeks in advance, when it was announced that reserve requirements would be lowered. Bankers knew that they would have funds available for the purchase of additional securities. Demand for loans was weak. Obviously, the one thing they were going to turn to was bonds. Consequently there was an appreciable improvement in the price of Government bonds at that time.

My point is that changes in reserve requirements, even the expectation of such changes, have been a very important factor in affecting bonds purchases by banks, and that that has at times been a decisive factor in Government bond prices.

Another factor is anticipation of what the Treasury is going to do in bringing out new issues. I could give various examples of that, but they are familiar enough to anybody who has followed the newspapers. The most recent manifestation of this influence is seen in the fact that in the last 3 or 4 weeks Government bond prices have declined sharply. One has read rumors that the Treasury was going to bring out a new issue, maybe a 40-year issue at 3 percent, or at some other rate. I feel sure that the decline in bond prices that occurred in the last 3 or 4 weeks was influenced decisively by a feeling that this movement would bring the market pattern of rates into line with the rate expected to be established by the Treasury on its new borrowing.

So I emphasize these two ways in which official actions have strongly influenced market rates of interest.

The CHAIRMAN. I would like to raise one point here. I do not like to embarrass anyone, but when Secretary Humphrey testified before the Flanders committee in November he took the position that the Treasury had no control or effect upon the interest rate, but that it merely accepted the interest rate which prevailed in the private sector of the money market. He used this analogy to which Congressman Patman has referred, that the Treasury was merely—in reply to question 5 in which he stated as follows:

> We are selling eggs, and the current price that eggs are selling for is 50 cents a dozen. Now, when we come along and have some eggs to sell we go out and offer those eggs for 55 cents, nobody is going to buy them. So if we have a dozen eggs to sell we have to offer them at a price that the market will take.

Now, I have my own opinion on this, and so expressed myself, but I would like to get the judgment of the panel on this subject.

Mr. Hansen?

Mr. HANSEN. I agree entirely with what Mr. Whittlesey has said. The statement by the Secretary obviously leaves out of account any possible action of the Federal Reserve System in enormously increasing the funds available for the purchase of Government bonds.

The CHAIRMAN. Even if you excluded the Federal Reserve, is not the Government bond market such a large proportion of the total money market that actions of the Government are not quite like a housewife selling a dozen eggs in a world market?

Mr. HANSEN. Quite right, and if officials make statements that indicate that it is their plan to lengthen the maturity of the debt, and in furtherance of that aim to raise the rate of interest with the idea that

that will attract purchasers, and then an issue is placed at a rate substantially higher than the prevailing market rate, that issue, backed up by these statements with respect to the plan of the Treasury, is bound to influence enormously the price of the bonds.

The expectations aroused will have a tremendous influence on the price of bonds.

The CHAIRMAN. Does anybody else wish to comment on this?

Mr. Stein?

Mr. STEIN. I think there is point to Secretary Humphrey's analogy. I agree with the tone of voice in which you read it, about the dozen. The dozen is the crucial thing, because if this were a million dozen, and especially if it were known you had many more million dozen in the back room, your action would probably influence the price of eggs, but I think there is another thing to be said, and that is that what is important is the volume the Treasury is offering and not the price that the Treasury puts on it. That is, if it is known that the Treasury is going to issue $1 billion of 40-year bonds, I do not think there will be any different effect on the market whether the Treasury puts a coupon of 3 percent, 4 percent, or 5 percent on them. I think the crucial thing is the volume, and the term of the securities it is going to issue.

The CHAIRMAN. What about the anticipation of policy that such an issue creates?

Mr. STEIN. That refers to the question of how many more dozen are in the back room. But it is the anticipation of the volume offered and what is now offered—and not the rate printed on those bonds—that makes a difference.

The CHAIRMAN. Mr. Whittlesey.

Mr. WHITTLESEY. I am sorry to disagree with my highly respected colleague. I have observed long-term lenders, and bankers too, approaching problems of setting rates with their customers in these terms: They say, "Well, we are entitled to 1 percent or 2 percent differential over and above what the Government has to pay." Immediately after the Government announces a different rate they say to their borrowers, "We have to have more." There hasn't been any change in the supply of their funds available; there hasn't been any change in demand in the market. There has, however, been a change in the grounds on which they negotiate with their customers.

I believe basically in the idea of supply and demand, and what I said about purchases by banks as the instrument through which that operates bears on that point, but I see no inconsistency in what I am saying. The action of the market is not so mechanical that supply and demand operate independent of psychological responses.

The attitudes of people negotiating for loans reflects a conception that the Government rate is rather unique. We see that elsewhere when it is said that the Government rate is basic. If the Government rate is basic, it follows, it seems to me, that when you change that rate you are going to change other things, as well.

The CHAIRMAN. Is it not a fact that following the quotation of the 3¼ that the interest rate on long-term issues rose?

Mr. WHITTLESEY. I think so, definitely. The position taken by representatives of the Treasury, it seems to me, was to assume that the market for long-term Governments, or for long-term bonds in general, is something that exists outside of the action of the Treasury. There is an analogy that I used at the time. Mr. Burgess said, in effect, we are going to meet the market. If the market goes up we will go beyond 3¼. We will pay whatever is necessary in order to sell these bonds. I think that that is analogous with Henry Ford saying that the price of a Ford today is $2,000. If it doesn't sell at this price next week it will be $1,900. The effect of that would be to alter the market.

The CHAIRMAN. Does anybody else wish to comment?

Mr. WOOD. Mr. Chairman, it seems to me that it is almost entirely, but not quite, a matter of the central bank—that is to say, rates reflect the terms upon which debts may be monetized. To some small extent, of course, they reflect the structure of outstanding debt, and if you are going to change that structure, of course, it may have some small effect upon the rate pattern. But I think to a very large extent the rates reflect simply monetary conditions, present and expected.

Mr. HANSEN. Mr. Chairman, could I add another point there?

The CHAIRMAN. Yes.

Mr. HANSEN. Let us assume that the Treasury announces that it is going to undertake in the next 20 years a large movement in the direction of long-term maturity of the public debt, changing the composition of the debt toward long terms. This means they are placing long-term securities in large volume in competition with private securities. The net effect of this action will be to raise the rate of interest unless it is tremendously countered by a vast increase in funds poured out on the market by the Federal Reserve.

The CHAIRMAN. Mr. Reierson.

Mr. REIERSON. There are several intriguing subjects, Mr. Chairman, on which I should like to make brief comment: It seems to me that the market appraisal of the investment outlook—in other words, the level of bond yields, reflects a lot of things other than monetary policy. We may look at the decline in the bond yields that occurred in 1954. That decline reflected (1) the change in Federal Reserve policy; (2) the growing expectation that the Treasury was not likely to issue a long-term bond in 1954, and (3) in addition, the thinking of investment officers, which was conditioned very definitely by their appraisal of the business outlook and by their appraisal of investment opportunities. I think that a questionnaire to investment officers would have disclosed quite clearly that, a year ago, they were rather dubious about being able to find adequate investment outlets. As a result, among some financial institutions, there was great activity not only in buying obligations currently but in entering into forward commitments; I understand the latter increased substantially in 1954.

So it is a broader question than credit policy or debt management.

Perhaps what Mr. Humphrey had in mind is that at the time of sale the Treasury has to meet the requirement of the market place if it is going to sell its bonds.

The CHAIRMAN. Well, it can exceed the requirements of the market, can it not?

Mr. REIERSON. It has to at least meet them.

That brings up a question Dr. Stein mentioned. I think upon sober reflection he probably would not be inclined to hold too strenuously to his belief that, either in the field of public policy or in the field of market appraisal, it is a matter of indifference whether the Treasury puts a rate of 3, 4, or 5 percent on a bond. Certainly the Members of Congress would be vitally interested if, in a 3-percent market, the Treasury were to put out a 5-percent bond.

The CHAIRMAN. It is always possible for the Treasury to put a rate in excess of the market on its issue and market its issue, though it cannot set one too low.

Mr. REIERSON. These are matters of judgment, and it may be possible to set a rate too low and have failure.

Now, I think on the present issues the indication is that a good job of pricing be done. The new issue is selling at a premium of about twelve thirty-seconds.

Vice Chairman PATMAN. May I interrupt.

The gentleman said there could be a failure; not if the Open Market Committee was supporting the Treasury, there couldn't be a failure.

Mr. REIERSON. If we are willing to embark upon an energetic policy of providing sufficient reserves to put the commercial banking systems in a position to provide large amounts of funds, I would agree with Mr. Patman.

Does time permit comment on the remarks of Mr. Wood, or would you prefer to go on?

The CHAIRMAN. I want to give Mr. Curtis a chance to ask questions.

Representative CURTIS. Mr. Chairman, the questions that I had on this particular thing were ably answered. I thought they were getting a little far afield from what Secretary Humphrey must have ment in his statement, and that was that the Government was limited to a certain extent by the market, and it has now been brought out and I believe anyone would admit that there is a limit to what the Government can do.

The CHAIRMAN. He not only said it was limited to a certain extent, but implied that the terms were completely dictated and that the Government had no more effect on it any more than a housewife selling a dozen eggs.

Representative CURTIS. I think you are taking the matter a bit too far. He was apparently illustrating one point, because I do not think anyone, on the other hand, would say this: What the Government does in the field of the market won't affect the market. That is obvious, too, but I think the Secretary's statement should be confined to the point he was trying to illustrate rather than to try to drive at a metaphor to all extremes.

The CHAIRMAN. Perhaps the gentleman from Missouri will read the passage in the testimony before the Flanders committee and see if he can draw any other inference from the one which I have.

Representative CURTIS. Well, I think the inference is limited to that extent, and I think if Secretary Humphrey were here on the stand he would, of course, say the obvious thing, that what the Government does in the market can tremendously affect the money market.

Mr. Chairman, I want to request that the full statement of Secretary Humphrey in regard to that selling of eggs, part of which was quoted, be inserted in the record.

That statement appears on page 207 of the hearings.

The paragraph after the one referred to reads this way:

Now, then, we do affect the market somewhat by the amount of eggs that we do offer. If we came out with thousands of cases, we would present an oversupply of eggs and it would tend to push the market down. If we came out with a very little bit and there was a strong demand, we would have to come at approximately the market.

And then the Secretary goes on to discuss exactly what I suggested Secretary Humphrey would say.

The CHAIRMAN. Well, of course, I would be glad to have that included. I think also my question to Mr. Humphrey and my reply to Mr. Humphrey should be included in the full statement.

Representative CURTIS. Well then, I further request to have the whole colloquy in here, because it all has bearing since Secretary Humphrey then answers you. I think the discussion was right along the lines of how it developed later, so I really think the whole colloquy ought to be included, Mr. Chairman.

The CHAIRMAN. Very well.

(The colloquy in the hearings by the Joint Committee on the Economic Report held December 6 and 7, 1954, on the subject United States Monetary Policy: Recent Thinking and Experience which is referred to above is as follows:)

Senator DOUGLAS. When the public debt was only a small fraction of the total debt, then perhaps you could argue that the Government merely has to accept the interest rate dictated by the market, but when, according to your own figures, it forms such a large percentage of the fluid capital, certainly the terms upon which you issue Government bonds affect other interest rates.

You do not merely accept the market. You help to determine the market, and that was evidenced in what happened to the price of previous issues at lower rates of interest, which went down because you were raising the interest rate. It is what happened in interest rates where other flotations had to be issued immediately afterward. I don't think you can say you merely accept conditions. You help frame conditions.

Secretary HUMPHREY. Let me see if I can explain that to you as we see it, and let's get it into very simple terms.

We are selling eggs, and the current price that eggs are selling for is 50 cents a dozen. Now then, we come along and we have some eggs to sell. If we go out and offer those eggs at 55 cents, nobody is going to buy them, so if we have a dozen eggs to sell, we have to offer them at a price that the market will take. If we come out and offer them at above the market, nobody is going to buy them. If we come out and offer them approximately at the market, we have a chance to sell them.

Now, then, we do affect the market somewhat by the amount of eggs that we do offer. If we came out with thousands of cases, we would present an oversupply of eggs and it would tend to push the market down. If we came out with a very little bit and there was a strong demand, we would have to come at approximately the market.

Now, the same thing is true of bonds. These bonds, the rate that people were buying bonds for at the very day we put these bonds out was, as nearly as we could figure it, about 3¼ percent. Now, by coming out and adding some more bonds to the supply we, of course, did to some extent affect the rate.

That is why we put out as small an issue as we did, because we didn't want to affect the rate any more than we could help, so we met the market with as small an amount as we could that we thought would not affect the rate, and in that way did not increase interest rates by these bonds over what they then were.

Senator DOUGLAS. Well, Mr. Humphrey, the analogy which you draw between the housewife who sells eggs, a few dozen eggs, on the market of millions of dozens of eggs, and therefore sells only an infinitesimal proportion to the total eggs sold, and hence has to accept the price, is not applicable to the Government, which sells a large proportion of the securities which are issued.

Secretary HUMPHREY. Now, wait just a minute.

Senator DOUGLAS. There is a difference. You are assuming perfect competition in the egg market and carrying it over into the bond market, which doesn't apply.

Secretary HUMPHREY. No, I don't think that is correct, Senator. We sold just a little over $1 billion, and compared with the Government debt outstanding at that time in the hands of the public—leaving out the Government accounts—it looks very small. We put out $1 billion or a little better, and there was outstanding in the hands of the public at that time about $220 billion. Now, when you put 1 out in 220, it isn't such a large proportion, after all.

Senator DOUGLAS. Then you were treating this as purely an extraordinary occurrence raising the interest rate on this one issue?

Secretary HUMPHREY. We didn't raise it.

Senator DOUGLAS. But it didn't indicate any permanent policy. Is that what you are now saying?

Secretary HUMPHREY. We didn't raise the interest rate. We accepted the interest rate as the market had it determined that day, and we took that interest rate and offered to sell our goods at the price the market was paying at that time.

Senator DOUGLAS. The previous issues of comparable bonds, as I remember it, drew some 2¾——

Secretary HUMPHREY. I don't know what their market yield was.

Senator DOUGLAS. Is that not true, that they drew 2¾ percent?

Secretary HUMPHREY. No, it is not true, and the reason is this: Interest is a function of both principal and rate, and unless you take into account both principal and rate you can't figure interest. Interest of $2 on $100 of principal is 2 percent. That same $2 on a principal of $50 is 4 percent.

Senator DOUGLAS. Then let me ask you this——

Secretary HUMPHREY. So you always have to take two things into account to figure what interest is.

Senator DOUGLAS. What was the yield on comparable Government securities at the time?

Secretary HUMPHREY. It was approximately this same rate.

Senator DOUGLAS. 3¼ percent?

Secretary HUMPHREY. That's right.

Mr. BURGESS. There is a difference in maturity.

Secretary HUMPHREY. For that maturity.

Mr. BURGESS. There weren't any Government bonds that long outstanding at that time. The longest bonds were 2½'s which had become medium-term maturities. They were selling around a 3 percent yield basis.

Senator DOUGLAS. Three?

Mr. BURGESS. That's right.

Senator DOUGLAS. That is what I understood.

Secretary HUMPHREY. But that was for a shorter maturity.

Senator DOUGLAS. May I just finish?

Secretary HUMPHREY. You have got to take maturity principal, and interest into account in figuring what a new interest rate should be.

Senator DOUGLAS. Now you have introduced a third dimension.

Secretary HUMPHREY. That is always true.

Senator DOUGLAS. May I say I can understand your raising the rate to 3 percent, but I have thought that that extra quarter of a percent was a mistake; that the yields were 3 percent on comparable securities.

Secretary HUMPHREY. No, they weren't comparable. Those were medium-term maturities, and were much shorter.

Now, we thought, based on all those rates——

Senator DOUGLAS. How long is this issue?

Mr. BURGESS. The longest marketable bonds outstanding then were December 1967–72's, so you were stretching this new issue very substantially into an area where there was no marketable debt outstanding. The new issue was more than 10 years longer.

Senator DOUGLAS. That raises the question immediately as to whether you should have issued it for so long a period.

Secretary HUMPHREY. All right. We thought that it was the right thing to do, and I still say that I believe it was the thing to do if it was helpful in deterring runaway markets in commodities, and I think it was.

Senator DOUGLAS. Now, when you speak of deterring runaway markets in commodities, I think there has been a lot of—I won't say issued by you, Mr. Humphrey, but a lot of—misapprehension on this point.

Sometimes this rise in the interest rate has been spoken of as a move to check price inflation. I am happy to see that this morning neither you nor Mr. Burgess have advanced that argument.

I have here a sheet of wholesale prices and consumer prices, and they indicate that wholesale prices fell from 116.5 in March 1951 when the accord between the Treasury and the Reserve was negotiated, to 109.6 in December of 1952, and approximately to 110 in March of 1953, so that there has been a fall in wholesale prices.

There had been a slight increase in consumer prices from 110.4, 110.3 in March 1951, to 113.6 in March of 1953, but if you take the two together, there was roughtly price stability. In fact, there was a slight price decline, so that I do not think it can be maintained as some have maintained in their speeches that this was necessary to check price inflation, and I hope the record is clear that whatever the justification may have been for it, that this was not a justification. Would you agree with that?

Secretary HUMPHREY. Let me put it this way, Senator, I have to get these things into very simple form or I don't understand them myself.

Senator DOUGLAS. You are a very clever man, Mr. Humphrey, to be able to put them in a simple form.

Secretary HUMPHREY. To just be simple about it, when you take controls off there are several things that have to be taken into account in judging where prices will go.

In the first place you have to judge as best you can looking ahead, and it is always easier to be a Monday morning quarterback than it is to do the job Saturday afternoon. Looking ahead you have to judge how the relative increase in productivity was coming up in production of goods. That was increasing.

There was a lot of plant capacity that was coming in, and it was increasing. You also had to look at what the demand probably was going to be.

Now in addition to all of that, there was the question of how purchasing agents throughout the country thought things were going. They don't study economics particularly; they just go the way you and I go along in judging how things are going to go. If they think prices are going to go up, they want to raise their inventories to protect themselves. If they think prices are going down, they cut down on their inventories somewhat.

If it costs them a little more money to carry an inventory, they are not quite so apt to speculate with it.

So that with all of these things, with the production, gaging the production that would probably be available, gaging the demand that would probably be made, and with it costing a little more to carry a speculative inventory, all those things converged to a point where you didn't have an increase in speculative inventory.

And it was the most fortunate thing in the world that we didn't get it because we were accumulating inventory at that time, anyhow, and if we had added substantially to our inventory accumulation at that time we would have had a much farther down curve in business, which was what you were predicting yourself only a few months ago.

Senator DOUGLAS. Mr. Humphrey, for the record I have never made any predictions. I have never made any predictions about the future. The record is perfectly clear on that point. I merely stated what was occurring, namely a decline in industrial activity or a recession.

Secretary HUMPHREY. In any event, we didn't have that severe down curve partly because we had not had that speculative inventory buying.

Senator DOUGLAS. Now, Mr. Humphrey——

Secretary HUMPHREY. All these things contributed to stop that, and I think that by and large the whole thing did stop the inventory accumulations that would have driven us further down had it occurred.

Senator DOUGLAS. Then what you were afraid of was not past increases in prices, but anticipated increases in prices.

Secretary HUMPHREY. That is right.

Senator DOUGLAS. Resulting from the removal of controls.

Secretary HUMPHREY. That is what many people said. That is what the big argument was, and there are many people who argued very sensibly that if those controls were removed, there would be an immediate rise in prices that would be uncontrolled.

Representative PATMAN. Would you permit an interruption there?

Senator DOUGLAS. Certainly.

Representative PATMAN. He said if those controls were removed.

Secretary HUMPHREY. That is right.

Representative PATMAN. Indicating that you were going to take them off.

Secretary HUMPHREY. That is right.

Representative PATMAN. The 83d Congress in 1953—isn't it a fact, Mr. Secretary, that the Defense Production Act of 1952 passed in the 82d Congress provided for the automatic decontrols that went into effect, and practically all of them had been removed before April 1953?

Secretary HUMPHREY. Only because we took them off.

Representative PATMAN. They were automatic.

Secretary HUMPHREY. And if they had been taken off earlier, we would have been better off. If that had been done in the fall before, we would all have been better off.

Senator DOUGLAS. As a matter of fact, Mr. Humphrey, even under the imposition of controls, what we had was a fall in wholesale prices. The controls pegged prices at their peak, of January–May 1951 but did not appreciably impede the rise in prices. The trouble had occurred by the time controls were imposed, and a business fall of 7 points.

Secretary HUMPHREY. Of course, you don't know what the peak would have been if you hadn't had them. When a control is put on, it will always peg it at the peak because that is where you stop the rise.

Senator DOUGLAS. What I am trying to say, is I see no evidence that there was any pent-up inflationary movement at the time the interest rate was raised so sharply, and that this was taken as an indication of Government policy.

The rise was not merely an isolated occurrence. It was said to be the shape of things to come, and the result was that it was not merely a coincidence that the yield on municipals went up, that other yields went up as well due to the falling of prices of securities already issued. It had a profound effect, and the very fact that it was not needed was shown in that within a month you reversed yourself. I wish that as public men we didn't always have to take the position that we are infallible. It is possible that we make mistakes, honest mistakes.

Secretary HUMPHREY. I am not taking that position at all, but if we had to do it again tomorrow, I would do exactly the same thing, and let me tell you why.

I think that one of the greatest things that has happened has been the stabilization that has resulted during this period, the maintenance of that stability, the stopping of inflation. We had been for 15 years in a period of self-imposed inflation that was fostered and carried on, and it was depreciating the value of the dollar very rapidly.

Now the value of the dollar stopped depreciating. It all has to do with the reduction of Government expenditures, with the handling of the taxation, with all of these things that all contributed, and it is not a bookkeeping fetish or anything of the kind.

The stopping of this inflation saved the people of America, the savers of America, the people of America a great deal of money, and it has stabilized the economy. It has helped to make jobs for them to work at, and I think it is the foundation of the conditions that we have today.

Senator DOUGLAS. It is always impertinent to play the role of amateur psychiatrist, Mr. Humphrey, but I would say that your subconscious has oozed out in your reply, because now you are making emphasis upon the checking of inflation, which a few minutes ago you disavowed.

Secretary HUMPHREY. No; I didn't disavow it. I never disavowed it. I have said right straight along that our objective has been to stop these inflationary pressures. Our objective has been to stop this depreciation of the dollar, and so far we have done it.

Senator DOUGLAS. This is my point: That had already been done by the Federal Treasury Reserve Board in March 1951, as indicated by what happened after that.

Secretary HUMPHREY. No; that is not the whole story.

Senator DOUGLAS. What I think happened is you carried over your impression of what existed prior to that accord into a period in which it no longer applied.

Secretary HUMPHREY. No; I don't think so. In any event, it has worked.

Senator FLANDERS. Will the Senator yield?

Senator DOUGLAS. I have taken up too much time.

Senator FLANDERS. I would just like to express this situation as I see it. I may not be seeing it rightly.

In the first place, inflation was checked before you, sir, came to the Treasury. In the second place, a new factor entered after you came to the Treasury in that controls were removed. The assumption you are making, which seems to me a valid assumption, is that positive action on your part was required to maintain an already existing situation in the face of the removal of controls.

That, at least, is the way I see the picture. And just one other point, and that is this: that you have disavowed the direct fixing of interest rates by saying that you put that issue out at the market.

There had to be an element of judgment in your case because there were no Government issues of that length of maturity in the market. You had to make a judgment as to what the market was for maturities for that length. It would seem to me then that your policy is either approved or disapproved on the basis of your decision to issue securities of greater length than any that were present in the market.

Secretary HUMPHREY. That is right, Mr. Chairman. You might want to add that there were, of course, other influences that also bore on this.

We inherited a $9½ billion deficit that year, which was an inflationary pressure in itself, so that to say that inflationary pressures were all removed is not correct.

We were under many inflationary pressures at that time. Consumer credit was rising rapidly. New issues of corporate and municipal securities were running very high and credit demands were threatening to spill over at a time when our productive capacity was already fully utilized. We felt it necessary to resist those pressures so that we would not have a runaway rise in prices, and we could stabilize the dollar.

Now, the proof of the pudding is in the eating. What was done did stabilize prices.

It did arrest the threatened rise and it continued stabilization and the value of the dollar didn't depreciate further. That is very beneficial for the American people in the form of jobs, in the form of savings, in the form of insurance, in the form of pensions, in all the things that the American people want to have.

Senator FLANDERS. Senator Douglas, you still have the floor.

Senator DOUGLAS I don't want to monopolize the questioning, but I would say this.

I think this argument that it was necessary for stabilization is very dubious. It is true that the money supply was increasing, but it is also true that production was increasing, and it is important to view those two together in relationship to each other.

If you have the normal increase in production of 3 percent a year, and as a matter of fact, it was going up close to 5 percent a year during the preceding year, you can have some increase, a corresponding increase in the money supply without any inflationary effect on prices, and that is precisely what had been happening.

The Federal Reserve had allowed the money supply to increase in absolute terms, but not in relative terms. This is something that I think monetary managers should consider, not merely the question of absolute increases, but relative increases, and it is only when the relative supply of money is increasing more rapidly than the index of production or physical production that you get into danger.

Our good friends at the Treasury, I think erred in just being frightened at the absolute increase, and disregarded that increase in production which counterbalanced the increase of money, and had enabled stable prices to be maintained, which would have continued.

And the very fact that it wasn't necessary is shown in that within a month the Treasury had to beat a retreat, that interest rates were lowered, that this issue now stands out as a sore thumb at a price of 110, that the verdict of the market to which the Secretary has appealed has been that that was not necessary.

Now, I say it was a bad mistake, but I believe it was an honest mistake. But I know how hard it is for public figures to admit mistakes. I sometimes find it difficult myself, Mr. Secretary. But I think nothing is gained by trying stubbornly to maintain a position that you are correct, when history indicates you were wrong.

Secretary HUMPHREY. Senator, I have made a great many mistakes in my life, and I expect to make a lot more, and I have never been a bit backward in admitting them.

On the other hand, when you are looking forward and making judgments and those judgments work in practice that is the test after all, I am not much of a theoretical economist. I don't care too much about the theory of it as long as it works.

This one worked, and it worked well, and therefore I think it was all right.

Senator DOUGLAS. Now, Mr. Secretary, I have kept off of this question of whether it worked, but since you have raised it, I want to address myself to that very point.

You say it has worked because prices have been stable, but there is no doubt that that rise in interest rates checked production, checked volume of output during the second half of 1953, and contributed to the recession and contributed to the unemployment of human beings.

Now, I do not say that it was the sole factor in the recession. I have never argued that. But I do say the rise of one-half percent in interest rates helped it along.

Secretary HUMPHREY. It is a mighty good thing it did check inflation.

Senator DOUGLAS. Did you consider the increase in unemployment, which has been very severe in many regions of this country? If you took that into consideration, then I think you would not be quite as self-satisfied with this decision that you say "worked."

Senator FLANDERS. May I interrupt a moment, Senator?

Senator DOUGLAS. Certainly.

Senator FLANDERS. It seems to me that one part of the production that it checked was the flow of production into inventories.

Secretary HUMPHREY. That is right; that is exactly right.

Senator DOUGLAS. Well, did it?

Senator FLANDERS. Yes.

Secretary HUMPHREY. Yes; it did, and if it hadn't we would have been in a lot worse trouble.

Senator DOUGLAS. But for about 5 months inventories continued to increase despite the rise in interest rates.

Secretary HUMPHREY. And think how bad it would have been if it hadn't helped to check it.

Senator DOUGLAS. Your own chart shows that the inventories did not begin to decline until October, and you had placed your increase in interest rates into effect in May.

The CHAIRMAN. Well, it seems we are moving to agreement on the facts even though not to agreement on what the Secretary intended.

Senator Sparkman.

Senator SPARKMAN. No questions at this time.

The CHAIRMAN. Mr. Talle?

Representative TALLE. No questions.

The CHAIRMAN. Mr. Patman?

Vice Chairman PATMAN. Mr. Chairman, I have 2 or 3 questions I would like to ask.

On the tools to work with, now this No. 2 question indicates there are only three ways to get money, to supply that money to expand our economy: One is through the open market operations, the other is through reserve requirements, the other is through a change in the rediscount rate.

Do all of the members of the panel agree that those are the only three tools that you have to work with?

The CHAIRMAN. I may say I dictated this question. I realize it is imperfectly phrased and, of course, there could be increase in the supply of currency, itself.

Vice Chairman PATMAN. Well, I do not think you are considering that.

So creditwise in the orthodox way, are these the only three tools to work with?

Do any of you know of a different tool except the one suggested by Senator Douglas, of course?

Mr. STEIN. Gold flow has an effect, the inflow of gold or gold production in the country.

Vice Chairman PATMAN. Of course, but that does not amount to a great deal now, and over a period of time it hasn't; has it?

Mr. STEIN. No.

Vice Chairman PATMAN. So it is not a big enough factor to consider or to rely upon?

Mr. STEIN. No.

Vice Chairman PATMAN. Now, then, do we all agree that this money that we get to expand our economy must be manufactured money, must be manufactured money? Do we all agree on that? And it must be manufactured on the Government's credit?

Mr. REIERSON. I think that I might beg to differ with Representative Patman on some of the implications of the latter statement.

Vice Chairman PATMAN. Well, now, on the Government credit: Suppose we take them up one at a time, open-market operations. All the open market has to use is the Government's credit that the open market creates; isn't it?

Now, then, how will the Open Market Committee operate except on the Government's credit and created credit at the time?

If any of you know of a way the Open Market Committee can buy bonds without buying them at the Government's credit created at the time for the purpose, I would like to know what the answer is.

Mr. REIERSON. I guess a Government bond is a Government bond.

Vice Chairman PATMAN. I wonder about the purchase, what with? At the same time, the banks have over $25 billion of Government securities. They purchased those securities with something. I say they purchased those securities with Government-created credit at the time.

If anybody takes the opposite view on that I wish he would speak up.

All right, they operate on Government credit.

Now, No. 2, through changes in the reserve requirements. If you change the reserve requirements now they can expand their loans about 5½ times. Of course, the country banks can expand much more than that, and the other banks so much more, but generally about 5½ to 1. If you reduce the reserve requirements and you create a billion dollars more money, that is manufactured money with the same security that you had before.

So isn't that operating on the Government's credit?

Does anybody take issue with that?

Professor Whittlesey?

Mr. WHITTLESEY. Well, the two cases are not exactly comparable. In the second case——

Vice Chairman PATMAN. It is not comparable to the first one, I know.

Mr. WHITTLESEY. Yes. Well, your remarks indicated they were the same.

Vice Chairman PATMAN. I mean manufactured money.

Mr. WHITTLESEY. In the second case you are freeing and releasing money that is already in existence. That is the difference.

Vice Chairman PATMAN. Well, from the standpoint of the bank it has the same security to offer but can issue a billion dollars more if the lowered reserve requirements will permit it.

That is true, isn't it?

Mr. WHITTLESEY. Yes.

Vice Chairman PATMAN. They have nothing additional to put up. They do not put up an extra dime. They do not put up any security at any time.

Mr. WHITTLESEY. Yes; but that is analogous with what happens in the first case at the next stage when banks utilize those "manufactured" reserves.

Since I have interrupted you and so that I will not feel obliged to do so again, may I say that to the extent that we concede that there are psychological effects of changing the discount rate, it could be argued that that also is somewhat different from what you suggested in your earlier statement.

Vice Chairman PATMAN. Well, I have not got to that one. That is No. 3.

All right. Now, then, No. 1, they operate entirely on the Government's credit. No. 2, the banks are allowed by a Government agency to expand their currency based upon their present reserves, and that is manufactured money. No. 3, on rediscount rate. Of course, since banks are not borrowing and 2 or 3 of you gentlemen mentioned why they were not borrowing, because they do not like to be in debt to the Federal Reserve, in truth and in fact the rediscount rate now as used is almost purely psychological.

Is that right, or not? The result is almost purely psychological. You do not agree with that, Mr. Riefler?

Mr. RIEFLER. No; the discount rate is a very important rate in an operating sense. If a member bank has a deficiency in its reserves, and has to make it good, it has the option of selling bills or of borrowing at the rediscount rate for a short period to make the adjustment. The level of the discount rate in relation to bill yields will determine frequently whether it takes the one option or the other.

So it actually has a market effect. It is a fulcrum in the market.

Vice Chairman PATMAN. I know, but in actual practice they do not use it much?

Mr. RIEFLER. Oh, no; I am talking about actual practice.

Vice Chairman PATMAN. That is the reason I say it is unimportant.

Mr. RIEFLER. They do use it in the sense I am talking about.

Vice Chairman PATMAN. Indirectly, but not directly.

Mr. RIEFLER. Yes.

Mr. REIERSON. They also use it directly. In 1953, borrowings were a billion and a quarter during the first part of the year.

Vice Chairman PATMAN. On deposits of 200 billion that would not be very much.

Mr. REIERSON. Not relatively.

Vice Chairman PATMAN. Now, the other point I want to make, if I can, is about this market of Government bonds. Does anyone disagree with this statement: That the market for Government bonds is determined by the Open Market Committee of the Federal Reserve System.

Does anyone disagree with that?

Mr. RIEFLER. I do.

Mr. HANSEN. There are, of course, real factors in the situation that are among the influences that determine the rate of interest. For example, if we are living in a period of great technological advance, and the opportunities for investment at high return are very great, that is another factor that influences the rate of interest, so that one can hardly say that the rate of interest is exclusively determined by monetary factors.

Vice Chairman PATMAN. Well, this is what I mean: Mr. Eccles one time was testifying before this Banking and Currency Committee here, and he was asked the question by Mr. Monroney who was sitting at my right then—Senator Monroney—he said:

> Do you mean to say, Mr. Eccles, that the Open Market Committee can keep the interest rate on Government bonds at 2 percent or 2½ percent, or any other amount, that it desires to keep it,

and he in effect said "Absolutely," without qualification; the Open Market Committee had the power to keep interest on Government bonds exactly the same at all times, or substantially the same.

Mr. HANSEN. Congressman, I would like to add there this qualification: The Open Market Committee could, indeed, keep the rate at 2 percent, but if the real factors to which I referred a moment ago, the opportunities for very profitable investment, were such that you could make 5 or 6 or 8 percent, and the Federal Reserve still acted to hold the money rate at 2 percent, the result would be inflation.

Vice Chairman PATMAN. Well, Professor Hansen, we are just talking about Government securities now. We are not talking about outside rates.

Therefore, I say that the Open Market Committee determines the rate of Government securities in the open market.

Mr. HANSEN. But it would have an effect on the economy if they did that. Of course, the Government could, on the other hand, influence the earnings by a tax policy. That is another policy that could enter into it.

Vice Chairman PATMAN. We are still getting off, Professor Hansen, of the point that the Open Market Committee is the all-powerful committee that can determine the rates for Government securities in this country, and, in fact, they can determine the expansion policies of the banks, too, through the reserve, of course, as you know.

Now, then, the point that I would like to have your opinion on: Since this Open Market Committee has such tremendous power over the economy do you believe that people selected to represent the public exclusively should have charge of that great power?

As it is now there are 12 members of the Open Market Committee, 7 members of the Federal Reserve Board when it is filled—there is a vacancy now; but the President, through Mr. Adams, told me awhile ago that he had someone under active consideration to fill that vacancy—but the 6 members of the Federal Reserve Board and 5 presidents of Federal Reserve banks—now, these 5 presidents of Federal Reserve banks owe an obligation to the bankers of the district. They are not devoted exclusively to the public like these 7 members of the Board are.

Now, to reduce it further, these 12 Open Market Committee members select an executive committee of 5 members, 3 from the Board and 2 from the banks, and then to reduce it even more they select a manager and that manager is employed by and paid by the Federal Reserve Bank of New York, and the operations that are going on every day that are influencing our markets are carried on really by 1 man, who is not necessarily charged with a public duty, but is representing the Federal Reserve Bank of New York. He is paid by the Federal Reserve Bank of New York, and do you gentlemen believe that that policy should continue or should be changed?

Would you feel free to express yourselves on that, please?

The CHAIRMAN. Mr. Reierson.

Mr. REIERSON. Mr. Patman, I take the position that the present system should be maintained for the following reasons: First, that on the Open Market Committee, the Federal Reserve Board has a majority of 6 to 5, or 7 to 5.

Vice Chairman PATMAN. One can change the result.

Mr. REIERSON. The Board has a majority of 1 now, and normally it has a majority of 2.

No. 2: I think your premise that the presidents of the Federal Reserve banks owe an obligation to the bankers is an unsound premise. It has been my fortune to know a number of them personally.

Vice Chairman PATMAN. I am not talking about individuals, but who selects them.

Mr. RIEFLER. They are elected by the directors of the banks, of which 3 represent large-, small-, and medium-sized banks; 3 are from business, large-, small-, and medium-sized—well, not business, but the large, small, and medium sized bankers select businessmen, and 3 are appointed by the Federal Reserve Board. Then the president and first vice president of each of the Federal Reserve banks must be specifically approved by the Federal Reserve Board.

Vice Chairman PATMAN. But you have not told the whole story, Mr. Riefler.

Now, 3 of those directors are selected by the banks, the small and medium sized banks, as you suggest; that is correct, there are 3 selected representing business and industry, and so on, but they can be stockholders of banks, and I think the records disclose that they are stockholders of banks, and then the larger banks select 3, and so there are your 9 directors stacked 6 bankers.

Mr. RIEFLER. No, the Federal Reserve Board selects the other three.

Vice Chairman PATMAN. That is right. The Federal Reserve Board selects the other three. You are right about that.

Now, it used to be that the Federal Reserve Board selected the Chairman of the Board who was the big man. He was the big man in these local banks, but that law was changed without much discussion in 1933 or 1935, I have forgotten the date, and the president of the bank was made the big man, and the president of the bank is not appointed by the Federal Reserve Board. He is selected by that board of directors.

Mr. RIEFLER. The Chairman of the Board has always been selected by the Federal Reserve——

Vice Chairman PATMAN. No, those selected by the Board do not serve on the Open Market Committee. They do not have any power over the Open Market Committee. It is only the presidents of the banks that have the power. Now, they have no power now. They are compelled to take these bonds. It is just like a crap-shooting game. They are carrying on a crap game up there, and if he buys a certain amount of bonds he distributes those bonds in proportion to resources of each bank, and each bank has got to take them, and each bank, if called on, will have to issue Federal Reserve notes to pay for them. Isn't that correct?

Mr. RIEFLER. Yes.

Vice Chairman PATMAN. But the individual bank has no power over buying and selling. It is just as helpless as a baby because the law was changed.

Mr. RIEFLER. Well, that is to eliminate the chance of private financial institutions having something to say about that very important thing.

Vice Chairman PATMAN. Well, they have turned it over to one man at the Federal Reserve Bank in New York.

Mr. RIEFLER. No, the Open Market Committee.

Vice Chairman PATMAN. Well, that is what I mean. The Open Market Committee selected a five-man board who selected him to take charge of the operation.

Mr. RIEFLER. But the Open Market Committee approves the manager.

Vice Chairman PATMAN. That is correct, but he is paid by the Federal Reserve Bank of New York. That is correct; isn't it?

Mr. RIEFLER. That is right.

Vice Chairman PATMAN. He is not paid by the Federal Reserve Board. He is not paid by the Open Market Commitee. He is paid by the Federal Reserve Bank that is run by 9 directors, 6 of whom were selected by the banks. That is correct, isn't it?

Mr. RIEFLER. Yes.

Vice Chairman PATMAN. Now, the question is, Is that a good arrangement or is that a bad arrangement? Should it be retained or should it be changed?

Mr. HANSEN. Well, Congressman Patman, I would say there is some virtue in this arrangement in that the 12 Federal Reserve banks are in immediate contact with banking operations. They run these banks. The Federal Reserve Board is a supervisory board and is not operating a banking business.

Vice Chairman PATMAN. Now, Professor Hansen, you say "run these banks." They are not doing much business now, are they?

Mr. HANSEN. You say the 12 Federal Reserve banks are not doing much business?

Vice Chairman PATMAN. Yes, except through bonds, and that is carried on in the New York bank.

Mr. HANSEN. I would say they play a very important role in the whole economy. I myself would believe that the representation of the presidents is too large. I doubt that it is a terribly important issue, though. I would like to see some representation, but less than we now have.

Vice Chairman PATMAN. What do you think about it, sir?

Mr. STEIN. I think we ought to look at the nature of these institutions as they have evolved and not just as the bylaws are written down on paper. I think the 12 banks have become public institutions, and that their presidents have become public servants.

It was interesting to see the lineup of the biography of the 12 presidents that was submitted here at the time of the Flanders hearings. This showed that only 1 of the 12 presidents had formerly been in private banking, that the overwhelming majority of them were Federal Reserve career men, most of whom came in in 1920 or 1921, or thereabouts. I think they regard themselves as public servants and have acquired great capacity, and it would be a shame to upset that arrangement. I do not think the identity of the system manager is a matter of great consequence. As I understand it, he operates day to day within policy limits that are set by the Open Market Committee, and the executive committee of the Open Market Committee.

Vice Chairman PATMAN. May I ask the representative of Mr. Martin, Mr. Riefler, how many people are engaged in the actual operation of the Federal Reserve Bank Open Market Committee operations in the New York market daily?

Mr. RIEFLER. I do not have those figures directly.

Vice Chairman PATMAN. I have heard it is about a hundred. Is that correct or not. I saw it in some article. About a hundred people were directly concerned with the operation of the Open Market Committee.

Mr. RIEFLER. If you confine it to the New York bank to the extent that all 12 Federal Reserve bank presidents are kept informed, that might be true. Of course, there would be somebody in each bank following the operation, and I suppose he would have assistants; I don't know how many there are in all. In New York it would depend on how far you go in including the people who have to enter the securities in the books, etc.

I do not know how many that would be.

Vice Chairman PATMAN. Fifty or a hundred, then, or even twenty-five.

Mr. RIEFLER. I think you are getting down nearer to it there.

Vice Chairman PATMAN. But the point is, the operations of that committee are so powerful that just the least information out could be worth a lot of money to people who are engaged in business. I am not saying that there have been any leaks.

Mr. RIEFLER. No, it is important that it be kept extremely close.

Vice Chairman PATMAN. It is seldom when you have 25 people that you do not have leaks. In fact, around here if you have two you usually have a leak of some kind.

Now, the reason I brought this up is to just pose this question: Does the influence of the big banks dictate the policies of the system, including the Federal Reserve Board. I am not making any bones about it. I believe they do.

They have done quite well in 1954. They have the biggest profits in history. The big banks. Big businesses associated with big banks did fine. But little business and little farmers had no representation, and they had it the worst that they have ever had it since the end of World War II, and I just wonder if we should not consider changing this banking influence so as to have the representatives of more of our economy there to represent the entire public rather than those that are prone—I would not say that there is anything wrong or bad about it, or dishonest, or anything like that, but I am just talking about people who are schooled and drilled and educated and trained in certain lines of work, they just naturally lean that way.

Now, you take Mr. Martin. I think he is a very fine man. I am sorry he is not here, because I wanted to ask him these questions. He has been head of the stock exchange, and he sees it that way, not corruptly, but honestly. And I think it is that way in every profession.

You see the viewpoint that you have been schooled in and trained in.

I wonder if we should not change this situation so that these two groups that President Eisenhower said, and I am quoting him now:

> The income shares of both farm and business proprietors in 1954 were at postwar lows.

are represented.

I just wonder if we should not do something to give these people representation on this committee?

Mr. RIEFLER. I once served as director of the Federal Reserve Bank of Philadelphia, when I was a professor, and certainly the nine directors of that institution did not represent big industry or big banks. Only two were selected by the large banks.

Vice Chairman PATMAN. Well, you can find some on each board that way, because the Board of Governors here selects three, and I imagine you were selected as a class C director.

Mr. RIEFLER. I was selected by the Board.

Vice Chairman PATMAN. They are charged with the public duty. I am not talking about them. I am talking about the other six.

Mr. RIEFLER. Well, only two are selected by the large banks.

Vice Chairman PATMAN. That is something I wanted the panel to discuss, but if they do not want to do it, it is perfectly all right.

Mr. WOOD. Mr. Patman, I will comment on that. I sympathize with your idea that monetary policy, being highest level policy, ought to be under the control of the Government in a very real sense. When we think, though, of what happened to monetary policy when it was under the control of the Treasury, it makes us wonder whether it ought to be handled by——

Vice Chairman PATMAN. Please be more specific. In what period of time?

Mr. WOOD. I am thinking of, say, 1942 to March 4, 1951.

Vice Chairman PATMAN. You had stable prices of Government bonds and stable interest rates, 2½ percent unexceeded.

Mr. WOOD. You shouldn't have had. You should have had higher interest rates.

Vice Chairman PATMAN. There is where we differ. I think when the money is created on the Government's credit, and, of course, the answer is usually but who owns the gold; the Government owns it.

The CHAIRMAN. I hope that Congressman Patman will not destroy a beautiful friendship which is growing up between him and myself.

I would like to say that this policy of stabilizing the price of Government bonds serves to increase the price level, so I will demur on that point.

Vice Chairman PATMAN. I am not talking about stabilizing them above par. But I think it is a terrible injustice and cruel to permit people who are supposed to represent the Government, to let them go down below par, down to 96 and something like that.

The CHAIRMAN. I am not speaking of the price of Government securities. I am speaking of the general price level.

Vice Chairman PATMAN. Well, I think taking care of unemployment comes ahead of the price level.

Mr. Wolcott, it is your turn.

Representative WOLCOTT. I am getting a little confused now.

The CHAIRMAN. You are at your most dangerous when you pretend that you are confused.

Representative WOLCOTT. Perhaps we should go back in history a little bit.

Mr. Chairman, the genesis of Mr. Patman's contention, whether it is correct or not, I recall the act of 1935 when it was sent down to us in the original draft. It would have compelled every commercial bank to have come into the Federal Reserve System. The President would be given the authority to remove members of the Federal Reserve bank at will, and without cause. The banks would have to come into the Federal Reserve System. Otherwise they could not participate in FDIC. So it put the absolute control of the banks and all credit—I hesitate to use this expression—credit being the lifeblood of the American economy—and I did not feel it advisable to allow the President to control the lifeblood of the American economy to the extent which the original draft of the Banking Act of 1935 would have required.

Possibly somewhere along the line to offset that influence and that recommendation, in our efforts to prevent the controls by the President of the lifeblood of the American economy, we perhaps decentralized more than we thought we would, but we have been proven out all right. It was not until about 1942 that we removed the dangers in those respects. I get all confused here sometimes because I think I have in mind what the Treasury and perhaps the Federal Reserve had in mind when they put out that 30-year issue at 3¼. It was to bring inflation under better control.

I understand that their idea at that time, their purpose at that time was to spread the debt out and make it more attractive for nonbanking institutions and individuals to hold the debt, so that the debt could not be monetized, and thereby remove the inflationary pressures.

Perhaps it is too fundamentally accepted, but does not debt monetization have something to do with the manner in which the banks raise this money with which they finance Government obligations, and if these Government obligations cannot be monetized, then Mr. Patman might not be correct in this premise that we immediately make the money with which to make a market for these bonds.

I think there is a connotation in what he says that the bonds which were being issued currently could be changed somehow or other into money for the purpose of buying the bonds. Is it generally accepted that monetization of the debt might have some influence on whether the banks could immediately convert them into cash for the purpose of buying bonds?

The CHAIRMAN. Does anyone wish to reply to that query?

Mr. HANSEN. Mr. Chairman, monetizing the debt, I take it, means either that the Federal Reserve is buying the bonds or the commercial banks are buying the bonds. Either one I would call monetizing the debts. If the Federal Reserve buys the bonds, they create larger member bank reserves, which gives the member banks the power to go out and buy bonds if they wish to use their excess reserves in that manner.

That seems to me to be all there is to it. Going back to the postwar, I would like to say, in reference to the price movements of that period, that I think it is a big mistake to consider the movement of prices from 1945 to 1950 purely in terms of monetary actions that were going on. We were living in a very abnormal world when you consider the vast scarcities that prevailed, and I see so often statements about the price movement in that period that make no reference to that whatever, but only talk about credit policy in this period.

I would like also to mention the fact that, in fact, deposits did not rise from 1945 to the middle of 1950, deposits and currency did not rise.

There was no increase in our money supply. If there was, it was utterly negligible. In this period, far from there being monetization of debt, there was a decrease in the holding of bonds by the Federal Reserve banks and the commercial banks combined. I so often see those statements.

Representative WOLCOTT. May I ask the panel this question, and the members of the committee: What is the purpose or what was the purpose of maintaining a differential between the total debt and the bonded debt until we changed it back in 1936 or 1937? It had something to do with that portion of the debt which could or could not be monetized.

Now if you will remember, to be more specific, in 1937, we will say—I am not sure about the date—our total bonded debt, authorized bonded debt, or total debt, was $35 billion. The limit on our bonded debt was $20 billion. We had a differential of $15 billion. It meant, of course, that the Treasury would have to indulge in the practice of short term financing for everything over $20 billion and up to the debt limit of $35 billion.

Now the charge was made at that time that when you removed the differential between the total debt and the bonded debt, you made it possible for the whole debt to be monetized and some contend that that was the beginning of the inflationary pressures which have resulted in inflation to a point where that bothered them.

I remember a very interesting colloquy which took place between Chairman Doughton of the Ways and Means Committee and myself, when the bill was under consideration, and the charge was made that it would be highly inflationary. Now what are the influences against inflation if we have a differential between the total debt limit and the bonded debt limit? Is it because the short-term debt cannot be monetized? I understand that it can be monetized under the existing law but was that the reason for it at that time?

Mr. Whittlesey.

Mr. WHITTLESEY. I would be happy to suggest some answers, although I find myself also a little confused.

Representative WOLCOTT. No, I attributed it to myself. Perhaps my questioning bears out that I am confused, having in mind the history of some of these transactions from 1935 up to the present time.

Mr. WHITTLESEY. The situation is that part of the debt is marketable and part is not marketable. The nonmarketable part includes the E bonds and other which cannot be sold in the market.

Vice Chairman PATMAN. And the 2¾ percents.

Mr. WHITTLESEY. That is right. Then there are other issues that have a restricted sale. During the war a good many issues were got out which were nonbankable for a specified period of time. They were marketable but nonbankable. They could not be monetized. In addition, there is the 2¾ issue just spoken about, which must be held by the owner. It can be disposed of only under certain circumstances by the exchange for notes.

Now when one gets through with all of these restrictions, the amount of securities that can be sold to the banks—and therefore converted into demand deposits, monetized—is much smaller than the total of all securities. It is not a matter of their being long or short, funded or not funded. That which is most suitable and most available for the banks is precisely the short-term debt, which is predominantly in the banks or the Federal Reserves.

Representative WOLCOTT. Let me get to the point I should have made first. What effect would it have upon our monetary policies with respect to the monetization of debt, particularly if we provided by legislation or otherwise that not more than a certain amount of the debt, notwithstanding that that would be held by the banks, could be monetized, thereby creating an artificial differential between the total debt and the monetized debt?

Mr. WHITTLESEY. I am not quite sure that I understood the question.

Representative WOLCOTT. Well, I suppose it would never reach this figure, but we are speaking now of a $275 billion debt and a $290 billion debt. If we provided that not to exceed $250 billion—that, of course, would be terriby high—could be monetized and no more than $250 billion could be monetized.

Mr. WHITTLESEY. The amount that is capable of being monetized now is very much in excess of the amount that is actually monetized. Such a restriction would mean changing the terms of a large part of the debt now outstanding, and I think it would probably be legally impossible to do. In any case, it would be morally objectionable.

Representative WOLCOTT. Well, I am not making my point very clear. If you put the debt limit at $290 billion and provided that no more than a certain percentage of the marketable debt—you might put it that way.

Mr. WHITTLESEY. With respect to the future, it seems to me that the policy could be carried out. That policy was attempted, and I believe with considerable success, during the war. As a rigid policy, it is open to dangers, inasmuch as there might be times when it would be very desirable to have it monetized.

Let me read one paragraph from the President's report; on page 100 it says this:

> More than half the overall expansion of bank loans and investments was in holdings of United States Government securities. These increased by about $6 billion, the increase being predominantly in intermediate and long-term securities.

This happened at a time when loans were going down. At the end of the paragraph that follows, it says:

> Had not commercial banks absorbed during the year about $6 billion of Federal securities, the supply of money would have grown less rapidly and economic events during the year might have been very different.

Now that, of course, is in answer to your point. It amounts to saying that if we were to freeze ourselves into a straitjacket, such as would be involved in an absolute limit, we might deprive ourselves of a favorable development such as this is alleged to have been.

Representative WOLCOTT. Then may we agree that the present system of monetizing the debt has taken into consideration all of the factors and should be considered? Would the panel have any recommendation for any change in the monetization of the debt.

Mr. WHITTLESEY. May I answer quickly? It seems to me that both positions are too extreme and that no simple answer would be valid. I could elaborate on that, but it would take too long.

Representative WOLCOTT. Do you suggest any formula by which we might inspect the evils, to keep a certain amount of flexibility that would be desirable?

Mr. WHITTLESEY. I have suggested it in my general statement. I feel that the Federal Reserve System should be given not less but more power, and then be charged with responsibility to carry out its assigned duties. As I have said in my statement and elsewhere, the record does not show that the Federal Reserve is irresponsible. Representative Patman is correct in saying that we have here a mechanism that gives great power, but I think that is true of all delegated authority under a democracy.

The manager of the Open Market Committee who has received so much attention executes directives handed down from above. The answer indicated earlier was that he was a very powerful person who would act of his own volition and do dangerous things. That is not true and it never will be true. We have a system of checks and balances and of representation. I feel sure that we can rely upon it to function in a responsible manner.

Vice Chairman PATMAN. Mr. Wolcott, would you yield for just one question?

Is it a fact while the manager is carrying policies of the Open Market Committee, those policies are more or less general policies and do not apply to buying or selling so many particular bonds at a particular time; they are general policies?

Mr. WHITTLESEY. I would disagree. It seems to me that the directives, as reported in the minutes of the Open Market Committee which have been referred to, show that the policies are rigidly restricted, so rigidly, in fact, that Mr. Sproul resents the degree of rigidity that exists. If there is uncertainty or disagreement, that is not decided by the manager who executes the contract.

The only point, it seems to me, that can be advanced in support of the position that you, as I understand it, have taken, is that there might be leaks. That is a matter of security, and I agree that it should be taken care of. I was not aware of its being a problem.

As for the machinery, clearly you have to have some machinery or you cannot act. There is no historical evidence, nor is there any likelihood that I can see, that Federal Reserve functions will be carried out irresponsibly. I am only afraid they may be carried out too cautiously—that the authorities may not act with as much vigor and flexibility as they should.

Representative WOLCOTT. Just one more question that was evoked by what Mr. Patman stated. I do not yield to anyone in my solicitude for small business or the farmer. There is no Member of Congress who is more interested or more concerned about small-business people and farmers than I am. I want that underlined.

Vice Chairman PATMAN. I certainly do not take issue with the gentleman. I know that he always has been.

Representative WOLCOTT. Now could we set up a different monetary standard or fiscal standard for small business and agriculture than we do for the economy generally? In other words, we are speaking about sound money. Mr. Patman insists upon calling it hard money, because I think there is a connotation there that it is hard to get.

Vice Chairman PATMAN. No; I call sound money "sound money."

Representative WOLCOTT. Anyway, if we make money and credit easy to get by small business houses and agriculture, wouldn't we have to do the same thing for big business, or what would be the result if we tried to set up different standards?

Mr. STEIN. Well, we have set up certain governmental institutions that did or were intended to work in that direction, various farm credit agencies and the Small Business Administration.

I think they have had a marginal effect on the supply of funds. It seems to me not an impossible thing to do. As I understood him, I think Congressman Patman was asking that monetary policy be judged by something that is not really within the province of monetary authority; that is, effects upon the distribution of income among various groups. I think the best we can hope is that we keep the national income high.

Vice Chairman PATMAN. The gentlemen misunderstood me.

The CHAIRMAN. Mr. Talle.

Representative TALLE. Mr. Chairman, I wonder if the gentlemen of the panel could state who the buyers are of this new long-term issue?

Mr. WHITTLESEY. We shall be able to state it in a few weeks after the sales are complete. The ownership of United States Government securities is reported regularly in the Federal Reserve Bulletin and Chart Book, and it is up to date within a month or two.

Representative TALLE. College and university endowment funds, and trust funds, pension funds and insurance companies might be interested.

Mr. WHITTLESEY. To a limited extent. Universities would hope to get more securities carrying a higher yield.

Mr. REIERSON. I might report on the thinking in the financial markets prior to the issue. It was the general feeling, and this is subject to verification when the facts are in, that State and local pension funds would be very much interested in this new issue. They are not in the mortgage market, and I have heard representatives of those funds say that a long-term 3-percent Treasury issue would be of interest to them.

I think the trusteed pension funds, that is, the business pension funds held by trustees, will likewise buy some of the new issues. I am reasonably sure that there will be some buying on the part of mutual savings banks. How much will be purchased by the life-insurance companies, or for that matter, any other group, it is difficult to say, but certainly they will buy some of the new issue. I would think that those 4 or 5 groups would account for the bulk of the buying of the new issue. At least that was the expectation prior to the announcement.

Representative TALLE. I should think this is the kind of investment they would welcome. In my opinion it is a very fine investment for organizations of that sort.

Now, finally, I want to ask Mr. Patman, who quoted Mr. Eccles, did he say that it would be desirable to have the interest rate fixed at 2 percent?

Vice Chairman PATMAN. At that particular time I do not remember. You know, Mr. Eccles has been on both sides of that issue. At one time he wanted it two and a half, and later he was against it, so I do not know what his attitude was at that particular time.

Representative TALLE. I wanted to be sure the impression was not left that Mr. Eccles, in making such a statement as Mr. Patman quoted, gave the impression that he was promoting the idea of a 2-percent unalterable interest rate.

Vice Chairman PATMAN. Well, unfortunately I said 2 percent. We were really talking about 2½ percent, but I do not think that particular question was brought up, Mr. Talle. I think it was more a question of the power of the Open Market Committee.

Representative TALLE. If there are any other questions, I will withhold mine for the moment.

The CHAIRMAN. I want to read into the record at this time a paragraph from the report of the ad hoc committee of the Open Market Committee, which is published in page 286 of the report on the Flanders hearing. Upon a motion I made that this report be made public——

Representative CURTIS. What year was this?

The CHAIRMAN. This last December. And it touches on some of the points that Congressman Patman raised. I would like to read it in order that it may be more widely known. I quote:

> The subcommittee finds many anomalies in the structure and organization of the Federal Open Market Committee, particularly (*a*) the absence of a separate budget covering its operations, (*b*) the absence of a separate staff responsible only to the committe, and (*c*) the delegation of the management function to an individual Federal Reserve bank. It recommends that the committee reexamine and review its present organization, and in particular that it consider the advantages and disadvantages that would ensue were the manager of the open market account made directly responsible to the Federal Open Market Committee as a whole, and not, as at present, responsible through the Federal Reserve Bank of New York.

That was made by a committee consisting of Mr. Martin and Mr. Mills, members of the Federal Reserve Board, Mr. Bryan, president of the Federal Reserve Bank of Atlanta, and as I understand it, it was unanimous. It touches on many of the issues that Congressman Patman raised.

It would be interesting to find out what action, if any, the Federal Reserve Board has taken with respect to this recommendation. I would like to ask Mr. Riefler if he could make a statement on that point.

Mr. RIEFLER. Well, it has been under discussion but no decision has been made.

(Whereupon, at 12:55 p. m., a recess was taken to 2:45 p. m.)

AFTERNOON SESSION

The joint committee met at 2:45 p. m., Senator Paul H. Douglas, chairman, presiding.

Present: Senator Douglas, chairman, Representative Patman, vice chairman, Senator Flanders, and Representatives Kelley, Wolcott, Talle, and Curtis.

The CHAIRMAN. Gentleman, we shall begin.

We finished with question 2. I will call on the panel now to perhaps discuss topics 3 and 4 together.

Mr. Riefler.

Mr. RIEFLER. I do not think that it would be appropriate for me to comment on No. 3, so I will confine myself to No. 4.

There is implicit in recent developments the possibility of sustained and growing prosperity and of steady absorption of our expanding resources, particularly our human resources, now unemployed.

For this possibility to be realized, however, it is important not only that the recovery be broadly based but also that activities in anticipation of rising demand, such as inventory accumulation, be held within prudent limits and that commitments to expand be soundly financed. These are the types of problems that always emerge during periods of recovery. It is still too early in the present recovery to tell to what extent they will emerge this time. Among the straws that bear watching is the fact that credit terms, both for consumer installment loans and for home mortgage loans, are now generally more liberal than they have ever been in the past. It is also possible that the volume of construction activity now underway or projected may be too high to be sustained.

I think that the suggestion in the Economic Report that the President be given power to vary the credit terms in the mortgage field is worthy of very serious consideration. I find there is more concern that overcommitment in mortgages may possibly produce some problems for us later than there is with respect to other areas.

The CHAIRMAN. Do you think that the level of home construction may be too high to be sustained? Do you mean at present prices the market will not exactly be exhausted but that the cream will be skimmed off of the market?

Mr. RIEFLER. Well, there is some fear, which I cannot verify, that it is getting a little harder to sell—that demand is being absorbed. There is also an edging up of prices of building materials. A rising tendency in building costs, coming in January is something to be watched, because the big demand comes when the weather opens later on in the year. I think that these are straws in the wind.

The CHAIRMAN. In view of the fact that the high rate of construction in the building industry has been one of the factors which kept the economy up in 1954, does that give you any concern about the stability of the recovery which we have thus far had?

Mr. RIEFLER. Not unless the expansion in 1955 is larger than present estimates. If the present estimates come out, I think it is all right, but if the growth is larger than that, we may run into some problems in that area. That is one of the things to be watched.

The CHAIRMAN. Mr. Hansen.

Mr. HANSEN. I have a feeling that we have been relying too much on the housing thing. By that I do not mean that we are building in the aggregate too many houses, but we have not been building very many low-cost houses for the lower-income scale and I think maybe there is a danger that the ease of credit for veterans has been too great. This might be sustained if we were going to have the expansion we want. My feeling is that if we had had a more general program of sustaining the economy and for growth, then the housing thing could well be absorbed within that and it would work out quite all right.

As it is, there is some danger because we are not adequately providing for growth and we might get to a situation where the housing situation can be rather weak.

The CHAIRMAN. Do you have any feelings about the volume of consumer credit?

Mr. HANSEN. I would rather have been a little less generous on consumer credit and more generous in a reduction on consumer taxation.

The CHAIRMAN. Mr. Reierson.

Mr. REIERSON. Mr. Chairman, as I read the President's report, it includes no specific recommendations for legislation in the field of central banking or general credit policy. Apparently this reflects the point of view that the present statutory authority is sufficient and that more laws are not needed at the present time. If that be a correct interpretation, I find myself in agreement with it. I feel that the authorities have sufficient power under existing statutes to use powers of general credit control as a tool of economic stabilization.

I also believe that the present allocation of powers within the Federal Reserve System is one that does not need change. It is my feeling that the present allocation gives adequate assurance that the public interest is being served and protected. I have already expressed my views on selective credit controls.

In the field of credit, the report includes numerous recommendations with reference to specialized forms of credit: for example, to extend the lending authority of programs designed to help small business, a variety of suggestions in the field of housing finance, endorsement of the proposed International Finance Corporation, and an announcement of the proposed 10-year highway program. Most of these suggestions relate to subjects outside my field of competence and I would therefore hesitate to express an opinion upon their merits or demerits at this time.

I am impelled, however, to express a view on a matter, which I think falls within the cognizance of this committee, namely, to express the hope that adequate and careful attention is being given to integrating and coordinating these various programs and proposals. Most of these programs are designed to facilitate investment on the part of individuals, business or Government, and to ease financing. The programs seem to be based on a common premise that efforts must be made continuously to achieve large and rising levels of capital investment.

Much has already been done along this line. I shall not enter into a discussion of the broad question of investment demands and savings, but I think the problem is one to which the credit authorities should give some attention.

In recent weeks we have undertaken some surveys in this area among members of the financial community, and I would like to point out, Mr. Chairman, if I may, that the investment requirements in 1954 were met only as a result of substantial assistance provided by the commercial banking system.

The commercial banks added approximately $6 billion to their holdings of Government securities. They provided a good secondary market for Treasury obligations and as a result the life-insurance companies and the mutual savings banks were able to reduce their investment in Government obligations by about $1,400 million. In addition, the commercial banks added to their holdings of securities, other than Governments, in an amount approximating a billion and a half. In other words, the equating of investment demands and investment funds in 1954 was achieved with the substantial assistance of the commercial banking system, and with the use of what has been described as a policy of active credit ease. I simply point out that in my judgment such a policy is not indicated currently and may not be indicated for the near future. I finish as I started, with the hope that the broader implications of the various efforts that are now being made to stimulate investment will be considered and appraised.

On one of the three particular subjects referred to in the question, residential building—what concerns me there is the spurt in private housing starts that was evident in the latter part of 1954. The annual average of private housing starts in the first half of the year was 1,116,000; in the second half of the year the average was 1,290,000, an increase of 15 or 16 percent. In the fourth quarter the annual average was 1,364,000, and in December, the annual rate was 1,437,000. I am not suggesting that the December figure is necessarily meaningful. The seasonal adjustment is a matter of judgment, and in any given month weather conditions and other factors enter in.

But I am suggesting that a continuation of this trend would contribute to economic instability in a variety of ways. First, it would mean higher prices of building materials; reference has already been made to this point. This would mean increased prices, or equally significant, reduced values in the housing offered to buyers. In addition, there is the question of whether residential building, certainly if these trends are allowed to continue, may not be attaining rates which are not sustainable. This is an industry which characteristically has displayed a substantial amount of cyclical fluctuation. We operate today in a new financial environment that may or may not help to stabilize the building industry. So I think that is one area which is deserving of continuing and careful exploration on the part of the authorities.

With reference to consumer credit, I am mindful of the fact that the estimates as of the end of last year show total consumer credit outstanding and installment credit outstanding both at record heights. I am also mindful of the fact that the relationship between consumer and installment credit and disposable income at the end of last year were at historical highs. It seems to me, in this environment, that any extension of terms of substantial proportions, any material reduction in downpayments, or any deterioration in credit risk that would contribute to a very rapid expansion of consumer credit would not be a contribution to long-run economic stability.

Therefore I conclude that this area also is one that will need the continuing attention of the credit authorities. The stock market is covered in question 5, and with your permission I shall defer my observations on it.

The CHAIRMAN. Mr. Stein.

Mr. STEIN. My main comment on the monetary and credit aspects of the President's Economic Report is that it is very difficult to tell from the report what the President's program is in these fields in their general implications; that is, aside from application to particular markets. A key sentence in the report is this one:

> The wise course for Government in 1955 is to direct its program principally toward fostering long-term economic growth, rather than toward imparting an immediate upward thrust to economic activity.

I am afraid that this sentence may be regarded as indicating that the Government no longer considers necessary any of those specific antirecession measures that were employed in 1954. One of the most important of these measures was the policy of active monetary ease. I would hope the Government does not interpret the very general proposition I have quoted from the report as calling for discontinuance of that policy.

It seems to me what we do have in the report is very large concern with the problem of speculative activity. I am myself very skeptical of the ability of anyone to detect unhealthful situations of speculative activity as distinguished from conditions of overexpansion or inflation in the economy as a whole.

Now, whether people are or are not able to detect unhealthful conditions of speculative activity, I would hope that concern with speculative activity, I would hope that concern with speculative activity in particular fields would not distract the monetary authority from what seems to me their main concern, or what should be their main concern, which is the overall state of the economy.

It would be most unfortunate if, in a preoccupation with speculative conditions in particular markets, the monetary authority should adopt measures of general credit restraint which would cut off or even substantially slow down the rate of recovery which so far in its general features has not brought us up to satisfactory levels of activity.

Those remarks would cover my approach to question 4. I am not an authority on any of the three fields mentioned there and have nothing to add to what has been said there, except a warning against preoccupation with conditions in limited fields to the exclusion or underemphasis of the general state of the economy.

The CHAIRMAN. Mr. Whittlesey.

Mr. WHITTLESEY. The Economic Report exaggerates, I believe, the extent to which economic stability, both realized and prospective, is the result of Government action and underestimates the extent to which it rests on continuing forces now present in the economy.

Such an emphasis upon the action taken by Government strikes me as bad strategy, mistaken, and dangerous. It is bad strategy, because it is inconsistent with the stress currently being placed on free markets and private initiative. Under somewhat different guise it endorses a spirit of direction and control and thereby plays into the hands of those who call for continuing interference with the operation of economic forces.

It is mistaken because it undervalues the significance of changes which have made the economy much more resistant than in the past to declines in economic activity. It is dangerous because it credits certain mild measures with a degree of effectiveness that can only lead to frustration and disillusionment, if put to a real test at some time in the future. A similar mistake of overestimating the effectiveness of Federal Reserve policies was made back in the 1920's.

The position to which I take exception could be illustrated by many examples from the report, but I shall limit myself to one only. On page 22 the report points to six lessons learned from the recent decline. The first three of these lessons are expressed in terms of the great power of governmental intervention:

> In the course of our latest encounter with the business cycles we have learned or relearned several lessons: First, that wise and early action by Government can stave off serious difficulties later. Secondly, that contraction may be stopped in its tracks even when governmental expenditures and budget deficits are de-

clining, providing effective means are taken for building confidence. Third, that monetary policy can be a powerful instrument of economic recovery so long as the confidence of consumers and businessmen in the future remains high.

Now note those words, "contraction * * * stopped in its tracks," "stave off serious difficulties," "wise action by the Government." I shall not go into the reasons why I do not believe for a moment that in the absence of the very mild action taken by the Government in the past year; serious difficulties would have resulted, but I must say that I did not expect to be told so soon and so smugly that "we planned it that way."

Now turning to the other two questions—I have lumped my answer to 4 and 5 together—I find no cause for alarm with respect to consumer credit, but I am deeply concerned over the outlook for the real-estate market in the coming few years. The rush of applications to Federal agencies for mortgage insurance or guaranties which is mentioned with such apparent satisfaction on page 24 of the report is open to the interpretation that it may have some of the attributes of a rush to a cyclone cellar. Surely the realities of the real-estate situation have been obscured by action taken in reducing downpayments and extending maturities.

It might be desirable to move in the direction of more downpayment and shorter maturities on new houses if only to be able to make better use of this particular shot in the arm at some time in the future when the need is more clearly evident than it has been in the past year.

Finally, I feel distinctly uneasy concerning the recent behavior of the stock market for no more subtle reasons than the rate at which stock prices have risen and the apparent character of public participation. Stock-market behavior has always seemed to me more rationalized about than rational. Insofar as I have an opinion on the recent change in margin requirements, it is that the Board should have moved sooner and farther than it did.

The CHAIRMAN. Mr. Wood.

Mr. WOOD. The great majority of economists would undoubtedly approve of the statement of the general aims of policy on page 6 of the President's report:

We must continue to coordinate all governmental programs, especially monetary and fiscal policies, in order to restrain and offset any tendencies that may develop toward recession or inflation.

In some parts of the report it seemed to be suggested that we should attempt to have a more normal growth by moderating booms, apart from preventing inflation. I would not agree with the idea of trying to stop the next depression by preventing the present boom from going too far. We should check the present boom only in the interest of preventing present inflation.

I agree with Mr. Stein's statement a moment ago that speculative activity in special areas of the economy should not distract the monetary authorities from their main concern, the overall state of the economy. For instance, we should not resort to general monetary restriction because there seems to be excessive activity in building.

The CHAIRMAN. Thank you.

Mr. Kelley, do you have any questions?

Representative KELLEY. No.

The CHAIRMAN. Mr. Curtis?

Representative CURTIS. Yes; I have. Mr. Chairman, I was a little concerned in the references by most of the members of the panel to their concern over the housing picture, as far as financing is concerned, and one reason—well, perhaps the best way to get at it is to ask some specific points.

No. 1, there was an expression of concern because the housing starts was increasing at the rate it was. An observation I would make is that the housing industry for the first time, not this year, but since the war, at any rate, has really gone into mass production, which was a field that housing had never been in before.

Don't you think that a great deal of the growth in the housing field stems from the fact that we have got these new techniques entirely apart from the financing?

Mr. REIERSON. I am not an authority on housing and I defer to my colleagues. However, the record will show two points; one, a very sharp increase in the amount of mortgage financing, and in the percentage of residential starts financed through the VA program; and No. 2, and these I quote from memory, the fact that as of December or thereabouts, that approximately 35 to 40 percent of the VA financing was in the 30-year no-down-payment mortgages. I would think, therefore, that the record shows that the financing environment and facilities are important, that the changes introduced by the Housing Act of 1954 made a significant contribution to this spurt. I share the views expressed by another member of the panel that the grant of additional authority to the executive branch to vary the terms under which insurance and guaranties are made available would be appropriate.

Representative CURTIS. Well, I certainly agree that the financing has had a definite effect but I was first directing my attention to the demand and the fact that actually we are now at a point in our society where we have mass production of low-cost and indeed medium-cost housing, but the next question then has to do with the concern of consumer or installment credit in this particular field, and I wonder whether the concern should be as great as seems to have been expressed by the panel for this reason: The consumer in this field, as far as housing is concerned, is going to have to live in a house. Now he might be living in a house and paying so much monthly rent, or he may be buying the house on an installment plan. The fact that you shift the obligation from paying rent to one of paying a monthly installment on a purchase to me is a desirable thing from the standpoint of the position of the consumer, I would not think it would matter too much, unless you said, which might be, that the differential between the amounts the citizen would be paying in rent is so much less than the amount that they are paying a month in installments.

Do you follow my reasoning on that?

In other words, I think in those housing fields, we have to pay particular attention to rental as opposed to home ownership.

Mr. REIERSON. I agree with that. I suggested in my original statement that, looking at the broad problem of economic stabilization, what concerned me was the fact that a continuation of recent trends would have repercussions upon the prices and materials and the housing values made available to buyers.

Representative CURTIS. Well, sir, wouldn't that be true of any expanding economy?

Take television—that undoubtedly has produced a lot of demand for electronics equipment, and so on, and would that not be true of anything that is expanding, and the question is, Is that expansion a healthy thing in response to a real demand, and will that demand continue?

Mr. REIERSON. Well, of course, the demand situation is changed by virtue of the financing terms available.

Representative CURTIS. It could be that, or the demand could be there, and perhaps we weren't setting up proper financing and the demand did not have an opportunity of expressing itself, and I think that is particularly true in the housing field where you have got this problem of the initial downpayment.

Mr. REIERSON. I think it is the elimination of the downpayment more than the extension of the maturity that has contributed to the recent increase in demand.

Representative CURTIS. From the standpoint of good financing, I would suggest that the risk of lending a substantial sum on a house with very little downpayment is much less than when you lend a sizable sum on the purchase of an automobile. When a person moves into a house, and that house becomes a home, it actually increases in value rather than decreases, and I have seen that, and I guess anyone has in these new subdivisions where the house that is 2 years old will actually be selling for more than the brand new homes in the same subdivision, because actually the value of the house has increased due to the fact that a family has lived in it. So from the financing standpoint I would suggest, although I do not know, I would suggest that maybe we have been backward in our financing of homes, and far from worrying about it I am rather happy that we have caught up with modern financing techniques in that field.

This could be the case, could it not, instead of being alarmed about how we are going, it could be that maybe we should have been alarmed in the past for not having done more in the home financing field?

Mr. REIERSON. Well, I will admit that being able to buy a house with no money down and 30 years to pay for it is an innovation, and I venture no judgment as to whether we were unwise 5 years ago in not having that program or wise now in having it.

What I have been talking about here are the economic implications arising out of this method of financing. I share with you a desire to have a continuing high rate of residential building and investment in general. I think they are an absolute necessity. But I am frankly alarmed when I see economic series moving at the rate that housing starts moved in the latter part of last year. I think it would be fair to keep in mind, looking down the longer road, that we appear to have no pressing shortage of housing at the present time, although vacancies are probably not yet up to normal. While this is not the whole story of residential building, we face a situation in which family formation is low, and is not likely to turn up in the near future, and where even the more optimistic estimates of household formation are well below the current rate of building of new residences. I think any tremendous upsurge in residential building raises a very real question as to whether we may be selling next year's market or the following years.

I would be much happier if we could see a continuing stable or gradually rising level of residential building. I am not wise enough to say that 1,200,000 starts, or any other figure, is the correct figure. I do not know what is the correct figure. But I am alarmed at the increases we have had, and I would much prefer to see a more gradual expansion.

Representative CURTIS. Do you know whether there have been any figures—I have never seen them—but there must be, of the relation of the switch from rental housing to homeownership. It seems to me a great deal lies in that particular switch. That is just a comment.

Has anyone ever seen any figures along that line? That seems to me to have great bearing.

You are not actually affecting the individual householder. If he is paying, let us say, $75 a month rent, and then he switches to buying a home on a 30-year basis, then he is still paying $75 a month, as far as his own financial situation is concerned.

Mr. HANSEN. Mr. Chairman, I would like to say that I agree very much with Congressman Curtis. We have witnessesd a tremendous switch, as you have suggested, between rental housing and homeownership. I think nearly 60 percent of the urban houses are owned at the present time. There has been a very great change, and I agree that these new financing methods are not only an innovation, but a very good innovation.

I only raise the question whether the extremely easy credit we have moved to, particularly with veterans, is going to turn out to be entirely satisfactory, unless we can fairly well assure an expansion in the economy equivalent to the growth that we are capable of. If we flatten out at the present high level I do foresee difficulties in the housing area as a result of this very easy financing program.

I think we could absorb this whole thing if we had adequate growth and expansion. If we don't, there may be some difficulty.

Representative CURTIS. I was interested in some figures I saw in some local St. Louis savings and loan companies, on their 20-year loans. I think the average payoff was 9 years, and on the 15-year loan it was 6 or 7. So the fact that you put that paper on your books at a 20-year or 15-year basis is by no means an indication of what happens to it. Apparently once people get some equity they try to build up on it quite rapidly.

I might further state that I was interested in the number of delinquencies in loans; particularly in the VA field it was practically negligible.

Mr. WHITTLESEY. Mr. Chairman, may I make a couple of comments?

It seems to me that the discussion is too much in terms of the safety of the particular mortgage and too little in terms of relation to the economic stability of the economy, which is our primary concern here.

Now, it is quite possible that the loans will pay out. That is going to be influenced, however, as Dr. Hansen has said, by the future movement of prices and the maintenance of full employment. The facts that real-estate prices have risen and delinquencies have been low are closely tied together. If you can imagine a situation where real-estate prices do not rise or perhaps fall, you can imagine a situation where difficulty might arise.

What concerns me is that this recent rise in construction is not based upon economic factors of the type which you have in mind. It seems to me that it is based to a great extent on the elimination of downpayments and the lengthening of maturities up to 30 years, and that means it has given an artificial fillip to the industry at this time.

Is this the time for that, a time when family formations are low because of the drop in births during the period of the thirties? It seems to me that it is not.

I find something inconsistent in the idea that we should not peg Government bond prices, which is the guaranty of a particular type of credit, but that it is perfectly all right to guarantee mortgages, which is another type of credit. I admit that it may be possible to defend that position; I do not mean to suggest that I have given an adequate answer, but I am pointing out the conflict in those two points of view.

Representative CURTIS. Could I ask you there, though, again, why do you feel that there would be this economic effect, as essentially what we are doing is simply replacing rental payments with installment payments on a home?

Mr. WHITTLESEY. Well, I do not agree with that in the first place.

Representative CURTIS. You think it is more than that.

Mr. WHITTLESEY. Very much more than that. I think that more houses are being built now than would be built and occupied if they were merely paying rent. I think that we are building houses way beyond the current demand as related to family formation.

It is easy enough to point out that human wants are insatiable, and that the housing demand is unlimited if people move into better, bigger, and finer houses. On the other hand, there is surely some significance in the number of new family formations; and here at a time when the number of new family formations has gone down we find new housing going up.

Representative CURTIS. Well, we still have a backlog, as I understand it, though.

Mr. WHITTLESEY. It was very high in 1946 because of many factors with which we are familiar, but it seems to me that at the present time it is not high, and that we are exceeding what we can expect. I share the feeling of Mr. Reierson that we are encroaching upon a normal expected demand for housing in the next 3 or 4 years, though I do not think this will be true for 1960.

I fear that we are running into trouble because of this artificial stimulus.

Representative CURTIS. Thank you.

The CHAIRMAN. Congressman Patman.

Vice Chairman PATMAN. Yes, I wanted to ask Mr. Riefler a couple of questions, first.

Mr. Riefler, exactly how did monetary policy work to check the reverse in the downturn. Mention specifically how it affected the inventory liquidation, the decline in spending by business firms for plant and equipment, the increase in consumer expenditures, and the rise of new construction activity.

Mr. RIEFLER. Well, the policies were directed toward putting reserves into the money market, to give banks more money, potential money to lend, and at the same time, the Treasury to issue short and intermediate term securities, so that the Treasury would not be competing in the market for mortgage and other long-term funds. Those are the policies you are referring to.

Vice Chairman PATMAN. When was it that the Open Market Committee met and agreed to reverse its policy? Was it somewhere along May 6 or 7?

Mr. RIEFLER. It met around May 6 or 7. I have not the exact date.

Vice Chairman PATMAN. The record shows they commenced buying on Monday, May 11, but Mr. Martin testified on some committee I was on that the board met preceding that by a few days.

Mr. RIEFLER. The Open Market Executive Committee met.

Vice Chairman PATMAN. What time was that, May 6 or 7?

Mr. RIEFLER. It was either May 6 or 7.

Vice Chairman PATMAN. Do you have any coordination between your agency, the Board of Governors, and the Open Market Committee, and the interest-fixing agencies like the Treasury and FHA?

Mr. RIEFLER. Well, we see the Treasury a great deal. They see us a great deal.

Vice Chairman PATMAN. Did the Treasury have reason to believe you were going to reverse their policy 3 or 4 days before that when they increased the interest rates on FHA and veterans' loans?

Mr. RIEFLER. I doubt it.

Vice Chairman PATMAN. You did not have any coordination to that effect, to that extent?

Mr. RIEFLER. Well, the decision hadn't been made.

Vice Chairman PATMAN. It had not been made, but I guess you had been talking about it a lot, and you were in a position to alert them as to some such thing being possible?

Mr. RIEFLER. At that time I do not think you could tell what the position would be until you counted the votes.

Vice Chairman PATMAN. All right.

Now, is the position of individuals and corporations today excessively liquid?

Mr. RIEFLER. It is liquid, I don't know what you mean by excessive.

Vice Chairman PATMAN. We will say normal, subnormal, and above normal.

Mr. RIEFLER. I would have difficulty.

Vice Chairman PATMAN. Would you say it was subnormal, normal, or above normal?

Mr. RIEFLER. If you want to take it in terms of the money supply, the increase was greater last year than the increase in gross national products. That shows that the money supply is adequate or large, or at least in some sense in an upward proportion.

Vice Chairman PATMAN. Would any other member of the panel like to comment on whether the position of individuals and businesses are excessively liquid today? Do any of you agree or disagree with that?

All right. I would like to ask Mr. Wood a question.

Mr. WOOD. All right, sir.

Vice Chairman PATMAN. Why should there be such a sense of urgency on the part of the Treasury to fund its debt—that is too greatly increase its maturity—as in the case of the 40-year maturity? How will this affect the liquidity of individuals and business?

Mr. WOOD. Taking the last part of the question first, in general, as you extend the period of the debt it tends to reduce liquidity. If it goes very far the reduction in liquidity would be significant.

Would you please ask your first part again?

Vice Chairman PATMAN. Yes. Why should there be such an urgency on the part of the Treasury to fund the debt, that is greatly extend its maurity as in the case of the 40-year issue?

Mr. WOOD. I see no reason why there should be any special urgency at this time to extend the period of the debt.

Vice Chairman PATMAN. You take the $2,600 million, 2⅞-percent securities: Now, they are held principally by the banks, are they not?

Mr. WOOD. I could not tell you.

Vice Chairman PATMAN. The reports that I get through the different financial journals indicate that they are held principally by the banks.

Senator FLANDERS. Mr. Congressman, would you yield for a moment?

Vice Chairman PATMAN. Certainly, I would be glad to.

Senator FLANDERS. It would seem to me that one of the reasons for extending maturities that is valid is to rearrange our maturities so that they do not come in blocks. So we are not faced at one time with the necessity for heavy refunding and at another time for light refunding.

I haven't examined this particular proposal with reference to that, but I think we could agree, could we not, that it is a valid reason for altering the lengths of securities as the occasion offers?

Vice Chairman PATMAN. Up to a reasonable point, but when you have a national debt of $281 billion there is hardly any way to arrange it that you will not have enormous amounts payable at one time.

Senator FLANDER. But still you would think it was a good thing to have a try at it?

Vice Chairman PATMAN. Yes, if you expect to pay them off; but you don't expect to pay them off.

Senator FLANDERS. Well, the maturities have to be taken care of, anyway, and it would be very embarrassing, would it not, to the Treasury to have a heavy block of maturities to be refunded all at once?

Vice Chairman PATMAN. I see no reason why it would. It migh cause them to work a little bit more, but they are not expecting to pay these things off, anyway. They have been extending them from time to time. I do not know that we have ever paid a substantial part of the debt.

Senator FLANDERS. We are not talking about paying; we are talking about refunding, and if you have a tremendous block to refund all at once the interest rate goes against you, does it not?

Vice Chairman PATMAN. I do not know whether it does or not. The Open Market Committee fixes the interest rate, and that should be taken care of very easily.

Senator FLANDERS. It does when the Treasury buys everything at a given rate.

Representative TALLE. I think Senator Flanders' point is a good one. I remember Mr. Eccles pointed out some years ago that he was concerned over the fact that a block of $57 billion had to be refunded at one time, and Mr. Humphrey pointed out in January of 1953 that one of the first visitors who knocked on his door was a collector with $81 billion in c. o. d.'s, short-term loans that were due. He found that to pay the collector was something of a task.

Senator Flanders' point is a very material one.

Vice Chairman PATMAN. It is strictly an administrative matter. I do not see why with the 12 Federal Reserve banks, and the unlimited power that the Open Market Committee has, I do not see any reason why it should be too much trouble. I doubt that many of them would have to spend many extra hours overtime taking care of those refunding issues, but if it is a burden on them we ought to make adjustments and lengthen them out and straighten them up so they would not be too burdensome, so they would have more and more time.

Representative TALLE. A difference of maturity is very important. Some years ago England found herself in a bad spot after she had lent considerable money to Russia on long term and had a lot of obligations herself on short term.

Vice Chairman PATMAN. You are talking about something different now. You are talking about owing a foreign country. If we owed a foreign country, that would be different, but we are doing business with ourselves.

Representative TALLE. I used that to illustrate that the maturity does make a difference.

Vice Chairman PATMAN. It would, with a foreign country, I agree. It would make a tremendous difference. But I do not think that the same difference would prevail to us.

Representative TALLE. The cost of refunding is a cost.

Vice Chairman PATMAN. I think a lot of that could be saved. I do not think there would need to be much added cost in refunding.

Senator FLANDERS. Mr. Patman, excuse me for prolonging this, but does not your point of view of refunding mean an apparently simple transaction rests on the previous practice of having the Federal Reserve System as the residual purchaser who took most of it if the rate was below a free market rate, and so are you not therefore supporting that previous practice?

Vice Chairman PATMAN. No; if the Federal Reserve banks, if they do not buy bonds, the commercial banks would buy them, and the commercial banks buy them with money made available by the Federal Reserve directly or indirectly.

There are 2 or 3 ways they could do it, by reducing requirements, or by open market operations; there are two good ones. If the Federal Reserve does not buy them the commercial banks will buy them with credit that the Federal Reserve makes available. That is the way I see it.

Senator FLANDERS. I think your position and mine are fairly clear.

Vice Chairman PATMAN. Thank you, sir.

Professor Whittlesey, in the last few month there has been a rise in wage rates and price increases in aluminum, selected steel items, rubber, and more recently copper. The current situation is, therefore, that money costs of production have risen.

Assume that the monetary authorities refuse to supply the necessary funds to support an increase in money demand sufficient to move current production off the market at prices corresponding to costs of production, what may we expect will happen to employment, income, production, investment, and savings?

Mr. WHITTLESEY. You have indicated the answer by your question, but I would like to challenge one implication that you made. That is that wages and cost of production are necessarily as closely related as you suggest.

I was greatly impressed by 2 charts on pages 30 and 31 of the President's report. One shows weekly man-hours; that is the bottom curve on the lefthand chart. I take it that that represents the result of the two curves above, one being the employed workers and the other the average weekly hours, while the curve at the bottom gives the result. That curve shows that in 1954 we were manufacturing with just about the same number of weekly man-hours as we were in 1948.

Now look at the middle chart on page 31 which gives an index of total manufacturing production. As I read these charts, that top curve in the middle chart represents the output produced by those weekly man-hours shown in the chart at the left. They show that at a time when weekly man-hours was practically stable, actually a little bit lower, total manufacturing output was up approximately 30 percent. That means that what has been going on is that we are paying higher wages but are producing more with those wages; evidently productivity has risen very markedly in this period.

It is an oversimplification to suggest that we are facing a squeeze simply because wages have gone up. I would hope that in the present situation greater efficiency, improved technology, and the like, would enable us to pay these higher wages without prices necessarily going up. If that is not true then it is the task of our monetary authorities to do whatever they find necessary to assure that stable prices and full employment are maintained, so far as they are able to maintain them.

Vice Chairman PATMAN. Then one other question here, if you please: What effect will the firming up of interest rates and the decline in prices of Government securities have on the banking system's ability to supply the needed funds to move current output off the market at prices reflecting cost of production? What effect will the firming up of interest rates and the decline in the prices of Government securities have on the banking system's ability to supply the needed funds to move current output off the market at prices reflecting the cost of production?

Mr. WHITTLESEY. I agree with what others have said that at the present time restrictive monetary policy measures are not indicated. For that reason, therefore, I would feel that this is not the time for interest rates to rise appreciably, which I believe is the general feeling shared by others here.

The statement seems to imply that we know that interest rates are going to rise.

Vice Chairman PATMAN. Well, 3 percent is an increase on a long-term bond.

Mr. WHITTLESEY. It is too early to say to what extent that is going to alter the level and structure of interest rates. Perhaps 3 percent was higher than was necessary, but I doubt that this particular issue is going to exert a great deal of influence. That is going to be tied in with the Federal Reserve policies that are followed from here on.

Vice Chairman PATMAN. Would any of the other members of the panel like to comment on that question?

Mr. WHITTLESEY. I would like to make one other point.

Vice Chairman PATMAN. All right, sir.

Mr. WHITTLESEY. This is on the point that Mr. Curtis raised a moment ago.

I would not be alarmed at the rise in long-term mortgages on dwellings which have no downpayments if this rise were the result of the free action of mortgage lenders. I would trust the interest of lenders in being repaid to protect the economy against overexpansion of mortgage credit. Where the expansion takes place with a Government guaranty that protects the lender against any appreciable loss, it seems to me that there is no comparable assurance that the expansion has the usual economic foundation, is in the public interest, or is equally secure against loss through default.

What alarms me is this: The mildness of the recent downturn and the early revival of business has been ascribed in considerable part to the strength of housing demand. Construction activity has apparently been one of the principal supports of economic activity in general.

I am troubled lest this support is artificial and has been borrowed from the future, that the artificial stimulus now will contribute to greater difficulties in the future than we would otherwise have had.

Representative CURTIS. Mr. Chairman——

Vice Chairman PATMAN. May I just ask one more question, and I will be through.

Representative CURTIS. Certainly.

Vice Chairman PATMAN. If you insist on coming in now, it is all right.

Representative CURTIS. I would just like to say that I appreciate that observation very much and I think there is a great deal of soundness to it, in my opinion.

The only other matter I would interject is we are concerned with the Government doing one of two things: It isn't just going into the housing field in a guaranty way, the other program is an extended public-housing program at least in the mind of many people. It is an either-or situation brought about by a belief that there is a real demand of our people for additional housing, and we have not really licked the problem of adequate housing for the people.

So in viewing the lending program, I think we have to think of alternate terms, of possibly extending the public housing program which is rental housing, to a very large degree.

Mr. WHITTLESEY. And from the standpoint of economic stability, timing of that program is all important.

Representative CURTIS. Yes, along with any other public-works program.

Mr. WHITTLESEY. Yes.

Representative CURTIS. Thank you.

Vice Chairman PATMAN. Mr. Chairman, before asking Mr. Stein a question, the last one I expect to ask of this panel on this particular matter, I would like to read into the record an excerpt from the hearings before this Committee on Banking and Currency of the House, March 3, 4, and 5, 1947, on page 85.

Mr. MONRONEY. Do you mean to say that with your present Open Market Committee and the operation of the Federal Reserve as it now stands, that regardless of what the national income is, or other economic factors, that you can guarantee to us that our interest rate will remain around 2.06 percent?

Mr. ECCLES. We certainly can. We can guarantee that the interest rate as far as the public debt is concerned is where the Open Market Committee of the Federal Reserve desires to put it.

The CHAIRMAN. You have a very good memory.

Vice Chairman PATMAN. Now, this question I would like to ask Mr. Stein and the panel to comment on.

There was an expression——

Representative TALLE. Do you recall when that figure—2.06 percent—was first arrived at in the House Committee on Banking and Currency?

Vice Chairman PATMAN. Well, that part was not so interesting to me. I was not considering that as much as I was the ability of the Open Market Committee to fix the rate at any point.

Representative TALLE. It was very interesting to me because I asked the question about average interest cost at that time.

Vice Chairman PATMAN. You did.

Representative TALLE. I asked the then administration witnesses to tell me the average rate, considering all maturities, at the time, and the average reported was 2.06.

Vice Chairman PATMAN. Well, I am glad to know that. There was an expression of the belief this morning that monetary policy could not be held accountable for changes in distributive shares.

Specifically, the reference was to the deterioration of the income shares of the farmer and small proprietor. I was referring to the sentence near the top of the page on page 83 of the President's report.

I should like to put the following question to Mr. Stein and the panel:

Given the relative sensitivity of individual commodity prices, utilization of monetary policy to stabilize the general price level, will result in changes in the relationship of individual prices to each other. Price increases will be canceled out by price decreases, and so the average of all prices will remain stable. However, the more sensitive prices, that is, prices that are more nearly subject to pressure of competition and market forces, will fluctuate more freely and frequently than the administered prices. These latter prices are characteristically stable.

The result will be to alter the exchange patterns existing between different segments of the economy and the cost price structure of difference industries, and particularly of individual firms within an industry.

Is not the procedure just described the way in which income shares of different segments of our economy, and the cost price structure of individual firms within an industry, are altered by the monetary authority when they exercise their power to control the general price level?

Mr. STEIN. Well, I believe that is a reasonable description of what happens. My reservation this morning, if I may explain further, was to the implication that the distributive shares ought to be a major criterion or guide of Federal Reserve policy.

It seems to me that there is an overriding objective of monetary policy which is to maintain a high level of employment and national income, and avoid inflation. If the Federal Reserve or the monetary authority, succeeds in making its maximum contribution to that, it will have done all that we can expect it to do as far as the distributive shares are concerned. If there should be an inconsistency between action to promote a high level of production and employment and action to have some desired effect on distributive shares, that the overall effect on the economy should have priority.

It seems to me that ordinarily there would not be any consistency.

Vice Chairman PATMAN. Would any other member like to comment on that question? Does the panel take issue with Mr. Stein?

All right, Mr. Chairman, I will yield.

The CHAIRMAN. Mr. Talle.

Representative TALLE. Mr. Chairman, I would like——

Vice Chairman PATMAN. Would you let me add one other statement from Mr. Eccles?

Representative TALLE. Yes.

Vice Chairman PATMAN. Mr. Monroney asked him if he thought it would be inflationary holding the rate at 2.06. Mr. Eccles:

> I would not say that; no, I would not say that holding it to this 2.06 rate would be inflationary at all.

I would like that right after my other reference to it, Mr. Chairman.

Representative TALLE. I do not recall whether my question about the rate was put at that very moment, but about at that same time I did ask for the average rate of all maturities.

Vice Chairman PATMAN. And he answered, I recall, that that was all securities except the E. F. and G. I do not think it included them. I am not sure about that.

Representative TALLE. Some of the short term rates were as low as twenty-five one-hundredths of 1 percent.

I would like to ask about the President's recommendations. There are four of them here. They are found on pages 69 to 71 of the President's Economic Report.

The first one is increase the insurance authorizations of the Federal Housing Administration. I gather there would be a difference of opinion as to that.

Do you agree, Mr. Whittlesey, that the insurance authorization for the Federal Housing Administration should be increased?

Mr. WHITTLESEY. I would not object to this since it seems to me that the power is all right to have in reserve. It is only that the timing with which the present power was used seems to me unfortunate. I feel that timing is dependent on economic conditions. The timing of recent changes is certainly not to my taste.

What bothers me now is looking ahead 1 or 2 or 3 years. I am alarmed that the present tempo cannot be maintained, and that there may be a reaction partly because of the overstimulus. It may be desirable to have the increased authorization in that then it will be necessary to move more actively partly because of the bad timing in the past.

Representative TALLE. In the same breath, may I ask you another question. This has to do with another recommendation, also on page 60.

To allow national banks to make amortized real-estate loans with maturities up to 20 years and to extend the maximum duration of construction loans?

Mr. WHITTLESEY. The banks are limited as to the amount of real-estate loans they can hold. This proposal is obviously intended to operate within the other present limitations. It seems to be an attempt to avoid discriminating against banks as compared with other types of lenders at a time when 20-year mortgages have become respectable for banks, as they weren't a few years ago. I do not object to this. The policy of stabilization which is our present concern is something that has to operate through the Federal Reserve and other agencies. This proposal is not in contradiction with that; but it is evidently concerned with a different problem, that of avoiding discrimination against commercial banks.

Representative TALLE. It does get into a field that has been a matter of controversy between National banks and State banks, doesn't it?

Mr. WHITTLESEY. I suspect that State banks already have the power, and that this change is designed to enable the National banks to meet that competition. If not, then the State banks wil presumably get their authority from the State legislatures. In short, this isn't, it seems to me, a stabilization proposal. While it may be related to future credit demands, the stabilization problem should be taken care of by other means.

Representative TALLE. Mr. Chairman, may I ask a third question?

The CHAIRMAN. Certainly.

Representative TALLE. This is the third recommendation of the President, at pages 60 to 62.

It relates to giving the President greater latitude with the exercise of his powers to vary, in the light of economic conditions, the terms on which home mortgages are underwritten by the Federal Government.

Mr. WHITTLESEY. Do you still want me to answer?

Representative TALLE. You are doing very well. I thought I would leave it open to all the panel members.

Mr. WHITTLESEY. I hope that they will come to my rescue shortly.

I question whether the President is the ideal place for that power to reside. The problem of stabilization by credit means is primarily a problem for the monetary authority, and I should prefer to see this power lodged with the central bank. It may be that under existing law it is necessary for the President to initiate action by an Executive order, but the actual implementation of the stabilization policy, as far as it is related to this phase of it, should, in my opinion, be in the hands of the central bank. To the extent that fiscal policy is involved, the fiscal policy and the monetary policy should, of course, be integrated.

Representative TALLE. Thank you very much.

Now, I should like to throw those recommendations open to the other five scholars.

Mr. HANSEN. Mr. Chairman, on that last point, if I am not mistaken this type of authority given to the President was first introduced in the Housing Act of 1948, in which it was specifically provided that a certain number of public housing units would be built in the next 6 years, and then it was provided the President might bunch that according to the economic conditions of the economy as a whole. That is to say, he could build all of it in 1 or 2 years, rather than 6 years, if employment conditions required.

I think it is within that kind of a context that this would be most useful. If it were just a general provision relating to the cerdit conditions, I would agree with Mr. Whittlesey it might perhaps reside in the hands of the monetary authorities, but with respect to the Public Housing Act, it seems to me that that was quite appropriate—it should be in the hands of the President.

That was a rather different kind of provision.

Representative TALLE. Thank you, Professor Hansen.

Mr. Reierson?

Mr. RIERSON. I share Mr. Whittlesey's conclusions on these three recommendations, with the exception of his suggestion that the authority be given to the central bank, and in that matter I concur with Professor Hansen.

It seems to me that in recent years we have had a tremendous increase in the definition of credit policy, far beyond the scope of the textbook concept of limiting credit policy to operations of the central bank. One lesson of 1954, I think quite clearly is that credit policy thus broadly defined, is a very potent instrument of economic stabilization, or lack of stabilization, as the case may be.

I am referring here to the Government insurance and guarantee functions of which the activities in the housing field are two, but by no means the entire list, and to the direct lending activities of the Government. It seems to me that there certainly is need for coordination of all of these diverse activities to the end that we may develop a consistent program of action. But I have great reservations that it is an appropriate function for the Board of Governors of the Federal Reserve System. I rather have the feeling that in the exercise of their policies, or powers of general credit control, they have enough to keep them busy. That problem is sufficiently complex and difficult in its own right. So while I think that there should be flexibility in setting standards for Government insurance or guaranties, and while I endorse that to the full, I certainly question the advisability of giving that authority to the Federal Reserve.

Representative TALLE. Thank you, Mr. Reierson.

Dr. Stein?

Mr. STEIN. I would agree on this last proposition that this authority ought not to be given to the Federal Reserve. It seems to me, while it is very largely a credit matter, it is not entirely a credit matter, and I would not like to put on the Federal Reserve the burden of withstanding the claims of the Veterans' Administration, and others, who may at some time be interested in promoting the program. There is really the question of policy beyond credit only.

There have from time to time been suggestions for the establishment of a Federal loan council, or some such organization, on which would be represented the main lending or loan guaranteeing agencies of the Government. It would seem to me that if such a council were established that the President might delegate to it the responsibility for advising him on the discharge of this function.

Representative TALLE. Thank you, Dr. Stein.

Dr. Wood?

Mr. WOOD. I agree with Mr. Reierson's position on that.

Representative TALLE. Thank you, Dr. Wood.

Professor Riefler?

Mr. RIEFLER. I am not sure I should be commenting on these official recommendations, but I do think that that provision to provide for some flexibility in the terms of the Federal mortgage programs is quite important from the point of view of general stabilization.

Representative TALLE. Thank you, Mr. Chairman.

The CHAIRMAN. May I ask this question: Did I sense a general feeling that the volume of residential construction would probably take a downturn some time later in this year because the effective demand for this type of housing, and the prices charged, would in all probability not be sufficient to maintain the present volume? Was I incorrect in that?

Mr. REIERSON. I did not express an opinion, and would hesitate to do so, Mr. Chairman. I think my position would be that if the rates of increase that have been in evidence in recent months continue, that more than a casual reduction is in prospect, whether it would occur in the second half of 1955 or subsequently I would hesitate to guess.

The CHAIRMAN. I say, some time later in the year.

Mr. REIERSON. Whether it would occur the second half of this year, or next year, I frankly have no real judgment.

The CHAIRMAN. But you think it will occur sometime?

Mr. REIERSON. If the trends of recent months persist, that is my feeling. I share Mr. Whittlesey's concern in this area.

The CHAIRMAN. Is this a general opinion. Have I correctly stated it?

Mr. HANSEN. I think, Mr. Chairman, it ought to be said that we do not have too many houses in this country, and we have an enormous number of substandard houses.

The CHAIRMAN. I said effective demand.

Mr. HANSEN. I think you are right. I think the implication of your question is correct, that without a public low-cost housing program, the effective demand is likely to decline. I do not know when. I agree with Mr. Reierson.

The CHAIRMAN. Is there general agreement on that?

Mr. WHITTLESEY. I have no idea what the timing will be.

The CHAIRMAN. But you agree it will happen?

Mr. WITTLESEY. Yes; I agree with the others.

It seems to me imminent, as matters now stand, but I have no reason for knowing that it will be this year rather than next.

The CHAIRMAN. I think this has a good deal of bearing on the question as to where the economy is headed, because while we have a great deal of discussion on the farm situation tomorrow, the general opinion of the group that we had last week was that farm incomes would continue to decline in all probability in 1955. We had testimony from the unions, the automobile industry, that it seemed to be fairly well reasoned that the present rate of production, which is approximately 165,000 cars a week, or close to a rate of 8½ million a year, cannot be maintained throughout the year, and that that would decline some time in the spring.

If this be true, that you have a decline in farm demand, a falling off in production of automobiles, with all the effects that will have upon steel and glass and rubber and parts, and a decline in the rate of building construction, the question naturally presents itself: Where will the increased effective demand surge come from to sustain and augment such recovery as we have had in the past 3 or 4 months?

Mr. HANSEN. I agree entirely with what you have said, Mr. Chairman. I might add that a part of the recent increase in production springs from the fact that inventory liquidation is slowing down.

Now, that is not any strong basis for any long-run recovery. That is a very short-run thing that inevitably happens in any inventory liquidation period. You reach a point where you are liquidating somewhat less than you did before, at which time your production index goes up. It is nothing to get excited about so far as optimism for the future is concerned.

Mr. REIERSON. Mr. Chairman, did you wish a discussion of this point?

The CHAIRMAN. Just to the degree that the people want to discuss it.

Mr. REIERSON. I share the very appropriate and important questions raised by the chairman. However, I think there are some increases in prospect for later on in the year. The continued increase in State and local spending, while modest, is fairly well assured. I think the drag caused by the cutback in Federal spending is largely behind us. I suppose the international situation will determine whether the level of Treasury spending will turn around in the latter part of the year.

It occurs to me that in the area of commercial building, as distinguished from residential building, there may be grounds for more protracted optimism. While no evidence is at hand to support the conclusion, I think there is just as much chance that plant and equipment expenditures on the part of business will be moving up as that they will be continuing flat in the latter part of the year.

Finally, the increase in consumer expenditures in recent months has been striking, and the full impact of that increase upon inventory policy and production conceivably could give more impetus to the economy than is commonly believed today.

The CHAIRMAN. Mr. Wolcott.

Representative WOLCOTT. Possibly I did not understand this correctly, but, Dr. Hansen, did you predicate your expression that there might be a cutback in demand for residential housing upon whether or not we create an effective public-housing program?

Mr. HANSEN. I was suggesting that if you rely simply upon the current market forces that it seems probable as other members of the panel have also indicated that the present very high rate is not maintainable, and that if we are going to have the same rate as now projected into the next year, or 2 or 3, that we would need a larger public low-cost housing program to supplement some decline that would take place in the housing that springs from regular market forces.

Mr. WOLCOTT. Well, would that supplemental program which anticipates an increase in the production of public-housing units be predicated on 1,400,000 units?

Mr. HANSEN. The total of public and private housing combined. I think production is running at about 1.4 million currently, and the question related to what would be necessary to maintain that.

Representative WOLCOTT. Do I get this correctly: I think that the economy can withstand or absorb 1,400,000 units, and if private enterprise does not do it the Government must come in with public housing to make up the difference?

Mr. HANSEN. If we are going to make any real progress in getting rid of our substandard houses, then I feel we have to have a public-housing program.

Representative WOLCOTT. Substandard houses to you are substandard rental houses?

Mr. HANSEN. They mainly are; yes. There are a lot of substandard rural houses that are not rental houses, and there are some urban, but the urban are mainly rent houses; yes.

Representative WOLCOTT. Do you affiliate that with our program for FHA financing on existing homes? I throw that in here because we have been told that that provision of the 1954 Housing Act resulted materially in this demand which, as you say, is now up to an average of 1,400,000. But you are thinking only in terms of substandard rental houses, and we define them mostly in our large cities.

Mr. HANSEN. I think that is the area where our deficiency for good housing is the greatest; yes.

Representative WOLCOTT. Do you think there would be a necessity for public housing in addition to the housing facilities which must be made available for people who are displaced from slum-clearance projects, or anticipated slum-clearance projects, or urban-development projects?

Mr. HANSEN. My impression from talking to people who are expert in this area, is that the present provision for urban redevelopment is lacking in the respect that there is not adequate provision for the housing of the people that are displaced by such redevelopment programs.

Representative WOLCOTT. Well, I do not care to follow through with it, but the law provides now that they can have public housing provided it is tied in with the necessity for housing people who are being displaced by urban-development and slum-clearance projects.

Mr. HANSEN. I am told that in practice the way it is working out——

Representative WOLCOTT. Pardon me. We have authorized 35,000 new units for this year, and the President has asked for 35,000 more for each of the next 2 years.

The CHAIRMAN. May I ask how many specific housing projects have been provided under this legislation?

Representative WOLCOTT. Very few.

The CHAIRMAN. Is it not true it was not until a few days ago?

Representative WOLCOTT. You are approximately right. I was going to say as an aid to you in developing this, there probably have been less than a hundred, so that is not very many.

Vice Chairman PATMAN. You mean a hundred houses, or a hundred thousand?

Representative WOLCOTT. A hundred units.

The CHAIRMAN. I do not wish to stir up a cat-and-dog fight, but qualifications are written into the act which would prevent any public housing.

Representative WOLCOTT. You hoped not to start a cat-and-dog fight, but let me say that was not the intention of the legislation. The intention was to always see to it that the people who were being displaced by slum-clearance projects and urban-development projects would have facilities with which to be taken care of, and it was not the thought behind that amendment that we were going to necessarily stop public housing altogether. The program on public housing had been stopped by the recommendation of the Appropriations Committee some years before that.

So it was not necessary for us to indulge in it to that extent.

I merely bring this up because it just so happened—I am very modest about this—that I drafted the amendment that was offered, but I do not want any inference that it was done to kill public housing.

The CHAIRMAN. That might not have been the purpose, but that was the effect.

Representative CURTIS. Is it possible that it turned out that they did not need any housing because no people were displaced in this urban redevelopment?

Representative WOLCOTT. That is the logical conclusion anyone can come to.

Mr. Reierson indicated this morning, perhaps, that the Federal Reserve should be given additional weapons on the control of credit in the field of consumer credit, and, I understood, housing credit.

Am I correct in that?

Mr. REIERSON. My position is this: As of today I would be content with the general credit powers now available to the Federal Reserve. Looking ahead to a possible emergency, I would not be adverse to the grant to the Federal Reserve of emergency or standby authority to apply selective credit controls in the areas of consumer credit, and mortgage credit, but I do not recommend that those controls be used as of today.

Representative WOLCOTT. Of course, selective credit controls mean that they be applied to particular commodities when the demand for those commodities is out of line, and might affect the entire economy.

That is your position, and the real-estate credit controls which we have in mind, and which you have in mind, are the controls which were similar to the controls which were exercised over downpayments and terms of amortization and interest rates.

Mr. REIERSON. Yes, sir.

Representative WOLCOTT. Now I am very glad you brought that up because I notice a comment in the President's report about what we need to have done along that line in the 1953 amendments, housing amendments. It says housing amendments of 1953 authorized the President at his discretion and in the light of economic conditions to alter the terms on which the Federal Government would insure mortgage lenders against losses on loans secured by residential properties.

This authority was limited in its potential application but it nonetheless provided a useful tool for the control of credit during inflationary periods and for the stimulation of home building during periods of contraction.

Last year's economic report proposed that this discretionary authority be widened, that the Housing Act of 1954 move in the opposite direction, and it goes on to say that Congress should again consider this proposal. In keeping with that, this committe recommended to the House a flexible home-mortgage credit provision having to do with the adjustment of interest rates within certain very well-defined limits and periods of amortization. The House, in its judgment, struck it from the bill.

Now would you think that something along that line, in keeping with the President's present recommendation which he reiterates, should be tried again?

Mr. REIERSON. Yes, sir, with this provision: That the authority extend not only to interest rates and term, but also to downpayments.

Representative WOLCOTT. Well, I am not sure whether it extended to downpayments or not. But, anyway, in keeping with the policy.

Now Mr. Stein suggested that he would rather see this in the hands of the President than the Federal Reserve, but I think most of the panel agrees this had better be left to the President and not the Federal Reserve.

On page 61, I notice further reference to that:

> In view of the magnitude of residential construction, its variability, and its responsiveness to changes in the terms of mortgage loans, a wide Presidential authority over terms, to be exercised with the aid of an advisory group, could make a major contribution to the maintenance of stable prosperity.

Is that what you had in mind, Mr. Stein, an advisory group with perhaps some administrative authority?

Mr. STEIN. Well, I do not know what the composition of this advisory group is that the Economic Report refers to. That may mean an industry advisory group. That was not what I had in mind.

Representative WOLCOTT. Let me reframe this. Assuming that the advisory group would be made up of representatives of those who would ordinarily have had control of the credit which would, of course, be the Federal Reserve, and the Treasury, would that be what you had in mind?

Mr. STEIN. Yes, I had in mind Government agencies such as Federal Reserve, Treasury, housing agencies, Small Business Administration, maybe the Budget Bureau.

Representative WOLCOTT. Thank you.

The CHAIRMAN. We come now to you, Senator Flanders.

Senator FLANDERS. The points in the testimony, as I have heard it, and in the discussion, which interested me most, or seemed the most important to me, were those which raised the question as to whether in housing and in automobiles we were or were not doing some of next year's business now.

That, it seems to me, is a fundamental question in regard to maintaining employment and production. I would like first to ask the members of the panel whether they feel that there has been or can be a calculation as to normal and useful needs of the people of the country for housing units, needs sufficient for present expansion, a volume sufficient for replacement of units that are becoming undesirable and substandard and a volume which takes into account the normal period of useful life and replacement?

Now, what is the volume which does substantially the same thing for the automobile that would be required for housing. There is just this difference, however; that on the whole, a rickety, old automobile is more useful than a rickety old house, so that, I think, there is a little bit of difference in the question of depreciation. But that is the question fundamentally.

Is it possible to set up rates of production for housing units and for automobiles which would represent a leveling off or a rate of leveling upward with increasing population?

Let me make clear that I am not proposing the setting of norms for housing or for automobiles, nor am I proposing that those norms be used as the means of setting the federally determined terms, of the terms of sale for automobiles and houses.

I was inquiring to get information and I am glad to say that I have had some, but I do not want to be charged with starting a crusade on those things.

Mr. Reierson. Well, Mr. Chairman, since I have the unhappy penchant of rushing in where angels fear to tread, the thought occurs to me, taking automobile production for example, that the people in the industry give a lot of time and thought to this question. They are well acquainted with the trends in automobile ownership, with the age distribution of existing cars, with turnover experience, and with the other factors that are important in appraising the market for passenger cars, subject, of course, to the normal statistical and other fallabilities. I think it would be possible in that area, to arrive at some ranges of reasonably long-term expectations, say over the next 5 years.

There would enter into that judgment, some assumptions as to the increase in automobile ownership and other important factors, but I think that the people in the automobile industry have made and are making those estimates and that they provide useful guides.

I think the housing situation is more difficult, for a variety of reasons, including the fact that public policy plays a much more important role, as we see in the record of recent months. There again, however, I suggest that there are certain basic estimates of households and families and much additional data that as to vacancies and the conditions of dwelling that could cast some light on the prospective demand for houses. There are some data that are already accumulated and others that could be, upon which it would be possible to erect, again not an accurate figure, but a range of reasonable expectations. In setting desirable goals for public policy in residential building, for example, consideration should be given to the expectations and requirements in other areas as well.

There are things we need in addition to residentail buildings and I am not one to pass judgment as to whether it would be better in a given situation to try to get more houses and less of something else, or vice versa.

There are also limitations upon what can be obtained by way of materials or labor or financing.

Senator Flanders. I would like to inquire whether any of the panel know whether such compilations for these two particular projects are publicly available.

Mr. Hansen. Mr. Chairman, I cannot cite the precise hearings involved, but there have been a great many hearings over the last 10 years, a great many hearings before congressional committees which have set forth in great deal the sort of thing you have asked for.

Senator Flanders. That is strictly on housing.

Mr. Hansen. On housing.

Senator Flanders. Have we done so on automobiles?

Mr. Hansen. I think not in public hearings, but I agree with Mr. Reierson that the automobile industry has done a lot on that.

Senator Flanders. This raises the question particularly as to automobiles, as to whether the industry, having some notion of what the practical limits are for a fairly stable condition, with its ups and downs, can practically control itself. Whether Ford or General Motors or Chrysler or any of the independents are going to stop selling because the total production is exceeding the limit which can be sustained, so that it would seem as though the responsibility for keeping the industry in hand cannot lie with the industry. That again brings us back to the question of installment credit in this area.

Does some branch of the Government have a responsibility which it should exercise through installment terms to restrain an industry which is riding for a fall which may not be a sharp and deep fall, but one which nevertheless will surely bring a good deal of distress to a good many people?

Mr. HANSEN. Mr. Chairman, I should say that the most important problem here is seasonal stabilization of the industry. For some years after the war the accumulated backlog was so large that for the first time in our history we had full production of automobiles throughout the full 12 months. Now we are back again at the old seasonal sharp fluctuation and that is a very serious problem.

With respect to the annual amount, past experience does indicate that it is a little dangerous to rely too much on compilations of this sort because there are all sorts of things occurring in the economy which seems to change the ratio of the probable optimum ratio of cars to the populations.

We have had some surprises there and perhaps on the whole the automobile producers have been more nearly right than those who have been pessimists in this respect.

I think it is a little dangerous to calculate closely the maintainable annual rate. We could do something on the seasonal fluctuation.

Senator FLANDERS. It would seem to me, Dr. Hansen, that the seasonal ups and downs were very serious but that they are in a sense separate from the proper annual rate and annual income. Would you be disposed to feel not too concerned about the annual rate and increment if 2 years from now we had hard work maintaining the automotive industry?

Mr. HANSEN. Yes, I would not feel too concerned about the annual rate this year or any year. In the event that we find, we discover that there will be a decline next year, then other measures should be taken to expand the economy.

I rather doubt that we can set down a precise maintainable annual rate for automobile production.

Senator FLANDERS. You would not feel, then, that there was any necessity for the application of the authority of the Federal Reserve Board to the terms for installment buying of automobiles?

Mr. HANSEN. No, only within the general context of control of credit. I agree with Mr. Reierson and Mr. Whittlesey that the Federal Reserve ought to have at all times the authority to impose real-estate and consumer credit and as far as the automobile industry is concerned, they should do so in accordance with the general economic activity rather than a preconceived idea of what is a maintainable rate of automobile production.

I rather doubt that we can do that later.

Senator FLANDERS. Now you would make general action applicable to all time payments apply to housing as well as to automobiles, or would you feel that in the case of housing, there is some reason for giving special attention to housing as a special proposition?

Mr. HANSEN. Well, I should only say this: The Housing Act of 1954 is extraordinarily generous, especially with respect to veterans housing on the downpayments and the maturity, and I repeat what I said before. I think we might live through that successfully if we could assume a growing and expanding economy at our growth potential. Then I think we can absorb that. If, however, we get little growth or no growth at all, I am a little afraid that the credit provisions were somewhat too generous in this respect. We may be in trouble.

Senator FLANDERS. You cannot see for any period ahead a need for 1,400,000 units annually?

Mr. HANSEN. As far as the needs of the public and having in mind elimination of substandard housing, very definitely.

Senator FLANDERS. I would like to ask if other members of the panel care to comment on those two questions as to whether we can set useful norms in these two fields, and the second, whether public policy should look toward Federal control of them through the terms of credit.

Mr. STEIN. Well, it seems to me that we could not set useful standard goals of that character. We cannot expect that a stable economy will be made up of stable industries, but that there will be within a stable economy annual and other fluctuations of the particular industries within it, so a stable and growing economy would not seem to me to imply necessarily that we would have a stable growing automobile or housing industry, but there will be fluctuations which will in some degree be offsetting.

Also I think that I would be afraid of the possible implications of the attempt to prevent one of these industries from exceeding some predetermined norm. Suppose one were to decide today that the automobile industry and the housing industry are going at an unsustainable rate. Still we have more people unemployed than we would like to have, and do we want to have our bigger recession now. I think the implications in a rate of automobile production and housing production that is not expected to be sustainable is not for contracting the automobile industries and housing industry now, but to think of something else to take up that slack we anticipate.

Senator FLANDERS. Do any of the others wish to comment on that?

Mr. WOOD. I agree with Mr. Stein's comment. Of course, where the Government is giving some kind of aid to housing, say, credit aid, naturally, they should be in a position to determine the extent of that aid with some reference to the extent to which there might be overbuilding. But they should not consider that there is overbuilding just because incomes have declined.

Senator FLANDERS. Mr. Whittlesey, do you wish to comment?

Mr. WHITTLESEY. One of the problems is the difference between a figure which people conceive of as a ceiling and one which they conceive of as a benchmark. Surely none of us want to set any figure for the automobile industry that we should not in a dynamic economy exceed, nor should we in any sense restrict our efforts and our potential growth. On the other hand, it is always the task of our stabilization authorities to study every possible business indicator, to obtain leads as to whether we are moving toward instability or not. It is in the latter context that I feel that we should take cognizance of the possibility we are building houses too rapidly and too many automobiles, with a view to fitting that possibility into a long-term stabilization program. Now is the time to take cognizance of this indicator that we may be headed for difficulties later on.

Senator FLANDERS. Any other comment?

Mr. Riefler, do you want to take on the control of the terms of purchase in these two fields, or any others?

Mr. RIEFLER. Our actual experience with them revealed a difficult administrative problem. I think there is a problem there, however.

Representative WOLCOTT. Mr. Chairman, I neglected to follow up one question that I had in mind on a subject very close to me. I will ask the entire panel whether they would think that there would be a difficulty if the Federal Reserve or anyone else were to exercise selective credit controls without also the authority to control prices.

Mr. HANSEN. Mr. Chairman, I did not hear the last part. Without what kind of authority?

Representative WOLCOTT. Without accompanying authority to control prices.

Mr. HANSEN. Do you mean by price control?

Representative WOLCOTT. Yes. Let's use the example we have been using here. Take automobiles, for example.

Mr. HANSEN. I should say that fiscal, and ordinary monetary action and control of real-estate credit and consumer credit are very, very powerful agents to control inflation without any general control of prices.

Representative WOLCOTT. It was the practical effect, I think, that was bothering me a little bit. It would seem to me that the subject is affiliated somewhat with cutting down the production of agricultural commodities through acreage allocations. If you cut down, for example, the number of automobiles which can be manufactured on the assumption that the market can only absorb a given number, by increasing downpayments, then we might expect that because they have decreased the amount of production that the present people employed in the automobile industry will demand higher wages to offset the fact that they are not working as constantly as they would otherwise, so that would anticipate perhaps wage controls.

Now unless you strike an exactly correct balance between supply and demand, then you might find that we are in a position of underproducing, which would force the price of the automobiles up, through which we would stand to dissipate price controls to prevent them from going sky high, and thereby affecting the economy.

That is why I propounded the questions I did. Was it a problem to indulge in selective consumer credit controls without an accompanying control of prices and wages in those lines in which we exercised consumer credit controls?

Mr. HANSEN. Well, Mr. Chairman, I feel it is a little bit unfortunate that we have been spending so much time discussing restraint on real estate and consumer credit at a time when we have a lot of unemployment and gross national product twenty-five or thirty billion below what we ought to have, and with respect to the automobile credit, I would not at this time introduce any change.

Representative WOLCOTT. In Congress today there is a great deal of thought being given to the advisability of resurrecting the old issue of standby consumer credit controls. Now, if standby consumer credit controls are to be activated only in time of attack, then that is one question. If they are to be activated as they were intended a few years ago and intended as lately as last year, when an emergency, any economic emergency is proclaimed by anyone, then that presents another problem and we have got to go into the question of wage controls, price controls, and the psychological effect which those controls will have upon our total production.

Wouldn't you think that is so?

Mr. HANSEN. Mr. Congressman, I would give these powers to the Federal Reserve authorities permanently at all times so that there would be no question of any special psychological reaction when used, and just now I think it would be very useful because I feel myself alarmed that people are already beginning to talk about the bogey of inflation when we are 25 billion short already of our potential gross national product, and if these controls were there when they need to be used, perhaps we would be less influenced by what I regard as an unreasoning fear about inflation.

Representative WOLCOTT. Well, the thing that bothers me a little bit is if we keep the production constant because of seasonal fluctuations sometimes by industry taking a chance on producing for inventory; that is what I mean by a psychological effect.

Would industry feel free to produce for inventory against a possible cut-back in their dollar values of those inventories so that sometime some morning they will wake up and find out that their million dollars of inventory was only worth, under price control or these artificial controls we would put on, only worth half that.

Mr. HANSEN. I would not impose these controls under present conditions, but I would like to have the Federal Reserve empowered to act when necessary and I would give them this power permanently.

Representative WOLCOTT. If they are applied selectively, wouldn't we run into this psychological factor which might reduce our total national production?

Mr. HANSEN. I do not see the psychological factor if the Federal Reserve has these powers continuously. It might be unfortunate just now because it would give the impression we are very much afraid of inflation. I am not.

Mr. WHITTLESEY. May I make an observation? I agree exactly with what Dr. Hansen says. The usual procedure when one wishes to criticize a particular instrument is to do so on the assumption that it is going to be applied in the wrong way. The example that I used this morning related to our having had these controls at the time of the Korean inflation. Actually we did not have the controls. There was delay and though Congress finally gave the controls, by that time much of the damage had been done.

I look forward, as I think anybody here would agree, not to the use of these controls at the present time. That would be a thoroughgoing mistake. But it is conceivable that we could meet a situation in the future like that of 1950, when it would be extraordinarily helpful to be able to apply these controls immediately and vigorously.

The time to provide such power is before the emergency arises. I well remember that I appeared before a committee that had some of the same members as this in 1949 and made a plea for consumer credit control on a standby basis. I stated that such controls are a brake upon inflationary spending and that it is desirable to have brakes when you are on a level, not that you are going to use them there, but that when you get on the declivity it will be too late to install them.

That, of course, is what happened within a year. It would be very unfortunate to repeat that experience. Putting these selective controls on a standby basis would furnish assurance that vigorous methods could be applied. People would be less likely to become alarmed and behave in such a manner as to contribute to inflationary movements.

Vice Chairman PATMAN. Had you finished, Mr. Wolcott?

Did you have some questions, Mr. Talle?

Representative TALLE. Mr. Chairman, I would like to bring up another matter.

Vice Chairman PATMAN. We have one more question of the members of the panel.

Representative TALLE. This is related to housing construction. It is an Associated Press article from Boston, Mass., and the title is "Slichter Thinks Vicious Cycles May Be Broken." Then it goes on to say:

> Writing in the current issue of the Harvard Business Review, Professor Slichter says, "the most remarkable fact about the recent recession in the United States was the way in which some parts of the economy resisted the recession and other parts seem to have been unaffected by it."

The article says further:

> "It is apparent that what the country experienced was not a general decline in business but a decline in some parts of business accompanied by stability or near stability in other parts and by actual expansion in still other parts."
>
> "The situation was the kind," says Professor Slichter, "which one might expect as a result of the business cycle's being broken up into a number of more or less independent cycles."

Vice Chairman PATMAN. Would you like to place the whole article in the record?

Representative TALLE. Yes, I would, after completing this paragraph (see page 480).

> "Among the changes tending to break up the business cycle," he says, "are developments in the financing of construction which in the future will affect the impact of the construction industry on the economy."
>
> "The replacement of short-term second mortgages with long-term amortizable mortgages (some of them guaranteed or insured by the Government)," writes Professor Slichter, "will prevent the accidental concentration of a considerable volume of maturities in years of depression (as in 1931 and 1932) and will prevent future recessions from producing large-scale distress selling of real estate"—

like the HOLC experience.

Now does this mean that Prof. Wesley Mitchell's four phases of the cycle are out and instead there are a lot of smaller cycles? Do you have any views on that?

Mr. HANSEN. Well, it is a rather long story, I think. I am afraid I do not quite agree with my colleague. We have always had independent cycles within the larger business cycle. That is not a new development. He is quite right, of course, that one of the sustaining factors in this particular depression was the Government housing programs, because without the Government program here of lending and guaranteeing, we should doubtless have had a considerable decline in housing, and this has certainly been a powerful sustaining factor, and the easy credit provisions of the 1954 act have played an important part in recent months. And moreover, we have built into our system certain cushions against depression, but I doubt it is true that this is something quite new, namely, that now we have individual cycles within the larger cycle.

That, I think, was always the case and in any cycle you can find industries that were expanding, right in the midst of the depression. That has always been true.

Representative TALLE. Well, I agree with you, Professor Hansen, on that. I should add that Professor Slichter mentions favorably some of the built-in stabilizers, like price supports and unemployment compensation. The Harvard Business Review article will be in the record.

If there are any further comments, we would appreciate them.

(The article referred to is as follows:)

SLICHTER THINKS VICIOUS CYCLES MAY BE BROKEN

BOSTON, MASS.—The old-fashioned business cycle is being broken up by recent economic changes, says Harvard economist, Sumner Slichter.

He sees independent, lesser business cycles now tending to offset one another.

This coupled with other factors, he suggests, may bring such stability that "the day will come when the growth of production and employment will not be seriously interrupted" by economic dislocation.

Writing in the current issue of the Harvard Business Review, Professor Slichter says, "the most remarkable fact about the recent recession in the United States was the way in which some parts of the economy resisted the recession and other parts seem to have been unaffected by it.

"It is apparent that what the country experienced was not a general decline in business but a decline in some parts of business accompanied by stability or near stability in other parts and by actual expansion in still other parts."

The situation was the kind, says Professor Slichter, "which one might expect as a result of the business cycle's being broken up into a number of more or less independent cycles."

CHANGES

In an analysis of "changes that are going on now," Professor Slichter concludes that as a result of recent and prospective developments, there is justification for expecting that the connection between different kinds of business activity is loosening up and that the old-fashioned business cycle is slowly being replaced by a number of more or less independent cycles—each with its own timing.

These independent cycles, Professor Slichter suggests, will at times reinforce each other, but in the main they will offset one another.

Hence, he concludes, the breakup of the old-fashioned business cycle will make for economic stability.

Among the changes tending to break up the business cycle, he says, are developments in the financing of construction which "in the future will affect the impact of the construction industry on the economy."

"The replacement of short-term second mortgages with long-term amortizable mortgages (some of them guaranteed or insured by the government)," writes Professor Slichter, "will prevent the accidental concentration of a considerable volume of maturities in years of depression (as in 1931 and 1932) and will prevent future recessions from producing large-scale distress selling of real estate."

MODERATE BOOMS

On the other hand, he suggests "building booms will also be moderated."

Professor Slichter further suggests that another "enduring change means that from now on the durable-goods industries will at all times have a far higher ratio of unfilled orders to sales and inventories than prevailed in pre-Korean days. One reason is the defense program," but "even if diplomacy in the next few years succeeds in substantially mitigating the vigor of the cold war, I suspect that the volume of unfilled orders in the durable-goods industries will be kept high simply as a matter of national policy."

In the unlikely event that a large additional drop in defense spending becomes possible," suggests Slichter, "the country will probably offset the drop in defense spending by a long-term development program.

In view of the obvious stabilizing influence of a high ratio of unfilled orders to sales, the maintenance of a high ratio will surely become a matter of deliberate public policy."

Professor Slichter also expects "both political parties to use fiscal policy" in such a way that "it will have at least some stabilizing effect."

He said that two other important changed developments which may help break up the business cycle are:

1.—Growth of influences that tend to check declines in personal income before taxes—such as farm price supports and unemployment compensation and pension payments.

2.—And, a changing basis for investment decision in business.

He lists among factors affecting investment decisions "the great gain in liquidity of business concerns—the rise of technological research—more careful and thorough planning of the future development of enterprises."

Professor Slichter concludes, however, that although "there is good reason to expect that each of the several influences which tend to break up the business cycle will grow in strength with the passage of time, one must not expect that the growth of production and employment will ever become steady."

Representative TALLE. I see a gleam in Professor Wood's eye.

Mr. WOOD. I would agree with Professor Hansen generally on this. I have a few more doubts, I think, than he has as to whether the business cycle is something that is inherent in the present-day economy.

Representative TALLE. Thank you.

Professor Riefler.

Mr. RIEFLER. I think that the comments on this present recession the last year are absolutely correct. The two most important factors to me in that case were, one, the early stabilization and the subsequent increase in internal consumption demand. That makes me feel confident that this particular recovery may continue.

The other factor is that this particular recession during this last year did not find a parallel abroad. Instead, there was a strong advance in economic activity in the rest of the free world. That certainly was a cushioning factor on this recession, a very important one. As to future developments, well, I am always cautious about forecasting the end of economic problems, because I think they have a way of generating themselves in each generation.

Vice Chairman PATMAN. Dr. Talle, we have to give up this room at 5:30, as I understand it, and if we are to get through this other question, we will have to start pretty soon.

Representative TALLE. Could we have a few words from the others on this?

Mr. REIERSON. I agree with Professor Hansen. There are certainly some factors that may ameliorate the savings in economic activity. I think the old-fashioned depression of the 1932 variety is unlikely. However, I think if all future business cycles are within the limits of the 1948–49 and 1953–54 fluctuations, we should consider ourselves fortunate. We might say that eternal vigilance is the price of economic stabilization.

Vice Chairman PATMAN. Are you through, Mr. Talle?

Representative TALLE. Yes, thank you.

Vice Chairman PATMAN. Now, No. 5. I will ask all of you to speak briefly on this because we do not have much time. What about the recent stock market's recent behavior? Are Government controls—that is, margin requirements—in this area adequate?

What about you, Dr. Hansen, let's have your comments on that.

Mr. HANSEN. I think we should not have dropped the ratio in 1953 and I ask the question whether any good purpose is served by having the ratio below 75. I cannot myself see that the public interest is furthered by having a ratio at any time below 75, so I would like to get back there as soon as possible. I do not like the accident that we now have to raise it in the midst of a period when we are trying to get further expansion, but the stock market situation may at the moment require it. I wish we did not have to raise it now. I would rather have had it 75 to begin with and then use the remaining margin when urgently necessary.

Vice Chairman PATMAN. Mr. Reierson.

Mr. REIERSON. Mr. Chairman, I think a short appraisal of the stock market situation is very difficult. Lots of reasons have been given to explain the present level of stock prices and the reasons for the recent increase in prices. Some of those reasons have a substantial amount of validity; I think any comparison of the levels of stock prices today with those that prevailed in 1929 is not too meaningful.

Nevertheless, I am concerned by the rapidity of the increase in stock prices and by the increase in the amount of credit used for stock market trading in recent months. Looking ahead, there is the possibility that optimism may run too strong, that prices may be bid up to the point that they will become vulnerable, more vulnerable than they are now, to some adverse development in the business situation or elsewhere.

I do not think that the Federal Reserve can be oblivious to this trend should it develop. Coping with stock market activity through credit devices is likely to be only partially successful, and very difficult at best. Certainly a further increase in margin requirements could be undertaken. But, there are many liquid assets around the economy which could be used to acquire stocks and which are not subject to the control of the credit authorities.

I think the stock market may pose some very complex and difficult problems, and I share Mr. Hansen's observations on that point.

Vice Chairman PATMAN. Mr. Stein.

Mr. STEIN. Well, I will answer very briefly.

I do not know whether the stock market is too high or not. I wish I did. As for the adequacy of Government controls, I have never been very clear about what the function of these controls is. It seems to me anamolous that we encourage lending 100 percent on a house and discourage lending more than 40 percent on a piece of stock which is a liquid asset.

I certainly would have no proposals for increasing Government controls in this area.

Vice Chairman PATMAN. Mr. Whittlesey.

Mr. WHITTLESEY. I spoke to this point earlier.

I will say nothing further.

Vice Chairman PATMAN. Mr. Wood.

Mr. WOOD. I think the essential point here is whether the Federal Reserve should be disturbed about stock market prices to the point where they would use general monetary restriction in the absence of inflation in other sectors of the economy.

Many people believe, and I think erroneously, that the stock market boom in the late twenties was the fundamental cause of the crash in the economy in the early thirties. I think this is a mistaken historical interpretation. I do not think that the terms on which you make available money should be determined by stock prices.

Vice Chairman PATMAN. Mr. Riefler.

Mr. RIEFLER. The regulation of margin requirements that is lodged with the Board of Governors by the law is designed specifically to prevent an excessive use of credit for purchasing or carrying listed securities. It was designed (1) to restrict sharply the ability of equity purchasers, to finance their activities on thin margins of cash, and (2) to avoid a situation ever arising again as it did in 1929 when a break in stock prices that in any event would have been severe was magnified into a crash because of the large-scale forced liquidation of securities that were being held on very small margins.

As far as these two purposes go, the present regulatory authority appears to be adequate.

Vice Chairman PATMAN. What I cannot understand is why the Federal Reserve Board reduced the margin requirement by one-third February 20, 1953, at a time when it was claimed that they were trying to stop inflation, and the statement you just read there indicates that the effect would be just the opposite, so why did the Board reduce margin requirements at that time?

Mr. RIEFLER. I do not think the effect would be the opposite. These two purposes, to avoid excessive use of credit for purchasers carrying listed securities, were fully met by a 50-percent requirement at that time. There certainly was not excessive use of credit for carrying securities.

Vice Chairman PATMAN. I do not care to argue with you, time is one reason, but it occurs to me that it is inconsistent to say you were fighting inflation February 20, 1953, and then make it easier for people to speculate on the stock market.

Mr. RIEFLER. At that time the stock market was not a cause of concern for demands on credit.

Vice Chairman PATMAN. Well, was the object to boost the stock market?

Mr. RIEFLER. No; the object was to have as simple a regulation as possible consistent with the purposes of law.

Vice Chairman PATMAN. Without asking you gentlemen to express yourselves, I just want to make this statement about the stock market.

February 20, when the margin requirement was reduced, I think that was strictly a psychological measure, and I think it had a tendency to advise people that the Federal Reserve Board and the money masters or managers were willing to encourage speculative investments in the stock market, and then very soon after that the installment buying was talked about, and about a year after that installment buying was effected to the extent that people were able to make purchases by depositing a small amount each month.

I think that was a great encouragement to speculation. Then, too, I think that because the big concerns have not been required to go into the market as they formerly did to get the capital for purposes of expansion, and other purposes, has reduced the opportunities for investors to invest their money, and not having the opportunity to invest their money in new issues they naturally will go into the stock market and bid up existing shares of stock. It will be noticed that last year, 1954, new money that was asked for by business and industry was less than 1953, and further, that trading for existing shares was spectacular last year, 1954, and that resulted in an unusually large increase in share prices.

The President's report indicates, on page 25, that continued economic recovery must not be jeopardized by overemphasis of speculative activity, yet the things that I have mentioned here are certainly encouraging speculative activity.

Now, I just cannot understand why the talk seems to be one way and the action seems to be the other way. They seem to go in opposite directions. I do not understand that.

Would you like to comment on that, Mr. Riefler?

Mr. RIEFLER. Well, I do not quite see the opposite directions that you are referring to.

Vice Chairman PATMAN. Well, it is very plain in my mind that the Federal Reserve Board first contended that they were fighting inflation, and yet they made it easier for the speculator to speculate in stocks and buy more stocks by reducing the margin requirements, on February 20, 1953.

Mr. RIEFLER. In 1953 there was a relatively small volume of issues of new common stocks, as you pointed out, and very large attempts to borrow funds.

Vice Chairman PATMAN. Well, was the object, then, to try to increase the demand for stock buying?

Mr. RIEFLER. Well, I would think that it would be a very good thing in the economy if the proportions between equity funds and borrowed funds was changed a little. I think that one of the problems in recent years has been the extent to which expansion has depended on borrowing, and not on raising equity funds.

Vice Chairman PATMAN. On borrowing and not on raising equity funds. In other words, they have been raising less and less equity funds each year.

Mr. RIEFLER. I would not say less, but I think it has been a low proportion, and I think that is something to be somewhat concerned about.

Vice Chairman PATMAN. I cannot imagine why the Board would be concerned about the speculation on the stock exchange. Suppose there was not much speculation February 20, 1953. Should the Board recognize that and say, "We do not have enough activity on the stock exchange; we want to do something to encourage more speculation?"

I cannot understand why they would do that.

Mr. RIEFLER. I do not think the Board ever felt that way.

Vice Chairman PATMAN. I wonder why they are thinking about the stock market and not these small farmers and small-business men that are pretty low on the totem pole.

Any other questions, gentlemen?

Senator FLANDERS. For our information, Mr. Chairman, I would like to ask Mr. Riefler, being an innocent in the stock market, if I have given my note for a margin, a certain authorized margin, in the purchase of stock, what kind of note is that, a demand note ordinarily, or is it a time note?

Mr. RIEFLER. Well, when the brokers and dealers lend on stock purchases, I think it is a demand. I do not know for certain myself.

Senator FLANDERS. Does anybody know?

Well, if nobody knows, I will move over to the next question.

If it is, for instance, a time note, I would assume that if in the interim the margin requirements were raised I would not be able to renew that note except at the new margin requirements?

Mr. RIEFLER. I can answer that one: No. The new margin requirements apply to new purchases. They do not disturb loans on the existing purchases.

Vice Chairman PATMAN. That is very important.

Senator FLANDERS. Yes.

Mr. RIEFLER. The purpose of that is to prevent a rise in margin requirements from dumping stocks on the market, forcing sales. The requirement simply applies at the window of availability of credit for additional purchases.

Senator FLANDERS. Thank you.

Vice Chairman PATMAN. That is the reason I am apprehensive that this talk about raising the margin requirements will cause a lot of people to rush in and get loans on the 60 percent basis when they know that customarily any raise will not apply on that particular loan.

In other words, they can get in and get secure on a 60-percent basis, and then if it is raised to a hundred it won't apply to them on that particular loan. Don't you think that is encouragement to them?

Mr. RIEFLER. There is a problem there.

Vice Chairman PATMAN. Yes, sir.

Now, there are 2 questions, if you gentlemen would like to answer when you leave here and when you go over your testimony, and the committee will give you permission to correct your testimony, that is to include your formal statements, and also to make any corrections that you desire. I have 2 questions here. I wish you would comment on them:

First, I am greatly disturbed about the lack of support of Government bonds. Now, you take the social-security trust fund that is invested in Government bonds and others. They amount to probably 19 or 20 billion dollars. Secretary Humphrey reminded us in December in his testimony that if there should be a big demand on these trust funds, and they could not meet the demand without selling the bonds, and they began to pour the Government bonds on the market, and they had no support, they might go to a very ruinously low level, and I would like to have your comments on whether or not we should have some support from the Open Market Committee, or from some source that would protect those bonds in the event of a situation such as Secretary Humphrey mentioned.

No. 2 is whether there should be some support of the Government bond at some level, at par, or below par; if so, how much, for all Government bonds?

The next question is what should be included in the national debt. There is a lot of talk about the national debt of $281 billion up, but my feeling is that we don't include the $25 billion of Federal Reserve notes, and they should be included.

I would like to have a comment from you gentlemen whether the Federal Reserve notes be included as a part of the national debt?

Here is the reason I believe they should be included: The Federal Reserve Open Market Committee, when it purchases a million dollars of Government bonds, in effect gives a million dollars in Federal Reserve notes for those bonds, whether it actually delivers them at that moment—of course they do not—but they obligate those Federal Reserve notes.

Now, a Federal Reserve note says on its face that the United States promises to pay to the bearer on demand so many dollars. That is as near a direct obligation that the Government can possibly issue. Yet when those notes are issued they are not carried as a part of our national debt. I would like to know whether or not you believe they should be included in the amount of our national debt.

Any other questions?

Representative WOLCOTT. You are giving them a lot of extra work here, aren't you?

Vice Chairman PATMAN. No; they can do it in a couple of lines.

Representative WOLCOTT. I was wondering if the committee members had an opportunity to pursue this question of the Federal Reserve notes. Perhaps the panel would like to discuss this with us further.

Vice Chairman PATMAN. They can state their personal views.

(The extended statements and replies to the above questions of the panel are as follows:)

CREDIT POLICY DECISIONS FOR 1955—SUMMARY OF STATEMENT BY ROY L. REIERSON, VICE PRESIDENT AND ECONOMIST, BANKERS TRUST CO., NEW YORK

The key to monetary and credit policy in 1955 will be found in business trends and developments during the year. There is convincing evidence that production and output began to move upward in the final quarter of 1954. The recovery to date may be described as vigorous and widespread.

Numerous factors have contributed to the upturn, including an end to the liquidation of business inventories, an increase in consumer buying, a conspicuous upsurge in building and construction, and the impetus provided to the automobile industry by the introduction of new models.

The business environment.—The prospects are that expansionary forces in the economy will persist for some time. Once a general economic upturn is under way it tends to continue without major setbacks until new high ground is reached. Furthermore, the outlook for many of the important factors in the business situation is favorable.

Consumer spending is likely to continue to rise, sparked by growing personal incomes and a continued willingness to spend. Some inventory accumulation may be expected in the months ahead, which will stimulate new orders and production. Business spending on plant and equipment has stopped declining and may very well show some increase later in the year. Finally, the decline in Treasury spending appears to be tapering off, while the rise in State and local spending continues unabated. The upsurge in building and construction is so strong that the question now is whether activity in this field may be excessive.

Assuredly, not all sectors of the economy can be expected to rise steadily throughout the year. For example, current rates of production of some important consumer durable goods appear higher than are likely to be maintained throughout the year. Nevertheless, the rising trend in business activity will probably continue for some time and new records may be expected in 1955 for such important and varied economic indicators as gross national output, industrial production, building and construction, retail sales, and others.

The international situation remains a big unknown in the business outlook, but it seems a reasonable guess that international developments are more likely to stimulate than to depress economic activity.

Shift in credit policy.—The upturn in business activity has already been reflected in some change in credit policy. Present policy can hardly be called restrictive, since money rates are still relatively low and short-term credit remains readily available. However, excess reserves have declined, and member bank borrowings and money market rates are higher than they were some months ago. Apparently the Federal Reserve, quite appropriately, believes that as business expands, the money market should not be kept as easy as it was during most of 1954, when business was either declining or on a plateau.

Credit policy cannot be prescribed in advance; it must develop gradually in the light of evolving business and economic conditions. Credit policy decisions in our complex economy must be based on careful analysis of numerous trends; they cannot be determined by mathematical formulas or by the movements of any single economic indicator, no matter how important. Trends in money supply and commodity prices, employment and unemployment, production, business inventories, and new and outstanding orders tell part of the story. Construction activity, the volume and use of credit, the terms and conditions under which credit is available, the behavior of interest rates, both long-term and short-term—all these and more are considered by the Federal Reserve in deciding on credit policy.

Unless inflationary forces take hold in a substantial way, the year 1955 is not likely to be a period in which credit policy criteria are self-evident. Employment is likely to be high, but less than full, while commodity prices may continue to show some strength. The development of an appropriate credit policy will require constant and meticulous scrutiny of all salient trends in our economy.

Specific questions for 1955.—Several sectors in our economy appear to warrant special attention by the credit authorities. Building and construction is a potential problem area in view of the sharp increases in recent months. Much of the recent strength in residential building reflects the liberalized financing terms incorporated in the Housing Act of 1954. The immediate grant of additional authority to the President to vary the terms under which home mortgage loans are underwritten by the Federal Government is highly desirable.

Business inventories in the aggregate still appear relatively low. However, inventory policies are volatile. A broad resurgence of inventory accumulation, whether in response to a speculative wave or because of high business optimism, should be of sufficient concern to the credit authorities to justify some added credit restraint.

Consumer credit is again on the rise and attained record levels at the end of 1954. The authorities may be expected to continue their scrutiny of conditions here in order to determine whether the rate of increase is keeping within reasonable limits or whether excessively rapid growth is being achieved by a reduction in downpayments, an extension of maturities or a downgrading of credit standards—developments that could have undesirable repercussions.

Commodity prices, at least until very recently, have been reassuringly stable in the face of the sharp recovery in business activity in the latter part of 1954. However, deterioration in the international situation might well jeoparidze this stability and could give real impetus to credit expansion and inflationary pressures.

Prices, trading volume, and the use of credit in the stock market bear continued watching with a view to preventing prices from rising beyond levels that appear justified by prospective earnings and dividends. The present system of margin requirements is a feasible and reasonably effective device for limiting the use of bank credit for stock-market trading. However, should the problem of regulating stock-market credit become more serious, the use of margin requirements should be accompanied and supported by general credit control.

Should we be so fortunate as to achieve a steady and orderly economic expansion, not accompanied by distortions, imbalances or growing inflationary pressures, a policy designed to reduce the hazard of the upturn gathering excessive momentum would be appropriate. Perhaps a more realistic possibility is that expansion may be uneven, that some sectors of the economy may push ahead too fast, that inflationary tendencies may grow, that credit may be used increasingly for nonproductive purposes, or that speculation may spread. Certainly the international situation may at any time give rise to renewed inflationary pressures. Developments such as these would increase the need for restrictive credit policies.

Credit policy and economic growth.—The Federal Reserve unquestionably desires to foster sound long-term economic growth; its endeavor is to minimize economic fluctuations around a rising trend. In a period of widespread business confidence and optimism such as the present, however, there is real danger that an upturn may develop into an unsound boom, or that particular sectors of the economy may expand so rapidly as to create instability for the future. Such developments the credit authorities doubtless would like to forestall.

Credit policy, wisely used, can make a real contribution to economic stability and to sound long-term growth. Unwisely used, it can contribute to economic instability. One danger is that too aggressive an easy credit policy in a period of reduced business can help create an environment in which investment spending may be stimulated to such a degree as to pose problems for the future. Another danger is that action to restrain expansion may be delayed for fear of hampering business recovery, with the result that expansionary forces develop a momentum which may make it more difficult to curb a boom. Restraining a boom is never popular but it is a prerequisite to sound economic growth.

Lessons from the Record.—The fear exists in some quarters that restrictive credit measures may provoke a cumulative downturn in economic activity. The experience of 1953 and 1954 in the use of credit policy is reassuring on this point.

The major reasons for the business downturn in 1953 were a cutback in Government spending and a shift from inventory accumulation to liquidation. Credit policy obviously had no bearing on the former, but probably helped bring to an end the rapid buildup of inventories that prevailed in the first part of 1953. That this brake upon inventory accumulation was salutary is evidenced by the modest pace and orderly character of the inventory liquidation that began late in 1953. At the same time, credit restraint in the first part of 1953 did not affect investment spending; construction activity set successive new records in 1953 and 1954.

General credit controls are fluid; they can be changed rapidly in response to economic and financial developments. This was clearly illustrated by the shift from a policy of credit restraint to one of credit ease in May 1953, even before the peaks of economic activity were achieved.

The policy of active ease followed by the authorities during most of 1954 also made a contribution to economic stability. This policy helped prevent a spiral of credit contraction and liquidation. The commercial banks were under no compulsion to call loans but instead were in position to engage in new lending activities. Pressure on commodity prices as a result of inventory liquidation that might have been brought on by the calling of bank loans was thus avoided. At the same time, credit policy maintained conditions in the investment markets that were conducive to a high level of investment activity, thereby helping to support the trend of business generally and to set the stage for the upsurge in capital expenditures in the latter part of 1954.

The good record of credit control in the 1953–54 business cycle should strengthen, rather than weaken, the determination to continue the use of flexible credit policy as a tool for promoting stable economic growth.

(The following replies were subsequently received for the record:)

REPLIES BY ROY L. REIERSON TO QUESTIONS PROPOUNDED BY MR. PATMAN

A. The first two questions posed by Mr. Patman relate to the degree, if any, of "stabilization" of Government security prices that should be undertaken by the monetary and credit authorities. My position is that the authorities should not undertake, by price support or price stabilization efforts, to prevent underlying economic forces from having their normal effect upon interest rates, and hence upon the prices of debt securities including Treasury obligations. In the case of national emergency, panic or the like, however, action to stabilize the Government security market would be proper and sound. My reasons are as follows:

(1) If we are to attain sound and stable long-term growth in our economy, we must seek to avoid excesses, and we must especially avert an inflationary boom, with its ensuing economic setbacks.

(2) Should the authorities manage to prevent interest rates from ffuctuating in response to underlying economic forces, it would become extremely difficult, or even impossible, to prevent investment actively from running ahead of savings, which would help generate inflationary forces and thus jeopardize sound economic growth.

(3) Fluctuating Government bond prices and interest rates in consequence of changing economic conditions, on the other hand, help to check excessive movements in the economy; rates tend to rise as demands for funds increase and to decline as investment activity eases, thus helping to counterbalance both excessive expansion and excessive contraction in our economy. Consequently, once the financial community is accustomed to an economic environment in which interest rates have some freedom of movement, these fluctuations come to be accepted as part of the normal functioning of the market place and serve useful purpose in achieving the balance of economic resources that is required for sound long-term economic growth.

(4) If conditions in the bond market become disorderly as the result, for example, of widespread shock to public confidence in response to some emergency, it would be necesasry and desirable for the authorities to step in and attempt to

stabilize prices. Action under these conditions would be perfectly consistent with the principle set forth above, since price declines in a market of this kind would not reflect the normal operations of economic developments but rather panic and fear. Such forces work harm upon the economy and are detrimental to stability; the authorities should endeavor to curb them if they arise.

B. Another question raised by Mr. Patman is whether Federal Reserve notes should be included in the Government debt. In my judgment, they should not be so included. My reasons are as follows:

(1) Federal Reserve notes were designed to provide a flexible medium for meeting the currency requirements of the economy. The volume of such notes outstanding fluctuates with the demands of the public for a circulating medium of exchange.

(2) Changes in the amount of Government debt outstanding essentially reflect the fiscal operations of the Treasury. The amount of Federal Reserve notes outstanding, on the other hand, does not reflect these operations and should not be subject to the statutory limitations imposed upon the United States Government debt. Although Federal Reserve notes are obligations of the United States Government, the liability is not one requiring the outlay of funds by the Treasury.

(3) Since the Federal Reserve holds substantial amounts of Government obligations, the inclusion of Federal Reserve notes as part of the Government debt would result in double counting of the Government's liabilities.

(4) Inclusion of Federal Reserve notes as part of the Government debt would reduce the effectiveness of Federal Reserve control over banking and credit conditions. The amount of currency outstanding, under such conditions, would tend to be affected not by the needs of the economy but by the fiscal position of the Treasury; it may be recalled that this was one of the limitations of our currency system before the establishment of the Federal Reserve. Furthermore, an increase in the volume of Federal Reserve notes, as part of the Government debt, above the amounts required by the public would be prejudicial to sound economic growth. Should efforts be made to prevent excessive issues from flowing back to the commercial banks and ultimately to the Federal Reserve, the result would be to build up holdings of cash balances in the economy and to contribute to inflationary pressures.

ROY L. REIERSON.

STATEMENT OF WINFIELD W. RIEFLER, ASSISTANT TO THE CHAIRMAN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

The most recent facts and figures on the economic situation stand in strong contrast to those available at this time last year when the Joint Committee on the Economic Report held its February hearings. Then the economy was nearing the point where it leveled off from the recession that commenced in mid-1953. Now, each day's accretions of evidence point up the breadth of the recovery that started last fall. As of the moment, it appears to possess a considerable strength.

Two features stand out as noteworthy in recent economic developments. One is internal to this economy, the other external. On the internal side, there is the strength of consumer demand through 1954, first, in its resistance to declines in total output, and, later, in the way it sparked the upturn. As explained in the Economic Report, the sustained high level of disposable income, coupled with aggressive competition and retailing effort, was fundamental to this result. It is significant that consumer credit during most of the year added little in the aggregate to consumer demand. A renewed expansion of consumer credit, however, appears to have been a factor in the strength of the upturn in the last 2 months.

The response in consumption is most reassuring because the tapering off of the defense program and the working down of inventories posed a difficult problem to the economy. It was important that a large proportion of the resources released from defense be redirected to higher standards of civilian consumption, but it was not clear that the signs of readaptation would show themselves quickly.

The noteworthy feature of 1954 that was external to our economy was the continued strong economic expansion that continued to characterize many other countries of the free world, particularly Great Britain and Western Europe. This dispelled the fear that a recession in the American economy would upset world equilibrium. It contributed to our revival by providing a strong market for our exports, and registered the basic progress that has been made toward reconstructing a viable international economy. Despite rough spots and exceptions, balances of payments among countries of the free world are probably on a better basis today than at any time since the outbreak of the First World War in 1914.

There is implicit in these developments the possibility of sustained and growing prosperity and of steady absorption of our expanding resources, particularly our human resources, now unemployed. For this possibility to be realized, however, it is important not only that the recovery be broadly based but also that activities in anticipation of rising demand, such as inventory accumulation, be held within prudent limits and that commitments to expand be soundly financed. These are the types of problems that always emerge during periods of recovery. It is still too early in the present recovery to tell to what extent they will emerge this time. Among the straws that bear watching is the fact that credit terms, both for consumer installment loans and for home mortgage loans, are now generally more liberal than they have ever been in the past. It is also possible that the volume of construction activity now under way or projected may be too high to be sustained.

The monetary and credit policies pursued by the Federal Reserve System in 1955 will continue to be guided by the philosophy embodied in the Employment Act, i. e., the nurture and cultivation of sustained economic growth and stability at high levels of resource use. In more concrete terms, this means that credit and monetary policy will be directed toward furnishing the reserves needed by the commercial banks to perform efficiently their function of financing the economy at a high level of resource utilization without contributing either to inflation or deflation, and without encouraging developments that will make for instability. So far as the cost and availability of credit are concerned, it means that the System will try to promote a pattern of finance that will find a market for the economy's savings in constructive activities. So far as the quantity of credit is concerned, it will work for a rate of growth in the active-money supply appropriate to the growth in the resources available to the economy. It would not be wise to establish a fixed or mechanical formula to govern the relationship between growth in the money supply and growth in the economy. Both businesses and individuals hold cash balances for a variety of reasons which may change from time to time. The result will be registered both as a change in the velocity of circulation and a change in the appropriate relation between growth in the money supply and growth in real output.

During the greater part of 1954 when inventories were being liquidated and the normal-business customers of banks had less occasion to borrow, the System sought to achieve these cited objectives by twice lowering its rediscount rates, first, from 2 percent to 1¾ percent, and, second, from 1¾ percent to 1½ percent. It also, in the summer, lowered reserve requirements on time deposits to 5 percent, on demand deposits to 20 percent at central Reserve city banks, 18 percent at Reserve city banks, and 12 percent at country banks.

Continuously throughout the year, open-market operations were used to supplement or offset other factors supplying or absorbing reserves in such a way as to insure that there would be a volume of reserves in the market sufficient to stimulate banks to seek outlets for their funds.

Taking the year 1954 as a whole, total loans and investments of all commercial banks expanded by nearly $11 billion, of which about 4 billions was reflected in a growth in the active-money supply. The growth for the year in the active-money supply was around 3 percent, as compared with a growth of a little over 1 percent in the gross national product from the first quarter to the last quarter of the year. In each case, this growth was concentrated in the later months of 1954.

Prices of common stocks rose continually through 1954, indicating the confidence of investors in the economic outlook as well as the availability of funds for risk investment. Toward the close of the year when it became apparent that recovery was actually underway, there was a sharp acceleration of stock purchasing, which appeared to be increasingly motivated by speculative, in contrast to investment, considerations. While the total volume of credit loaned on stocks and bonds is relatively low by historical standards, the rate of increase in borrowing to finance stock purchases rose rapidly. As a result, the Board of Governors raised margin requirements from 50 to 60 percent on January 4.

The regulation of margin requirements that is lodged with the Board of Governors by the law is designed specifically to prevent an excessive use of credit for purchasing or carrying listed securities. It was designed (1) to restrict sharply the ability of equity purchasers to finance their acquisitions on thin margins of cash, and (2) to avoid a situation ever arising again, as it did in 1929, when a break in stock prices, that in any event would have been severe, was magnified into a crash because of the large-scale forced liquidation of securities that were being held on very small margins. So far as these two purposes go, the present regulatory authority appears to be adequate.

It is too early to be sure that the recovery underway will continue without interruption, but it is my personal judgment that the problems which will concern the committee during the months ahead will be increasingly associated with exuberance rather than lethargy in the economy.

(The following replies were subsequently supplied for the record by Mr. Riefler in response to Representative Patman's questions:)

The answer to the first question is that the Federal Open Market Committee is prepared to deal with a disorderly situation in the market for Treasury issues.

The answer to the second question is that any fixed level of support for debt obligations is potentially very inflationary.

The answer to the third question is that a considerable amount of double counting would arise if Federal Reserve notes were included in the national debt. On January 26, 1955, the Federal Reserve statement shows Federal Reserve notes in circulation amounting to 25,600 millions of dollars. At the same time, Federal Reserve agents held United States securities to the extent of 17,100 millions of dollars as collateral against Federal Reserve notes.

STATEMENT OF ALVIN H. HANSEN, PROFESSOR OF POLITICAL ECONOMY, HARVARD UNIVERSITY

The massive sustaining structure that has been built into the economy during the last 15 to 20 years—social security, farm price supports, Government housing programs, and a highly progressive income tax—have stood us in good stead. Happily we are at long last agreed that this structure is not an artificial prop, as we were formerly told, but instead a bulwark of strength in our economy. Together with the continuing support (despite a considerable cut) of a $70 billion budget, major tax reductions, and easy credit, we have pulled through without serious depression.

A year ago there was general agreement among those of us who appeared before your committee that the economy most probably would continue to move sidewise during the next 12 months. This in fact is what has occurred. And now a reduced inventory liquidation together with a strong seasonal increase in automobile production accounts for the slight recovery thus far. Neither of these provide any solid ground for believing that we are on the way back to our growth track. This would require one or more of these things: (1) A sharp upward shift in the consumption-income ratio, (2) a sharp increase in fixed capital investment, or (3) an increase in Government outlays.

No one, so far as I am aware, has projected any probable increase in fixed capital investment. Federal Government outlays are scheduled to drop slightly. Thus we are back just where we were a year ago when we had our hearings on the economic report. Any large forward thrust must come from consumption.

I suggested a year ago the great danger that we become complacent and satisfied with only a moderate rate of growth. To illustrate this, I used a model which I herewith reproduce, adjusted to conform to the revised gross national product figures in the 1954 report.

Growth models

[In billions of dollars]

	GNP (in 1954 prices) maximum employment and production potential (1)	GNP (in 1954 prices) assumed moderate growth pattern (2)	Loss of GNP (1)−(2) (3)
1953	$368	$368	$0
1954	381	357	24
1955	394	366	28
1956	408	371	37
1957	422	376	46
1958	437	386	51
1959	452	386	66
1960	468	396	72
Total			324

My potential growth model has as its base the average for 1953, not the peak quarter. The last half of 1953 was down. The figure therefore does not represent overfull employment. I presuppose a growth of 3½ percent a year, by common consent a reasonable figure. My second model, representing the complacency which I fear, happened to hit upon a figure for 1955 which is almost precisely the forecast recently made by Fortune magazine. While this represents a considerable recovery, it is none the less $28 billion below our potential growth line.

Now all this has a bearing on monetary policy in the year ahead. In the brief time at my disposal I shall not attempt to go over the ground covered in recent hearings. Instead I propose to strike a new note on an old theme. I refer to the matter of inflation.

I should like to propose a new definition—one, I hope, which might have some operational value for monetary policy.

I do this because the fear of inflation is again becoming an obstacle to recovery. Read, for example, the interview article by Secretary Humphrey in the January 14 issue of U. S. News & World Report. This preoccupation with inflation is of course in large part understandable due to the fact that we are living in a warswept century.

I suggest that we need a new concept which I propose to call pure inflation, and I propose to set this over against the concept of price adjustments to output changes.

Pure inflation (and I underscore the word "pure"), I should say, is a condition in which prices rise without any appreciable increase in output.

Countries which have suffered in the past from the evils of inflation have typically experienced large price increases with no substantial increase in output. Indeed in cases of hyperinflation, output has often actually decreased.

There are, to be sure, degrees of pure inflation. And I should like to suggest, to help clarify our thinking, the following general observation. I suggest that at no time in our history, nor indeed in that of any other country, can it be shown that price increases have injured the economy and the general welfare if in the period in question the increase in aggregate output has substantially exceeded percentagewise the increase in prices.

Frederick Mills, of the National Bureau of Economic Research, surveying 80 years of cyclical movements in our history, has shown that in periods of expansion, for every 1 percent increase in output, we have had eight-tenths of 1 percent increase in prices—a 5 to 4 ratio. Professor Mills' short-run ratios of output increases to price increases might of course develop against the background either of a long-run down trend in prices or a long-run up trend.

I repeat, one does not encounter the condition of inflation in any meaningful sense so long as percentage increases in aggregate output exceed by a considerable margin the percentage increases in the price level.

I should be prepared, in special circumstances, however, to go a bit further. There are times when a tremendous forward push is urgently needed, when a choice has to be made between permitting a price increase substantially greater than my rule suggests, or else foregoing the needed increase in aggregate output.

Consider, for example, the situation in 1946 after the removal of price and wage controls and the cut in wartime taxes. Having chosen to remove the main restraints on consumption (and I assume that political realism forbade any other choice) what then? The only way remaining to keep aggregate demand in check would have been drastic monetary restraint on investment. Would this have been desirable policy? I think not. A rapid transition to full peacetime production required massive investment in plant, equipment, and inventories to make good the accumulated shortages caused by the war. It was a choice of the lesser evil. It did indeed mean a price increase percentagewise considerably greater than the increase in aggregate output. But the massive investment laid the groundwork for a large increase in output later and contributed greatly to the slowing down of the price movement by 1948.

We are living in a century in which the long-run trend in prices has been upward. The two World Wars, and to a lesser extent the Korean war, afford, of course, the main explanation.

I think we might gain historical perspective if we take a look at the record of aggregate output and price trends during the last half century. I divide the half century from 1900 to 1953 into three periods. The first is the quarter century from 1900 to 1925; the second, the quarter century from 1925 to 1950; the third (by way of comparison) is the short recent period from 1948 to 1953.

With respect to each of these periods I ask two questions: (1) What was the rate of increase of output per annum, and (2) what was the rate of increase of prices per annum, calculated on the compound percentage rate basis. I believe you will find the results of this calculation both interesting and instructive.

In the first period 1900 to 1925, aggregate output increased at the compound rate of 3.5 percent per annum; prices at the rate of 3 percent per annum. For the second quarter century, 1925 to 1950, output increased at the compound rate of 3 percent per annum; prices at the much slower rate of 1.5 percent per annum. For the recent short period, 1948 to 1953, output increased at the rate of 4.5 percent per annum; prices at the rate of 1.5 percent per annum.

Percent increase (compound rate), per year

	1900–25 [1]	1925–50 [1]	1948–53 [1]
Aggregate output	3.5	3.0	4.5
Price index composed of:			
1. Consumer prices 2. Wholesale prices	3.0	1.5	1.5

[1] The index numbers are as follows:

A. For 1925 (1900=100):	
Aggregate output	240
General price index	203
Consumer index	221
Wholesale index	185
B. For 1950 (1925=100):	
Aggregate output	207
General price index	140
Consumer index	137
Wholesale index	153
C. For 1953 (1948=100):	
Aggregate output	124
General price index	108
Consumer index	111
Wholesale index	105

The record with respect to price stability during the last quarter century is considerably better (contrary to what is commonly believed) than in the first quarter of our century. Prices rose just twice as rapidly per annum in the first quarter of the century.

The greater price revolution of the earlier period also becomes evident when one compares the *lowest* prewar price years with the postwar price index after prices had settled down. Thus, using the years 1894–97 as the base, the index, wholesale and consumer combined (for the period in which both are available), stood at 243 in 1923–25. In the second period, using the low years 1931–34 as the base, the combined index stood at 200 in 1948–50.

The great gains in aggregate output, during the last two decades, have been widely distributed—more equally in recent years than ever before. The new price level has not given us, as sometimes in the past, increasing inequality.

Three criteria (all suggested years ago by Professor Pigon) can usefully be applied to test the general health of an economy. They are as follows: (1) Has the per capita real income increased? (2) Have the overall gains been widely distributed? (3) Has there been adequate capital formation to implement technological progress? The last quarter century stands up well under these tests.

Now let me emphasize one thing. We should pursue no rigid goal with respect to price stability. We should emphatically not aim at a constantly rising price level. Nor should we set up the goal of rigid-price stability. We should keep our eyes fixed primarily on "maximum production, employment, and purchasing power."

I should myself hope that over long stretches we could approach our full growth potential at substantially stable prices. I am encouraged in this hope by the record achieved in 1951–53, inclusive.

Just now we are nearly $30 billion below our growth potential, and we are rather complacent about it. Why do we do it? The inflation bogey is perhaps the main answer.

And now a final word directed at the questions on your agenda. First, what should be our policy with respect to the quantity of money?

I suggest that for a rich industrial country the correct quantity of money is not any precise fixed amount. It may be anything within a rather wide range. A rich, highly developed country desires and is capable of holding a very large amount of liquid assets in relation to its income. A poor, undeveloped country is not. In a rich country there is no close relation between the quantity of money and aggregate spending. In a poor country, there is. That is why the quantity theory of money applies quite well to poor countries. The quantity theory has very little relevance for rich advanced countries.

If the level of economic activity is low, we should actively promote high liquidity and a policy of easy credit. If activity is running very high, the monetary authorities should lean moderately against the inflationary pressures. Monetary policy should make a modest contribution toward the containment of inflation, but primary reliance should be placed upon fiscal policy and selective controls.

The monetary authorities should, I believe, follow no rigid formula with respect to the quantity of money. A rich advanced society does not hold money merely for transactions purposes, and therefore the old-velocity concept is more or less meaningless. It cannot function well without large liquid assets, ready to take advantage of changing investment opportunities and prepared to meet unforeseen contingencies. Such a society cannot prosper without a highly elastic monetary system.

Similarly, as I have tried to indicate, we should have no rigid rule with respect to price stability. We should aim primarily at full production and employment, and we should direct our productive energies toward the things most needed. We are too complacent about our current GNP and we are, I fear, seriously neglecting the matter of social priorities, but that topic would perhaps get us too far away from monetary policy. I had something to say about that in my statement last year.

A brief word about another question on your agenda—the stock market margin requirements. I should like to raise the question, if I may, for later panel discussion, whether any good purpose is ever served by dropping the ratio below 75 percent. I do not pretend to know the answer, but unless someone can enlighten me to the contrary, I find it difficult to see what purpose, in the general interest, is served by a ratio lower than 75 percent.

Statement of Herbert Stein

My name is Herbert Stein. I am associate research director of the Committee for Economic Development. I appear here today to present my own views, and not to represent the Committee for Economic Development. The views of the CED will be presented here at a later date by an officer of the Committee.

One's opinion of appropriate monetary policy at any time depends or should depend, upon one's appraisal of the economic situation as it exists and as it is foreseen for a short period ahead. It is one of the great advantages of monetary policy that the forward look need not be very long, since the policy can be changed in time if developments in the more distant future call for a change.

In general I agree with the diagnosis of the economic situation contained in the Economic Report. This diagnosis is that we are experiencing a recovery which is not yet complete, and that continued rapid movement to full recovery is possible, even promised, but not assured.

In my opinion this diagnosis calls for a prescription of continued active monetary ease. This means that banks should be so well supplied with reserves that they will be actively seeking opportunities to extend credit and will be increasing their investments in Government securities.

I do not see anything in the President's Economic Report that is necessarily inconsistent with this prescription. However, I believe that the report could have been clearer on this point.

A key sentence in the report is this one: "The wise course for Government in 1955 is to direct its program principally toward fostering long-term economic growth rather than toward imparting an immediate upward thrust to economic activity." I am afraid this sentence may be regarded as indicating that the Government no longer considers necessary any of those specifically antirecession measures that were employed in 1954. One of the most important of these measures was the policy of active monetary ease. I would hope the Government does not interpret the very general proposition I have quoted as calling for discontinuance of that policy.

Last week there were two indications of a shift in policy. One was Mr. Sproul's speech in New York confirming reports that the Federal Reserve's policy of active monetary ease was becoming somewhat less active. The other was the Treasury's announcement of the offering of a 40-year bond at 3 percent. The action taken so far has been slight. I am sure that the Federal Reserve has not committed itself so far that it could not resume a more active policy if the recovery should show signs of slowing down.

Nevertheless I am concerned about the possible development of inflation jitters on the part of the administration at this phase of the recovery. I think the administration showed great wisdom and courage in not being drawn into a crusade against depression last spring when there was no depression. I hope the administration will not now be drawn into a crusade against inflation when there is no inflation.

Possibly before the end of this year we shall need an anti-inflationary monetary policy. But this possibility does not mean that we do not need, or cannot have, an actively stimulating monetary policy now. The meaning of flexibility in monetary policy is that we can have a stimulating policy now and a restrictive policy 6 months from now.

In this short statement I have concentrated on a possible redirection of policy that seems to me a cause for concern. At the same time I want to express my agreement with the principles and objectives that guide the Federal Reserve and the Treasury and with their general conduct in the discharge of difficult responsibilities last year.

(The following letter from Mr. Stein in reply to Representative Patman's questions was subsequently received for the record:)

COMMITTEE FOR ECONOMIC DEVELOPMENT,
Washington 6, D. C., February 10, 1955.

Mr. JOHN LEHMAN,
Joint Committee on the Economic Report,
Senate Office Building, Washington 25, D. C.

DEAR MR. LEHMAN: I submit herewith brief answers to the three questions asked of all panel members by Congressman Patman at the January 31, 1955, hearings of the Joint Committee on the Economic Report.

1. I cannot conceive of a situation in which the Government trust accounts would have to cash all, or even a large part, of their holdings of Government securities. In a severe depression the trust accounts, particularly the unemployment insurance account, might need substantial amounts of cash. This they would obtain by turning in some of their bonds to the Treasury, not by selling them in the market. The Treasury in turn would raise cash by whatever kind of borrowing in the market seemed appropriate at the time. If the problem arose, as is most likely, in depression the Treasury would presumably be willing to borrow by issuing bills or other short securities. At the same time the Federal Reserve would be expanding the credit base and the short-term Government securities would be highly salable.

In other words, the contingency assumed does not seem to me a reason for departing from a general policy of not having the Federal Reserve support Government security prices.

2. The Federal Reserve should on occasion buy or sell Government securities. These purchases or sales will affect the prices of Government securities. But I do not believe that Federal Reserve buying or selling should be guided by the objective of achieving some predetermined level or behavior of Government security prices. The effect of accepting this objective is only to weaken devotion to a more important objective—stability of the economy at a high level without inflation.

3. Selection of a unique definition of the "national debt" is important only if some policy consequences flow from the definition. At present, the definition only has policy consequences because there is a legal debt limit. I do not believe that there should be a legal debt limit; congressional control of Federal expenditure is better assured by other means.

For various purposes of analysis different definitions of the national debt are appropriate. In any case we should be careful to avoid double-counting. If we include liabilities of the Federal Reserve banks in some variant of "the national debt" we should not also include the Government securities owned by the Federal Reserve banks.

Sincerely yours,

HERBERT STEIN.

STATEMENT OF C. R. WHITTLESEY

My introductory comments fall into three parts. The first part relates to the general tenor of the President's Economic Report; the second consists of my answers to questions laid before this panel; and the third offers certain observations on present day stabilization policy. What I have to say under these three divisions is closely interrelated and will appear, I hope, as part of a continuous argument.

The Economic Report for 1955 exaggerates, I believe, the extent to which economic stability, realized and prospective, is the result of governmental action, and underestimates the extent to which it rests on natural forces now present in the economy. Such an emphasis strikes me as bad strategy; mistaken and dangerous. It is bad strategy because it is inconsistent with the stress currently being placed on free markets and private initiative. Under somewhat different guise it endorses the spirit of dirigisme and control and thereby plays into the hands of those who call for continuing interference with the operation of economic forces. It is mistaken because it undervalues the significance of changes which have made the economy much more resistant than in the past to declines in economic activity. It is dangerous because it credits certain mild measures with a degree of effectiveness that can only lead to frustration and disillusionment if put to a real test at some time in the future. A similar mistake of overestimating the effectiveness of Federal Reserve policies was made back in the twenties.

The position to which I take exception could be illustrated by many examples, but I shall limit myself to one. On page 22 the report points to six lessons drawn from the recent business decline. The first three are expressed in terms of the great power of governmental intervention:

"In the course of our latest encounter with the business cycle we have learned or relearned several lessons. First, that wise and early action by Government can stave off serious difficulties later. Second, that contraction may be stopped in its tracks even when governmental expenditures and budget deficits are declining, provided effective means are taken for building confidence. Third, that monetary policy can be a powerful instrument of economic recovery, so long as the confidence of consumers and businessmen in the future remains high."

Please note the words, "contraction * * * stopped in its tracks," "stave off serious difficulties later," "wise * * * action by the Government." I shall not go into the reasons why I do not for a moment agree that in the absence of the mild steps taken by the Government "serious difficulties" would have developed. But I do want to say that I had not expected to be told so soon or so smugly that "we planned it that way."

Turning to the second part of my statement may I observe that the first two questions seem to call for some simple and categorical rule-of-thumb to remain valid throughout 1955. But monetary policies are contingent upon the conditions that prevail in the country. It will be the task of the monetary authorities to choose from among the alternatives mentioned and others not named—the policies appropriate to conditions as they unfold. It is entirely conceivable that within the coming year conditions will alter to such an extent that quite opposite measures will be called for at different periods. To suggest, as these two questions seem to do, that particular policies can be laid down this far in advance is largely to deny the necessity of having a central monetary authority.

My comments on question No. 3 are embodied elsewhere. I am not sure what is meant by the adjective "monetary' 'in the fourth question. However, I find no cause for alarm with respect to consumer credit but am greatly concerned over the outlook for the real-estate market in the coming few years. The "rush of applications to Federal agencies for mortgage insurance or guarantees" mentioned with such aplomb on page 24 is open to the interpretation that it may have some of the attributes of a rush to a cyclone cellar. Surely the realities of the real-estate situation have been obscured by action taken in reducing downpayments and extending maturities. It might be desirable to move in the direction of more downpayment and shorter maturities on new houses, if only to be able to make better use of this particular shot-in-the-arm at some time in the future when the need is more clearly evident than it has been in the past year.

I feel distinctly uneasy concerning the recent behavior of the stock market, for no more subtle reasons than the rate at which prices have risen and the apparent character of public participation. Stock market activity has always seemed to me more rationalized about than rational. Insofar as I have an opinion on the recent change in margin requirements it is that the Board should have moved sooner and farther than it did.

The third part of my statement is concerned with more general aspects of monetary policy. I submit that the economy is significantly different from what it was before 1939. In saying this I exclude actions that may be deliberately taken by the Government, though I do not exclude developments, such as social security, tax structure, and size of the debt, which involve the Government. In particular, the economy tends to be, comparatively speaking, more resistant to deflation and more susceptible to inflation than in the past. To the extent that the economy is inherently more stable, especially against contraction, stabilization measures will appear to be more effective than they actually are. This will be especially true in periods of contraction.

In his Treatise on Money published in 1930, Keynes declared that it was easier for monetary authorities to combat deflation than inflation. Under the influence of the experience in the thirties precisely the opposite opinion came to prevail. Attempts by central bankers to overcome deflation were likened to pushing on a string. However valid the conclusion at the time, the contention amounted to the substitution of analogy for analysis. It left wholly out of account the relation of the state of the economy to the effectiveness of monetary controls. We may now have a situation where Keynes' view approaches much closer to the truth—though not, may I say, for the reasons given by Keynes.

Closely related to the foregoing is the point that elements of liquidity in the ecoonmic system, including the relative stability (or more especially the reduced contractility) of the money supply, render changes in the rate of use of money more important and changes in the quantity of money less important than formerly. The effect has been to increase the importance of those instruments of policy which relate primarily to the use of money as contrasted with those which relate primarily to its quantity.

It follows that I consider the present exclusive concentration on the general instruments of credit control, notwithstanding a nostalgic hankering for them, not so much misplaced as anachronistic. For the same reason I feel that other selective controls such as regulations W and X should be made available to the Federal Reserve on a standby basis. I am convinced that the Korean inflation would have been far more moderate if the Board had had these instruments at their immediate command and had employed them promptly and vigorously.

That unfortunate and unnecessary experience was the price paid for our pathological fear of bureaucracy, a fear which keeps us from giving our monetry authorities the power they require to do their job adequately, lest they abuse that power. This is in spite of the self-evident fact that any limitation on the power of the monetary authorities to do harm, as in restricting their use of particular instruments of credit control, is likewise a limitation on their power, under other circumstances, to do good. It is in spite of the further fact that the history of Federal Reserve operations shows that the Board has often suffered from an excess of caution but never from an excess of adventurousness in the exercise of its powers.

In speaking of supplementing the present arsenal of stabilization measures I have gone somewhat beyond a discussion of monetary policies for 1955. At least I hope and expect that this year will present no crisis that will expose the inadequacies of present monetary powers. But I have no confidence that we shall escape such a crisis before the decade is out. And I firmly believe that the time to prepare for crisis is before crisis descends.

I trust I have made it clear that I would go much less far than the report in attributing economic stability, past, present, and future, to governmental interference. And I would go much further than it does in urging that a full complement of powers be available for more serious tests that surely lie ahead.

(The following replies were subsequently supplied for the record by Mr. Whittlesey in response to Representative Patman's questions:)

1. In the event of a general dumping of governments, the Federal Reserve should definitely intervene to support them.

2. I do not wholly approve of actions taken at the time of and after the accord. Nevertheless, I do not believe that it is now necessary or desirable to establish rigid price supports for Treasury securities.

3. Federal Reserve notes should not be included as part of the national debt. The promise form which circulating notes (United States notes, Federal Reserve notes, and others) still retain is a vestigial survival from the historical past. It is meaningless, a pure ritual, and signifies nothing as to their true economic character.

STATEMENT OF ELMER WOOD, PROFESSOR OF ECONOMICS, UNIVERSITY OF MISSOURI, TO QUESTIONS ASKED BY THE JOINT COMMITTEE ON THE ECONOMIC REPORT ON THE SUBJECT OF MONETARY POLICIES

1. What should be our monetary policy in 1955 with respect to the quantity of money and credit? Should we have (*a*) a fixed quantity of bank credit, (*b*) a decrease in the quantity, (*c*) an increase in the quantity comparable to the increase in physical production, or (*d*) an even more rapid increase in the quantity?

The ultimate tests of monetary policy that seem useful resolve into facts about prices and about employment. As long as employment is no higher than it is at present, and as long as prices are not rising significantly, it seems desirable to follow a policy of monetary ease—about such as we had in the latter part of last year. If we should have still further recession, monetary expansion should be stepped up.

If prices should start rising significantly during 1955 while there is still considerable unemployment, we should compromise. Everything considered, we should be willing to see some rise of prices if unemployment remains as great as it is now. On the other hand, we should not be willing to purchase full employment—with the percentage of unemployment, say, at the early 1953 level—at the expense of inflation at the rate, say, of 5 percent a year for very many years. These figures are illustrative and are not intended to suggest a formula. I do not think we can operate on a formula.

Because of upward pressures on prices from the supply side we are probably faced with creeping inflation over the long run. The monetary authorities cannot be expected to hold back these upward pressures simply by monetary restriction. The innocent would suffer more than those responsible. The problem needs to be attacked by policing the power groups. If it cannot be dealt with adequately that way, the monetary authorities will compromise in favor of some inflation. The public will demand that they behave that way.

We come now to a different aspect of the question as stated. The question seems to imply that the amount of money is the appropriate measure of monetary ease or pressure at any given time. Actually, the amount of money reflects mainly the demand for balances arising out of a given cost-price structure and level of economic activity. And since these do not respond immediately to the administrative procedures available to the authorities, but only slowly and cumulatively, the amount of balances shows a similar lack of responsiveness. Thus the amount of balances is a historical result of cumulative forces and not a measure of monetary tendencies at a given moment.

What the authorities need is an instant pointer reading of the change in monetary ease or pressure which they are exerting with the controls in their hands. This pointer reading is the prices of various types of debts.

Nor is the amount of money a very useful test of longer run policy. The longer run tests are prices and the volume of employment. Finally, let us note, a change in the quantity of money is not an instrument of procedure. No board decides administratively what it shall be.

(The above analysis assumes conditions we are likely to be facing. It is not appropriate for runaway inflation.)

2. How should these be carried out: (*a*) through open market operations, (*b*) through changes in reserve requirements, or (*c*) through changes in the rediscount rate?

The problem of the criteria of monetary ease or pressure is involved also in question 2.

The Federal Reserve should make its policies effective through open market operations—allowing their influence to override all other influences. Since their immediate criteria of pressure should be the prices of debts, they should determine the prices of Government securities directly—but always with reference to the more ultimate aims of policy.

The Open Market Committee should be free to enter all sectors of the Government securities market. Short rates reflect mainly the immediate degree of pressure. Long rates reflect expected monetary conditions over an extended period. The Federal Reserve, by entering the long-term market, can influence the market's expectation of policy in more than the immediate future. The present procedure of changing the volume of reserves as such, with operations confined to bills, allows unnecessary variations in rates, and particularly in long rates.

The Federal Reserve must of course allow for changes in the debt structure and changes in the demand for debts of different maturities. But these are minor factors affecting rates compared with monetary ease or pressure.

The objection to the use of the discount mechanism as a means of control is that it produces accidental changes in monetary ease or pressure—changes which have no meaning from the standpoint of control. There is no reason for allowing interest rates to reflect such irrelevant facts as the need of member banks to borrow as the result of changes in the currency in circulation, changes in Treasury deposits, and the like.

In the past the discount rate has been a general symbol of policy as well as an instrument. But there is the difficulty that the need to keep the rate at a level that will not permit the banks to profit from borrowing at the Federal Reserve interferes to some extent with its use as a symbol. On the whole, it seems better not to go back to earlier analogies for procedure but to start from the procedure developed during the past 15 years.

Changing the member banks' reserve requirements should not be used as a flexible instrument, but simply for influencing the earnings of the commercial banks and of the Federal Reserve. In recent years especially, changing the reserve requirements seems to have been used as a symbol of policy, but that use of the power interferes with its purpose for influencing the division of profits from money creation.

At the present time, some officials inside the Federal Reserve, but not all, consider that changes in yields on Government securities reflect mainly the natural forces of supply and demand in the market. Such ideas lead to confusion when one is trying to analyze Federal Reserve procedure and the criteria of immediate and more ultimate results. Long rates, of course, do reflect to some small extent other than monetary factors, but in the main they show the market's reaction to what the Federal Reserve officials have done and what this seems to portend for future action.

3. Comment on monetary and credit aspects of the President's economic program.

The President's program with respect to monetary policy is to "restrain and offset any tendencies that may develop toward recession or inflation." The great majority of economists would no doubt agree with this general statement.

The statement does not, of course, grapple with the problem of upward price pressures by power groups, and which may make it difficult to facilitate growth commensurate with our capacities without inflation.

4. Are monetary maladjustments developing in any major areas making sustained economic growth difficult, e. g., real estate, consumer credit, stock prices?

See comment under next question.

5. What about the stock market's recent behavior? Are Government controls—e. g., margin requirements—in this area adequate?

One apparent reason for the rise of stock prices is the widely held belief that the dollar is likely to be subjected to further attrition over a considerable period, especially with cold war conditions. Few people who are saving for retirement, for instance, want to trust mainly to fixed-income securities. However, the belief prevalent since 1946 that a postwar depression was not far away tended to hold off the rise of share prices. The public now seem less confident in their belief that a serious depression is near.

As to policy in the face of a stock market boom: It would be most regrettable for the Federal Reserve to adopt a restrictive monetary policy merely because of a rise in stock prices—even a very substantial rise. There is a common notion that the stock market boom in the twenties was the major cause of the great depression. I think this is a mistaken historical interpretation. High values for equities do stimulate real investment; but we need not fear a high level of real investment. In general, we should resist policies intended to dampen booms as such and without regard to whether they are accompanied by general inflation. We should not be satisfied with a low utilization of productive powers. The idea that booms must lead to depression and that depressions are curative and beneficient is very largely a matter of mere credo. Depressions lead to crackup.

The powers of the Federal Reserve to regulate margin requirements seem in general to be adequate. The actual need for such powers is overrated. However, the possession of this selective credit control may relieve the Federal Reserve somewhat from pressure from certain members of the public to resort to general monetary restriction merely in order to halt the rise of stock prices.

(The following replies were subsequently supplied for the record by Mr. Wood:)

Replies to the three questions asked by Congressman Patman at the end of the day.

Mr. Wood. 1. As to the support of Government bonds by the Federal Open Market Committee: The Committee should be prepared at any time to buy or sell Government securities in all sectors of the market whenever their prices do not seem to conform to the general aims of monetary policy. There is a practical question as to what the Committee's limits of tolerance should be. There needs to be some margin of tolerance, but I do not think it should be very large. The prices at which the Committee should be willing to buy or sell would not of course be known to the public in advance and the Committee would revise their targets as circumstances seemed to warrant.

2. As to whether support prices should be at par: The support prices should be selected with reference to the effective yields desired. There is no special significanc to par value as such—other than a psychological one under certain circumstances.

3. Whether the amount of the Federal Reserve notes in circulation should be shown as a part of the total Federal debt: Federal Reserve notes are a contingent liability of the Government, and this fact is presumably shown on some public record. But I think it would be misleading to the average person to add this amount to the interest bearing (and other miscellaneous) debt in publishing a figure of total debt. For one thing, it is not like other debt. Moreover, the Federal Reserve banks hold Government securities as a large partial offset.

(Whereupon, at 5:35 p. m., the committee adjourned until Tuesday, February 1, 1955, at 10 a. m.)

JANUARY 1955 ECONOMIC REPORT OF THE PRESIDENT

TUESDAY, FEBRUARY 1, 1955

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

The joint committee met at 10 a. m., Senator Paul H. Douglas, chairman, presiding.

Present: Senator Douglas (chairman), Senator Sparkman, Senator Flanders, Senator Goldwater, and Representative Patman (vice chairman), and Representatives Bolling, Kelley, Talle, Wolcott, and Curtis.

The CHAIRMAN. Gentlemen, the panel will come to order.

We have met to discuss the subject of monopoly and antitrust policies, with particular reference to the report of the Council of Economic Advisers. We invited the Attorney General to be present or to send a representative, and he has declined to do so.

I ask that this letter be included in the record.

Vice Chairman PATMAN. Now, why did he decline, Mr. Chairman?

The CHAIRMAN. The letter is as follows:

> While the Department concurs with the material on this subject contained in the President's Economic Report, I do not think it appropriate at this time either to file a statement or to have a representative of the Department take part in the panel discussion. The report of the Attorney General's national committee to study the antitrust laws is expected to be issued late next month. As we have advised other members of Congress, we believe it best to delay any expression of opinion on our part until the report has been made to the Attorney General and he has forwarded his recommendations to the Congress.
>
> I shall be happy to send an observed from the Antitrust Division, but, in view of what I have said, I do not believe he should either participate in the discussion or make a statement at this time.

May I ask if there is such an observer.

Mr. FOOTE. Yes, sir, Mr. Foote.

Vice Chairman PATMAN. That is another reason why Congress should take a look at these advisory committees. It is actually causing an important official to decline to come before a committee considering the President's report. I look with disfavor on those committees that have farmed out to them legislative work to do, and I think Congress in the future should give great consideration to the advisability of farming out legislative duties to any commission, that one or any other.

The CHAIRMAN. The chairman finds himself in intellectual and emotional sympathy with the point made by the gentleman from Texas.

We also invited the Chairman of the Federal Trade Commission to appear, but he states that it was necessary for him to undergo a minor eye operation and he is presently recuperating at his home. Mr.

Howrey did prepare a statement. I ask that this statement be made a part of the record.

(The statement referred to is as follows:)

STATEMENT OF EDWARD F. HOWREY, CHAIRMAN OF THE FEDERAL TRADE COMMISSION, AT A PANEL DISCUSSION ON MONOPOLY AND ANTITRUST POLICY BEFORE THE JOINT COMMITTEE ON THE ECONOMIC REPORT

After considering the subject of this panel discussion and the topical outline thereunder, it seemed to me that I could most effectively contribute to the preliminary discussion today by briefly describing current programs and progress at the Federal Trade Commission. Then I shall be glad to enter into such further discussion of the subject as the committee may desire.

LEGISLATION

Before I refer to the Commission's current program, I should like to state that as a member of the Attorney General's National Committee to Study the Antitrust Laws, I would prefer to withhold specific legislative recommendations until after that group makes its report. I do feel free, however, to discuss a proposal which is now before Congress, a proposal to raise the maximum fine that may be imposed under the Sherman Act. The Federal Trade Commission is on record as supporting such legislation. The Commission is not directly concerned with the matter of criminal penalties under the Sherman Act, but it does have duties and responsibilities under the Federal Trade Commission and Clayton Acts which are supplemental to the Sherman Act and which aid in carrying out the public policy expressed in that act. It is apparent from the experience of the Commission in this field that the present criminal penalties in the Sherman Act are inadequate. The Federal Trade Commission accordingly is in favor of strengthening substantially this deterrent to violation of the Sherman Act.

SMALL BUSINESS

We at the Commission are in full accord with the following statement which may be considered a keynote of the economic report in our field: "A public policy to encourage the expansion of a free economy must assign a high place to measures that keep the doors to opportunity open for new and small enterprises." Specific aids mentioned in the report are tax revisions, access to adequate financing, a fair share of Government contracts and competent counsel. It is in the latter field, counseling, that the Federal Trade Commission is able to render some assistance.

Before the enactment of the Federal Trade Commission Act, both political parties, the Congress and the President, envisioned a trade commission which would, as part of the administrative process, provide solutions to many complex competitive problems through consultation. It is my hope that the new Bureau of Consultation, which was established 7 months ago, will revitalize this intended program. The new Bureau includes, in addition to the Divisions of Trade Practice Conference and Stipulations, a Division of Small Business. The establishment of the latter Division was considered important in order to make the facilities of the Commission readily accessible to small business concerns. Among other things, the Division advises small-business men with respect to laws administered by the Commission, explains to them the method by which complaints are initiated, explains trade practice conferences and other services of the Commission, informs them of the status of investigations in which they are interested, and otherwise expedites small business matters through the Commission.

There has been a gratifying response on the part of the business community, particularly small business concerns, to the consultation program. Our new Division of Small Business has become one of the most hardworking sections of our staff.

COMPLIANCE

Another major step in the Commission which will be of great benefit to small business has been the institution of an integrated compliance program to provide a systematic review of the presently outstanding 4,500 cease and desist orders, 8,000 stipulations and 2,000 trade-practice rules. It is useless, it seems to me, for the Commission to enter orders unless it sees to it that they are obeyed either voluntarily or through appropriate enforcement proceedings against those who deliberately or willfully ignore them.

Failure to obtain compliance constitutes a waste of public money, has a demoralizing effect on competitors and members of the public who have been injured and tends to encourage a disregard of antitrust and trade regulation laws, oftentimes to the direct detriment of small businessmen trying to enter or remain in a highly competitive market.

Since August 1, 1954, more than 1,000 of the Commission's old cease and desist orders have been examined and the files reviewed. Of this number about 400 orders have been screened out as requiring no attention at this time; 366 supplemental reports of compliance have been requested; and in about 300 cases respondents are now known to be in compliance. As a result of this survey of old orders, 16 compliance field investigations have been instituted and 2 civil penalty suits are in preparation. This is in addition to other normal compliance work which during the calendar year included certification to the Attorney General of 5 civil penalty suits. Altogether there are pending 50 field investigations to determine the manner in which respondents are complying with the Commission's cease and desist orders.

MERGERS

Another field in which I am sure you have great interest is that of mergers. The new antimerger law, section 7 of the Clayton Act as amended, is an important and vital part of national antitrust policy. This act shows a strong and continuing purpose to curb acquisitions which adversely affect competition. We consider this one of our most important statutes and are pledged to enforce it with vigor.

The Federal Trade Commission, as most of you know, has undertaken an economic investigation of recent mergers and acquisitions. The purpose of the study is to determine facts regarding mergers for the information and guidance of the Commission, the Department of Justice, the Congress and the public.

In addition to its general economic study, the Federal Trade Commission is considering a large number of individual mergers. Competition may be injured by some mergers and revitalized by others. Each acquisition must therefore be tested in the light of relevant economic and marketing factors existing in the particular industry.

ROLE OF ECONOMICS

In merger work and other antimonopoly work of the Commission, economic and marketing problems are of great concern. For this reason the Commission's Bureau of Economics has been revitalized to enable economists to work closely with our investigators and trial lawyers. We are placing primary emphasis upon those practices that have significance in the market place and that have or are likely to have some economic consequence.

The Commission recently has published 2 economic reports, 1 on Changes in Concentration in Manufacturing, and the other on Coffee Prices. I believe both to be fair, honest and objective studies. I believe that the coffee report is one of the best economic studies ever published by a governmental agency.

DELAY

Looking back on the last 2 years, I believe one of the greatest contributions will be the result of our full-fledged attack on delay—the greatest enemy of administrative law. I am happy to say that we have been able to eliminate 50 percent of the procedural steps within the Commission and we have cut down the backlog of our cases over five times.

An example of the progress achieved relates to the speed with which litigated matters are being decided by the Commission. On April 1, 1953, when I assumed the chairmanship, there were 42 formal cases which had been briefed and argued and submitted to the Commission for decision and which had been assigned to individual Commissioners for 30 days or more. Of these, only 10 had been assigned in 1953, 27 in 1952, and 5 had remained unacted upon since 1951, 3 since January 5 of that year. In contrast, on December 31, 1954, only 9 cases had been unacted upon for more than 30 days and, with only 2 exceptions, all had been assigned during or after September 1954.

An important step contributing to the elimination of delays has been reorganization of the Commission to promote more efficient and economical use of manpower. In the revamping of our entire investigational setup, all investigative functions have been centered in a new Bureau of Investigation. The use of project attorneys to supervise cases throughout their entire course has already paid dividends in time savings. The adoption of a workable consent order procedure has speeded the litigation process.

CONCENTRATION ON IMPORTANT CASES

The Commission has adopted the view that it should proceed against the "hard-core" type of violation and forego peripheral cases of doubtful validity and questionable economic consequence. We feel we should not deplete our limited resources on fringe issues having no practical benefit. In this connection, we feel that the Sherman Act, the Federal Trade Commission Act and the Clayton Act, with its Robinson-Patman amendment, can be successfully administered as interrelated expresions of national antitrust policy—not as separate and conflicting statutes.

While the Commission is concentrating its big guns on the serious cases and is able to dispose of many more of the less serious matters through voluntary agreements to cease and desist, it should not be inferred that the Commission is reluctant to initiate litigation where required by the pubic interest. The following figures show that there has been no letdown in our litigation program:

Antimonopoly complaints issued during last 4 fiscal years

Fiscal year 1951	29	Fiscal year 1953	29
Fiscal year 1952	29	Fiscal year 1954	30

Antimonopoly orders issued during last 4 fiscal years

Fiscal year 1951	23	Fiscal year 1953	24
Fiscal year 1952	24	Fiscal year 1954	25

Deceptive practice complaints issued during last 4 fiscal years

Fiscal year 1951	80	Fiscal year 1953	72
Fiscal year 1952	75	Fiscal year 1954	93

Deceptive practice orders issued during last 4 fiscal years

Fiscal year 1951	98	Fiscal year 1953	82
Fiscal year 1952	108	Fiscal year 1954	80

FTC DECISIONS

Mindful of the fact that Federal Trade Commission decisions have often been criticised in the past for lack of clarity and for formal and legalistic phraseology, the Commission has taken the needed remedial steps. Facts are now stated clearly in narrative and descriptive reports. There are separate opinions in every case.

To assure a proper functioning of the Commission as a quasi-judicial agency, steps have been taken to increase the authority of the hearing examiners who, as the triers of fact, are of key importance in the administrative process. The Commission presently is engaged in a comprehensive study of its rules of practice. On the basis of this study, it is fair to expect that the Commission will be able to revise its rules and thus to improve its administrative procedures.

ADVISORY COMMITTEE ON COST JUSTIFICATION

In November of 1953, we announced the appointment of members of the Commission's Advisory Committee on Cost Justification. The purpose of this committee, which consists of outstanding specialists in the field of distribution cost accounting, is to ascertain the feasibility of developing standards of proof and procedures for costing for adoption by the Commission as guides to businessmen desiring to comply with the Robinson-Patman Act. The work of this committee should result in a strengthening of the administration of the act and result in wider compliance with its provisions.

LIAISON

Some mention should be made of the steps taken to improve the relationships existing between the Commission and other agencies of the Government. I have long deplored instances of overlapping and conflicting activities. It is inconceivable to me that there is justification for noncumulative remedies being sought by more than one agency against the same person, at the same time, for the same thing.

I am especially grateful for the fine arrangement that we have with Stanley N. Barnes of the Department of Justice. We discuss matters of mutual concern at frequent intervals, and I am strongly convinced that the great volume of our work is in no way overlapping.

In the field of food, drugs, and cosmetics, we have been able to work out with Secretary Hobby a very promising interagency agreement designed to correlate the work of the Commission and the Food and Drug Administration in such a way as to eliminate overlapping activities and duplication of effort. This agreement has been in effect since last July 1.

Similar liaison arrangements, although less formal, have been made with other agencies, including the Bureau of Standards, the Post Office Department, and the Patent Office.

The CHAIRMAN. This morning we have two primary questions which we wanted to ask the members of the panel, but, of course, they should not necessarily feel themselves circumscribed by those questions, and I think that we can call upon them in turn and have them present their views on both of them together in 5 to 7 minutes, and then we will have further discussion.

The two questions are these: First, are the facts and recommendations of the President's Economic Report adequate with respect to (*a*) competition, (*b*) monopoly, (*c*) bigness, (*d*) the merger movement, (*e*) business structure, (*f*) price policy, and (*g*) fair trade.

2. What is the general effect of monopoly, quasi-monopoly, or imperfect competition on (*a*) prices, (*b*) production, (*c*) costs, (*d*) profits? What are the social implications involved?

I am going to ask Mr. Adams to begin the discussion.

OPENING STATEMENT OF WALTER ADAMS, ASSOCIATE PROFESSOR OF ECONOMICS, MICHIGAN STATE COLLEGE

Mr. ADAMS. Thank you, Mr. Chairman.

My name is Walter Adams. I am associate professor of economics at Michigan State College and a member of Attorney General Brownell's National Committee to Study the Antitrust Laws. However, I appear here as a private citizen and do not purport to represent any institution or organization.

The prevention of monopoly and the promotion of competition receive only incidental treatment in the President's Economic Report. While the report recognizes the Government's

> responsibility to maintain easy entry into trade and industry, to check monopoly, and to preserve a competitive environment (p. 50)

it scarcely suggests how these generally accepted goals are to be implemented.

Fundamentally, it fails to face up to the crucial issues. Thus the report states that Congress has established a policy of assuring small business of a fair share in the procurement program, but it does not indicate to what extent the executive agencies have carried out the will of Congress. It does not indicate the extent to which legislative wisdom is being vitiated by administrative shortsightedness and incompetence. The report recommends increased Federal expenditures on research and development, but it does not recommend that the fruits of such research be made freely available to all bona fide business enterprise.

The report suggests an increase in antitrust fines as a deterrent to future violations, but it does not say that, at a time of virulent merger activity, the inadequate fine is hardly the most important obstacle to effective antitrust enforcement. Finally the report proposes that the line between public and private enterprise be redrawn, but it does not insist on redrawing this line with a view toward promoting competition and attenuating monopoly.

Deficient on these specific counts, the President's report is subject to a more general, and probably more crucial, criticism; viz, its total disregard of one of the most important monopoly forces in America today—the United States Government. Thus the report fails to show how the exercise of particular powers of government may create the very monopoly which the antitrust authorities are later called upon to destroy. A few illustrations should make my point clear.

Now, Mr. Chairman, if I am to be restricted to 7 minutes in the opening statement, I wonder if I could skip some of the portions in my prepared statement here and file this statement as a whole for the record?

The CHAIRMAN. Certainly.

Mr. ADAMS. I discuss here the spending power, the taxing power, the proprietary power, and that deals with the disposal program, and the legislative power, and finally I come to the regulatory power, and here we see in boldest relief the creeping paralysis of monopoly. Here we see the marasmus of the regulatory process, its injurious effects on the consumer and its debilitating influence on the industry concerned. Here we see the subversion of competition via regulation. Let me cite some recent examples.

In 1948, the Supreme Court ordered the vertical divorcement of the Big Five in the movie industry. Each of the Big Five was required to separate the production of movies from exhibition, so as to prevent foreclosure of the market by vertical integration. Then, in 1953, the Federal Communications Commission authorized the merger between American Broadcasting Co. and United Paramount Theatres, and acquiesced in the control of Paramount Pictures by DuMont TV. This meant not only a sizable horizontal combination between a movie exhibition chain and a TV network, but also the vertical integration between a movie producer and a TV exhibitor. It vitiated potential interindustry competition between two basic communication media, and brought about the very vertical integration which the Supreme Court had earlier sought to eliminate.

In another action, the Federal Communications Commission decided on an allocation pattern for TV channels which may doom competition in this young and dynamic industry. According to Allen B. DuMont—who is no academician and who has met a payroll—the Commission's allocation pattern will result in a two-network monopoly in the television industry.

Other witnesses before the Senate Interstate and Foreign Commerce Committee agreed with this contention. They pointed to the fact that competition hinges on the survival of UHF, and that UHF cannot survive unless the Commission equalizes the terms on which UHF competes with VHF. Thus it is clear that the FCC ground rules will determine whether newcomers in this concentrated industry are to have a climate in which competition can thrive and prosper, and whether the TV audience is to enjoy the variety of competition or accept the impositions of monopoly.

In the transportation field, there are especially strong indications that the type of regulation may be unwise and the amount of regulation excessive. There is more than a germ of truth in the observation that the regulatees have wound up doing the regulating.

When the I. C. C. Act was passed in 1887, the railroads possessed considerable monopoly power. But today the situation is different. In the passenger field, the airplane, the bus, and the private conveyance protect the consumer against potential exploitation. In freight, the common carrier, contract, and private trucks seem to give the railroads quite a run for their money.

Yet competition in the trucking business is artificially restricted. No common-carrier truck can operate in interstate commerce without first obtaining a certificate of convenience and necessity and without submitting to rate regulation and route determination by the ICC. Why? What is there about trucking to justify this kind of public utility regulation? Very little, in my opinion. Here is an industry which closely approximates the pattern of perfect competition. There are many firms in the industry and, in the absence of regulation, there would be more. The product is fairly homogeneous and standardized. Entry would be easy, because of relatively low capital costs and because the roadbed is provided at public expense. Moderate fixed costs make price discrimination and cutthroat competition an unlikely eventuality. Nevertheless, we refuse to rely on competition as a means of protecting the consumer interest. Instead we depend on a regulatory agency which shows an inordinate concern for sagging railroad properties and for the vested interests of established trucking companies.

In my view, this is ill advised. There seems no economic justification for limiting entry into this industry as long as the public is assured that common-carrier trucks are financially responsible, follow the necessary safety regulations, and possess the proper surety qualifications. Here is an industry which is no more a public utility than restaurants, laundries, or filling stations. Here is an industry where gradual, but substantial, deregulation seems feasible, practicable, and desirable.

Finally, we have the case of the airlines. When the Civil Aeronautics Act was passed in 1938, domestic trunklines flew 479.8 million revenue passenger-miles. By 1952, this total had increased to 12,188.7 million, a 2,500 percent growth. Despite this tremendous expansion, however, not a single new trunkline passenger carrier has been certificated. Established carriers have thus been given what amounts to a perpetual monopoly over a new and growing industry.

Here, again, there is no economic justification for what seems to be a complete and permanent bar against the entry of newcomers. The skyways are free and the airport facilities are provided with public funds. Capital costs are moderate and new facilities can be added in relatively small doses. Given the tremendous increase in the demand for air travel there seem to be no compelling technological or economic factors militating against the entry of at least 1 or 2 new carriers.

Moreover, the experience with the nonskeds shows how necessary the energizing and invigorating stimulus of competition is. It was the nonskeds who had enough faith in the future of air travel to introduce coach service at a time when the Big Four though that such service would entail substantial losses and would fail to promote an increase in the demand. It was the nonskeds who rejected the caution, conservatism, and restraint of the big companies, and who refused to bow before the apparition haunting every monopolist, the assumed inelasticity of demand. It was the nonskeds whose initiative, enterprise, and daring proved that competitive rate reduction is more effective than the belief in the might of inelasticity.

If for no other reason than past performance the certification of new competitors is urgently needed, competitors who do not demand subsidies from the Government, competitors who are dynamic enough to assure a phenomenal growth in a phenomenal industry. Such growth will benefit not only the consumer; it will not only enable Michigan residents to escape harsh winters with an airline trip to beautiful Arizona, it will also contribute to our national defense, which depends on a strong and vigorous airline industry.

In conclusion, let me say that contrary to the prediction of Karl Marx and the belief of his unknowing and unwitting disciples, monopoly in America is neither natural nor inevitable. Rarely is it a response to technological imperatives or economic necessity. Never is it the result of spontaneous generation or natural selection. More often than that monopoly is the result of unwise manmade privilege creating legislation which throttles competition and restricts opportunity.

I think it is idle to expect enforcement of the antitrust laws alone to assure us of a competitive economy in years to come. We cannot have competition if the Government creates what the antitrust laws are designed to prevent, if the Government itself helps fashion the economy in the image of the cartels.

The CHAIRMAN. Thank you very much.

(Mr. Adams' prepared statement appears at p. 572.)

The CHAIRMAN. Mr. George.

OPENING STATEMENT OF EDWIN B. GEORGE, DIRECTOR, DEPARTMENT OF ECONOMICS, DUN & BRADSTREET, INC., NEW YORK, N. Y.

Mr. GEORGE. With your permission, I will follow Mr. Adams' precedent and read extracts from my report. I have taken my lead directly from the Economic Report itself, giving the bulk of my attention to the question of assistance to new and small business.

The policy issues here can be grouped under five headings: General management, industrial relations, availability of capital funds, research and development activities, and taxation.

With respect to access to capital funds, the Economic Report calls attention to the apparatus established by Congress in 1953 to help small business to obtain adequate financing, claims that this has made a useful contribution and in consequence recommends that the lending authority made available—now almost fully committed—be enlarged. I do not have much in the way of general criticism to offer of SBA's operations under the statute. Their rules, especially that requiring would-be borrowers to explore private channels before turning to the

Government seem well devised and aid has still been given in a significant number of cases. However, I do not see where this kind of facility carries us far along the road to solution of what a study I made several years ago persuaded me may be the prime need, namely, provision of equity capital, or at any rate some combination of debt money, common-stock money, and preferred-stock money, as in the sandwich deals of the British I. C. F. C., for businesses with requirements that banks and other lending agencies cannot meet owing to a mixture of prevailing standards, legal barriers, and concern for their creditors' funds even though they recognize the merit of the objective, and which cannot obtain funds from security markets save at prohibitive cost. The area of primary interest has been defined by a fellow-panelist, Dr. Kaplan, as including "the kind of businesses that can really compete with larger businesses." It is the area between eight and a hundred employees, and in some cases a little more than a hundred employees.

After reviewing domestic and foreign experience and looking at the galaxy of remedies proposed, my impression was that the one most worth trying was that envisaging establishment of regional capital banks under Federal Reserve auspices—the approach embodied in bills introduced in several previous sessions of Congress by a former chairman of the Joint Committee, Senator O'Mahoney. The scheme has too many angles to permit full treatment here. I shall note merely that it seems best to begin on a pilot-plant basis, selecting one or a few FRB regions in which need for assistance is thought to occur most frequently and in which the resident Reserve banks themselves have been urging action, stipulating that firm arrangements should be made from the outset for provision of complementary managerial and technical aid and for compelling applicants to accept such aid, if the financing agency deems necessary.

As to research and deevlopment activities, my guess is that Mr. Lilienthal's book—despite imperviousness to the existence of a problem of diminishing returns—probably reflected a large body of opinion in claiming that our rate of progress during the past quarter century is attributable to a "new competition" characterized by incessant product and process innovation, which in turn largely arose from research by large concerns competing in this fashion. It seems to me that Dr. Kaplan takes a similar view in his recently published study of big enterprise in a competitive economy.

This general slant invites some comment. First, and of lesser importance, it is by no means demonstrably true. On the subject, Prof. Edward S. Mason made some pertinent observations last year:

> * * * the fact that research expenditures are highly concentrated in large firms does not mean that important product and process innovation is the product of large firms. This is something about which we know next to nothing. (The New Competition, Yale Review, autumn, 1953, p. 44).

Prof. M. A. Adelman has expressed himself similarly in Northwestern University Law Review, Symposium Review of Galbraith and Lilienthal, May-June 1954, page 157. Even if, however, large firms are now the main sources of progress, one may doubt whether this must necessarily be so. As Mason notes, the rate of advance during the past 25 years does not appear to have been greater than in the preceding 25 years, or the latter again above that in the last half of the 19th century. In other words, we grew as fast in a small-concern system as in one dominated by large units. Although, starting with a rich new country, to maintain the same percentage rate of growth over a long period of time is quite a feat, and the basic fact in itself has no bearing on reasons for the eventual growth of large concerns, which in its time has had great positive benefits; only the narrow point is involved.

It is possible that one of the reasons why not only large concerns but large-scale techniques are now so prominent in the economy may be found in a combination of growth in nontechnological hurdles confronting small concerns and of factors operating to place greater relative research emphasis in big outfits on large-scale methods.

On the latter point, there is no doubt that, absolutely speaking, the big research departments spawn many developments exploitable via small-scale methods. These, however, one would expect to be exploited often in product lines which are either altogether new in the system as a whole or, if not being somewhere, are possessed only by concerns other than the finder.

In dealing with their own lines, stress may often be laid upon developments yielding marginal cost savings with setups in which huge capital has already been sunk rather than upon competitive techniques of an entirely different order. Moreover, even where new possibilities do not present a threat to the company's established lines or production methods, one would expect less intensive inspection of the potentialities of those involving only moderate capital outlays than would occur in the case of concerns less well-fortified financially. Under stronger pressure to dig for methods of modest optimal scale, they might well find that these paid off a lot more frequently than is now judged.

It strikes me—and I come now to the nontechnological obstacles small units confront—that deliberate efforts to smooth the path for small concerns considering innovations are quite desirable. Recent liberalization in tax treatment of unusual research and development expenses, discussed below, should contribute to this end, and so, too, would improvements in access to capital—knowledge that if attractive prospects came to the fore there was a good chance of obtaining the capital necessary for commercial exploitation providing more incentive to experiment.

But I would not be surprised to learn that even under these conditions room would be found for direct encouragement of research.

Mr. Chairman, because of the shortage of time I will refer only to the remarks I had contemplated making on taxation, a few of which are on page 8, and close with that.

Several real improvements have taken place, notably in two major areas, viz., depreciation allowances and treatment of research and development expenses. Businesses now have more flexibility in dealing with the former and under the 1954 law all outlays for unusual research and development can be deducted as current expenses.

So far as concerns averaging, however, the recent extension of carry-back to 2 years simply restores an arrangement that had been in effect during the period I am using as a base and the long carry-forward, though much better than nothing, and of aid to new firms with enough cushion to withstand early year losses, is of uncertain value to small businesses running into trouble after a string of profitable years and being unable to tap outside sources for emergency needs. And, for the rest, the total picture is not much different.

There isn't yet any income exemption—at any rate, from the normal tax. Special treatment has not been accorded to reinvested earnings. The partnership option is still unavailable. And it seems probable that although on balance the jump in absolute fraction of pretax earnings taken by the Government was somewhat lower for small corporations, the dollar loss has injured the small outfit's ability to expand more than it has that of the large firm, because of lesser ability to take outside funds.

The CHAIRMAN. Thank you very much.

(Mr. George's prepared statement appears at p. 575.)

The CHAIRMAN. Mr. Kaplan.

OPENING STATEMENT OF A. D. H. KAPLAN, SENIOR STAFF MEMBER, THE BROOKINGS INSTITUTION, WASHINGTON, D. C.

Mr. KAPLAN. As has already been indicated, the Economic Report of the President, January 1955, explicitly defers the administration's general treatment of the subject of monopoly and antitrust policy until The Attorney General's National Committee To Study Antitrust Laws has reported its findings (p. 48). The withholding of any reference in the Economic Report to the current wave of corporate mergers is presumably on the same ground. The Federal Trade Commission announced last October it had embarked on a study of recent mergers in the light of the section 7 amendment of the Clayton Act of 1950, and that a report would be speedily prepared.

What comes closest to the subject of competition and monopoly in the Economic Report is the section under the subhead "Assisting New and Small Businesses," (p. 49). It refers to the Small Business Act of 1953 establishing an independent Small Business Administration in the Executive Office of the President, and recomends that the life of the agency be extended beyond the present expiration date of June 30, 1955.

The Small Business Administration was designed primarily to help small businesses in obtaining and carrying out Government procurement contracts, and in getting loans. But this temporary facility for supplying emergency aid to small businesses that are unable to obtain private financing does not cover the broader need (to which Mr. George has already referred) of a regular, continuing channel for investment banking at the small business level.

Bills introduced in earlier sessions of Congress by Senator O'Mahoney, and others, to help establish a system of investment banks to handle the capital financing of new and growing small-scale enterprises failed of enactment. The chairman of the Select Committee on Small Business in the Senate—and I see Senator Sparkman is here also as a member of this joint committee—has introduced a similar bill for this session. It directs the formation of a system of regional investment companies under the aegis of the Federal Reserve System, with the commercial banks and other appropriate agencies as subscribers. It provides for a wide range of equity and debt financing to new and growing smaller scale enterprises to which neither the Small Business Administration nor our present private banking facilities are geared.

The development of a regular channel of investment for small business, to parallel on a smaller scale the means of capital financing available to large-scale enterprise, must be regarded as a major step in maintaining the balance of power and opportunity in our private business structure.

Larger-scale enterprise has reaped benefits from increasing attention to research and innovation. but that is not to say that innovation is exclusively the province of big business. On the contrary, there is the continuous mutual stimulation and cross-fertilization of invention and ingenuity in production and market development between large and small business. Many familiar product innovations in modern business—like the diesel locomotive, the vacuum can, rayon, and cellophane—had their origin in the inventiveness of individuals and the enterprise of small concerns. At this very time, in what is loosely called the electronics industry, numerous small laboratories and plants are creating the basis for growth into what may in years ahead show up as another Sylvania, Carrier, or IBM. But more often the important innovations of individuals and small enterprises do not realize their full economic potential until they have been turned over to the larger enterprises, equipped with highly organized technical and financial resources.

It has frequently been pointed out that the underwriting of funds for expansion of small business is prohibitively expensive and unprofitable under present conditions. The regular investment banker is not equipped to handle that type of business. The commercial banks have been dissociated from investment affiliates and are not expected to share in the ownership risks of the small enterprise. Nor are they prepared to supply the managerial guidance without which the mere furnishing of capital may prove ineffective.

This is an area that has to be plowed and carefully nursed along until the techniques are learned whereby the capital financing of the small enterprise can be made a self-supporting and profitable institution in our economic structure.[1] Until this is done we shall continue to see small businesses selling out to big business because they have reached the limit of their own financial resources. We shall continue to see established small businesses abandoned or sold to the larger enterprise upon the retirement of the small-scale proprietor due to the financial inability of associates or other small entrepreneurs to take over. And many a promising venture will be stillborn for lack of a regular channel for screening, encouraging, and developing small-scale ventures.

This type of capital banking, supported by competent guidance in developing new and small enterprise, has already become a useful feature of the British and Canadian financing structures. It is hoped that Congress will speed the filling of this gap in our national banking system under conditions that will make the venture self-supporting and eventually profitable.

To maintain a vigorous small-business sector in the structure of our competitive system also requires that we do not standardize the small-scale operation to the point where it is deprived of needed

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[1] I have previously testified at length on this subject before the Joint Committee on the Economic Report, hearings on volume and stability of private investment, 79th Cong., pt. 1, September 27, 28, and 29, 1949.

flexibility in competition and freedom of economic oportunity. Two aspects of this problem that appear timely for public consideration are retail pricing and labor relations.

In the 1930's some segments of small business took refuge in resale price maintenance legislation and other State fair-trade laws, reinforced at the Federal level by amendments to the Sherman and Clayton Acts. During the sellers' market that followed World War II relatively few overt inroads upon the legalized price-fixing barriers were attempted. The more recent trend toward a buyers' market has, however, stimulated a spontaneous undercutting of resale prices that had apparently been set to cover high distribution costs and margins for the orthodox retail market.

The time appears ripe to reexamine the effects of the fair-trade legislation and the support given to it by Federal legislation, on competition and consumer spending habits. The dollar-conscious consumer who has turned his patronage to the discount house has thereby raised the larger question as to how far the standardization of merchandising in the business population may be regarded an end in itself, for the protection of which the consumer public is to pay the price of substantial subsidies as it has done in other areas of the economy.

I come now to another trend toward rigidity in our business structure, in the labor area, which affects the prospect for the survival of small-scale enterprise. New business needs to be able to bid effectively for labor as well as for capital. Small business is involved in the progressive attainment by organized labor of a position where the strength of union membership in large-scale enterprise can be successfully mobilized behind the drives to standardize wage levels and income security across industry through collective bargaining. Where the industry pattern is set by negotiation with the dominant firms, little choice is left for collective bargaining with the smaller firms. The small enterprise must fall in line on wages, job classifications, supervisory personnel, time schedules, etc., without due regard to the differences in the conditions applicable to small-scale operation.

Government unemployment insurance and retirement programs have had the virtue that the benefit claims are vested in the worker and can move with him. His unemployment benefits help him to support himself and family while he is seeking other suitable work. Now, partly because Government insurance did not keep abreast of rising living costs, organized labor has sought to supplement Government insurance with unemployment guaranties by individual companies in particular industries; here the employee's claim to such supplementation is dependent upon his remaining attached to his company and industry. Here, obviously, it is the diversified big enterprise that will be in the best position to make the guarantee to recruit labor and hold it. If the two forms of benefits—the public and the private—are given simultaneously, the mobility supplied by Government insurance tends to be offset by the rigidity of the labor force which is fostered by company supplementations won in collective bargaining. It seems necessary, therefore, in the public interest, to withhold Government unemployment insurance until company guaranties have been exhausted, and thus save it as the reserve cushion when the worker realizes that his old job no longer exists for him. (This point of view is not intended to minimize, however, the importance of retraining, to provide suitable employment within the same company or industry in keeping with technological change.)

Taken singly, the income objectives advanced by the labor leadership have been defensible as coming for the most part within the bounds of what can currently be drawn from the economy. There is nonetheless a major long-range problem of reconciling the trend toward standardized worker security patterns with the survival of that mobility in the American economy which has been the basis of successful business entry and a potent force in raising and widely distributing real income.

The CHAIRMAN. Thank you.

(Mr. Kaplan's prepared statement appears at p. 579.)

The CHAIRMAN. Mr. Mund.

OPENING STATEMENT OF VERNON A. MUND, PROFESSOR OF ECONOMICS, UNIVERSITY OF WASHINGTON, SEATTLE, WASH.

Mr. MUND. Mr. Chairman, members of the Joint Committee, I have an 8-minute statement which I would like to read. Since everybody has a copy before him, I shall read it quite rapidly.

It is significant that the Employment Act specifically states that maximum production is to be promoted in a manner calculated to foster free competitive enterprise. The two, indeed, in our system, are closely related. The more effectively freedom of entry and price competition operate the less will be the need to resort to public spending and other monetary-fiscal measures.

1. THE PROBLEM OF RIGID PRICES IN DEPRESSION PERIODS

Why do business executives in certain industries, such as steel, maintain prices, and actually increase them in the face of declining demands? Why were industrial prices in the recession of 1953–54 more stable than in the recession of 1948–49? Has the upsurge of mergers accentuated price rigidity?

There is substantial agreement among economists that rigidity, or inflexibility, of industrial prices in the face of declines in demand associated with periods of recession is closely correlated with monopolistic behavior, such as basing-point and zone pricing, price leadership, and collusive trade association activity. Monopoly is the power to manage price and to fix a price at constant levels over a period of weeks or months, regardless of changes in demand.

In competitive industries, prices adjust downward with declining demands, to provide a selling outlet for available supplies. Monopolistic, oligopolistic, industries, on the other hand, typically peg their prices. This action prevents a clearing of the market or causes underutilization of plant facilities. It is an action, moreover, which has secular and long-lasting consequences. The evil is that for years monopolistic industries prevent and retard the reduction of prices which they control. Unemployment and unused capacity in these industries grow and persist.

The problem of rigid prices is twofold. First, there is the problem of the power to manage prices. When was this power achieved? How was it achieved? What forms of direct control or antitrust action should now be taken with respect to it?

Secondly, there is the problem of why business managers, having the power to manage prices, desire to peg prices, absolute constancy, for periods of months or even years. Subsequently, I shall discuss these questions, if it is desired.

2. THE ANTIMERGER ACT OF 1950 AND ITS APPLICATION BY THE FEDERAL TRADE COMMISSION

In applying the law in the Pillsbury case, 1953, the Commission rejected the proposal of its attorneys, based upon the reports of congressional committees, that the "substantiality test" should be used as a yardstick—that is, "where a leading factor in the relevant market having a substantial share of that market, acquires another factor in that market also having a substantial share of that market," and the effect may be substantially to lessen competition. Instead, the Commission adopted a rule-of-reason approach and declared that it would proceed on a case-by-case basis.

Despite the legislation of 1950, the merger movement is continuing at a rapid pace. Should the rule of reason be added to the act of 1950 when it was not included by Congress, itself? Has the legislation of 1950 been seriously weakened by administrative interpretation?

3. THE RIGHT TO SELECT ONE'S CUSTOMERS

The antitrust agencies report that refusal to sell is one of the most frequent complaints which they receive. Rarely is there any relief for this aggravated form of discrimination. Why is it that particular buyers cannot freely secure supplies, such as gasoline, for cash on the counter, even during periods of excess inventories and unused capacity? Is not freedom of access to markets an essential feature of a free competitive economy? Should Congress reconsider the original draft of the Clayton Act, 1914, which placed prohibitions on arbitrary refusals to sell?

4. IS THE SO-CALLED NEW CONCEPT OF COMPETITION COMPATIBLE WITH THE MAINTENANCE OF A FREE COMPETITIVE SYSTEM?

Currently, efforts are being made to get the courts and administrative agencies to construe the antitrust laws with a new concept of competition. The idea is to define competition so that it will describe existing business practice. As one leading antitrust lawyer has said, "The statutes can be construed administratively to fit the business pattern desired."

The new definition of competition contemplated by the Business Advisory Council of the Department of Commerce, D. E. Lilienthal, A. D. H. Kaplan, and others differ greatly from the concept long used by economists and the antitrust agencies. The essential idea of the new concept is the presence of alternatives from which buyers may choose. It is rivalry "between different ways of meeting the same or a similar need." In this view, competition is seen to be provided through the choices of aluminum or copper, cigarettes, or sweets.

The new concept omits an essential mechanism for the determination of prices, namely, price competition among sellers of a given class of goods. Substitute competition may be an important moderating force, but will it prevent the placing of undue burdens on the public? Does not the acceptance of the new concept mean a revolution in our basic antitrust policy?

5. IS PRICE DISCRIMINATION A COMPETITIVE PRACTICE IN THE PUBLIC INTEREST, OR IS IT A MONOPOLISTIC PRACTICE?

Vast amounts of public testimony and congressional investigation have led to the declarations of national policy in 1887, 1914, and 1936, condemning price discrimination as a monopolistic practice. Historically, the view of Congress has been that the law should protect competition—that it should not condone anything which would injure competition. Recent Federal Trade Commission policy on price discrimination and the Standard Oil of Indiana decision, 1951, have largely destroyed this principle. Today Congress must restudy and decide anew (*a*) if the law should permit discrimination to meet or match another's prices, even though injury to competition has, in fact, resulted; or (*b*) if discrimination should be condemned whenever the effect may be substantially to lessen competition.

6. THE POLICY OF THE FEDERAL TRADE COMMISSION AND THE ANTITRUST DIVISION WITH RESPECT TO BASING-POINT AND ZONE PRICING

In a series of cases, 1945 to 1948, the Federal courts declared that basing-point and zone pricing is a form and method of monopoly. The Pittsburgh-Plus, Corn Products, Staley, and Conduit (Count II) cases, it may be noted, were not based upon conspiracy charges.

In 1948 the Federal Trade Commission declared that most of the industrywide pricing systems were probably illegal. Vigorous efforts were thereupon made to change the law. These failed.

The basing-point industries, however, have been successful in changing the administration of the law. So long as basing-point pricing is carried on "innocently and independently," the Federal Trade Commission stated in 1951, action will not be taken against it. This view is quite erroneous. Legal and economic experts who have dealt with the problem know that the practice is never independently and rarely innocently indulged in.

As a result of its changed policies, the Federal Trade Commission has fallen into a great dilemma. Insofar as two or more geographically separate mills quote local f. o. b. mill prices, and then regularly discriminate, by absorbing freight, to meet delivered prices in each other's backyard, are they not getting the same results as the concerted use of basing-point pricing? How can the practice withstand the inference of conspiracy? Similarly, how effective is the work of the Antitrust Division in condemning conspiracies to maintain basing-point mechanisms, but then permitting systematic freight absorption to match prices? For example, the Ultramarine Blue case, 1954, and the Metal Abrasive case, 1954.

7. RAISING THE MAXIMUM FINE UNDER THE SHERMAN ACT

President Eisenhower is to be commended for his proposal to raise the maximum fine which may be imposed under the Sherman Act. In considering this measure, it is suggested that attention be given to the fact that there are relatively few instances today when Federal judges actually levy the present maximum of $5,000. In some cases, too, the judges levy a fine only on the corporation and not on the officers who devise the monopolistic schemes.

Further, there is the problem that defendants can escape treble-damage suits and stiff penalties through the plea of nolo contendere. Rasing the maximum fine under the Sherman Act, moreover, may not be effective so long as defendants found guilty of monopoly under section 5 of the Federal Trade Commission Act are allowed to go without any penalty whatsoever.

The CHAIRMAN. Thank you.

(Mr. Mund's prepared statement appears at p. 580.)

The CHAIRMAN. Mr. Quinn.

Mr. Quinn, as we all know, was formerly chairman of the General Electric Finance Corp. and vice president of General Electric.

STATEMENT OF THEODORE K. QUINN, PRESIDENT, T. K. QUINN CO., NEW YORK, N. Y.

Mr. QUINN. Thank you, Mr. Chairman.

I believe my statement comes within the 7-minute limit, and with your permission I shall proceed to read it.

The President's Economic Report refers to "encouraging private initiative" and "competition" and curbing "monopolistic tendencies." It mentions such sources of the Nation's strength as its "free institutions" and "opportunities."

I am concerned with the extent to which our economy is no longer free, opportunities restricted, and the capital and market power of the relatively few giant corporations daily becoming greater, and threatening our free institutions.

There are today 68 private billionaire corporations in the country, most of them with greater annual incomes than the separate 48 political States in the Union. As few as 200 giants own outright the most important half of all American industry. Their control, through enormous purchasing power, reaches back and over tens of thousands of suppliers who must either deal with them, on their price and specification terms, or be eliminated. It reaches outward also and covers through contracts hundreds of thousands of subservient distributors and dealers, dependent upon them for existence.

These giant collectives, so like dictatorships in their bureaucratic organization forms and methods, are now assuming political as well as economic roles, and through their skilled "public relations" publicity, lobbies, donations to schools and colleges, and the subtle and sinister influence of advertising expenditures on our communications media, they are transforming the organization of our society into a kind of American feudalism from which socialism appears to be the only ultimate escape.

The process of concentration has proceeded so rapidly that the new rule is 3 or 4 corporations controlling 75 percent or more of the production in each major industrial line. Traditional competition loses its constructive force under conditions where there are a few Goliaths and many little people. It means tragic and foregone conclusions when it marks contests between hundreds of millions of dollars, entrenched positions, and widely and intensively advertised brand names, on the one hand, against a few million or less, hopeful dollars, on the other—regardless of the relative merits of the goods or services involved. The cry for "free enterprise" comes as a mockery from those powerful giants whose real purpose is to be allowed to pursue further their excesses, without restrictions.

The existence of giants in any field forces others to combine and merge in self-defense—not necessarily for efficiency, as is so commonly misrepresented, but for compensating capital and market power.

Another alarming wave of mergers is presently sweeping the country, although strangely there is no reference to it in the Economic Report. We are moving headlong toward even bigger, dominating, undemocratic corporations with their self-elected and self-perpetuating officers and directors, and a less stable economy that looks increasingly to the Government for support. Powerful business is out after income relentlessly. Labor fights, understandably, for a larger share of that income. The result is an increasing wage and price spiral in inflation, in which the consumer and the small investor, urged by his Government to buy its bonds, is victimized.

The giant collectives certainly do not encourage private initiative or price competition. Neither do they curb monopolistic tendencies nor promote greater opportunity. On the contrary, concentrated economic power imitates the dictators, crushes individualism, makes mere numbers out of people, and threatens our democratic institutions. It is no answer at all to point to our great productive capacity or comparative prosperity. These are byproducts of a developing youthful economy. They need not be characteristic of the maturity that faces us. Neither is it any answer to play again the broken record of the alleged 4,000,000 small and independent businesses in the country without telling us how many are hot-dog-and-coffee stands, or hopeless little capital dissipating ventures destined to live like flies for only weeks or months, or gasoline station tenants of the big oil companies, misrepresented to the public as entirely free and independent dealers, but whose rents are constantly subject to prohibitive increase in a way that makes virtual serfs of them; or of the tens of thousands of suppliers living by sufferance; or of the hundreds of thousands of automobile, appliance, household, and specialty dealers, whose costs and sales prices are fixed, operating under contracts that give them no protection and are cancelable on 30 to 90 days' notice "with or without cause." Small and independent business is going the way of the American Indian, fighting a pitiful rear guard action, followed by our economic freedoms in retreat and then by our political freedoms, which historically never long outlast economic freedoms.

The remedy does not rest in small favors or benefits, skim milk or tossed bones, or any one measure. There must be a national reawakening to the vital implications of the problem. Given recognition of its deadly serious nature, its danger to our national welfare and revered institutions, and a determination to act while there is still time, we should proceed at once with courage and resolution to take the whole matter in hand.

Distinctions should be made between necessarily big business and those swollen giants for which there is a little or no justification from the standpoint of the good of our society. Our national policy should be directed toward the active encouragement of new ventures, of the genuinely independent and most efficient medium-sized firms, and the discouragement of the multiple-line giants grown huge through acquisitions and absorptions that should, for them, be made illegal. They should be forced, wherever possible and practicable, to decentralize physically and financially. Interlocking directorates among them should be prohibited. Corporate taxes should be graded gradually upward as are personal income taxes so that as little as 10 percent would be assessed against profits of $10,000, and as high as 75 percent when profits reach a billion dollars a year. Any remaining corporations with $250 million or more in gross assets, or more than 10 percent of the business in any major line, should be declared to be inevitably affected with a public interest. For each of these, at least, one new director should be appointed by the President of the United States, subject to Senate confirmation, and be in no way under any private influence. These directors, representing the public, would together constitute a national board of public directors where all of the policies and practices of the individual giants would be aired. The directors would be required through an effective central organization to widely publicize all irregular practices, coercion, undue advantages taken, illegal and unjust actions or contracts, bring to bear the full weight of public opinion in the public interest, and continually recommend remedial legislation to the Congress.

In the meantime, the antitrust laws should be strengthened in every possible way, and all other means taken to restore genuine and full freedom of opportunity and enterprise.

(The unread portion of Mr. Quinn's statement follows:)

The reality that confronts us is a decision as to the kind of a society we want. Expressions like "free enterprise," "equal opportunities," and "encouraging private initiative" no longer have the meanings ascribed to them a few decades ago. What we have in fact is a corporate-directed society in which three-fourths of the employed are working for someone else and more than one-half of all the employed are working for less than 1 percent of the corporations. A fundamental change is in process.

Essentially, the differences now between our system and Russia's is that we still have political freedom and a degree of economic freedom, at least at the consumer retail level, whereas the Russians are completely subject to a single, concentrated, nonrepresentative authority—the Kremlin. Politically, we have representative authority concentrated in Washington and in the 48 States of the Union. Economically, we have about 250 major centers of private, nonrepresentative authority. These are the huge corporations that are gradually assuming political as well as economic roles. They were never contemplated by our Founding Fathers, nor is there any provision for their commanding positions in our basic law. Nevertheless, they are more intimately related to our daily lives than the political authorities. For they largely determine, directly or indirectly, where and how we work, for whom, how much we are paid, our housing, the goods we consume, travel, entertainment, etc. Unless this picture is grasped one cannot hope to understand our society.

The current trend is toward fewer and bigger centralized, nonrepresentative, economic authorities, and in rather alarming fashion we appear to be accepting them. The President's report indicates little concern. Democratic government is responsible to a chain of command that rests finally with the people who vote. Private power is not democratic; control is held privately by the few and there is no effective vote. Those who would have us believe that freedom from a big government is the only issue are either grossly misinformed themselves or they seek deliberately to distract attention from the infringements of private power on our freedoms. This is one of the most disappointing aspects of the President's report. We are not partners in democratic government but merely subjects, under corporate domination.

How far we have gone toward accepting giant corporate power was indicated some months ago when the able and gentlemanly Harlow Curtice, president of General Motors, announced a projected expenditure of $2 billion for investment in the immediate future of that $10 billion gross-income corporation. It was widely acclaimed as a move that would help end the recession and bolster the economy, as it undoubtedly did. What was left publicly unchallenged was that any one man or a few should have that much power. No one reminded us that General Motors could have made a contrary decision with the reverse effect. While good deeds are always praiseworthy, we are in grave danger when the welfare of the whole country depends in any important degree upon the power and judgment of any one or few nonelected human beings, however gifted. That is the Russian, not the American way.

The employee of a big corporation which employs many or most of the people in any community is quite beholden to his employer, except perhaps as the employee may be heard through a trade union. It is for this reason that the unions would be well and patriotically advised to keep their organizations democratically controlled. Otherwise, they must be subject to the same criticism as the corporation employer. The employee can be discharged at any time at the will of his employer and be left without the means to live unless he can somehow pull up his roots, sell his home, if any, and move with his family to take a similar chance somewhere else. Indeed, the corporation may leave the community entirely, as has been done in a number of instances, with the result that it becomes a "ghost town"; or the employer may arbitrarily decide to move certain departments of its business elsewhere leaving behind permanently unemployed people, who must somehow be supported by the State or Federal Government. If the employee is a specialist, as are most of the highly skilled in industry today, on special machines or specific kinds of work or products, his discharge at any time may forever deprive him of the opportunity to capitalize on the skill he has acquired through years of devotion to that special work. Thus it is clear that the trend toward private concentrations of authority has serious social as well as political and economic effects.

There is continuing evidence of the growing power of the big fellows over the economy in the President's report. The 1954 income share of farmers fell to 4.1 percent of the total personal income, while that of small business dropped to 8.9 percent—both postwar lows. The share paid out in wages was 67.2 percent—lower than in 1953 and 1952. Personal income received in the form of dividends, from investments, rents and interest increased from 11.4 percent in 1952 to 12.1 percent in 1954. Since it is the nonowners of investment capital who spend most of their income for living purposes, it remains to be seen whether their relative reduction will not adversely affect the 1955–56 level of business activity.

The discussion at the committee hearing developed some misunderstanding of competition. Contrary to popular belief, competition is not always an unmixed good. Beyond a point it can be quite destructive if our aim is to preserve our democratic institutions. Competition between lions and dogs is not constructive unless the purpose is to build a society of lions and eliminate dogs. Competition in the automobile business, for example, has left us with only five companies. There is little question but that General Motors and Ford could eliminate the other three, and that eventually we may have only one, which again is essentially what they have in Russia. The long-run view of power and efficiency therefore requires us to consider now whether or not we should be better off with only one automobile manufacturer. Shall we then have what we want? Will one, single, private corporation doing an annual business of more than $20 billion, employing over a million people, with all of its attendant private power, be efficient in the larger social sense, or even the long-run economic sense? If we were wise we should act now by law to prevent elimination of the remaining three manufacturers, other than Ford and General Motors which have the capital to take care of themselves. Surely, five competitors is not too many in this great field.

One of the committee participants advanced the viewpoint, with respect to Government properties to be sold, that they must always go to the highest bidder, regardless. This is adhering with a vengeance to outmoded ideas of an imaginary free economy and competition. The notion eliminates every consideration except immediate cost or price—no thought of political, social or even long-run economic questions. It can only mean that the biggest, most powerful, the richest, not necessarily the most efficient, competent or desirable bidder, will prevail. Because the problems of modern society have become more complex there is a disposition to either duck them entirely or take the easiest way out, settle them according to wornout formulas and rationalize the method and the results.

One of the most dangerous of these rationalizations, expressed at the hearing, regards the trend toward giant, private concentrates as "natural" and therefore inevitable. It follows, unconsciously perhaps, the manner and logic of Karl Marx's dialectic reasoning. What he predicted would undoubtedly have come true and capitalism would indeed have failed, except for the changes, improvements and innovations we have wisely adopted. The doctrine of inevitability is fatalistic and fallacious. Why all of our efforts, our world building, our defense program, our hopes and aspirations if there is an unavoidable which is going to happen anyway? Every single act, every move we make denies its validity. "You can't do nuthin about it," is a complete and cowardly surrender.

The CHAIRMAN. Mr. Stocking.

OPENING STATEMENT OF GEORGE STOCKING, PROFESSOR OF ECONOMICS, VANDERBILT UNIVERSITY, NASHVILLE, TENN.

Mr. STOCKING. Mr. Chairman, and members of the committee, the President's Economic Report appropriately recognizes that the Attorney General has appointed a national committee to study the antitrust laws and to recommend improvements to promote competition and prevent monopoly. I understand that the committee's recommendations will be forthcoming by the end of this month. When they appear I assume the Congress will consider them carefully. Meanwhile, the President's report, without awaiting the committee's recommendations, recognizes the inadequacy of present penalties as a deterrent to violation of the Sherman Act and recommends a substantial increase in the maximum fines that may be imposed under the act.

Two other problems seem to me to be sufficiently pressing to justify the attention of Congress, and about one of them, at any rate, I believe we know enough to proceed intelligently. I refer to the McGuire Act amending the Miller-Tydings amendment of the Sherman Antitrust Act. These amendments, as you know, authorize resale price maintenance contracts in interstate transactions where States have authorized them in intrastate transactions, and they make them binding on third parties.

The economics of this arrangement is fairly clear. Resale price maintenance contracts have no meaning in a purely competitive market. For a farmer to undertake such contracts covering the wheat he sells would be both foolish and futile. For a resale price maintenance contract to have meaning, the seller of the trade-marked differentiated article must have some monopoly power in selling it. If he had no monopoly power, no distributor would contract with him to maintain its price.

By fixing a somewhat higher price for the resale of his product than some retailers would charge in the absence of resale price maintenance contracts, a manufacturer of a trade-marked article in effect puts a sales tax on it. Why does he do this? Manufacturers inaugurated the practice of fixing the retail price of trade-marked articles to protect the goodwill with which differentiation and advertising enveloped their products. They knew that retailers, when acting alone, might by their promotion and pricing policies push or retard the sale of one differentiated product at the expense of another and thereby might adversely affect the maker of any particular product.

Although in this way retailers may limit the monopoly power of the maker of a trade-marked article, in doing so they may defeat their own interests by engendering a vigorous competition among themselves. This has led them to favor a nonsigner clause in resale price maintenance contracts to insure that all of them will observe the manufacturer's resale price that any one of them contracts to maintain.

Lacking the power to insure common pricing policies without resorting to unlawful collusion and having learned from experience that some retailers will not voluntarily sign resale price maintenance contracts, retailers have sought authority from the Government to coerce recalcitrants. The McGuire Act supplies an element essential in making the monopoly of the trade-marked articles effective. Although some manufacturers have supported both the Miller-Tydings and the McGuire amendments, the drive for their passage came from various retail associations, chiefly the druggists' trade associations. Manufacturers instituted the practice to protect a limited monopoly, but retailers have used it to cartelize trade.

In two respects the Miller-Tydings amendment as amended by the McGuire Act is inconsistent with the aim of our antitrust statutes to preserve a free competitive economy.

First, in legalizing resale price maintenance contracts on articles in "free and open competition" with commodities of the same general class, the act embodies a conception of competition inconsistent with modern economic ideas. Generally, trade-marked articles are sold by relatively few rivals, among which "free and open competition" can scarcely exist. In one instance, the right of the makers of color films to fix the resale price of their product was upheld, although there were only two producers of color films in the entire country.

Second, although the law authorizes only vertical price-fixing arrangements, resale price maintenance contracts with a nonsigner clause permit retailers to enjoy the fruits of horizontal price fixing without paying its penalties. In doing so they not only tax consumers but penalize efficiency in retail distribution. I believe such contracts have no place in a program to promote competition and prevent monopoly.

The other problem which I regard as pressing is more complex and we know less about it. I refer to the significance of the structure of our contemporary economy and the position of the big companies in it. The Economic Report concludes that our economy is strong and progressive because it comprises—

> In addition to 5 million farm enterprises, 4 million independent centers of business decisions—each potentially free to experiment with new ideas, new men, new methods, and new products.

I believe this characterization overemphasizes the role of little business and underemphasizes the role of big business in the economy. The 4 million independent business enterprises comprise, on the one hand, tens of thousands of barbershops, beauty parlors, laundries, dry-cleaning establishments, small retail stores, and the like, together with a lesser number of moderate-sized corporations; and, on the other, a handful of giant corporations which in the aggregate control approximately one-half of the corporate assets of the country. Clearly a little businessman's decision signifies less to the functioning of the economy than the decision of any one of the large industrial giants.

I do not believe we know enough about the social, political, and economic significance of these large corporations, nor do we fully understand why they are so big. Sound public policy toward this question calls for more knowledge of the causes and consequences of bigness. On these issues economists differ. I for one believe that our several combination movements have played the major role in shaping industrial structure, and I have not found convincing those studies which come to a contrary conclusion.

While we cannot safely generalize about the economic consequences of bigness, I believe that if we wish to preserve a free private-enterprise economy—and I think we can agree on the desirability of this objective—public policy should be directed toward insuring as many firms in an industry as is consistent with the economies of scale. Many firms I believe have exceeded this limit, and mergers have played an important role in their doing so.

While the question of the extent and character of changes in our antitrust statutes may appropriately await the report of the Attorney General's committee, I believe the Congress should give serious consideration to a clearer declaration of their purposes, and I have the temerity to suggest that this might be done by amending our basic antitrust statute, the Sherman Act, through the incorporation of a preamble of the following sort:

"It is the policy of the Congress of the United States to encourage an effective competitive economy. This policy is designed to insure as many sellers in interstate markets as is consistent with the economies of scale. It is not intended to prevent growth through efficiency but to prevent the accumulation of market power, particularly through the merger of independent firms, the preemption of the supply of limited natural resources, or the abuse of patent privileges, and to prevent any and all restrictive agreements among business rivals. It strikes at power over the market, not economic efficiency."

The CHAIRMAN. If I may ask just a few questions of the panel? You make an interesting suggestion, Dr. Stocking, but, as I understand it, a preamble has no legislative effect. It merely enables the courts to try to judge legislative intent and I wonder if you had any specific ideas as to how this general purpose could be effected?

Mr. STOCKING. I think you are quite correct, but I believe that one of the reasons why Supreme Court decisions have sometimes given approval to existing industrial structures is the uncertainty which has been incorporated into the law by judicial decision with respect to the meaning of the statutes.

Section 1 of the Sherman Act prohibits every contract or combination, whether in the form of trust or otherwise, or conspiracy in restraint of trade. The language is comprehensive in scope. In my judgment, a study of the records of the Congress which enacted the statute will reveal that it was the purpose of the Congress to go as far as it could in restricting all interferences with free competition, but the adoption of the so-called rule of reason and its interpretation in the 1911 cases have resulted in court decisions which have legalized industrial combinations even though the record indicated that their size and growth were the result of the acquisition of independent firms and even though they had thereby obtained control over the market. I believe that a clearer declaration of purpose would have a significant influence on the manner in which the law is interpreted and enforced.

The CHAIRMAN. Well, I tend to agree with you, but I am wondering about specific provisions to implement that purpose. Some years ago a rather able inventor by the name of Raymond published a book in which he advocated that the total number of employees in a plant producing a given product with multiple shipping points should be limited to X—an unknown number—employees. He would permit economy's efficiency inside the firm to exist. He would permit integration and vertical combination insofar as that served efficiency, provided the products were sold from one point, but he would limit what is termed horizontal combination where he argued the advantages were not economic but market advantages where the advantages of the firm in question were disadvantageous for other firms, and not advantageous for the economy, and he therefore proposed a limitation, a simple rule that Congress fix X number of employees as the maximum to be hired by any one firm with multiple shipping points for a given product.

You probably read that book, and have some ideas about it. What is your judgment?

Mr. STOCKING. Well, I am skeptical of any arbitrary rule which would limit size. I believe that the number of employees appropriate to the optimum size plant will vary with technological conditions.

The CHAIRMAN. Well, he would permit the size of an individual plant to be as large as it was efficiently possible. It is merely that if you have a multiple shipping point the total would be limited.

Mr. STOCKING. Well, I am again somewhat skeptical of such a rule or provision. I hope I have an open mind about it, but in effect that would mean that a firm which by reason of its good fortune and foresight and administrative capacity or luck, as the case may be, had accumulated surplus funds available for investment, and had been permitted by Congress in the wisdom of its taxing power to retain those funds, or a firm which might go out into the market and obtain funds, would be prohibited from building, as I understand it, a plant in some other section of the country in which it would do business.

Now, that would seem to me to be a very far-reaching change in contemporary policy with respect to the rights of a business firm.

The CHAIRMAN. Well, let me make it clear that I am not necessarily advocating this idea, but in the absence of some concrete test, if you depend purely on administrative agencies and courts, do not the monopolies, the quasi-monopolies, the oligopolies, the big firms, always put out public representatives, with the result that the regulatory bodies come after a while to be controlled by the concerns which they are supposed to regulate; the nerves of the Attorney General being atrophied or cocainized, and, in general, the draft process, the intent of Congress is violated, the administrative agencies do not protect the public.

Those are harsh charges, and I see the representative of the Attorney General smiling, but is not that substantically a true statement?

Mr. STOCKING. I think there is considerable truth in the observation that a regulatory agency exposed continuously to the social and political and economic pressures of the agency regulated——

The CHAIRMAN. The group regulated?

Mr. STOCKING. The group regulated, I think there is a danger of the members of such an agency changing their point of view with regard to what constitutes sound public policy; hence, I am a little bit skeptical of Mr. Quinn's suggestion that you place on the board of directors of the large corporations a public representative. I am skeptical about the point of view which such a public representative might over the years come to hold. Moreover, I think there is a difference between a regulatory agency set up to establish rules and regulations with respect to the operation of business, and an agency which has the obligation under congressional enactment not to regulate an industry but to see that the industry does not regulate itself in such a way as to eliminate competition.

The CHAIRMAN. In other words, we need a virile Department of Justice?

Mr. STOCKING. I did not get your verb?

The CHAIRMAN. Virile, it is an adjective.

Mr. STOCKING. I think we always need a virile Department of Justice, particularly an antitrust division.

The CHAIRMAN. Do you think it is possible to attain that?

Mr. STOCKING. I think in the last two decades, dating back at least to the year in which I was first associated with the Antitrust Division, it has been a rather virile organization. That is to say, my observation in 1942 was that it was a very virile organization. It is my observation that within the limits of its funds today the Antitrust Division is still a virile organization, but I think it is being seriously handicapped by the loss of competent help; and I think that a Government department, like any other group in our society, is subject to the impact of public opinion with respect to what is good and what is bad. I think there are changes, there are vogues in the enforcement of the Antitrust Act, and I think that those vogues may reflect the changing public opinion with respect to it. I think it highly important that the law be so clear in its purpose and intent that its administration will not be affected adversely by passing vogues with respect to the economic theory or ideas which the public may hold with respect to the significance of size and to the importance of competition.

(Mr. Stocking's prepared statement appears at p. 582.)

The CHAIRMAN. Does anybody else want to volunteer a suggestion? Mr. Mund?

Mr. MUND. Senator Douglas, I would like to say that I can see real merit in your proposal.

The CHAIRMAN. Well, it is not my proposal. It is the proposal of Mr. Raymond.

Mr. MUND. Yes; but I suggest that there is danger that an administrative agency, as the FTC or the Department of Justice, might interpret it in such a way as to defeat the purpose of the law, as in the Antimerger Act of 1950. I think Congress spelled out very clearly what was to be prohibited in the Antimerger Act of 1950, and yet the tests spelled out by Congress have largely been set aside by the inclusion of the rule of reason.

The CHAIRMAN. It was the argument of Mr. Raymond that the naming of a specific number would preclude the rule, that you would simply have to find out, (*a*) if the concern had multiple shipping points, and (*b*) if it had more than X number of employees, say 50,000 or 100,000, or what have you.

Mr. MUND. That is true, but I think that an administrative agency could still find a way to get around it, if it so desired.

The CHAIRMAN. In other words, no matter what Congress intends the administrative agencies will subvert the principles of the legislation?

Mr. MUND. They can do so if they so desire.

The CHAIRMAN. Do you think they have in the past?

Mr. MUND. In a great many cases I think they have, and I think the answer must be found basically in the type of men that the President appoints, and the Senate confirms, for the Antitrust Division and the Federal Trade Commission.

The CHAIRMAN. Well, you know, if anybody defends the interests of consumers on a regulatory commission, he is immediately subjected to a crossfire of attack and it becomes extremely difficult for the President to reappoint him, and objections are raised to his confirmation by the Senate. You know that every feature of his past is gone over with a fine-tooth comb, and if anything derogatory can be found, it will be brought forward.

Under those conditions, those who protect the public interest are exposed to a terrific strain, and the safest thing is to go along, and when their term on the regulatory commission is over, most of them can find employment in private industry, frequently in the concerns which they supposedly regulated, at very large increases in salary, so that the road to promotion in private industry frequently lies through the regulatory agencies of the Government.

Mr. MUND. Mr. Chairman, some people have raised the question whether appointment, say, to the Federal Trade Commission, for example, should be subject to Senate confirmation. Perhaps, the party in power should have the opportunity to put across a program for which the voters have elected them to office.

That is true in certain foreign countries, such as Sweden. There, such appointees are not subject to parliamentary confirmation.

The CHAIRMAN. You seem to think the evils come from the Senate and not from the President. My observation is, on the whole, the legislative bodies are more anxious to enforce competition than the Executive.

Mr. MUND. I think you are right.

Vice Chairman PATMAN. They only exercise power through confirmation.

The CHAIRMAN. They exercise only negative power.

Vice Chairman PATMAN. That is right.

Mr. Quinn.

Mr. QUINN. As I recall Mr. Raymond's book, the title was "The Limitist." My reservation at the time had to do with a practical point. It seemed to be quite radical and less likely, therefore, to achieve any degree of acceptance.

Mr. Stocking has referred to my proposal for public directors and I think perhaps I am guilty of not making it clear that I would not introduce another regulatory agency. What I had in mind was to recognize the fact that these giant companies are quasi-public institutions and yet the public is not represented. The National Board of Public Directors would be a sounding board, if you please; a publicity organization more than anything else. That is where the offenders are vulnerable, not so much to fines.

Let it be known through some accredited group what the nature of each offense is. One of our great difficulties now is that because of the hundreds of millions of dollars that are poured into advertising, that support the newspapers and the magazines, television and radio, it is almost impossible to get both sides of the story printed anywhere. Even this week in Look magazine Mr. Gardner Cowles has an article in which he shows how the public approves of big business. He uses the word "big" indiscriminately without making any distinction between necessarily big and unnecessarily giant, but, of course, after all these years of pounding away during which no one of the slick publications, including Look, would ever dare print anything in the slightest degree inimical to giant business or even give the other side a hearing, why, of course, the public has been misled.

Mr. MUND. Senator Douglas, I would like to make two comments on this idea of consumer representatives. Under the NRA program the law provided for consumer representatives in the steel code. The steel people said "Yes, we will take a consumer representative, provided he is acceptable to us."

Secondly, when Senator Capehart had a committee to study basing-point pricing, he provided for the inclusion of consumer members on his committee, and one can examine the list to see whether or not they really represented the consumers. I question the wisdom of consumer representatives on the basis of those two examples—NRA and the basing-point inquiry.

The CHAIRMAN. There is only one more question that I would like to ask. Some years ago I introduced a bill, one of the variety of bills to provide capital for small business and for business which was just starting. I modeled it on the system in Germany with a provision for public funds, but with the public funds to be retired gradually out of the earnings of the system and with ultimate control in the hands of the small business borrowers.

Now, when I did that, I was met with a perfect barrage of objection and I was told that existing credit facilities were adequate for any small business which was sound. I would like Mr. George to comment on that, and perhaps differentiate between fixed capital and working capital.

Mr. GEORGE. Yes. Of course, it is a highly necessary differentiation. It is indispensable. Of all the people whose works I have seen, I don't recall any strong contention that small business could not have access to working capital. The main problem is the need for intermediate and long-term fixed capital, and I must say, in candor, that it is difficult to develop a well-documented case for a need of any specific magnitude. We were unable to do that.

As you know—and Senator Flanders is very familiar with efforts of this kind, having sponsored one himself—there are many private agencies in the country now that are trying to locate the small firms of particular merit and promise, and they have very tough going; that is, those that combine the properties of capable management and a good product and the other qualities that a man wants to see before he sinks his money.

Our conclusion in the end had to be based on spot evidence. We were convinced from the fact that cases are found that there must be many more of them that could be found and it was the kind of situation in which doubts ought to be resolved in favor of giving help rather than allowing good human resources to go to waste.

Now from that point on, you get into all sorts of questions as to the instrumentality which should be set up. We chose one in the end without any strong feeling of certainty about it, that it was the best. Our reasoning was that, particularly within the framework of this discussion, our concern should be in the main with the seed corn of business organization, the ones that could grow up and offer effective and vigorous competition to large business, an so we had in mind largely the firms within that bracket.

I think Dr. Kaplan did the same in his classification of firms having between eight and a hundred employees, and in the end we did prefer to have the effort made on a pilot-plant basis by the Federal Reserve banks, many of whom have been deeply interested in this quetion, although sitting on opposite sides of the fence as to the extent of the need.

The CHAIRMAN. Well, now, do you feel the lack is in getting capital for plant, for equipment, machinery?

Mr. GEORGE. Yes; it might also be in the case of a concern that had pushed ahead a little too vigorously, that was overextended on general grounds, and needed a little bit of parental help—because management has to go with these offers of money.

The CHAIRMAN. Well, why don't the local banks make these loans?

Mr. GEORGE. Local banks are restricted in many ways from making this type of loan. I never thought that local banks should go to the extent of making capital loans, loans for working captial, yes, but not long-term loans. Many of them have, of course.

The CHAIRMAN. Of course.

Mr. GEORGE. Many of them have, but I think they ran up to around 3-year or 5-year loans, and they are more restricted than the kind of accommodation that we have had in mind.

The CHAIRMAN. Well, are they restricted by their own decision or by the rulings of the bank examiners?

Mr. GEORGE. Well, of course, it is both. You have a large universe of bankers here, and as you well know, you will find a whole spectrum of ideas among them and convictions as to what they should do.

The CHAIRMAN. Do you think that legislative relaxation of the rules of bank examiners, national bank examiners, would help?

Mr. GEORGE. Well, on two counts I question it. One is that that is opening Pandora's box, in a way, and there are so many other considerations involved that I would hesitate to speak about them firmly as of this moment; and the second is that I think that there are other remedies more plainly available and we ought to try them.

The CHAIRMAN. That is, new institutions?

Mr. GEORGE. New institutions on an experimental basis. Bear in mind too that part of the need is for equity capital. Commercial banks can't supply this.

The CHAIRMAN. Mr. Wolcott.

Representative WOLCOTT. No questions.

The CHAIRMAN. Mr. Patman.

Vice Chairman PATMAN. Mr. Adams, you mentioned a $50,000 fine, and I believe increasing the fine. What effect would a $50,000 fine have on a giant corporation that is willing to pay $100,000 for an emcee on one of our radio or television programs?

Mr. ADAMS. Well, as you recollect, of course, Congressman Patman, the fine itself is a punitive device. It is not an instrument for correcting the basic cause of the malady.

Vice Chairman PATMAN. But shouldn't it be sufficient to deter the would-be offenders?

Mr. ADAMS. The fine itself is inadequate, and even if you raised it to $50,000——

Vice Chairman PATMAN. It would still be inadequate?

Mr. ADAMS. It would still be inadequate.

Vice Chairman PATMAN. Should you leave it up to the judge? He is appointed for life. He is a public servant, and if he makes an error, there is a certain court of appeals to correct it, there is the United States Supreme Court to correct it. Why shouldn't you leave it up to the judge of the court to determine what would be a deterrent and what would be the right kind of fine? Don't you think that should receive consideration?

Mr. ADAMS. Well, it should. I do not know what precedent there is for an indeterminate fine. Of course, the courts have been quite willing in the United Mine Workers case to impose quite a sizeable fine.

Vice Chairman PATMAN. And you mentioned about the prices of certain things increasing. Wasn't the price of selected steel items recently increased when the steel companies were only producing at a rate of about 80 percent of their capacity?

Mr. ADAMS. Yes.

Vice Chairman PATMAN. That can only be done where a monopoly is in control, isn't that so?

Mr. ADAMS. That is right.

Vice Chairman PATMAN. That is the only time it can be done and that same thing applied to other situations, like aluminum and copper, does it not?

Mr. ADAMS. That is correct.

Vice Chairman PATMAN. Thereby increasing the price of industrial raw and semiprocessed materials and squeezing the nonintegrated and small concerns unnecessarily.

You mentioned about the trucks awhile ago, having a roadway furnished them free. Of course, the trucks pay gasoline taxes and other taxes; do they not?

Mr. ADAMS. That is quite correct. All I meant to imply there, Congressman Patman, was that there was no fixed expense in the same sense as the railroad providing a roadbed, and if the expense can be met on a pay-as-you-go basis, entry into that kind of industry is easy, or could be easy.

Vice Chairman PATMAN. May I ask Dr. Stocking a question:

You are a member of this advisory committee; are you not, Dr. Stocking?

Mr. STOCKING. No, sir.

Vice CHAIRMAN. You were selected; were you not?

Mr. STOCKING. I was invited to be a member, but I did not accept the invitation.

Vice Chairman PATMAN. Well, I know originally you were offered a place. Are you on it, Dr. Adams?

Mr. ADAMS. Yes, sir, I am.

Vice Chairman PATMAN. Maybe I was mistaken about the way that was set up. I thought Congress had something to do with setting it up. I have been told by one of the staff members here it was set up by the Attorney General as a voluntary organization.

Where does the group get the funds with which to operate?

Mr. ADAMS. Of course, the members of the Commission are unpaid. I think such funds as the Committee has available come from the antitrust appropriation. Mr. Foote, I think, is in a better position to answer that question than I am.

Vice Chairman PATMAN. From the Department of Justice?

Mr. ADAMS. Yes, sir.

Vice Chairman PATMAN. Of course, Congress appropriates the funds and therefore we have a connection with it and a responsibility for it.

Mr. ADAMS. Yes, sir.

Vice Chairman PATMAN. I have certainly appreciated and enjoyed all of the statements that have been made, but there is one outstanding statement to my mind, having worked with the Small Business Committee now for about 15 years, since it was organized, and having given a great deal of time and attention to small and independent business, I think Mr. Quinn made one of the finest, the most intelligent and one of the most forthright statements I have ever heard.

There are a couple of paragraphs in this statement that I should shock every Member of Congress out of his seat. It is really shocking, it is disturbing, and yet it is the truth, and we all know it and recognize it and do nothing about it.

With your permission, Mr. Chairman, I want to read two short paragraphs here. Some of the members probably were not here, but I hope you listen to this. This is Mr. Quinn's testimony:

> There are today 68 private billionaire corporations in the country. Most of them with greater annual incomes than the 48 political States of the Union. As few as 200 industrial giants own outright the most important half of all American industry. Their control through enormous purchasing power reaches back and over tens of thousands of suppliers who must either deal with them on their price and specific terms or be eliminated. It reaches outward also and covers through contracts hundreds of thousands of subservient distributors and dealers, dependent upon them for existence. These giant collectives, so like dictatorships in their bureaucratic organization forms and methods, are now assuming political as well as economic roles, and through their skilled public relations publicity, lobbies, donations to schools and colleges, and the subtle and sinister influence of advertising expenditures on our communications media, they are transforming the organization of our society into a kind of American feudalism from which socialism appears to be the only ultimate escape.

Is it your opinion, Mr. Quinn, that about the nearest step to socialism in our country is through the monopolistic route?

Mr. QUINN. I think that we are on the way.

Vice Chairman PATMAN. In other words, when a whole industry gets into the hands of one concern, then we will go back and begin to consider what the Republican Party used to put in its platform all of the time, and what the Democrats used to put in their platform all of the time, there was no difference of opinion between them on the point that private monopoly was indefensible and intolerable; they will go back to that and say: Now if it is a private monopoly, we will just take it over.

Is that your concern about it?

Mr. QUINN. That is right. When you get to the point of where it is just a question of who is going to run it, I may be in favor of, and I am, of free enterprise, so-called, or what little is left of it, but when it gets to be a question of whether I am going to be controlled by relatively few or one private interest, on the one hand, where my vote means nothing, or on the other, where at least I am an American citizen and have an effective vote, the choice will be easy and I will vote, for democratic socialism.

Vice Chairman PATMAN. Well, there is one point that can be developed from what you said here that shows the public interest in these giant corporations, and that is the question of costless capital. It is my contention a small concern is vulnerable to the attacks of the large concern. I will tell you why. These monopolistic concerns can administer their prices. It has been proven recently. When the war was over, prices were not reduced. When the excess-profits tax was repealed, it was said that prices would be reduced, but they were not reduced. The reason was that they wanted to charge the consumers all the traffic would bear for the purpose of not only paying their operating expenses, and providing large dividends to their stockholders but in addition they wanted to have a huge amount set aside as retained earnings which they could use as costless capital. The little concern could not do that. It was not big enough to do it. With this costless capital, the large concerns put in plants and stores all over the United States in competition with small concerns, and what chance has the small man across the street from an outlet like that that is being provided and furnished with costless capital to sustain it when the little man has to go to the bank and pay a high rate of interest.

In other words, if he has got to borrow his money for expansion, what chance would he have, Mr. Quinn?

Mr. QUINN. I would say very little. The difference in the cost of capital would be a very generous contribution to the margin of profit for the very large company. That is why I think the question is one of policy, whether we want to go that way.

Vice Chairman PATMAN. That is right, and there is another aspect of this that is affecting our economy right now. It is affecting the stock market. I pointed out a year and a half ago before this committee the fact that people do not have the opportunities to invest now. These large billionaire concerns are not putting out as many new securities as they used to when they were smaller and had to have money. They were issuing new securities then and savers and investors had an opportunity to buy those securities but as they have gotten large, they can get their costless capital out of the consumer and they not only do not have to borrow new capital, but they can actually go into competition with investment companies and banks. They are doing it today. The opportunities to invest have been restricted with the result that investors go into the stock market and buy up existing securities in competition with other people.

Don't you think that enters into the stock market today, Mr. Quinn?

Mr. QUINN. I do.

Vice Chairman PATMAN. And it has a devastating effect. In February 1953, the margin requirement was reduced by the Federal reserve to encourage people to come in and invest, and expand margin trading. Then the brokers promoted the plan to buy stocks on the investment plan, $5 down a month, inducing them to come in. Then the Treasury sponsored a bill to exempt the first $100 of dividends from taxation to bring more of them in. Consequently with a large group looking for an opportunity to invest, with the incentives provided for investment, certainly we would have a boom stock market. But this is a boom based on "paper" not on "wheels."

It is just a question of how long it will last. One other point and I will be through.

A remedy has been offered which I think is a very sensible remedy for handling the problem of bigness. I am referring to the suggestion of Mr. Quinn. It is based upon ability to pay. That is what our present income-tax law is based upon, ability to pay. It is being violated, and laws have been passed disrupting it and changing its course, but that is the principle upon which it is based, ability to pay.

Now, Mr. Quinn suggests that these giant corporations should be made, wherever possible and practical, to decentralize physically and financially. Interlocking directorates among them should be prohibited. Corporate taxes should be graded gradually upward as are personal income taxes, so that as little as 10 percent would be assessed against profits of $10,000, and as high as 75 percent when profits reach $1 billion a year.

Now remaining corporations with $250 million or more in gross assets, or more than 10 percent of the business in any major line, should be declared to be inevitably affected with a public interest. I think that is a good suggestion and a fine remedy and I hope it is considered by this Congress.

I am going to keep on pointing it out to them, I can assure you of that.

Now, Mr. Chairman, I have a few other questions, but I will desist now until the other members have an opportunity.

The CHAIRMAN. Senator Flanders.

Senator FLANDERS. Mr. George, I noted your reference to the fact that I have had some experience with this problem of finding capital for small companies.

Mr. GEORGE. Yes, sir.

Senator FLANDERS. I have had that experience in three different ways. As president of the Federal Reserve Bank of Boston, I favored the extension of capital loans for business under certain conditions. The bank had had a good experience but only a few cases where it seemed warranted. Now, the second experience also occurred in Boston, where I joined with some other Boston people in the forming of the American Research and Development Corp. for channeling private and fiduciary funds into capital support of new undertakings. That has proved to be very good. It is broadening year by year.

There is one interesting thing about it, however, which I think is pertinent to these capital loans in general, and is in a way a discouraging feature. That is that it has been found necessary, in most cases, to supply management council as well as capital funds, so that the scale of the operation becomes dependent not merely on the supply of money available, but also on the supply of managerial ability available.

I think the managerial ability has set a lower limit for the operations than has the lack of capital which might be made available. Then, thirdly, I have had the experience of sponsoring in the Senate legislation which originated with the researches of Dr. Kaplan for the CED, and that we never were able to get to.

I believe you joined me, or I joined you. I forget who joined whom, but you inevitably feel that there is an unfilled spot of some sort in that area and I have had experience with two and have endeavored to set up a third one, but I did find, as I say, whether in the bank or in the American Research and Development Corp., that there was a need, particularly in the new organization ofttimes for management supervision, as well as for capital investment.

Now I would like to raise a couple of questions of Mr. Adams. We are supposed to be asking questions, Mr. Chairman, and I am making speeches.

The CHAIRMAN. I think we are not precluded from making comments.

Senator FLANDERS. Very well. One of the notes in Mr. Adams' paper, in section 4, legislative power, speaking of the Atomic Energy Commission, states that an open door does not afford equality of opportunity when some contestants are on the doorstep while others are miles away.

It would seem to me that throwing atomic energy open to competition, particularly in the field of power development, is a very difficult undertaking. So far, the private investors in atomic power have been invited in in accordance with their willingness to put millions into the project themselves. In other words, that is the door that has been thrown open, and that foot that is put into that open door is in the form of millions of dollars of the private corporations' own funds.

Now whether it could be done any other way, I do not know, but it seems to me that the conditions under which power development has been offered to the public should be noted.

Have you any comment on that?

Mr. ADAMS. Well, Senator, you have pointed to a real difficulty there. What I had in mind primarily on this open door question is the point that was made very clear in the Senate debate on the bill and that referred primarily to patents. There was a handfull of companies that had the advantage of being in the atomic energy program. They gained experience and know-how at Government expense and they were in a dominant position as of 1954, when the act was passed.

They had the know-how and newcomers would find it difficult to enter the field. Now, whether the protection afforded by the 5-year compulsory licensing period is adequate, I don't know. It is too soon to tell. But I think Congress might have been willing to extend that compulsory licensing period to about 10 or 15 years.

I think we would have played it much safer that way. Nobody has the power to predict the future and I would hesitate to do so, but on the record I think this is extremely dangerous.

Senator FLANDERS. I also note your reference to the ICC's control of the interstate common carrier truck. I may say that I am allergic to these highway boxcars. I do not like to meet them, I do not like to pass them, I do not like to see them. They are an abomination of desolation, spoken of by the prophet Jeremiah, yet I do not find any more than you do here the justification for controlling them, for getting a certificate of convenience and necessity and submitting to rate regulation.

In spite of the fact that I do not like them, I do not see that the regulation is justified on public grounds.

Mr. ADAMS. Senator, if I may expand on that point, one of the basic questions before the committee is how can we promote more competition, and I respectfully suggest that the Government itself has today become a promonopoly force in the economy and I hope Senator Douglas will bear me out on this, but if you read Adam Smith carefully, Adam Smith did not have in mind, when he opposed governmental interference in the economic life of a nation, he did not have in mind the things that the self-righteous and self-serving free enterprisers are today talking about. He objected to government in those days because it was an instrument for creating monopoly, because it was an instrument for creating privilege, and that was the thing that Adam Smith attacked.

Now I venture to say that Adam Smith and the lesson he tried to teach are as applicable today as they were in 1776, and one way to get more competition is by getting the Government to reduce the regulatory power that Government exercises in such fields as trucking and airlines, and so on. These are specific danger areas that Congress might pay attention to.

The CHAIRMAN. But where there is a natural monopoly, would you say that regulation should be amended, as, for example, in the transportation of natural gas?

Mr. ADAMS. Well, Senator, there is no question about that, but even where you have the natural monopoly, I would be very strongly in favor of a yardstick notion. Some competitive element being introduced, because the history of regulation shows that without a competitive yardstick, regulation is impossible; it is ineffectual; and it does not protect the consumer interest.

There was a time when the doctrinaire "Liberal"—and I use that word in quotation marks—used to think that all ills of society could be solved simply by regulating the monopolist or by taking him over. I venture to say that is no solution.

I think our experience with the regulated industries has shown that the solution lies in competition and not in regulation, because the regulatees will wind up doing the regulating.

The CHAIRMAN. Well, I agree with you, and I do not know the opinion of the other members; but where the cost of a pipeline is so great that you do not have alternative pipelines serving an area or a customer, is not that more or less natural monoply?

Mr. ADAMS. I would think so, yes, sir; but that, of course, does not apply in the transportation field.

The CHAIRMAN. I understand, but I did not want you to go too far in this attack on regulation.

Senator FLANDERS. The last item is a true bill of particulars against the Government. Is the effect of Government regulation on—what kind of airlines do we call it—nonscheduled airlines—are there any elements of natural monopoly in the airlines that requires holding down the nonscheduled ones and favoring the established airlines?

I do not see that you have gone into that question as to whether there are any, as to what the justifications may be.

Mr. ADAMS. Well, Senator, I think the basic question there is not how much monopoly do we dare to tolerate, but rather how much competition should we try to promote, and I would say that the answer to the latter question; that is, how much competition can be promoted in that field, is unknown, simply because the agency, the CAB in this case, has not taken an experimental attitude.

Since 1938, when the Civil Aeronautics Act was passed, not a single major carrier has been certificated, despite a tremendous growth in demand. Now, as I look at the economics of the industry, I do not see the justification for monopoly there. It is not a public-utility type of industry. Capital can be added in small doses, the danger of duplication, as in the case of the railroads, simply doesn't apply in the airlines.

Senator FLANDERS. Of course, we find the air terminals and the landing fields crowded about to the limit of their capacity. Who built the Washington airfield? Who paid for it? The Federal Government paid for that.

Sometimes municipalities pay for the local airfield. In general, there is no such prescriptive right to the use of an airfield, I would judge, for the airline, that there is for the railroad with its own privately built railroad stations and right-of-way, so that to that extent, at least, there is less justification than there is for the restricted entrances to the big cities by the railroads under their own.

Mr. ADAMS. That is quite right, sir.

Senator FLANDERS. I can see that the addition of new lines embarrasses the management of these Federal or municipal air terminals, but that is just simply saying that the expansion of the industry is embarrassing and if the industry is to be allowed to expand, those considerations have to be met.

It seems to me, in other words, that you make a good case for the Government having arbitrarily restricted competition in the airline field.

Now, I was going to—are there any official time limits on us?

The CHAIRMAN. No, certainly not. It would be impossible to impose them.

Senator FLANDERS. Should I promise to quit in 5 minutes? I would like to go just a little further. Looking at Mr. Quinn's document, I judge on page 2, at the foot of the page, Mr. Quinn, that you feel that the wage and price spiral of inflation is one, the generating of which the big corporation is especially susceptible to, more so than the small corporation.

Will you explain why you feel that way?

Mr. QUINN. Well, because the large corporation or corporations set the price pace, as was indicated a moment ago here with respect to steel, when even during a period of recession or declining prosperity, with the steel capacity only 70 percent of total, prices were raised.

Now the ability, therefore, of the larger company through price leadership, or however, to hold a price or even increase it, is the first move in the direction of inflation.

Senator FLANDERS. And your point is, then, that the big corporation makes the move in price inflation and the smaller ones follow?

Mr. QUINN. Yes.

Senator FLANDERS. And that if the smaller ones made the first move, the big ones would not necessarily follow?

Mr. QUINN. No, they would not dare do it unless forced, Senator.

Senator FLANDERS. They would not dare do it. Mr. Patman, as I understood him, spoke of a squeeze being offered by the big companies when they raised prices. I had thought of it as being a great boon to the small corporations to have this umbrella held over them.

I think Judge Gaylord invented the term, holding an umbrella over an industry.

Vice Chairman PATMAN. I do not see any comparable situation there at all. You see, what I meant was, Senator Flanders, these wholly integrated concerns, it doesn't bother them for the price of the raw material or semifinished goods to be raised, because they can absorb it. The little concern cannot pass it on or he will lose his share of the market. It is only the people who have price leadership who can pass it on, and they are the very large ones. Therefore, when I said that the little fellow is caught in the squeeze when these industrial raw material and semifinished goods prices are raised, I meant that he is less able to absorb these increases in his costs of production.

Senator FLANDERS. The little fellow can stay where he is and get more of the market, but my observation is he gladly follows the price leadership, and with some enthusiasm, in fact.

Mr. QUINN. Senator, may I comment on that?

Senator FLANDERS. Yes.

Mr. QUINN. The way it works is this: I have been there. The big fellow sets out a percentage of the market which he has in his mind. That is his aim, and he is going to maintain that percentage of the market at all cost. If he has to reduce the price to do it, he will.

Now, on the day of the association meeting, or however, he simply states what his prices are going to be. He does not violate any law. He indicates his prices are going to be so much. It is tacitly understood among the little fellows who may be present that they are allowed some reasonable lower differentiation. They may go 5 percent less or 10 percent less, but let them go further than that and they do it with full knowledge aforethought that the big fellow, having the power and might, will reach down and see that they do not increase their percentage of the market.

So any notion that the little fellow can increase his percentage of the business by lowering his price in the presence of a controlling oligopoly, if you please, or a limited number is, I think, mistaken.

Senator FLANDERS. But he can have that little differential to play with, which ought to be helpful. Now I am pretty near through, Mr. Chairman. I said 5 minutes and here it is 5 minutes sharp.

The CHAIRMAN. I must apologize to Congressman Patman. I invoked the 5-minute rule on him at our first meeting. I have since not invoked it on anyone else, so I have singled out Congressman Patman for discriminatory treatment.

Vice Chairman PATMAN. I have gone over that limit so many times since, I will forgive you.

The CHAIRMAN. Mr. Kelley.

Representative KELLEY. Mr. Chairman, I would like to direct a question to Mr. Quinn. These monopolistic practices you set forth here, do they or do they not militate against the intent and the purposes of the Congress as set forth in the Full Employment Act; namely, that the objective should be the maximum employment, maximum production, and maximum purchasing power?

Do you think those practices militate against the carrying out of those purposes and intent?

Mr. QUINN. Yes, I do.

The purpose of a business is to make money, and the corporation will devote its strength and its resources and its ability to that objective. It will employ what number of workers will serve that purpose. At any point along the line where it appears that they are going to have a greater supply, greater production, than the demand, why, they simply lay off the workers and throw them on the bounty of the State.

Representative KELLEY. In my mind, they want full production and full purchasing power, regardless of the full employment.

Mr. QUINN. Yes, I think the objective of full employment is a highly desirable one, but whether we have it or not depends on whether the producer can sell his production, and if he cannot you won't have the employment, however many devout statements we make.

The CHAIRMAN. I interpret your statement, Mr. Quinn, as being that with monopoly prices tending to be higher than the competition, that therefore a smaller quantity will be produced, and, hence, employment will be dampened.

Mr. QUINN. Yes. Which is what happens. We have the facts in industry.

The CHAIRMAN. Mr. Kelley.

Representative KELLEY. Mr. Quinn, you mention the political and economic role which these monopolies are exercising. I have the feeling that whatever measure the administration might wish to take to bring about full employment, is prevented by the monopolies because they want a surplus labor market for their own benefit. They do not want maximum employment. We hear a lot of talk about high employment. That is not the same thing.

Would you care to comment on that?

Mr. QUINN. I think that is true. It goes back to the question of what the basic purpose of the business is. It is not necessarily to foster full employment, but I hope that the slogan "full employment" is kept alive, and I hope that every Congressman and every Senator fights for it, however we get it, because it is more important to more people than any profit to anybody.

Representative KELLEY. How can you have maximum purchasing power without maximum employment?

Mr. QUINN. Well, of course, you can employ people in many ways. I understand that consideration is being given as a standby, for example, to the program for building a hundred billions dollars worth of roads. That would employ a lot of people, and create a lot of purchasing power, and that would be its purpose.

Representative KELLEY. Well, of course, there are many things that the Government can do, of course, to encourage maximum purchasing power, and I think that was the intent of the Full Employment Act, to bring that about, but my question was that I do not believe that the influence exercised by these monopolies are helping that. In fact, they are preventing it. If the Government wants to use those measures to bring about full employment, full production, they are prevented by the economic and political role which these monopolies exercise, in the face of whatever the Government might wish to do.

Mr. QUINN. With or without intent, that is the effect.

Representative KELLEY. That is all, Mr. Chairman.

(Whereupon, at 12:15 p. m., a recess was taken until 2:15 p. m. of the same day.)

AFTERNOON SESSION

The Joint Committee met at 2:15 p. m., Senator Paul H. Douglas, chairman, presiding.

Present: Senator Douglas, chairman, Senator O'Mahoney, Senator Goldwater, Representative Patman, vice chairman, and Representative Kelley, Talle, and Curtis.

The CHAIRMAN. We left off questioning this morning when it was Congressman Talle's turn.

Representative TALLE. Mr. Chairman, at the outset I want to say that I am delighted that you gentlemen are here. I will appreciate all of the education you can supply me. I confess the need for it.

Now, at the outset it is fair to say, isn't it, that this problem is not new but very old. In our own economic history it is at least 80 years old as a very important problem, starting with the early 1870's and carrying down through the various devices of trusts, pools, mergers, interlocking directorates, communities of interest, and gentlemen's agreements, and the other devices that culminated in the Sherman Act of 1890. Apparently that wasn't enough, and so teeth were put into the act in 1914, by passing the Clayton Act, and then the Federal Trade Commission was set up in 1914 also as preventive medicine to stop monopolistic practices from getting started.

What was the committee called, Mr. Chairman, that held extensive hearings about in 1937?

The CHAIRMAN. You mean the temporary National Economic Committee?

Representative TALLE. Yes.

On my bookshelf I have a large set of hearings of the TNEC. I believe my brief review proves that the problem is pretty old.

Furthermore, I think that we are agreed that monopoly is not necessarily bad, because we have natural monopolies like the diamond monopoly in the Kimberly mines, and we have a monopoly by statute in the Post Office Department. We can probably thin this down and get to the area that we are really concerned about. There are a good many monopolies we do want. I can remember trying to traverse San Francisco in 1915, and I found I had to take three different streetcars to get where I wanted to go. So in transportation, communication, and other utilities like waterworks, we agree that monopoly is a good thing, and we protect through rate regulation and franchises.

Are we agreed that what the monopolist is after is the highest net profit per unit of output?

Mr. MUND. I would not limit it to per unit of output. I would say the largest net after taxes for the company, as such, for its operation, as a whole.

Representative TALLE. All right. We are probably correct in generalizing that a monopoly price is ultimately a high price, and the monopolist will test various demand curves and supply curves until he finds the most profitable price. It is always a high price.

A person could get rich quickly by having 90 percent control of the supply of a good for which there is inelastic demand.

Now, how much of the supply of a good must you control in order really to control it? Let me define what I think a monopoly is:

Such control over supply as enables one to fix prices. In some cases do you think 30 percent would be enough?

Mr. MUND. Yes.

Representative TALLE. In other cases probably 90?

Mr. MUND. I think a person should qualify it also by the region in which the activity is located. For example, cement. Cement is really shipped over 500 miles. You could have a monopoly with only 10 percent of the national output, because transportation costs would permit you to control prices in a given area.

Representative TALLE. What would you say are the troublesome industries? What are the industries we are really talking about in connection with this panel? We are not talking about natural monopolies or those that we allow by statute. What are the fields that really concern the panel?

Mr. MUND. The basic industries, iron, steel, cement, nonferrous metals, products of general industry.

Mr. QUINN. All other fields except the public utilities.

Mr. MUND. That is right. Exclude banking and public utilities and take all of the other fields of industry, merchandising and manufacturing.

Mr. ADAMS. And I would want to qualify that. I would say there is more competition possible in some of the public utilities than we now have. I am not willing to concede the point that some of the public utilities are what may be called a natural monopoly.

Mr. GEORGE. I might add also that the economist is always confronted with great difficulty in defining the market, a fact which is familiar to everyone here. A product is not merely a product. A product has to take into account all of the variations, the differentiations, and substitute products that might be competing with them for the existing market, and sometimes they are very difficult to measure.

Representative TALLE. I was interested in Dr. Quinn's statement that there is not much free enterprise left. Now, if you single out the fields in which competition is still very active, wouldn't you put agriculture at the top?

Mr. QUINN. Yes, except to the extent that Government moves in with price supports, and I think also among consumers and at the retail level. There is competition among retailers.

Representative TALLE. Yes, that was my second question. The next in order after agriculture is retail merchandising, and moving from those two broad fields in which competition is still very active, you move toward more and more of a situation in which prices are pretty sticky.

Mr. MUND. Yes, that is right.

Representative TALLE. I suppose that is the field that we are concerned about.

Now, what shall we do? Shall we undertake to get more competition in that vast area where prices are sticky, or shall we permit the remaining competitive fields, agriculture and retail merchandising, to have rigidity all the way through, too? Isn't that the problem?

Mr. MUND. Yes.

Representative TALLE. Rigidity versus flexibility. Now, if I may pose a practical problem to you.

We start with agriculture, and we have competition. At the other end is the grocery counter, retail merchandising. We have competition at those two ends. But, what is the situation in the long road between those two points, and what can we do about it?

Mr. MUND. Well, we can surely attempt to create and maintain competition. By competition, I mean freedom of entry and price competition. Anybody is free to enter a trade or occupation of his own choice. We must preserve freedom of entry. The other feature is price competition, independent action on prices within a given field. I think that in the range between agriculture and retail trade, as you mentioned, on through to the types of monopolistic or oligopolistic industries where they manage prices, and entry is not free because of control of resources or patents or other factors, we should attempt to maintain and create competition by using the antitrust laws that we have.

That, I think, is the big problem, to make use of the laws which we have. We have many tools in our kit, and the thing is to use these tools through an effective, revitalized antitrust program on the part of the Justice Department and the Federal Trade Commission. I feel these agencies just have not been doing their job effectively.

Representative TALLE. You believe, then, that the solution lies in enforcement of the tools we have now rather than fresh in enactment?

Mr. MUND. That is basic. We must use them fully, and then if we find shortcomings and inadequacies, then we should try to add new tools to our kit.

Mr. ADAMS. May I add something to that, Congressman?

Representative TALLE. Oh, yes, indeed.

Mr. ADAMS. I think a competitive philosophy has to be built into every branch of Government. It is not enough to enforce the antitrust laws in a negative way. The Defense Department, for example, in awarding contracts has to be aware of the antitrust implications of the things it does. It should not by awarding contracts, for example, promote concentration. In enforcing the accelerated amortization provision in the tax laws, there, too, we ought to make sure that these certificates of necessity, so-called, be spread rather evenly, at least not in a way to enhance the degree of concentration that we now have.

That is, it isn't enough merely to enforce the law. You need positive, imaginative action on the administrative level.

Mr. MUND. On the part of all agencies?

Mr. ADAMS. On the part of all agencies.

Mr. MUND. Yes. That is correct.

Representative TALLE. The way it looks to me is we must face two realities: One is war, and I wonder how effectively we could carry on production for war purposes without these large concerns? I remember not many years ago we passed a law—my colleagues will check me on this—which loosened our restrictions upon the formation of trusts, an amendment which in effect permitted a trust operation; in other words, setting aside a part of our law against trusts. We did it by force of necessity. We will have to face this situation, won't we, that when we have big wars we may need big industry?

Mr. MUND. Well, I think that one question would be whether or not we need to permit this continuing wave of mergers, because the fact of mergers does not usually change the physical structure of the basic industry. It simply centralizes the control of the plants in one or a few hands. You do not have any more steel mills; you do not have bigger steel mills; you simply have 3 or 4 companies controlling the steel mills instead of 6 or 8 companies.

Representative TALLE. Monopoly through horizontal consolidation.

Mr. MUND. Yes. The fact of mergers does not make bigger and better industry; it just affects the control. It does not affect the size and efficiency of the plants, themselves. It would be as if one university, say the University of Chicago, were to buy up all of the State universities. I question whether concentrated control is necessary for the war effort.

Mr. ADAMS. And, besides, once you concede the great advantage of centralized control in the interests of national defense, you are in effect espousing the argument for socialism, centralized planning, which is the acme of efficiency you can reach, given that line of reasoning. I would disagree with it.

Mr. QUINN. Congressman, I have used the illustration on this subject, of the German airplane industry at the beginning of the war. You remember they just had one concentrated centralized control, and they got out the Messerschmidt, and it was a good airplane. For a while it was devastating, but in this country we had 8 or 10 companies—I have forgotten how many exactly, but a number of them, and they were in competition with each other. While we may have been behind at the start the competition in that industry soon led us into a superior position. We were able to get better planes because with the competitive influence, each one trying to outdo the other, eventually we were victorious, and we had a superior plane.

If they had all been under one command, the tendency would have been, presumably, for them to have stayed with some one model. There is less innovation, less incentive for new development.

Representative TALLE. I am wondering if we had a whole array of smaller plants and a big war came along, if the Government would not step in and take them over and utilize them all under the Government's command, because of the war situation?

Mr. QUINN. We would need another War Production Board.

Representative TALLE. I suspect another reality we must make allowance for is human nature. Judge Gary is reported to have said, when he was told in the late 19th century by his lawyer "You can't do this, you can't do that," "Mister, I employ you as a lawyer to tell me what I can do and not what I can't do." In view of the age of this problem, I suspect human nature will always find a way to do what it wants to do. Not even the laborious inquiry of 1937, which resulted in the big shelf of books I referred to earlier has solved the problem.

Isn't there something in human nature which requests we should spend some of our time studying psychology rather than trying to solve the problem here in the legislative halls alone?

Mr. MUND. "Eternal vigilance is the price of liberty." I suppose we shall have to keep at this forever. We shall probably always need speed cops and traffic policemen. I suppose that is just one of the prices of maintaining a free society.

A genuine, competitive economy isn't self-realizing. We have to create and maintain it. That is human nature. We have to learn this lesson. Competition is not automatic, it is not self-realizing. We must create it and that I think is our problem.

Representative TALLE. Well, I can see why we do not have an easy solution. As a person interested in agriculture, I look closely at the practical aspects of our economic structure—at *controlled prices* versus *competitive prices*. In a large part of our economy prices are controlled, or sticky. Will the final outcome be price rigidity all along the line, or can competition survive in agriculture and retail merchandising?

Do you have any comment on that, Mr. George?

Mr. GEORGE. Beg pardon?

Representative TALLE. Do you choose to comment on that?

Mr. GEORGE. Well, I find it a bit difficult, because the premises from which I start are not quite the same. We are tending in this conversation to equate competition with concentration. I think we are oversimplifying the situation somewhat.

It would be like drawing a curve and saying, "Here is a curve of concentration, industry by industry, as they lie on that curve, and the degree of competition or lack thereof is rigidly coordinated with points on that curve," and there is no such universe.

I think that the evidence that I have seen shows—and no evidence is conclusive or complete—but a lot of the evidence I have seen denies that there is any consistent correlation between concentration and price rigidity or between concentration and market control. It is possible to have some industries that are highly concentrated in the sense of 3 or 4 concerns dominating the market, the usual concept, and have it literally inundated with a wave of innovation that is highly competitive.

Competition is by no means limited to price. I think economists will generally recognize that. It is also in product improvement and innovation. Oddly enough, business concerns, and one would think mistakenly in view of the general attitude here, are very anxious to be judged by the very tests upon which it has been seemingly easy to condemn them, theoretically. I think that the members of the committee have all heard of this tug of war that goes on between structure and performance, in a sense involving the things that we are talking about here now, and there is one school of thought, largely centered in business but ramifying sufficiently to include a number of economists, that would dispense with the structural test altogether, or very largely, and have businesses judged only by their performance. In this connection, it may be useful to mention a set of criteria that was developed by Professor Mason of Harvard a while ago, if I may read the items without trying to expand on them:

(*a*) Progressiveness—a process of continuous improvement; (*b*) price relationships—Are the economies passed on, the economies of scale? (*c*) capacity-output relationships—Is investment excessive in relation to output and for what reasons? (*d*) level of profits as compared with similar industries; (*e*) selling expenditures—Is competitive effort chiefly indicated by these rather than by service and product improvements, and price reductions?

To find watertight cases is difficult. Some highly concentrated industries have done a good job, and some of the dispersed ones have done a very bleak job in the terms of the highly important test of supplying the American public with new and improved goods at lower prices.

Now, I do not want to read a meaning into Professor Mason's listings here that he would not accept. What he was doing was indicating some of the tests that would be valid in an examination of an industry's performance, and he would be the last to deny that there was also significance in the structure of the industry, which is another phrase for the degree of concentration found, among other things. He has said himself that structure and performance should be used to complement, not exclude one another.

As I remarked before, we are very much at sea in terms of performance. A lot of industries in which there is concentration might turn in a good job and others might not. It comes down in the end to what I think is recognized, the need for a very careful case-by-case examination.

Performance is certainly entitled to a place among the logical tests of an industry's behavior and practices. Most of the assumptions made about them here, in the case of large concerns and concentrated industries, have been heavily and sweepingly adverse. My mild objection is, not that they are positively invalid, but that they are valid if at all in varying degrees for different industries, and that the real starting point for such a discussion as this is a quest for more knowledge about what actually happens and why, the extent to which it is or is not socially beneficial on balance, and whether, where findings are adverse, there are remedies available that would do more good than harm. The problems of appraisal are tremendous, and I might add that in attacking them we will in the present state of both theory and data find ourselves choosing among values to which it is difficult to assign relative weights. And if I have opened any doubt on the subject, I wish to acknowledge further that even a fine record in turning out a rising volume of new and improved products and processes over time would not be conclusive if it were achieved at the cost of excessive market power, whatever that may mean. But how much excess in relation to how much benefit? Hardly anyone denies that business success in serving the public must also mean the gaining of some market advantages. As to the answer to such questions there is no clarity or agreement among economists or anywhere else.

The fact of the matter is that both data and theory are in bad state. We have little basis for judgment, let alone violent ones. It so happens that the latest responsible studies I have seen of the trend in overall concentration suggest that there has been none. It so happens that the latest responsible studies I have seen of merger economics suggest that the big boost that they gave to concentration occurred in the first wave around the turn of the century and that since then the big ones have turned bigger largely by dint of internal growth. Also, that even all told the fury of the mergers accounted for a little more than a quarter of the size of our present giants. To that of course a ready answer is that if it hadn't been for the mergers concentration would be still less—even though there is considerable agreement that by major industries it has declined considerably from the old peaks.

Now there have been statistical studies galore on the structure of industry and no doubt some other competent men would quarrel with the findings I have cited. My point—really two—is that such historical data as we have were not made for such purposes and do not serve them well, and that there is no particular significance in such figures standing alone anyway.

I said that theory about competition was also in bad state. It has been evolving and is still unsettled. Long ago we relied upon competition in a simple world, nonexistent, to bring out energies and capital, prevent profits from being excessive, and eliminate the incompetent. Then we graduated into more sophisticated ideas about price-cost equilibrium mentioned here several times today. This concept has been useful for thinking and instruction for several decades now. But as J. M. Clark of Columbia has been insisting, it is still a theory for a static and not a dynamic economy. We haven't a comparable apparatus to deal with growth and innovation, and as a result we very earnestly and honestly judge business by tests intended for some other world. This does not mean that all existing business structures could survive more realistic tests. It is simply that we do not know, and stand in need, I think, of a different starting point than conclusions. Whether the conclusions from some better grounded theory would be the same, is by definition anyone's guess.

Representative TALLE. Thank you very much.

Mr. Chairman, I do not think I should use more time. I have more questions, but I defer.

The CHAIRMAN. Senator O'Mahoney, this is a familiar subject to you.

Senator O'MAHONEY. Thank you, Mr. Chairman.

I am wondering, from what I have heard from the witnesses since I came into the room, and from what I have read here, whether perhaps the issue is not a litle bit beclouded in detail.

Dr. George, you just talked about case-by-case assessment of the effect of concentration of power. Did I understand you correctly there?

Mr. GEORGE. Yes, sir.

Senator O'MAHONEY. How can you have a case-by-case assessment of concentration of power? Do you mean by that that, let us say, a concentration in the steel industry, a concentration of power in the steel industry, and a concentration of power in the aviation industry, might be judged by different standards?

Mr. GEORGE. Not by different standards but by the different facts in the several situations.

Senator O'MAHONEY. Well, we find our problem confused a great deal by the terms which are used in the discussion. Congressman Talle has just now been asking the members of the panel if it is not necessary to consider the impact of war upon this problem, and whether a big industry or concentrated industry is not essential to the production of the instruments of attack and defense, yet I recall reading in the papers no later than Sunday a speech made by a member of the President's Cabinet in New York City, Secretary Benson, in which he was taking a great deal of satisfaction in what he considered to be the demonstration by the administration that peace and prosperity had been attained at the same time under its program.

Well, I do not see peace on the horizon at all. We would not have been passing the resolution on Formosa in the House and the Senate last week if these were times of peace. What we are driving at, it would seem to me, in considering the Economic Report of the President, is what sort of a policy toward curbing the concentration of economic power, curbing the monopoly, is recommended in the President's report, in both times of peace and war.

Do we have different standards for the different occasions?

Mr. GEORGE. Well, Senator, I was not prepared to enter into a discussion of the general issues, because it so happened in your absence this morning I was making my presentation on a matter of great interest to you in another sphere, and that was the question of financing small business, and I was drawn into this phase of the discussion only because Representative Talle asked me to comment, but I will certainly say, as you phrase the question, the answer is "No." I do not think that we can have in peacetime a standard that is addressed only to our requirements for wartime, if that is the meaning of the question.

Senator O'MAHONEY. Well, don't you believe it is a fact that in a democratic society, such as we have, and in a free world, which we are trying to win, it ought to be the basic objective of everybody in business and in government to maintain a free competitive economy, one that is not controlled either by government or by any group of business or industrial leaders?

Mr. GEORGE. It seems to me that the statement is unexceptionable. The problem lies only in definitions and tests.

Senator O'MAHONEY. And in applying it to particular cases?

Mr. GEORGE. That is right.

Senator O'MAHONEY. I know, Dr. Adams, that you have given some illustrations. I have not read all of this paper. You did write a book about the aviation industry a few years ago, or on this problem which you mentioned, concentration of power in aviation.

Mr. ADAMS. Yes; one of the chapters in the book which I edited was on the aviation industry.

Senator O'MAHONEY. Did you discuss that today?

Mr. ADAMS. Yes; I just briefly went into the airline problem in my prepared statement.

Senator O'MAHONEY. Well, as I recall, the conclusion of the chapter in your book was that there is a concentration of power in the aviation industry?

Mr. ADAMS. That is correct.

Senator O'MAHONEY. Is that your own personal conclusion?

Mr. ADAMS. Yes, that is true; and I might add that the degree of concentration in the airline industry is an unjustifiable degree of concentration.

Senator O'MAHONEY. What would be your recommendation to Congress as to what its policy should be toward concentration in this field?

Mr. ADAMS. I think a more experimental attitude toward the certification of new carriers is indicated, and I imagine that at least on the Senate side there will be an opportunity to do something about administrative discretion in the hands of the CAB.

I think the Senate in the near future will be confronted with the problem of confirming a Presidential appointment to the CAB, and I think the man who is finally confirmed ought to have the competitive philosophy at heart. Because the CAB, in my opinion, at least, has been very deficient since it has been created in promoting as much competition as I would consider feasible and practical and desirable.

Senator O'MAHONEY. And you are pointing out to the Senate, and particularly to the Senate Committee on Interstate Commerce, that it has an opportunity to take a step or two away from the concentraion of control in a particular industry?

Mr. ADAMS. There is no question about it.

Senator O'MAHONEY. That is your definite recommendation to this committee to pass on, if it sees fit, to the Senate, either through its committee or as a whole?

Mr. ADAMS. Yes, sir. I think when the Civil Aeronautics Act was passed in 1938 there was some justification for restricting new entry. It was a small industry, an infant industry, and the agency could not afford to be experimental on this one score of admitting newcomers, but I think the industry has grown to such an extent now, and the rate of future growth that can be forecast at the present time is so great that new carriers certainly should be allowed to participate in the growth that is foreseen and, as a matter of fact, I think that certification of new carriers would make the growth even greater than it would be in the absence of that competitive stimulus, that competitive urge.

Senator O'MAHONEY. Now, that is a very interesting statement that, in your opinion, the admission of new carriers into the field would make the general growth of the industry better than it is and create a better condition; right?

Mr. ADAMS. Yes, sir.

Senator O'MAHONEY. Does that apply in any other industry which you have studied? You refer here to steel, and the sale of the Oregon plant.

Mr. ADAMS. Yes. I have a quotation here somewhere from the opinion of Judge Wyzanski, in the United Shoe Machinery case, where he talks about the desirability of keeping freedom of entry open, and he says, and I quote the judge now:

> One of the dangers of extraordinary experience is that those who have it may fall into the grooves created by their own expertness. They refuse to believe that hurdles which they have learned from experience are insurmountable can, in fact, be overcome by fresh, independent minds.

Now I think the truth of that statement has been borne out in the airline industry. If you look back on the testimony of presidents of the major airlines, at one time they believed that coach service was impossible; if coach would be introduced, severe losses would be suffered by the major airlines. Their experience had led them to believe that the demand for air travel was inelastic.

Along came these nonscheduled carriers. They had not had this experience which Judge Wyzanski talks about. They did not think that certain things were impossible, and they went right ahead and they did the impossible, and they showed that air coach was something quite feasible, and I think that is the great value of competition. You have to maintain that invigorating and energizing force in the economy which is responsible for a great deal of economic growth.

Senator O'MAHONEY. I see Dr. Kaplan here sitting beside Dr. George. Dr. George tells me this morning he discussed the problem of new capital for small business. I take it that you are a proponent of such a program, are you not?

Mr. GEORGE. Well, yes, sir. My subject was a little broader. I took in several aspects of the small business survival and growth problem, such as the provision of more assistance for research and development as well.

Senator O'MAHONEY. I was assuming that you were in favor of encouraging small business.

Mr. GEORGE. Oh, yes.

Senator O'MAHONEY. And Dr. Kaplan, do you still retain that view?

Mr. KAPLAN. I do, and I hope, Senator, that we can go on where you left off, in the efforts to get a new channel of investment financing, and fill the gap in the facilities available to small business for equity and other long term capital. I was glad to see that measures to that end have already been introduced in this session..

Senator O'MAHONEY. Well, now, there are no if's, and's, and but's about it, you two members of the panel believe it would be in the public interest for the Government to pursue a policy that would stimulate and foster small business?

Mr. KAPLAN. Yes; except that in the present context I would make the distinction between the Government being around to hand out financial aid and Government stimulating the creation of an institution designed to become a private institution—one which has a chance to prove that the investment financing of small business can be a self-supporting and profitable enterprise.

Senator O'MAHONEY. Well, I think that is a pretty good modification of the proposal.

Having discussed that matter in the past, we can agree on what our objective was. It was not to provide new debts for small business, but to provide a regime under which the investment of private money could be protected from monopoly, on the one hand, and the Government on the other; isn't that right?

Mr. KAPLAN. I think that is correct. I think we have to develop the techniques that will make it profitable to get behind a small business that can make constructive use of new capital. I have in mind not only the new enterprise, but also the established small business that is about to fold up because the owner can no longer carry on and no suitable successors have the necessary capital backing. I have in mind the investment bank that can take part of the equity of the promising small business (which no commercial bank is expected to do today) and stay with it; share in the profits, if necessary, but let the firm bail itself out eventually and own the assets independently. In other words, enable the financial agency to share some of the risks and returns of the small enterprise.

That kind of mixed banking was common in Europe, and we had it in this country in an earlier day. Since the compulsory separation of commercial banks from their investment affiliates, no broad program for the capital financing of small business has emerged.

The British have acquired it over the last 11 years. The Canadians have, and so far as I can see they are doing a successful job with it. It is time we acquired the equivalent banking structure.

Senator O'MAHONEY. Now as far as lipservice is concerned, everywhere we find people acknowledging that monopoly is bad and that competition is good, that private enterprise is fine, but when we talk about private enterprise we do not always distinguish between the enterprise which is owned and managed by the same person and the collective enterprise which is owned by thousands of stockholders who possess of themselves, each of themselves, only a fragment of the total capital stock. Does anybody in the panel suggest anything that should be included in our comment upon the President's report with regard to a public policy, which would promote the owner-manager type of business, free and competitive?

Mr. MUND. Senator O'Mahoney, I think that basic to this whole consideration is the need to reexamine the proposal frequently made, made by yourself, too, of a system of Federal charters or licenses for business concerns engaged in interstate commerce. I think that is basic to the whole consideration.

With such a program or plan, a system of Federal charters or licenses for all concerns engaging in interstate commerce, it would be possible for Congress to stipulate certain provisions with respect to the responsibilities of managers to the stockholders, to the laborers, and to the public.

Senator O'MAHONEY. Would you regard that as socialistic?

Mr. MUND. Not at all. That would be the very essence of a program to maintain free entry and price competition in a free society. It is the superstructure, the very basis for doing it.

Senator O'MAHONEY. It would be a preventive rather than a stimulant for socialism?

Mr. MUND. Very definitely. There is a great void today in our country in that regard because Congress is not facing up to its problem of laying down rules of the game for businesses concerned with interstate commerce. I think there is a real need, and I would like to suggest that the committee give serious consideration to that proposal.

Senator O'MAHONEY. I think I will reintroduce my bill for Federal charters.

Is there any disagreement among the members of the panel?

(No response.)

Senator O'MAHONEY. There is none.

Mr. Chairman, I think this is a good time for me to stop.

The CHAIRMAN. Senator Goldwater.

Senator GOLDWATER. Mr. Quinn, you comment in your paper that there are today 68 private billionaire corporations in the country, most of them with greater annual incomes than the 48 States. You say 200 industrial giants own the important half of American industry. How has that ratio changed since 1939?

Mr. QUINN. Well, there is great argument and dispute about that. I think Mr. Claire Wilcox was the first one who produced figures some years ago, and Mr. Adolph Berle, who, you will recall, wrote perhaps the best book, with Gardner C. Means, on the modern corporation. He has lately repeated that statement.

Now, whether the trend toward further concentration has increased, and the extent to which it has, is a matter for study and dispute. To me there is no question about it. It seems to me evident on all sides, witness this renewed merger wave. But I have not myself undertaken such a study. Professor Adelman, of MIT, did one some years ago, in which he questioned whether the trend toward further concentration was increasing, but my guess is that if he did it over again today, he would come out with a conclusion that the tendency has been for it to increase further.

Senator GOLDWATER. I do not think we can argue the point. There is a tendency to do so, but what I wanted to get at—because we are discussing the tools, we either have them or not, and we either use them or do not if we have them—is this question: Was this problem acute enough in 1939 to warrant active interest of the Antitrust Division of the Justice Department?

Mr. QUINN. Yes; I think it was. You will remember that 1939 was just a year or two after the temporary National Economic Committee and it must have been sufficiently acute then to have given rise to that committee.

Senator GOLDWATER. Well, then, how long has this acuteness been going on that you say we are aware of today? Is it something that has been going on for a great number of years?

Mr. QUINN. I suppose you could go back to the turn of the century.

Senator GOLDWATER. In other words, it is not a new problem?

Mr. QUINN. No; but my own feeling is that it is growing more acute.

Senator GOLDWATER. Do you feel that the Antitrust Division of the Justice Department is working now toward the solution of the problems?

Mr. QUINN. I think with the tools that they have and the money that is allowed them, the Antitrust Division does a pretty good job, but the fact that it is failing, that the whole movement is failing, is attested by the way in which both the Sherman law and the Clayton Act have been so largely circumvented. We see this trend ending up now where we have practically, in all of the major industries, 3 or 4 companies having 75 percent or more of the business. So whatever the intention of the law was, and surely it was to prevent that, it has not succeeded.

I do not know that you could put the blame entirely on any of the agencies of Government. The law apparently was not sufficiently specific or strong enough to enable them to prevent it.

Senator GOLDWATER. But you would say over the years, equipped with the tools that they have, and with the moneys that Congress has given them, that the Justice Department has done a good job?

Mr. QUINN. I would not hold any brief to the contrary on that point although the present administration in not doing very well.

Mr. MUND. Senator Goldwater, I would like to comment on a statement which Senator Kefauver made a few weeks ago in New York City, in his speech before the antitrust section of the New York Bar. He concludes with this statement, that in 1946, the Attorney General started out on a program of dissolution, divorcement, and divestiture, attempting to decentralize certain industries, such as shoe machinery, A. T. & T. and Western Electric, Du Pont and General Motors, but he says actually, where is there any dissolution program today?

Senator Kefauver comes to the conclusion that present-day efforts to use the so-called DDD treatment are nonexistent. We can ask also what have the Department of Justice and the FTC done with respect to the antimerger law of 1950? What have they done with the amendment to the Clayton Act which was looked upon with so much hope and expectation to stem the tide of mergers? From 1914 until 1950, Congress was asked to plug the loophole in section 7 of the Clayton Act. They finally did, in 1950. What has been done with this new legislation? I think we have to ask how effective the antitrust agencies have been.

Senator GOLDWATER. Well, I think that is a good observation. Now I would like to pose a question here. I do not know who can answer it. I would like to preface it with a few remarks to show that the tendency toward merger is not confined wholly to the so-called industrial giants. It starts down with the corner drug store. It becomes to me an effort at survival, whether it is small or big. Now what causes that scramble to join your competitor or join your neighbor in business?

As a businessman, I have found without incentive, which you all really have to have, you do not have competition. Without incentive, in fact, you do not have business. Now, isn't it true that the excessive taxation of American business over the last 20 years has contributed terrifically to this almost necessity of merger, where the small-business man is allowed to retain so little of his profits today, that in order for him to see any chance for expansion, he has to go to his neighbor and say, "George, I think it is time you and I got together, we can't go it alone."

I would like some comment on the thesis that taxation policies of the Federal Government have contributed a lot to this trend.

Mr. GEORGE. Senator, I have a note on it. There was a study at Harvard devoted to an effort to unearth the cause of mergers, and among those considered was the one that you mentioned; that is, the effect of the tax system, and they found a considerable influence which they felt, however, was exaggerated; I mean exaggerated only relatively speaking, in comparison with the force that was popularly attributed to it in some quarters, but they studied the effect of taxation on corporate mergers over the period of 1940 to 1947, and they found in those years that sales of businesses attributable in very significant degree to tax considerations constituted about 10 percent of the total number of mergers, and close to 25 percent of those involving absorption of units with assets between $5 million and $30 million. Now, measured by the index of concentration that they used in their study, the overall effects of all mergers, and thus naturally all those into which the tax elements entered importantly, were not terribly impressive during the period covered, but nevertheless there was a significant loss of what we might regard as centers of initiative because of the oblique impact of the tax structure.

Senator GOLDWATER. It would be interesting to pursue that study from 1947 on because I believe that is where we find the real trend toward merger. I think there you find not only the direct effect of the governmental tax policy, but also the effect of inflation added to it, where an examination of a small business' statement shows the business to be, on paper, in good condition, but there is no money left the next year to buy new merchandise at the increased prices; that is, the period from late 1947 through 1950, and probably a month or two in 1951.

But I have often considered that that was a cause of this trend toward getting together. I see it in small business just as much as I see it in big business.

Now I do not condone it in big business because I happen to be in a business that is probably worse hit by mergers than any other group, and that is the retail industry, and I myself would like to see some study made at the Government level, but I would like us to look into all of the aspects.

What can the Government do, business asks, to keep these monopolies from growing larger and to keep mergers from growing. It is my own personal feeling that another look at the excess-profits tax would do more to stop these things and do more to encourage small business than anything we can do at the present of a hurried nature.

Would you comment on that?

Mr. STOCKING. Senator, I believe some provision in our tax system to encourage risk-taking on the part of small enterprises would have a salutary influence upon the smaller concerns, but I do not believe that the situation with respect to working capital in big business in recent years explains any mergers that have taken place.

As a matter of fact, an extraordinarily interesting phenomenon has developed in business. No longer has it been necessary in recent years for business to look to the flotation of equities in order to get capital. Actually, the financing has been self-financing out of earnings after taxes have been paid.

Senator GOLDWATER. You are talking about big corporations?

Mr. STOCKING. I am talking about big business firms. It is well known that they have found adequate funds for self-financing and that they have not had to go to the capital market to get funds, except in a few exceptional cases.

General Motors has announced a proposed flotation, I believe, of $325 million of securities sometime in the near future, but General Motors has found it possible, I believe, to finance an extraordinarily large expansion in the postwar years without turning to the public or to the capital markets or its stockholders. So much for big business.

If a shortage of working capital on the part of Company A leads it to merge with Company B, which also has a shortage of working capital, I do not see how Company A, plus Company B, would be any better off, as far as working capital is concerned.

Senator GOLDWATER. Of course, working capital is not the only consideration in these mergers. You get into the merger of markets in small areas, but it does have a decided effect. The 10 percent figure, I think, is a very small figure. I would suspect that today you would find it greater than that.

Now I would like to get into two other questions here on which some others might develop. We are all pretty much agreed that big monopolies are not good for the free-enterprise system or for the American way of life or business.

What is the attitude of the panel on the increasing monopoly of the co-ops on markets; is that healthy?

Mr. MUND. I would say, Senator Goldwater, that that is a problem which should be studied, too. Insofar as a co-op controls a whole market, such as oranges, it could be monopolistic, too.

Senator GOLDWATER. I am talking about marketing and the marketer, too, the person that is buying. I am wondering if it is wrong for business to become big, and I certainly agree that there is a limit to which it should go and no further. Shouldn't some thought be given to the size that cooperative market ventures might go? I am speaking of the co-op that provides the clothing, the tractor, the gasoline, the products of the market at a lower price than a competitor in the open market can produce or can give, thereby dominating more and more of the spending market. For instance, what happens to the small-business man, the small merchant, when a co-op dominates a community? Is that healthy?

Mr. MUND. Well, that is a part of the total problem, I think. You have got to go into the situation to see why it is that the local group of farmers dominates the local retail market. I think you are speaking of a big co-op?

Senator GOLDWATER. Yes.

Mr. MUND. Well, why were they forced to grow; were they faced with a situation of monopolistic prices for gasoline, for example? Did they have to go into the marketing business to protect themselves? How about cement? I think you have to make a study to see what the dangers and problems are.

Senator GOLDWATER. I agree. I would like to see us study that particular picture when we study the whole situation. We should study the original beginnings of co-ops. There is unquestionably a need for them. I wonder if they should be in other areas besides agriculture.

Now I think we all agree that business can become so big when it is monopolistic that it is bad for the country. What happens in the labor market when we have a monopoly on the labor of the country? Let's say that the two big unions merged. We would, in effect, have a merger of a similar stature of Ford and General Motors, where 85 percent of the automobile market would be controlled by 2 companies; we would have at the present time probably 25 or 30 percent of the labor market controlled by 1 union; is that right?

Mr. MUND. I think that Professor Stocking had a very fine statement on the problem in a recent journal article.

Possibly he can comment on the question.

Mr. STOCKING. Well, I think if we are interested in preserving a competitive society, and I assume we all are interested in doing that, that the concentration of power is undesirable. I think that it can be undesirable whether it is in the hands of a labor organization or whether it is in the hands of a business group.

I believe that industrywide collective bargaining tends to rigidify an important element in costs. I think it is easy to justify industrywide collective bargaining from the standpoint of labor, and to understand the development of strong labor power groups as long as they have to negotiate wages and working conditions with large aggregations of capital.

Senator GOLDWATER. I agree with that thesis entirely.

Now I have just one other comment to make, and that is regarding Mr. Adams' paper and his writings on the airline and aircraft industry. Are we forgetting, in assuming that there should be more competition in the transcontinental and feeder lines, that we probably sometime between 1938 and the present time reached the point of no return on profits in the airline industry? Do you feel that there are a sufficient number of airlines making money today without Government subsidy to encourage you, let us say, to invest money in a new transcontinental airline? I am not talking about feeders, because I think we should treat them separately.

Mr. ADAMS. Well, of course, the subsidy issue has been raised by the CAB as the primary justification for refusing the entry of newcomers, but I think it is a partially misleading issue in this sense: The major airlines have taken the position, well, if you certificate new carriers, we are going to suffer losses, there will be diversion of traffic with those losses. This will increase the need for Government subsidy.

Senator GOLDWATER. Yes.

Mr. ADAMS. I think the record would tend to show that the market for airline services has not been of fixed size. The demand is fairly elastic. Some people say highly elastic. Therefore I think the action of the nonscheduled carriers, for example, has created an entirely new demand, a demand that did not exist before, and in that sense there was no diversion of traffic from the major airlines. This was an entirely new segment on the demand curve that had not been explored by the major airlines.

Senator GOLDWATER. I wish we could pursue this a little further. We have a vote that I have to attend. I would just like to comment that I lost my shirt on an airline once waiting 3 years for the Government to certificate it. I would just like to comment on something Mr. Quinn said about the Messerschmidt. I think if he would study that situation he would find it was a pretty strong argument for monopoly, because Messerschmidt 109 was a perfected flying machine in 1938, while our eventual good plane, the 51, was perfected in 1941, but the haggling over it did not get it into the air until 1944, and the 109 was never equaled.

Mr. QUINN. Temporarily, monopoly may be effective.

Senator GOLDWATER. It was the stupidity of the German high command that caused them to lose that air war, not their production.

Mr. QUINN. It was also because democracy is stronger and better.

Vice Chairman PATMAN (presiding). Mr. Curtis.

Representative CURTIS. I want to pick up just briefly one little matter that Senator Goldwater was discussing with you, Dr. Stocking, in regard to the source of corporate financing. You have commented that, of course, retained earnings were one of the sources of corporate financing, but did I gather the impression that you felt that that was an increased situation or was that just about standard in recent years?

Mr. STOCKING. Will you repeat that question, please?

Representative CURTIS. Whether, in your comment on corporate earnings, retained earnings, as a source of corporate financing, the ratio was about the same as it had been before, or is this something new in the picture?

Mr. STOCKING. Well, I am not quite sure of my answer to that question, because I do not have all of the facts in mind, but I believe—and this is an impression based upon observation rather than any careful and analytical study—I believe that in recent years the corporations have had to turn to the capital market less frequently than in earlier years to finance expansion.

I think that the statistics will show that the financing of expansion has been largely through retained earnings and the investment of depreciation reserves. The actual payment of earnings in the form of dividends has represented, I believe, a relatively small part of the total earnings net of taxes in recent years.

Representative CURTIS. Wouldn't you say that theoretically, of course, depreciation is return of capital? You are ending up with the same plant that you had to begin with, as far as production is concerned. You might have better machinery, but the theory of depreciation is certainly not refinancing.

Mr. STOCKING. I do not think it would be profitable for us to become involved in a problem of accounting theory or practice.

Representative CURTIS. I am not talking about accounting, I am talking about an actuality. If you have a plant that can produce so much and that plant wears out, if you do not replace that capital investment, you end up with nothing, you have actually used capital, so I am suggesting that depreciation in theory is not refinancing.

Mr. STOCKING. Sir, I am not quarreling with you about the meaning of the practices that have been pursued. I am just saying that because of these two sources—retained earnings and depreciation reserves—apparently the corporations have not found it necessary to resort to the capital market to carry through a rather extensive expansion program.

Representative CURTIS. The reason I asked that question is that I have felt all day long in this panel discussion that there has been too little attention paid to what is happening today in relation to what happened yesterday and what happened in the years before that.

Now, actually looking at the facts and figures on Government finance, 1954–55, put out by the Tax Foundation, if their figures are right, in their Chart No. 26: Sources and Use of Corporate Funds, on page 42, they take only the years 1946 to 1953, I cannot see much of a change in trend, and if anything, it has been a swingup to relatively more new stock and bond issues on the part of the corporations. I want to go on to something even more basic in our discussion here today, and that is this whole problem, as the question is posed, of monopoly, competition, bigness, and so forth, and there have been a great many statements made about what the present situation is in the opinion of the panel, and indeed, in the opinion of some of my colleagues up here on the committee. But as was brought out by my colleagues, Mr. Talle and Senator Goldwater, the important thing is that this old problem, and so the really important thing is to consider what switches have there been, how many changes have there been, and information do we have on that subject.

Now I want to go into that a little bit because I am interested in knowing what that ratio of change has been, and I, too, think that there should have been more in the Economic Report on the subject, but again referring to Facts and Figures on Government Finance, 1954–55, in their chart No. 101, on page 140, they have a chart that has corporate income by net income classes, and it ranges from 1941 to 1951, which is their last figure, and the breakdown on that takes the number of returns by corporations earning under $1,000, then $1,000 to $2,000, $2,000 to $3,000, and on up to the top figure of $5 million and over.

Then coupled with total returns for 1951 is net income in thousands, and as I look over the ratios from year to year, there has been a constant increase in all brackets in the number of returns, and that ratio has been fairly proportionate among the various groupings, with the exception in 1951 there was a singnificant decline in the number of returns by corporations from $25,000 up to $1 million, both in terms of number of returns and in terms of dollars.

Even more significant is that it shows from 1945 to 1950 the ratio of corporations $5 million and over, in terms of net income in relation to the total, $22 billion was the total in 1945, and the corporations of $5 million and over had $9 billion of that $22 billion, which is less than 50 percent, I haven't figured out the percentages, and yet in 1950 that ratio had increased to more than 50 percent. In other words, $44 billion in 1950 is the total, and $23 billion of that was corporations of $5 million and over.

There, from this chart, was the big jump. Now there is a jump from 1950 to 1951, but it seems to be more along a level increase rather than a tremendous increase. Now I want to ask the panel generally this question : What sort of studies have been made, if you know, along this line of actually pinning down what the trend has been toward increase, in bigness and that is getting away from all of these generalities and getting down to actual studies?

What studies have been made along this same line that would give us a real picture of this instead of guessing that there have been a lot of mergers or guessing that there has been an increase in bigness, and so on? I would like to ask that question of any of the panel, what studies there are that would show that, and what have those studies actually shown, as far as this increase, if there actually has been an increase?

Mr. KAPLAN. Congressman, I could hardly give you the description of what has been done, in the next few minutes. The Brookings Institution has recently published my study, Big Enterprise in a Competitive System. In it an attempt has been made to see what shifts have taken place in the percentage of our total economy that has been accounted for by the 100 largest industrials. I would say in general the findings indicate that there has been a slight increase in the percentage of total industrial assets held by the very large companies.

It was almost inevitable that the scale of investment should have expanded since World War I. In 1909 a company was among the 100 largest industrials if its total assets amounted to $23.5 million.

To get on the list of the 100 largest industrials today a company must have at least $250 million of total assets. When we had the $23 million corporation ranking as No. 100, in 1909, the national product of goods and services was $34 billion. Today, when we have a $250 million company barely getting into the first hundred in business size, we have a gross national product of $360 billion, as against the gross national product of $34 billion in 1909. In other words, when we talk about billion-dollar corporations, huge companies, middle-sized companies, over a period, let's make sure that as we go along we are adjusting ourselves to the increasing scale of the whole economy.

This perhaps is an opportunity to put in a footnote on the question of mergers. It should be clear that what my colleagues at this table have in mind is not picking on the word "merger" as inherently a term of evil connotation. They are thinking rather of merger in those situations in which corporations, already large, are using the merger as a means of acquiring still greater power and leverage that is not related to normal growth in their operation. But I want to point out that for smaller business enterprise, the merger is an indispensable tool of competition.

In any year—take the year 1954, for example—out of every hundred businesses in operation, and we have about 4 million, about 10 out of a hundred have started within the year; another 10 will discontinue during the year; and there will be anywhere from 8 to 10 business transfers. There is constant reshuffling of businesses. Now in that setting there may be as many as 100,000 "acquisitions," or, if you will, "mergers" of assets and resources.

Representative CURTIS. Now, Mr. Kaplan, that is not unusual, is it?

Mr. KAPLAN. No, I say this is the story of a typical year. From the standpoint of smaller business, the merger is an indispensable tool. You cannot conceive of a situation in which a small enterprise would not be allowed to sell out, nor an entrepreneur to join hands and assets with others. You would not conceive of a situation compatible with free enterprise in which a man who is to buy another plant would not have the choice between buying a new one and buying an old one that he may remodel, any more than you would want to be denied the chance to buy an old house and remodel it as against buying a new one.

It is only, then, when you get to the point of thinking of a merger as a club to achieve domination and undermine competition that the burden of proof is put on the merging corporation to indicate why this merger is necessary.

Representative CURTIS. I appreciate your comments. Now, Mr. Mund referred to a wave of mergers, which, of course, to me, would mean that it is an abnormal number, and I wonder if that is so, or is that just a figure of speech. We have in any given year, any normal year, as Mr. Kaplan has referred to this year or last year, for example, quite a number of mergers.

Now is the ratio of mergers for this year and the past few years unusual, or what do the graphs and curves show on that? I do not know. I did not know that it was.

Mr. MUND. I would say the statistics show that we are in what might be called a third great wave of mergers in our economic history.

Representative CURTIS. When did that begin, sir?

Mr. MUND. It began at the close of World War II, it shot up very markedly. I have a chart I could show you.

Representative CURTIS. That is very interesting. That is what I wanted to get to. Now have we had in our economic history other periods when there was what you describe as a wave of mergers?

Mr. MUND. Very definitely. The first period got started in the 1890's. It got going in a substantial way around 1896 and 1898, and came to a close in 1903. At that time, some 100 corporations had come to dominate the principal industries. Take the United States Steel Corp., for example. It was formed in 1901. It acquired a control of around 80 percent of the production capacity.

Representative CURTIS. Now was there another period of mergers?

Mr. MUND. Yes, there was. The second great period was 1920–29. Now these waves of mergers, I would like to emphasize, were not just natural growths, reflecting a technological change in our society. Why did the first wave come in 1896 and 1898? It came at that time because the more informal arrangements for acquiring monopolies, such as combinations, gentlemen's agreements, and so forth, proved to be unsatisfactory. Business leaders, moreover, had been able to get a change in our corporation laws legalizing the holding company device which permitted a corporation to acquire the corporate stock of competitors and to hold and vote it as a natural person.

Representative CURTIS. Now what year are you referring to there? What wave of mergers?

Mr. MUND. That was the first period.

Representative CURTIS. You are still talking about the 1890's?

Mr. MUND. Yes. The first wave came to a close in 1903.

Representative CUTIS. When was the next period?

Mr. MUND. The first period of mergers ran its course, and people became incensed at these monopolies. Federal action thereupon was taken to dissolve some of these giants, leading to the dissolution cases of 1911. That put the fear into the minds of business leaders seeking to bring about aggregations of capital.

In 1920 the Supreme Court in the Steel case held that not all mergers which restrained competition are bad, but only those which unduly restrained competition. So long as a business concern did not buy out all of its competitors, and did not engage in ungentlemanly conduct, the Supreme Court indicated that it would not frown upon mergers. This decision initiated the second great wave of mergers.

Representative CURTIS. Then that wave of mergers lasted how long?

Mr. MUND. The second wave of mergers culminated in the stock market crash of 1929.

Representative CURTIS. You are saying this all started because of this one decision. Now, the next wave you say came in 1946?

Mr. MUND. 1945 and 1946. It is explained by a variety of reasons. I do not think any one reason can explain it.

Representative CURTIS. Those are the things I should think we are interested in, this Committee on the Economic Report.

Mr. MUND. The facts indicate that a continuing factor in this third great wave of mergers is the desire on the part of larger companies to buy out smaller ones and to consolidate their position on a horizontal basis as well as on a vertical basis. The real problem is not one of two small companies merging. It is rather one of a large company buying out a smaller one, or a medium-sized one.

Representative CURTIS. In other words, what you are saying is that there are a lot of mergers that are a healthy economic process, but in this merger and what produces a wave, we shall say, is the unhealthy mergers?

Mr. MUND. That is right.

Representative CURTIS. I notice Mr. Adams wanted to comment on this.

Mr. ADAMS. I want to supplement the remarks made by Mr. Kaplan and Mr. Mund to the effect that it is not the absolute size of the corporation that we are concerned with primarily in the monopoly sense, but, rather, the relative size within an industry.

Now, the most serious thing about the current merger movement from our point of view is the interpretation accorded the congressional intent as expressed in the Antimerger Act of 1950. I think the Federal Trade Commission in the Pillsbury case has perverted, subverted, and undermined the will of Congress. I think it was clear that Congress, in passing section 7, in amending section 7 of the Clayton Act, wanted to stop any substantial lessening of competition through the acquisition of assets. Yet in the opinion recently issued by the Federal Trade Commission, Chairman Howrey did not, as I see it, adopt the proper test of what is lawful and what is unlawful. I think he accepts the "market as a whole" test. That is, he focuses primarily on how much competition remains rather than how much competition is lost in the market as a result of a merger.

Now, once you adopt the test: "How much competition is left? Is that amount adequate to protect the public interest?" I think you are on a hopeless toboggan.

Then you finally permit an increasing degree of concentration in an industry until you have reached the situation which now prevails in automobiles, where no one can really object to the merger of Studebaker and Packard, and so on.

Representative CURTIS. I am happy you mentioned autos because I was going to ask this very general and basic question: It is true, is it not, in the course of a new enterprise, or new industry, like the automobile back in the turn of the century, that almost any new business or new industry, rather, starts out with many, many small concerns, and the normal growth of an industry produces mergers, and would you comment as to whether it is normal growth that they do end up or would naturally end up with just a very few extremely large ones as, for example, in the automobile industry?

Mr. ADAMS. Well, I do not like to regard certain economic processes as normal or natural or inevitable.

Representative CURTIS. I did not say inevitable.

Mr. ADAMS. I did not mean to attribute that to you, Congressman, but there is a strong feeling in the academic community, in the business community, and in Congress, too, that certain things are inevitable, and monopoly is one of them, and we might as well accept it. I do not hold to that theory. I think monopoly is very largely created by human action, by unwise action, by privilege-creating action.

Representative CURTIS. Wait, I was not talking about monopoly. Let us phrase it this way:

Referring to this normal merger which some of our panel, at least, regard as healthy, isn't it the normal process in a new industry as it grows to have a lot of this normal merger, and if it were healthy—and I would like your comment if you disagree, of course you can reach a point where you get unhealthy mergers which would be the point of monopoly. Now, isn't that true in the development of any new industry? Isn't there a normal growth of that nature which is healthy?

Mr. ADAMS. Let me answer your question obliquely, if I may: What should be done on the application of Bethlehem and Youngstown to merge? Here you have the second largest steel company and the sixth largest steel company——

Representative CURTIS. You are getting to the extreme again. I am trying to get to the middle process where you still have lots of companies in a field.

Mr. ADAMS. Well, I think we are in substantial agreement, Congressman. You see, if you permit mergers which substantially lessen competition while the industry still has a large number of competitors, you gradually work yourself into the situation that you now are confronted with in the automobile industry. There the situation is too far advanced to do anything about the concentration process. If you accept the notion that small companies may merge to compete more effectively with large ones, or that large companies may merge to compete more effectively with the giants, you are, in fact, inviting a proliferation of oligopoly and an extension of concentration.

Representative CURTIS. Yes, but you could still have competition. The fact of bignes does not necessarily eliminate the competition.

Mr. ADAMS. You can always have competition. You can even have competition in a monopoly situation. For example, many people have argued that if you permit a monopolization of the automobile industry by General Motors there would still be Buick competing against Oldsmobile, and Chevrolet against Plymouth, assuming that Plymouth is acquired by General Motors. But is that the kind of competition envisioned by the antitrust laws?

Representative CURTIS. As I understood your testimony previously, thought, you thought the desired goal was competition; so if you are getting competition, where is the danger, then, in your opinion? If you have your big companies, and there is actually competition between them, wherein lies the danger?

Mr. ADAMS. Well, what kind of competition is it, and is it carried to the degree that would be posisble in the absence of centralized control?

I do not think this intrafirm competition that I have described just a moment ago, assuming that General Motors were to monopolize the automobile industry, I do not think that is genuine competition.

Representative CURTIS. You mean that the competition between Ford, General Motors, and Plymouth is not genuine?

Mr. ADAMS. I did not say that.

Representative CURTIS. I am not trying to put words in your mouth. I am asking you whether you don't think that is genuine? That is an example of bigness, of course, and it looks like there is competition there. I fact, there was testimony here the other day saying that the competition was too keen, and actually would cause future difficulties.

Mr. ADAMS. Well, my question would be how much benefit is that competition to the consumer? How much price reduction have you had?

Representative CURTIS. Now, you are going off. I thought that you had already agreed that as long as competition was provided there is not any danger. Now, maybe I am wrong in assuming that is what you said.

Mr. ADAMS. Well, there are different kinds of competition.

Representative CURTIS. Well, what is the difference? To me competition is competing. What do you mean different kinds of competition?

Mr. MUND. We have said that it is so very important to maintain freedom of entry and independent price competition in the basic industries such as iron and steel, the nonferrous metals, cement, the primary materials, so that everybody can have access to them. I think we should focus our attention particularly at the moment not on finished fabricated goods so much as on the basic industries. We should ask ourselves is it possible for anyone with cash on the counter to go into these basic industries and get products.

Representative CURTIS. Well, you can move around on examples endlessly. We have taken the automobile industry, so let us stick to that, if we may.

Is that the kind of competition we are discussing, or isn't it?

Mr. MUND. We should be happy and very pleased that we do have the independent rivalry that exists on the part of the major automobile companies. I think that is very important. When we talk about competition, our main problem is to maintain independent action on price for a product which is fairly homogeneous, like cement or steel.

Now, when you get to these specialized products like Cadillacs and Fords, they do not compete in the same way. That is a case of substitute competition.

Representative CURTIS. Chevrolet competes with Ford.

Mr. MUND. In a degree.

Representative CURTIS. I would say they are in direct competition.

Mr. MUND. It is what we call substitute competition.

Representative CURTIS. You mean Chevrolet competing against Ford is not direct competition?

Mr. MUND. Not in the same way you and I would be competing if we were selling steel, not in the same way.

Representative CURTIS. Well, all I am trying to do is follow the thinking of the panel, and I understood, at least Mr. Adams indicated that as long as there was competition that the danger of bigness or, of course, if there were monopoly, you would not have competition, according to my definition.

Now, Mr. Adams is suggesting, well, there are different kinds of competition.

Mr. MUND. That is true.

Representative CURTIS. Which you are now trying to set forth, but in setting it forth you are telling me that you do not interpret competition between Ford and Chevrolet as direct competition, so I do not think we can go any further than that; if we do not agree on that I do not think I would understand what you are talking about.

Mr. MUND. I question whether we can use the term "competition" without an adjective. I question that.

Do we mean price competition; do we mean substitute competition; do we mean sales competition; advertising competition?

Representative CURTIS. It could be any of those, of course. But competition is a simple thing, to me. You are either competing, or you are not, and I do not get these degrees.

Mr. MUND. There is this distinction: The Sherman Act and the Federal Trade Commission Act and the Clayton Act are based upon the principle of maintaining price competition on the part of sellers of a homogeneous class of products such as cement or steel, and also freedom of entry.

Now, we want sales competition, quality competition, we want those things, yes we do, but the law says we must go further, we must have price competition and freedom of entry, so our attention focuses on those two things.

Representative CURTIS. I see what you are driving at. I was not breaking it down in that sense. I simply thought you meant that there was a different method, that you could have half competition, or something like that. You are now breaking it down on the basis of where they might be competing, whether it is in the labor field or price or what?

Mr. MUND. Advertising and so on.

Representative CURTIS. I wonder if Mr. Kaplan would comment on this.

I understand you have just written a book, have you not, on whether or not there is competition in big business?

Mr. KAPLAN. Well, I had expected to confine my remarks in this session to little business, because there was no discussion or recommendation in the Economic Report on big business monopoly, and I thought I would let it wait.

Representative CURTIS. I wonder if you would just answer the one thing.

Mr. KAPLAN. I will say this: Your discussion with Professor Mund confirms the fact that it isn't easy for economists to see eye to eye on how many different kinds of what one economist would call competition are real competition, or and how much of it may qualify as compatible with the good old-fashioned price against price offering that any economist would accept as competition.

Now, with the rise of big business, there has been an increase of what we call differentiated products, identified with the name and brand of the firm. It becomes feasible for a business to have a policy with respect to its products and the terms of their disposal. That kind of competition seems a far cry from what we regard as pure competition, where the supply of a product goes into the market and buyers bid against sellers without regard to who the supplier is. No one is in a position to be more than a bystander, watching the market settle at a price where the maximum sales can be made.

Typically, a big business has a nationwide market interest. It has a pipeline that runs from its suppliers through its own production lines and on to intermediate fabricators or distributors. Considering the whole line it has to watch, it is going to try to direct a policy toward keeping that pipeline flowing so that its product may have a satisfactory market.

Now, of course there is a market against which it has to test its policy. And I would say that if the market is the final determinant of what that company can do and how far its policy can go, then you have effective competition. But it isn't the pure competition of a free wheat market or the stock exchange, which registers its equilibrium with every hour.

Representative CURTIS. Well, do you regard that type of competition that you say exists in big businesses, or can exist in big business, as a sufficient regulatory feature as far as Government is concerned? Once the Government has created that climate, does that solve the problem?

Mr. KAPLAN. Not altogether, any more than I would regard jungle competition, totally untrammeled, as socially desirable. You have to reconcile the desires of any individual with the need of a body politic for a framework of social order and economic balance. There are very few businessmen big or little who would not give a high degree of lip service to the antitrust laws as being essential. They do not have enough confidence in each other to want to be without the antitrust acts. Complete dependence on the market represents a theoretical ideal. But if the market is not the main arbiter, then, of course, the competitive system has fallen down. I happen to be one of those who, on the basis of what I can see of the going market process, believe that the market does catch up with the big firm as well as with the little firm. Our differences in appraising competition hinges on the issue of how sensitive the big corporation is to the competitive market, on how quickly it responds. That differs with the product and the industry, including the relative size and number of the firms and markets involved.

Representative CURTIS. Then you do not regard this wave of mergers as necessarily being something that the Government should be alarmed at?

Mr. KAPLAN. I think that the present mergers can be successfully handled through the general tests of the antitrust acts. I do not think that the new section 7 added anything to the principles of the Sherman act. It just pointed out explicitly that we are concerned with merging of physical assets as well as with mergers by stock manipulation, which was the chief cause of worry and got special mention when the Clayton Act was passed in 1914. With or without section 7, a merger is unlawful if it tends to substantially restrict competition.

Representative CURTIS. Mr. Chairman, I have about 3 or 4 questions I want to ask Dr. Adams in regard to his statement which, incidentally, I was very much interested in, in regard to the comments on the various ways the Government has been contributing to the monopolistic tendencies.

Incidentally, I was a little surprised that you felt that this Federal licensing and issuing of charters for industry in interstate commerce met with your approval. I gathered you felt there was too much Government regulation, and yet you seemed to be in accord when Senator O'Mahoney asked that question.

Mr. ADAMS. Well, I did not express myself specifically on that question.

I think a corporation operating in interstate commerce ought to get its charter from the Federal Government, because it is engaged in interstate commerce, and it is the Federal Government rather than the State government which under the Constitution is supposed to regulate interstate commerce.

Representative CURTIS. You are talking about getting the charter now, and the mere getting of the charter is further regulation.

Now, at the present time, a firm engaged in interstate commerce does not have to go either to the State or Federal Government, does it?

Mr. ADAMS. It has to go to the State government.

Representative CURTIS. You mean to get its incorporation?

Mr. ADAMS. Yes, and that was the O'Mahoney bill.

Representative CURTIS. Oh, rather than licenses, then—I was probably fooled by the term "licenses" in there—rather than that you meant Federal charters for incorporation?

Mr. ADAMS. Yes.

Representative CURTIS. Now, under spending power you refer to the situation on the M-48 tanks. It would seem to me that the real question involved there wasn't whether one concern got the entire control, but whether the bidding for the contracts was open and fair and competitive.

Wouldn't you say that is the test rather than who got the contract?

Mr. ADAMS. Well, there were some strang aspects to the bidding. If my recollection is accurate, I think it was shown that Chrysler had a lower bid on labor.

Representative CURTIS. Well, wait. You would agree, then, that the question is not who got the bid, it is whether the procedures followed in negotiating the bids were open and fair to all bidders?

Mr. ADAMS. That is one question, you see.

Representative CURTIS. Well, that is the only question I asked you.

Mr. ADAMS. Beyond that you have a problem. If the contract is awarded to the lowest bidder, what position will the Government be in 5 years hence trying to solicit competitive bids on the M-48 tank, once you create a monopoly by awarding a contract to a single company? Five years from now you will just have one bid on that particular kind of product.

Representative CURTIS. I do not think that follows at all, of course, because certainly these other companies are perfectly capable of submitting a bid 2 years later just as they were at the beginning. They are not going to be out of business just because they did not successfully get a particular bid on a specific item.

I just do not follow your logic.

Mr. ADAMS. Well, I do not think you can start and stop tank production quite with the ease you indicate, Congressman.

Representative CURTIS. Of course not, because you are going to be changing your design, but they do let specific contracts, and as they let new contracts these same companies, and probably several others, can bid on them. That is the point I am getting at.

Would you indeed have it on a different basis than the lowest bid?

Mr. ADAMS. I think the lowest bid ought to be one of the considerations, but I do not think the contract ought to be awarded to that company if it will in the long run create monopoly and prevent competitive bidding in the future.

Representative CURTIS. You are just assuming that that would, and for the sake of this discussion I think it is fair to go along with your assumption. In other words, your assumption here was that this would create monopoly. I cannot agree with your assumption, but, on the other hand, I can see your point.

Now, in this taxing power, you comment on the certificates of necessity. Now, of course, you do not discuss why the certificates of necessity were created. Do you disagree with the philosophy that lay behind that, and do you think that it was for the purpose of creating a big bonanza?

Incidentally,I was on the committee that wrote that report, only that was not my language.

Mr. ADAMS. As I remember the report, Congressman, it was a unanimous report of the committee.

Representative CURTIS. Yes, but not of the subcommittee. I was on the full committee, I should have said.

My point is this: The device of using a certificate of necessity was not for the purpose of creating a situation like this. You will agree with that, will you not?

Mr. ADAMS. I never address myself to questions of intent. I just look at the effect. I do not think there were any evil motives.

Representative CURTIS. I am not talking about evil motives, either. I am talking about why they did it. They had a good economic motive in mind when they did it. They might have not accomplished that, but you do not mention what they were trying to achieve.

I am always disturbed when I get a one-sided presentation.

Would you suggest, then, that the difficulty here was not the law but the administration of the law, or do you think the law itself was bad?

Mr. ADAMS. I think it was primarily the administration of the law. The principle behind these certificates of necessity was to induce the construction of plant facilities, to create expansion.

Representative CURTIS. Yes, and if there was not the need of going out of existence in the event Korea was buttoned up.

Mr. ADAMS. I think I mentioned that in my statement, on page 2, the reason for the tax provisions.

Representative CURTIS. Now, going to the next one, proprietary powers, you refer to Government disposal. The reason I am interested in this is, I reemphasize, that I was on the committee that did a lot of this work, and I am deeply concerned about it, too, but you refer to the disposal of some of these war plants, and so on.

What would have been your suggestion? Wouldn't you have offered it on an open market in that fashion and taken the highest bid on this particular plant, for example?

Mr. ADAMS. On the Geneva steel plant?

Representative CURTIS. Yes.

Mr. ADAMS. I would not have taken the highest bid in that case because, again, looking at the long-run trend in the steel industry I think it would have been desirable from the public's point of view to create additional competition in the west coast steel market.

Representative CURTIS. And so subsidize that competition, in other words?

Mr. ADAMS. No.

Representative CURTIS. Well, it would have.

Mr. ADAMS. Congressman, it isn't a question of subsidy. The plant was built at a cost of $202 million. It was sold at a cost of $47½ million, which was quite a loss to the Government.

Now, if the next highest bid was, say, $40 million, I think the Government should have taken that extra beating of $7½ million in order to give us more competition in the west coast steel market, and I think consumers would have been handsomely repaid in the form of lower steel prices.

Representative CURTIS. Now that might be, but why do you object to my saying this would be in effect subsidizing to the extent of $7.5 million the operation that would have taken it over, because that is what it is, the Government loses 7.5 million less on the bid?

Of couse, you are getting into some pretty dangerous techniques, I might say, when you go away from the device we have always, or generally used, which is the lowest or in this instance of a purchase, the highest responsible bid.

Mr. ADAMS. Congressman, may I point out that in the aluminum industry we did not follow the principle of the highest bid. As a matter of fact, Alcoa tried to buy all the efficient plants made available by the Surplus Property Board, but there was handed down a ruling that under no condition would those plants be hold to Alcoa.

Representative CURTIS. There you actually did have a monopoly. It is pretty well agreed that we did.

While in the steel situation you may have a concentration of power, I do not think, though, that the purchase of Geneva Steel, or the sale of it, violated our antitrust laws. Do you think it did?

Mr. ADAMS. Congressman, I would not accept concentration where there is an alternative open, that is, if the choice is between selling the plant to United States Steel and reenforcing the present degree of concentration in the steel industry, or selling Geneva Steel to some independent enterprise and thus diffusing economic power; I would choose the diffusion of economic power in each instance.

Representative CURTIS. Now, who should make that decision? Of course, the executive branch cannot make that, in my opinion. Congress would have to write legislation that would bring that about. Don't you agree with that?

Mr. ADAMS. I think you are quite right, and I think Congress did, in its wisdom, provide in the Surplus Property Act of 1944 that the surplus Government plants should be sold in such manner as to promote free and independent enterprise, and if you check the disposal goals I think there were about 5 or 6 that specifically addressed themselves to the creation of a competitive economy.

Representative CURTIS. So you feel in this instance it actually violated the specific intent of a specific statute?

Mr. ADAMS. I think very definitely so, and I am still at a loss in trying to understand how the Attorney General at that time could ever approve the sale of Geneva Steel to the U. S. Steel Corp.

Representative CURTIS. Now, referring to No. 4, Legislative Power, you refer to the Atomic Energy Act. Of course, the debate on the floor of the House and the committee's report clearly indicates that the intent was to develop competition. Now, I take it that you are mainly objecting to the fact that they did not achieve what they were trying to do; is that my understanding of your comments before?

Mr. ADAMS. That is correct.

Representative CURTIS. I presume you have read the debates and the committee report in making this statement?

Mr. ADAMS. I have read the debates in great detail, Congressman, and I have also read both the majority and minority views on the committee.

Representative CURTIS. Because this is neither here nor there, I just happen to disagree with you completely on the conclusions. I think that Congress did a very good job in providing that very competition, but that is an honest difference of opinion.

Now, finally, a comment with regard to the Federal Communications decision in this television matter. I do not want to get into the full thing, but I just was interested in your comment, it is a matter I was particularly interested in.

When they first began issuing licenses for new TV channels they would issue one to one particular station in one community and then we had the freeze. Then they opened up again, and the philosophy that they were going to follow was to first open up new areas that had no TV at all. I tried to point out to the FCC that what they should do, first, is to provide competition in areas that they had already opened up, like St. Louis, Mo., where for 4 years there had been a TV monopoly.

I was wondering if you would think that my position on that was sound, that it would have been better in opening up an area to provide competition initially instead of permitting just one station to have a monopoly situation for 4 and 5 years. To a certain extent this was unanticipated because of the freeze, but nonetheless the situation was there, and it seemed to me that competition was a great deal more important than opening up an area that had no TV at all.

Mr. ADAMS. I think there is much to be said for that position; yes.

Representative CURTIS. That is all.

Thank you, Mr. Chairman.

Vice Chairman PATMAN. If the panel will bear with me a few minutes I would like to ask a few questions.

Now, Dr. Kaplan, you said something about encouraging small concerns. I want to ask you how you would encourage a small concern like this: Say it is a concern that is making pots and pans of aluminum. That is the only business it has. It is not an integrated concern. It is a nonintegrated concern. It is not a distributor. It is not a producer of ingots. It is a fabricator.

Now, the large concern that has a pipeline like you so ably described a while ago, that goes from the raw materials clear on through the door of the consumer, how would this particular fabricator, this corporation X, that is just in that one business of fabricating, compete with the big concern that produces the ingots, and everything else, when the price of the raw material is increased?

Now, the big concern, of course, can absorb that. It is just a bookkeeping operation. How would you recommend that help be afforded to that small concern in a case like that, Dr. Kaplan?

Mr. KAPLAN. You are assuming a situation——

Vice Chairman PATMAN. Well, it actually happens. It is a real genuine situation.

Mr. KAPLAN. You are citing a situation in which the integrated company is making exactly the same product as the small business that is operating at only one level—in this case at one fabricating level?

Vice Chairman PATMAN. That is right.

Mr. KAPLAN. In a situation of that sort the integrated large company would be expected to start from the same cost basis, as far as that particular material is concerned, as the nonintegrated company to which it sells that material.

Vice Chairman PATMAN. Well, that would be price fixing, would it not? We have no law like that.

Mr. KAPLAN. No; we have no law like that, and I do not think that the same base means that it has to be in terms of a fixed price.

Vice Chairman PATMAN. Well, what would be your remedy? Do you recommend a law?

Mr. KAPLAN. No; I do not recommend a special law in a situation of that sort. Ordinarily I don't expect the small company to meet the big firm's competition by exact imitation. But in any event I would rather put the big company on the uneasy seat there to know that any pressure that is exerted that is deemed to be unfair against that small company is subject to antitrust action, without attempting price fixing.

Vice Chairman PATMAN. Well, you would not scare them at all.

Mr. KAPLAN. Well, you do not stop them by a price-fixing law, either. Suppose you had a law for price fixing. It would be a simple bookkeeping matter to indicate that you are starting from there, but the big firm says "We are making a satisfactory profit on the price we offer." Or suppose it makes its case on the basis that "We are making as good a profit starting from the same base, or a better profit starting from the same base, as our competitor because he is not operating as efficiently."

You would have to check on the facts in that kind of case. I think the burden of proof is on the large corporation to show that it is not putting on a squeeze, other than the squeeze of a more efficient operation which it could justify whether or not the nonintegranted competitor were around.

Vice Chairman PATMAN. Well, you are just saying that in so many words, Doctor, with all due respect to you, they would not pay any attention to it.

Mr. KAPLAN. I would like to reverse it and have you tell me how the price fixing, which is an artificial paper figure, would change things?

Vice Chairman PATMAN. I am not advocating price fixing. I am not advocating it at all, but I am talking about doing something to the big concerns to place them in a position where the little concern can compete with them. Otherwise you are not helping the little concern. Unless you are helping them to meet the competition.

Mr. Mund.

Mr. MUND. I think you have raised a very proper fundamental problem there, Mr. Patman, and I think that the small independent fabricator faces not only the rise in cost of the basic product, he may also face the refusal to sell it at all.

Vice Chairman PATMAN. Yes.

Mr. MUND. I might suggest as a first step—this is no remedy—but as a first step, Congress could provide that all interstate businesses operating on a multiplant basis shall prepare profit-and-loss statements for each separate plant and for each distinct kind of business. We would deny the right to have consolidated profit-and-loss statements, and then we would get a line on these people to see where they are getting their profits and losses.

Vice Chairman PATMAN. I do not think you would get anywhere there. That would be 10 years reaching the problem. That is just my honest opinion. You would never be getting to it. You have to have something that is more direct, I think. I do not know what it is, but you have to have something that is more direct and that will operate more quickly than that.

Mr. MUND. I agree with you.

Vice Chairman PATMAN. Because anything that would get you into court and take 10, 15, or 25 years, the whole picture is changed by the time you get through. That is just turning it over to the big concerns because you cannot compete with them in the lawsuits.

Mr. KAPLAN. Senator, part of the job in competition is to find for oneself the kind of notch in which one has an advantage over his competitor, and not try to outdo the big company on ground where size is a special advantage.

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Vice Chairman PATMAN. I am not afraid of the little fellow trying to outdo the big company.

Mr. KAPLAN. I would like to see it.

Vice Chairman PATMAN. You might like to see it, but I have not heard of any remedy that would enable them to do it.

Mr. MUND. Congressman Patman, I suggest that you might limit the powers of a corporation to a single main purpose and kind of business.

Vice Chairman PATMAN. Well, you have got something there. That would be more direct. In other words, define business, say you can be in this business but you cannot get into all kinds of business. I think you have got something there, and I think we have to meet that problem there.

You take a huge corporation that is in every kind of business, what chance has the little man that is just in one kind? He cannot compete with that big concern. They could put him out of any territory they wanted to.

Mr. GEORGE. Congressman, you really get into trouble on that one, because that blocks one of the most effective remedies that economists can find for oligopoly.

Because when an oligopoly develops, a concentration of a few plants in an industry that have what is regarded as more than desirable control——

Vice Chairman PATMAN. Well, let us don't try to get the remedy now, let us just think about it, and I want to ask Dr. Kaplan this question:

How would you help a little fellow like this: There is a national chain store operating all over the country, and the independent merchant is in competition. Now, the national chain sells at a loss there to put that fellow out of business, and puts him out of business. It takes them time. He spends all of his savings, his wife, and kin folk come in and put in all of their efforts, but they finally get him after many years.

All during that time he is suffering, but the big concern is taking a tax loss on that business every year that they did in order to put that little fellow out of business.

How would you treat that?

Mr. KAPLAN. I would regard that case as criminal under the Sherman Antitrust Act on the facts you have stated.

Vice Chairman PATMAN. Just one independent unit against another independent unit?

Mr. KAPLAN. I think that if you can find a situation in which the larger firm is deliberately operating continuously on a below-cost basis——

Vice Chairman PATMAN. But they claim they are meeting competition.

Mr. KAPLAN. Not if they are showing a persistent loss operation. If they were coming into a territory and they showed a loss the first few weeks because they were pricing at what is their usual price level with regard to other chains, so as to build up volume, the court might find that up to a certain point you have to do that while you are breaking in.

Vice Chairman PATMAN. Now you are getting into court again and when you get into court the little guy just cannot stay in.

Mr. KAPLAN. I do not know how to stop all juvenile delinquency or other crime, either, except by bringing it before the law.

Vice Chairman PATMAN. They haven't a chance. We have to have quicker action. What did you want to say, Doctor?

Mr. MUND. I agree with you. There is no adequate remedy at the present time.

Vice Chairman PATMAN. This court remedy doesn't amount to much for the little fellow. He has not got a chance. He can hire a good lawyer if he has the money, but that good lawyer cannot prevent postponements and continuances and appeals and then reconsideration and everything else. His day in court is too long for him to stay in.

Now one other point. This costless capital. I want you to look at the President's Economic Report, page 193. You will notice in 1946, total sources of corporate funds was $18.2 billion, but internal sources; that is, your costless capital, retained profits and depreciation allowances and amortization allowances amounted to $11.4 billion. That is only 60 percent.

Your costless capital was only 60 percent that year, but go over to the year 1954 and you will notice that your total sources amounted to $21 billion, and your costless capital or internal sources was $19.5 billion or 90 percent.

Now how can a little concern compete when the little concern is borrowing its money, running in competition with a big concern across the street that is getting 90 percent of its capital from internal sources or costless capital?

Just tell me how a little concern can compete with that. Will you do that, Doctor.

Mr. KAPLAN. I do not think it is expected to compete exactly under those circumstances.

Vice Chairman PATMAN. Well, that is the kind of situation we are in today all over the Nation.

Mr. KAPLAN. We should recognize the special situations that have made for heavy plowing back of funds for capital formation since the end of the war—the long delay in plant replacement, the low levels of inventories, the need to catch up with expanding population, the high fraction of capital reserves built up through the special depreciation and amortization allowances, including special privileges that were given to support our war effort, and I——

Vice Chairman PATMAN. Wait just a minute, the war was over in 1945.

Mr. KAPLAN. I was thinking of the Korean war period as well. And I was about to note that some small firms also got accelerated depreciation and other internal funds. But I should make it clear that I can't go along with you on the premise that the internal sources of investment are costless capital.

Vice Chairman PATMAN. Well, it does not cost them anything. It costs the consumers something. The consumer had to pay it.

Mr. KAPLAN. I think the term "costless capital" there is a misnomer.

Vice Chairman PATMAN. Well, you know Mr. Clarence Francis, don't you?

Mr. KAPLAN. Yes, I do.

Vice Chairman PATMAN. He is the head of General Foods. He said it was costless capital at one time.

Mr. KAPLAN. I think he said it in another context.

Vice Chairman PATMAN. Maybe so.[1]

Mr. KAPLAN. Part of that costless capital is from retained earnings on which the stockholders are abstaining from getting immediate returns; use of the depreciation reserves for plant and equipment is at the expense of other interest- or dividend-bearing uses of the funds. The choice to use the funds for plant and equipment does not make them costless.

Vice Chairman PATMAN. Let's not argue about it. Let's say half of it is costless capital. You know that half of it is?

Mr. KAPLAN. Any funds employed for capital purposes must have attached to them something in the way of an interest rate, or alternative cost, as against the immediate satisfaction by consumption. You cannot refer to capital as costless merely because it is from internal sources.

Vice Chairman PATMAN. But you did not touch one point, Dr. Kaplan, let me invite your attention to that. That one point is that after the excess profits tax was repealed they did not reduce the prices to the consumer. They kept on charging the same price. Therefore they got in more money. That gave them more costless capital. They took it away from the consumer in higher prices. They should not have charged those higher prices. That is the answer to that, but they did, and they got the money, and they got the money from the consumers and they are using that money to beat down and destroy independent business in this country.

Now can't you see something to that argument, Dr. Kaplan?

Mr. KAPLAN. I can see the argument that instead of translating some of what they got back in excess profits into immediate price reductions, that they used it for additional capital formation.

Vice Chairman PATMAN. Well, their capital formation was figured with costless capital.

Mr. KAPLAN. I won't argue that with you, because I think it will take more time. But I think that you are certainly entitled to your view that one way of treating that excess profits "windfall," if you please, was to reduce prices.

Vice Chairman PATMAN. I know they have been holding prices up for another reason, and that was they had a feeling there might be some kind of emergency, with all of this fringe emergency around the world, and prices might be frozen and they did not want to get prices frozen low. They wanted them frozen high. They have been caught with their prices down before and they don't want that to happen again. That is why they held the prices up. At the same time they have benefited by it because it has been a source of costless capital to them.

On this merger business, Dr. Mund, I know that the mergers started in 1946, but it was kind of in low gear, and I do not think it even got into second gear until the last two years, but the last couple of years it has been in high gear with green lights, no red lights, high speed.

Mr. MUND. For the most part, I think that is right.

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[1] Clarence Francis, Chairman of the Board, General Foods Corp., testified before the Joint Committee on the President's Economic Report during the Hearings on Corporate Profits, 1948. He said, "* * * capital raised by reinvesting earnings in the business is costless capital." (Hearings, p. 211.)

Vice Chairman PATMAN. They have been going very rapidly. I wanted to ask a question relating to that. Is the current saturation technique used by the Big Two in the automobile industry compatible with the maintenance of a competitive situation in the automobile industry?

For example, isn't there a danger that by saturating the market with an oversupply of General Motors and Ford automobiles, the independents will be squeezed out of their dwindling share of the market? What do you think about that, Dr. Mund?

Mr. MUND. That is a big question. I would like to think about for a longer time.

Vice Chairman PATMAN. All right. What do you think about it, Mr. Quinn?

Mr. QUINN. I do not think there is any question about it. If you load the dealers with cars, the dealers competing with each other will cut prices, and the fellow with the least capital, the least lasting power, manufacturer and dealer, will be the first to be eliminated.

Vice Chairman PATMAN. What weapon do the automobile dealers have against this saturation technique?

Mr. ADAMS. None at all that I can see.

Vice Chairman PATMAN. Dr. Stocking, will you answer this one, please: Do the recent trends in acquisitions and mergers indicate that the rate of growth of new industry will be seriously curtailed? What effect will this development have upon economic growth in general?

Mr. STOCKING. Well, that is a question that I think requires more thought than I can give it here and now.

Vice Chairman PATMAN. All right. I see that the time is late and I would not want to insist on your taking too much time.

Mr. George, I wonder if you would answer this one. This is about banking. You are familiar with that.

Mr. GEORGE. To some extent.

Vice Chairman PATMAN. Do you see anything contrary to the public interest in the concentration of financial resources arising out of the merger movement in banking?

Mr. GEORGE. I could always rely on the stock answer, that this requires more thought. No evidence has come to my attention on that score. I have found a number of mergers that were quite justified when I looked into them from the standpoint of attracting deposits more widely and handling bigger deals with money at its inflated value. Now there may be other circumstances to the contrary, but that could be a consideration.

Vice Chairman PATMAN. All of you gentlemen will have an opportunity to extend your remarks, and if any of you want to extend your remarks, whether they were asked of you or elaborate on them or answer them in any way, it will certainly be a favor to the committee and we will appreciate it. I certainly will.

Now what steps are being taken to protect the independent banking system from encroachment by the large metropolitan banks?

Mr. George, do you know of any effort being made to protect them?

Mr. GEORGE. I do not know any effort is being made to stop what you are calling encroachment.

Vice Chairman PATMAN. I do not, either. In fact, I can see evidence of the encouragement. It is true that the supervisory agencies do not look with favor upon the establishment of new independent banks in which the majority, let us say 51 percent, of the capital stock is owned by the enterpriser who starts the bank?

Would you like to comment on that, Mr. George?

Mr. GEORGE. I am sorry, you spoke too rapidly for me.

Vice Chairman PATMAN. In summarizing it, the agencies do not look with favor on chartering a new bank where the real sparkplug behind it, the enterpriser who really gets it up, owns as much as 51 percent of it? They are discouraging the chartering of banks under those circumstances?

Mr. GEORGE. Well, Congressman, all I can say is, I profited from your phrasing of the question. It is something I want to know more about, but I am not qualified to answer.

Vice Chairman PATMAN. All right. I am asking these so that you gentlemen will have the privilege, if you desire to use it, to elaborate on it.

Now, then, the last question: Doesn't there seem to be an absence of competition in the behavior of industrial commodity prices in the last 3 years? For example, these prices, particularly for finished goods at wholesale have been rising steadily, but surely, through the two cycles we have had since early 1951.

Now I ask that last question. It will be in the record, and if you gentlemen will elaborate on it, I will appreciate it very much, or any of the rest of these questions.

Is there anything else to come before the committee?

(No response.)

Vice Chairman PATMAN. Tomorrow there will be a session on agricultural policies here in this room, 1301, at 10 a. m. We will have Mr. Murray R. Benedict, Mr. John H. Davis, Mr. Murray D. Lincoln, Mr. William H. Nichols, Mr. Theodore W. Schultz, Mr. Frank J. Welsh, and a representative of the Department of Agriculture.

The committee desires to thank the members of the panel for their attendance and for the very interesting testimony that you have given the committee. It will all be first transscribed and you will have the privilege of going over your remarks and making any corrections that you desire to make or any additions that you desire to make. After that, the testimony is printed, and as printed, it is circulated to all of the Members of the House and Senate and to all Government agencies, not only throughout this country, but throughout the world, so I feel like, and I know the committee feels like, you have made a great contribution.

Thank you very much.

(The extended statements of the panel are as follows:)

STATEMENT OF DR. WALTER ADAMS, ASSOCIATE PROFESSOR OF ECONOMICS, MICHIGAN STATE COLLEGE

My name is Walter Adams. I am an associate professor of economics at Michigan State Colege and a member of Attorney General Brownell's National Committee To Study the Antitrust Laws. However, I appear here as a private citizen and do not purport to represent any institution or organization.

The prevention of monopoly and the promotion of competition receive only incidental treatment in the President's Economic Report. While the report recognizes the Government's "responsibility to maintain easy entry into trade and industry, to check monopoly, and to preserve a competitive environment" (p. 50) it scarcely suggests how these generally accepted goals are to be implemented.

Fundamentally, it fails to face up to the crucial issues. Thus the report states that Congress has established a policy of assuring small business of a fair share in the procurement program, but it does not indicate to what extent the executive agencies have carried out the will of Congress. It does not indicate the extent to which legislative wisdom is being vitiated by administrative shortsightedness and incompetence. The report recommends increased Federal expenditures on research and development, but it does not recommend that the fruits of such research be made freely available to all bona fide business enterprise. The report suggests an increase in antitrust fines as a deterrent to future violations, but it does not say that, at a time of virulent merger activity, the inadequate fine is hardly the most important obstacle to effective antitrust enforcement. Finally the report proposes that the line between public and private enterprise be redrawn, but it does not insist on redrawing this line with a view toward promoting competition and attenuating monopoly.

Deficient on these specific counts, the President's report is subject to a more general, and probably more crucial, criticism, viz its total disregard of one of the most important monopoly forces in America today—the United States Government. Thus the report fails to show how the exercise of particular powers of government may create the very monopoly which the antitrust authorities are later called upon to destroy. A few illustrations should make my point clear.

(1) *Spending power.*—In a period when Federal budgets run in excess of $60 billion, Government procurement, especially defense contracts, have a significant impact on the economy. Yet the executive departments are not always aware of the antitrust implications of their decisions. In 1952, for example, there were four producers of M–48 tanks, but the Defense Department suddenly decided to concentrate production in a single supply source. By administrative fiat, therefore, we moved from an oligopoly to a monopoly situation. Similarly, between January 1953 and June 1954, while independents in the auto industry were withering on the vine, the net new defense contracts going to General Motors increased by $1.7 billion while the net new contracts going to all other auto companies combined declined by $395 million. Such actions by the Defense Department are hardly conducive to greater competition in highly concentrated industries.

(2) *Taxing power.*—In every emergency, from World War I to the Korean war, the tax code was amended to authorize accelerated amortization as an incentive for industrial plant expansion. The companies receiving such amortization privileges got a valuable tax rebate or, at the very least, an interest-free loan. They received what one congressional committee has called the biggest bonanza ever to come down the Government pike. Unfortunately this bonanza was unequally shared. To the extent that it accrued primarily to the dominant firms in highly concentrated industries, the Government was underwriting the growth and expansion of industrial giantism.

(3) *Proprietary power.*—During World War II, the Government spent about $11.6 billion on industrial facilities which were usable in the postwar period and were sold to private industry. Here, too, however, the record indicates that—with the notable exception of aluminum—the disposal program did not effectuate an appreciable increase in competition. In the steel industry, for example, almost all the major facilities directly financed with Government funds were sold to the largest firms at bargain-counter prices. The Geneva Steel plant in Utah, built at a cost of more than $200 million, was sold to United States Steel for a mere $47.5 million—a sale which increased United States Steel's control over the rapidly expanding west coast market from 17 to 39 percent, and raised its percentage of ingot capacity in the area to 51 percent. Ironically enough, the Attorney General, after approving this sale, filed an antitrust suit against United States Steel for merging with a firm which accounted for 3 percent of fabricated steel production in the same market.

(4) *Legislative power.*—As in the case of atomic energy, this involves establishment by Congress of ground rules for industries being transferred from the public to the private domain. While I regret to do so, candor compels me to say that last year's atomic energy law is likely to preclude the development of competition in this vital industry. At a time when only a handful of large corporations had been allowed to participate in the atomic energy program, Congress suddenly decided to fling the doors open. But an open door does not afford equality of opportunity when some contestants are on the doorstep while others are miles away. This is not the way to assure effective competition in a new industry.

(5) *Regulatory power.*—Here we see in boldest relief the creeping paralysis of monopoly. Here we see the marasmus of the regulatory process—its injurious effects on the consumer and its debilitating influence on the industry concerned. Here we see the subversion of competition via regulation. Let me cite some recent examples:

(*a*) In 1948, the Supreme Court ordered the vertical divorcement of the Big Five in the movie industry. Each of the Big Five was required to separate the production of movies from exhibition, so as to prevent foreclosure of the market by vertical integration. Then, in 1953, the Federal Communications Commission authorized the merger between American Broadcasting Co. and United Paramount Theaters, and acquiesced in the control of Paramount Pictures by Dumont TV. This meant not only a sizable horizontal combination between a movie exhibition chain and a TV network, but also the vertical integration between a movie producer and a TV exhibitor. It vitiated potential interindustry competition between two basic communication media, and brought about the very vertical integration which the Supreme Court had earlier sought to eliminate.

(*b*) In another action, the Federal Communications Commission decided on an allocation pattern for TV channels which may doom competition in this young and dynamic industry. According to Allen B. DuMont—who is no academician and who has met a payroll—the Commission's allocation pattern will result in a two-network monopoly in the television industry. Other witnesses before the Senate Interstate and Foreign Commerce Committee agreed with this contention. They pointed to the fact that competition hinges on the survival of UHF, and that UHF cannot survive unless the Commission equalizes the terms on which UHF competes with VHF. Thus it is clear that the FCC ground rules will determine whether newcomers in this concentrated industry are to have a climate in which competition can thrive and prosper, and whether the TV audience is to enjoy the variety of competition or accept the impositions of monopoly.

(*c*) In the transportation field, there are especially strong indications that the type of regulation may be unwise and the amount of regulation excessive. There is more than a germ of truth in the observation that the regulatees have wound up doing the regulating.

When the ICC Act was passed in 1887, the railroads possessed considerable monopoly power. But today the situation is different. In the passenger field, the airplane, the bus, and the private conveyance protect the consumer against potential exploitation. In freight, the common-carrier, contract, and private trucks seem to give the railroads quite a run for their money.

Yet competition in the trucking business is artificially restricted. No common carrier truck can operate in interstate commerce without first obtaining a certificate of convenience and necessity and without submitting to rate regulation and route determination by the ICC. Why? What is there about trucking to justify this kind of public utility regulation? Very little, in my opinion. Here is an industry which closely approximates the pattern of perfect competition. There are many firms in the industry and, in the absence of regulation, there would be more. The product is fairly homogeneous and standardized. Entry would be easy, because of relatively low capital costs and because the roadbed is provided at public expense. Moderate fixed costs make price discrimination and cutthroat competition an unlikely eventuality. Nevertheless, we refuse to rely on competition as a means of protecting the consumer interest. Instead we depend on a regulatory agency which shows an inordinate concern for sagging railroad properties and for the vested interests of established trucking companies. In my view, this is ill advised. There seems no economic justification for limiting entry into this industry as long as the public is assured that common carrier trucks are financially responsible, follow the necessary safety regulations, and passes the proper surety qualifications. Here is an industry which is no more a public utility than restaurants, laundries, or filling stations. Here is an industry where gradual, but substantial, deregulation seems feasible, practicable, and desirable.

Finally, we have the case of the airlines. When the Civil Aeronautics Act was passed in 1938, domestic trunklines flew 479.8 million revenue passenger-miles. By 1952, this total had increased to 12,188.7 million—a 2,500 percent growth. Despite this tremendous expansion, however, not a single new trunkline (passenger) carrier has been certificated. Established carriers have thus been given what amounts to a perpetual monopoly over a new and growing industry. Here again, there is no economic justification for what seems to be a complete and permanent bar against the entry of newcomers. The skyways are free, and airport facilities are provided with public funds. Capital costs are moderate, and new facilities can be added in relatively small doses.

Given the tremendous increase in the demand for air travel, there seem to be no compelling technological or economic factors militating against the entry of at least 1 or 2 new carriers. Moreover, the experience with the nonskeds shows how necessary the energizing and invigorating stimulus of competition is. It was the nonskeds who had enough faith in the future of air travel to introduce coach service—at a time when the Big Four thought that such service would entail substantial losses and would fail to promote an increase in demand. It was the nonskeds who rejected the caution, conservatism, and restraint of the big companies and who refused to bow before the apparition haunting every monopolist—the assumed inelasticity of demand. It was the nonskeds whose initiative, enterprise and daring proved that competitive rate reduction is more effective than a belief in the myths of inelasticity. If for no other reason than past performance, the certification of new competitors is urgently needed—competitors who do not demand subsidies from the Government, competitors who are dynamic enough to assure a phenomenal growth in a phenomenal industry. Such growth will not only benefit the consumer, it will not only enable Michigan residents to escape harsh winters with an airline trip to beautiful Arizona, it will also contribute to our national defense which depends on a strong and vigorous airline industry.

In conclusion let me say that contrary to the prediction of Karl Marx and the belief of his unknowing and unwitting disciples, monopoly in America is neither natural nor inevitable. Rarely is it a response to technological imperatives or economic necessities. Never is it the result of spontaneous generation or natural selection. More often than not, monopoly is the result of unwise, manmade, privilege-creating legislation which throttles competition and restricts opportunity. I think it is idle to expect enforcement of the antitrust laws alone to assure us of a competitive economy in years to come. We cannot have competition if the Government creates what the antitrust laws are designed to prevent, if the Government itself helps fashion the economy in the image of the cartels.

Statement by Edwin B. George, Director, Department of Economics, Dun & Bradstreet, Inc., New York, N. Y.

The assignment of this panel is necessarily broad and cannot be covered in brief compass. Yet picking and choosing is quite a problem in view of the many substantial matters worth discussion. After some reflection, I have decided to take my lead directly from the Economic Report. Those who have read the latter will be aware that—due no doubt to the fact that the final report of the Attorney General's National Committee To Study the Antitrust Laws has not yet been made—it contains nothing (beyond a recommendation to increase substantially the maximum fine imposable for Sherman Act violation) on those matters which come first to mind when one considers problems of competition and monopoly, giving the bulk of its attention to the question of assistance to new and small business. Obviously this does not bind our panel. We are as free to discuss bypassed subjects as those given consideration. The subject dealt with, however, is so important and the treatment given it sufficiently limited as to warrant further comment. There will be no gaps in the agenda because my fellow panelists can be trusted to give bigness and other matters of great current interest a thorough going-over. Accordingly, I shall concern myself with selected aspects of the item upon which the report concentrates.

The exact scope and focus of my comments can be indicated briefly. Some of the questions bearing upon new and small business fall within what most observers would regard as the antitrust field. But to much greater extent than in many other connections (e. g., bigness), basic policy issues are either unrelated or very indirectly related to this area. I shall restrict my analysis to matters that are largely nonantitrust in character. Without undue violence to their interrelationships, the policy issues here can be grouped under five headings: general management, industrial relations, availability of capital funds, research and development activities, and taxation. I shall skip the second and touch upon the first but incidentally, reserving most of my time for consideration of the last three. The material in the Economic Report is concerned largely with two of these.

ACCESS TO CAPITAL FUNDS

The Economic Report calls attention to the apparatus established by Congress in 1953 to help small business to obtain adequate financing, claims that this has made a useful contribution and in consequence recommends that the lending authority made available—now almost fully committed—be enlarged. I do not have much in the way of general criticism to offer of SBA's operations under the statute. Their rules, especially that requiring would-be borrowers to explore private channels before turning to the Government, seem well devised and aid has still been given in a significant number of cases. However, I don't see where this kind of facility carries us far along the road to solution of what a study I made several years ago persuaded me may be the prime need, namely, provision of equity capital (or at any rate some combination of debt money, common stock money, and preferred stock money, as in the sandwich deals of the British ICFC) for businesses with requirements that banks and other lending agencies cannot meet owing to a mixture of prevailing standards, legal barriers, and concern for their creditors' funds even though they recognize the merit of the objective, and which cannot obtain funds from security markets save at prohibitive cost.

The area of primary interest has been defined by a fellow panelist, Dr. Kaplan, as including "the kind of businesses that can really compete with larger businesses. It is the area between 8 and 100 employees, and in some cases a little more than 100 employees. It does not add up to millions, but it adds up to a core of 150,000 units that are the very heart of independent enterprise."[1] Add new firms of demonstrable promise and I would agree.

After reviewing domestic and foreign experience and looking at the galaxy of remedies proposed, my impression was that the one most worth trying was that envisaging establishment of regional capital banks under Federal Reserve auspices—the approach embodied in bills introduced in several previous sessions of Congress by a former chairman of the joint committee, Senator O'Mahoney. The scheme has too many angles to permit full treatment here. I shall note merely that it seems best to begin on a pilot-plant basis, selecting one or a few FRB regions in which need for assistance is thought to occur most frequently and in which the resident Reserve Banks themselves have been urging action, stipulating that firm arrangements should be made from the outset for provision of complementary managerial and technical aid and for compelling applicants to accept such aid, if the financing agency deems necessary.

RESEARCH AND DEVELOPMENT ACTIVITIES

What about research and development? My guess is that Mr. Lilienthal's book—despite imperviousness to the existence of a problem of diminishing returns—probably reflected a large body of opinion in claiming that our rate of progress during the past quarter-century is attributable to a "new competition," characterized by incessant product and process innovation which in turn largely arose from research by large concerns competing in this fashion. It seems to me that Dr. Kaplan takes a similar view in his recently published study of big enterprise in a competitive economy. This general slant invites some comment.

First, and of lesser importance, it is by no means demonstrably true. On the subject, Prof. Edward S. Mason made some pertinent observations last year. "* * * the fact that research expenditures are highly concentrated in large firms does not mean that important product and process innovation is the product of large firms. This is something about which we know next to nothing."[2] Prof. M. A. Adelman has expressed himself similarly.[3] Even if, however, large firms are now the main sources of progress, one may doubt whether this must necessarily be so. As Mason notes, the rate of advance during the past 25 years does not appear to have been greater than in the preceding 25 years or the latter again above that in the last half of the 19th century. In other words, we grew as fast in a small-concern system as in one dominated by large units. (Although, starting with a rich new country, to maintain the same percentage rate of growth over a long period of time is quite a feat, and the basic fact in itself has no

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[1] U. S. Congress, Volume and Stability of Private Investment, hearings before the Joint Committee on the Economic Report pursuant to sec. 5 (A) of Public Law 304 (77th Cong.), 81st Cong., pt. 1, pp. 27–48.
[2] The New Competition, Yale Review, autumn 1953, p. 44.
[3] Northwestern University Law Review, Symposium Review of Galbraith and Lilienthal, May-June 1954, p. 157.

bearing on reasons for the eventual growth of large concerns, which in its time has had great positive benefits; only the narrow point is involved.) It is possible that one of the reasons why not only large concerns but large-scale techniques are now so prominent in the economy may be found in a combination of growth in nontechnological hurdles confronting small concerns and of factors operating to place greater relative research emphasis in big outfits on large-scale methods. On the latter point, there is no doubt that absolutely speaking the big research departments spawn many developments exploitable via small-scale methods.

These however, one would expect to be exploited often in product lines which are either altogether new in the system as a whole or, if not being somewhere, are possessed only by concerns other than the finder. In dealing with their own lines, stress may often be laid upon developments yielding marginal cost savings with setups in which huge capital has already been sunk rather than upon competitive techniques of an entirely different order. Moreover, even where new possibilities do not present a threat to the company's established lines or production methods, one would expect less intensive inspection of the potentialities of those involving only moderate capital outlays than would occur in the case of concerns less well-fortified financially. Under stronger pressure to dig for methods of modest optimal scale, they might well find that these paid off a lot more frequently than is now judged.

It strikes me—and I come now to the nontechnical obstacles small units confront—that deliberate efforts to smooth the path for small concerns considering innovations are quite desirable. Recent liberalization in tax treatment of unusual research and development expenses, discussed below, should contribute to this end and so too would improvements in access to capital—knowledge that, if attractive prospects came to the fore, there was a good chance of obtaining the capital necessary for commercial exploitation providing more incentive to experiment. But I would not be surprised to learn that even under these conditions room would be found for direct encouragement of research. Preferable efforts to capitalize this fact should aim at stimulating growth of specialized private outfits, including industry research agencies. If progress along these lines proved too sluggish measures to strengthen present Government agencies and establish others would have to be considered.

TAXATION

Broadly speaking, the small-business tax issue has two major aspects. One concerns the relationship between tax structure and rates of establishment and growth of small or medium-sized firms. The other has to do with indefinite survival of those firms that have in some way or other achieved a firm place in the economy.

A helpful way of gaging how matters stand in these respects is to contrast our present position with that prevailing in the first several postwar years, when it was widely held that the tax structure had very unfavorable effects in both connections. With respect to the problems of birth and healthy growth, proposals to improve the situation usually involved one or more of the following: more flexibility in methods of depreciating property for tax purposes; reversal of the trend toward forcing unusual research and development outlays to be capitalized rather than treated as current expenses; introduction of a higher degree of partial income-averaging through extension of the periods during which losses could be carried back or forward; and exemption of some part of income. In most cases, it was suggested that these changes be made effective for all concerns—one argument being that even if this were done small firms would benefit relatively more than large, established units. Sometimes, however, proponents advocated limitation of some of the liberalizations to firms below a certain size or certain age. One prominent tax economist went so far as to urge that reinvested earnings of all new noncorporate businesses be exempted during the first 5 years of its life. And one device receiving support—the partnership option, extending to closely held corporations the privilege of being taxed as partnerships—in effect would be applicable primarily to small firms with simple security structures.

So far as concerns taxation, the problem of disappearance of healthy small concerns had to do with other effects of the then-existing structure—primarily those resulting from the interplay of personal income, capital gains, and estate taxes. Much the best evaluation of the picture here was the study of the effects of taxation on corporate mergers over the period 1940–47 made by Butters, Linter, Cary, and Powell. These authors found that in these years sales of businesses attributable in very significant degree to tax considerations constituted about 10 percent of the total number of mergers and close to 25 percent of those involving absorption of units with assets between $5 million and $30 million. Measured by the indexes of concentration used in their study, the overall effect of all mergers—and thus a fortiori all those into which tax elements entered importantly—upon concentration was not impressive during the period covered. Nonetheless, a significant loss in the number of centers of initiative in the economic system took place; and for this development tax considerations were among the important causative factors.

How does the picture look now? Taking impact-on-mergers first, it seems considerably better. Section 115 (g) of the 1950 Revenue Act has led to substantial changes in the picture for a large fraction of closely held concerns. In some respects it overshot and in others fell short of what might have been the best solution possible given our jerry-built tax pattern. On balance, however, the tax incentives promoting unhealthy disappearance of independent businesses via mergers were strongely reduced. Further lessening of such incentives will result from last year's change in rules affecting inclusion of life-insurance proceeds and the value of property transfers arranged before death but only effective at death in a person's estate. In consequence, we may expect much less in the way of perverse tax-induced effects henceforward.

The net effect of recent changes affecting new and small units in other respects is more difficult to determine. Several real improvements have taken place, notably in two major areas, viz., depreciation allowances and treatment of research and development expenses. Businesses now have more flexibility in dealing with the former and under the 1954 law all outlays for unusual research and development can be deducted as current expenses. So far as concerns averaging, however, the recent extension of carryback to 2 years simply restores an arrangement that had been in effect during the period I am using as base and the longer carryforward, though much better than nothing and of aid to new firms with enough cushion to withstand early year losses, is of uncertain value to small businesses running into trouble after a string of profitable years and being unable to tap outside sources for emergency needs. And for the rest, the total picture is not much different. There isn't any income exemption—at any rate from the normal tax. Special treatment has not been accorded to reinvested earnings. The partnership option is still unavailable. And it seems probable that although on balance the jump in absolute fraction of pretax earnings taken by the Government was somewhat lower for small corporations, the dollar has injured the small outfit's ability to expand more than it has that of the large firm (because of lesser ability to tap outside funds). It may well be that the relative improvement resulting from the change in treatment permitted for depreciation allowances and research and development expenditures more than offsets any deterioration here. But for all that, it seems likely that a deal more could be done to strengthen the position of new and small concerns.

Because of the many considerations involved I do not have any specific recommendations to make but believe close study of the problem to be worthwhile.

SUMMARY

Broadly speaking, I would say in conclusion, the picture is about this. One very important means of insuring a healthy competititve economy is to insure propagation of new and small business. Real scope remains for improvement in the conditions governing successful operation and growth of such concerns—a judgment that can be extended beyond matters treated above to cover managerial problems. Furthermore, need to effect such improvement is in some respects more urgent than in the late forties due to the greater relative burdens in tax and related record keeping imposed by such things as extensions of coverage under unemployment insurance; and also from parallel growth in other incentives for executives and superior workers—private pensions in the case of the former, pensions and seniority in the case of the latter—to remain with large concerns rather than take off on their own. And finally, a good part of the job lies outside what we usually regard as antitrust policy.

NOTES FOR JOINT COMMITTEE ON THE ECONOMIC REPORT PANEL DISCUSSION ON MONOPOLY AND ANTITRUST POLICY, BY A. D. H. KAPLAN

The Economic Report of the President, January 1955, defers the administration's general treatment of the subject of monopoly and antitrust policy until the Attorney General's National Committee To Study Antitrust Laws comes out with its report (p. 48). The withholding of any reference to the current wave of corporate mergers is presumably on the same ground. The Federal Trade Commission announced last October it had embarked on a study of recent mergers in the light of the section 7 amendment of the Clayton Act of 1950, and that a report would be speedily prepared. Perhaps we may expect, therefore, that later in the present session of Congress there will be opportunity to consider specific conclusions and recommendations from the executive branch concerning competition, monopoly, and antitrust policy.

Not unrelated, however, to the subject of competition and monopoly is the section in the Economic Report under the subhead, "Assisting New and Small Businesses." It refers to the Small Business Act of 1953 establishing an independent Small Business Administration in the Executive Office of the President, and recommends that the life of the agency be extended beyond the present expiration date of June 30, 1955. The SBA was designed primarily to help small businesses in obtaining and carrying out Government procurement contracts, and in getting loans. But this temporary facility for supplying emergency aid to small businesses that are unable to obtain private financing, does not cover the broader need in our business structure of a regular, continuing channel for investment banking at the small business level.

Bills introduced in earlier sessions of Congress by Senator O'Mahoney and others to help establish a system of investment banks to handle the capital financing of new and growing small-scale enterprises, failed of enactment. The chairman of the Select Committee on Small Business in the Senate has introduced a similar bill for this session to support the formation of a system of regional investment companies, under the aegis of the Federal Reserve System, with the commercial banks and other appropriate agencies as subscribers. It provides for a wide range of equity and debt financing to new and growing smaller scale enterprises. This type of capital banking, supported by competent guidance in developing new and small enterprise has already become a useful feature of the British and Canadian financing structure. It is hoped that Congress will not delay the effort to encourage the filling of this gap in our national banking system, under conditions that will make the venture self-supporting and eventually profitable.

Other aspects of the need to maintain a vigorous small-business sector in the structure of our competitive system, that may well come in for consideration at this time, have to do with the flexibility of competition and freedom of economic opportunity. There may be time to speak of two—distributors' pricing and labor relations.

In the 1930's some segments of small business took refuge in resale price maintenance legislation and other State fair-trade laws, reenforced at the Federal level by amendment of the Sherman and Clayton Acts. During the sellers' market that followed World War II, relatively few overt inroads upon the legalized price-fixing barriers were attempted. The more recent trend toward a buyer's market has, however, stimulated the undercutting of prices that had apparently been set for high distribution costs and margins wide enough to encourage the penetrating of the orthodox retail market with substantial discounts.

The time appears ripe for reexamination of the effects of fair trade legislation and support thereof by Federal legislation. The dollar-conscious consumer who has turned his patronage to the discount house has thereby raised the larger question as to how far the preservation of the maximum number in the business population may be regarded an end in itself, for which the consuming public is to pay the price of substantial subsidies as it has done in other areas of the economy.

New business needs to be able to bid effectively for labor as well as for capital. Small business is increasingly concerned in the attainment by labor unions of a position where the strength of their membership in large-scale enterprise can be mobilized behind their drives to improve wage levels and income security of their members generally. There is the growing problem of the industries in which the pattern is set by negotiation with the dominant firms, leaving no choice of bargaining for the small firm other than to fall in line without due regard to the differences in working conditions or capacity of the business. Government unemployment insurance and retirement programs have been supplemented by unemployment wage guaranties and pensions obtained for the working forces of particular companies through collective bargaining; job classifications, supervisory rules, and time schedules have been standardized, fitting into the pattern of mass production, yet untenable for new and smaller enterprises. Taken singly, the income objectives advanced by the labor leadership have been defensible as coming for the most part within the bounds of what can currently be drawn from the economy. There is nonetheless a major long-range problem of reconciling the trend toward standardized worker security patterns with the survival of that mobility in the American economy which has been the basis of successful business entry and a potent force in raising and widely distributing real income.

SOME CURRENT PROBLEMS IN THE MAINTENANCE OF "FREE COMPETITIVE ENTERPRISE"

BY DR. VERNON A. MUND, UNIVERSITY OF WASHINGTON, SEATTLE

It is significant that the Employment Act specifically states that maximum production is to be promoted in a manner calculated to foster "free competitive enterprise." The two, indeed, in our system, are closely related. The more effectively freedom of entry and price competition operate, the less will be the need to resort to public spending and other monetary fiscal measures.

1. THE PROBLEM OF RIGID PRICES IN DEPRESSION PERIODS

Why do business executives in certain industries—such as steel—maintain prices, and actually increase them, in the face of declining demands? Why were industrial prices in the recession of 1953–54 more stable than in the recession of 1948–49? Has the upsurge of mergers accentuated price rigidity?

There is substantial agreement among economists that rigidity, or inflexibility, of industrial prices in the face of declines in demand associated with periods of recession is closely correlated with monopolistic behavior—such as basing-point and zone pricing, price leadership, and collusive trade-association activity. Monopoly is the power to manage price and to fix a price at constant levels over a period of weeks or months, regardless of changes in demand.

In competitive industries, prices adjust downward with declining demands, to provide a selling outlet for available supplies. Monopolistic (or oligopolistic) industries, on the other hand, typically peg their prices. This action prevented a clearing of the market or causes underutilization of plant facilities. It is an action, moreover, which has secular and long-lasting consequences. The evil is that for years monopolistic industries prevent and retard the reduction of prices which they control. Unemployment and unused capacity in these industries grow and persist.

The problem of rigid prices is twofold. First, there is the problem of the power to manage prices. When was this power achieved? How was it achieved? What forms of direct control or antitrust action should now be taken with respect to it?

Secondly, there is the problem of why business managers, having the power to manage prices, desire to peg prices (absolute constant) for periods of months or even years. Subsequently, I shall discuss these questions, if it is desired.

2. THE ANTIMERGER ACT OF 1950 AND ITS APPLICATION BY THE FTC

In applying the law in the Pillsbury case (1953), the Commission rejected the proposal of its attorneys, based upon the reports of congressional committees, that the "substantiality test" should be used as a yardstick—that is, "where a leading factor in the relevant market having a substantial share of that market, acquires another factor in that market also having a substantial share of that market," and the effect may be substantially to lessen competition. Instead, the Commission adopted a rule-of-reason approach and declared that it would proceed on a case-by-case basis.

Despite the legislation of 1950, the merger movement is continuing at a rapid pace. Should the rule of reason be added to the act of 1950 when it was not included by Congress, itself? Has the legislation of 1950 been seriously weakened by administrative interpretation?

3. THE RIGHT TO SELECT ONE'S CUSTOMERS

The antitrust agencies report that "refusal to sell" is one of the most frequent complaints which they receive. Rarely, is there any relief for this aggravated form of discrimination. Why is it that particular buyers cannot freely secure supplies for cash on the counter, even during periods of excess inventories and unused capacity? Is not freedom of access to markets an essential feature of a free competitive economy? Should Congress reconsider the original draft of the Clayton Act (1914) which placed prohibitions on arbitrary refusals to sell?

4. IS THE SO-CALLED NEW CONCEPT OF COMPETITION COMPATIBLE WITH THE MAINTENANCE OF A FREE COMPETITIVE SYSTEM?

Currently, efforts are being made to get the courts and administrative agencies to construe the antitrust laws with a new concept of competition. The idea is to define competition so that it will describe existing business practice. As one leading antitrust lawyer has said, "The statutes can be construed administratively to fit the business pattern desired."

The "new" definition of competition contemplated by the Business Advisory Council of the Department of Commerce, D. E. Lilienthal, A. D. H. Kaplan, and others, differs greatly from the concept long used by economists and the antitrust agencies. The essential idea of the new concept is the presence of alternatives from which buyers may choose. It is rivalry "between different ways of meeting the same or a similar need." In this view, competition is seen to be provided through the choices of aluminum or copper, cigarettes, or sweets.

The new concept omits an essential mechanism for the determination of prices—namely, price competition among sellers of a given class of goods. Substitute competition may be an important moderating force, but will it prevent the placing of undue burdens on the public? Does not the acceptance of the new concept mean a revolution in our basic antitrust policy?

5. IS PRICE DISCRIMINATION A COMPETITIVE PRACTICE IN THE PUBLIC INTEREST OR IS IT A MONOPOLISTIC PRACTICE?

Vast amounts of public testimony and congressional investigation have led to the declarations of national policy in 1887, 1914, and 1936, condemning price discrimination as a monopolistic practice, Historically, the view of Congress has been that the law should protect competition—that it should not condone anything which would injure competition. Recent FTC policy on price discrimination and the Standard Oil of Indiana decision (1951) have largely destroyed this principle. Today, Congress must restudy and decide anew (*a*) if the law should permit discrimination to meet or match another's prices, even though injury to competition has, in fact, resulted; or (*b*) if discrimination should be condemned whenever the effect may be substantially to lessen competition.

6. THE POLICY OF THE FTC AND THE ANTITRUST DIVISION WITH RESPECT TO BASING-POINT AND ZONE PRICING

In a series of cases (1945–48) the Federal courts declared that basing-point and zone pricing is a form and method of monopoly. The Pittsburgh-Plus, Corn Products, Staley, and Conduit (Count 2) cases, it may be noted, were not based upon conspiracy charges.

In 1948, the FTC declared that most of the industrywide pricing systems were probably illegal. Vigorous efforts were thereupon made to change the law. These failed.

The basing-point industries, however, have been successful in changing the administration of the law. So long as basing-point pricing is carried on "innocently and independently," the FTC stated in 1951, action will not be taken against it. This view is quite erroneous. Legal and economic experts who have dealt with the problem know that the practice is never independently and rarely innocently indulged in.

As a result of its changed policies, the FTC has fallen into a great dilemma. Insofar as two or more geographically separate mills quote local f. o. b. mill prices and then regularly discriminate (by absorbing freight) to meet delivered prices in each other's "backyard," are they not getting the same result as the concerted use of basing-point pricing? How can the practice withstand the inference of conspiracy? Similarly, how effective is the work of the Antitrust Division in condemning conspiracies to maintain basing-point mechanisms, but then permitting systematic freight absorption to match prices? (E. g., the Ultramarine Blue case (1954) and the Metal Abrasive case (1954).)

7. RAISING THE MAXIMUM FINE UNDER THE SHERMAN ACT

President Eisenhower is to be commended for his proposal to raise the maximum fine which may be imposed under the Sherman Act. In considering this measure, it is suggested that attention be given to the fact that there are relatively few instances today when Federal judges actually levy the present maximum of $5,000. In some cases, too, the judges levy a fine only on the corporation and not on the officers who devise the monopolistic schemes. Further, there is the problem that defendants can escape treble damage suits and stiff penalties through the plea of nolo contendere. Raising the maximum fine under the Sherman Act, moreover, may not be effective so long as defendants found guilty of monopoly under section 5 of the FTC Act are allowed to go without any penalty whatsoever.

Statement on Antitrust Policy by George W. Stocking

The President's Economic Report appropriately recognizes that the Attorney General has appointed a national committee to study the antitrust laws and to recommend improvements to promote competition and prevent monopoly. I understand that the committee's recommendations will be forthcoming by the end of this month. When they appear, I assume the Congress will consider them carefully. Meanwhile the President's report, without awaiting the committee's recommendations, recognizes the inadequacy of present penalties as a deterrent to violation of the Sherman Act and recommends a substantial increase in the maximum fines that may be imposed under the act. Two other problems seem to me to be sufficiently pressing to justify the attention of Congress, and about one of them at any rate I believe we know enough to proceed intelligently. I refer to the McGuire Act amending the Miller-Tydings amendment of the Sherman Antitrust Act. These amendments, as you know, authorize resale price maintenance contracts in interstate transactions where States have authorized them in intrastate transactions, and they make them binding on third parties.

The economics of this arrangement is fairly clear. Resale price maintenance contracts have no meaning in a purely competitive market. For a farmer to undertake such contracts covering the wheat he sells would be both foolish and futile. For a resale price maintenance contract to have meaning, the seller of the trade-marked differentiated article must have some limited monopoly power in selling it. If he had no monopoly power, no distributor would contract with him to maintain its price. By fixing a somewhat higher price for the resale of his product than some retailers would charge in the absence of resale price maintenance contracts, a manufacturer of a trade-marked article in effect puts a sales tax on it.

Why does he do this? Manufacturers inaugurated the practice of fixing the retail price of trade-marked articles to protect the good will with which differentiation and advertising enveloped their products. Retailers, when acting alone, may by their promotion and pricing policies push or retard the sale of one differentiated product at the expense of another and thereby may adversely affect the maker of any particular product. Although in this way retailers may limit the monopoly power of the maker of a trade-marked article, in doing so they may defeat their own interests by engendering a vigorous competition among themselves. This has led them to favor a nonsigner clause in resale price maintenance contracts to insure that all of them will observe the manufacturers resale price that any one of them contracts to maintain. Lacking the power to insure common pricing policies without resorting to unlawful collusion and having learned from experience that some retailers will not voluntarily sign resale price maintenance contracts, retailers have sought authority from the Government to coerce recalcitrants. The McGuire Act supplies an element essential in making the monopoly of the trade-marked article effective. Although some manufacturers have supported both the Miller-Tydings and the McGuire amendments, the drive for their passage came from various retail associations, chiefly the druggists' trade associations. Manufacturers instituted the practice to protect a limited monopoly, but retailers have used it to cartelize trade.

In two respects the Miller-Tydings amendment as amended by the McGuire Act is inconsistent with the aim of our antitrust statutes to preserve a free competitive economy. First, in legalizing resale price maintenance contracts on articles in "free and open competition" with commodities of the same general class, the act embodies a conception of competition inconsistent with modern economic ideas. Generally, trade-marked articles are sold by relatively few rivals, among which "free and open competition" can scarcely exist. In one instance, the right of the makers of color films to fix the resale price of their product was upheld although there were only two producers of color films in the entire country. Second, although the law authorizes only vertical price-fixing arrangements, resale price maintenance contracts with a nonsigner clause permit retailers to enjoy the fruits of horizontal price-fixing without paying its penalties. In doing so, they not only tax consumers but penalize efficiency in retail distribution. I believe such contracts have no place in a program to promote competition and prevent monopoly.

The other problem which I regard as pressing is more complex and we know less about it. I refer to the significance of the structure of our contemporary economy and the position of the big companies in it. The Economic Report concludes that our economy is strong and progressive because it comprises "in addition to 5 million farm enterprises, 4 million independent centers of business decisions—each potentially free to experiment with new ideas, new men, new methods, and new products." I believe this characterization overemphasizes the role of little business and underemphasizes the role of big business in the economy. The 4 million independent business enterprises comprise, on the one hand, tens of thousands of barbershops, beauty parlors, laundries, dry-cleaning establishments, small retail stores, and the like; together with a lesser number of moderate-sized corporations; and on the other, a handful of giant corporations which in the aggregate control approximately one-half of the corporate assets of the country.

Clearly a little-business man's decision signifies less to the functioning of the economy than the decision of any one of the large industrial giants. I do not believe we know enough about the social, political, and economic significance of these large corporations, nor do we fully understand why they are so big. Sound public policy toward this question calls for more knowledge on the causes and consequences of bigness. On these issues economists differ. I for one believe that our several combination movements have played the major role in shaping industrial structure, and I have not found convincing those studies which come to a contrary conclusion. While we cannot safely generalize about the economic consequences of bigness, I believe that if we wish to preserve a free private enterprise economy—and I think we can agree on the desirability of this objective—public policy should be directed toward insuring as many firms in an industry as is consistent with the economies of scale. Many firms I believe have exceed this limit, and mergers have played an important role in their doing so.

While the question of the extent and character of changes in our antitrust statutes may appropriately await the report of the Attorney General's committee, I believe the Congress should give serious consideration to a clearer declaration of their purpose. I suggest that this might be done by amending our basic antitrust statute, the Sherman Act, through the incorporation of a preamble of the following sort:

"It is the policy of the Congress of the United States to encourage an effectively competitive economy. This policy is designed to insure as many sellers in interstate markets as is consistent with the economies of scale. It is not intended to prevent growth through efficiency but to prevent the accumulation of market power, particularly through the merger of independent firms, the preemption of the supply of limited natural resources, or the abuse of patent privileges, and to prevent any and all restrictive agreements among business rivals. It strikes at power over the market, not economic efficiency."

(Whereupon, at 4:45 p. m., the committee adjourned to reconvene on Wednesday, February 2, 1955, at 10 a. m.)

JANUARY 1955 ECONOMIC REPORT OF THE PRESIDENT

WEDNESDAY, FEBRUARY 2, 1955

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

The joint committee met at 10 a. m., Senator Paul H. Douglas, chairman, presiding.

Present: Senators Douglas, Sparkman, Flanders, Watkins, and Goldwater, and Representative Patman, vice chairman, and Representatives Bolling, Mills, Talle, and Curtis.

The CHAIRMAN. The session this morning, as you know, is on farm policy.

We appreciate the fact that the Department of Agriculture, unlike some of the other departments, has sent a representative this morning. I think Mr. Paarlberg would prefer to be last, so we are going to accord him that right and privilege.

We have addressed to you a number of questions that we would like your judgment on. The first is: Will you state just what the Agricultural Act of 1954 and the rulings of the Secretary of Agriculture will do to the support levels of basic and other commodities? What will be the effect on the demand for and supply of those commodities? Will there be adequate storage facilities for agricultural commodities? If not, what can be done about it?

I would like to ask Mr. Benedict to begin the discussion; and, Mr. Benedict, if you can cover such a large subject in not more than 5 or 7 minutes I think that will be helpful.

Mr. BENEDICT. This is the main opening statement that you have in mind?

OPENING STATEMENT OF MURRAY R. BENEDICT, PROFESSOR OF AGRICULTURAL ECONOMICS, GIANNINI FOUNDATION, UNIVERSITY OF CALIFORNIA, BERKELEY

Mr. BENEDICT. Only 2 or 3 of the points listed by the chairman can be touched on in this opening statement.

Agriculture, like the rest of the economy, has come through the postwar years in rather good shape. Because of this we have our sights set pretty high. Most of us, I am sure, agree that they should be set high. However, our striving for these new and higher goals needs to be tempered with realism. The achievements and phenomenal prosperity of the past 15 years are things of which we all are justly proud. We do need, I think, to recognize that this high rate of increase in farm production, farm incomes, and general prosperity has few, if any, parallels in past history. One does not always stand at the peak.

There are plateaus and valleys to be crossed as well as mountain ranges, in economic affairs as in transcontinental travel. If we choose our course wisely, we will avoid the deeper depressions and the more difficult routes. But there are bound to be some setbacks and some periods in which progress will not be all we would like to have it be.

After World War I, farm prices fell to little more than half what they had been 2 or 3 years earlier. Farm mortgage debt, created by speculation and inflation, had placed on agriculture a back-breaking burden for which there was little offsetting increase in real wealth. Our farm plant was perhaps even in poorer condition than when the war began. The World War II situation has been markedly different. The postwar years have been the best American agriculture has ever known. Furthermore, we have come out of them with a vastly better-equipped farming industry and a rather moderate level of indebtedness. However, there were artificial elements in the agricultural prosperity of these postwar years that it may not be easy to reproduce even with the most active cooperation of Government. Some of the demand, both farm and nonfarm, grew out of delayed spending of high wartime earnings. Some grew out of the continuance of deficit spending and some was a result of an almost unique combination of great need abroad for American farm products and a willingness of our Government to supply funds with which to purchase them.

Coupled with these, there has been in recent years an enormous accumulation of unsold farm products in Government holdings which could, unless very wisely and skillfully handled, act as a delayed pressure on the supply side and thus be a price-depressing influence. The current holdings of the Commodity Credit Corporation should be worked down to more suitable levels as fast as that can be done practically.

There was an inflationary upsurge in both farm and nonfarm prices and incomes in 1950 and 1951 which stemmed mainly from the outbreak of war in Korea. Farm prices reached 107 percent of parity in 1951. Since then they have eased off and stand now at 86 (December 1954), a drop of about 20 percent. Both gross and net incomes have fallen off somewhat less, about 15 percent.

Are they likely to go lower or to level off about where they are? It seems to me the immediate prospect is for a leveling off, assuming a continuance of prosperous conditions in the nonfarm economy. The most serious setback to farmers and to the Government's farm program would be a severe slump in nonfarm employment and incomes. The maintenance of high activity in the nonfarm economy is, therefore, the most important objective both from the standpoint of farmers and of the Nation as a whole.

The national economy has shown remarkable strength and resiliency in the past year. There seems reason to hope that we have now learned enough about fiscal and monetary management to be able to hold in check the more violent changes in economic activity. However, it is too early to be sure of that. A full, or nearly full, employment situation is a brittle thing and could be badly upset by anything that would seriously affect confidence and optimism.

Such a change in consumer and business expectations could set in motion deflationary influences that might be harder to control than those of the past year. This, I think, is one of the hardest things to predict and the one we know least about. Can we maintain continuously the buoyant optimism that has characterized the economy in recent years? I was particularly impressed by what seemed to me the realistic and sensible reservations mentioned in the first full paragraph of page 22 of the economic report of the President.

Factors of that kind could more than offset such corrective devices as were used with apparent success in the past year. On the other hand, a renewed outbreak of hostilities could, in the situation we now have, give rise quickly to an inflationary situation similar to that of 1950 and 1951.

We have, I think, made real progress toward the achievement of a more stable economy but we do not yet know how much and what kinds of Government action may be needed if deflationary or inflation forces become more powerful than those of the past year. Both the timing of the actions taken and the skill with which the situation is interpreted and handled are of great importance.

If we assume a continuing high level of prosperity, it seems to me the more serious problems in agriculture can be narrowed down to a relatively few commodities. The livestock industries, except in butter production, are in fairly good shape. They have shown remarkable ability to make necessary adjustments. Cattle prices are lower than cattlemen would like them to be, but it should be remembered that the price parities reported for them, which are well above present prices, reflect the extremely favorable price situation of the early postwar years.

Hogs are in a relatively good position and adjustments in that industry are carried out rather quickly if such action becomes necessary. Furthermore, if needed adjustments are made in grain prices, the profitability of hog and cattle feeding may increase, even if prices of the end products do not increase materially. Poultry producers are in a less favorable situation, but, here, needed adjustments in output are customarily made even more quickly and effectively than in other livestock industries.

Cotton is not far out of balance. A rather moderate adjustment in its price would apparently clear the markets and give cotton producers more freedom of action. I do not think corn production is seriously out of balance or that any drastic action by the Government is needed at this time.

The big and difficult problems are in wheat, butter, and rice. I shall not discuss rice, a minor crop, though the problems there are acute and difficult. Wheat production is overexpanded in terms of present needs. This is an aftermath of war influences, but the measures taken in the postwar years have tended to keep it overstimulated instead of aiding in the readjustment needed. We should cease as soon as possible to treat all wheat as one commodity. There is no overexpansion in the durum wheats and little in the hard red spring. The big problem is in hard red winter, soft white—that is, Pacific Northwest—and soft red winter. In those areas, wheat production will inevitably have to be cut back or much of the crop will have to be channeled into feed uses. The price programs should be revised so as to face that problem realistically. The danger of a disastrous price break from continuing increase in the stockpile of wheat is potentially of far greater importance to what growers than the price adjustments that would be needed to bring the industry into better balance with available outlets.

The wheat growers responded magnificently in the period when national and world needs for wheat were large. They should not be left out on a limb. But the program must, in their interest as well as that of the Government, be brought into closer touch with realities. They should be given effective help in making the changes needed. The set-aside provided in last year's legislation seems to me an appropriate action, but it is purely a stopgap arrangement. It does not solve the basic problem.

The butter problem is far more perplexing, and as yet no satisfactory solution seems at hand. Some help can be given, but the kind of help given in recent years is, in my opinion, more damaging to the industry than helpful to it. The current program of price support and storage is weakening to the very sizeable market for butter that still exists. The approach to this problem should be revised as soon as possible.

There are other and longer term problems that will need continuing study and action. Some of them no doubt will be discussed later today. Generally speaking, I would not expect any severe decline in farm prices, provided buying power remains high, and if production is not overstimulated by actions taken by the Government itself. The major problem is that of how to carry through, with as little hardship as possible, until the postwar adjustments still required can be made.

Looking ahead 5 to 10 years, it seems to me likely that the market for farm products will be relatively strong. Our population is growing rapidly. Many of the babies born in the early postwar years are now coming into the age of heaviest per capita food consumption. At the same time, the farm population is strinking. Our overall farm output will, no doubt, continue to increase, but I think there is a good possibility that, for most products, demand will increase fast enough to absorb the increase if the economy continues to be active and prosperous.

In the interim, there is need for some support for farm prices and for some aid in making needed readjustments. But once the needed postwar adjustments have been made the farm programs should, in the main, be designed to aid farmers in stabilizing their industry, achieving reasonable flexibility as to time of sale and obtaining help when difficult situations arise with respect to particular industries or areas. Normally, such agencies as the Commodity Credit Corporation should not be under heavy strain in times of strong demand and customary volumes of output. They should, so far as possible, be kept in a position to give needed and prompt help if emergencies arise. It is necessary to keep in mind that the reservoir that is full cannot absorb a flood when and if the flood comes.

The CHAIRMAN. Mr. Benedict, I don't want to start discussion, but I wanted to see if I understood your thought. You speak of readjustments, in your judgment, as being necessary in the case of cotton and wheat. Do I gather that you lean toward price decreases in those products or acreage restrictions or output quotas?

Mr. BENEDICT. I think in the case of cotton that it would not imply any very large change in the price situation to get it where it would largely take care of itself, that is a moderate increase in the amount exported and possibly some restraint on production for a few years I believe would give us a better cotton program than the one we have now.

The CHAIRMAN. How much of a decrease in the price of cotton?

Mr. BENEDICT. Possibly 2 or 3 cents a pound.

In the case of wheat, the situation is different. I do not think the wheat problem could be handled by price adjustments alone. It is greatly overexpanded. We are producing some two or three hundred million bushels more of wheat than there seems to be any prospective outlet for as a foodstuff, either at home or abroad, and it would seem to me that it will be necessary for some years to maintain some restrictions on wheat acreage, and to try to get some of that land into other uses. The biggest problem, as I see it, is how to handle the very large accumulation we already have on hand without breaking the market seriously.

It used to be assumed that if we let prices find their own level the surplus would find an outlet abroad. I do not think even the world market can absorb for food use the amount of wheat we have to spare at the present time.

The CHAIRMAN. You mean if sold at market prices?

Mr. BENEDICT. Yes. It would seem to me logical to approach the wheat problem in two ways; one, differential pricing by types and grades and, two, some readjustment in acreages grown or the uses made of the wheat grown. We have been treating wheat as though it were all one commodity. Actually it is several commodities. There is no surplus production of Durum wheats and there isn't any very serious problem in the Hard Red Springs. Our big accumulations, something over 500 million bushels, are in hard red winter and there is proportinately as large an accumulation in the soft wheats of the Pacific Northwest.

I do not see anywhere, either at home or abroad, a likelihood that we can dispose of the amounts of wheat of these types we are now growing without creating chaos in the world market as well as in our home market unless considerable amounts can be channeled into feed use.

The CHAIRMAN. How would you get this wheat acreage withdrawn, just order them to do it, or pay a subsidy to it, or give them an alternative?

Mr. BENEDICT. I think we might very well make some modification in our soil conservation program creating special incentives to restore to grass some areas such as the southern and western Great Plains area, the old Dust Bowl area. There are probably several million acres there that might well go back into a more extensive type of agriculture.

The CHAIRMAN. Through subsidies, you mean?

Mr. BENEDICT. I would think so, yes.

Along with that probably some subsidization of the rather expensive task of making that kind of shift. Perhaps supplying grass seeds, some help in reseeding, and so on. I think that area in particular is extremely vulnerable, even if we continue with the present program. If we get another serious dry year or two they are going to be in trouble regardless of what the price of wheat is.

The CHAIRMAN. Well, aren't they in trouble now?

Mr. BENEDICT. To some extent, yes.

(Mr. Benedict's prepared statement and supplemental material appear at pp. 706, 708.)

The CHAIRMAN. Mr. Davis.

OPENING STATEMENT OF JOHN H. DAVIS, DIRECTOR, MOFFETT PROGRAM IN AGRICULTURE AND BUSINESS, GRADUATE SCHOOL OF BUSINESS ADMINISTRATION, HARVARD UNIVERSITY, AND FORMERLY ASSISTANT SECRETARY OF AGRICULTURE

Mr. DAVIS. Mr. Chairman, considering the time element, I have assumed that what you wanted from us was, first, a very brief statement which presented ideas rather than complete arguments, and then I have followed such a statement with an attempt at answering specifically each question which you set forth here for us. I have the feeling that the setting before us of an objective of some kind such as the $500 billion national product as a 10-year goal is very worth while, and I think that what we should do, then, is to ask ourselves who does this mean to agriculture, or what steps, if any, are necessary to assure that agriculture will be a full participant in such economic growth and expansion?

By "full participant," I mean that farm people should have an opportunity to earn and enjoy a standard of living consistent with that of other economic groups, considering, of course, the degree of training, skill, entrepreneurship, etc., required in farming. Full participation in economic growth by agriculture helps not only farm people but increases the economic potential of the whole Nation.

Today agriculture in many respects is unprepared for such a destiny.

The solution of such matters is made still more difficult by the dynamic forces which today are at work within our farm economy. Currently American agriculture is being subjected to the tremendous twin forces of change as a result of science and technology and adjustment from wartime dislocations.

And with respect to the latter, the adustment from wartime dislocations, I think that we haven't been nearly as conscious of that as we need to be. The adjustment to scarcities as a result of war hit us immediately after hostilities ceased and its greatest impact was then. We recognized it for what it was.

Agricultural adjustment from war did not start until late in 1951, and actually we are only in about the third year of it or so now, and the impact of the agricultural readjustment after the war has been borne almost entirely on the North American Continent, and I think that our failure to see that clearly has clouded our action to some extent on the agricultural front in this postwar period.

While the impact of war is gradually diminishing, the impact of science and technology is continuing to increase. Therefore, the task of formulating farm policy and improving our rural economy becomes an endless one. It is an evolutionary undertaking which has no terminus. Therefore, it is a mistake to attempt to establish farm policies and programs on a permanent basis. Instead, our permanent policy should be one of creating procedures for constantly improving farm programs and policies while "on the march."

In order to organize the undertaking so as to make it manageable, let us approach the farm situation by setting up three major theaters of operation, very much the same way we established theaters of military operations during World War II. These theaters might be described as (1) a hold-the-line action on the economic front to give us time for preparing for more basic operations, (2) action to expand and develop bigger and more adequate markets for farm products, both at home and abroad, and (3) action to resolve the problems of low-income farm units.

By means of action on the No. 1 theater we will be buying time in terms of economic balance and stability to permit us to undertake more basic operations on the other two fronts. By acting on theater No. 2, the developing of more adequate markets, we will be putting new dynamics into our farm economy. By action on theater No. 3 we will be making our farm plant more efficient and strengthening our total economy by rehabilitating those families who have been left behind in the march of progress.

I speak of these undertakings as theaters of operation rather than as farm programs because of their dynamic, changing nature. Both policies and methods must be subject to change as conditions alter.

Within each theater there is need for teamwork and cooperation by all interested groups and organizations all up and down the line.

At the national level there also is need for coordination and teamwork in relating the operations of the separate theaters of action into a unified whole. Also, there is the task of relating all of this to the rest of the economy and to our international responsibilities. The need is to tackle the farm problem in the same comprehensive manner we did the creation of the atomic bomb. By this I mean that we should bring to bear on the subject the best know-how of the various interested groups, producers, handlers, processors, distributors, nutritionists, industrialists, Government, etc., all working in an integrated effort. By doing this, the various groups will be acting in their own enlightened self-interest, as well as that of the Nation.

What about contained improvement in production? Is not this still important? The answer is yes, it is fully is important as ever. There is every indication that research and progress in production will continue with even greater momentum in the future than in the past. The new emphasis on market development and the solution of the problem of the low-income farms, which I am suggesting, would itself tend to give new impetus to progress in production. Also, it will tend to give a better alinement to production efforts by more closely relating them to our economic goals, both for agriculture and the Nation.

What about such functions as conservation, research, extension education, credit, and the like, where do they fit into this picture? The answer is that all of these are important and essential. They are tools for implementing the major operations which I have described. They should be provided to the extent necessary to get the total job done. My guess is that careful study will show that we actually need more, not less, of each such service than we are providing today. To the degree that such services are essential for the achievement of a dynamic and prosperous economy, they are a wise investment. Not to provide for them is to be penny wise and pound foolish. Also, in the case of resource conservation it is possible, during periods of acute imbalance, to relate conservation practices and payments to the diversion of selected acres for use in building a fertility reserve for the future, thereby hastening the readjustment toward a balance betwen supply and demand.

The American philosophy is that government should enter the farm field as little as possible. The degree of government in agriculture is going to be determined more in terms of what we do than what we say. The surest way to move toward less government and more private initiative is for farmers and private business firms to take increased responsibility for improving farm markets, making the total market structure more adequate to meet the farmer's needs without extensive aid from government.

To do this, farm and business management will have to look beyond the operations of the particular farm or firms and, also, concern itself with the problem of the adequacy of the total market structure for the commodity involved. They will have to evaluate not only the economic operations at each successive step in the market process, but, also, must concern themselves about the adequacy of the total market stairway from farm to consumer as a whole.

The CHAIRMAN. Do you mean the spread between the prices which the consumer pays and the price the farmer receives is excessive?

Mr. DAVIS. That is one of the things.

It seems to me that one of the difficulties in this area is that different firms provide different operations at different levels. Between the farmer and the consumer you have people in storage operations, wholesaling, retailing, etc. I think each such firm studies its function pretty objectively and does a pretty good job. But, in addition to that, they do not take any major responsibility in general for the adequacy or inadequacy of the total market structure for that commodity.

The CHAIRMAN. Do you mean there may be too many steps on the flight of stairs?

Mr. DAVIS. Well, there may be too many, although this will vary by commodities. When you add the whole thing together it does not result in adequately serving the needs of agriculture particularly in terms of orderly prices and economic stability, and I think it is in that area that we need to look more closely at the total structure. Everybody involved in marketing and producing needs to look at that.

The CHAIRMAN. Let us translate this into very direct terms: In other words, you think there may be too many middlemen?

Mr. DAVIS. I think in some cases there are, and there is a need to be conscious of this fact at all times. But there is also a tendency to go in the other direction because of the services offered.

The CHAIRMAN. I am just trying to translate this beautiful speech of yours into reality.

Go ahead.

Mr. DAVIS. It means a broader sense of a stewardship and teamwork all up and down the line. It may even mean modifying the antitrust laws to give sufficient latitude for this purpose, of course, at the same time protecting the interest of the public.

The CHAIRMAN. Does this mean weakening the antitrust laws or strengthening them?

Mr. DAVIS. I am thinking of the type of situation such as marketing agreements where you create a vertical structure for policy coordination as a means of adding stability to the market when there is an excess supply.

The CHAIRMAN. Does this give them the power to restrict production?

Mr. DAVIS. The marketing agreement does not allow them to restrict production.

The CHAIRMAN. I am speaking of private agreements such as the orange growers.

Mr. DAVIS. I am thinking more about the marketing agreement type of thing and marketing agreements do not themselves restrict production. They do result in allocation of supplies for different use within a market.

The CHAIRMAN. I had never thought that they were in violation of the antitrust laws.

Mr. DAVIS. They do have some immunity from the antitrust laws. You see, in general, elements in the market cannot assemble together to discuss policy matters which may affect price without some immunity from the antitrust laws, and the market agreement acts which we now have do provide some latitude under the antitrust laws, and then they impose upon the Secretary of Agriculture responsibility and vest in him what amounts to a veto authority in the public interest.

Now, in the light of the general comments I have made, I shall attempt categorically to answer the general questions which you have listed for discussion by the panel. Recognizing that to do this will result in oversimplifying the issue, I submit these answers as "targets" for discussion by the panel.

Question 1. Analyze just what the Agricultural Act of 1954 and the rulings of the Secretary of Agriculture will do to support levels of basic and other commodities. What will be the effect on the demand for, and supply of, those commodities? Will there be adequate storage facilities for agricultural commodities? If not, what can be done about it?

Answer. Assuming weather conditions to continue as in recent years and no new international emergencies, I should expect support prices to show more of a downward than upward tendency. In general, this would have relatively little effect on the demand for or supply of commodities subject to price supports. This situation will vary some by commodities. Of course, in the case of wheat, consumption would increase if the price were to become competitive with feed grains. The storage problem will be similar to that of the past 2 years—the principal problem relating to grain. The answer is to encourage the building of some more permanent storage facilities at selected locations, and the expanded use of on-farm storage, steel bins, mothball ships, etc.

Question 2. What farm price movements do you anticipate during the coming year? During the long run? What can we expect the parity ratio to show this year and next?

Answer. Again, assuming weather similar to that of recent years and no new hostilities, we will do well to maintain average farm prices where they are during the current year. The same is true of the parity ratio. In the long run the picture should be brighter provided we aggressively strive to expand markets at home and abroad.

Questions 3, 4, and 5. What modifications in existing farm policies are needed to assure farmers as full participation as possible in the expected rapid growth and progress of our economy in the next decade?

What can be done to increase the productivity and levels of living of lower income farm families?

What effect would the realization of maximum employment and production during the next decade have upon the demand for various farm products?

Answer. I think that my answer to all three of these questions has been given in my earlier statement. However, I would like to stress the importance of maintaining a relatively high level of farm income as an incentive for speeding up adjustments. Adjustments within agriculture require capital formation at a relatively high rate. Also, the migration of people from agriculture to urban employment requires expanding productivity and employment outside of agriculture. In general, both of these conditions are related to the maintenance of a relatively high level of income within agriculture.

Question 6. In view of the decline in farm prices and incomes while national income is rising, when do you expect farmers' incomes to rise again and what forces will bring about a recovery?

Answer. It seems to me unlikely that higher farm prices or income will be generated by existing farm programs. Of course, higher income is the thing we seek. This, then, will come from reducing farm costs, expanding farm markets, or both. The achievement of this depends upon how aggressively and successfully we proceed on theaters 2 and 3 as I outlined them earlier.

Question 7. Are the prospects for developing continuing new market outlets promising?

Answer. The prospects of developing continuing new market outlets do look promising.

Question 8. Under the Agricultural Act of 1954 the support level for wheat may be reduced to 75 percent of modernized parity within a few years if supplies continue large. Would this bring about a reduction in wheat prices of 30 to 35 percent from present levels? In your opinion would this reduction in wheat prices result in a restoration of the submarginal wheatlands to grazing?

Answer. It is conceivable that wheat prices may be reduced by as much as 30 to 35 percent from present levels under the existing law. Should this happen, and should it result in the withdrawal of considerable acreage from wheat production, the use of such acreage would vary by location. In the diversified farming areas most land going out of wheat would be put to other crops or grazing. However, in the Great Plains area the tendency would be to abandon submarginal wheatland and let nature take its course. This land would not be returned to grazing readily unless special incentives were created.

Question 9. To what extent are lands not suitable for crops in the Western States (primarily because of wind-erosion hazards) now being cropped?

Answer. The needs of World War II and the prices which then prevailed caused several millions of acres of land to be put under the plow in Western States which should not be cropped.

Question 10. Is there any reason for concern over current prices of agricultural land or over the availability of agricultural credit for land purchase or operating purposes?

Answer. At present, I feel we need to be more concerned over credit requirements than over agricultural land prices. Credit needs are increasing for several reasons—the growing capital requirements for mechanization and larger sized farm units, the squeeze between falling farm prices and high production costs, and the constant subdivision of estates among heirs upon the death of current owners.

In conclusion, I reemphasize the importance that agriculture participate as a full partner in the achievement of our goal of a dynamic, growing, prosperous national economy. It is only as all major segments of the economy progress in unison that optimum results will be realized.

The CHAIRMAN. Thank you, Mr. Davis.

(Mr. Davis' prepared statement appears at p. 703.)

The CHAIRMAN. Mr. Lincoln.

OPENING STATEMENT OF MURRAY D. LINCOLN, PRESIDENT, COOPERATIVE LEAGUE OF THE UNITED STATES, COLUMBUS, OHIO

Mr. LINCOLN. Mr. Chairman, I think everyone on this panel except myself is a trained economist, and I am a little hesitant to speak out as a layman with so many learned professors around here.

I think we have to have them, and their advice, but I am concerned with this agricultural situation. I think agriculture is the forgotten man in this report, as I read it. I do not know whether depressions are farm bred or farm led, but I went through one before, as secretary of the Ohio Farm Bureau from 1920 on.

As far as I can see, Mr. Chairman, and members of the committee, it looks as if I can say, "Here we go again," because farm income is going down. Farm costs are not going down proportionately, and I think you are going to wake up some day with a real problem on your hands, and I think we are going to find it entirely different this time than we did last time because we tried so many things in the interim, in the 1920 downturn and the present one, that I think you are going to be up against a real problem.

Now, the whole situation is so vast and so complicated that I do not know that any of us are qualified to adequately give any suggestion, but I would like to confine myself to 1 or 2 areas.

Like the rest of you, I have given a report here which you can read if it is worth reading, but it seems to me that we are trying to solve this farm problem by going at it the wrong way. I think what we need is a national food policy rather than national farm policy, because everybody is concerned with food. It is a most important commodity not only for the health and welfare of our own people, but for people in other countries who certainly need food wherever and however they are going to get it.

So it seems to me before we spend too much time on what we are going to do to maintain price supports—and I cannot agree, yet, Mr. Chairman, and gentlemen, that the approach to agriculture is one of writing scarcity into our agricultural program. I think we have just got to simply turn around and find out methods by which we can get more food to more people wherever they are at a price and, of course, under conditions that have got to maintain a healthy farm economy.

Now, the thing that always has disturbed me, if I read history right, is that agriculture is only in a good position just before, just during, and just after a war, and I do not like to think that war is the only answer to the farm problem.

Now, I would, of course, grant that until we find some better solution we had better hang on to what we have and try to work with it, but I would like to point out to the committee that I think we need a broader approach to trying to find out if we cannot eliminate some of the toll gates between the farmer and the consumer, whether he is an individual in the United States or an individual somewhere in the world that needs the kind of food we can produce.

I see a whole series of things building up which lead me to think you cannot solve the farm problem. You cannot raise prices fast enough to keep up with the concentration of power, the increase in the spread between the farmer and the consumer, and then you are giving fast writeoffs to a lot of companies. You give us a fast writeoff for some of this distribution machinery, and I think we will show you something.

Maybe in our economy we cannot do it that way, but the farmer used to farm with his own power, he had oats and hay to feed the horses. Now, we are geared to gasoline.

I saw a report the other day that some oil companies only pay 4 percent of their net income in taxes because of depletion and depreciation, and all of those things, and the rest of us have to pay about 41 percent of our net income, in the form of taxes, out of the income that we get.

Then you are piling one combination on another and today the farmer does not live by himself as he used to. We are in the market and nearly everything we have to have comes from sources that are making more return on their capital and a higher return on their labor than we are getting ourselves, and I say that is not good.

Now what I would like to see among all of the other things you are going to discuss here today is some additional effort toward reducing the cost of providing goods for people, wherever they are. I do not know whether I can support it or not, but my contention is that at a price you can get rid of everything you have. I have yet failed to see anything that would not move into the channels of trade at a certain price, so the problem is at the price we would have to sell farm products, how is the farmer going to keep going, and that is where I think we need a broad approach to try to build machinery, either with Government help or without it, and I think if somebody would put a bomb under the Farm Credit Administration, we might get them to do some things that need to be done.

I think they are getting more conservative than the old bankers, and helping farmers and consumers get machinery that can serve to reduce the cost of getting goods to people, that is in the general interest, and along with that, the farmer is going to be taken care of as well as everybody else.

Now, of course, we have to have an expanding economy, and I grant the figures of Mr. Benedict, but I do not thing we are paying enough attention to the need for economic growth because, with the new people coming into the labor market, we cannot be content with the kind of gross national product we have.

So I say, No. 1, we need to maintain our present policies as near as we can until we get something better, but we do need a larger approach to try to cut down the cost of getting goods to the consumers, wherever they are, here or foreign, and unless you can do something to reduce the income and net return on capital of those interests that supply the things the farmer has got to have now, you are going to continue to be in a ring-around-the-rosey that some day is going to make some real trouble, unless we have another war, and only then will it be postponed.

You will have the problem just as soon as we get back, so in the main, that is the one point that I would like to make; that we need at the present time a very much larger approach—we need to turn our thinking around and think in terms of how to get food to people and to maintain an ever-expanding economy, and I do believe there are many places where, with the proper help and direction, we could return more to the farmer and at the same time not raise the price to the consumer, and in fact reduce it, and that is where, of course, I think cooperatives come into the picture, and they are the only institution I know of that legally can do this kind of job without it falling into the hands of people who are trying to make more money. The returns of cooperatives go to a lot of people to increase purchasing power, to do more business and to make more profits for everybody along the line, and that is my story, gentlemen.

The CHAIRMAN. Thank you very much.

(Mr. Lincoln's prepared statement appears at p. 698.)

The CHAIRMAN. Mr. Nicholls, I believe you want to concentrate on the low-income families.

OPENING STATEMENT OF WILLIAM H. NICHOLLS, PROFESSOR OF ECONOMICS, VANDERBILT UNIVERSITY, NASHVILLE, TENN.

Mr. NICHOLLS. Yes, I was going to remark that, in my very limited time I did want to concentrate on the low-income problem. To lend more adequate support for the brief comments I can make here, I should like to submit for the record, for whatever use the committee would like to make of it, a rather substantial document on the low-income farm problem that I prepared a few months ago. I think this document is important because it makes clearer that agriculture is a very heterogeneous part of our economy and that the several sectors of agriculture require quite different public policies if their several problems are to be solved. I would therefore like to submit this document for the record.

The CHAIRMAN. That will be made a part of the printed record.

(The document referred to and Mr. Nicholls' prepared material appear at pp. 658, 664.)

Mr. NICHOLLS. Thank you very much.

Further more, I will only read part of my statement, which is in your hands, omitting the middle part in order to hold by oral comments to the allotted time.

In 1949, farm families accounted for 1 out of every 3 to 4 low-income families in the United States. However, many of these low-income families had heads not in civilian employment because of age, disability, widowhood, or divorce. If the latter are eliminated, farm families constituted about one-half of all low-income families. In absolute terms, there were about 1.25 million complete farm-operator families, with ablebodied male heads in their more productive years, which had net cash incomes from all sources of less than $1,500; and 0.8–0.9 million of such families with net cash incomes under $1,000. Presumably, most of these latter families could have made a substantially larger contribution to the Nation's product if they had better nonfarm job opportunities or if they had more productive farm resources to work with.

Of all farm families with net cash incomes from all sources of under $1,000 (an average of only $456), 71 percent were in the South. Were it possible to eliminate the aged, disabled, widowed, and divorced, we would undoubtedly find an even heavier concentration of the Nation's low-income farm families in the South. Furthermore, while Negroes constituted 9 percent of the Nation's families, they accounted for 21 percent of all families with incomes under $1,000. (However, even in the South, 61 percent of the farm operators in this low-income group were white.) We may conclude that the low-production family problem is primarily centered in the Southern States because of their relatively heavy dependence upon a low-production agriculture and because of their relatively large Negro population.

As victims of rural poverty, many of whom could earn more and consume more in nonfarm occupations, these farm people should be of great public concern as the Nation's greatest reservoir of underemployed and largely wasted resources. Unfortunately, given the unsatisfactory nature of national employment statistics, such people are considered "fully employed" although at best their employment is part time and very unproductive. Their inclusion among America's farmworkers also pulls down the farm income per worker or per capita to levels which compare very unfavorably with nonfarm income, lending support to public farm policies which help them hardly at all while concealing the need for a positive public program, largely nonagricultural in nature, to alleviate their low state of productivity and income.

The magnitude and difficulties of the low-income rural problem in the United States almost stagger the imagination. But they should make clear that, despite our deep concern for assisting underdeveloped nations abroad, we may have overlooked comparable problems—different in degree but not in kind—of underdeveloped regions within our own Nation. In the interest of a strong and growing national economy, we can no longer afford to neglect these serious regional problems.

In tackling the problem of rural poverty, we must first recognize that there are far more American families trying to make a living from farming than our agricultural resources can possibly support at a level of living comparable with that afforded by similar nonfarm occupations. Second, we must at long last recognize that, while primarily benefiting those farm families which are least in need of public financial aid, our agricultural price-support policies can contribute practically nothing to a solution of rural povery. At the same time, because of their great cost in treasure and in administrative effort, they strongly divert public funds and public concern from a million or more underemployed rural people who require substantial and sustained assistance. Finally, we must develop a consistent, coordinated, and integrated set of public policies which will, by attacking the fundamental causes, go far toward solving the problem of rural povery during the next decade or two.

In my view, a positive program for reducing rural poverty would have the following major elements:

(1) The development of a substantial program of Federal grants-in-aid for public-school education and for expanded public-health services.

(2) The maintenance of a stable and steadily expanding national economy.

(3) The extension and improvement of the United States Employment Service in rural areas, with fuller integration of the objectives and administration of farm and nonfarm placement.

(4) A considerable increase in congressional appropriations for vocational training grants-in-aid to the States, with a revision of the allocation formulas to encourage nonfarm training in rural high schools and to break down the administrative barriers between the farm and nonfarm phases of the program.

(5) The abandonment of present provisions for minimum-acreage allotments (below which the small farmer may not be required to reduce his acreage of price-supported crops) in our basic farm legislation because of their deleterious effect on productive efficiency and labor mobility.

(6) The revision of the basic statute on unemployment compensation, and of its administration, to eliminate factors tending to discourage labor mobility.

(7) The development of Federal policies favoring location of defense plants in areas of rural underemployment as well as of urban unemployment.

(8) The development of a Federal power policy which will, through a combination of public and private sources, assure the South of a power supply consistent with its industrialization needs.

(9) A general revision of the Department of Labor's concept of "labor surplus" areas broad enough to include underemployed rural labor as part of the local labor surplus.

(10) The introduction of a regional differential if the minimum wage is raised.

(11) Expansion and improvement of the services of the Area Development Division of the Department of Commerce.

(12) The development of intermediate-term types of credit by the Farm Credit Administration.

(13) A substantial increase in the resources of the Farmers Home Administration.

(14) Increased emphasis in the programs of the agricultural experiment stations and agricultural extension services on the problems of the small farm.

(15) Further development of the programs of the Federal Reserve banks aimed at increasing the participation of commercial banks in agricultural development.

(16) A modest program in rural home improvement, probably under the Farmers' Home Administration, with due regard for the farm as a production rather than as a residential unit.

(17) Increased benefits and extended coverage for farmers and rural people under the OASI, public assistance, and rehabilitation programs.

The CHAIRMAN. Thank you, Mr. Nicholls.

The chairman regrets that a pressing engagement elsewhere requires him to leave in just a few minutes. Before I do leave, I would like to put into the record a report from the Department of Agriculture on the distribution of surplus foods to needy persons. I would like to present this summary. In the 6 months from January to June of last year, there was 1,087,000 persons receiving surplus food. In the 5 months from July to November, 1,948,000, or virtually double. In the last 5 months, the total pounds of surplus food distributed was 48.9 million pounds, and division indicates that this would be about 25 pounds per person, assuming this is the average number.

Since there were approximately 151 days, this would indicate about 3 ounces a day per person.

Senator SPARKMAN. Does it show the principal commodities?

The CHAIRMAN. Yes; and those will be inserted in the record, and it shows the numbers by States also.

(The report referred to is as follows:)

UNITED STATES DEPARTMENT OF AGRICULTURE,
AGRICULTURAL MARKETING SERVICE,
Washington 25, D. C., January 28, 1955.

Mr. JAMES W. KNOWLES,
Staff Economist, Joint Committee on Economic Report,
United States Senate.

DEAR MR. KNOWLES: This is in reply to your telephone request of January 27 for information concerning the quantities of surplus foods being made available to needy families and the number of persons in such families. The information on the quantity of surplus commodities is provided in the attached table for the period July through November 1954, which is the latest date for which we have complete information for all States. The data for the number of persons participating is for the month of November.

We do not have a detailed breakdown of the types of families now receiving surplus commodities. The figures, however, include families receiving cash public assistance, other needy families determined to be eligible by State and local public welfare organizations including those whose wage earner is unemployed, employed only part time, or unemployable, as well as needy Indians in some parts of the country.

Sincerely yours,

O. U. WELLS, *Administrator.*

U. S. DEPARTMENT OF AGRICULTURE, AGRICULTURAL MARKETING SERVICE

Distribution of surplus foods to needy persons,[1] July–November 1954

State	Number of persons	Dry beans	Beef and gravy	Butter	Cheese	Dry milk	Shortening	Total pounds
		1,000 pounds	*1,000 pounds*	*1,000 pounds*	*1,000 pounds*	*1,000 pounds*	*1,000 pounds*	*1,000 pounds*
Alabama	205,056	1,350	1,002	835	1,020	1,441	991	6,639
California	14,106	85	4	136	87	48	50	410
Colorado	6,650	70	121	58		36	32	317
Connecticut	1,762	2		16	11	7	5	41
Illinois	18,114	15	9	49	38	25	14	150
Indiana	25,081	77		127	125	136	160	625
Iowa	17,600	80		29	26			135
Kentucky	167,991	1,826	516	913	1,405	797	473	5,930
Maine	19,441		(2)	29	61	60	41	191
Maryland	9,855			58	30	36		124
Massachusetts	5,344			43	20	5		68
Michigan	18,849	218	84	157	162	60	94	775
Mississippi	105,418	79	11	361	368	334	194	1,347
Nevada	258	2		1	(2)	1	(2)	4
New Hampshire	5,616	14		21	23	38	11	107
New Jersey	6,063			19	18	43	4	84
New Mexico	8,149	43		56	38	144	19	300
North Carolina	4,087	92	75	69	90	37	79	442
North Dakota	5,000		1	(2)	(2)	2	(2)	3
Ohio	33,661	85		366	141	73	39	704
Oklahoma	81,569	500	31	236	205	181	151	1,304
Pennsylvania	845,955	595	2,684	4,067	4,310	3,073	3,028	17,757
Rhode Island	11,653			95	124	36	16	271
South Dakota	11,816	52		39	35	15		141
Tennessee	6,391	32		7	54	41	28	162
Texas	6,567	88	49	51	67	50	10	315
Utah	20,363	117	70	237	139	168	129	860
Virginia	65,408	1,050	441	461	600	864	615	4,031
West Virginia	213,184	1,032	451	895	1,255	708	1,010	5,351
Wisconsin	6,356	12		37	24	9	18	100
Wyoming	1,059	16	30	22	26	46	26	166
Total	1,948,422	7,532	5,579	9,490	10,502	8,514	7,237	48,854

[1] Includes foods made available under sec. 32 of the Agricultural Act of 1935, as amended, and sec. 416 of the Agricultural Act of 1949, as amended.
[2] Less than 500 pounds.

UNITED STATES DEPARTMENT OF AGRICULTURE,
AGRICULTURAL MARKETING SERVICE,
Washington 25, D. C., February 1, 1955.

Mr. JAMES W. KNOWLES,
Staff Economist, Joint Committee on Economic Report,
United States Senate.

DEAR MR. KNOWLES: In accordance with your telephone request of January 31, we are enclosing a table showing the volume of individual surplus commodities distributed to needy persons for the period January through June 1954. The table also shows the number of persons receiving such commodities during June.

There has been some distribution of surplus foods to needy families for the past several years, but it was on a very limited basis prior to the early part of 1954. Such distribution was limited because the volume and variety of surplus foods available was not sufficient to justify the necessary expenditures by State and local welfare organizations to provide the storage and handling facilities required to make these commodities available to persons on relief. In the last half of calendar year 1953 the number of commodities available for distribution increased and items such as canned beef and shortening, which are particularly adapted for family distribution, became available in large volume. As a result, more States took advantage of the availability of these foods and set up the necessary machinery for distribution to drought victims, the unemployed, and regular public assistance recipients already on their relief rolls.

Sincerely yours,

ORIS V. WELLS, *Administrator.*

U. S. DEPARTMENT OF AGRICULTURE, AGRICULTURAL MARKETING SERVICE

Distribution of surplus foods to needy persons,[1] *January–June 1954*

State	Number of persons	Dry beans	Beef and gravy	Butter	Cheese	Dry milk	White potatoes	Shortening	Total
		Thousand pounds	*Thousand pounds*	*Thousand pounds*	*Thousand pounds*	*Thousand pounds*	*Thousand pounds*	*Thousand pounds*	*Thousand pounds*
Alabama	37,297	309	440	230	238	256	-------	212	1,685
California	14,219	12	83	69	29	18	112	27	350
Colorado	7,428	26	81	55	42	60	108	52	424
Connecticut	466	6	2	11	4	4	10	5	42
Illinois	1,200	-------	13	5	-------	5	-------	-------	23
Indiana	15,189	36	6	22	18	19	-------	-------	101
Iowa	12,300	-------	401	213	122	157	-------	71	964
Kentucky	144,653	455	1,215	421	1,065	368	1,439	302	5,265
Maine	(2)	40	96	43	53	53	259	25	569
Maryland	10,200	-------	80	29	30	36	-------	33	208
Massachusetts	10,914	2	9	30	21	19	120	4	205
Michigan	12,072	12	33	88	21	62	104	-------	320
Nevada	225	1	6	2	1	-------	-------	-------	10
New Hampshire	7,345	10	77	80	50	58	26	11	312
New Jersey	5,398	16	146	40	25	41	72	10	350
New Mexico	10,672	34	71	10	10	72	44	7	248
North Dakota	(2)	16	46	58	-------	18	142	4	284
Ohio	30,163	195	639	423	188	199	327	40	2,011
Oklahoma	8,218	20	23	51	14	7	283	5	403
Pennsylvania	520,780	371	3,358	1,104	1,542	2,131	-------	1,945	10,451
Rhode Island	10,522	39	136	63	34	41	139	11	463
South Dakota	(2)	47	227	2	24	-------	514	-------	814
Tennessee	7,793	32	35	12	32	63	31	28	233
Texas	5,721	39	92	78	40	74	71	41	435
Utah	18,318	71	252	184	168	74	238	101	1,088
Virginia	49,096	219	481	144	180	257	360	278	1,919
West Virginia	136,500	366	920	634	522	589	1,457	375	4,863
Wisconsin	5,589	23	57	36	32	12	36	-------	196
Wyoming	4,813	31	150	59	20	11	76	31	378
Total	1,087,091	2,428	9,175	4,196	4,525	4,704	5,968	3,618	34,614

1 Includes foods made available under sec. 32 of the Agricultural Act of 1935, as amended, and sec. 416 of the Agricultural Act of 1949, as amended.

2 Participated in distribution during 6 month period but no distribution in June.

The CHAIRMAN. Now I am going to ask Senator Sparkman to take over as chairman. At the conclusion of the statements by the members of the panel, Senator Flanders wishes to make a statement.

Senator FLANDERS. I shall make a request to join the panel temporarily.

Senator SPARKMAN (presiding). Mr. Schultz, may we hear from you, sir.

OPENING STATEMENT OF THEODORE W. SCHULTZ, PROFESSOR OF ECONOMICS, UNIVERSITY OF CHICAGO

Mr. SCHULTZ. I want to associate myself completely with what Professor Nicholls has just said as to the low-income problem, and since it is one of the main points on which I want to dwell, I will not elaborate in my statement on this, but rather find myself associating with his more elaborate and more complete and better statement than my own.

I do want to add for the record two things on the low-income problem. One is a memorandum that my colleagues and I prepared for the Secretary of Agriculture on the low-income problem, and another is an estimate of the low-income numbers in agriculture in 1950, prepared by Dr. Hendricks, a colleague of mine, which confirms and is consistent with what Mr. Nicholls gave you in his opening statement, and if I may do that, Mr. Chairman——

Senator SPARKMAN. Without objection, they will be included.

(The information referred to appears at pp. 654, 655.)

Mr. SCHULTZ. Thank you. I will restrict my statement to the three policy issues. One I have called the haphazard way in which we are disposing of very large stocks now under Government control, as these policies appear to the foreign producer countries. Second, to the requirements of a price policy in agriculture which has in it the prospect of reducing price variability to farmers and also increasing the efficiency of agriculture. The third is the gross negligence of the large number of low production, low income farmers in parts of the United States, the poverty of which is a national disgrace, and this is the one that Mr. Nicholls has put to you so very satisfactorily.

Now, in a sense, the Economic Report of the President is silent on each of these three policy issues which I deem to be very important. Before I consider these issues, may I say a word about the economic setting in which agriculture finds itself against which my statements are made. They differ somewhat in terms of what has been said by one or two of my colleagues in the preceding comments.

I would say first that the domestic demands for United States farm products is of slow growth. It gets very little growth from additional income. This is a different way of saying that the income elasticity, when we speak of farm products, is very low, so most of the growth really comes from population.

I am more technical on that in my paper.

On the supply side, additional production is readily forthcoming. As a country, we have benefited greatly from the many new techniques of production in agriculture. This is the technical revolution about which Mr. Davis spoke. With little or no increase in the total quantity of factors committed to farming, this country can, for many years, surely for the next 5, 10 years, or longer, stay abreast of the demand as a result of the advances underway in agricultural technology. I do not, therefore, share Mr. Benedict's view that the larger population in 3, 4 or 5 years is going to catch up and solve the supply problem which you men are wrestling with as it becomes part of the surplus problems of stocks.

One needs to bespeak the dynamic strength of most of the farm families that produce the bulk of the farm products entering commercial channels.

These are not the poor. This is not where the poverty problem is. I think there is a tendency to underrate the flexibility, the competitive capacity and also the income earned by these particular family farms. This underrating arises partly from bad statistics and then, too, from lumping all farmers together, and thus not separating out the million or so farm families who really produce very little and who are really very poor.

The technical and economic developments that the Corn Belt farmers have taken in their stride in recent years not only illustrates but demonstrates the dynamic capacities of these farm families that I am talking about for the moment.

There has been a technological revolution in the Corn Belt. There has been the mechanization of fieldwork, hybrid corn, commercial fertilizer, and many other techniques. In adjusting to these advances, the corn farmers of the United States as a whole have reduced by 30 million acres the amount that is planted to corn, and this reduction in acreage—this is from 1932 to 1953 or 1954—this is a reduction in corn acreage that is as large as the total corn acreage of 3 important nations, Argentina, Brazil, and Mexico.

There have also been big fluctautions and shifts on the demand side. But one observes that most family farms in the Corn Belt have achieved a satisfactory adjustment to these technological developments and to these other supply and demand changes, and I think we should not underrate the real strength that one can see in what we observe in this very large number of farm families.

Now my last point on the setting of the problem here is to comment on farm product prices. I would say that they are not nearly as far out of touch with the market values as is now generally believed to be the case.

We are getting an illusion from these large stocks, and this may very well cast us into terms that are unreal if we try to sense about where the market would be if markets were clearing. In terms of prospective production and demand—for the moment let me hold these stocks aside—most farm products are clearing their respective markets. Those that are not doing so stand about as follows, and I am saying this very categorically, but in my judgment, having considered it very carefully, I would say that the price of corn, which is the key to all the feed grains, is not more than 5 percent above the market levels. It is virtually in touch with the markets.

Nobody can get worried about a misalinement that is that small. Cotton, too, is not far from market values, 5 to 10 percent. If it were that much lower at the present time, it would, I believe, compete and clear markets both at home and abroad. This is a very different story from what we have had at times in the past.

Now, dairy products and also butter are very difficult to gage. They are no longer appreciably out of line. Wheat represents the major exception as Professor Benedict pointed out so very well. While durum wheat which was selling yesterday at well over $4 cash in Minneapolis, is in short supply, and prospective production of spring wheats generally come close to clearing the markets.

Production forthcoming in the next few years of spring wheat will be just about enough to take care of the demands at the present market level. This is what I am saying as to the durum and spring wheats.

Now, in the soft wheats and especially very important hard winter wheats, the product is overvalued.

Now, these are different kinds of wheats in a very true sense. They are overvalued by 20 to 25 percent, and here you have really a serious problem.

Now, with this brief sketch, let me turn to the three policy issues that I mentioned at the outset. We need to correct the apparent haphazard policy of disposal of CCC stocks abroad. To foreign producers, and others, it looks as if we were prepared to dump the stocks we have accumulated in an arbitrary and wholly irresponsible manner. To them it appears that we are prepared simply to dump on them our farm problems and the mistakes of our past farm policies. In the main our administrative actions have been less arbitrary than has been the legislative history on policy urging and authorizing the disposal of farm products abroad.

I want to underscore this. If you get outside and get anywhere close to a producer country our legislative history looks very bad to them because it seems much more irresponsible in the way we appear to be willing to dump, than has been our administrative history. The administrative agencies have really responded to the record. I think we could be better.

Let me say a word here about wheat. This is not true of corn. It is not true of butter. Let me just take wheat to illustrate the point. The Commodity Credit Corporation has, as you know now, in loans of inventory, well over a billion bushels of wheat. This is enough to keep the world market upset for years to come.

Now, we can reduce greatly, as I argued we should, this uncertainty abroad arising from what we may do with the excessive stocks under Government control. My proposal is that the Department of Agriculture be authorized and required to announce at or about August 1 a schedule of the quantity of wheat that will be sold abroad during the following 12 months. This schedule may be by months or by quarters. Sales may be either through private or by some combination of public and private agencies.

Suppose we had announced a schedule of 300 million bushels for the current crop year. It would have been more than we are likely to sell as things are now going and, more important still, we would have done it in a framework which would have reduced very substantially the uncertainty which our now well over 1 billion bushels of CCC wheat creates for producers and buyers of wheat throughout the world.

We can draw a leaf of experience here from what the British did in getting rid of their large stocks after the war. You can take the example of zinc. I think we can dispose of a lot more in the world market than we have been.

Now, in overhauling the farm price policy of the Government I wish, once again, to urge the adoption of a system of forward prices for farm products geared to the prospective normal value of each product. The theory underlying this approach and some of the administrative problems have been presented elsewhere before committees of this kind in Congress by myself and others of my colleagues.

In any case, this is not the time or occasion to restate the analysis and the case for this proposal except to say that it very likely would serve both consumers and agriculture well, for it would reduce measurably the price uncertainty facing farmers and further enhance the productivity efficiency of United States agriculture.

I will not comment again on the low-income problem which is as important and as serious as Professor Nicholls pointed out.

Thank you.

Senator SPARKMAN. Thank you.

(Mr. Schultz' prepared statement appears at p. 652.)

Senator SPARKMAN. Mr. Welch, we will hear from you now, and our vice chairman has arrived, so I am going to ask him to move over and take my place.

Senator Flanders is going to become a member of the panel as soon as Mr. Welch has completed.

Vice Chairman PATMAN (presiding). We are delighted to have him.

STATEMENT OF FRANK J. WELCH, DEAN AND DIRECTOR, DIVISION OF AGRICULTURE AND HOME ECONOMICS, UNIVERSITY OF KENTUCKY, LEXINGTON, KY.

Mr. WELCH. Mr. Chairman, members of the committee, I appreciate this opportunity of appearing before you to think about some of our farm problems that are serious and challenging. Unfortunately, I did not have an opportunity to prepare a statement for distribution at this time, but, with your permission, Mr. Chairman, I would like to present a fuller manuscript that might be included in the record.

Vice Chairman PATMAN. Without objection, that will be done.

(The material subsequently furnished by Mr. Welch appears at p. 644.)

Mr. WELCH. Mr. Chairman, my analyses and remarks are directed primarily toward the low income farm operating unit. I should like to say, however, before commenting on some of the problems that I see here, that I believe our present overall agricultural policy and programs are working reasonably well, recognizing that they are a composite of compromises and recognizing further that they are based partly on a lack of full understanding of all the casual factors involved. I believe that we should live with what we have until experience suggests possible changes. We will never have a policy and program that will be finished because of the dynamic and evolutionary characteristics of our agricultural economy.

Now, I am going to abbreviate my remarks because of the comments that have already been made on the low income small farm group. I do believe there are some points that are worthy of mentioning again, if for no other purpose than emphasis.

It is a little difficult for some of us within the context of a booming national economy and an optimistic industrial outlook for many people to realize that some segments of the agricultural economy face serious problems and an outlook much less rosy. Furthermore, when one considers only averages and national figures it is easy to overlook the permanently depressed and marginal condition of the large numbers of farm people who live on very small or low-productivity farms and must be classed, by any standards, as low-income families. It is difficult to realize that in America at midcentury approximately a million and a half farm families had cash incomes, from all sources, of less than $1,000 and that additional thousands of families were attempting to make their living from farms having a gross value of products amounting to less than $2,000.

These families are widely distributed, but I agree with Mr. Nicholls that they are largely concentrated in the southern part of the United States and in the Appalachian Mountain areas. It is within this area, within some 200 counties, that we find a total of some 8 million people that fall within the classification that we have given here as low-income groups.

In the consideration of remedial measures, it cannot be emphasized too strongly that the poverty of an area in which low-income farmers are concentrated is not merely the poverty of people by families but it is also a poverty of the social organizations and social institutions on which persons and families depend for fulfillment of their lives. Whatever one may mention, whether schools, libraries, churches, businesses, local government, civic-service groups, or the whole range of institutional services, as we know them in America today, there are conspicuous deficiencies. Strengthening institutions thus becomes a part of business and community development.

Any approach to these rather desperate problems is ill-founded and dangerous in terms of the welfare of our total economy if it is based upon the assumption that progress, or lack of progress, is a matter only of local concern or local responsibility. As indicated above, it is not only a matter of poverty in terms of individuals and families, and institutional service, it is poverty in terms of tax resources out of which services may be provided by the local people, and it is also poverty in terms of imagination, resourcefulness, and the ability of a people to lift themselves by their own bootstraps.

Specifically, the following areas of program service may be mentioned, without any effort to expand or describe them in detail; and I do not believe we can approach these problems in terms of a single program or a single solution. I think we are going to have to approach these problems through the broad range of institutional services that we now have—reexamining, reappraising, and redirecting these to a more realistic application to the problems that exist.

Perhaps the greatest need in these areas is for an adequate educational program for both youth and adults. The rapidly growing population creates a tragic and desperate situation in terms of public school services, and, although somewhat less pressing, in terms of adult education programs. Few, if any, programs can help an individual or a group of individuals unless they have the understanding and motivation to help themselves. Hence improved and adapted educational programs are imperative if any types of effort are to be fruitful or effective within any reasonable period of time in the future.

And within these some 200 counties to which I have made reference the increasing number of children that are moving into the schools and the inadequate buildings and facilities there create indeed a desperate situation.

Even with the present highly concentrated and disproportionate ratio of people to land in these areas, from 25 to 50 percent of the youngsters reaching maturity will have to find employment away from the land just to maintain the status quo and, of course, with the unsatisfactory ratio that now exists even greater numbers of youth will eventually have to find employment opportunities away from the land if the ratio is to be improved.

If we are to improve this ratio of people to land in the future, then more than 50 percent of youngsters are going to have to find employment opportunities off the land, and I do not believe this is a concern restricted to the areas where these youngsters are found. They are going to be citizens in your States, and in all the States of the Union, as they must find opportunities elsewhere.

This means that in addition to improved general educational opportunities for both youth and adults, much greater attention needs to be given to vocational training that provides skills and social adjustments and adaptations that will fit the people into a different environment, in which they are going to have to live, and in which they are going to make their contribution.

Coupled with general educational and vocational training, our employment services must be adapted and adjusted within the area, not only to bring alternative employment opportunities to the attention of the people, but also to make it possible for them to move to other areas of opportunity.

Our social-security program needs to be rigorously reexamined and reappraised, and adapted to the extent possible to the needs of the people found in these areas.

Our credit facilities at the present time, while generally adequate in terms of the purchase of land, are certainly inadequate in terms of intermediate credit for the purchase of machinery and equipment and improvement of buildings, and the adding of livestock to these units. There is much that needs to be done in the way of additional research pertaining to the problems in these areas. We have an accumulated backlog of research information that could be used if adapted and applied to the conditions that exist. There is a deficit, however, of research information that is integrated and related to specific problems. We need to know more about the actual limitations within the areas and how the various public and private groups can join together as a team in attacking the problems effectively.

People unacquainted with low-income areas can scarcely understand the rather desperate needs and problems associated with medical, health, and sanitation problems. Again lack of resources within the areas causes them to continue to be neglected.

Thank you, Mr. Chairman.

Vice Chairman PATMAN. Thank you, sir.

Now, the assistant to the Secretary of Agriculture, Mr. Don Paarlberg.

OPENING STATEMENT OF DON PAARLBERG, ASSISTANT TO THE SECRETARY OF AGRICULTURE

Mr. PAARLBERG. Mr. Chairman and members of the committee, I am an economist in the office of the Secretary of Agriculture. My work consists primarily of economic analysis and presentation of economic facts to the Secretary and his policy-determining staff. I am not a member of the policy staff in agriculture. Therefore, my remarks today will be directed primarily to the economic situation affecting agriculture, and not to questions of a policy nature.

I might comment briefly on the contributions from the panel with respect to the problem of low income in agriculture. In the Department of Agriculture we have been much aware of this problem. We have been much aware of the concern of this particular committee with this problem and the excellent work that has been done in the past, and the fine reports that have been made available.

As you know, President Eisenhower in his state of the Union message indicated that he had requested the Secretary of Agriculture, with the help of the National Agricultural Advisory Commission, to undertake a study of the problems of low-income farmers, and that he would at a later date submit to the Congress a message embodying recommendations with respect to what might be done to alleviate difficulties in this area.

The Department with the help of——

Vice Chairman PATMAN. When will the message relating to the small farmers be out, if I may ask?

Mr. PAARLBERG. The President has not indicated a date, Mr. Chairman.

Vice Chairman PATMAN. Do you expect it within the next 2 or 3 weeks, or the next 60 days, or 90?

Mr. PAARLBERG. It probably will not be within the next 2 or 3 weeks; it might well be within the next several months, although no date has been set, and I cannot give you any particular date.

The study is under way that the President requested, and it will embrace the recommendations from a large number of groups and individuals. The farm organizations have participated in the review with the agricultural colleges, and a number of other research institutions. There has been participation from groups representing labor, industry, church groups, and contributions from many individuals, both private and public.

I will abbreviate my remarks, Mr. Chairman.

Vice Chairman PATMAN. If you please. You can place the remarks in the record as they are.

Mr. PAARLBERG. I shall.

A number of these points have already been covered adequately by members of the panel.

The general economic health of America is good. We have been enjoying a period of relative economic stability during this past year. The general price level of the United States has fluctuated within a relatively narrow range.

On January 1, 1955, it was 1 percent below the figure for a year earlier. Fluctuations of such small magnitude are evidence that general stability of prices has been achieved, and such a circumstance is advantageous so far as the accomplishment of needed adjustments within agriculture are concerned. Farm prices, likewise, have fluctuated within a relatively narrow range of 8 percent during the past year. This past year January prices received by farmers were about 5 percent below the corresponding month of a year before.

Farm prices have risen 2 percent from 1 month ago. The 1954 yearly average of prices received by farmers was about 3 percent below the average for 1953. This compares with a decline of 5 percent from 1951 to 1952, and a decline of nearly 10 percent from 1952 to 1953.

Realized net income of farmers last year was approximately $12½ billion. Farm income has about stopped its postwar decline.

Our outlook people in the Department of Agriculture feel that net farm income in 1955 will approach that of 1954. Prices received by farmers may be expected to average close to levels which are prevailing at the present time, and the cost rates or prices paid by farmers probably will not change much in the year ahead. This means that the parity price ratio likewise would remain fairly stable in the year ahead.

While our total farm income was declining from 1947 to 1954 by some 25 percent, our farm population was also declining about 20 percent. This means, therefore, that per capita income in agriculture has declined markedly less than total agricultural income. In the last 7 years, per capita income from agriculture has declined only about 5 percent, and if we take account of the income that farm people receive from nonfarm sources, realized per capita income of farm people from all sources actually increased 6 percent from 1947 to 1954.

I would like to comment briefly on the levels of price support for agricultural commodities, both currently and for the 1955 crops.

Wheat support for the 1954 crop is 90 percent of parity, or $2.24 per bushel. The 1955 crop will be supported at 82½ percent of parity, or not less than $2.06 per bushel.

Cotton support for the 1954 crop is 90 percent of parity, or 31.58 cents per pound. There has been no definite announcement of the support price for the 1955 crop of cotton, but indications point to a support level of 90 percent.

Corn support for the 1954 crop is at 90 percent of parity, or $1.62 per bushel in the commercial corn area. No announcement has yet been made of a support level for the 1955 level, but the Secretary has indicated informally his anticipation that support would be in the neighborhood of 88 percent of parity.

Rice support for the 1954 crop is at 90 percent of parity, $4.92 per 100 pounds. No announcement has been made with respect to the support level for 1955, but prospective supplies, if they remain as now expected, support for the 1955 crop would be expected to be near 90 percent of parity.

Peanut support for the 1954 crop is 90 percent of parity, or 12.2 cents per pound. In view of the relatively short supplies of peanuts this year, the support level for the 1955 crop will probably be at or near 90 percent of parity.

Marketing quotas for the 1955 crops of wheat, cotton, rice, peanuts, and the major types of tobacco, have been approved by the producers of these commodities and will be in effect. Acreage allotments for corn will be in effect in the commercial corn area.

I might indicate the levels of price support for certain of the designated nonbasic commodities. Milk and butterfat support levels for the 1954 marketing year were 75 percent of parity, or $3.15 per 100 pounds for milk for manufacturing and 56.2 cents per pound for butterfat. The same level of supports are being continued for the marketing year beginning April 1, 1955. As of January 15, 1955, these prices represent 76 percent of the parity price for butterfat and 80 percent of the parity equivalent for milk for manufacturing.

I would like to comment just very briefly on the movement of our surplus stocks of commodities. The rate of disposal of Government-owned stocks of surplus agricultural products has been stepped up markedly in 1954. Sales have been made from CCC stocks to the private United States trade totaling $940 million in 1954. About $500 million of this total has been sold for export. The total value of all disposition of CCC stocks during 1954 have totaled about $1.4 billion. The best market for our farm produce is here at home. That market is being cultivated actively. The dairy situation is a case in point. Consumption figures for 1954 indicate that per capita use of butter increased about 5 percent over a year earlier, thus reversing the downward trend of 15-year duration. The average American ate a fraction of a pound more cheese and drank a little more milk last year than in 1953.

There is a trend toward an unmistakably better balance between dairy supplies and demand, a balance which is being brought about not through distasteful and uneconomic production controls, but rather through increased consumption of health-giving dairy foods.

In December of 1954 the Government bought not a single pound of butter. This was the first full month in 2 years in which no purchases were made. During December 1953 we bought more than 11 million pounds of butter and the heavy flow was just beginning.

All of the things I have cited are reflected in the fact that milk prices have increased in recent months. For the final quarter of 1954 wholesale prices received by farmers for all milk averaged 86 percent of parity, the same as in March of 1954, when price supports were still at 90 percent of parity.

In conclusion, the basic philosophy underlying the Agricultural Act of 1954 will encourage individual farmers who are efficient and ambitious to participate profitably in the thrilling opportunities immediately ahead of us in the growing science of agriculture.

Agriculture offers equally as good an opportunity over the next generation as any other comparable vocation for the young man or young woman who desires a satisfactory living standard, an opportunity to live and rear a family in a wholesome environment, and the ability to provide one's own security for his declining years.

Our constant objective in the United States Department of Agriculture is to do all in our power to promote a stable, prosperous, and free agriculture.

Thank you, Mr. Chairman.

(Mr. Paarlberg's prepared statement and additional information appear at p. 709.)

Vice Chairman PATMAN. Thank you.

I would like to bring up 1 or 2 points before yielding to other members of the committee for questioning.

First, would the Senator like to be heard now? Permisison is granted.

Senator FLANDERS. Thank you.

Vice Chairman PATMAN. We are delighted to hear from the distinguished gentleman from Vermont.

STATEMENT OF HON. RALPH E. FLANDERS, UNITED STATES SENATOR FROM VERMONT

Senator FLANDERS. The present means of supporting farm prices is complicated in administration, wasteful of perishable products, and burdensome to the consumer; he has to pay twice, once in taxes and again in prices artificially high.

Besides this, high level price support stimulates surpluses and thus multiplies to the taxpayer and consumer the cost of price support.

The Brannan plan would have given to the consumer the benefit of free market prices. It would have assured the farmer receiving parity prices, but at the expense of losing his freedom. The size of the crop he could plant would have to be determined for him by the Government.

Neither the Brannan plan nor our present price support is satisfactory. Yet we must have some means of assuring the farmer that he will not again have to endure the hardships of the early thirties when at times the price of wheat would not pay the cost of bringing it to the market.

A plan fair to farmer and consumer alike would assure the farmer of income protection comparable to that afforded the wage earner by unemployment compensation. It must likewise leave him a freeman. No Government official must have an authority to tell him what or how much to plant, when to sell, or at what price.

It is in the national interest to protect farm income from the effects of drastic declines in the price of farm products. But it is not wise to insulate farmers from all the effects of price fluctuations. In determining his own planting and production the individual farmer should be free to follow the guidance of moderate and gradual changes in the relative prices of farm products.

For his part the consumer should have the advantage of free market prices. With free prices his only bill for supporting farm income would be taxes to finance payments to the farmers in periods of depressed prices. But he would not be expected to pay large subsidies to farmers to enable them profitably to continue producing larger and larger surpluses.

These specifications can be met in the following manner:

(*a*) Let price support begin at 90 percent of parity.

(*b*) If the free market price drops below 90 percent, let the Government send the farmer each month a check for one-half the difference between 90 percent and the price received during the month for sales of protected crops.

(*c*) Let monthly reports of support payments be published, county by county, to make sure that no "wash" sales" or other unfair practices are indulged in.

(*d*) A floor would be set at 50 percent of parity, which corresponds to the wage protection of the wage earner.

Examples follow:

(1) If the free market price is 80 percent of parity, the difference with 90 percent is 10 percent. The Government will send the grower a check for one-half of this, or 5 percent. The grower will then net 80 percent plus 5 percent, or 85 percent of parity.

(2) If the free market price sinks to 60 percent of parity, the Government will send a check for one-half of 90 percent less 60 per-

cent, or 15 percent. The grower will then net 60 percent plus 15 percent, or 75 percent of parity.

(3) If the market price sinks to 10 percent of parity, one-half of the difference would be 40 percent and the farmer would net 50 percent. This is the floor and the price would have to sink to an incredibly low point to reach it. Should it sink lower yet, to 5 percent for instance, the Government check would make up the difference between that and 50 percent and would be for 45 percent of parity.

To recapitulate, the consumer would have a lower cost of living since agricultural products would no longer be sold to him at inflated prices.

The consumer would pay but once, in taxes.

The farmer would receive protection at least equal to that afforded the wage earner by unemployment compensation.

The farmer would be a free man, dependent for his success on his own business and agricultural skill, but protected from disasters beyond his control. Government operations, though numerous, would be simpler. There would be no loans, no commodity credit administration, no purchases of butter, wheat, and so forth, no responsibility for storage.

The obvious difficulties with this plan are political. Shortsighted leadership will fight this, or any similar substitute for our present unjust and expensive price-support laws.

There are enough good honest American farmers to welcome a just and practical means of protecting farm income from disaster.

That is all, Mr. Chairman.

Senator SPARKMAN (presiding). I suppose if we do this right, the panel should have an opportunity to question you.

Senator Flanders is going to have to leave shortly, so if any of you do want to ask him questions pertaining to his plan, suppose we do so now.

Senator Watkins.

Senator WATKINS. Well, I can see one thing his proposal would do, it would put a lot of people out of work; individuals in the administrative program. What would you do with those people?

Senator SPARKMAN. Use them as bookkeepers to keep up with all of these payments.

Senator FLANDERS. It has been suggested to me that this would be more expensive than administration of the present plan. That I do not think is true. There would still be some unemployment. The cost, according to the figures I have gotten from the Department of Agriculture, of warehousing, maintenance, and processing, but exclusive of administration costs, during 1954 ran at the rate of from $400 million to $600 million, and this does not include the cost of removing commodities, selling those overseas, and school-lunch programs.

Since the total number of farmers under support is approximately three and a quarter million, and since there would be around $600 million of expenses would would not be required, a rough figure would seem to indicate to me that you would have 1 clerk for every 20 farmers, without increasing the cost of the present farm program, so I think that that objection that it would increase costs falls down in that respect, and besides that, there is the possibility of market prices of commodities being reflected more or less hopefully in prices of foods and products to the consumer.

Senator WATKINS. You use that word "hopefully." I think that is the philosophy.

Senator FLANDERS. Well, we always hope when the farmer sells for less, the consumer will buy for less. That is often the hope deferred that makes the heart sick, but that point has been mentioned in the panel and I think the spread between the farm price and the consumer price is something that is worth studying. Of course, part of that spread is due to putting stuff in cellophane instead of selling it out of a box. We seem to want it that way.

Now I am open to questions from the panel or other Senators.

Senator SPARKMAN. I wonder if Congressman Curtis has any questions.

Representative CURTIS. No questions.

Senator SPARKMAN. Senator Goldwater.

Senator GOLDWATER. I should like to ask the Senator if he has introduced a bill along this line.

Senator FLANDERS. I have not. I have had a peculiar experience with this plan. It is 3 or 4 years old. When Secretary Benson first came here, I talked it over with him, he was interested and said "Let's get this published and see what the public reaction is to it."

Believe it or not, the farm papers would not touch it. They would not have it in their pages. Now that is something it is difficult for me to understand. I tried the Reader's Digest. The Reader's Digest had an article deploring the present farm price situation and not only that, but it reprinted and distributed it and broadcast it all over the country. They did not want this solution in their papers. There is a market for deploring. There is a market for criticizing. There is a market for painting pictures of how terrible everything is, but as far as my experience goes, there is no market for suggestive remedies.

That is why I asked to be a member of this panel.

Mr. WELCH. Mr. Chairman, may I ask the Senator if under his proposal there would be provision for accumulating stocks beyond what the trade would normally hold, say wheat and cotton, and so on.

Senator FLANDERS. Well, the assumption would be that there is a price at which the stuff will move. The advantages of this, as compared with dumping abroad—we might sell abroad at a very low price, but it would not be a dumping price.

You protect the farmer, but even if it goes down to 5 percent of parity, as I suggested for wheat, he would at least have 50 percent, and you could move wheat abroad at those very low prices. Let prices move the crop.

Senator SPARKMAN. Mr. Davis wanted to ask something.

Mr. DAVIS. Suppose that this had been in effect at the time that the postwar adjustment started; have you made any estimate as to where prices would be in this scale now? Would it be at this 50-percent floor or would it be somewhere above that?

Senator FLANDERS. I cannot answer that one. There are some things I do not know, and that is one of them.

Senator SPARKMAN. Well, don't you think the answer to that one would depend on the question that was just asked as to whether surpluses would accumulate? The theory is, and I believe you advanced it in your paper, Mr. Davis, that crops would move, farm products would move if the price was such as to permit it. Didn't you have some such statement?

Mr. DAVIS. No.

Senator SPARKMAN. One or two did. Mr. Lincoln did.

Mr. LINCOLN. Isn't that right?

Senator FLANDERS. I think so.

Mr. LINCOLN. Everything we know would move at a price.

Senator SPARKMAN. May I inject a thought there? I worked on a farm when we did not have supports and it did not always work then, so I think you have got to have a rather ideal distribution system for it to work, and we have not got that yet.

Mr. DAVIS. I have one more question. Suppose that this had been in effect and suppose that the prices would have dropped near to this 50 percent. What would have been the impact of that on our total economy?

Senator FLANDERS. Well, if the prices had dropped to 50 percent——

Mr. DAVIS. In this postwar adjustment.

Senator FLANDERS. The farmer would have gotten 70 percent, half of the difference.

Mr. DAVIS. No; I mean if it had dropped to where he got 50 percent.

Senator FLANDERS. You mean the prices had dropped to 10 percent?

Mr. DAVIS. Yes.

Senator SPARKMAN. Could it? I do not see how it ever would.

Senator FLANDERS. The impact there would be something to look at, but still I think the crops would move and the farmer would get the distress protection of 50 percent of parity.

I remember during the 1930's there was a Kansas farmer who brought his wheat into the elevator at Kansas City and he could not get enough for it to pay for the gasoline that he spent to bring the wheat in and take it back again, so he raised the tailboard of his truck and spread the wheat on the main street of Kansas City.

He could at least have gotten 50 percent if they would have taken it at all, for nothing.

Senator SPARKMAN. Professor Schultz asked a few minutes ago for permission to make a comment.

Mr. SCHULTZ. Let me act as a critic of my distinguished friend here, Senator Flanders. I would say, Senator Flanders, that I just made some simple calculations here. If you had had this the last 4 years, it would have cost just about half of what the present programs may cost.

Senator FLANDERS. You think this would have cost about half?

Mr. SCHULTZ. About half. This is one comment I make. Another comment is that it is two-fifths Brannan plan.

Senator FLANDERS. This is what you say.

Mr. SCHULTZ. This is two-fifths, not quite half of the Brannan plan.

Senator FLANDERS. It is a result of cross fertilization.

Senator SPARKMAN. A hybrid.

Senator FLANDERS. I want to suggest that the mongrel pup is usually smarter and healthier than the purebred pup.

Mr. SCHULTZ. I would suggest that you get a little more mongrel, if you can. There are two things. If you start with the flat 90, this will make some products completely out of line with others. Last year this would have cost $280 million on wheat. If you started wheat at 90—it is probably 25 percent out of touch with the markets, where others are close to it, so you will pick up a very big bill in wheat.

You would not in cotton, actually, because cotton is quite close to markets, I would guess. So if you just take history, 90 percent is not realistic with what the markets are worth. Since you tie it to 90 percent, you run into problems there. The only other point I would make is you would not have a storage problem, and with our kind of weather and our economy, you have a storage problem. But you could build one.

Senator FLANDERS. Perhaps there is some useful mongrelization in that suggestion.

Senator SPARKMAN. Mr. Benedict wanted to make a comment.

Mr. BENEDICT. I am not prepared to comment generally about this proposal, though I think it is a very interesting one. I do think there would be need to consider somewhat a statement that has been made elsewhere here this morning that there is a market at some price for all of these products. I am not at all sure that you could actually sell all of the wheat, for example, in the last year or two, without completely demoralizing the market.

In other words, I think there would need to be some escape provisions in that kind of a setup. Amounts that cannot be sold at any price rise from time to time in such products as potatoes and some of the fruits as well as wheat and cotton.

The other point that I think needs some clarification occurs by implication in something Mr. Davis said. Actually, we have been operating under free-market prices for the most part since 1945. The prices all through until just the last year or two, and for a short time in 1949, have been, for most of the products, above support levels rather than below, so we are not without experience in doing this sort of thing.

I think there is a good deal of merit in the idea that there should be an incentive for downward adjustment if the price or quantity is outrunning what can be sold at reasonable prices.

The other point that I think should be emphasized is one that was implied by Mr. Welch's question. I do not think the trade will carry as large reserves as we ought to carry in a time of world tensions such as we are now in. This phase of the thing should be in the picture somewhere.

Senator FLANDERS. Mr. Chairman, I thank the panel for its observations, and I just want to express one point as I leave, and that is it has been very satisfying to see these new and strong statements of the importance of the problem of agricultural poverty.

You will remember that 3 years ago we examined that and Mr. Schultz, at least, made a really fine contribution to our study, and people too often think of poverty as being a city problem and we have discovered—that is, our panels at that time discovered—that perhaps the most serious poverty problem in the Nation lies in the country.

Thank you.

Senator SPARKMAN. I remember those studies with a great deal of interest and satisfaction, and I am hopeful that during this present year we may resume those studies and bring them up to date. I presume that all of you have seen the reports that were made. If not, I hope you will let us send you a copy of each one of them, because I think they are right in line with the suggestions that have been made here this morning.

I have a general question, that I would like each member of the panel to reply to in 1 or 2 sentences because, after all we are studying the President's Economic Report. I wonder if each one of you, in just 1 or 2 sentences, would give us your view as to the adequacy of the Economic Report in its dealing with agriculture's problems. It would be most helpful as this committee evaluates that report.

Mr. Benedict.

Mr. BENEDICT. Now, do you mean?

Senator SPARKMAN. Yes.

Mr. BENEDICT. Well, it seems to me the President's report says very little about agriculture. I assume that the reason for that was that, by implication, many of the actions taken during the last year were in line with the President's program with respect to agriculture, and that would imply to me the idea that perhaps with the adjustments now taking shape, as they come fully into effect, they would meet most of the problems that we have been talking about. I do not think they would meet fully the problems of wheat or butter, but for some of the other commodities, I think a moderate relaxation of the parity formula; that is, a shift toward the modernized formula and some increase in the adjustability of the level of support rates would meet most of the problems that we see ahead, assuming that the economy as a whole stays prosperious.

Senator SPARKMAN. Mr. Davis.

Mr. DAVIS. Well, I will be very brief. Personally, I was quite disappointed that the report was as silent as it was on the problems of agriculture.

They were barely mentioned at all. Only, I recall, in connection with the low-income families. I think that the problems of agriculture as they relate not only to farm people but to the total economy, would justify a greater treatment within the report than was given.

Senator SPARKMAN. Mr. Lincoln.

Mr. LINCOLN. Senator, the first thing I said was that I thought the farmer was the forgotten man in this economic report, and that certainly those of us in farming, that have farm problems right in our own family, are not as optimistic as some of the people seem to believe about the future, and my concern, as I said, is here we go again with farm income going down.

I think it dropped something like 35 percent since 1947 or 1949, something like that, and whether this is the beginning of a depression or not—but I do not like the implications, and I think that is one of the most important omissions of the President's report, and I do not understand why nobody is ready to look into this situation of the spread between the producer and the consumer.

We have tried to get the Federal Trade Commission to make a study and I think the 83d Congress just would not give any appropriations. It seems, though, that we are afraid to look into that area and I think that is one of the most important areas that need to be examined.

Senator SPARKMAN. Mr. Nicholls.

Mr. NICHOLLS. I agree with my colleagues that there is not much to be said because there are only 2 or 3 sentences on agriculture in the entire report. I think those were with reference to the low-income problem. I assume that there is no more there on that because the administration had not pinned down its program in this particular area at the time the report was written. I simply hope that, when it does come out, the administration's program will be adequate for taking care of many of the things I mentioned in my own presentation.

Senator SPARKMAN. Mr. Schultz.

Mr. SCHULTZ. Well, I think that the Congress and certainly people would want to know at an early date, either from the staff of the Economic Council or the Department of Agriculture, what we are going to do with our $8 billion in CCC stocks. This is a major policy issue. You need something on it. It is not there.

Second, as Mr. Flanders said, we have got to get to a more satisfactory pricing policy. This is highly political, however, and the economist does not get much of a hearing on it, but it ought to be thought through afresh.

The third is the low-income problem, and apparently you are going to get a document, a report, and there has been a good deal of staff work on that, as you know, and many of us know in the country and so this is coming, but it is not in the report as such.

Senator SPARKMAN. Mr. Welch.

Mr. WELCH. Well, as has been indicated, the President's comments were both brief and general, and I would say, by and large, that I thought the specific statements and the implications were to the affect that the outlook for agriculture is a little more rosy and favorable than it actually is.

It was encouraging for him to take recognition of the low-income group and to indicate that he was going to present a special message later. I hope he does, and I hope it is a realistic program.

Senator SPARKMAN. Mr. Paarlberg, we won't ask you to comment, but if you wish to add anything, we would be very glad to hear from you.

Mr. PAARLBERG. I concur in general with Mr. Benedict's comments.

Senator SPARKMAN. Thank you.

Senator Watkins.

Senator WATKINS. Well, I have been very much interested in the statements that have been made. I am a farmer by proxy. I used to be a dirt farmer, and when I get home, which is not very often now, I like to get out and see at least what they are doing on the fruit farms that I am keeping rather than being supported by.

Mr. Lincoln mentioned the problem that I personally have come in contact with, as have many of my neighbors, and that is how we find some way to get to the consumer the products of these farms, particularly in the field of fruit, at such prices that the consumer can afford to buy them. The spread there is very big between what we actually get on the farm and what the food is sold at.

The result is that many times fruits are not even sold. Nobody can harvest them. They are dropped on the ground. That has been true in certain other fields in agriculture as well. I think there ought to be a lot of attention given to that matter of distribution.

As I understand, Mr. Lincoln, one of the jobs of the farm cooperative is to get a better price for the farmer's product.

Mr. LINCOLN. And to narrow the spread.

Senator WATKINS. But it is the duty of the cooperative to get as much as it possibly can for the farmer. I have never yet seen a cooperative that would not take advantage of a scarcity and get all the market will pay. But we run into a situation, do we not, where the interests seem to conflict—the consumer and the cooperative.

Mr. LINCOLN. Well, of course, there are two types of cooperatives, Senator. One is the producer and one is the consumer. In the main, most of our activity in this country, so far, has been along the producer end. But we would like to have more facts set forth by some impartial study as to just what does happen between your price for fruit and what somebody pays for it in the city.

I think there is need for some more research there, and then we think, of course, on the other end, the consumer cooperative is also interested in lower prices, and somewhere those two meet, but I would rather see the producer and the consumer sitting around the table than have a distributor system that is only concerned in making as much out of both as they can, and I think that is possible.

We have demonstrated it in some areas.

Senator WATKINS. Of course, the consumer cooperative tries to buy cheaper.

Mr. LINCOLN. That is it. It is to put an economic squeeze on the distributor system. We are convinced there is plenty of opportunity there if it can be applied on a broad enough scale.

Senator WATKINS. Your background, now, is in the field of consumer cooperatives; isn't it?

Mr. LINCOLN. Both farm and consumer.

Senator WATKINS. You do not represent the National Farm Bureau?

Mr. LINCOLN. Oh, no, sir. I am at the present time president of the Cooperative League of the U. S. A., and president of CARE, and a farmer, and the league is concerned both with the producer and the consumer.

Senator WATKINS. The insurance group with the name Farm Bureau is now being changed to something else. This is simply because the farm bureaus are not connected with them in any way; is it not?

Mr. LINCOLN. No; we are not directly connected with the State farm bureaus.

Senator WATKINS. Well, I am interested also in this other field of the small farmer because I had a practical illustration in my own State, and I am convinced that we never, by price supports, take care of the small farmer. We would either have to make a special class for that group which would be putting a reward on inefficiency or else make it extremely profitable for the large farmer, that is the small percentage of farmers who now really get some benefits out of price support.

I think the move will have to be in the direction of finding some other field in which many of the fringe farmers can operate more economically, and I think training, vocational training, and all of those things have to be tried. At the same time, no matter which way you go, you find there are still many economic problems. I know in our community we have a large number of small farmers. When the depression came, 50 percent of them went on relief.

The war came along and helped solve the problem temporarily, until the large steel production came into our area, and now the farmers work at the steel plants and do something in the mornings and evenings on their farms. They are taken care of, provided the steel plant continues in operation.

You cannot do that all over the United States. I hoped some of you would come up with a solution for this small farmer group, the lower one-third that we speak of many times.

Mr. LINCOLN. Could I ask, Mr. Chairman, does any member of the committee know why it was impossible to get a study? In 1953 we tried to get a bill—I think Senator Gillette handled it—to try to get a study of this price spread, but we could not get anything done. Does anybody know what stopped that?

Senator SPARKMAN. There were 2 things that happened. I think both of them were in 1953. There was the Federal Trade Commission's study. For some reason that I have not been able to understand, Congress did write a limitation into the Appropriations act to the effect that none of the money to the Federal Trade Commission could be used for making this study. Senator Gillette and some dozen other Senators of both parties, equally divided—I am glad to say that I was one of them—sponsored a resolution which likewise failed to clear Congress. Why, I do not know, but the purpose of it was to make a study as to the price spread between the farmer and the consumer.

I have not seen figures recently; that is, within the last month or two, but in last fall, the Department of Agriculture in one of its statement brought out the fact that the farmer's share of the dollar that went for the purchase of commodities was down, I believe, to 44 cents, and was the lowest since 1934.

Now whether that has changed since then or not, I do not know. Mr. Paarlberg mentioned in his statement that wtihin the last day or two the Department of Agriculture said that the farm prices had increased during the last month by 2 percent, but during the same time the cost to the farmer had gone up 1½ percent. That is a little better. At least it shows a relaxation of the squeeze, even though by a minimal amount.

Mr. NICHOLLS Mr. Chairman.

Senator SPARKMAN. Mr. Nicholls.

Mr. NICHOLLS. I do not want to be too much of a dissenter on this particular point, except that I do think we should be realistic on this matter of the declining share of the consumer's dollar going to the farmer. First, I might say in preface that I spent 10 years, probably more than any other agricultural economist, studying monopoly problems in agricultural processing industries. Hence, I am perfectly aware of that type of problem in distribution and I am certainly in favor of better antitrust procedures, and so on, to eliminate such monopoly as exists. I also favor marketing research which will eliminate any inefficiencies that may exist. But I think it only realistic to say that another important reason for the farmer's declining share of the consumer's dollar is the fact that consumers want more services attached to their food than they did when their incomes were lower. Furthermore, farm prices could remain the same absolutely and yet the spread could widen simply because consumers wanted boxed rice instead of rice dipped out of a bin, and maybe want minute rice instead of plain rice, and were willing to pay a higher retail price for the added services which the middlemen have produced.

In other words, when incomes go up per capita, as they have been doing, consumer demand for the extra services attached to food expands rapidly. Hence, I do not think we ought to lose sight of the fact that demand for food—that is, the raw food, the original food—does not increase very much as incomes go up; but demand does increase substantially for the attached services. Under these circumstances, it is actually quite remarkable that the farmer in 1954 still got about the same share of the consumer's dollar as in 1910–1914, when the services attached to food were far less.

Mr. LINCOLN. I would like also to point out, Doctor, that somebody ought to find it out.

Some of this packaging and the like we are doing today, we think may reduce the cost of distribution. You eliminate a lot of individual work where stuff is packaged at the source of supply. Look at the way carrots are coming through now. They used to come through with the tops and iced and everything else. Now the tops go back for fertilizer and they eliminate a lot of the icing because they are put in these bags, and I am not at all sure but what some of those things are actually tending toward the reduction of a lot of costs that used to go in there. That is why we think we need a study.

Senator WATKINS. They do not pass them on to the producer, however.

Mr. LINCOLN. Well, that is part of the trouble, I think, as I have brought out here. I think the House Committee on Agriculture said that thus far none of the lower prices received by farmers since 1951 have been passed on to the consumer in the form of lower retail prices.

Senator SPARKMAN. By the way, in that connection, in July 1954, the House Agriculture Committee had a staff study made dealing with the relationship between farm prices and the cost of food.

It is not a very complete adequate study. It is good as far as it goes, but a brief study, and one that was made from a compilation of facts and charts rather than a thorough discussion and checking into all of the different steps and processes and procedures.

(Whereupon, at 12:30 p. m., the committee adjourned to reconvene at 2 p. m. in executive session.)

AFTERNOON SESSION

The joint committee met at 2:45 p. m., Senator Paul H. Douglas, chairman, presiding.

Present: Senator Douglas, chairman, Senators Sparkman, Watkins, and Goldwater, and Representatives Bolling, Mills, Talle, Curtis, and Patman, vice chairman.

The CHAIRMAN. Come to order, please.

I will ask Mr. Curtis if he has any questions he wishes to address to the panel at this time.

Representative CURTIS. No, not at this time.

The CHAIRMAN. Senator Goldwater.

Senator GOLDWATER. No, sir.

The CHAIRMAN. Mr. Mills.

Representative MILLS. Not at this point.

The CHAIRMAN. Mr. Bolling.

Representative BOLLING. No, sir, Mr. Chairman.

The CHAIRMAN. Congressman Talle.

Representative TALLE. Yes, Mr. Chairman.

I do not recall that any panel member said anything about the cost to the farmer of the equipment which he must now have because of mechanized agriculture. I am interested in your views as to the cost of what the farmer must buy and what he gets for his product when he sells it.

Mr. LINCOLN. That was one of the things that I was saying we ought to do something about, and it seems to me, in view of the fact that the farmer has to spend so much of his income now to buy things he does not produce himself that come from places other than the farm, like gasoline and machinery and many other services—and in almost all of those fields, if my information is right, they have return on capital and pay wages higher than the farmer gets in many cases—that unless you can do something to bring down the cost of the things the farmer has to buy, you will never be able to put enough money in the other side of the pocket to balance it out.

I thought both in this question of the cost of distribution from the farmer to the consumer and from the city to the farmer of the things he has to buy is one area—I am not saying this is any solution, but it is one area in which I think we need a lot of information that we do not have at hand at the present time.

Representative TALLE. It reminds me of what an old farmer friend of mine used to say "times ain't what they used to be, but then they never were." It was once thought that anybody could farm, but now he must not only be a jack-of-all-trades, but a master of many of them. So he needs a lot of skill, knowledge, and expertness, and then he must have quite a little money in order to acquire the means for carrying on his operations. I should like to hook this up with our panel discussion of yesterday, when I suggested that the two fields in which competition is still pretty important and rather free are primarily agriculture and retail merchandising.

We do have competition in agriculture, in the barnyard and out on the acres where range materials are produced. Then at the grocery counter we have the retailer, who sells the finished products to the housewife. We have competition at those two ends, but along that long road between those two points we do not have flexibility of prices, but rigidity. I do not need to review to you gentlemen what those costs are, but they are costs set by rate-fixing bodies and by collective bargaining contracts, and so on.

Now, my question is, shall we attempt to get some competition into that long road along which we have rigidity of prices, or shall we give the thing up and make prices rigid at both ends also? In other words, rigid prices from start to finish.

Mr. LINCOLN. I will let some of the other folks answer it, but my point, Congressman, was, I think we need more specific information as to just what is happening in that whole field, so that we can all go on the basis of facts and not just our own opinions, and I think more studies ought to be made.

Representative TALLE. One distinguished gentleman who used to serve in the less numerous branch of Congress asked that investigations be made, although he knew what the facts were. My question is: What can be done about the problem by law?

Mr. SCHULTZ. I might first offer this observation, because you spoke of the growing size of farm expenditures all over, and particularly in the Corn Belt. This has two immediate implications which need to be thought through, and I think where it leads you is pretty clear. One is that the young farmer starts, and we are right in a period when young farmers are much more numerous than normal, because of the backlog held in during the 1930's. People did not have enough earnings and they lost their savings, so that the people between 65, 70, and 75 were pulling out and young farmers taking over.

We have quite a large proportion, larger than normal, and this now takes $15,000, $20,000, $25,000, and this needs really to be thought through.

In the main, it means better intermediate credit facilities. Our public credit and our private credit is not very good for this kind of use, particularly where there needs to be 3-, 4-, 5-, and 10-year loans. We have plenty of land, and when you get to the 20 and 25 or longer, there is no difficulty at all, but it is really in this very area, and for the purposes implied by your comment or statement.

The other comment deals with the rigidity aspect. We may mislead ourselves if we think that there is as much rigidity on many of the important expense items that you indicate. I am thinking of fertilizers here. You see, fertilizers are relatively important in this, and through Iowa and Illinois, and so on, this is not a very well-developed market, but it cannot be characterized as rigid. The prices of fertilizer are relatively higher than before the war. Machinery is about the same. I won't go into any more detail on that.

Those were the two comments I wanted to make.

Representative TALLE. Thank you, Dr. Schultz.

Mr. BENEDICT. I would agree with what Dr. Schultz said. It is not to be expected that a good-sized commercial farm can be equipped much more cheaply in the future than it can now. It may even cost more, but the investment in farming has become so large now that it is not to be expected that a man will be able to finance it out of owned capital to as large an extent as he could at one time. So it is partly a credit problem, but I think we are apt to be somewhat deceived about the rigidity of the prices of equipment because of the period we have just been going through.

There was a tremendous upsurge in the demand for farm machinery just after the war and for almost all of the other production durables and consumer durables. The market for these was so strong that manufacturers did not have to shade prices. But, as we saw in the market for automobiles last fall, while the list prices did not go down, the actual price to the buyer was shaded considerably. I think we may see more of that in farm machinery, in refrigerators, and so on, so that it seems to me a mistake to assume too easily that there is not pretty active competition in some of these other fields. It does not take quite the same form as in agriculture.

Mr. WELCH. While we may admit that these prices are not as rigid as some may believe them to be, I do not think we are likely to be deceived in terms of higher wages, in terms of social security, in terms of increasing transportation costs, as to who is going to pay for those ultimately. The farmer is going to pay for these when he buys machinery and the other things that he uses in his production enterprise. These costs, therefore, that are an integral part of the prices the farmer pays for the tools of his production makes it difficult for him to adjust to lower prices for his own products.

Representative TALLE. Thank you.

Mr. DAVIS. I think that if we look at this problem over a longer period of time, we can expect that these costs will remain relatively high, even with all of the competitive factors that have been mentioned here. I thing farm costs will tend to remain high, because your wage structure is probably going to be pretty rigid; certainly there will be considerable resistance, to any reduction in it, and as was mentioned, social security, and items of that kind will remain in the picture. Then we are entering and are in and are going to continue to be in a period in which agriculture is undergoing a terrific adjustment to technology, and improvements and so forth. Well, any period of rather rapid adjustment is a period in which the capital requirements are greater than if you are just operating on even keel.

Then you can add to that, in the case of agriculture, the problem of refinancing the farm unit each generation as the inheritance process takes place. Your capital requirements, I think, in agriculture are going to be greater in the future than they have been.

You have to consider the bigger sized units that are essential. In addition you have the adapting to new methods, which requires capital. The capital requirements are going to be quite high.

Now, I think that while we are talking about the Economic Report, we need to look at farm income not just in absolute terms or in terms of the past, but even more pertinent, it seems to me, essential that we look at the farm income in terms of achieving the goals that we have set for the future, goals of total growth for the country, and within this the goals of growth within agriculture.

Now, I cannot help but think that actually those requirements are pretty demanding and that we need a fairly high level of income within agriculture to bring about the adjustments that we want. Now the adjustments are of two types; fundamentally. There is adjustments within agriculture to technology which I already described. Then there is the adjustment of getting people out of agriculture and into more productive employment elsewhere. That requires a very prosperous growing economy outside of agriculture with new jobs coming along.

Well, I think in general that both of those take place when there is a fairly good level of income within agriculture.

The CHAIRMAN. Mr. Nicholls.

Mr. NICHOLLS. I would like to point out just one more thing with reference to Congressman Talle's question, namely, that part of this cost-price squeeze is attributable to the price-support program itself. In other words, the price of a lot of things farmers buy are the product of other farms and the price-support programs, particularly on the feed grains, represent a cost item to other farmers who may be selling in a free market. This leads me to comment that I think one of the most objectionable features of our price-support program has been the discrimination in favor of the so-called basic commodities (specifically the feed grains) where the livestock farmer may be selling in a free market at declining prices, but where his cost structure is held up by price supports on feed grains.

This discrimination in favor of basics takes two forms: One is that they have higher price-support provisions than do other commodities; and second, that price supports on the basics are mandatory, whereas on other farm commodities they either do not exist or are discretionary.

The CHAIRMAN. Mr. Benedict.

Mr. BENEDICT. Are we leaving that particular topic now? I had just 1 or 2 comments I wanted to make that are on another line.

The CHAIRMAN. Well, if you would withhold those, until Congressman Patman has a chance.

Vice Chairman PATMAN. Mr. Chairman, I will be as brief as possible. I know that other members want to interrogate this fine panel, and I know they have some information on these subjects we are discussing that would be very helpful to us.

First, I want to mention about how the Economic Report of the President has dealt with the farm problem. On page 83, near the top of the page, it says the income shares of both farm and business proprietors in 1954, 4.1 percent and 8.9 percent respectively, were at postwar lows.

Now the disappointing thing to me is the fact that the President's report points that out, and I am unable to find any satisfactory remedy suggested to relieve the situation. Putting in language that is more understandable for all of us, the President is saying in his report that the small-business man and the farmer are suffering more than any other group, since World War II. However, I fail to find where any satisfactory solution has been offered. I have prepared here a chart.

Could I get someone over here, please, to move this chart so it can be seen? I had this chart prepared several months ago before this particular report was prepared, but there is a chart in the Economic Report of the President that is very similar to this one. It is on page 98, if you have the report there, and you will note, in fact, it is almost exactly like it, Mr. Ensley, the same data.

Well, I cannot be accused of copying the President's report because it was gotten out before. At any rate, it makes no difference, it truly states the situation. I just wonder how much the monetary matters have influenced the farm products.

Now on all of these charts like on page 42, chart 26, you will notice that the farm prices, raw material industrial prices, they go way down when the finished goods and semiprocessed materials, all administered prices go straight along, they do not fluctuate. I just wonder if you members of the panel agree with me that monetary actions affect the farmer more quickly and more effectively than any other group, because his prices are the least controlled and administered. In other words, they have no protection. I will ask you if you agree with me that farm prices respond more quickly to monetary action than prices generally. Do we all agree on that? Dr. Schultz, do you agree on that?

Mr. SCHULTZ. I am not going to take your next step, though. I will take this one, yes.

Vice Chairman PATMAN. All right, do the other members of the panel agree that the farm prices are more responsive to monetary actions than other important prices?

Mr. WELCH. Yes.

Mr. SCHULTZ. In both directions.

Vice Chairman PATMAN. Now, then, if you will notice this chart here, the prices that the farmer has had to pay have not gone down much. In fact, in 1951—I know the distinguished chairman is not going to agree with me about this—in 1951, when the so-called accord was agreed to and money was made hard and interest high, other prices did not respond too much, but farm prices responded very quickly. They took a nosedive, and they have been going on down ever since because this same policy has continued, the hard-money policy, and in 1953, when the hard-money policy really got into high gear, the farm prices that the farmers received went down further, but the prices paid by farmers not only leveled off, but they got a little higher.

Do we all agree on that?

Mr. BENEDICT. No.

Vice Chairman PATMAN. All right, what is your answer there?

Mr. BENEDICT. Well, I do not discount at all the importance of monetary management and interest-rate management, but it seems to me that that is putting the cart before the horse. There were other factors that had, in my opinion, more to do with the easing off of farm prices than did the interest rates. I do not think the hard money program had very much to do with that. In part, we are in a process of readjustment from a period of very high and very abnormal demand for form products, and we have had a continued high production of farm products. It seems to me that the balance between supply and demand has affected farm prices rather more than the monetary policy is followed.

Vice Chairman PATMAN. Well, I believe we all agree that the bankers have a lot to do with the monetary policy in this Government. I do not think our Republican friends would object to that statement. I think it is obviously true. In one capacity or another, bankers have occupied bottleneck positions in monetary policies, and since they have, the banks have done mighty well.

The bankers have done mighty well, and while the bankers were doing so well and big business was doing so well, the President says in his report that the small-business man and the farmers hit an all-time postwar low. I just wonder if we had not better try to get some advisers and somebody in these bottleneck positions that will take care of these two groups just a little bit better. That is what I wonder about, because it seems like the prosperity is going more to the big man, and the little man is not only not getting any of the prosperity, but he—I do not think there is any deliberate attempt to penalize him—but the net effect is that he has been penalized.

What do you gentlemen think of that? Would you mind commenting briefly on it?

Mr. SCHULTZ. Mr. Patman, I want to concur in the implied criticism. The Treasury has very seriously missed the mark in the way it handled its long-term loan. That is certainly subject to very serious criticism.

Vice Chairman PATMAN. You mean the three and a quarter percent?

Mr. SCHULTZ. Yes.

Vice Chairman PATMAN. And then the 3 percent the other day.

Mr. SCHULTZ. This may not be as serious. At least I cannot speak with hindsight on this one. On the other one, one can, and they certainly missed on that one badly. And it is true that we can be too concerned about the roles of different groups in our economy and there, again, your implied criticism may well have merit and point. That point that I wanted to make, which runs off a bit from your general line ,your argument here, runs as follows:

This is a judgment about the way the economy lay. If we could have an economy that was fully employed the next 5 years and if in that economy we could have steady general prices, neither inflation nor deflation, as far as the general level of prices is concerned—now I have put two conditional notions here—I am trying to avoid the effects of a rise in the general price level where raw materials move fast or a drop in this where raw materials or farm products, especially, do not move fast—but if you had full employment and if you had a general level, price level, today in the American farm economy, the costs are such that if you took the old parity ratio, things would clear the market at about 85 to 90 percent of parity.

This is in some general sense, now, and probably closer to the lower figure. In other words, the terms of trade reflected by the general costs and demands of 1910–13 have changed that much. This, therefore, is to say that this is not an abnormal thing that one sees up there.

Vice Chairman PATMAN. You mean it is not abnormal for prices to continuously go down?

Mr. SCHULTZ. Not down, but where they are 86 or 89 percent of parity in the old sense, that is getting to where the cost of these things really lie in our economy.

Vice Chairman PATMAN. I know, but what about the costs they pay? You do not want one line to run one way and the other line the other.

Mr. SCHULTZ. I am not interested in the lines, I am interested in how the economy is set. The economy is really set so that costs have come down in agriculture.

Vice Chairman PATMAN. Come down?

Mr. SCHULTZ. Yes, about 15 percent per unit of product, that is what this means.

Vice Chairman PATMAN. Well, I think the cost the Treasury is shooting for is 4–percent money. There is no question about that. There was no reason for that 3¼-percent bond that you mentioned being issued. They had twice as much money as that in the banks that they could draw on. They did not actually need the money in the first place. But just out of the clear sky they offered a 3¼-percent bond for about a billion dollars. They gave the F and G bondholders, who happened to be the big fellows, an opportunity to get 3¼-percent bonds for the F and G's, but they did not give that opportunity to the little fellows. The E's were not given that opportunity. In February of 1953, when they were looking around to see who they could help, they did not see the little farmer, they saw the stock market.

The market was not dong well, so they leased the margin requirement in order to create the credit to buy stocks, reducing it from 75 percent to 50 percent. They did not help the little-business man or the farmer. They did not help the farmer on the dividend tax exemption; they helped the man who owned stock in corporations. That does not make sense to me, when two segments of our economy, the little-business man and the farmer are screaming for help at all times.

Then installment buying of stocks helped stimulate the shock of inflation. It looked like all eyes were centered on helping the stock market. I think their eyes should be centered on agriculture and the small-business man. That is what I am trying to get at. We have just got to prevail on our leaders to give more attention to relieve basic problems like those in agriculture and small business, rather than the stock market.

It seems they have been too intent on booming the stock market. I just want to make the point that I think that relief is going to come from changing the thinking of the people in those bottleneck positions who are shooting for 4-percent money and discriminating against the farmers and the small-business men.
as much as we can, but I particularly want to help the family-sized farmer. It has been suggested to me that we should consider giving the farmer who produces, we shall say, up to $7,500 a year worth of products a hundred percent of parity through the Brannan plan, or any other practicable way. In other words, just give him an opportunity to earn a living if he works for it, if he produces enough, up to $7,500, give him a hundred percent, and all above that, up to say, $15,000, give them 75 percent or 50 percent, providing that for production above $15,000, we do not have any supports at all.

What would you gentlemen say about that? If you wouldn't mind, I would like to have a brief statement on it. Just start up at this end of the table, if you will, and just briefly state what your opinion would be on something like that. You see, that is for the family-sized farmer.

Mr. WELCH. Mr. Congressman, you put that in a context that is a little bit difficult to get at. As I understand it, you would say all farmers for the first $7,500 worth of gross product, they would receive 100 percent of parity, and I assume you are talking about parity where it is now?

Vice Chairman PATMAN. Well, for the purpose of this discussion, we will say "yes."

Mr. WELCH. It seems to me you are picking out certain groups and you might have some discriminatory legislation pointed toward helping this group and hurting another. I do not know whether a person who produces a bale of cotton that flows into the channel of trade should be guaranteed a hundred percent of parity and another person over here who is on an efficient producing unit, but a unit that would produce more than it would take to bring in $7,500, whether you would want to penalize him there or not.

Vice Chairman PATMAN. Well, I am looking at it from the standpoint of the family-sized farm and how to give them an opportunity to earn a living. I think out of about 6 million farmers, about 4 million of them are not farming as a business, they are farming as a mode of living. In fact, many of the farmers I have known who have produced some fine boys and girls—they have eked out an existence and finally sent their boys and girls to college and they have become fine men and women, and a large percentage of them are from those mode-of-life farms. I just look with great disfavor and disappointment on the mode-of-life farmer going out. I just have a feeling that this great country of ours could at least make it possible for that little family to have a living if they went out there with their hands and worked for it and produced it.

They ought to have enough to give them a decent living. That is the point I am trying to get at.

Mr. WELCH. As indicated this morning, we have about a million and a half of these small farms that have about a thousand dollars or less income, and you could add about another 500,000 units to that and put your level at $2,000. Now, Mr. Congressman, it is a little difficult for me to see——

Vice Chairman PATMAN. That is net income, isn't it?

Mr. WELCH. No, gross. It is a little difficult for me to see how you can get at that group on any kind of a monetary reward for products, because they are really not commercial producers, without complicating your total system, unless you do set aside certain groups and say that we will support you but this group over here, we won't.

Vice Chairman PATMAN. That is what I am saying. I am setting them aside and saying they ought to be supported in particular because of their contribution to society.

Mr. WELCH. I am all for encouraging the family-sized farm, whatever size that may be. It is going to have to be larger than the unit that we knew as a family-sized farm a few years ago. I think that is a unit in our society that we need to encourage and promote and help develop, but I do have some misgivings as to whether you can extend a support price for those groups and exclude your other producers who are also contributing to our total resources.

Vice Chairman PATMAN. Well, I would do it as a matter of public policy. I would just say we want to encourage the man who lives on a farm and wants to make a living. If he is willing to work for it with his hands and produce enough he ought to have a living wage, and we are going to make it possible for him to have a living wage. If that is discriminating against anybody else, it is all right with me.

Mr. WELCH. I would be glad to hear from some of these other panel members.

Mr. SCHULTZ. Congressman, I think the idea—let me just buy the idea much more boldly than you have put it—provided you really define parity as some sentence.

Vice Chairman PATMAN. We won't quibble about that. This is just for the purposes of discussion.

Mr. SCHULTZ. This is weak at the very point where you want it to be strong. We said this morning, and Mr. Welch has just said, again, there are a million farm families in the United States, full time in this business, able bodied, who had a cash income from all sources of less than $1,000 in 1949. These fellows are not helped by this kind of a proposal at all. They sell so little that we do not get to their poverty until we bring them more economic opportunity, which means they must have more resources to work with.

Vice Chairman PATMAN. Are you overlooking the fact that they are handicapped now by the allotments?

Mr. SCHULTZ. That is a minor point. But we have really now for a decade just been talking and talking around and not coming to grips with this low-income group in agriculture. We have thought we could do it with price supports, but the problem is deeper. You have to give these people the economic opportunities so they can sell the $7,500 of agricultural products. Then they would benefit from this program, but they really don't.

Vice Chairman PATMAN. You know, I do not agree with you just exactly there. Did you ever own a little farm?

Mr. SCHULTZ. Yes, I did.

Vice Chairman PATMAN. Did you ever leave a little bundle of oats before a colt? If you hold this in front of them, they will work their heads off. In this competitive market there are disadvantages, but if you give them a guaranty, if you work for it and earn it on parity prices, we will give you up to—I am not exactly sold on $7,500 as the exact amount, but give them enough to assure them a decent living under decent conditions if they work for it.

Mr. SCHULTZ. This means something else. This means you have to do more than parity prices. I am not afraid of having prices on a head 100 percent or some fraction of real values which can be put before the farmers so he can make plans accordingly, forward prices. Therefore, I am not against parity prices if these prices have meaning, if they have long-run value. Then we can bring much greater certainty to farming as it deserves and there will be much greater efficiency. But let me repeat, the really small poor farmer, 1 million and more, we do not get at in prices. Prices can only contribute a little there until we get more resources for the farming unit.

Vice Chairman PATMAN. I hear what you say, but whenever you let them know they will get a certain price if they work for it, they will work their heads off.

Mr. WELCH. Of course, Mr. Congressman, in connection with that, of course, you would have economic forces working toward putting into the hands of these small producers more land. A person who owns land to go beyond $7,500 would have no support.

Vice Chairman PATMAN. He would get tenants and give family farmers an opportunity.

Mr. WELCH. That is the point I wanted to give emphasis to. Then you are giving an incentive to break up these larger units.

Vice Chairman PATMAN. Certainly, and they would get a good price for it. Suppose we go on down the panel, if you please.

Mr. NICHOLLS. I certainly agree with Congressman Patman on the objective of trying to help this small farmer. The only thing is I do not think that his suggested solution is the right one or the effective one. I would call your attention to some tables that I have appended to my statement.

Vice Chairman PATMAN. Yes, sir, I noticed them.

Mr. NICHOLLS. To simply back up Dr. Schultz' comment, you will notice on page 1, appendix table 1, that 9 percent of the farms produced 51 percent of the total value of farm products sold, and

22 percent produced 74 percent of the total value of farm products sold.

Obviously, price-support programs, as we now know them, primarily benefit those larger farmers, and I would probably agree with you that they are the ones who need financial aid from the Government least, because they are large and efficient and have rather high incomes.

On the other hand, I think that at the lower end of the scale, the end of the scale that you are speaking of, price support will simply not do much good. Let me give an example. You know, we have minimum tobacco allotments in burley of, I believe, about seven-tenths of an acre now, and this is the minimum, as far as the small farmer is concerned. He cannot be cut below that, as I understand it, but what does this mean in terms of income? Seven-tenths of an acre would produce, let us say, a thousand pounds of tobacco, that is $500 gross income per year, and that is certainly not going to make any small farmer very well off, it seems to me—especially after he has paid for his seed, fertilizer, and other expenses.

In other words, I think the solution to the low-income farmer's problem really lies largely outside of agriculture.

Vice Chairman PATMAN. I am afraid you do not understand. I would not restrict him just to tobacco or just to cotton or just to dairying. I would let him grow anything of certain basic products at a parity price, he could mix them up. He could grow 10 percent of one and 10 percent of another, or 50 percent of another, but have some coordinated program, which you would naturally have to have.

But the main thing is to permit him and his family, if he works hard enough and produces, to be assisted in getting prices which would give him a good living for himself and his family.

Mr. NICHOLLS. May I refer to another part of this table. If you will look on page 2, appendix table 1, I call your attention to the figures over on the right on the number of operator family incomes from $2,000 and up; that is, $2,000 to $2,999, and then over $3,000, looking at the "other farms"; that is, the part-time and the residential farms. These farms, by census definition, have gross sales of farm products of $1,200 or less, so that they are certainly small farms in this sense. Yet, according to my addition of that column, we have 650,000 such farmers who have net cash incomes of $2,000 or more, and we have 370,000 who have net cash incomes of $3,000 or more.

The significance of that, as I see it, is that these are people who are able to supplement from nonfarming sources their income from farming.

Vice Chairman PATMAN. Well, that is a special case. They would not be entitled to all of these guaranties, because they are supplementing their farm income with industrial work of some type.

Mr. NICHOLLS. My point is that I think part of our solution is in getting more farmers into that class. Let me put it this way: I think also you perhaps tend to romanticize a little bit this mode-of-life farmer. I am worried, if you will pardon the pun, about the commode-of-life farmer. By that I mean the farmer who has a miserably low income from farming and is not able to do anything about it because he has no way of supplementing this low income from nonfarm employment or otherwise. In my opinion, this is an argument in favor of industrialization of many of these areas of low-income farmers.

Vice Chairman PATMAN. You mean your argument.

Mr. NICHOLLS. That is right.

Vice Chairman PATMAN. I do not want to take up too much time. Thank you very much, you have been very helpful.

Mr. LINCOLN. Congressman, I share your concern and particularly when you keep hammering at that. As you know, I do not share the complacency that some of my compatriots take toward those figures. I would rather pass on the specific aspects of that plan with one comment. What was it—the Farm and Home Administration—through what we called supervised credit, I think, started to write one of the grandest histories of helping those low-income farmers of anybody, and why in the world we cut down on that program and did not go ahead, I never could understand.

I think, it was opposed by the American Farm Bureau and some of our other farm groups, but I think if you give that program more of an opportunity, which I know you are always for, we will eventually find more answers than we have now.

Vice Chairman PATMAN. When was that program cut down, Mr. Lincoln?

Mr. LINCOLN. I don't remember

Mr. DAVIS. It was during the war. It never came back after.

Mr. LINCOLN. To me it never any more than just got started. But the payoffs on that thing, what happened to those people——

Vice Chairman PATMAN. I know about it.

Mr. LINCOLN. I think that was one of the great historic things we did, but for some reason we have not done anything along that line, and, to me, that is where we can do more than in any other regard in this area.

Vice Chairman PATMAN. Thank you.

Mr. Davis.

Mr. DAVIS. As I understand your objective what you are really trying to do for these people is to give them a labor income of somewhere around $3,000 or $4,000 a year, and still retain for them an opportunity to live in a rural environment.

Vice Chairman PATMAN. That is right.

Mr. DAVIS. Well, now, even with your 100-percent support on the things that we are going to grow, there is not going to be enough land and resources to maintain all of these 2 million, and it is more than 2 million when you get up to $7,500 a year gross income, you are not going to have enough land, and so forth, to take care of all of the families in that status.

Vice Chairman PATMAN. Well, all of them in the farming business. We would not want to induce them out of other work.

Mr. DAVIS. I think that your objective of trying to raise the level of income of these people to a status of actual labor income of somewhere around $3,000 or a little more, is a very worthy one, plus the fact that you want to retain their living in a rural environment. I think that is very worth while.

It seems like the answer to that, though, is a combination of 2 things: 1, an adjustment-type program to try to get those that would study in agriculture to that level, and that is going to take more than just supports at a 100 percent of parity—it is going to take credit as well as a procedure for helping to consolidate small units. Then in addition, if we could have a program of decentralizing appropriate industry into overpopulated rural areas, and thus give more employment in a still basically rural setting, you would really come nearer achieving your goal than by a 100-percent support on the first $7,500 of gross income.

Vice Chairman PATMAN. Thank you.

Would you like to comment on that, Mr. Paarlberg?

Mr. PAARLBERG. Congressman, we are familiar with your proposal, having studied your speech on this subject in the Senate last summer.

Vice Chairman PATMAN. In the House, you mean.

Mr. PAARLBERG. In the House; excuse me.

We undertook a study of it, and one aspect of this proposal that came out of our studies was this: A program of this sort could not be operated with the conventional system of price support and loans. It would have to be a payment program if it were to be effectuated because if you endeavored to support the prices for these small farmers you would in effect hold an umbrella for the large farmers as well, and your price support would be effective for all groups rather than for just one group as you intended it. So that the only means by which this program could operate would be through a payment program.

Vice Chairman PATMAN. Thank you, sir.

Mr. Chairman, I think I have taken up enough time.

The CHAIRMAN. Mr. Curtis.

Representative CURTIS. I just wanted to ask 1 or 2 questions, Mr. Chairman.

One was in regard to Mr. Patman's remarks, because I appeared on a panel with him at one time discussing this hard-money policy, as he calls it. I was looking at the charts in the economic report of the President, chart 27, which is money supply, and chart 28, bank loans and investments, and chart 29, consumer installment credit, and I cannot figure out just where in those particular charts there would be any indication of hard money. So I am wondering if the panel had any comment on it, because it looks to me like in all of those items there seems to have been a constant upgrade except in one instance, and that was in investment in United States Government securities for a short period of time.

I wonder if anyone on the panel would comment on this question of the term used "hard money," because it seems to have no meaning as near as I can see in relation to the actual situation of the money supply, and the traffic in investment. And I might add, too, as a further feature of this question, that I see no relationship at all between those charts and the chart that Mr. Patman has referred to which is the same one as on page 98 of the Economic Report, prices received and paid by the farmers.

Would anyone on the panel care to comment?

Mr. SCHULTZ. Well, you have asked a very complex question in the field of money supply and the operation of the economy as a whole.

Representative CURTIS. That is why I asked it. I just picked out those three charts, because I couldn't see the significance.

Mr. SCHULTZ. This is one area in which I would want to beg off, and you ought to turn to my former colleague, the distinguished chairman of this committee, and not turn to one member of the panel.

Representative CURTIS. I won't pursue it for this reason, because, after all, it has to do with another field than what this panel is devoting itself to.

Now, I have one other line of questioning. It is a matter of my own personal interest, perhaps. I was interested in Mr. Welch's statement, and inasmuch as I had to more or less jot it down because he did not have a prepared statement for us—you made the remark that the social-security needs in the rural area, particularly the farmer, need to be appraised and further strengthened.

Mr. Mills and I both were on the Social Security Subcommittee in the House, and I thought we had gone a long ways toward that in the last social security extension bill, and I wondered where you felt that it needs to go further than what we did in the last Congress?

Mr. WELCH. Mr. Congressman, my reference to that was to give emphasis to the fact that you did a good job as far as you went. You are moving in the right direction but, strange as it may seem, there are still thousands, and I would say perhaps—well, many thousands of our farmers that do not have enough income to come within the purview of this new program that you put into existence last time.

Now, the various phases of the social-security program, the old-age pension, the various benefits that run to the blind and the handicapped, and so on, I think that phase of the program is very good.

My comment that it probably needed reexamination and extension was really to give emphasis to the fact that the act of last year still leaves a lot of our rural people uncovered and untouched by this program.

Representative CURTIS. I thought we had pretty well covered it except for the itinerant farm laborer which involved the problem of identification as much as anything, and techniques. I would not regard itinerant farm labor particularly as farmers, would you?

Mr. WELCH. Well, they are usually classed as farmers.

Representative CURTIS. Well, from the practical standpoint, it is the itinerant farm labor that we are talking about that is not covered by social security—I don't know just where they do come from, they are frequently from the city, a lot of them. They travel around just as an itinerant labor population that we have that works not only as farm labor but at other odd jobs as well.

Mr. WELCH. Well, many of them are tied down to the farm. Some of them are itinerant in that they are moving in and out, into the city and back to the farm. I have no specific suggestions as to what can be done about this group that are on the farm with gross incomes of less than $800, but I say any kind of social-security program pointed toward relief of that group on the assumption that they are capable of carrying part of the cost, or part of the burden, is an unrealistic program in terms of service to them.

Representative CURTIS. Now, one other question, Mr. Welch, and here I am going to have to rely on your refreshing my memory because all I jotted down was I remember you were listing a number of things where you felt the Federal Government should be doing this and that in regard to the farm situation, and I was disturbed at your constant emphasis on the Federal Government with no reference, for example, to Kentucky.

What position do you feel that the State governments have, particularly in the field of agriculture?

Mr. WELCH. I think that the States and counties and local communities have a very large part to play in terms of facing up to the problems involved in our low-income farm groups. The thing that I think is unrealistic, however, is to assume that in these low-income areas they are capable of meeting their requirements for school, health, and other institutional services we have come to regard as a necessary part of the American way of life, and I also think that some of the States are unable out of their own resources to do this job.

Now, the migration out of about 31 of our counties last year, if I remember the figures correctly, was about 14 times as high as the migration from the rural areas of the South as a whole. Those youngsters came along and went to our schools. We did the best we could by them. But they are going to Indiana, Ohio, Illinois, and Michigan, and many of the other States, to make whatever contribution that they will make as economic producers. The interdependence of our national economy at the present time is such that I think you are going to have to take the tax supporting ability where you find it and disperse it, and distribute it in such a way that our youngsters wherever they may be are going to have an opportunity for education, and we do not have that in these 200 counties that I had reference to in the Southern Appalachian region.

Representative CURTIS. Your primary emphasis, then, is on the youth and education rather than other aspects, or am I to assume that you meant the whole general picture, the old-age problem, too?

Mr. WELCH. We have a serious old-age problem that I think is a matter of alleviation of suffering and a rather desperate situation. I do not think there is any easy formula or any panacea for the problems found in these areas.

Representative CURTIS. No, I was just directing my attention solely to one thing, and that is the problem of the relation of the Federal Government to the State government, and I was a little concerned, as I got your statement, that you were placing the burden on the Federal Government, and I just wanted to be sure that you felt the State governments and local governments had a very basic and, of course, in my opinion, a primary responsibility in this field, and the Federal Government in an ancillary way, perhaps.

Mr. WELCH. Well, I certainly would agree that you must have State and local responsibility, and that those groups must face up to those responsibilities, but in terms of school buildings and facilities and school opportunities, I do not believe that we are going to solve the problem if you push that responsibility back there. The resources are not there to do the job.

Now, if I may, Mr. Chairman, I do think that the State agricultural experimental stations and the State agricultural extension services have distinct opportunities for adapting and improving their programs of service that run to these matters.

Representative CURTIS. Thank you.

Senator SPARKMAN. Mr. Chairman, I would like to pass at this time.

The CHAIRMAN. Senator Goldwater?

Senator GOLDWATER. Mr. Chairman, I think we are dealing with a very fundamental and difficult problem here. I do not think we have made much progress toward its solution. I dislike as much as anybody else the introduction of political speeches into these hearings. I am sorry the gentleman has left who made it, and before I ask my questions I want to put the record straight.

I do not recall any such so-called hard money period between 1940 and 1944, and yet corporate profits went up from 6.5 to 10.4. I don't recall any so-called hard money being in existence between 1945 and 1949 and yet corporate profits went from 8.3 to 15.8, with a high of 20.3, and in the period when so-called hard money has existed corporate profits have actually gone down.

Now, we have heard this hard money talk. It was brought up at great length in the meeting we had in December on economic stabilization. I thought the whole subject was pretty much cleared up. I do not like to bring this matter up, but it was brought in and I feel as a member of the committee that I have a right to comment on it, and I just wanted to set the record straight that during the periods when money was so-called soft this country had the greatest increase in corporate profits in its history, and during the period of time when we have gone through so-called hard money, which, by the way, that movement of money was less than 1 percent of the total debt of the country, which is something over $650 million. We are talking about nothing.

Now, to refer to this chart up here, and I am looking at the one in my book, because this question has often come to my mind, I would like to see what the panel can seriously suggest about this: We look at that chart on page 98 of the Economic Report. We go through a period back in early 1949 where we see a situation developing where the farmer had to pay out more than he was getting in.

By the way, that was a period of soft money.

Then in 1950 with the advent of the Korean war we find that the farmer received above what he was paying out; in other words, he was in a profitable position. That continued past the end of the Korean war.

Now, we have peace again, and we find ourselves in a position where those two lines are going farther and farther apart. The question that first comes to my mind is does this approach work in periods of peace or will it only work in periods of war, and I am talking about the theory of high supports or flexible supports?

To put it in a simpler way, has it done for the farmer what we hoped it would do for the farmer? In other words, enabled him to compete in our economy in a very risky business, being guaranteed somewhat by the Government an income from his business?

Mr. LINCOLN. Are you saying, Senator, has the present program——

Senator GOLDWATER. Has it worked except in times of war or high demand?

Mr. LINCOLN. I do not think you were here when I made my comment on that, but the thing that is disturbing me is the fact that it seems as though we are going through the same thing that I went through working with farmers from 1920 on, and that as far as I can read history, it looks as though the only time this price received or price paid is in the favor of the farmer is just before, during, and just after wars, and, therefore, I say that the program that I think we all have had some part in advocating and carrying out, I do not think has met the situation and that we have got to find some other approach to it.

Mr. SCHULTZ. Senator Goldwater, I wonder if what throws us off here is that we tie ourselves to a standard that came from history and that was accurate in 1910–14. I would argue that 1910–14 price relationships, and this is what this measures, has no meaning today; it would be just an accident if it had meaning.

Senator GOLDWATER. Have you ever translated 1910–14 to more recent periods?

Mr. SCHULTZ. I would say, and this is restating something that I said to Congressman Patman, that if we had 5 years' peace and had a steady price level, neither inflation nor deflation, then the cost in agriculture changed, cheaper fertilizers, and many other things, and then you look at the demand, the whole thing now suggests a continuing relationship between 85 and 87 and I said up to 90 percent of parity.

This is now in the cards, and if we forced it back to 1910–14, which was a hundred, we would just ruin it.

Senator GOLDWATER. In other words, if we went to a hundred now——

Mr. SCHULTZ. We could not live with it.

Senator GOLDWATER. Let me ask you a step further there: Would a hundred today be an immediate solution?

Mr. SCHULTZ. No.

Senator GOLDWATER. It would still be in the hole?

Mr. SCHULTZ. Well, the solution really involves letting these prices in some sense find themselves, and they have; they aren't far out of line; we are close to really what these values are worth, and then these farm families are reorganizing themselves, have been, in a very dynamic fashion in some parts of agriculture, so that the income that they can generate and produce is on a par.

Now, unfortunately, this isn't in all parts of agriculture, but you take the best part of the Corn Belt now, the incomes generated there by a human being for his effort and industry or the area where I grew up in eastern South Dakota, and in parts of southern Minnesota, and so on, is on a par today with what one can earn anywhere in the economy with the same abilities, let us say, and the same amount of capital.

I want to repeat, though, that I think we will be very much misled if we take seriously the standard from 1910 to 1914. It has no meaning because there are so many changes in this economy and in agriculture.

Senator GOLDWATER. Well, would you recommend that the Department of Agriculture change their formula?

Mr. SCHULTZ. I would get rid of parity entirely.

Senator GOLDWATER. You would not use it at all?

Mr. SCHULTZ. No; it is doing us harm every day we try to use it.

Senator GOLDWATER. In its absence would you use any indexes at all?

Mr. SCHULTZ. No; I would anticipate what these products are worth. You can safely say next year corn is worth $1.50. You can safely say cotton is worth 30 cents next year. This is because of what production will be forthcoming, and this is what the demands of our society look like. That has meaning, and this is a changeover time. Then we could get steady prices. What the farmer really wants is something he can bank against, and what is steady. I do not think he really wants these prices 15 or 25 percent above any chance of clearing markets. I hope not.

Senator GOLDWATER. Thank you very much.

Did you have an observation?

Mr. DAVIS. Well, I thought your question earlier was reflected the fact that our farm policy has been wrong or hasn't worked at all——

Senator GOLDWATER. Let us not say. I said is it an indication that the approach that we are making has not worked?

Mr. DAVIS. Well, it seems to me we have to take this into the picture: We did increase our agricultural production around 40 percent in the early 1940's, and the wartime, and postwartime needs were even greater than that, and we had to hold prices down and allocate goods for foreign use for about 10 years. During this period our population increased some, so that by the time we got to the point that prices were starting down we were consuming at a rate 30 or 35 percent above prewar. This meant that our surpluses then amounted to somewhere around 5 or 10 percent of our production capacity.

Now, burden of surplus has been faling upon our economy, and it has been bolstered by our farm-support program. I think looking at it in the overal picture that we have really done quite well in this adjustment period. It has really been quite a heavy adjustment, an adjustment of great magnitude, really, an adjustment, as I mentioned this morning, not only from war needs but at the same time to the terrific impact of new technology that is coming along at the same time. I think all things considered that we have done right well to have held the line as well as we have.

Senator GOLDWATER. What effect do you gentlemen think the flexible approach would have had had it been put into operation, let us say in 1952, early after the cessation of hostilities?

Mr. DAVIS. Well, I don't——

Senator GOLDWATER. Breaking away from the rigidity, what would the results have been?

Mr. DAVIS. I don't think the results as of now would have been greatly different. You might not have accumulated as much dairy products, but outside of that your accumulation wouldn't, I do not think, have been too much different, and I do not think your exports, your domestic consumption, would have been much greater.

Senator GOLDWATER. Now, I have one other question here about this situation. What do you gentlemen think the effect of the Government tax program, that is high taxes, for this prolonged period we have been through has been on the earning ability of the farmer? It is a question of business, but I do not think the farmers' activities are too much removed other than the element of chance. Do you think the effect of taxes today, that a balanced budget and a greater reduction in taxes would be helpful to the farmer?

Mr. WELCH. Senator, it seems to me when you are talking about the farmer, that is sort of a generic term. Of course all farmers along with all other taxpayers would like to pay less and I presume in terms of the graduated tax structure that we have at the present time that those farmers whose incomes are up to the levels where they pay significant sums in taxes—I am not an expert in this field, I wonder if it has anything to do with surpluses or the amount of resources that go into agricultural production, and so on?

Senator GOLDWATER. Well, of course, I think it has a great deal to do with it. I think a lot of our problem, frankly, results from high taxes that are not in a small way imposed by our trying to rob Peter to pay Paul in a program that has been extremely expensive, and there is some question now about its value.

I think that a part of the high cost to the farmer for farm equipment has been the high taxes paid by the equipment manufacturer; there is no question of that. In other words, what helps one helps all, and if we tax the farmer and the rest of the economy to help the economy, then the farmer has to pay his share of it. He might not pay it in direct taxes but he is going to pay it in higher prices.

I do not know if you gentlemen as economists have gotten into it, but I think it is something that certainly should be considered in any argument, and to not waste any more time I want to thank you for making the statement that we think of the farmer as a generic term. I think that is our whole problem. We talk about farmers, and we forget that we have hundreds of thousands of farmers who live on the farm because they have lived no other place, who live on an acre or half acre where the economic unit in their area might be 40 acres. So we should not think of them in the same terms as we do of the man with 40 or 60 or 80 acres.

I think when we realize that we will be a lot better off instead of heaping it into one group.

I thank you, Mr. Chairman.

Senator SPARKMAN (presiding). Any further questions?

Mr. Talle.

Representative TALLE. Mr. Chairman, I certainly agree with the statement made a moment ago that the transition from a war economy to a peace economy has been most remarkable.

Now, if I might refer to what I discussed before—perhaps I did not make my point clear—I am fearful because in our economy as a whole so many prices are sticky. There are controls of various kinds. There are ways of keeping prices from moving freely up and down, so that fields like agriculture and retail merchandising in which we still have a lot of competition may find that in self-protection they are forced to adopt some measures of rigidity, too, because otherwise they will simply be lost.

Maybe I did not make myself clear in the first place.

Mr. WELCH. Mr. Congressman, I think I understood your point there, and I certainly would agree with that, and I for one certainly would not suggest that we can do away with all of our programs at the present time. We are going to have to have some kind of supporting program for the farmer. That is not to say whether it should be rigid or flexible price supports, or some other measures. I think a larger element of that need to have some kind of public policy and program pertaining to agriculture grows out of this very thing you are talking about, because he lives in an economy of rigidities and administered prices, protections are thrown around workers, and I am not saying that is good or bad, but they are there, and they enter into the cost of the thing that the farmer has to buy that goes into his operations, and if I understood your point I certainly would agree that so long as the farmer lives in this kind of world we shall have to have some kind of public policies and programs pertaining to agriculture.

Representative TALLE. Around 2 cents of wheat in a loaf of bread costing, say, 23 or 24 cents, points out pretty clearly that between the wheatfield and the grocery counter something happens to bring the price up high. An appreciable decline in the price of wheat appears not to alter the price at the grocery counter, so the rigidity between the acres and the grocery counter is certainly effective.

Now, price supports supply some rigidity in agriculture. So-called fair trade laws in retailing serve the same purpose. So at these two ends that we have talked of, where competition moves more nearly freely than anywhere else, we find both activities turn to rigidity in some degree, and I am wondering—will we culminate in pretty stern rigidity all along the price line?

Mr. NICHOLLS. You highlight one problem. It does seem to me that, speaking of the commercial farmer with a fairly good gross income, one of his greatest problems is a problem of instability of price rather than too low a level of price, and I do think the two things might be at least considered separately. I would say that we have been trying to support farm prices or certain specific commodity prices at too high a level, but that still, I think, does not say that we should not try to find means of stabilizing farm prices over time. I think that that is a very great problem from the farmers' standpoint.

Mr. DAVIS. I would agree that one of the big problems is this one of stability, and it grows out of the fact that the management in agriculture, cannot accurately control production and keep it in a given relationship with demand, first because you have got the growing season that is a rather fixed thing, and during that period you cannot change what you planted, and then, too, the weather is such a big factor in agriculture. The farmer has a tougher problem in that respect when it comes to relating supply to a given demand than industry has in general.

Representative TALLE. And most of his costs are fixed?

Mr. DAVIS. His costs are relatively fixed as compared with business generally; that is right.

Representative TALLE. Now, if I may just have another moment, it was interesting to hear what Professor Schultz had to say about parity, and I know he is a very fine student in the field. I am wondering if you announced 2 or 3 years in advance that the price of corn was going to be so much per bushel—that is what I understood him to say—you would have to do some estimating there, which a person even might call broad guessing, with the weather in there as a factor just mentioned, and so on.

Do you think it would be possible to name prices in that way and to keep them in their proper relationship considering the important fact of interdependence among prices? I wouldn't undertake to do the guessing, but then I am not an expert agricultural economist, either.

It seems to me that poses a terrific problem.

Mr. WELCH. I think Dr. Nicholls could best comment on that. I believe Mr. Schultz said we could do this annually and put a price that would just about clear the market in terms of what would be coming forth, and if we produced more than what would sell in the market price this year, next year we would place a forward price taking into account the supply situation that we had experienced the year before.

I do not think he intended to project that beyond a year in terms of these forward prices.

Representative TALLE. Do you think he had in mind that existing surpluses might assist him as a guide in that estimate of the future?

Mr. WELCH. Well, I think at the end of the year we would take account of the carryover plus what would be anticipated to be produced under a declared price, and these forward prices would be set at such levels as might be guessed would just about clear the market for that product.

Representative TALLE. I am sorry Professor Schultz is not here. He could clarify that for me.

Mr. NICHOLLS. I think his idea was that this would eliminate a great deal of uncertainty as far as the farmers' expectations about future prices were concerned.

Representative TALLE. Oh, it would.

Mr. NICHOLLS. And the farmer would gain a lot by making wise plans because he knew in advance what price he could obtain. At the same time, I think you realize that for some commodities this might mean a lower level than parity or 90 percent, or whatever the present support level would be. In other words, I think this ties in with my previous remark that it might mean a somewhat lower level, but greater certainty in advance about what the level would be.

Representative TALLE. It would be of prime importance that whoever was in charge of announcing prices did it on time.

Mr. NICHOLLS. Well, as you well know from your State of Iowa, farmers have always made the wrong decisions as to how many hogs to produce. They often have made the opposite decision from the one they should have made. If Dr. Schultz' idea of forward prices had been in effect, the hog-production cycle would tend to be eliminated, because farmers would know that, if they bred so many sows now and got so many pigs, their hogs were going to bring a certain price when they were marketed later.

Representative TALLE. Well, that throws light on it. I think both of you gentlemen have supplied light.

Senator SPARKMAN. Is that all?

Representative TALLE. That is all; thank you.

Senator SPARKMAN. Well, I think while we have still got part of the panel here, I had better bring this to a close rather hurriedly.

Many questions come to my mind, but I shall not indulge myself in asking them at this time.

I want to compliment the members of the panel, those who are here, and those who have gone, on the excellence of the statements they have presented, and also on this very fine discussion that we have had.

By the way, Mr. Nicholls, there was one point in the different points that you laid down—there were several points you laid down relating to relief for the farmer and particularly the low-income farmer. The one that interested me was with reference to the minimum wage, a differential. I assume that was for the purpose of encouraging industry to locate in those areas where there is a surplus of farm labor. Was it an encouragement to locate industry?

Mr. NICHOLLS. It is, and I do not think the Federal Government should take away the right of an area with a surplus labor supply to attract industry on that basis.

Senator SPARKMAN. The reason I was raising this point is that the other day we had a panel before us, and the question came up about the migration of industry from New England to other areas of the country, and the South was particularly singled out. Dr. Harris of Harvard said that the wage rates in large part were responsible for the differential. Mr. Barkin, the economist for the CIO Textile Workers, said that the wage differential played a part, but that it was a minimum factor. It was a rather interesting observation to me.

I thought you might be interested in knowing about that.

Mr. NICHOLLS. Well, I might add that, in the main body of my report which I have made part of the record, I do say that in my opinion this is a minor factor. I do not think that the wage differential——

Senator SPARKMAN. It probably has been overemphasized.

Mr. NICHOLLS. It probably has been overemphasized. At the same time, I do think it makes good sense from an economic point of view for labor to be cheaper where it is more plentiful. And do not forget this. Even at 75 cents an hour, many low-income farm people would be glad to work in a local industry as an alternative to the 25–30 cents an hour they are now earning in agriculture. In other words, I think you have got to look at the alternatives that these people have.

Senator SPARKMAN. There is just one question I would like to ask again on this matter of overemphasis. A great deal of the discussion has been spent today on price supports. I often think that perhaps we overemphasize the importance of price-support programs. I believe in them and I think they are necessary until we develop a program that will eliminate the necessity for them, but I think so many people think of price supports as being the ultimate rather than the temporary or the expedient.

Do you agree with me on that?

Mr. WELCH. I do.

Mr. DAVIS. I do.

Mr. WELCH. I wonder, Senator, if some of that does not stem from the fact that we speak of "the farmer" without taking account of these various segments with their different problems and maybe price support is only one facet of a total phase that we need to be concerned about in the terms of rural life as we find it in the various segments of our agricultural economy at the present time. I agree with your statement.

Mr. NICHOLLS. I think it deserves emphasis again that the so-called basic commodities only account for about 21 or 22 percent of the total cash income from farm commodities, and all price-supported items account for only 46 percent. I feel very strongly that because of the problems of a few commodities we have centered all of our attention on them, while there are other commodities receiving little or no price protection which, from the standpoint of what we need to expand as a long-run trend, deserve more attention.

Senator SPARKMAN. Mr. Davis, do you have any comment?

Mr. DAVIS. No; I would agree generally with what you have said, the comment you have made.

Senator SPARKMAN. There is one other point I want to mention. I have had to be in and out through the day. I believe in some of the discussions the statement has been made several times that the price-support program did not benefit the small farmer.

I assume it was meant anything like it does the big farmer, and, of course, that is right, and yet from my experience with the small farmer and in the field of small farmers, and from an area made up of small farmers, it would seem to me that while what we might call the big farmer gets a big amount out of the price-support program, the amount that he gets is not as important to him as the relatively small amount that the little family-sized farmer gets. Whereas for the big farmer it is helpful in that it builds up his income, to the average small farmer it is often the very lifeblood, it may mean whether he makes anything that year or not.

Do you agree with that?

Mr. NICHOLLS. What benefits the small farmer does get from these price supports are so small compared to what he should receive to get a reasonable standard of living, that we should look to other means to assist him.

Senator SPARKMAN. I agree with him, but I think at the same time we should not dismiss the idea of price supports or argue against them on the ground that the little farmer gets no help. I think many times the little farmers simply manage to keep above water because of price supports.

I would never accept a price-support program as the cure-all. I do not think it is at all. I think we must continue building a program that will eliminate perhaps the necessity of maintaining price supports or at least rigid price supports, but I do not think we are there yet.

Mr. WELCH. I think, Mr. Chairman, that the emphasis today with reference to the small farmer in relation to the price-support program may have been put out of context just a little. I would certainly agree with what Dr. Nicholls has said, that in terms of a long-term solution to the problems of the rural people that have failed to progress and develop, in terms of commercial agricultural production, in terms of income, I do not think it can be the answer, but at a given point of time within the framework of what we have, we know that that $10 that comes to that little farmer means a lot to him in terms of trying to get along with what he has, but looking at it over a long period of time, maybe we should give more attention to these broader aspects of the problem in trying to lift him out of that context and put him where he can be an effective and efficient producer, and at the same time earn an income.

Senator SPARKMAN. I would agree completely with that statement.

Representative TALLE. Mr. Chairman.

Senator SPARKMAN. Yes, sir, Mr. Talle.

Representative TALLE. Just as a matter of information, Dr. Nicholls, when you mentioned the percentage of 25—is that the figure you used——

Senator SPARKMAN. I think 23 is what the Secretary used last year.

Mr. NICHOLLS. I was giving it from memory.

Senator SPARKMAN. Twenty-three was the figure the Secretary used last year.

Mr. NICHOLLS. In that neighborhood.

Representative TALLE. I was relating it to my own district. We produce a lot of corn, as all of Iowa does. We prefer to sell our corn on the hoof and not on the ear. Does your percentage take into account the fact that it is sold on the hoof and not on the ear?

Mr. PAARLBERG. This figure is based on sales, so the part of your corn that went through livestock into market would not be a part of this 23 percent. If we put all of the corn in, including corn sold plus corn fed, the figure would be substantially higher than the 23 percent.

Representative TALLE. That answers my question. Thank you very much.

Thank you, Mr. Chairman.

Senator SPARKMAN. By the way, Mr. Paarlberg, today you and Mr. Patman had some discussion about the proposal he offered and you said the department had analyzed it. Mr. Patman had to leave but I wonder if you could give me a copy of the Department's analysis, if it was reduced to writing.

Mr. PAARLBERG. Yes, I could.

Senator SPARKMAN. And make that available to the other members of the committee.

We certainly appreciate the contributions that you gentlemen have made.

(The extended statements of the panel are as follows:)

PROTECTING FARM INCOME, BY RALPH E. FLANDERS, UNITED STATES SENATOR FROM VERMONT

The present means of supporting farm prices is complicated in administration, wasteful of perishable products and burdensome to the consumer; he has to pay twice—once in taxes and again in price artifically high.

Besides this, high-level price support stimulates surplusage and thus multiplies to the taxpayer and consumer the cost of price support.

The Brannan plan would have given to the consumer the benefit of free market prices. It would have assured to the farmer receiving of parity prices, but at the expense of losing his freedom. The size of the crop he could plant would have to be determined for him by the Government.

Neither the Brannan plan nor our present price support is satisfactory. Yet we must have some means of assuring the farmer that he will not again have to endure the hardships of the early thirties when at times the price of wheat, for instance, would not pay the cost of bringing it to the market.

A plan fair to farmer and consumer alike would assure the farmer of income protection comparable to that afforded the wage earner by unemployment compensation. It must likewise leave him a freeman. No Government official must have any authority to tell him what or how much to plant, when to sell, or at what price.

It is in the national interest to protect farm income from the effects of drastic declines in the price of farm products. But it is not wise to insulate farmers from all the effects of price fluctuations. In determining his own planting and production, the individual farmer should be free to follow the guidance of moderate and gradual changes in the relative price of farm products.

For his part, the consumer should have the advantage of free market prices. With free prices, his only bill for supporting farm income would be taxes to finance payments to the farmers in periods of depressed prices. But he would not be expected to pay large subsidies to farmers to enable them profitably to continue producing larger and larger surpluses.

These specifications can be met in the following manner:

(a) Let price support begin at 90 percent of parity.

(b) If the free market price drops below 90 percent, let the Government send the farmer each month a check for one-half the difference between 90 percent and the price received during the month for sales of protected crops.

(c) Let monthly reports of support payments be published, county by county, to make sure that no wash sales or other unfair practices are indulged in.

(d) A floor would be set at 50 percent of parity, which corresponds to the wage protection of the wage earner.

Examples follow:

(1) If the free market price is 80 percent of parity, the difference with 90 percent is 10 percent. The Government will send the grower a check for one-half of this or 5 percent. The grower will then net 80 percent plus 5 percent or 85 percent of parity.

(2) If the free market price sinks to 60 percent of parity, the Government will send a check for one-half of 90 percent less 60 percent, or 15 percent. The grower will then net 60 percent plus 15 percent or 75 percent of parity.

(3) If the market price sinks to 10 percent of parity, one-half of the difference would be 40 percent and the farmer would net 50 percent. This is the floor and the price would have to sink to an incredibly low point to reach it. Should it sink lower yet, to 5 percent for instance, the Government check would make up the difference between that and 50 percent and would be for 45 percent of parity.

To recapitulate, the consumer would have a lower cost of living since agricultural products would no longer be sold to him at inflated prices.

The consumer would then pay but once, in taxes.

The farmer would receive protection at least equal to that afforded the wage earner by unemployment compensation.

The farmer would be a freeman, dependent for his success on his own business and agricultural skill, but protected from disasters beyond his control. Government operations, though numerous, would be simpler. There would be no loans, no Commodity Credit Administration, no purchases of butter, wheat, etc., no responsibility for storage.

The obvious difficulties with this plan are political. Shortsighted leadership will fight this or any similar substitute for our present unjust and expensive price-support laws.

There are enough good honest American farmers to welcome a just and practical means of protecting farm income from disaster.

THE PROBLEMS OF LOW-INCOME FARM FAMILIES—STATEMENT BY FRANK J. WELCH, DEAN OF THE COLLEGE OF AGRICULTURE AND HOME ECONOMICS, DIRECTOR OF THE AGRICULTURAL EXPERIMENT STATION, DIRECTOR OF AGRICULTURAL EXTENSION, UNIVERSITY OF KENTUCKY

Within the context of a booming national economy and an optimistic industrial outlook it is difficult for many people to realize that the agricultural segment of our economy faces serious problems and an outlook much less rosy. Furthermore, when one considers only averages and national figures it is easy to overlook the permanently depressed and marginal condition of the large numbers of farm people who live on very small or low-productivity farms and must be classed, by any standards, as low-income families. It is difficult to realize that in America at midcentury a million and a half farm families had cash incomes—from all sources—of less than $1,000 and that thousands of families were attempting to make their living from farms having a gross value of products amounting to less than $2,000.

THE PROBLEMS ARE BOTH NATIONAL AND LOCALIZED

The problem of low-income farmers is not confined to any one locality, area, or region. It is national in scope, and there are some low-income families in most agricultural areas that are otherwise generally prosperous. But the problem is found in its most acute form in a few well-known areas where small-scale low-productivity farms predominate. These are areas where technological changes in farming have been slow to come about and opportunities for alternative employment are limited.

Where low-income rural families are thus concentrated in a particular area rather than dispersed among others in a more varied population, there has usually developed a characteristic "way of life" that all families share and which differs from the patterns of living in other parts of American society. The area of concentration may be small, as in the case of an open-country neighborhood with only a few families.[1] It may include only the scope of a single community

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[1] For example, in counties of commercial agriculture in Kentucky, certain neighborhoods have been found where farmers have not taken up the recommended improved practices in farming that have been widely accepted in other parts of the same counties. This nonacceptance of new methods is a clue to distinctive way of life, only one part of which can be accurately described as that of "low-income."

as an island in a specialty type-of-farming area, or it may be a region such as that of the southern Appalachians, embracing more than 200 counties in portions of nine States.

THE PROBLEMS ARE TYPIFIED IN THE SOUTHERN APPALACHIAN REGION

In fact, the straits of the small farmer and low-income rural family are conspicously typified in the southern Appalachian region, which is one of the well-known focal points of poverty in America. Our colleges, universities, experiment stations, extension services, and numerous other institutions in or near the southern Appalachian region have been long-time observers of the situation there. Generalizations can therefore be presented here in brief summary form, although capable of extensive development and documentation.

Assertions made in this statement can be validated especially by reference to studies of the Kentucky segment of the Appalachians, with confidence that for the most part they apply to the whole region and to large parts of the Southeastern United States, the Ozark country, and other places of chronic smallness in agriculture—places of small farms, small production, small incomes.[2]

THE REGIONAL PROBLEMS HAVE NATIONAL CONSEQUENCES

A compelling reason for stress on the need to improve living in the southern Appalachian Highlands is that the consequences are not only local. In the mobility of today's high-energy society there is a diffusion throughout the whole Nation of ignorance and of low levels of living from areas characterized by this way of life. The youth who migrates from these areas disperse themselves to all parts of the Nation, carrying with them the educational levels, the mindset, and the habits of living to which they have become accustomed. The basic patterns of their lives have been developed in Appalachian mountain homes, but their adult lives are spent in the industrial centers of Ohio, Michigan, Illinois, Indiana and elsewhere. This makes it clear that "the way of life" of the mountain people is of great importance to the entire society.

The Appalachians, of course, are not uniformly a problem area. Within the area as usually dilineated there are several large cities and considerable industry. The centers of population and industry are mostly in the broader valleys which, though surrounded by mountains, are not properly "mountain" themselves. Even in these valleys the agricultural resources are not outstandingly good. Nonfarm employment opportunities partly offset this. But it is the narrower valleys and the more isolated areas that more nearly typify the area.

THE EXTENT OF THE SOUTHERN APPALACHIAN REGION

Nearly every writer about the southern Appalachian region gives it a somewhat different map. This is to be expected since the area is not everywhere sharply distinguishable from adjacent territory. For different purposes it is reasonable to include different areas. However, the various delineations do not differ greatly.

One of the best delineations, from a physiographical viewpoint, is that by Marchner.[3] He included 236 counties comprisiing parts of nine States: Alabama, Georgia, Kentucky, Maryland, North Carolina, South Carolina, Tennessee, Virginia, West Virginia. The area of this region encompasses 109,500 square miles, larger by far than any one of the nine States of which it is a part, and more than twice as large as the State of New York.

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[2] Most of the generalizations presented in this statement are based on research publications of the University of Kentucky. t least 50 relevant research bulletins have come from the departments of agricultural economics and rural sociology there. Other units of the University of Kentucky with a record of interest and activity in the Appalachians include the bureaus of business research, community service, governmental service, and school service; the Agricultural Extension Service and the general extension service of the university; and the coal research laboratory. Berea College is an institution of distinguished service to the area, and certain departments of the Government of the Commonwealth have been prominently involved. This footnote merely illustrates and emphasizes the availability of data on the problem. Similar observations could be made from the work of institutions in each of the other States with Appalachian counties.

[3] Marschner, F. J., Economic and Social Problems and Conditions of the Southern Appalachians (U. S. D. A., Miscellaneous Publication No. 205, Washington, D. C., January 1935).

MORE THAN 8 MILLION PEOPLE LIVE IN THE SOUTHERN APPALACHIAN REGION

In 1950 this area had a population of more than 8 million. Only four States in the Nation—New York, Pennsylvania, California and Illinois—had more people than this. Growth of population in this region has always been very rapid until quite recently. Although the southern Appalachians had nearly 700,000 more people in 1950 than in 1940, the rate of increase during that decade (slightly more than 9 percent) was less than in any of the 3 previous decades. From 1930 to 1940 the population increased 12 percent; from 1920 to 1930 it increased 17 percent; and from 1910 to 1920 the increase was 15 percent.

The census of 1950 shows that this population is overwhelmingly rural. Whereas the Nation as a whole is approximately two-thirds urban, the southern Appalachian region, by contrast, is two-thirds rural.

Kentucky's portion of the Appalachian region, commonly referred to as eastern Kentucky, is 31 counties comprising Kentucky economic subregions 8 and 9 in the United States census reports. This is approximately the same delineation as that of Marschner.

The population of these 2 subregions in 1950 was about 745,000, more than a fourth of the population of the State. The proportion of rural population (four-fifths) was somewhat higher than for the Appalachian area as a whole (two-thirds).

A REGION OF CHILDREN

Salient characteristics of the Appalachian population and society may be reflected in a few selected observations for these 31 counties in Kentucky. In 1950, children under 15 years of age constituted about 27 percent of the total population of the United States, but in eastern Kentucky this percentage ranged from 8 to 18 percentage points higher (from the lowest to the highest of the 31 counties). Thus, in the county at the extreme, nearly half of the population was in this dependent age group. The median age of the United States population was 27 years; the median age for the 31 counties of eastern Kentucky ranges from 3 to 10 years younger. Size of family is shown in the census figure on number of persons per household, which stood at 3.4 in the Nation. In the 31 eastern Kentucky counties the range was from 3.9 to 4.9 persons per household. This is a region of children.

EDUCATION, INCOME, AND MIGRATION

The educational level of the population is reflected in median school years completed by persons 25 years and over, representing the adult population. In the United States in 1950 this stood at the all-time high of 9.3 grades. The 31 counties of eastern Kentucky ranged from 1 to 3 grades lower.

Median income in 1949 may be taken to show all of those economic facts which are symbolized in "amount of income." Median income per household in the United States was $2,619; it ranged from $400 to $1,900 less in the eastern Kentucky counties. In the extreme county the figure was only one-fourth of the United States median.

Although Kentucky as a whole loses many more people than it gains from migration, the net out-migration from the 31 eastern Kentucky counties was much greater than for the State as a whole. During the first 3 years after the 1950 census was taken, for example, it is estimated that these eastern Kentucky counties lost 16.7 percent of their total population from migration: This was nearly 3 times as large as the percentage for the whole State, and 14 times as large as the percentage for the South.[4] Even with these recent population losses and the long history of out-migration while the population continued to gain, there is no doubt that there are more people than the resources of the region can adequately support.

THE AGRICULTURAL SITUATION IN EASTERN KENTUCKY

The pattern of agricultural production in the Appalachian region has been developed to fit in with off-farm employment. Both the extent and intensity of farming change with levels of employment in nearby coal and forest indus-

[4] Richardson, P. D., and Brown, J. S., Population Estimates for Kentucky Counties, April 1, 1953, Progress Report 14, Kentucky Agricultural Experiment Station, University of Kentucky, Lexington, Ky., October 1953.

tries, and employment levels generally in the Nation. When income from nonagricultural sources is available and high, much land that is farmed in depression years is idle or largely so. Agricultural resources, especially land, are used to "fall back on" in case of need. Because of the rough topography and low fertility most of the land is not well suited for commercial farming. However with some saw timber and coal in many parts of the area, the small farms have been utilized for part-time and subsistence farming. But the quality and quantity of these resources are such that they provide very inadequate insurance against an uncertain future. And even in the most prosperous years the opportunities for off-farm employment within the more isolated areas are extremely limited.

The agricultural situation in the southern Appalachians is represented also by information on eastern Kentucky.[5]

In 32 eastern Kentucky counties (the following data include one more county than was considered above) there are reported 57,064 farms averaging about 70 acres in size but having only 26.5 acres of reported cropland, even with a "liberal" definition of cropland. Estimates indicate that only 5 percent of the total land surface in this region is really suited for cropland. This means that each farm on an average will have only 6 or 7 acres of land suitable for cultivation.

Most farms are owner-operated; the percent of tenancy in nearly all counties is below the State average of 22.5 percent. It takes more and better land than is found here to support a normal tenancy system. Over half (52.5 percent) of the farmers had nonfarm income that exceeded the value of the agricultural products they sold. However, 59 percent of all farms had sales of less than $250 (gross); in some counties the proportion was as high as 90 percent. Two-thirds of the farms in the area sold less than $400 worth (gross), and in the extreme county 96 percent of the farms sold this little. Three-fourths of the farms in the area sold less than $600 worth, and in some counties 99 percent had sales of less than $600.

Less than 10 percent of the total value of livestock and less than 10 percent of the value of all crops harvested in Kentucky are accounted for by these eastern mountain counties which comprise about a third of the area and a fourth of the population of the State. Farmers in the mountain area sold 49 percent of the value of all their harvested crops, as compared to 58 percent for the whole State. In many counties, tobacco constituted 96–99 percent of the value of crops sold, but tobacco acreage per farm in these Appalachian counties averaged less than one-half acre per farm.

Farmers there rely on hand or one-horse methods in farming.[6] In 1950 nearly a third of the farmers had no work animals or tractors and about a third had nothing but one work animal. About 96 percent had either no power or animal (mostly mule) power entirely.

"Smallness of units is one key to an understanding of the [Appalachian] economy. The farm is small in size and value; the product of the worker is small; the product of the land is small. The unit is reduced in size as the pressure of population increases."[7]

AN EXPLANATION IN TERMS OF A "WAY OF LIFE"

However, it must be emphasized that the situation of rural families in a low-income area is not simply one of income but is generally a complex resultant of many factors, including strong tradition and slow change. The region, community, or neighborhood of low-income rural families has typically been a resistant stronghold of a way of life that elsewhere exists mostly in history books and in the memories of the older men and women. It is important to stress this "way of life" explanation of the Appalachian situation in order to guard against over simplifying an analysis of the problem in terms of 1

[5] No special collation of 1950 data for the whole group of 236 southern Appalachian region has yet been made available.

[6] A typical supply of tools has been listed as including "only such items as a garden hoe, sled (instead of a wagon or cart), single-shovel (bull-tongue) plow, turning plow, hand corn planter, draw harrow, axe, crosscut saw, pick for digging coal, a few carpenter tools, and minimum "gear" for one work animal. Rail boundary fences of the early period either were not replaced or were followed by barbed wire. Paling enclosures for gardens became customary. There were also almost always a shotgun, rifle, and fish pole, which could be classified as farm tools because of their use in providing food." (Ky. Agr. Expt. Stat. Bul. 500; p. 16.)

[7] Ibid., p. 17.

or 2 factors such as income, resource limitations, or biological stock. We do not face here one problem or the consequence of one factor, nor is there a solution in the adoption of one policy or the initiation of one program.

THE PROBLEMS ARE CUMULATIVE

Not only is there a high concentration of low-productivity farms and low-income people in the southern Appalachian area, but a chief feature of the situation is a kind of "piling up" of other problems in the same area. There is a concentration of illiteracy and low education. Communication and transportation are poor, and the topography makes it more expensive than in many other areas to provide or improve such facilities. Birthrates are among the highest in the Nation and though in "normal" or "good" times outmigration provides some relief from the pressure of population on resources this and the birthrate both contribute to making the dependency ratio one of the highest in the Nation. That is, a relatively small number of people in the productive, working ages must support a relatively large number of children and old people. This increases the burden of education and compounds the problem of overcoming illiteracy and poor education. The disproportionate number of children and old persons also increases the need for medical care, but physicians and hospitals are much less available than elsewhere. The combination of low income, topography, and poor transportation make for a paucity of churches, organizations, and other institutions in the region. All of these conditions are interdependent, and no doubt each is both a cause and an effect of others. There is a "package" problem, then, and it will require a "package" of answers and a "package" policy.

POVERTY OF INSTITUTIONS AND SOCIAL EXPERIENCE

Another aspect of the situation may be illustrated by reference to data on church membership. In a group of Appalachian counties in Kentucky in 1947, only 18 percent of the population belonged to the churches, and there had been no proportionate gain in 60 years. By contrast, a nearby group of counties with commercially productive farms had three times as large a proportion of church members, and this proportion had doubled in the 60 years. In number of members, the average country church in the areas of profitable farming was three times as large as the average country church in the Appalachians (177 : 62). The percentage of churches with full-time ministers in the better counties was twice that of the Appalachian counties (30 : 15. More than half of the churches in the Appalachian counties were limping along on a minimum program of one Sunday service per month; only one-eighth of the churches in the better farming areas had services this infrequently.

In the Appalachian hill country the services ordinarily performed by the formal organizations, established institutions, and agency programs of a modern well-developed community have been left largely to the family and the kinship group. Even "neighborhood feeling and community spirit tends to be weak in most parts of the mountains" because the family and kinship groups have performed such a large share of the necessary functions in the society. "Neighborhoods and communities have relatively little reason for existence." [8]

Although membership in formally organized groups is not in itself an adequate measure of the quality of living, one simple statistic on this point highlights the general statement made above: Among 100 persons in mountain counties there are about 67 memberships in organizations; among 1,000 persons in nearby counties with commercial agriculture there are about 158 memberships—between 2 and 3 times as many. The low index of participation symbolizes, though imperfectly, a certain paucity of social experience according to modern or contemporary standards of community life.

Thus, the poverty of an area in which low-income families are concentrated is not merely the poverty of people, family by family, but it is a poverty of the social organization and social institutions on which persons and families depend for fulfillment of their lives. Whatever one may mention—whether churches, schools, businesses, libraries, local government, civil groups—there are conspicuous deficits. The strengthening of institutions thus becomes a prerequisite to personal and community development.

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[8] Brown, J. S., The Family Group in a Kentutcky Mountain Farming Community, KentuckyAgricultural Experiment Station Bulletin No. 588, p. 38.

PROTECTIVE ISOLATION HAS BEEN DESTROYED

Moreover, one of the tragedies of the situation in the southern Appalachians and other low-income areas at the present time is that they can no longer be isolated and inviolate. They have been caught up in the network of highway, powerline, and mass communication that exposes them against the rest of society as maladjusted, disorganized, or underdeveloped. Above the level of bare existence poverty is more a matter of mind than of objective condition. As recently as a half-century ago, to live in the southern Appalachians with little or no money was not necessarily to live in great discomfort. To live there now with little or no money is to live in conscious and painful deprivation.

Probably the hardest fact for the people of a low-income locality to accept is that there is no possibility of restoring the storied way of life to which the childhood of many present men and women was tuned. There is no road back, and no circumstance introduces greater confusion than this.

WAYS OUT: MANY TYPES OF PROPOSALS HAVE BEEN MADE

A catalog of the suggestions that have been made from time to time for solving the problems of the southern Appalachians would be a list of many items ranging all the way from, at one extreme, a somewhat romantic exhortation to return to the simple and allegedly idyllic life of a former period to, at the other extreme, a coldly "rational" demand to "take the people out of the hills and the hills out of corn." Probably each of these extremes and each intervening suggestion has some merit, but none, by itself, is a solution.

AGRICULTURAL PRICE POLICIES ARE UNRELATED TO THESE PROBLEMS

Is price policy important? Agricultural price policies practically bypass the small-farm, low-income families with which this report is concerned. There are repercussions of whatever price policies are operative, but the effects tend to be indirect and of small consequence. Price policies affect directly only farmers who produce commercially. Other kinds of policies must be devised for low-income, small-production rural families.

EDUCATION IS A PRIMARY NEED

Are educational policies important? Several of the most promising policy ideas germinate in the study of educational problems. Children in low-income areas are numerous and dollars are few. To prepare the mountain child for citizenship in Detroit or Dayton may prove to be as serious to Michigan and Ohio as the preparation of their own native sons and daughters, native to these States. Equalization of educational opportunity among the communities of the Nation must have exceedingly high priority in the formulation of policies to help low-income families in rural areas.

REENFORCEMENT OF EXTENSION AND RESEARCH

Promotion of better farming and more enlightened economic decisions is also an educational objective of high priority. The system of extension services in agriculture and home economics, both the work with adults and that with children and youth, operates in low-income as well as high-income communities, but with differential effectiveness. For best service to low-income families it needs to be evaluated and retooled, to some extent.

This would seem to involve:

(1) Building better knowledge and public awareness of needs and possibilities; this depends upon the more vigorous prosecution of research in these fields, especially research in the agricultural experiment stations.

(2) Shifting the focus toward more intensive teaching and counseling of families on a farm-and-family-unit basis; this awaits largely the provision of enough workers to do the job.

(3) Recruitment and/or training of extension personnel who will have interest in, commitment to, and skills for helping rural low-income families; this depends in part on college programs to train them, and salaries to pay them.

More and better research and extension services are in themselves major targets in policy development.

SOCIAL SECURITY NEEDS RECONSIDERATION

Is social security an "out" for low-income farmers? So far as the old-age and survivors insurance program is concerned, it is not the answer for most of the low-income persons with whom this report is concerned. Their dollar incomes are often too small for them to qualify as contributing self-employed persons, and their opportunities to qualify through industrial employment are limited.

So far as aid to various categories of dependents is concerned, each variety (e. g., to the blind, the handicapped, dependent children, etc.) is important, but they are of a "stop-gap" nature, are costly, and offer only small support for any individual family. For long run improvement, more fundamental actions must be undertaken.

BETTER USES OF RESOURCES FOR FARMING

What about various influences that can be brought to bear to promote wiser and more productive uses of land? Everything possible must be done by education to get farmers to enlarge, as much as they can, their units of tillable land, to get farmers to shift from exploitive to conservational treatment, letting trees recapture the hillside cornfields, merging small farms into larger ones, more capable of profitable operation.

Policies directed toward this release of land ill-suited to farming for public recreation and long-time timber culture will tend to prevent further spreading of the low-income patterns of living in the southern Appalachians, and will tend to get resources used in the ways to which they are appropriate.

HEALTH QUESTIONS

Policies in the interest of health are of paramount importance. To live adequately and to bear the responsibilities of a citizen member in a democratic society today one needs health, as much as our forefathers needed literacy. The impetus given in recent years to improve health programs and facilities in rural areas must be a continuing policy concern. Health problems are especially acute for the families in low-income areas.

POSSIBILITIES FOR INDUSTRY

Modern industry is a giant that seems to grow from internal urges and pressures. As a usual thing, industry accumulates where it is already well-developed. Some dispersal to small communities does occur, but, only intermittently and in spotted ways, and most industrial development continues to cluster around well-established and dominant nuclei. The promotion of local industry in small towns and at the mouths of mines is a worthy goal and may eventually have more results than can now be predicted. It doesn't seem possible, however, that the local industries can become so widespread as to relieve the present congestion of areas where low-income families have concentrated.

EMPLOYMENT SERVICES

Facilitating labor's mobility must become a purpose of policy. We can't, and don't want to, in our society, "move people" toward better opportunity. Freedom of movement, above all else, means freedom to decide to move. Next it means freedom of obligations that prevent movement. Finally it means choices of destinations. Mobility is the consequence of decisions to move by all the persons involved. Better decisions can be made when there is better knowledge to permit them. This means policies to disseminate widely knowledge about locations and kinds of jobs and training opportunities, policies to minimize the risks and costs of moving, and policies to prepare the young potential migrant with skills and attitudes that are needed. For half to two-thirds of the mountain children their school experiences are their orientation to urban living hundreds of miles away.

SUMMARY AND RECOMMENDATIONS

By way of summary and recommendation, it is my belief that the million and a half to two and a half million low-income small farmers in America are probably the most neglected in terms of policy and programs and have perhaps the lowest standard of living of any comparable group in our society. The extent and plight of this large group of our population need to be better understood by people generally, and our policy and programs pertaining to economic development of the whole population need to be geared more realistically to their needs and their possibilities.

In the consideration of remedial measures, however, it cannot be emphasized too strongly that the poverty of an area in which low-income farmers are concentrated is not merely the poverty of people by families but it is also a poverty of the social organizations and social institutions on which persons and families depend for fulfillment of their lives. Whatever one may mention, whether schools, libraries, churches, businesses, local government, civic service groups or the whole range of institutional services as we know them in America today, there are conspicuous deficiences. Strengthening institutions thus becomes a part of business and community development.

Any approach to these rather desperate problems is ill-founded and dangerous in terms of the welfare of our total system if it is based upon the assumption that economic progress or lack of progress is a matter only of local concern or local responsibility. As indicated above, it is not only a matter of poverty in terms of individuals and families and institutional servces; it is poverty in terms of tax resources out of which services may be provided by the local people, and it is also poverty in terms of imagination, resourcefulness and the ability of a people to lift themselves by their own bootstraps.

Specifically, the following areas of program service may be mentioned, without any effort to expand or describe them in detail:

1. Perhaps the greatest need in these areas is for an adequate educational program for both youth and adults. The rapidly growing population creates a tragic and desperate situation in terms of public-school services and, although somewhat less pressing, in terms of adult-education programs. Few, if any, programs can help an individual or a group of individuals unless they have the understanding and motivation to help themselves. Hence, improved and adapted educational programs are imperative if any types of effort are to be fruitful or effective within any reasonable period of time in the future.

2. Even with the present highly concentrated and disproportionate ratio of people to land in these areas, from 25 to 50 percent of the youngsters reaching maturity will have to find employment away from the land and, of course, with the unsatisfactory ratio that now exists, even greater numbers of youth will eventually have to find employment opportunities away from the land.

This means that in addition to improved general educational opportunities for both youth and adults, much greater attention needs to be given to vocational training that provides skills and social adjustments and adaptations that will fit the people into a different environment.

Coupled with general educational and vocational training, our employment services must be adapted and adjusted within the area, not only to bring alternative vocational opportunities to the people but also to make it possible for people in these areas to move to other areas of opportunity.

3. Social security, including especially the old-age and survivors insurance program, needs to be reexamined and adapted to the extent possible to better serve the people within these areas. The program that was initiated last year is a commendable one, but obviously it is not adapted to the thousands of families within these areas whose income falls even below that required for participation under the acts.

4. One of the causes for inefficiency and low productivity is poor combination of productive factors, particularly as involving the important one of capital. Our credit facilities need to be reexamined and made realistic in terms of the needs of the people with low income. Considerable credit is now available for the purchase of land for capital investment, but too little is available in terms of intermediate credit needs associated with the acquisition of farm machinery, the purchase of increased livestock numbers, and the adoption of improved practices that could raise the income of the people. Within this area there is considerable promise if realistic, practical programs are developed.

5. There is much that needs to be done in the way of additional research pertaining to the problems in these areas. We have an accumulated backlog of research information that could be used if adapted and applied to the conditions that exist. There is a deficit, however, of research information that is integrated and related to specific problems. We need to know more about the actual limitations within the areas and how the various public and private groups can join together as a team in attacking the problems effectively.

6. Because of limitation of funds and the interest in expending them in areas that would bring the greatest return in increased production, too small a portion of Agricultural Extension funds have been used in the past in working on the problems of and with the people in the low-income areas. This is not to indicate criticism of past programs. There undoubtedly could be much more effective work done by our Agricultural Extension programs if funds were appropriated and set aside to be used within these areas, so that Extension would be working on specific enterprise developments, and working with individual farm families in encouraging them to analyze, appraise, and develop to the fullest capacity the limited resources that are available.

7. People unacquainted with low-income areas can scarcely understand the rather desperate needs and problems associated with their medical, health, and sanitation problems. Again lack of resources within the areas for the support of these kinds of programs causes them to continue to be neglected and forgotten.

If the Congress, in its wisdom, can devise policies and programs in these specified fields of education, employment, social security, credit, research, extension, and health, that lead the hundreds of thousands of families in areas of low-income concentration toward better living, a great humanitarian goal will be approached; I am convinced that American life in general will have been greatly enriched. Throughout the rural United States, and especially in the southern Appalachian region, there are local leaders who understand the problems of their communities and who will be responsive to and grateful for such programs as may be arranged.

A Statement on Agricultural Policy by T. W. Schultz, University of Chicago

This statement is restricted to three policy issues in the agricultural area, namely:

1. To the haphazard policy of disposing of the very large stocks now under Government control as that policy is seen by foreign-producer countries.
2. To the requirement of a price policy that will both reduce some of the price variability confronting farmers and increase the efficiency of agriculture.
3. To the gross public neglect of the large number of low-production, low-income farms in parts of the United States, the poverty of which is a national disgrace.

The Economic Report of the President is silent on each of these important policy issues.

However, before I consider these issues and present certain positive proposals, I do want at least to touch on the economic setting and some of the characteritics of agriculture:

1. The domestic demand for United States farm products is of slow growth. The demand for farm products has a very low income elasticity of about 0.25. Thus, even when we are fully employed and per capita income increases 2 percent in a year this would shift the demand schedule to the right only one-half of 1 percent. Most of the new demand, therefore, comes from the growth in population.

2. On the supply side additional production is readily forthcoming. As a country we are benefiting greatly from many new techniques of production in agriculture. With little or no increase in the total quantity of factors committed to farming, this country can for some years—surely for the next 5 to 10 years and longer—stay abreast of demand as a result of advances underway in agricultural technology.

3. One needs to bespeak the dynamic strength of most of the family farms that produce the bulk of the farm products entering commercial channels. There is a tendency to underrate the flexibility, competitive capacity, and the income earned by these particular family farms. This underrating arises partly from bad statistics and then, too, from lumping all farmers together and, thus, not separating out the million or so farm families who really produce very little and who are very poor.

The technical and economic developments that Corn Belt farmers have taken in their stride in recent years not only illustrates but demonstrates their dynamic capacities. There has been a technological revolution—mechanization of fieldwork, hybrid corn, commercial fertilizer, and many other new techniques. In adjusting to these advances, corn farmers, in the United States as a whole, have reduced by 30 million the acreage planted to corn, a reduction which is as large as the total corn acreage of the Argentine, Brazil, and Mexico—three major corn countries. There have, also, been big fluctuations and shifts on the demand side. One observes that most family farms in the Corn Belt have achieved a satisfactory adjustment to these technological developments and to other supply and demand changes.

4. Farm product prices are not nearly as far out of touch with market values as is now generally believed to be the case. In terms of prospective production and demand, holding aside for the time being the very large CCC stocks, most farm products are clearing their respective markets. Those that are not doing so stand about as follows:

Corn, which is the key to feed grains, is about 5 percent out of line.

Cotton, between 5 and 10 percent, and it would then compete and clear abroad and at home.

Dairy products and possibly also butter, while more difficult to gage, are no longer appreciably out of line.

Wheat represents a major exception. While durum wheat is in short supply and the prospective production of spring wheats would come close to clearing their markets (again leaving CCC stocks of these aside) the soft wheats and especially the very important hard winter wheats are overvalued by 20 to 25 percent.

With this brief sketch of the setting, let me turn to the three policy issues introduced at the outset.

We need to correct the apparent haphazard policy of disposal of CCC stocks abroad. To foreign producers and others it looks as if we were prepared to dump the stocks we have accumulated in an arbitrary and wholly irresponsible manner. To them it appears that we are prepared simply to dump on them our farm problems and the mistakes of our past farm policies. In the main, our administrative actions have been less arbitrary than has been the legislative history on policy urging and authorizing the disposal of farm products abroad.

One needs to distinguish between, for example, what we have done and are doing with CCC stocks of corn and cotton in this context where there has been little, if any, of this haphazard dumping from what appears to be occurring in the case of wheat, butter, and some others.

In wheat, the CCC reported as of November 30, 1954, that it held 762 million bushels as inventory and another 346 million bushels pledged for loans—a total of 1,108 million bushels, enough to keep the world markets of wheat upset for years to come.

We can reduce greatly, as we should, this uncertainty aborad arising from what we may do with the excessive stocks under Government control. My proposal is that the Department of Agriculture be authorized and required to announce at or about August 1 a schedule of the quantity of wheat that will be sold abroad during the following 12 months. This schedule may be by months or by quarters. Sales may be either through private or by some combination of public and private agencies.

Suppose we had announced a schedule of 300 million bushels for the current crop year. It would have been more than we are likely to sell as things are now going and, more important still, we would have done it in a framework which would have reduced very substantially the uncertainty which our now well over 1 billion bushels of CCC wheat creates for producers and buyers af wheat throughout the world.

In overhauling the farm-price policy of the Government I wish, once again, to urge the adoption of a system of forward prices for farm products geared to the prospective normal value of each product. The theory underlying this approach and some of the administrative problems have been presented elsewhere.[1] In any case, this is not the time or occasion to restate the analysis and the case for this proposal except to say that it very likely would serve both consumers and agriculture well, for it would reduce measurably the price uncertainty facing farmers and further enhance the productive efficiency of United States agriculture.

The third policy issue, that of undertaking public measures to correct the low income of that large number of farm families who produce compartively little for sale cannot be developed adequately in this statement. Two lines of action

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[1] See especially my book, Agriculture in an Unstable Economy, McGraw Hill, 1945, pp. 258-266; and D. Gale Johnson, Forward Prices for Agriculture, University of Chicago Press, 1947.

are required to increase the productivity of these farm families: One is to help reduce the number of such families dependent upon farming as a source of employment, and the other, to increase the economic opportunities available to those remaining in agriculture.

My colleagues, D. Gale Johnson and W. E. Hendrix, and I, in response to a request of the Secretary of the Department of Agriculture, Mr. Benson, have set forth in some detail our insights on this problem in the statement which is attached.

FARM OPERATOR FAMILIES WITH LOW INCOME: AN ESTIMATE FOR 1949, BY W. E. HENDRIX

This particular estimate of the number of farm operator families who in 1949 had less than $1,000 of (money) income, where the operator was able-bodied and less than 65 years of age and where female operators are excluded and with some other adjustments is as follows:

Farm operator families

	Number
1. In South	800, 000
2. North and West	200, 000
3. United States, total	1, 000, 000
4. Those farm operators in 3 above, who may enter nonfarm employment	500, 000

The above estimates are derived from data shown in table 1 adjusted as shown in the following discussion.

Numbers and some characteristics of farm operator families with less than $1,000 of cash in income in 1949, in the United States

[In thousands]

Item	United States	South	Non-South
(1) Number reporting family income under $1,000	1, 366	976	390
(2) Number on low-production farms [1] not reporting income	304	194	110
(3) All families with incomes under $1,000	1, 670	1, 170	500
(4) Number on farms of economic classes I, II, and III	80	24	56
(5) Number with operators 65 years of age and over [2]	370	210	160
(6) Number with operators 50 to 64 years of age [3]	510	370	140
(7) Number not husband and wife units	445	315	130
(8) Number with operators not completing elementary school	1, 070	890	180
(9) Number with operators having 0 to 4 grades schooling [4]	435	385	50

[1] Farms of economic classes V and VI and part-time and residential farms are classed as low-production farms.

[2] In this and the following items it is assumed that families in (2) had about the same characteristics as those in (1).

[3] The median age of operators reporting family incomes under $1,000 were 51.9, 49.8, and 56.8 years for the United States, the South, and the non-South respectively.

[4] This estimate is based upon educational data reported by the Bureau of the Census for the operators of low-production farms. It is assumed for the purpose of these estimates that the operators on farms with family incomes under $1,000 have about the same educational characteristics as do the operators of low-production farms. It is most likely, however, that the latter have a lower average level of schooling.

In estimating the number of the farm-operator families with incomes under $1,000 that are underemployed viewed from the standpoint of the farm operator, the following adjustments have been made:

(1) All families on farms of economic classes I, II, and III have been excluded.

(2) All families with operators 65 years of age or over have been excluded.

(3) One-fifth of all farms that are not husband and wife units have been excluded to account for female operators who are not in the above classes.

(4) Ten percent of the remaining operators have been excluded to account for physical and mental disability and other human limitations of an irremedial nature that stand in the way of appreciably raising their productivity and incomes.

With these adjustments, there are left about 1 million low-income farms with able-bodied male operators. Of these about 800,000 are in the South, and 200,000 in the North and West.

Of this number, however, there are many for whom a major occupational change is probably not feasible. This number would include most operators 50 years of age and over who have not already had non-farm-employment experience. There are also probably many younger low-income operators who, under present employment standards, could not meet the physical requirements for entry into kinds of work for which they would otherwise be qualified. Finally, there are many who are severely handicapped for entry into nonfarm employment because of their very low level of schooling. With available data, one cannot ascertain how many of the 1 million able-bodied male operators could meet the age, physical, and educational requirements for new entrants into nonfarm employment. In view of the number of operators 50 to 64 years of age and the number not completing elementary school, probably not more than half of them could meet usual non-farm-employment standards. Moreover, among those who can meet the standards for entry into nonfarm work, there are some for whom farming would be the more profitable alternative if they could secure additional capital. There are others who have such strong preferences for farming that they would not move except at much larger differentials in earning than they could now expect.

This suggests that the low-income problem, viewed from the standpoint of present low-income farm operators, is predominantly a problem to be solved largely in place. There are, however, about 500,000 such operators who are prospects for nonfarm work under present employment standards.

These estimates, of course, considerably understate the amount of underemployment in the Nation's low-income families; also they understate the need for emphasis upon farm-to-industry migration. For it is mainly in facilitating such movement on the part of the younger farm people, including those who will be entering the labor force in the years ahead, that we must largely depend to prevent a continuance of the low-income problem as a problem of the next generation.

The letter which follows addressed to the Secretary of Agriculture sets forth our insights at this stage of our research work on the problems related to "underemployed rural people." The Secretary, Mr. Ezra T. Benson, had written us early in May asking us to make available to him these materials. We are very pleased to have this privilege and also to find the use that he has made of them in his recent report.—THEODORE W. SCHULTZ.

JUNE 16, 1953.

Hon. E. T. BENSON,
Secretary of Agriculture,
United States Department of Agriculture, Washington, D. C.

DEAR MR. BENSON: Your letter of May 13 raises important and significant questions concerning the possibilities of developing programs to help low-income groups in agriculture improve their economic position. Your letter and the interest that it expresses are especially welcome because we have long felt that the particular problems of the low-income groups in American agriculture have been long neglected, not only by the Federal Government but unfortunately also by research workers as well. It has only been in recent years that some studies have been undertaken to advance our understanding of the reasons for the persistence of such low-income groups in agriculture and to determine the kind of programs that would contribute to a solution of the various problems that confront these farm people. We have been particularly fortunate in having had generous financial support from the Rockefeller Foundation to carry forward a considerable number of studies concentrating on the economic problems underlying these low-income groups in agriculture.

Before stating what we believe should be the objectives of a program for underemployed rural people, we would like to make an important distinction between low incomes and underemployment. While underemployment in agriculture is usually associated with low incomes, it need not be true that all low-income workers in agriculture are underemployed. Underemployment is a relative concept and implies that a worker could achieve a higher level of productivity, either at farm or nonfarm work, than is possible in the existing cicumstances. Many farm families or individuals who have low incomes may be achieving as high a level of income in farming as would be possible anywhere else. This will be true of families consisting of elderly people, of families headed by a female or a disabled male, or of families consisting of relatively young people.

Many of the families or individuals who have low incomes, but are not underemployed, do not represent a social problem. This would be true of elderly persons who can maintain a satisfactory level of living based on low current earnings plus accumulated savings. It would also be true of the youth who may look forward to much higher incomes as their experience and skills increase. But low income situations due to broken homes and mental and physical disabilities which will be found in all farm communities, rich and poor alike, do represent a social problem. But it is not a problem different than that existing in nonfarm communities, and solutions should be found in general programs applicable to all similarly situated persons, such as old-age and survivors insurance, training and rehabilitation activities, and similar welfare programs.

Persons who are underemployed represent a waste of the Nation's resources in that the productivity of these persons could be substantially increased. Though we believe that it is desirable to reduce inequalities in the distribution of real income, we believe that the major objective of a program for underemployed rural people should be to increase their productivity and, as a consequence, the real production of the Nation. In this instance, increasing output and reducing inequality are consistent objectives, but the program will be most successful if it seeks to achieve greater productivity rather than greater equality.

The persistence of underemployment in agriculture on its present scale after a decade of full prosperity and the operation of large-scale agricultural programs reaching nearly every farm in the Nation attests to the complexity of the problem. It attests to its lack of responsiveness, both to price-improvement programs and to the general run of other agricultural pograms such as have been operative in recent years. It suggests that a mere across-the-board increase in the funds and facilities of existing agencies without a considerable reorientation or redirection of their efforts can contribute little or nothing to a solution of the problem. On the other hand, we believe that much can be done without an increase in national expenditures and to the lasting benefit of our national economy by a redirection of our agricultural policies and programs more specifically toward a solution of the low-income problem.

Two major adjustments are required to increase the productivity of the existing underemployed farm people. One necessary adjustment is to reduce the number of such persons dependent upon farming as a source of employment. One characteristic of all communities having large numbers of underemployed farm people is the high ratio of labor to land. This ratio must be reduced before the adjustments which are required to increase the productivity of those remaining in agriculture may be increased. A second kind of adjustment involves increasing the economic opportunities available to those who remain in agriculture.

The second adjustment, that of increasing the economic opportunities available to those remaining in agriculture, requires numerous changes in the economic structure of agriculture. Farm communities with underemployed labor are generally dependent upon home consumption of farm products as the major source of income (subsistence farms) or upon 1 or 2 labor intensive cash crops, especially cotton or tobacco. In either type of situation, efficient farm operating units require farm enlargement, the introduction of new farm enterprises and methods of production, and in many cases new or more efficient market outlets for farm products and sources of supply of production goods. In making these changes, the managerial capacities of most of the existing farm operators will be taxed to the fullest and without some help many would be found wanting.

How can these two adjustments be made? The first adjustment, reduction in the number of persons employed in agriculture, may be made through migration from the farm to a nonfarm community or by increasing the number of jobs available in the local area thus permitting part-time farming. Data from the 1950 Census of Population and Census of Agriculture indicate that the income position of part-time farm families is not, on the average, an unsatisfactory one. If full employment conditions are maintained, an increase in opportunities for off-farm work in such areas would contribute to greater total productivity. However, one limitation of part-time farming as a solution is that it does not seem to permit the necessary recombination of labor and land for those who wish to engage in full-time commercial farming. Migration to nonfarm areas, either nearby or at some distance, does permit farm sizes to be increased and provides the basis for more efficient organization of agricultural resources.

It is one of the anomalies of our times that more resources are devoted to provide information about the market for wheat, corn, or cotton than the market for labor. A first step in any attempt to reduce underemployment in agriculture is to increase the available knowledge of alternative labor opportunities and to make this knowledge available to farm people. While the Bureau of Employment Security is now studying certain aspects of urban labor markets, even this limited information is not in a form that is or could be made available to farm people. The various State employment services are essentially urban oriented and seldom reach farm people. Except for certain important reservations of a political nature, the Extension Service could perform the function of providing information about employment opportunities. A second step would be to provide positive aids to migration through loans and grants, assistance in the location of jobs, and, in the case of families, help in obtaining adequate housing. On the basis of our present knowledge of migration, it cannot be said with certainty that positive aids to migration would be required if farm people had more adequate knowledge of alternative employment opportunities. But while courses of action can now be indicated in a general way, there remains a need for research into many phases of the problems of migration from farm to nonfarm employment. How to help farm people to adapt themselves and to find a place in a new kind of social environment may be about as important to facilitating their movement as helping them to find jobs. This is particularly so for families.

A third step would be to encourage the location of new employment opportunities in or near communities with underemployed farm people. In a private enterprise economy, there is not much the Federal Government can do directly to encourage location of business enterprises, except in periods of mobilization or war. However, research that would add to knowledge of the opportunities for new investment in low income rural areas might have an important impact through time.

The programs that would help in achieving the necessary recombination of agricultural resources are generally of the type that are quite akin to the experiences of Federal and State agencies dealing with agriculture. Except for the need to improve the marketing structure, little that is new is required; what is involved is an extension and redirection of existing efforts. Only some of the more important ways of aiding farmers to increase their productivity may be noted here.

(1) Farmers or landlords will need additional credit to enlarge the size of farms and to make the necessary investments in land improvement that would be required in many cases (clearing, seeding, and fertilizing pastures; contouring; original massive fertilization on cropland; new fencing; new or enlarged buildings). In many areas such credit is not readily available, especially for the purchase of land and making the desired improvements on the land.

(2) Farmers will need credit and managerial assistance in making the necessary modifications in the scale of their farms and in introducing new enterprises. There is considerable value in combining the provision of credit and managerial assistance, as was done in the Farm Security Administration and as is now being done by the Farmers' Home Administration. An increase in administrative funds, an increase in loanable funds, and a concentration of effort in thte areas of greatest need are required if the FHA is to make a substantial contribution in this direction.

(3) Research work on production methods, farm enterprises, and soil maintenance and conservation needs to be redirected to more consistently bear on the problems of farms in the low-income areas. While some research work is going forward that relates to the production patterns that are likely to emerge in the areas of underemployed farm people, the quality and the amount of the work now being done leaves much to be desired. Too much emphasis is being placed on the traditional crops, usually tobacco and cotton, and too little on livestock and feed crops.

(4) At the local level there is a real need for some person or group to perform an integrating function. Piecemeal approaches will certainly fail as will programs that are not based on an understanding of the potentialities of each area. Changes in type of farming frequently require new market outlets; unless such outlets become available, many changes cannot be made or, if attempted, will fail. Similarly, attempts to modify the kinds of products produced without recognizing the usual need to expand the usable land area for each farm will frequently result in a level of income lower than that now prevailing.

While much of our research work related to the underemployment problem is still in process, we would be able, with fairly short notice. to make most of it available to you and your staff. We have completed or have underway the following studies:

1. Income differences as affected by region, community size, race, and occupation.
2. Productivity of farm migrants in nonfarm occupations.
3. Factors that influence the rate of migration from farm to nonfarm areas.
4. Interrelationships between outmigration of labor and the mechanization of cotton production.
5. Estimates of underemployment of farm labor in the Southeast.
6. The economic and social experiences of farm migrants to a midwestern city.

If we may at any time be of service to you in your efforts to improve the circumstances of the low-income groups in agriculture, we wish that you would so inform us.

Sincerely yours,

W. E. HENDRIX.
D. GALE JOHNSON.
THEODORE W. SCHULTZ.

A POSITIVE PROGRAM FOR REDUCING RURAL POVERTY—STATEMENT BY WILLIAM H. NICHOLLS, PROFESSOR OF AGRICULTURAL ECONOMICS, VANDERBILT UNIVERSITY

THE MAGNITUDE OF THE PROBLEM

In 1949, farm families accounted for 1 out of every 3 to 4 low-income families in the United States. However, many of these low-income families had heads not in civilian employment because of age, disability, widowhood, or divorce. If the latter are eliminated, farm families constituted about one-half of all low-income families. In absolute terms, there were about 1.25 million complete farm-operator families, with able-bodied male heads in their more productive years, which had cash incomes from all sources of less than $1,500; and 0.8–0.9 million of such families with cash incomes under $1,000. Presumably, most of these latter families could have made a substantially larger contribution to the Nation's product if they had better nonfarm job opportunities or if they had more productive farm resources to work with.

Of all farm families with cash incomes from all sources of under $1,000, 71 percent were in the South. Were it possible to eliminate the aged, disabled, widowed, and divorced, we would undoubtedly find an even heavier concentration of the Nation's low-income farm families in the South. Furthermore, while Negroes constituted 9 percent of the Nation's families, they accounted for 21 percent of all families with incomes under $1,000. We may conclude that the low-production family problem is primarily centered in the Southern States because of their relatively heavy dependence upon a low-production agriculture and because of their relatively large Negro population.

As victims of rural poverty, many of whom could earn more and consume more in nonfarm occupations, these farm people should be of great public concern as the Nation's greatest reservoir of underemployed and largely wasted resources. Unfortunately, given the unsatisfactory nature of national employment statistics, such people are considered fully employed although at best their employment is part time and very unproductive. Their inclusion among America's farm workers also pulls down the farm income per worker or per capita to levels which compare very unfavorably with nonfarm income, lending support to public farm policies which help them hardly at all while concealing the need for a positive public program (largely nonagricultural in nature) to alleviate their low state of productivity and income.

THE WAY OUT

The magnitude and difficulties of the low-income rural problem in the United States almost stagger the imagination. But they should make clear that, despite our deep concern for assisting underdeveloped nations abroad, we may have overlooked comparable problems—different in degree but not in kind—of underdeveloped regions within our own Nation. In the interest of a strong and growing national economy, we can no longer afford to neglect these serious regional problems.

In tackling the problem of rural poverty, we must first recognize that there are far more American families trying to make a living from farming than our agricultural resources can possibly support at a level of living comparable with that afforded by similar nonfarm occupations. Second, we must at long last recognize that, while primarily benefiting those farm families which are least in need of public financial aid, our agricultural price-support policies can contribute practically nothing to a solution of rural poverty. At the same time, because of their great cost in treasure and in administrative effort, they strongly divert public funds and public concern from a million or more underemployed rural people who require substantial and sustained assistance. Finally, we must develop a consistent, coordinated, and integrated set of public policies which will, by attacking the fundamental causes, go far toward solving the problem of rural poverty during the next decade or two.

In my view, a positive program for reducing rural poverty would have the following major elements:

(1) The development of a substantial program of Federal grants-in-aid for public-school education and for expanding public-health services.

(2) The maintenance of a stable and steadily expanding national economy.

(3) The extension and improvement of the United States Employment Service in rural areas, with fuller integration of the objectives and administration of farm and nonfarm placement.

(4) A considerable increase in congressional appropriations for vocational-training grants-in-aid to the States, with a revision of the allocation formulas to encourage nonfarm training in rural high schools and to break down the administrative barriers between the farm and nonfarm phases of the program.

(4) The abandonment of present provisions for minimum acreage allotments in our basic farm legislation because of their deleterious effect on productive efficiency and labor mobility.

(6) The revision of the basic statute on unemployment compensation, and of its administration, to eliminate factors tending to discourage labor mobility.

(7) The development of Federal policies favoring location of defense plants in areas of rural underemployment as well as of urban unemployment.

(8) The development of a Federal power policy which will, through a combination of public and private sources, assure the South of a power supply consistent with its industrialization needs.

(9) A revision of the Department of Labor's concept of labor-surplus areas broad enough to include underemployed rural labor as part of the local labor surplus.

(10) The introduction of a regional differential if the minimum wage is raised.

(11) Expansion and improvement of the services of the Area Development Division of the Department of Commerce.

(12) The development of intermediate-term types of credit by the Farm Credit Administration.

(13) A substantial increase in the resources of the Farmers Home Administration.

(14) Increased emphasis in the programs of the agricultural experiment stations and agricultural extension services on the problems of the small farm.

(15) Further development of the programs of the Federal Reserve banks aimed at increasing the participation of commercial banks in agricultural development.

(16) A modest program in rural home improvement, probably under the Farmers Home Administration, with due regard for the farm as a production rather than as a residential unit.

(17) Increased benefits and extended coverage for farmers and rural people under the OASI, public assistance, and rehabilitation programs.

APPENDIX

TABLE 1.—*Selected characteristics of families, resources, and family incomes on commercial and other farms, by economic class of farm, United States, South, and non-South, 1950* [1]

Item	Area [4]	Commercial farms [2]						Other farms [3]		
		Class I and II	Class III	Class IV	Class V	Class VI	Total	Part-time	Residential	Total
Total number of farms (thousands)	U. S.	484	721	882	902	717	3,706	643	1,030	1,673
Farm products sold per farm	U. S.	$23,328	$7,017	$3,625	$1,813	$720	$5,884	$612	$82	$285
Acres cropland per farm	U. S.	362	162	111	58	37	119	30	17	22
Value land, buildings per farm	U. S.	$55,936	$22,918	$13,162	$7,829	$4,648	$17,837	$6,117	$4,675	$5,227
Percent of all farms	U. S.	9	13	16	17	13	69	12	19	31
Percent of value farm products sold	U. S.	51	23	14	7	2	97	3	----------	3
Percent of land in farms	U. S.	40	19	14	10	5	88	(5)	(5)	12
Percent of cropland	U. S.	33	24	18	11	6	92	4	4	8
Percent value land and buildings	U. S.	36	22	16	9	4	88	(5)	(5)	12
Percent operator-family population	U. S.	9	14	17	17	13	70	12	18	30
Percent of hired-labor cost	U. S.	65	17	9	4	1	96	(5)	(5)	4
Number of operator family incomes—										
Under $1,000 (thousands)	S	6	18	88	190	330	633	96	248	344
	N, W	16	40	77	73	89	294	36	59	96
$1,000 to $1,999 (thousands)	S	10	31	96	169	100	405	118	128	247
	N, W	38	112	146	105	46	447	54	53	107
$2,000 to $2,999 (thousands)	S	9	28	56	68	22	183	65	91	156
	N, W	59	139	114	77	12	402	57	65	122
Over $3,000 (thousands)	S	57	65	67	54	14	258	57	101	157
	N, W	243	260	179	94	11	787	109	111	219
Median family income	U. S.	$4,273	$2,820	$2,020	$1,470	$730	$1,900	$1,940	$1,650	$1,790
Percent of operator families with incomes—										
Under $1,000	S	7	13	28	40	71	43	28	44	38
	N, W	4	8	15	21	56	15	15	21	18
Under $2,000	S	19	35	59	75	93	71	63	67	66
	N, W	15	28	44	52	85	38	36	39	38
Percent of operator-family income from off-farm sources	U. S.	15	18	30	48	44	26	82	84	83
Percent of operators in nonfarm occupation	U. S.	4	4	6	12	5	7	49	58	54
Percent of operators working off farm 100 days or more	S	8	8	9	12	----------	7	51	48	50
	N, W	4	6	11	26	----------	10	74	68	71
Percent of nonoperator family members working off farm	S	11	11	16	17	12	14	32	25	28
	N, W	10	14	16	20	9	15	32	27	29
Percent of operator-families with off-farm income exceeding farm sales	S	10	10	13	16	----------	10	85	65	73
	N, W	3	4	10	28	----------	9	87	70	78

Percent of operators:										
Under 25	U. S.	3	2	3	5	5	4	4	2	3
Over 64	U. S.	7	7	13	14	25	14	12	21	18
Single	U. S.	6	6	4	6	6	6	4	4	4
Widowed, divorced	U. S.	4	4	5	6	10	6	7	12	10
Median years school completed by operators	S	10.5	8.5	7.6	6.8	6.1	7.1	7.5	7.0	7.2
	N, W	10.2	8.8	8.6	8.6	8.3	8.7	8.8	8.7	8.7
Percent of white operator-family population	U. S.	10	16	18	16	10	70	12	18	30
	S	4	7	15	19	16	61	14	25	39
Percent of nonwhite operator-family population	U. S.	1	3	12	25	30	70	9	21	30
	S	1	2	11	26	30	70	9	21	30
Fertility ratio standardized for age and marital status	S	338	443	488	527	578	509	460	513	492
	N, W	448	470	462	458	481	463	396	483	440
Percent operator-family population:										
Under 15	U. S.	31	33	33	33	31	33	32	34	33
Over 64	U. S.	6	6	6	7	11	7	7	9	8
Median age, operator-family population	S	27.9	25.0	21.1	22.0	25.0	23.3	25.5	25.4	25.5
	N, W	27.6	27.9	30.1	33.2	46.2	30.0	29.7	29.6	29.6
Persons under 15 and over 70, per 100 persons 20 to 64 years	S	56	69	83	82	80	79	74	87	82
	N, W	62	65	64	63	66	64	67	74	71
Percent of farms having 1 or more milk cows	S	78	79	68	67	66	69	69	60	63
	N, W	75	86	84	73	66	79	59	47	53
Percent of farms slaughtering hogs	S	51	68	75	71	72	71	65	54	58
	N, W	59	66	62	47	44	58	41	29	35
Percent of farms with chickens	S	76	85	88	85	87	86	86	78	81
	N, W	74	81	79	75	75	77	71	62	66
Percent of farms with garden	S	55	69	80	83	83	79	77	76	76
	N, W	62	70	67	68	65	67	75	66	70

[1] Compiled from U. S. Bureau of Census, Farms and Farm People, Washington 1952, chs. 3, 4, and 5; House Committee on Agriculture (committee print), Long Range Farm Program: Technical Studies * * *, Washington 1954, p. 161.

[2] Commercial farms are classified as follows according to total farm-product sales in 1949: Classes I and II, over $10,000; class III, $5,000 to $9,999; class IV, $2,500 to $4,999; class V, $1,200 to $2,499; and class VI, $250 to $1,199 with operator working off farm less than 100 days and other family income less than farm-product sales.

[3] Part-time farms had farm product sales of $250 to $1,199, differing from class VI commercial farms only in that operator worked off farm more than 100 days and other family income exceeded farm-product sales. Residential farms had farm-product sales of less than $250.

[4] South (S) consists of the 16 States of the following census regions: South Atlantic, East South Central, and West South Central; combined North and West (N, W) the remaining 32 States.

[5] Not available.

TABLE 2.—*Selected family and housing characteristics, for commercial and other farms, by family income, South and non-South, 1950*[1]

Characteristic (for all percentages, 100 percent equals total number in given class of farm and income and region)	Region[2]	Commercial farms[3]			Other farms[4]			All farms		
		Family income from all sources								
		Less than $1,000	$1,000 to $2,999	Over $3,000	Less than $1,000	$1,000 to $2,999	Over $3,000	Less than $1,000	$1,000 to $1,999	$2,000 to $2,999
Number of farms or farm operators (thousands)	S	633	588	258	344	403	157	976	652	339
	N, W	294	849	786	95	229	219	390	554	524
Percent of operator families with income of $10,000 or more	S	-----	-----	8	-----	-----	5	-----	-----	-----
	N, W	-----	-----	9	-----	-----	4	-----	-----	-----
Average operator-family income (excluding those of $10,000 or more)	S	$440	$1,649	$4,618	$452	$1,790	$4,255	$444	$1,371	$2,351
	N, W	$513	$1,855	$4,704	(5)	$1,950	$4,397	$514	$1,418	$2,359
Percent of operators by tenure:										
Owners or managers	S	46	63	77	71	77	95	55	64	76
	N, W	81	72	78	(5)	92	94	83	77	76
Tenants (excluding croppers in South)	S	25	24	17	19	18	4	23	24	18
	N, W	19	28	22	(5)	8	6	17	23	24
Croppers	S	29	13	6	10	5	1	22	12	6
	N, W	-----	-----	-----	-----	-----	-----	-----	-----	-----
Percent of operators, nonwhite	S	39	15	3	29	13	3	35	17	7
	N, W	1	1	-----	(5)	1	-----	1	0	1
Percent of operators working off farm 100 days or more	S	2	7	20	29	61	78	12	24	39
	N, W	2	9	14	(5)	75	90	7	18	29
Percent of farms with nonoperator members of family working off farm	S	11	14	22	19	29	43	14	19	24
	N, W	10	12	20	(5)	25	39	12	13	17
Percent of farms with other family income exceeding value of farm products sold	S	3	13	20	62	81	80	24	37	48
	N, W	6	8	12	(5)	83	79	21	21	27
Median age (years) of operators	S	47.8	44.4	46.3	53.5	45.2	46.0	49.8	45.0	44.3
	N, W	55.2	45.6	46.2	(5)	46.1	46.0	56.8	47.1	44.3
Average family size (persons)	S	4.3	4.4	4.2	4.0	4.4	4.5	4.2	4.4	4.4
	N, W	3.2	3.7	4.2	(5)	3.7	4.3	3.2	3.5	3.9
Percent of operator families with husband, wife, no children under 18	S	33	30	34	37	33	26	33	32	29
	N, W	47	35	32	(5)	32	31	45	38	31
Percent of operator families with husband, wife, 1 or 2 children	S	26	37	37	22	31	35	25	32	39
	N, W	22	37	33	(5)	36	34	20	34	41
Percent of operator families with husband, wife, 3 or 4 children	S	15	16	16	14	19	20	15	18	16
	N, W	9	13	20	(5)	15	22	9	11	15

Percent of operator families of all other kinds (including single persons)	S	26	17	13	27	17	19	27	18	16
	N, W	22	15	15	(5)	17	13	26	17	13
Percent of operators not completing elementary school	S	76	56	35	77	58	36	76	61	49
	N, W	35	20	21	(5)	28	18	36	24	20
Percent of operators completing elementary but not high school	S	20	34	38	20	33	42	20	32	37
	N, W	54	57	51	(5)	55	49	52	58	54
Percent of operators completing high school or more	S	4	10	27	3	9	22	4	7	14
	N, W	11	23	28	(5)	17	33	12	18	26
Percent of commercial farms by type:										
Cash-grain	S	2	4	10	---	---	---	---	---	---
	N, W	14	18	19	---	---	---	---	---	---
Cotton	S	50	33	25	---	---	---	---	---	---
	N, W	1	1	1	---	---	---	---	---	---
All other field-crop specialties	S	24	28	18	---	---	---	---	---	---
	N, W	5	5	6	---	---	---	---	---	---
Dairy or poultry	S	5	9	18	---	---	---	---	---	---
	N, W	37	29	27	---	---	---	---	---	---
Other livestock	S	9	13	17	---	---	---	---	---	---
	N, W	28	29	32	---	---	---	---	---	---
General or miscellaneous	S	10	13	12	---	---	---	---	---	---
	N, W	15	18	15	---	---	---	---	---	---
Median distance (miles), farm to trading center	S	5.3	6.2	6.8	4.7	4.7	4.7	5.0	5.5	5.9
	N, W	5.9	6.3	5.8	(5)	4.8	4.6	5.4	6.1	5.0
Percent of farms on dirt or unimproved road	S	50	44	42	52	39	29	50	43	40
	N, W	31	23	17	(5)	29	12	31	26	22
Average number of rooms, farm dwelling	S	4.6	5.1	5.7	4.4	4.9	5.6	4.5	4.9	5.3
	N, W	5.9	6.3	6.9	(5)	5.5	6.1	5.7	6.0	6.3
Percent of farm dwellings built before 1919	S	45	42	34	45	31	48	45	38	35
	N, W	69	76	75	(5)	65	58	68	76	69
Percent of farm dwellings in "dilapidated" condition	S	32	22	9	37	23	9	34	25	17
	N, W	12	7	4	(5)	9	7	14	9	5
Percent of farms with electricity	S	60	76	90	54	73	90	57	71	81
	N, W	75	87	91	(5)	82	92	72	84	88
Percent of farms with telephone	S	7	16	38	9	16	35	7	14	21
	N, W	49	62	72	(5)	43	63	45	54	61
Percent of farms with piped running water inside dwelling	S	15	31	64	13	27	64	8	11	17
	N, W	40	51	72	(5)	51	78	14	13	16

[1] Compiled from U. S. Bureau of the Census, Farms and Farm People, Washington, 1952, ch. 5, tables 4 and 5, pp. 80–88. "Family income" includes income from wages and salaries; net money income from own farm, business, or professional practice; and other income (interest, dividends, veterans' allowances, pensions, or rents) received by all family persons 14 and over during 1949.

[2] The South (S) consists of Delaware, Maryland, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Kentucky, Tennessee, Alabama, Mississippi, Arkansas, Louisiana, Oklahoma, and Texas. The combined North and West (N, W) consists of the remaining 32 States.

[3] "Commercial farms" are those with a value of farm products sold in 1949 of more than $1,200, plus those with a value of products sold of $250 to $1,199 whose operator worked off farm less than 100 days and whose family income from off-farm sources was less than its income from farm-product sales.

[4] "Other farms" include part-time farms (with farm products sales in 1949 of $250 to $1,199 but whose operator worked off-farm more than 100 days and whose family income from off-farm sources was more than its income from farm-product sales), residential farms (product sold less than $250), and abnormal farms.

[5] Not available.

LOW-INCOME FARM FAMILIES AND ECONOMIC PROGRESS—STATEMENT BY WILLIAM H. NICHOLLS, VANDERBILT UNIVERSITY

I. INTRODUCTION

In 1949, of 36.4 million American families (excluding unrelated individuals) reporting income, 5.3 million had cash incomes under $1,000, 7.9 million had cash incomes under $1,500, and 10.7 million had cash incomes under $2,000 (table 1).

Low incomes and agriculture

The median cash income of all United States families was $3,073, with medians of $3,431 for urban families, $2,560 for rural nonfarm families, and (excluding income in kind from farm housing and farm-produced food consumption) only $1,729 from all sources for rural farm families. Of the 5.2 million rural farm families reporting, nearly 32 percent had cash incomes of less than $1,000, as compared with 18 and 10 percent, respectively, of the rural nonfarm and urban families. For incomes of less than $1,500, the corresponding percentages were 45, 27, and 15 percent; for incomes under $2,000, 56, 37, and 21 percent, respectively.

Rural farm families, which constituted only 14 percent of all families reporting income, accounted for 29 percent of all families with cash incomes under $1,500. If (in order to allow for farm income in kind) rural farm families with cash incomes of less than $1,000 are combined with all other families having incomes under $1,500, rural farm families still constituted 23 percent of the resulting total. Thus, farm families accounted for 1 out of every 3 or 4 low-income families in the United States in 1949.

TABLE 1.—*Cash income in 1949 of low-income families, urban and rural, white and nonwhite, United States and major regions, 1950* [1]

Item	Number of families (thousands)					Median income
	Total	Total reporting	Cash income of—			
			Under $1,000	$1,000 to $1,499	$1,500 to $1,999	
United States:						
Urban	25,373	24,079	2,400	1,233	1,467	$3,431
Rural nonfarm	7,518	7,183	1,310	660	682	2,560
Rural farm	5,420	5,178	1,634	693	572	1,729
United States, total [2]	38,311	36,440	5,345	2,587	2,722	3,073
TOTAL FAMILIES, RURAL AND URBAN						
United States:						
White	35,411	33,204	4,442	2,153	2,310	(3)
Nonwhite	3,377	3,237	1,183	511	407	$1,426
United States, total [2]	38,788	36,441	5,625	2,664	2,717	3,068
Northeast	10,005	9,178	972	454	536	3,362
North central	11,804	11,120	1,388	720	722	3,257
West	5,120	4,905	529	280	338	3,435
Non-South, total	26,929	25,203	2,889	1,454	1,596	3,330
South:						
White	9,624	9,088	1,793	816	819	(3)
Nonwhite	2,235	2,149	942	394	302	1,168
South, total	11,859	11,237	2,735	1,210	1,121	2,248

See footnotes at end of table, p. 665.

TABLE 1.—*Cash income in 1949 of low-income families, urban and rural, white and nonwhite, United States and major regions, 1950* [1]—Continued

FAMILIES, URBAN AND RURAL NONFARM

Item	Number of families (thousands)					Median income
	Total	Total reporting	Cash income of—			
			Under $1,000	$1,000 to $1,499	$1,500 to $1,999	
United States:						
White	30,399	28,414	3,107	1,549	1,786	(3)
Nonwhite	2,769	2,646	788	420	363	$1,658
United States, total	33,168	31,060	3,895	1,969	2,149	3,245
Northeast	9,555	8,764	888	414	498	3,391
North Central	9,905	9,286	1,026	501	523	3,407
West	4,636	4,442	449	234	291	3,499
Non-South, total	24,096	22,492	2,363	1,149	1,312	3,419
South:						
White	7,413	6,976	977	513	573	(3)
Nonwhite	1,658	1,591	556	308	264	1,389
South, total	9,071	8,567	1,533	821	837	2,622

FAMILIES, RURAL FARM

Item	Total	Total reporting	Under $1,000	$1,000 to $1,499	$1,500 to $1,999	Median income
United States:						
White	5,012	4,790	1,335	604	524	(3)
Nonwhite	608	591	395	91	44	(3)
United States, total	5,620	5,381	1,730	695	568	[4] $1,867
Northeast	450	414	84	40	38	[4] 2,438 (Northeast and North Central)
North Central	1,899	1,834	362	219	199	
West	484	463	80	46	47	[4] 2,682
Non-South, total	2,833	2,711	526	305	284	[4] 2,480
South:						
White	2,211	2,112	816	303	246	(3)
Nonwhite	577	558	386	86	38	(3)
South, total	2,788	2,670	1,202	389	284	[4] 1,284

[1] Sources: Census of Population, 1950, Rept. PB-1 (1952), table 57, p. 104 and Preliminary Report PC-7, No. 2 (1951). Unrelated individuals excluded.

[2] These United States totals differ because the upper ones are final figures and the lower ones preliminary and later revised (cf. Rept. PB-1, table 85, p. 137, for regional breakdown of all families, rural and urban, as revised). The preliminary figures were used here because the farm-nonfarm and race breakdowns of the data by regions were not available in revised form.

[3] Not available.

[4] Farm-operator families only (U. S. Bureau of Census, Farms and Farm People, Washington, 1953, p. 26), omitting some farm-laborer families which pull the United States rural-farm median income down from $1,867 to $1,729.

From the standpoint of production rather than consumption, however, farm family units were of considerably greater importance. Thus Mr. Stanley Lebergott of the Bureau of the Budget has made rough estimates which indicate that, of some of 5.8 million families with money incomes under $1,500 in 1951, 2.6 million families had heads who were not in civilian employment, largely for reason of age, disability, or (for female heads) widowhood or divorce. This group obviously constitutes an important part of the Nation's low-income problem but any improvement in its well-being depends primarily upon larger transfer payments from the productive sector of the national economy rather than upon any potential increase in its own contribution to the national product. If this group is eliminated from Mr. Lebergott's computations, his estimates indicate that the families of farm operators and farm laborers constituted 49 percent of all families with heads in civilian employment and money incomes under $1,500. (Of the remainder, 36 percent of all families had male heads, and 15 percent female heads, in nonfarm civilian employment. Thus, looking at the low-income sector as a production, rather than as a consumption, problem, farm families accounted for about 1 out of every 2 potentially more productive low-income families.

In 1949 there were an estimated 3.29 million United States farm-operator families (61 percent of all such families) on low-production farms, i. e., those with gross cash income from farm-product sales of less than $2,500. Of these, about 1.01 million (nearly two-thirds living on part-time and residential farms) had cash incomes from all sources of $2,000 or more, leaving 2.28 million with total cash income under $2,000. If, from the latter, we subtract[1] 0.36 million farm operators aged 65 and over, 0.07 million operators of less than 25 years, and 0.10 million operators single, widowed, or divorced, we arrive at a net estimate of 1.75 million underemployed farm families.[1]

On a roughly parallel basis, we may estimate that of the 3.29 million operator families with gross farm sales under $2,500, about 1.76 million had cash incomes from all sources of less than $1,500 and about 1.33 million less than $1,000. Allowing for operators who were aged, very young, or single, widowed, or divorced, these latter estimates of underemployed farm-operator families would be about 1.2 to 1.3 million and 0.8 to 0.9 million, respectively. We may conclude that there were, in 1949, from 800,000 to 1,750,000 (depending upon the maximum cash income considered "low income") complete farm-operator families with able-bodied operators in their more productive years which were unable to earn adequate incomes from their present employment opportunities on or off the farm.

Low incomes and region

Just as a substantial part of the Nation's low-production family problem is associated occupationally with agriculture, so it is associated regionally with the Southern States (table 1).[2] The South, with 31 (30) percent of the Nation's families in 1949, had 49 (49) percent of all United States families with cash incomes from all sources under $1,000 and 46 (46) percent of all families with cash incomes under $2,000. About 24 (24) percent of all southern families had cash incomes from all sources amounting to less than $1,000 and about 45 (45) percent incomes under $2,000. The corresponding figures for the non-South were 11 (11) and 24 (23) percent respectively. In 1949 median cash incomes of all rural and urban families in the Northeast, North Central States, and the West were nearly on a par, averaging $3,330 ($3,339) for the 3 regions combined. On the other hand, the median cash income of all southern families was only $2,248 ($2,248), about 67 (67) percent of the median income in the non-South. For urban and rural nonfarm families, the southern median income was 77 (76) percent of the nonsouthern; for rural farm families (operators only) 52 percent. In the South, farm-operator families had a median cash income only 49 percent of that of urban and rural nonfarm families in the same region, as compared with 73 percent outside the South.

Low incomes and race

Finally, much of the Nation's low-production family problem is associated with race (table 1). Nonwhites, constituting 9 percent of the Nation's families in 1949, accounted for 21 percent of all United States families with cash incomes under $1,000 and 19 percent of all with cash incomes under $2,000. In the South, with 19 percent of the region's families, nonwhites comprised 34 and 32 percent, respectively. In 1949, the median income of all United States nonwhite families was $1,426, only 46 percent of that of all white and nonwhite families combined. The corresponding figures for the South only were $1,168 and 52 percent. However, even southern nonwhite families, urban and rural nonfarm, had a median income of $1,389, 8 percent above that of all southern farm-operator families, 79 percent of whom were white. Bishop recently estimated from census sources that in 1949 the mean income of white nonfarm families in the non-South was $4,025, only 14 percent above that of white nonfarm families in the South. The smallness of this differential is consistent with the findings of several recent studies that differences in cost of living (as measured indirectly by community

[1] Deductions only taken from 83d Cong., 2d sess., House Committee on Agriculture, Long Range Farm Program: Technical Studies (committee print), Washington. 1954, p. 160.

[2] Most figures in this paragraph are preliminary, but revised figures are also given in parentheses insofar as available.

size) account for most of the relatively small difference in incomes of white nonfarm families in the South and non-South.[3]

We may conclude that the low-production family problem is concentrated in the South primarily because of its heavy dependence upon agriculture and its relatively large Negro population.

II. The Economic Structure of American Agriculture and Public Policy

The economic structure of American agriculture is exceptionally heterogeneous. Public policies, both agricultural and general, can make a significant contribution to solving the problems of the low-income farm family only if the nature and extent of this heterogeneity are fully understood and properly evaluated.

A. LARGE-SCALE AND LARGE FAMILY-SCALE COMMERCIAL FARMS

Characteristics

In 1949, there were 484,000 farms in the United States with gross cash farm sales in excess of $10,000 (classes I and II, appendix table 1). These farms had average cash sales of farm products of $23,328 per farm and a (two-class-average) median family net cash income from all sources of $4,259 (mean income $6,518), of which an average of only 15 percent was from off-farm sources. Of all operators of these farms, only 4 percent were primarily engaged in a nonfarm occupation and only 5 percent worked off the farm 100 days or more. Of the farm-operator families, only 10 percent reported nonoperator members working off the farm and only 4 percent had off-farm income in excess of their gross cash farm income. Even for these large farms, averaging 362 acres of cropland and $55,936 value of land and buildings per farm, reported some low family net cash incomes—6 percent of them less than $1,000 and 17 percent less than $2,000. However, most of the low-income families on these farms should be considered temporary (farm prices fell substantially during 1949) rather than part of the permanent class of low-income farm families.

These large (classes I and II) farms, constituting only 9 percent of the Nation's farms and 9 percent of the farm-operator family population, accounted for 51 percent of the Nation's total value of farm products sold in 1949. They had 40 percent of the Nation's farmland (and 33 percent of the cropland) by acreage and 36 percent (including buildings) by value. They accounted for 65 percent of the total outlay for hired farm labor. The South, with 49 percent of the Nation's farms and 44 percent of its commercial farms, had only 20 percent of all class I and II farms in the United States. However, the South had 23 percent of all class I and II farms, and 25 percent of all commercial farms, with family incomes in excess of $10,000—reflecting the peculiar plantation (multiple-unit) type of organization of some of the South's larger land holdings, each cropper- or tenant-operated subunit of which was reported as a separate census farm, along with the higher-income home-farm subunit.

Policy implications

In general, class I and II farms presumably are large enough and command enough resources to afford, from strictly agricultural sources, a family level of living well above that of most American nonfarm families. These large farms are usually relatively efficient, productive, well capitalized, technologically advanced, and well suited for taking full advantage of agricultural research, extension, and credit services. On the other hand, being among the most highly commercialized of America's farms in terms of both product and factor markets, they are relatively vulnerable to short-term price instability and unfavorable trends in price-cost relationships. These farms, while least in need of income supplementation, stand to gain most incomewise from public price-support policies unless made to bear the brunt of acreage restriction programs.

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[3] Charles E. Bishop, Underemployment of Labor in Southeastern Agriculture, Jour. Farm Econ., vol. 36 (1954), pp. 268–269; H. E. Klarman, A Statistical Study of Income Differences Among Community, Studies of Income and Wealth, vol. VI (National Bureau of Economic Research, 1953); and D. Gale Johnson, Some Effects of Region, Community Size, Color, and Occupation on Family and Individual Income, Studies of Income and Wealth, vol. XV (Natl. Bur. Econ. Res., 1952).

B. MEDIUM-SIZED FAMILY-SCALE COMMERCIAL FARMS

Characteristics

In 1949, there were 1.6 million farms in the United States with cash farm sales of $2,500–$9,999 (classes III and IV, appendix table 1). Their cash farm-product sales averaged $5,151 per farm, with a two-class-average median family net cash income of $2,380 (mean income $3,040), of which an average of about 25 percent was from off-farm sources. Of the operators of these medium-sized farms, only 5 percent were primarily engaged in a nonfarm occupation and only 9 percent worked off the farm more than 100 days. Of the farm-operator families, only 15 percent had nonoperator members working off the farm and only 8 percent had off-farm income in excess of their gross cash farm income. Of these medium-sized farms, averaging 134 acres of cropland and $17,552 value of land and buildings per farm, 15 percent had operator-family net cash incomes under $1,000 and 40 percent under $2,000.

These medium-sized (class III and IV) farms, comprising 29 percent of the Nation's farms and 31 percent of the farm-operator family population, were responsible for 37 percent of the Nation's cash sales of farm products in 1949. They accounted for 33 percent of all land in farms (and 42 percent of all cropland) by acreage and 38 percent (including buildings) by value. Of the Nation's total wage bill for hired farm labor, they paid 26 percent. The South had 30 percent of all class III and IV farms, as compared with 49 and 44 percent, respectively, of all farms and all commercial farms.

Policy implications

In general, these medium-sized farms provide their operator families with a moderately good income, even without supplementary income from off-farm sources. However, on many of these farms—particularly those in the lower part of the range—family incomes could still be substantially increased by better farm organization and practices. In many cases, the production pattern could be made to conform more closely and more promptly to changing relative prices. In other cases, production techniques and the scale of operations need to be adjusted to make fuller use of progress in agricultural technology. Insofar as these medium-sized farms have a low-income problem, it can be largely solved by the traditional means of agricultural research and extension services and cooperative farm credit. Here the problem is, to a substantial extent, one of the inefficient use of resources rather than a deficiency in the amounts of those resources. Even so, more direct technical assistance in the planning and development of the individual farm and more adequate intermediate-term credit appear to be desirable. These farms derive moderate benefits, in both stability and level of income, from price-support programs. But such programs, in conjunction with acreage allotments, tend to penalize the more efficient for the benefit of the less efficient, thereby discouraging the adoption of those improved techniques, practices, and product combinations which would make price-support programs far less necessary.

C. LOW-PRODUCTION FARMS

Thus far, we have centered our attention upon the Nation's 2.1 million large- and medium-sized farms, all of which had gross cash sales of farm products of more than $2,500 in 1949. These farms, constituting only 38 percent of the Nation's farms and 40 percent of the operator-family population, accounted for 88 percent of American agriculture's gross cash income. Together, they had 73 to 75 percent of the Nation's acreage of farmland, acreage of cropland, and value of land and buildings. About 89 percent of these farms had total family net cash income from all sources of $1,000 or more, about 68 percent of $2,000 or more. By and large, even the farm families on such farms which earned less than these levels of income were temporary rather than permanent low-income families.

Characteristics

On the other hand, there were in 1949 about 3.3 million farms with farm product sales less than $2,500 (appendix table 1). These low-production farms accounted for 62 percent of the Nation's farms and 60 percent of the farm-operator family population, but only 12 percent of all cash sales of American farm products. They had only 25 to 27 percent of the Nation's farmland and cropland acreage and of the total value of the Nation's farmland and buildings. Of the operators of the 3.3 million low-production farms, about 35 percent reported family net cash incomes from all sources less than $1,000 and about 59 percent family incomes less than $2,000. Of all farms in the South, 78 percent were low-production farms, as compared with only 43 percent in the non-South. The South, with 49 percent of the Nation's farms, had 64 percent of all low-production farms, 73 percent of all such farms with family incomes under $2,000, and 77 percent of such farms with family incomes under $1,000. Of the last-named group, only 39 percent had nonwhite operators. However, of all low-production farms in the South having nonwhite operators, 72 percent reported family incomes under $1,000; of those with white operator families, the corresponding figure was 39 percent, as compared with 24 percent for all operator families on such farms in the non-South.

Policy implications

Low-production farms are so heterogeneous that consideration of public policies directed at their solution requires substantial subclassification. To this we now turn.

III. Low-Production Farms and Public Policy

Of the 3.3 million low-production farms in 1949, 1.0 million were residential farms, 0.7 million were part-time farms, 0.7 million were small-scale commercial farms, and 0.9 million were small family-scale commercial farms.

A. RESIDENTIAL FARMS

Characteristics

In 1949, there were about 1 million (66 percent in the South) residential farms with cash sales of farm products of less than $250 (average $82), hence almost wholly dependent upon off-farm income. Residential farms constituted 19 percent of the Nation's farms and 18 percent of its farm-operator-family population. But they had an average of only 17 acres of cropland, the average value of their land and buildings was only $4,675 per farm, and they made a negligible contribution to the Nation's commercial farm output (appendix table 1). Relatively high proportions of the operators of residential farms were over 64 years of age (21 percent) and widowed or divorced (12 percent). These farms had about the same proportion (34 percent) of population under 15 years as other classes of farms, but had a relatively high proportion (9 percent) over 64. Hence, their operator families were characterized by relatively high fertility ratios (standardized for age and marital status of woman) and dependency ratios.

The median family net cash income for residential farms was $1,650 (mean income $2,175), of which an average of 84 percent was derived from off-farm sources. About 58 percent of their operators reporting on occupation were primarily engaged in a nonfarm occupation, 4 percent more were primarily farm laborers, and 54 percent (48 percent in the South, 68 percent in the non-South) worked off the farm more than 100 days. A relatively high proportion (26 percent) of the operator families reported members other than the operator working off the farm, with 65 percent deriving more income from off-farm sources than from farm-product sales. Of all operator families on residential farms, 25 percent (18 percent in the South, 39 percent in the non-South) reported net cash incomes from all sources of $3,000 or more. Nonetheless, 37 percent (44 percent in the South, 21 percent in the non-South) reported incomes of under $1,000 and 58 percent (67 and 39 percent in the South and non-South) of less than $2,000.

Policy implications

While there is a substantial number of low-income families residing on residential farms, it is clear that the latter are only nominally farms at all. Hence, except insofar as agricultural extension programs can help their operator families improve their subsistence in the form of increased food production and preservation for household use, the solution to their low-income problem lies almost wholly outside of agriculture. For example, members of these families in their productive years might best be benefited by public policies directed toward increased local non-farm-employment opportunities, vocational training for nonfarm occupations, and more adequate and effective information services about employment opportunities elsewhere. For the aged, increased social-security and public-assistance benefits may be indicated. For the children, there is need for improved educational opportunities (the median years of school completed by the operators of residential farms were 7 in the South and 8.7 in the non-South), rural home-improvement programs (the dwelling unit was "dilapidated" on 28 and 12 percent of the residential farms in the South and non-South), and more extensive public-health services.

B. PART-TIME FARMS

Characteristics

In 1949, of the 3.3 million low-production farms, another 0.6 million (56 percent in the South) were part-time farms. Farms were so classified if they reported cash sales of farm products of $250 to $1,199 (average $612), and if the farm operator worked off the farm 100 or more days or if the nonfarm income received by him and members of his family was greater than the value of farm products sold. Except for residential farms, part-time farms were closer to a trading center median distance 4.9 miles) than any other class of farm and, excepting also large commercial farms, were most often (34 percent) located on a hard-surface road. Part-time farms, constituting 12 percent of the Nation's farms and farm-operator family population, averaged 30 acres of cropland and land and buildings worth $6,117 per farm (appendix table 1) and accounted for only 3 percent of the Nation's gross cash income from farm-product sales. As compared with residential farms, part-time farms had somewhat larger land resources; a substantially smaller proportion of operators over 64 (12 percent), operators widowed or divorced (7 percent), operator-family population over 64 (6 percent); and a lower dependency ratio. While their operator-family population had about the same proportion (32 percent) under 15 years of age and about the same median age (27 years), their standardized fertility ratio was considerably less than that on residential farms. The fertility ratio on part-time farms was lower than on any other class of farm in the non-South and among the lowest in the South, indicating that part-time farm families conform more closely to urban population patterns than other classes of farms.

The median family net cash income for part-time farms was $1,940 (mean income $2,400), of which an average of 82 percent was derived from off-farm sources. Thus, through off-farm employment, part-time farm families were able to earn almost as much total cash income as those on smaller medium-sized (class IV) commercial farms and substantially more than small (classes V and VI) commercial farms. Of part-time farm operators reporting an occupation, 49 percent (somewhat less than on residential farms) were primarily engaged in nonfarm work and another 3 percent were primarily farm laborers. But 62 percent (51 percent South, 74 percent non-South) of the part-time farm operators worked off the farm 100 days or more—slightly more than those on residential farms. A larger proportion of the part-time farm-operator families reported nonoperator members working off farm (32 percent) and off-farm income exceeding gross cash farm sales (87 percent) than families on any other class of farm, including residential. Of all operator families on part-time farms, 28 percent (17 percent South, 43 percent non-South) reported net cash incomes from all sources of $3,000 or more. However, 22 percent (28 percent South, 15 percent non-South) reported incomes under $1,000 and 51 percent (63 percent South, 36 percent non-South) under $2,000. As compared with families on residential farms, part-time farm families had relatively much fewer incomes under $1,000, with the greatest relative advantage in the income class $1,000 to $1,999.

Policy implications

Clearly, America's part-time farms have such limited resources that they are both actually and potentially incapable of furnishing their operator families with full-time on-farm employment and a satisfactory level of living from farming. Nonetheless, in combination with local off-farm employment, many of them provide a satisfactory total family income, a pleasant and healthful way of life, and a modicum of security against industrial unemployment and old age. In fact, it is quite possible that, in numerous instances, a part-time farm family with one or more members earning substantial wages in off-farm employment will actually produce as much or more farm output from a small farming unit than could a full-time farm operator on the same unit. This follows because the off-farm cash income may become a source of self-financing of needed capital improvements on the farm, such as labor-saving devices for the operator employed in a nonfarm occupation and additional livestock and pasture development for making better use of underemployed family labor.

Thus, in many instances, industrial development of densely populated rural areas may pay off in higher family levels of living. Such a process is by no means a mere matter of interregional competition—of moving given plants from one area to another. First, given better local non-farm-employment opportunities, low-production farm families offer a significant new market for farm-production goods and—especially if the women of the family find off-farm employment—for consumer goods. (Witness the burgeoning of business interest in reaching the special Negro market since this race raised its economic status substantially after 1940.) Second, even low-wage industries, which are no longer attractive to most workers outside of largely rural areas, may be a boon to workers whose only alternative employment is in a near-subsistence agriculture. Finally, given the need for the dispersal of industry for defense reasons, new plants could be located with more attention to the existence of widespread underemployment in the Nation's rural areas.

Thus, insofar as part-time farm families still lack adequate off-farm employment opportunities, public encouragement and assistance in local industrial development would appear to be desirable where other local resources are appropriate. Where they are not (notably in the Appalachian coal-mining areas), increased public investment in general education, vocational training for nonfarm employment, in employment-information services, and public-health services are especially important in facilitating needed out-migration and increasing the vigor and productivity of the next generation. There is also a real need and opportunity for the agricultural extension services (particularly in States east of the Mississippi) to direct more attention to the special production and home problems of their growing numbers of part-time farm families. Finally, with 22 percent of the southern part-time farm dwellings (and 8 percent of the nonsouthern dwellings) reported as "dilapidated" in 1949, the need for a rural home-improvement program is again apparent.

C. CHARACTERISTICS OF PART-TIME AND RESIDENTIAL FARMS BY FAMILY INCOME

If the 1.7 million residential and part-time (noncommercial) farms are combined and their characteristics classified by family income, the following generalizations may be made ("Other farms," appendix table 2). While farm ownership was much more general for noncommercial than for full-time commercial farms, the lower the income, the higher the rate of tenancy. The proportion of farm operators who were nonwhite was less on noncommercial farms, reflecting the less ready access of Negroes to local nonfarm employment in the South, but the percentage of nonwhite was higher the lower the family income. The lower the family income on noncommercial farms, the smaller the proportion of operators and other family members reporting off-farm work, the higher the median age of operators, the smaller the average family size, and the smaller the proportion of complete operator families with 1 to 4 children. The lower incomes were also associated with lower levels of education, higher percentages of farms located on unimproved roads, and poorer and less improved housing.

More specifically, in 1949 there were about 440,000 part-time and residential farms (78 percent of them in the South) with net cash family incomes from all sources of under $1,000 (average $466). Of these farms, 75 percent were owned by the operators, 23 percent of whom were nonwhite. Only 29 percent of the operators reported 100 or more days of work off the farm and only 19 percent of the families had nonoperator members working off the farm. The average size of the family consisted of 3.8 persons and the median age of the operator was 55.7 years. Only 33 percent of the operator families consisted of husband, wife, and 1 to 4 children under 18, the remainder consisting mostly of families with no children under 18, broken families, and single-person families. Some 69 percent of the operators had not completed elementary school and only 5 percent had completed high school or more. Of the farm dwellings (averaging 4.8 rooms), 48 percent were located on an unimproved road, 47 percent had been built before 1920, and 33 percent were "dilapidated." Although 55 percent had electricity, only 14 percent had a telephone and only 18 percent had piped running water inside the house.

By way of contrast, there were about 376,000 part-time and residential farms (42 percent in the South) with net cash family incomes from all sources of $3,000 or more (average $4,337 excluding the 5 percent with incomes in excess of $10,000). Of these farms, 95 percent were owned by the operators, only 1 percent of whom were nonwhite. Fully 85 percent of the operators worked off the farm 100 days or more and 41 percent of the families also had nonoperator members working off the farm. The average family size was 4.5 persons and the median age of the operator was only 46 years. Families consisting of husband, wife, and 1 to 4 children under 18 accounted for 56 percent of all operator families. Only 25 percent (36 percent South, 18 percent non-South) had failed to complete elementary school and 28 percent (22 and 23 percent) had completed high school or more. Of the farm dwellings, which averaged 5.9 rooms, only 19 percent (29 percent South, 12 percent non-South) were located on an unimproved road, 55 percent were built before 1920, but only 8 percent were "dilapidated." About 91 percent had electricity, 51 percent (35 and 63 percent) had a telephone, and 16 percent had piped running water inside the house.

The relationship between education of operator and the extent of operators' work off farm is a significant one, especially pronounced for part-time and residential farms. For operators of the latter who had not completed elementary school, only 46 percent worked off the farm 100 or more days in 1949. The corresponding figures for those completing elementary school (but not high school) and for those completing high school or more were 65 and 80 percent, respectively. But education was also related to age, the younger farm operators having more schooling as well as having more work off the farm. Most of the operators who worked off the farm 100 or more days were under 55 years of age. Of all part-time and residential farm operators, 65 percent were under 55 years. However, of those with family incomes under $1,000, only 49 percent were below 55 years; of those with family incomes over $3,000, 75 percent were below 55. Hence, the importance of higher social-security and public-assistance benefits in helping low-income people on noncommercial farms should not be overlooked.

D. SMALL-SCALE COMMERCIAL FARMS

Thus far, we have been concerned with the 1.7 million low-production farms which were residential or part-time, hence dependent primarily on off-farm work and nonfarm sources of income, in 1949. However, there were almost an equal number (1.6 million) of low-production farms which were small-scale (class VI) and small family-scale (class V) commercial farms.

Characteristics

In 1949, there were in the United States about 0.7 million (74 percent in the South) small-scale commercial farms. Like part-time farms, these class VI farms had gross cash sales of farm products of $250—1,199 (average $720). However, they were distinguished from part-time farms in that their operator worked off the farm less than 100 days and their net cash family income from nonfarm sources was less than the value of their cash sales of farm products. They were closer (median distance 5.4 miles) to a trading center than any class of farm, other than part-time or residential, and were most often (43 percent) located on an unimproved road. Small-scale commercial farms constituted 13 percent of the Nation's farms (19 percent of its commercial farms) and had 13 percent of the Nation's operator family population. However, with only 5 percent of the Nation's farmland (6 percent of the cropland) by acreage and 4 percent by value, they accounted for only 2 percent of the Nation's gross cash sales of farm products (appendix table 1).

The average acreage of their cropland was only 37 acres and the average value of their land and buildings only $4,648. With land resources approximately equivalent to those of part-time farms, these small-scale farms were clearly incapable of providing a satisfactory income for their operator families who, at the same time, almost wholly lacked off-farm employment opportunities. Their human resources more closely resembled those on residential than on part-time farms. For example, 25 percent of their operators were over 64—the highest percentage of any class of farm, including even residential—and 10 percent were widowed or divorced. They also had more operators under 25 (5 percent), more of their operator family population over 64 (11 percent), and slightly fewer under 15 (31 percent), than did any other class of farm. The median age of their operator family population was also the highest (28.6 years) of any class of farm.

However, there was a striking difference in family age structure between South (25.0) and non-South (46.2), while the median age of operators was 50.3 and 60.4 years, respectively. Similarly, the average family size was 4.1 and 2.9 persons, and the percentage of all operator families which consisted of husband, wife, and 1 to 4 children under 18 was 38 and 22 percent, respectively. (In contrast, the differences between South and non-South were relatively minor for families on part-time and residential farms.) These wide regional differences suggest that the low-income problem of small-scale farms was primarily one of the aged in the non-South but was largely attributable to lack of off-farm employment opportunities for people in their productive years in the South. The fertility ratio, standardized for age and marital status, was also higher on small-scale farms than for any other class of farms in the United States (563), the South (578), and (except for residential farms) in the non-South (481)—accentuating the problem of low incomes, particularly in the South.

The median family net cash income for small-scale farms was $730 (average income $975), of which 44 percent of this income was indicated as being derived from off-farm sources. However, given the definition of class VI farms, the Census considered it highly probable that this percentage was actually much less, resulting from an estimated underreporting of their cash farm sales of 25 to 50 percent in relation to the average of total family net cash incomes actually reported. (The Census estimated that, for all farms, net cash income from farming was understated by about 20 percent, with a more-than-average underreporting for part-time and residential farms as well.) At any rate, only 5 percent of the operators of small-scale farms reported that they were primarily engaged in a nonfarm occupation, 1 percent more that they were primarily farm laborers, while only 11 percent of the families reported any nonoperator member working off the farm. Of all operator families on small-scale commercial farms, 67 percent (71 percent South, 56 percent non-South) reported net cash incomes from all sources under $1,000 and 91 percent (93 percent South, 85 percent non-South) under $2,000. Only 4 percent (3 percent South, 7 percent non-South) reported incomes of $3,000 or more, as compared with 25 and 28 percent on residential and part-time farms, respectively. Of the dwellings on small-scale farms, the percentage reported as "dilapidated" was 34 percent in the South, 9 percent in the non-South.

Small-scale farms are found in nearly all regions of the United States, but are most numerous in the southeastern and delta cotton areas and in the general farming areas of the Appalachian Mountains. As a percentage of all commercial farms, small-scale farms constituted 43 percent in the Delta States (Arkansas, Mississippi, and Louisiana), 38 percent in the Southeast States (South Carolina, Georgia, Florida, and Alabama), 31 percent in the Appalachian States (Virginia, West Virginia, North Carolina, Kentucky, and Tennessee), and only 10 percent in all 36 other States combined. They constituted 46 to 52 percent of all commercial farms in the eastern hilly cotton areas of Mississippi, Alabama, and Tennessee; in the southern Appalachian Valley and Mountains and the Cumberland Plateau extending from southeastern Ohio through Kentucky, West Virginia, Tennessee, and North Carolina, to northern Georgia; and the southern Piedmont cotton area of North and South Carolina, Georgia, and Alabama. They also constituted 35 to 40 percent of all commercial farms in the Ozark-Ouachita Mountains and southwest sandy lands of Missouri, Arkansas, Oklahoma, Texas, and Louisiana and in the interior plateaus and western coal fields of Kentucky and Tennessee. Outside of the South, smaller concentrations of small-scale farms are found in the cutover areas of the Lake States, in northern New England, the Adirondacks, the Allegheny Plateau, and north central New Mexico. In general, small-scale farms are most numerous in thickly populated areas where technological and structural changes in farming are slow in coming about and opportunities for alternative employment are limited. Only in the southern Piedmont and southern Appalachian Valley has a substantial beginning been made toward industrialization and, even so, these remain among the areas with the heaviest concentration of small-scale farms.[4]

Policy implications

The low-income problem of small-scale farm families, while especially severe, can hardly be solved by public agricultural policies such as the price-support program. They have so little to sell that, however high the prices which they may receive from their farm products, few can hope to achieve even a modest level of living from the soil. Generally speaking, small-scale farming areas have very high rates of natural increase and land resources not only very limited in amount but often of poor quality and unfavorable topography. Given the pressure of the rural population on the local supply of arable land, land values may reach fantastic levels, sometimes approximating those of the best farmland of the Corn Belt. Agriculture offers the only means to a livelihood for those

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[4] J. V. McElveen and K. L. Bachman, Low-Production Farms, U. S. Department of Agriculture, Agricultural Information Buletin 108 (1953), pp. 11, 67, 70, and 22.

who fail to migrate and, lacking other employment opportunities, the local farm people place a very low value upon their own labor. Hence, they tend to bid up the price of local farmland to the point where, by any rational accounting process, the net return on their labor is extremely low if not negative. Under such circumstances, a small tobacco allotment (say, 0.9 acre producing an annual gross cash value of product of not more than $800) may contribute out of all proportion to the purchase price of a small farm.

Such a situation prevails in many parts of the Southeast where—despite a substantial exodus of people to other areas—the rate of migration has been inadequate to encourage, through lower land values, farm consolidation, and reorganization on a higher-productivity basis or the retirement of submarginal farmland to forestry and other uses where more appropriate. Hence, insofar as industrialization of such areas is impracticable, increased public investments in general education (the median years of school completed by small-scale farm operators was 6.1 in the South, 8.3 in the non-South), vocational training for nonfarm employment, and employment-information and public-health services are again clearly needed to step up the rate of outmigration substantially. Such public policies would appear to be justified on the grounds that small-scale farming areas contribute a major part of the Nation's urban population and nonagricultural working force, while lacking the fiscal resources to provide adequate educational, vocational, and health services.

At the same time, it should be recognized that, inadequate though the low-income rural community's investment in these people may be, outmigration (except for remittances to the folks back home) represents a severe drain on such limited capital resources as it may possess. A recent sample survey by the University of Tennessee indicated that, in that State, white owner-operator families with disposable net cash incomes under $1,250 (average $813) in 1949 spent an average of $3,134 per child reared to age 15 for food, clothing, medical care, education, and other direct outlays—not allowing for family overhead costs but charging interest on exenditures at 2 percent, compounded semiannually. The community expenditure for education alone amounted to another $160 per child to age 15. Since, in the same year, Tennessee lost some 42,000 people to other States by outmigration, this represented a total loss to Tennessee farm families and their communities of about $138 million of past "investment" (or about $600 per Tennessee farm) in their excess population in that single year.[5] Thus, the southern people annually invest large though inadequate sums in their crop of children in the unproductive years, while losing them to the more industrial and urban regions of the Nation for their productive life. Clearly, equalization of educational opportunities through Federal grants-in-aid would be justified in easing the fiscal burden of the regions suffering outmigration and in improving the quality of the people migrating into the wealthier recipient regions.

It should also be emphasized that even a fully adequate rate of outmigration from small-scale farm areas may be a necessary but not sufficient condition for their economic readjustment. At best, such areas are bound to have a serious deficiency of capital available for reorganization of the local agriculture into a smaller number of larger, more efficient, and more diversified farming units. Hence—if these areas are not submarginal for larger-scale, more extensive agriculture—they will require the inmigration of considerable farm capital, particularly of intermediate term, as well as the decline in population dependent upon the land. In the absence of the development of public farm-credit policies to serve this need, the result will be abandoned farmland, social disorganization, and (as the selective process of outmigration takes its qualitative toll) stranded and isolated farm people. Of course, if the small-scale farm area is submarginal for agricultural land use (as in the cuttover regions of thte Lake States and in parts of the coal-mining areas of the southern Appalachians) public zoning, mandatory population relocation, and a long-run program of reforestation may be necessary.

Meanwhile, it is clear that the Farmers' Home Administration should scrupulously avoid loans which encourage the perpetuation of uneconomic, essentially subsistence farming units. Similarly, the minimum restrictions which Congress has placed on acreage allotments (particularly on tobacco) in its farm program should be lifted on the grounds that they have atomized production to the point of extreme inefficiency, and have diverted production from the areas of greatest comparative advantage, while retarding the outmigration of farm people from

[5] Erven J. Long and Peter Dorner, Excess Farm Population and the Loss of Agricultural Capital, unpublished paper (1954).

other areas where, under any circumstances, even a modest level of living cannot possibly be gained from small-scale agriculture.

On the other hand, considering the human and social costs of outmigration as well as the extreme difficulties of achieving a sufficient rate of migration, the desirability (where feasible) of the alternative of industrialization of small-scale farm areas is again apparent. Of course, in many instances, such areas lack the local resources, the transportation and power facilities and the public services whcih are prerequisites to much industrial development. However, in other instances, the local facilities would meet the needs of some types of manufacture. Hence, the activities of State industrial development commissions and of Federal activities in community and area development need to be improved and expanded considerably. Through these public services, rural communities with much underemployment can be assisted in appraising their local resources, in determining the types of industries for which they are best suited, and in techniques for attracting and holding such industries. At the same time, public agencies can serve as clearinghouse of information which will help industrialists to find satisfactory plant locations in such communities.

The Department of Labor's designation of labor surplus market areas needs to be broadened considerably to include those characterized by agricultural underemployment, not just these (as now) experiencing current industrial unemployment. The precedent for this step was recently established when Newport, Tenn., was so classified. Unfortunately, there are hundreds of other southern communities which, according to the same standards, deserve a similar status. If these communities could be identified and thus brought out into the open, the considerable amount of hidden underemployment would be revealed as a serious national problem, even under statistically full employment conditions. Then, in financing defense plants and in letting defense contracts, the Federal Government should favor, other thing being equal, location in underemployed rural areas. Finally, in defining its public-power policy—particularly with reference to TVA—the Federal Government should recognize the crucial importance of an adequate power supply to the underdeveloped Southeast. At the present time, largely due to the tremendous power requirements of the atomic-energy plants at Oak Ridge and Paducah, TVA can neither supply new private plants with power nor promise them power connections within the foreseeable future. The real danger is that with Congress niggardly because TVA represents public power and with private utilities reluctant to expand because of public competition, a substantial part of the South will fail to achieve a supply of public or private power commensurate with its rapidly growing industrial needs.

Certainly, to the fullest extent consistent with industrial efficiency, there is a need for improving the low family incomes of small-scale farm areas by the provision of supplementary local off-farm employment. This would mean a change of occupation without change of residence, with the least amount of disruption of family ties and social organization. According to the census classification, small-scale farms would become part-time farms without significant reorganization, not (except to only a limited extent) larger scale commercial farms through the difficult process of consolidation. Whatever the limitations of their physical resources, relatively few small-scale farm areas yet are lacking in a supply of human resources wholly suitable for industrial employment. There has been much misunderstanding of this point, commonly expressed in terms of the alleged preference of such rural underemployed for hunting and fishing. The plain fact is that local nonfarm employment opportunities in rural communities are rationed in the sense that far more farm people would shift to local nonfarm jobs at prevailing wages if these jobs were available.

Time and again, officials of southern industrial development commissions have reported applications for local industrial employment many times greater than the openings which resulted from the establishment of a new plant with a substantial labor force in a rural area. Gale Johnson[6] has found that, in terms of income, farm migrants to nonfarm areas from South and North do about equally well and about 90 to 95 percent as well as urban-born workers and, except for older migrants, close the gap completely within 4 to 5 years. In a study of the experience of Indianapolis employers with southern migrant labor, Eldon Smith[7] did find some reluctance to hire mountain people, particularly if not accompanied

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[6] Comparability of Labor Capacities of Farm and Nonfarm Labor, American Economic Review, June 1953.

[7] Urban Adjustments of Rural Migrants, Ph. D. dissertation, University of Chicago, 1953.

by their families. The reason given was that they were often too hotheaded and independent to stay on the job long enough to justify their training costs. Nonetheless, southern migrants have generally proved to have considerable capacity and adaptability in shifting to nonfarm employment in other regions.

There also does not appear to be any reason to expect that, through a selective process, outmigration has yet gone far enough to leave behind only those who prefer leisure or who are more limited in capacity. In fact, industrialists with actual operating experience in the South have found the labor supply very satisfactory with regard to "the abundant * * * supply which offers a better selection of workers, excellent trainability * * * high productivity because of cooperative attitudes and low rates of turnover and absenteeism, good labor relations, wage differentials in many cases, low labor costs in virtually all cases." The principal labor disadvantages reported were "shortages of key industrial and supervisory skills, * * * shortages of vocational training programs, and somewhat different industrial relations problems arising out of the developing unionism." [8] Everything considered, the evidence appears to indicate that, given the abundant supply of underemployed labor in the South, those who hunt and fish by preference, rather than by reason of the lack of more lucrative uses of their time, are still a distinct minority. Only given alternatives can their preference for leisure be put to the test. Furthermore, insofar as such a preference is genuine, it can be expected to change with their general pattern of wants if they are drawn into an as yet unexperienced industrial-urban orbit, offering many attractive goods and services not now available to them locally at any price.

E. SMALL FAMILY-SCALE COMMERCIAL FARMS

Characteristics

Finally, in 1949, the United States had about 0.9 million (58 percent in the South) small family-scale farms, with gross cash sales of farm products of $1,200 to $2,499 (average $1,813). These class V farms were a median distance of 5.9 miles from a trading center and were more often (37 percent) located on an unimproved road than any other class of farm except small-scale farms. Small family-scale farms comprised 17 percent of the Nation's farms (27 percent of the commercial farms) and operator family population. However, having only 10 percent of the Nation's farmland (11 percent of the cropland) by acreage and 9 percent by value, they were responsible for only 7 percent of the gross farm product sales (appendix table 1). They averaged 58 acres of cropland and land and buildings worth $7,829 per farm.

As compared with large and medium commercial farms, class V farms had only moderately higher proportions of their operators over 64 (14 percent), under 25 (5 percent), and widowed or divorced (6 percent), and about the same proportions of their operator-family population over 64 (7 percent) and under 15 (33 percent). The median age of their operator-family population (26 years) was the lowest of any class of farm for the United States, but showed a marked regional difference—22 years in the South, next to the lowest class (IV) of farm; and 33.2 years, next to the highest class (VI) of farm, in the non-South. (On the other hand, there was little regional difference in median age for class I, II, and III farms.) Similarly, in the South and non-South, respectively, the median age of the operator was 45.2 and 51.2 years; the percentage of all operator families which consisted of husband, wife, and 1 to 4 children under 18 was 49 and 37 percent; and the average family size was 4.5 and 3.6 persons. Finally, standardized for age and marital status, the fertility ratio was 527, next to the highest class (VI) of farm, in the South; but only 458, on the low side, in the non-South. Thus, as for class VI farms, we must conclude that the low-income problem on class V farms is more largely associated with the aged in the non-South and with lack of off-farm job opportunities for people in their productive years in the South.

The median family net cash income for small family-scale (class V) farms was $1,470 (average $1,900), of which 48 percent was derived from off-farm sources. Of the operators reporting an occupation, 12 percent (the highest for any class of commercial farm) were primarily engaged in a nonfarm occupation and 2 percent were farm laborers. About 18 percent (12 percent South, 26 percent non-South) of the operators of class V farms worked off the farm more than 100 days. Of the operator families, 18 percent reported other members of

[8] Stefan H. Robock and John M. Peterson, Fact and Fiction About Southern Labor, Harvard Business Review, March–April 1954.

the family working off the farm and 21 percent (16 percent South, 28 percent non-South) reported that their off-farm income exceeded gross cash sales of farm products. Of all operator families on small family-scale commercial farms, 18 percent (11 percent South, 27 percent non-South) reported family cash incomes from all sources of $3,000 or more. However, 32 percent (40 and 21 percent) reported incomes under $1,000 and 65 percent (75 and 51 percent) under $2,000. It is interesting to note that, while having higher average agricultural resources than any other class of low-production farms, small family-scale commercial farms had a lower median family income than either part-time or residential farms, and a substantially larger percentage of families (in South and non-South alike) with incomes under $1,000 than did part-time farms. The percentage of dwellings on small family-scale commercial farms reported as "dilapidated" (26 percent South, 9 percent non-South) fell between the comparable percentages for part-time and residential farms.

These class V commercial farms were concentrated in the same areas as were small-scale (class VI) commercial farms. In the delta, Appalachian, and southeast regions, 33 to 34 percent of all commercial farms were class V farms, as compared with 19 percent for the rest of the United States. The heaviest concentration (42 percent) was in the delta cotton area of Mississippi, Arkansas, and Louisiana, followed by the Coastal Plains (37 percent) stretching from Virginia to Florida and Alabama; the cutover area of Minnesota, Wisconsin, and Michigan (37 percent); and the southern Piedmont (36 percent) from Virginia to Alabama. Throughout the Southeast, class V and VI farms together accounted for 50 to 78 percent of all commercial farms in 1949, with the former of somewhat greater relative importance in the areas of better soil and more favorable topography, the latter in the more hilly and mountainous areas.[9]

Policy implications

It is quite possible that a considerable number of the Nation's small family-scale (class V) commercial farms have enough resources to produce from farming a family income comparable with that the same family could earn in nonfarm occupations. The median family cash income for this class of farms was $1,470 in 1949. At least $400 to $500 more should be added for the average value of farm products produced and consumed on the farm[10] in the same year, bringing the median family income in cash and kind (excluding allowance for rent-equivalent of farm dwelling) up to $1,900 to $2,000. Thus, perhaps half of all class V farm families should be considered outside of the real low-income family group, although some of them would be so considered because they had significant off-farm income rather than depending wholly upon income from farming. Because of the greater heterogeneity of class V farms, some subclassification is necessary for policy purposes. Before doing so, however, we should again emphasize the ineffectiveness of price-support programs in solving the low-income problem of small commercial farms. The following comparisons of the average amount of the five largest CCC loans and the average CCC loan on the 1953 cotton crop lend striking support to this argument:

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[9] McElveen and Bachman, op. cit., pp. 67 and 70.

[10] McElveen and Bachman (op. cit., p. 73) estimated the average value of farm products produced and consumed on the farm for all commercial farms in selected low-production area in 1949: Mississippi Delta $194 (reflecting the small return in kind of the specialized, usually nonwhite, sharecropper in the best cotton areas of the South), $350 to $449 in the Georgia Coastal Plains, interior plateaus of Tennessee, and southwest sandy lands of Texas: $450 to $549 in the eastern hilly area of Mississippi, the North Carolina Cotton Piedmont, and the Missouri Ozark-Ouachita Mountains; and $581 to $667 in the Appalachian Valley of Tennessee and the Appalachian Mountains of North Carolina. The average for the 9 areas was $470, for the 8 areas omitting the Delta, $504.

Prof. Margaret Reid, of the University of Chicago, in an unpublished study of the comparability of farm and nonfarm incomes, concluded that for all farms an allowance of $1,000 should be made for farm income in kind, including food and housing. For low-production farms, however, the average quality of housing (hence its imputed rental value) is relatively low, though $240 to $360 might be a reasonably close rough approximation.

State	Average 5 largest CCC loans	Average, all CCC loans	State	Average 5 largest CCC loans	Average all CCC loans
California	$649,335	$1,731	South Carolina	$87,880	$368
Mississippi	479,535	372	Louisiana	74,823	452
Arizona	231,209	1,378	Tennessee	42,655	299
Texas	219,440	337	North Carolina	42,438	403
Arkansas	192,517	407	Oklahoma	31,932	229
Missouri	153,191	395	Georgia	27,516	309
New Mexico	144,835	500			
Alabama	100,712	318	Average	177,001	536

These data clearly indicate the inefficiency and inequity of a Government price-support program which—in order to add a few hundred dollars (actually the competitive market value of the collateral should be deducted in determining the net benefits) to the average cotton farmer's gross income—must add thousands and thousands of dollars to the income of the relatively few large commercial farmers who are far better off than the typical urban family.

Among the class V farms, there are undoubtedly a significant number of farms which have sufficient land resources for efficient operation but which have low family incomes from farming because of insufficient working capital, deficiencies of management, and the failure to keep abreast with technological progress and changing market demands. More agricultural research needs to be directed toward the special problems of the small commercial farm and more effective ways (such as Kentucky's family plan) of reaching them through the agricultural extension service should be developed. They are also particularly in need of supervised credit for improvement of their buildings, fencing, pasture improvement, and the purchase of machinery and livestock. Their managerial know-how is likely to be particularly deficient if an appropriate farm-reorganization plan would require a shift in their type of farming from a single cash crop to a more diversified crop-livestock combination. They may be excellent cotton or tobacco producers, while knowing very little about efficient production of hogs, cattle, or poultry. Too frequently, even the State research and extension programs are strongly oriented toward a single regionally important cash crop, although this tendency is gradually breaking down.

Local commercial bank resources, in the absence of nearby industrial-urban centers, are likely to be extremely limited and devoted almost wholly to short-term seed and fertilizer loans for the prevalent cash crop. Even if local rural banks are able and willing to make loans for sound improvements which will pay off handsomely but only after 3 to 5 years, they usually will do so only on either a 1-year renewable basis or on the basis of a real-estate mortgage—terms which most cautious farmers will be unwilling to accept. Much the same is true of the agencies of the Farm Credit Administration, which primarily serve the larger commercial farmers, which provide intermediate-term credit needs only in a limited and indirect way through renewable PCA loans, and which are not very active in the South.

In part the credit needs of such farms could be taken care of by the more widespread employment and use of agricultural specialists by rural commercial banks and by the development of intermediate-term types of credit by the FCA. In part private processing firms could play an important role—as they already have in the development of the Southern broiler and dairy products industries—by providing small farmers with the market, the capital, and the managerial knowledge necessary to permit them to shift to profitable but once unfamiliar new farms products. (The southern broiler industry has been an almost unique example of a situation involving sufficient movement of farm capital into highly rural communities to employ much of the local farm population fully in agriculture without requiring a concomitant out-migration of the farm labor force.) But, in large part—given the regional deficiency of capital and the need of careful supervision of its use—the more suitable small commercial farms in the South can solve their credit problem only through the extension and further improvement of the activities of the Farmers' Home Administration. After many vicissitudes this agency has now developed a sound basic statute and a plan of action and supervision well suited to the needs of the Southern low-production commercial farm, particularly if its land resources are adequate, but much await the availability of intermediate-term credit resources if they are to be improved and developed on an efficient basis. A substantial increase in the Government's financial backing of the Farmers' Home Administration would appear to be called for, even at the sacrifice of much of the present costly price-support program.

For a substantially larger number of class V farms, the operator families lack the land as well as other capital resources to produce a satisfactory family income from farming. Insofar as class V (and class VI) farms consist of cropper subunits (each a census farm) of multiple-unit plantation operations, the problems of providing greater land and capital resources per operator family are probably least acute. For purposes of farm reorganization, plantation operations have distinct advantages. First, they usually consist of contiguous tracts of land under common ownership so that the total landholding can rather readily be subdivided into a smaller number of operating subunits as the occasion arises. Furthermore, the owners of multiple-unit operations are likely to have greater resources for self-financing and greater access to local credit agencies in providing a more adequate supply of capital per operator family. Finally, they probably possess more of the managerial know-how and ability to make fullest use of the latest available agricultural research and technology.

With the substantial outmigration of sharecroppers (largely Negro) from the South during the 1940's, much of this type of reorganization took place. As a result of the increasing scarcity of farm labor and higher wage rates, mechanization of cotton production and farm diversification were strongly encouraged, without social hardships, in the areas most suitable for mechanized operations. However, because some gaps remain in the mechanization of cotton, there is still considerable need for labor at certain crucial parts of the cropyear. This fact, in conjunction with a slackening of the pace of outmigration and the lag in the development of sizes of farm machinery adapted to small-scale cotton-farming operations, has put a damper on further plantation reorganization in more recent years. As a result, much inefficiency in the use of farm labor resources remains even under plantation conditions. Certainly, no one would want to promote the displacement of cropper families, in the absence of better off-farm opportunities, through mechanization. However, given such opportunities, public policy should be directed toward facilitating their outmigration and toward eliminating the remaining technological barriers to full mechanization.

In this connection, it should be observed that low-income Negro families face particularly difficult problems in the South. Given racial discrimination in local nonfarm employment, even nearby industrial-urban development may offer them only limited opportunities for bettering themselves. To some extent, certain all-Negro jobs (e. g., broiler processing) may be developed locally; in other cases (notably, in the new International Harvester plant at Memphis) a firm management policy of nondiscrimination is gradually gaining a surprising degree of social acceptance. Nonetheless, progress in this area is of necessity slow and evolutionary in character. Under such circumstances, given industrial-urban development in parts of the South, one might expect that, through a process of occupational selection, the relative importance of Negroes as farm operators might actually grow in the South. In fact, the opposite has happened. Even more than whites, Negroes probably face very great barriers in getting access to the local capital market for farming purposes. Thus, if they become independent farm operators locally, it is usually on the basis of such limited capital and managerial talent that they must locate on the poorer and rougher soils, with resources too small to produce more than the most meager living. As a result of these factors, most low-income Negro farm operators have few alternatives to long-distance migration as a means of improving their economic and social status substantially. In doing so in large numbers, they have run counter to the generally positive association between educational attainment and propensity to migrate. For these reasons, public-education, vocational-training, and employment-information services need to give more attention to the special economic problems of Negroes. Similarly, insofar as it is not yet doing so, the Farmers' Home Administration should make a conscious effort to follow nondiscriminatory loan policies.

Speaking more generally, for whites and Negroes alike, a solution of the low-income problem of areas dominated by class V farms must await either a considerable long-distance outmigration of people from those areas or a considerable amount of nearby industrial-urban development. In our discussion of low-income class VI farms above, we have already indicated the process by which long-run farm reorganization might take place and be facilitated in rural areas which lose sufficient excess population by outmigration. Much the same holds for low-income class V farms except that the latter are perhaps more often located in areas somewhat more suitable in soil and topography for an efficient agriculture, and already have larger land and capital resources per farm upon the basis of which farm enlargement, improvement, and development can more readily proceed.

The institutional and locational barriers to land consolidation are very great. Nonetheless, given sufficient outmigration, farmland does begin to become available for rental or purchase at prices which make farm enlargement possible and economical. As such areas are found, the Farmers Home Administration should be alert to the possibilities of farm enlargement and improvement on a higher productivity basis. It should also be given the financial resources to provide the types of credit and managerial assistance required to bring about the establishment of a smaller number of larger, more efficient, and better diversified farming units in areas in which such a development is feasible and economically sound.

This kind of areawide reorganization of agriculture is a slow process, and the magnitude of the necessary adjustments is exceptionally great. For example, the Mississippi Agricultural Experiment Station recently estimated that the optimum long-run readjustment of the agricultural resources of the Mississippi uplands would require a 150-percent increase in total farm capital and a 60-percent reduction in the farm labor force, accompanied by a substantial increase in the average size of farm. Readjustments of this magnitude can be left wholly to evolutionary forces only at great human and social cost. Certainly, the process must be hastened and facilitated by sound public policies.

At the same time, though the goal is clear, such policies must be gradualistic and voluntary. For underemployed farm people, the objective must be to promote better nonfarm employment opportunities and their knowledge and ability to take advantage of such opportunities on a strictly voluntary basis. In meeting farm-credit needs in areas of extensive rural underemployment, public and private resources must be expanded gradually, with due regard for sound farm planning and the need for extensive managerial assistance. But, within this framework of democratic values and sound economics, public policies must be promptly evolved and generously financed to reduce as rapidly as possible the incidence of rural poverty and rural slums in America.

Once again, as already covered in detail in our discussion of small-scale (class VI) farm areas, we should emphasize the importance of industrialization of areas of rural underemployment as a frequently superior alternative to large-scale outmigration of underemployed farm people. We do not need to repeat that discussion here with reference to means of improving the low incomes of class V farm areas, although much the same principles would hold. The principal difference is that, given nearby industrial-urban development, class V farms may more often than class VI farms have the capabilities for reorganization into full-time farming units, which might produce a more satisfactory family living from farming alone, instead of following the alternative route of becoming additional part-time farms. Hence, the only significant thing we can add here is to describe how industrial-urban development can serve as the dynamic factor which brings about local agricultural reorganization at a minimum of human and social costs and of public intervention.

There are a limited number of local areas in the southeast which, for one reason or another, have had considerable industrial-urban development—accompanied by a significant influx of nonagricultural capital and a rising per capita income—during the past several decades. Yet, 30 to 50 years ago, these economically advanced counties were as rural and as dependent upon agriculture (and had comparably low farm output per worker and family levels of living, and similar resources and cultural history) as contiguous counties which, lacking industrial-urban development, have remained economically backward until the present day. Observation and comparison of such groups of counties suggest that industrial-urban development has had very important effects in improving the efficiency and family income of the local agriculture in the economically advanced areas. What appears to happen is as follows:

By creating nearby nonfarm employment opportunities, local industrialization increases the actual cost of hired farm labor and the imputed cost of operator-family labor used in agriculture. The full-time farm operator, faced with higher labor costs, is forced to reorganize his farm business so that the productivity of the worker remaining in agriculture is raised enough to cover his greater cost.

Such reorganization may take the form of farm enlargement, improvement and more intensive use of existing farms, or subdivision into smaller part-time and residential farms, depending primarily upon location relative to the growing urban center. But, in every case, it involves a higher ratio of capital to labor on the farm.

The important thing is that, by breaking down imperfections in the local labor and capital markets, industrial-urban development of rural areas greatly speeds readjustments in the direction of higher productivity and higher family incomes for agriculture. First, because it is much easier to get underemployed people to change occupations without changing residence (migration), local nonfarm job opportunities have a far more immediate and marked effect upon local labor returns than do distant opportunities. Second, the drain on local community capital which accompanies outmigration is avoided. Third, the influx of nonagricultural capital which accompanies industrialization increases local banking and credit resources and personal savings. Hence, local financial institutions become more adequate to thte need for local economic development and, in the process, more willing and able to provide nearby agriculture with much-needed capital resources.

Fourth, with the growth of industrial-urban centers, additional nonfarm jobs are generated in the service industries. Thus, with new markets created for locally produced farm products, local business leadership has new incentives to establish and extend farm marketing and processing facilities and to develop sources of supply by providing local farmers with the capital and know-how needed to shift to new and more profitable lines of production. Furthermore, with improved local markets for consumer and farm-production goods, local farmers are likely to gain by the availability of a wider range of goods and services, provided on a more efficient and more competitive basis and with more adequate informational and credit facilities. Finally, with greater concentration of population and rising per capita incomes, such developing communities can supply much-improved public services (e. g., education, health, transportation, and communication) which raise nearby rural levels of living and stimulate further economic development.

Unfortunately, outside of a few older metropolitan areas, industrial-urban development in the South has been relatively spotty and has not yet been widely enough diffused to alleviate much of the low-income problem in areas of rural underemployment. Where industrial-urban development has taken place, however, the ameliorative effects on the nearby agriculture have been substantial and clearly point to its desirability as one major route to raising the productivity and income of this region and its vast underemployed farm population. Hence, public policies need to be developed to help rural communities industrialize; to stimulate the growth of small business; and to assure low-income regions of adequate power supplies and auxiliary public educational, vocational, informational, and communication services.

The magnitude of the problem is too great to leave wholly to private evolutionary forces. For example, during 1950–60, the 7 Tennessee Valley States will have a natural increase in their labor force of 1,600,000 and (conservatively) 500,000 more will leave agriculture. Thus, during the present decade, this region will need to find nonfarm outlets for at least 2,100,000 workers. These 7 States enjoyed as great an expansion in nonagricultural employment during 1940–50 as in the previous 50 years. But, even with the same large volume of outmigration as took place during that decade, these States must provide additional nonfarm job opportunities, as great as those produced in the phenomenal 1940's, if the expected accretions to its labor force are to be fully absorbed. With no outmigration, even such progress would absorb only one-half of the expected accretions to their nonagricultural labor force.

F. CHARACTERISTICS OF COMMERCIAL FARMS BY LEVEL OF FAMILY INCOME AND PRODUCTIVITY

Characteristics by size of family income

It is not possible to determine the characteristics of low-production (class V and VI) farms only by family income. Such information is available only for all commercial farms, although low-production commercial farms accounted for 74 percent of all commercial farms with family net cash incomes from all sources under $1,000; but only 42 percent of all with incomes of $1,000 to $2,999 and only 17 percent of all with incomes of $3,000 or more. Hence, the characteristics of commercial farms with incomes under $1,000 largely reflect those of class V and VI farms only.

Among all commercial farms, lower family incomes were associated rather closely with greater tenancy and sharecropping in the South but not in the non-South, where owner-operators were of considerably greater relative importance (appendix table II). Nonwhite operators and operators and family members with little or no off-farm work or income were more common in the lower income group. There was little relation between family income and median age of operator or average family size in the South but there was a negative relationship in the non-South. Lower family incomes were also associated with lower educational achievement, more frequent location on unimproved roads (but, in the South, location closer to a trading center), and smaller and more poorly maintained and equipped housing.

More specifically, in 1949, there were about 927,000 commercial farms (68 percent in the South) with family cash incomes under $1,000. Their average family income was $440 in the South and $513 in the non-South but, taking regional differences in average family size into account, the difference in per capita cash income was greater—$102 in the South and $160 in the non-South. Of these farms, 57 percent (46 percent South, 81 percent non-South) were owned by the operators, 27 percent (39 percent in the South) of whom were nonwhite. In the South, of all commercial farms with incomes under $1,000, 25 percent were operated by tenants and 29 percent by croppers. For the Nation as a whole, only 2 percent of the operators of these farms worked off farm 100 or more days, only 11 percent had other family members reporting any nonfarm work, and only 4 percent of the families received off-farm cash income in excess of their gross farm-product sales.

For commercial farms with less than $1,000 family income, there were distinct differences in the character of the operator family population between South and non-South—median age of operator 47.8 and 55.2; average family size 4.3 and 3.2; and percentage of complete operator families with 1 to 4 children under 18 years, 41 and 31 percent. About 63 percent (76 and 35 percent) of the operators had not completed elementary school and only 6 percent (4 and 11 percent) had completed high school or more. In the South, 50 percent of these low-income commercial farms depended primarily upon cotton production and 24 percent on other field-crop specialties (principally tobacco and peanuts). In the non-South, most of them depended primarily upon dairy or poultry (37 percent) or other livestock (28 percent). These farms averaged 5.5 miles from a trading center and 43 percent (50 percent South, 31 percent non-South) were located on an unimproved road. Of their farm dwellings—averaging 4.6 rooms in the South and 5.9 rooms in the non-South—54 percent (45 and 69 percent) were built before 1919 and 26 percent (32 and 12 percent) were dilapidated. While 64 (60 and 75) percent of these farms had electricity, only 20 (7 and 49) percent had telephones and only 23 (15 and 40) percent had piped running water inside the dwelling.

It is interesting, by way of contrast, to review the characteristics of the Nation's commercial farms with family incomes over $3,000, which should represent the high-production and high-income minority of the Nation's farms. In 1949, there were 1,044,000 of these farms (only 25 percent in the South), of which 8 (8 and 9) percent had family incomes of $10,000 or more. Excluding the latter, their average family income was $4,618 in the South and $4,704 in the non-South or, on a per capita basis, $1,100 and $1,120, there being no regional difference in family size among upper-income commercial farmers. Of these farms, 77 percent were operated by owners, but only 6 percent by croppers and only 3 percent by nonwhites. Of their operators, 16 percent (20 and 14 percent) reported more than 100 days of off-farm work, 21 percent (22 and 20 percent) reported other family members working off farm, and 14 percent (20 and 12 percent) reported off-farm income greater than gross cash sales of farm products. With virtually no regional differences, these farms had operators with a median age of 46.2 years, an average family size of 4.2 persons, 53 percent of their operator families consisting of husband, wife, and 1 to 4 children under 18, and 27 percent of their operators with a high-school education or better. Even in this upper-income group of farms, however, 24 percent (35 and 21 percent) had not completed elementary school.

In the South, 53 percent of these upper-income commercial farms (as compared with 76 percent of those with incomes under $1,000) were primarily dependent upon cotton, tobacco, cash-grain, and other field-crop specialties. But 47 percent (as compared with 24 percent for the low-income group) derived their major farm income from dairy, poultry, other livestock, and general farming. In the non-South, the corresponding figures were 26 and 74 percent, respectively. These farms were a median distance of 6.1 (6.8 and 5.8) miles from a trading center but only 23 (42 and 17) percent were located on an unimproved road. Of their farm dwellings, which averaged 5.7 and 6.9 rooms, 65 percent (34 percent in the South, 75 percent in the non-South) were built before 1919 but only 5 (9 and 4) percent were "dilapidated." Fully 91 (90 and 91) percent had electricity, 70 (64 and 72) percent had piped running water inside the dwelling, and 63 (38 and 72) percent had a telephone.

Levels of productivity on commercial farms

In table 2, we present some basic productivity indexes for all commercial farms combined in selected low-production farm areas, mostly in the South. Among the 9 southern low-production areas, the average value of product (including home-produced food) per farm ranged from $1,910 in the eastern hilly area of Mississippi to $3,242 in the coastal plains area of Georgia, or from 30 to 52 percent of the national average and from 20 to 34 percent of the average in central Iowa. Perhaps a more significant measure of output is "the value of product added" after allowing for major production expenses. Among the southern areas, the value of product added per farm ranged from $1,525 in the eastern hills of Mississippi to $2,421 in the delta of the same State, or 38 to 60 percent of the national average and 25 to 40 percent of the central Iowa average. Considering these wide ranges in output per farm, there was a very narrow range in labor input per farm, after adjustments for off-farm work and other factors. Among the southern low-production areas, the range was from 1.30 (eastern hilly) to 1.79 (coastal plain) man-years per farm, or fully 77 to 107 percent of the national average and 92 to 126 percent of the central Iowa average. On the other hand, there was a much wider range in capital input per farm, from $5,563 in the eastern hills of Mississippi to $12,993 in the interior plateaus (central basin and highland rim) of Tennessee, or 24 to 57 percent of the national average and only 12 to 28 percent of the central Iowa average.

TABLE 2.—*Output and labor and capital inputs, per farm and per worker; resources used per unit of output; acres of cropland per farm and average land values per acre, all commercial farms in United States, central Iowa, and selected low-production areas, 1949* [1]

Selected area	Average per farm				Average per worker [4]			Per $1,000 of product added [2]		Cropland per farm (acres)	Value of land and buildings per acre	
	Product added [2]	Value of product [3]	Labor input (man-years) [4]	Capital input [5]	Value of product [3]	Product added [2]	Capital input [5]	Labor input (man-years) [4]	Capital input [5]		Cropland	Cropland and open pasture
United States	$4,063	$6,282	1.68	$22,923	$3,739	$2,418	$13,645	0.41	$5,642	88.5	$200	$86
Central Iowa	6,052	9,603	1.42	46,197	6,763	4,262	32,533	.23	7,633	136.7	281	245
Wisconsin cutover	2,458	3,680	1.56	12,329	2,360	1,576	7,903	.63	5,016	44.4	169	111
Mississippi Delta	2,421	3,029	1.62	7,321	1,870	1,494	4,519	.67	3,024	36.7	164	150
Georgia Coastal Plain	2,281	3,242	1.79	8,994	1,811	1,274	5,025	.78	3,943	46.1	145	124
Tennessee Interior Plateaus	2,174	3,159	1.66	12,993	1,903	1,310	7,827	.76	5,977	37.0	261	124
Southwest Texas sandy lands	1,955	3,063	1.47	10,766	2,084	1,330	7,324	.75	5,507	37.5	201	69
North Carolina cotton Piedmont	1,851	2,615	1.41	9,154	1,855	1,313	6,492	.76	4,945	32.9	220	162
Tennessee Appalachian Valley	1,785	2,580	1.42	11,165	1,817	1,257	7,863	.80	6,255	28.7	300	148
North Carolina Appalachian Mountains	1,736	2,497	1.34	10,193	1,863	1,296	7,607	.77	5,872	16.2	508	277
Missouri Ozark Ouachita	1,723	3,153	1.38	10,738	2,285	1,249	7,781	.80	6,232	35.9	195	70
Mississippi eastern hilly	1,525	1,910	1.30	5,563	1,469	1,173	4,279	.85	3,648	28.4	143	92

[1] Compiled or computed from McElveen and Bachman, Low Production Farms, U. S. Department of Agriculture, Information Bulletin 108 (1953), tables 10–14, 33.

[2] Value of farm products produced (including estimate of product consumed on farm) less expenditures for purchase of livestock and poultry, feed seed, fertilizer, fuel, and tractor and machinery repairs.

[3] Including estimate of value of product produced and consumed on farm.

[4] Man-years of 2,500 hours, adjusted for operator's work off farm, age of operator, and seasonality, quantity, and quality of family labor inputs.

[5] Sum of value of land and buildings, power and machinery, and productive livestock.

These comparisons mean, of course, that the typical Southern farm worker had far less capital to work with, so that his productivity was far less. For example, labor input per farm in the Appalachian Valley of Tennessee and the Cotton Piedmont of North Carolina (despite local manufacturing employment well above average for the selected southern areas) was virtually the same as in central Iowa, but their farm workers had only 20 to 24 percent as much capital to assist their efforts and (in terms of product added) produced only 29 to 31 percent as much. Among the southern areas, capital per worker ranged from $4,279 in the eastern hilly section of Mississippi to $7,863 in the Appalachian Valley of Tennessee—or 31 to 58 percent of the national average and only 13 to 24 percent of the central Iowa average. Product added per worker ranged much more narrowly, from $1,173 in the eastern hills to $1,494 in the Delta—or 49 to 62 percent of the national average and 28 to 35 percent of the average for central Iowa.

Put another way, it took about twice as much labor to produce $1,000 of product added in these low-production areas as in the Nation as a whole and all of 3 to 4 times as much as in central Iowa. On the other hand, per $1,000 of product added, capital input in the southern areas were surprisingly high, ranging from $3,024 in the Delta to $6,255 in the Appalachian Valley—or 54 to 111 percent of the national average and 40 to 82 percent of that of central Iowa. This suggests that the low-production problem in the South may be less a deficiency of capital in present production techniques than an inefficient scale of operations which hampers changes in these techniques, the unsatisfactory composition of present total capital investment, and the existence of a large element of hidden underemployment in present labor inputs.

First, on the matter of scale, these interregional comparisons conceal the fact that the typical commercial farms of central Iowa are large and medium (classes II–IV) family farms, whereas in the low-production areas they are small-family (class V) farms. Thus, the average commercial farm in central Iowa has 136.7 acres of cropland, as compared with only 16.2 acres in the Appalachian Mountains and 28 to 46 acres in the other southern areas, and typically that land is much more adequately improved, has considerably better soil, and has a topography more favorable to mechanized operations. Because of their larger average scale, Iowa farms can make more efficient use of machinery in crop production, can obtain a substantially larger output from a given investment in livestock, and can more generally take advantage of the latest advances in agricultural technology, such as improved seeds and strains of livestock, knowledge in the use of fertilizers and insecticides, and the like. Thus, while central Iowa farms have several times as much farm power and machinery per worker as do commercial farms in the low-production areas, power and machinery comprise a smaller proportion of their total capital investment than they do in any of the low-production areas where, because of the small scale of operations, even the present stock of machinery is underemployed. Similarly, except in the Delta and Cotton Piedmont, all southern low-production areas had a larger proportion of their total capital invested in productive livestock than did central Iowa, even though the latter had many times more livestock per worker.

Second, despite the fact that the commercial farms in no low-production area had as large a proportion of its total capital investment in land and buildings as did those in central Iowa, this proportion was probably unduly high in the South in terms of total productive investment. It should be emphasized that the value of the farm dwelling (an unproductive investment) is included in the value of land and buildings, which in turn accounted for 65 to 82 percent of the total capital investment on commercial farms in our low-production areas. Given the small scale of southern farms, even farm dwellings quite modest by Iowa standards would bulk relatively large in the total capital inputs of such farms, as compared with more sumptuous dwellings in Iowa. Hence, for this reason, the data of table 2 may somewhat overstate the productive capital inputs for southern farms.

Furthermore, given the pressure of population on the land in the South for both residential and productive uses farmland is likely to be over priced relative to its productivity as compared with Iowa land. Hence, $1,000 of investment in Southern farmland (particularly in tobacco areas) will frequently buy less in the way of quality of soil, topography, and productive improvements than the same amount invested in Iowa land. Thus we find (table 2) that the value of land and buildings per acre of cropland in commercial farms was $508 in the Appalachian Mountains of North Carolina and $300 in the Appalachian Valley of

Tennessee, as compared with $281 in central Iowa. The comparable figures per acre of cropland and open pasture combined (omitting only woodland) were $277, $148, and $245 with land values in the Cotton Piedmont ($162) and the Delta ($150) exceeding the Appalachian Valley on this basis.

These considerations indicate that, of the total capital now invested in southern commercial farms, an excess amount is invested in farm dwellings and relatively unimproved land and too little is invested in productive improvements (other farm buildings, fencing, pasture improvement, etc.) in the farmland proper. Clearly, in the absence of local industrialization which will convert many of these small farms into part-time or residential farms without reorganization, a correction of this situation will require a combination of considerable outmigration with much land consolidation and improvement by those families which remain behind.

Difficult though such an areawide reorganization of agricultural resources is to achieve, table 3 makes clear that, in every low-production area of the South, there are already some farms of sufficient size and capital resources to attain relatively high levels of productivity, hence satisfactory family incomes from farming alone. Unfortunately, such farms constitute only 20 to 50 percent of all commercial farms in the low-production areas, as compared with 88 percent in central Iowa and 62 percent for the Nation as a whole. The paramount problem for public policy is to develop means of facilitating the reorganization of American (particularly southern) agriculture, so that the proportion of medium-to-large family farms can increase at the maximum rate consistent with voluntary action and democratic values.

TABLE 3.—*Output and labor and capital inputs, per farm and per worker; resources used per unit of output; acres of cropland per farm and average land values per acre, by economic class of farm in United States, central Iowa, and selected low-production areas, 1949* [1]

Selected area and economic class of farm	Average per farm				Average per worker			Per $1,000 of product added		Cropland per farm (acres)	Value of land and buildings per acre	
	Product added	Value of product	Labor input (man-years)	Capital input	Value of product	Product added	Capital input	Labor input (man-years)	Capital input		Cropland	Cropland and open pasture
United States:												
II-IV					$4,245	$2,743		0.36	$6,000			
V					1,835	1,283		.78	6,787			
VI					920	667		1.50	7,827			
Central Iowa:												
II-IV	$6,143	$9,220	1.44		6,403	4,266		.23	7,666			
V	1,511	2,308	.91		2,536	1,660		.60	12,700			
VI	621	987	.88		1,122	706		1.42	18,048			
Wisconsin cutover:												
II-IV	3,519	5,054	1.78	$16,120	2,839	1,977	$9,056	.51	4,581	56.8	$171	$112
V	1,336	2,165	1.30	9,475	1,665	1,028	7,288	.97	7,092	33.8	167	111
VI	577	988	1.09	6,515	906	529	5,977	1.88	11,291	23.7	178	111
Mississippi Delta:												
II-IV		5,042	2.24		2,251					67.7		
V		2,013	1.05		1,917					18.3		
VI		940	1.05		895					13.6		
Georgia Coastal Plain:												
II-IV		5,283	2.11		2,504					67.0		
V		2,361	1.59		1,485					35.2		
VI		1,152	1.42		811					25.0		
Tennessee interior plateaus:												
II-IV	3,679	5,648	1.93	22,918	2,926	1,906	11,875	0.52	6,230	63.4	267	128
V	1,787	2,347	1.50	9,671	1,565	1,191	6,447	.84	5,412	28.6	248	116
VI	881	1,119	1.46	5,597	766	603	3,834	1.66	6,353	18.1	238	115
Southwest Texas, sandy lands:												
II-IV	3,683	6,005	1.84	18,644	3,264	2,002	10,133	.50	5,062	65.2	196	67
V	1,557	2,176	1.28	8,918	1,700	1,216	6,967	.82	5,728	31.0	202	74
VI	774	1,075	1.27	5,381	846	609	4,237	1.64	6,952	19.6	199	72
North Carolina, cotton, Piedmont:												
II-IV		5,646	1.87		3,019					59.9		
V		2,258	1.34		1,685					30.2		
VI		1,161	1.22		952					20.3		

Selected area and economic class of farm	Average per farm				Average per worker			Per $1,000 of product added		Cropland per farm (acres)	Value of land and buildings per acre	
	Product added	Value of product	Labor input (man-years)	Capital input	Value of product	Product added	Capital input	Labor input (man-years)	Capital input		Cropland	Cropland and open-pasture
Tennessee, Appalachian Valley:												
II-IV	4,020	5,841	1.94	24,838	3,011	2,072	12,803	.48	6,178	58.6	321	155
V	1,804	2,415	1.33	11,349	1,816	1,356	8,533	.74	6,291	29.6	298	149
VI	887	1,215	1.21	6,826	1,004	733	5,641	1.36	7,695	16.5	340	168
North Carolina, Appalachian Mountains:												
II-IV	3,405	6,095	1.72	19,365	3,544	1,978	11,259	.51	5,687	45.6	341	236
V	1,799	2,334	1.23	11,095	1,898	1,899	9,020	.68	6,167	18.0	495	175
VI	1,023	1,238	1.20	6,283	1,032	852	5,236	1.00	6,142	11.6	437	175
Missouri, Ozark-Ouachita:												
II-IV	3,247	5,671	1.53	16,780	3,707	2,122	10,967	.47	5,168	58.8	187	73
V	1,400	2,398	1.28	9,067	1,873	1,094	7,084	.91	6,476	29.5	196	69
VI	674	1,200	1.22	5,987	984	552	4,907	1.81	8,882	19.4	207	64
Mississippi, eastern hilly:												
II-IV	3,604	4,696	1.59	13,113	2,953	2,267	8,247	.44	3,638	52.9	180	109
V	1,966	2,223	1.33	5,875	1,671	1,478	4,417	.68	2,988	31.5	133	90
VI	1,016	1,142	1.20	3,778	944	840	3,148	1.18	3,718	21.0	134	87

[1] Compiled or computed from McElveen & Bachman, op. cit., tables 15, 16, 17, 18, 38, and 40. Where data are not shown, it is because they are not available.

The first step is to realize the fundamental fact that there are far more American families trying to make a living from farming than our agricultural resources can possibly support at a level of living comparable with that afforded by comparable nonfarm occupations. The second step is to recognize that, while primarily benefiting those farm families which are least in need of financial aid, our agricultural price-support policies can contribute almost nothing to a solution of the problem of rural poverty. At the same time, because of their great cost in treasure and in administrative effort, they strongly divert public funds and public concern from millions of underemployed rural people who require substantial and sustained assistance. The final step is to develop a consistent, coordinated, and integrated set of public policies which will by attacking the fundamental causes, go far toward solving the problem of rural poverty during the next decade or two.

IV. A Positive Program for Reducing Rural Poverty

Agriculture and economic progress

All of American agriculture has a strong interest in public policies directed toward the maintenance of economic stability. In fact, for the medium to large commercial farmer, it is the instability of farm prices and incomes, rather than their level, which is his principal problem. Hence, it is quite important to American agriculture that the national economy be stabilized at a high level of employment and income, that (as a second line of defense) public policies provide for a moderately high floor under farm incomes should a general economic recession nonetheless ensue, and that public-storage and crop-insurance policies be developed which will give him considerable protection against drought and other hazards of nature. While meeting these objectives would require considerable modification of present national agricultural policies, our present interest lies elsewhere. What concerns us here is the longer-term problem of national economic growth and the means of assuring that agriculture will receive and contribute its full share in that economic growth, consistent with the general public interest in a highly productive national economy and high and equitably distributed real incomes.

It is of the essence of economic progress that the proportion of a developing national economy's labor force engaged in agriculture should decline. This is true on the demand side because of the slackening rate of population growth in an industrial-urban economy and the low income elasticity of demand for foods and fibers (apart from attached services) as a nation's real income rises. It is also true on the supply side in that, in a progressive economy, agriculture fully shares in the fruits of technological research and progress, so that fewer and fewer labor resources are needed to produce a given output. As a result, quite contrary to the dreary Malthusian thesis, an economically advanced nation is likely to be faced with a strong secular tendency for the growth in the supply of farm products to outspace the growth in the demand for them. This follows because of the difficulty and slowness with which basic structural readjustments in the occupational composition of the labor force take place, particularly where the basic forces requiring such readjustments are constantly reinforced by further progress.

As a consequence, there tends to be an almost perennial oversupply of labor in the agriculture of an advanced economy, exerting (apart from wartime periods of extraordinary demand) a rather continuously depressing effect on farm prices and, even more, average family incomes. Opinions differ as to whether the demand for American farm products will catch up with their supply during the next two decades. Population projections for the United States have been revised upward substantially as a result of the sharp rise in birthrates since 1940. On the other hand, more general application of present knowledge about efficient farming practices could add substantially to the Nation's farm output and there appears to be reason to expect that further technological progress in agriculture will be substantial. At the very least, the United States has the prospect of meeting fully its prospective food and fiber needs during the decades that lie ahead. At the same time, there are 2 million or more farm families which, in any case, add too little to agricultural output to be of public concern as actual or potential producers of foods and fibers.

Nonetheless, as victims of rural poverty who could earn more and consume more in nonfarm occupations, they should be of great public concern as the Nation's greatest reservoir of underemployed and largely wasted resources.

Unfortunately, given the unsatisfactory nature of national employment statistics, these people are considered "fully employed" although at best their employment is part-time and very unproductive. Their inclusion among America's farm-workers also pulls down the farm income per worker or per capita to levels which compare very unfavorably with nonfarm income, lending support to public farm policies which help them hardly at all while concealing the need for a positive public program (largely nonagricultural in nature) to alleviate their low state of productivity and income.

Obstacles to the reduction of rural poverty

The principal obstacles to a reduction in the degree and extent of rural poverty are the inadequacies of investment in the vigor and productivity of our human resources and the barriers to mobility of both labor and capital.

Even the richest of communities, urban or rural, is bound to have its hard core of permanently poor as a result of old age, physical and mental disability, and broken families. Outside of the South, a major proportion of the low-income farm families are poor for such largely unavoidable reasons and, generally speaking, their communities are wealthy enough to alleviate such occasional poverty and to provide adequate public services which will enable the children of such poor families to rise above their initial poverty. In much of the South, however, the low-income problem is community-wide and largely self-perpetuating, because the local community lacks the resources to provide adequate public education and health services for the younger generation. While many of those in their productive years do seek escape from their poverty by the difficult route of long-distance migration, they are ill-prepared for such a drastic change in their way of life, drain their community of even its limited capital resources, and yet bring to the richer communities to which they mirgate an undesirably low level of general education and skills. Many others who should also migrate—lacking the knowledge, vigor, and productivity which such a serious step requires—fail to do so. Thus, as a result of the inadequacies of public investment in improving the quality of these potentially valuable human resources, both the low-income area and the Nation at large suffer an incalculable loss.

Among the other obstacles to labor mobility, several deserve special emphasis. First, insofar as the national economy is unstable or fails to expand at a sufficiently rapid rate, the lack of satisfactory alternative job opportunities in other occupations or regions is a paramount barrier to the reduction of rural poverty. Second, given sufficient opportunities elsewhere, the lack of adequate public employment-information services is a serious one. In rural areas, where the larger farmers are most concerned with an adequate supply of hired labor, local political pressure may cause the local employment service to emphasize farm placement rather than to facilitate much-needed shifts of labor out of agriculture all together. In any case, the administrative compartmentalization of farm and nonfarm placement is likely to cause the employment service to work at cross purposes. Third, there is in most rural areas a serious lack of vocational training for occupations other than agriculture. Few rural high schools offer vocational training other than agricultural, and the congressional formulas for allocation of Federal vocational-training grants-in-aid to the States and the almost complete administrative compartmentalization of farm and nonfarm vocational training programs tend to perpetuate this situation.

Fourth, while a facet of the problem of capital mobility, the rate at which industrialization of rural areas is proceeding is still so slow as to discourage adequate labor mobility. The reason is that it is much easier to induce underemployed rural people to change occupations locally than to change their place of residence and way of life as well. Finally, certain public policies may actually discourage labor mobility. Certainly, while being too small to return a satisfactory family income, minimum acreage allotments (particularly for tobacco) may cause low-income families to hang on to a meager subsistence from agriculture rather than to shift to another occupation. Similarly, under the peculiar circumstances of part-time farming, unemployment compensation may create an incentive for them to refrain from migration. In the South, many part-time farmers who work seasonally at nonfarm employment qualify for unemployment insurance, which may constitute a major sources of cash income. At the same time, local industrial plants can follow unstable and even irresponsible employment policies with impunity.

The obstacles to capital mobility into low-income rural areas are great with regard to both industrial and agricultural investments. To a major extent, the flow of industrial capital is a matter for private enterprise rather than public policy. However, Federal policies toward the location of defense plants and toward public and private power have thus far failed to take adequately into account the crucial importance of additional industrialization to much of the low-income rural South. While certain spectacular developments in the atomic-energy field have been located in the South, these are such mammoth users of power as to seriously retard the development of new private power-using industries in that area, given a shortage in the total power supply. The Federal concept of "labor-surplus" areas has also been much too narrow to reveal the existence of an abundant underemployed rural labor supply in most of the southern region. Much of the interest of labor organizations in a uniform national minimum wage has also been motivated by a drive to eliminate North-South wage differentials the existence of which would appear desirable, though a relatively minor factor, in encouraging much-needed industrial development in the South. Certainly, the Federal Government has done relatively little, on an informational level, either to help low-income rural areas to help themselves or to provide industrialists with an appreciation of the need and the opportunity for industrialization which many of these areas offer.

On the agrcultural side, the obstacles to capital mobility have been nearly as great. As presently organized, the agriculture in most low-income areas is not in a position to make extensive use of additional capital. In the long view, however, given a sufficient reduction of the excess farm labor supply by out-migration or by local industrial-urban development, the opportunities for farm consolidation, reorganization, and improvement are great. However, even where such opportunities exist, most financial institutions are not yet equipped to take care of the credit needs of the more promising farmers and low-production farming areas. Intermediate-term credit is virtually unavailable from any source and few commercial banks in rural areas are able or willing to provide supervised farm credit on acceptable terms or of sufficient magnitude to do the job.

The agencies of the Farm Credit Administration have failed to develop means of meeting the credit needs of the small farmer or of the low-production farm areas. Only the Farmers' Home Administration and, in isolated instances, private processors of farm products of farm products have made a real start on this serious credit problem and their resources have been far less than adequate as measured against the size of the task. Finally, agricultural experiment stations have tended to neglect the small farm and its enlargement, reorganization, and diversification in their research programs while few agricultural extension services have developed effective means of reaching the operators of small or part-time farms. In the absence of the influx of capital which accompanies industrial-urban development, there seems to be no alternative to Federal farm credit as a means of raising farm incomes in low-income rural areas, since there is bound to be an areawide capital deficit and the agriculture in such areas is quite unlikely to attract much private capital from other regions.

The way out

The magnitude and difficulties of the low-income rural problem in the United States almost stagger the imagination. But they should make clear that, despite our deep concern for assisting underdeveloped nations abroad, we may have overlooked comparable problems—different in degree but not in kind—of underdeveloped regions within our own Nation. In the interest of a strong and growing national economy, we can no longer afford to neglect these serious regional problems.

At various places in this memorandum, we have discussed the policy implications of the low-income farm problem in some detail. Hence, we need do no more than summarize them here. In my view, a positive program to reduce rural poverty would have the following major elements:

(1) The development of a substantial program of Federal grants-in-aid for public-school education and for expanded public-health services.

(2) The maintenance of a stable and steadily expanding national economy.

(3) The extension and improvement of the United States Employment Service in rural areas, with fuller integration of the objectives and administration of farm and nonfarm placement.

(4) A considerable increase in congressional appropriations for vocational-training grants-in-aid to the States, with a revision of the allocation formulas to encourage nonfarm training in rural high schools and to break down the administrative barriers between the farm and nonfarm phases of the program.

(5) The abandonment of present provisions for minimum acreage allotments in our basic farm legislation because of their dilatory effect on productive efficiency and labor mobility.

(6) The revision of the basic statute on unemployment compensation, and of its administration, to eliminate factors tending to discourage labor mobility.

(7) The development of Federal policies favoring location of defense plants in areas of rural underemployment as well as of urban unemployment.

(8) The development of a Federal power policy which will, through a combination of public and private sources, assure the South of a power supply consistent with its industrialization needs.

(9) A revision of the Department of Labor's concept of labor-surplus areas broad enough to include underemployed rural labor as part of the local labor surplus.

(10) The introduction of a regional differential if the minimum wage is raised.

(11) Expansion and improvement of the services of the Area Development Division of the Department of Commerce.

(12) The development of intermediate-term types of credit by the Farm Credit Administration.

(13) A substantial increase in the resources of the Farmers' Home Administration.

(14) Increased emphasis in the programs of the agricultral experiment stations and agricultural extension services on the problems of the small farm.

(15) Further development of the programs of the Federal Reserve banks aimed at increasing the participation of commercial banks in agricultural development.

(16) A modest program in rural home improvement, probably under the Farmers' Home Administration, with due regard for the farm as a production rather than as a residential unit.

(17) Increased benefits and extended coverage for farmers and rural people under the OASI, public assistance, and rehabilitation programs.

APPENDIX

TABLE 1.—*Selected characteristics of families, resources, and family incomes on commercial and other farms, by economic class of farm, United States, South, and non-South, 1950* [1]

Item	Area [4]	Commercial farms [2]						Other farms [3]		
		Class I and II	Class III	Class IV	Class V	Class VI	Total	Part-time	Residential	Total
Total number of farms (thousands)	U. S.	484	721	882	902	717	3,706	643	1,030	1,673
Farm products sold per farm	U. S.	$23,328	$7,017	$3,625	$1,813	$720	$5,884	$612	$82	$285
Acres cropland per farm	U. S.	362	162	111	58	37	119	30	17	22
Value land, buildings per farm	U. S.	$55,936	$22,918	$13,162	$7,829	$4,648	$17,837	$6,117	$4,675	$5,227
Percent of all farms	U. S.	9	13	16	17	13	69	12	19	31
Percent of value farm products sold	U. S.	51	23	14	7	2	97	3	----------	3
Percent of land in farms	U. S.	40	19	14	10	5	88	(5)	(5)	12
Percent of cropland	U. S.	33	24	18	11	6	92	4	4	8
Percent value land and buildings	U. S.	36	22	16	9	4	88	(5)	(5)	12
Percent operator-family population	U. S.	9	14	17	17	13	70	12	18	30
Percent of hired-labor cost	U. S.	65	17	9	4	1	96	(5)	(5)	4
Number of operator family incomes:										
Under $1,000 (thousands)	S	6	18	88	190	330	633	96	248	344
	N, W	16	40	77	73	89	294	36	59	96
$1,000 to $1,999 (thousands)	S	10	31	96	169	100	405	118	128	247
	N, W	38	112	146	105	46	447	54	53	107
$2,000 to $2,999 (thousands)	S	9	28	56	68	22	183	65	91	156
	N, W	50	139	114	77	12	402	57	65	122
Over $3,000 (thousands)	S	57	65	67	54	14	258	57	101	157
	N, W	243	260	179	94	11	787	109	111	219
Median family income	U. S.	$4,273	$2,820	$2,020	$1,470	$730	$1,900	$1,940	$1,650	$1,790
Percent of operator families with incomes:										
Under $1,000	S	7	13	28	40	71	43	28	44	38
	N, W	4	8	15	21	56	15	15	21	18
Under $2,000	S	19	35	59	75	93	71	63	67	66
	N, W	15	28	44	52	85	38	36	39	38
Percent of operator-family income from off-farm sources	U. S.	15	18	30	48	44	26	82	84	83
Percent of operators in nonfarm occupation	U. S.	4	4	6	12	5	7	49	58	54
Percent of operators working off farm 100 days or more	S	8	8	9	12	----------	7	51	48	50
	N, W	4	6	11	26	----------	10	74	68	71
Percent of nonoperator family members working off farm	S	11	11	16	17	12	14	32	25	28
	N, W	10	14	16	20	9	15	32	27	29
Percent of operator-families with off-farm income exceeding farm sales	S	10	10	13	16	----------	10	85	65	73
	N, W	3	4	10	28	----------	9	87	70	78

See footnote at end of table.

TABLE 1.—*Selected characteristics of families, resources, and family incomes on commercial and other farms, by economic class of farm, United States, South, and non-South, 1950* [1]—Continued

Item	Area [4]	Commercial farms [2]: Class I and II	Class III	Class IV	Class V	Class VI	Total	Other farms [3]: Part-time	Residential	Total
Percent of operators:										
Under 25	U. S.		2	3		5	4	4	2	3
Over 64	U. S.	7	7	13	14	25	14	12	21	18
Single	U. S.	6	6	4	6	6	6	4	4	4
Widowed, divorced	U. S.	4	4	5	6	10	6	7	12	10
Median years school completed by operators	S	10.5	8.5	7.6	6.8	6.1	7.1	7.5	7.0	7.2
	N, W	10.2	8.8	8.6	8.6	8.3	8.7	8.8	8.7	8.7
Percent of white operator-family population	U. S.	10	16	18	16	10	70	12	18	30
	S	4	7	15	19	16	61	14	25	39
Percent of nonwhite operator-family population	U. S.	1	3	12	25	30	70	9	21	30
	S	1	2	11	26	30	70	9	21	30
Fertility ratio standardized for age and marital status	S	338	443	488	527	578	509	460	513	492
	N, W	448	470	462	458	481	463	396	483	440
Percent operator-family population:										
Under 15	U. S.	31	33	33	33	31	33	32	34	33
Over 64	U. S.	6	6	6	7	11	7	7	9	8
Median age, operator-family population	S	27.9	25.0	21.1	22.0	25.0	23.3	25.5	25.4	25.5
	N, W	27.6	27.9	30.1	33.2	46.2	30.0	29.7	29.6	29.6
Persons under 15 and over 70, per 100 persons 20 to 64 years	S	56	69	83	82	80	79	74	87	82
	N, W	62	65	64	63	66	64	67	74	71
Percent of farms having 1 or more milk cows	S	78	79	68	67	66	69	69	60	63
	N, W	75	86	84	73	66	79	59	47	53
Percent of farms slaughtering hogs	S	51	68	75	71	72	71	65	54	58
	N, W	59	66	62	47	44	58	41	29	35
Percent of farms with chickens	S	76	85	88	85	87	86	86	78	81
	N, W	74	81	79	75	75	77	71	62	66
Percent of farms with garden	S	55	69	80	83	83	79	77	76	76
	N, W	62	70	67	68	65	67	75	66	70

[1] Compiled from U. S. Bureau of Census, Farms and Farm People, Washington 1952, chs. 3, 4, and 5; House Committee on Agriculture (committee print), Long Range Farm Program: Technical Studies * * *, Washington 1954, p. 161.

[2] Commercial farms are classified as follows according to total farm-product sales in 1949: Classes I and II, over $10,000; class III, $5,000 to $9,999; class IV, $2,500 to $4,999; class V, $1,200 to $2,499; and class VI, $250 to $1,199 with operator working off farm less than 100 days and other family income less than farm-product sales.

[3] Part-time farms had farm product sales of $250 to $1,199, differing from class VI commercial farms only in that operator worked off farm more than 100 days and other family income exceeded farm-product sales. Residential farms had farm-product sales of less than $250.

[4] South (S) consists of the 16 States of the following census regions: South Atlantic, East South Central, and West South Central; combined North and West (N, W) the remaining 32 States.

[5] Not available.

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TABLE 2.—*Selected family and housing characteristics, for commercial and other farms, by family income, South and non-South, 1950* [1]

Characteristic (for all percentages, 100 percent equals total number in given class of farm and income and region)	Region [2]	Commercial farms [3]			Other farms [4]			All farms		
		Family income from all sources								
		Less than $1,000	$1,000 to $2,999	Over $3,000	Less than $1,000	$1,000 to $2,999	Over $3,000	Less than $1,000	$1,000 to $1,999	$2,000 to $2,999
Number of farms or farm operators (thousands)	S	633	588	258	344	403	157	976	652	339
	N, W	294	849	786	95	229	219	390	554	524
Percent of operator families with income of $10,000 or more	S	----	----	8	----	----	5	----	----	----
	N, W	----	----	9	----	----	4	----	----	----
Average operator-family income (excluding those of $10,000 or more)	S	$440	$1,649	$4,618	$452	$1,790	$4,255	$444	$1,371	$2,351
	N, W	$513	$1,855	$4,704	(5)	$1,950	$4,397	$514	$1,418	$2,359
Percent of operators by tenure:										
Owners or managers	S	46	63	77	71	77	95	55	64	76
	N, W	81	72	78	(5)	92	94	83	77	76
Tenants (excluding croppers in South)	S	25	24	17	19	18	4	23	24	18
	N, W	19	28	22	(5)	8	6	17	23	24
Croppers	S	29	13	6	10	5	1	22	12	6
	N, W	----	----	----	----	----	----	----	----	----
Percent of operators, nonwhite	S	39	15	3	29	13	3	35	17	7
	N, W	1	1	----	(5)	1	----	1	0	1
Percent of operators working off farm 100 days or more	S	2	7	20	29	61	78	12	24	39
	N, W	2	9	14	(5)	75	90	7	18	29
Percent of farms with nonoperator members of family working off farm	S	11	14	22	19	29	43	14	19	24
	N, W	10	12	20	(5)	25	39	12	13	17
Percent of farms with other family income exceeding value of farm products sold	S	3	13	20	62	81	80	24	37	48
	N, W	6	8	12	(5)	83	79	21	21	27
Median age (years) of operators	S	47.8	44.4	46.3	53.5	45.2	46.0	49.8	45.0	44.3
	N, W	55.2	45.6	46.2	(5)	46.1	46.0	56.8	47.1	44.3
Average family size (persons)	S	4.3	4.4	4.2	4.0	4.4	4.5	4.2	4.4	4.4
	N, W	3.2	3.7	4.2	(5)	3.7	4.3	3.2	3.5	3.9
Percent of operator families with husband, wife, no children under 18	S	33	30	34	37	33	26	33	32	29
	N, W	47	35	32	(5)	32	31	45	38	31

See footnote at end of table.

TABLE 2.—*Selected family and housing characteristics, for commercial and other farms, by family income, South and non-South, 1950* [1]—Con.

Characteristic (for all percentages, 100 percent equals total number in given class of farm and income and region)	Region [2]	Commercial farms [3]			Other farms [4]			All farms		
		Family income from all sources								
		Less than $1,000	$1,000 to $2,999	Over $3,000	Less than $1,000	$1,000 to $2,999	Over $3,000	Less than $1,000	$1,000 to $1,999	$2,000 to $2,999
Percent of operator families with husband, wife, 1 or 2 children	S	26	37	37	22	31	35	25	32	39
	N, W	22	37	33	(5)	36	34	20	34	41
Percent of operator families with husband, wife, 3 or 4 children	S	15	16	16	14	19	20	15	18	16
	N, W	9	13	20	(5)	15	22	9	11	15
Percent of operator families of all other kinds (including single persons)	S	26	17	13	37	17	19	27	18	16
	N, W	22	15	15	(5)	17	13	26	17	13
Percent of operators not completing elementary school	S	76	56	35	77	58	36	76	61	49
	N, W	35	20	21	(5)	28	18	36	24	20
Percent of operators completing elementary but not high school	S	20	34	38	20	33	42	20	32	37
	N, W	54	57	51	(5)	55	49	52	58	54
Percent of operators completing high school or more	S	4	10	27	3	9	22	4	7	14
	N, W	11	23	28	(5)	17	33	12	18	26
Percent of commercial farms by type:										
Cash-grain	S	2	4	10	----------	----------	----------	----------	----------	----------
	N, W	14	18	19	----------	----------	----------	----------	----------	----------
Cotton	S	50	33	25	----------	----------	----------	----------	----------	----------
	N, W	1	1	1	----------	----------	----------	----------	----------	----------
All other field-crop specialties	S	24	28	18	----------	----------	----------	----------	----------	----------
	N, W	5	5	6	----------	----------	----------	----------	----------	----------
Dairy or poultry	S	5	9	18	----------	----------	----------	----------	----------	----------
	N, W	37	29	27	----------	----------	----------	----------	----------	----------
Other livestock	S	9	13	17	----------	----------	----------	----------	----------	----------
	N, W	28	29	32	----------	----------	----------	----------	----------	----------
General or miscellaneous	S	10	13	12	----------	----------	----------	----------	----------	----------
	N, W	15	18	15	----------	----------	----------	----------	----------	----------
Median distance (miles), farm to trading center	S	5.3	6.2	6.8	4.7	4.7	4.7	5.0	5.5	5.9
	N, W	5.9	6.3	5.8	(5)	4.8	4.6	5.4	6.1	5.9
Percent of farms on dirt or unimproved road	S	50	44	42	52	39	29	50	43	40
	N, W	31	23	17	(5)	29	12	31	26	22
Average number of rooms, farm dwelling	S	4.6	5.1	5.7	4.4	4.9	5.6	4.5	4.9	5.3
	N, W	5.9	6.3	6.9	(5)	5.5	6.1	5.7	6.0	6.3
Percent of farm dwellings built before 1919	S	45	42	34	45	31	48	45	38	35
	N, W	69	76	75	(5)	65	58	68	76	69

Percent of farm dwellings in "dilapidated" condition	S	32	22	9	37	23	9	34	25	17
	N, W	12	7	4	[5]	9	7	14	9	5
Percent of farms with electricity	S	60	76	90	54	73	90	57	71	81
	N, W	75	87	91	[5]	82	92	72	84	88
Percent of farms with telephone	S	7	16	38	9	16	35	7	14	21
	N, W	49	62	72	[5]	43	63	45	54	61
Percent of farms with piped running water inside dwelling	S	15	31	64	13	27	64	8	11	17
	N, W	40	51	72	[5]	51	78	14	13	16

[1] Compiled from U. S. Bureau of the Census, Farms and Farm People, Washington, 1952, ch. 5, tables 4 and 5, pp. 80–88. "Family income" includes income from wages and salaries; net money income from own farm, business, or professional practice; and other income (interest, dividends, veterans' allowances, pensions, or rents) received by all family persons 14 and over during 1949.

[2] The South (S) consists of Delaware, Maryland, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Kentucky, Tennessee, Alabama, Mississippi, Arkansas, Louisiana, Oklahoma, and Texas. The combined North and West (N, W) consists of the remaining 32 States.

[3] "Commercial farms are those with a value of farm products sold in 1949 of more than $1,200, plus those with a value of products sold of $250 to $1,199 whose operator worked off farm less than 100 days and whose family income from off-farm sources was less than its income from farm-product sales.

[4] "Other farms" include part-time farms (with farm products sales in 1949 of $250 to $1,199 but whose operator worked off-farm more than 100 days and whose family income from off-farm sources was more than its income from farm-product sales), residential farms (product sold less than $250), and abnormal farms.

[5] Not available.

STATEMENT ON AGRICULTURAL POLICIES BY MURRAY D. LINCOLN

Mr. Chairman and gentlemen of the committee, my name is Murray D. Lincoln. I am appearing here today as president of the Cooperative League of the U. S. A. I am also president of CARE and of the Farm Bureau Insurance Cos. of Columbus, Ohio. In addition, I operate a thousand acres for dairying and grain farming in Ohio.

You have asked me to give you my views on the present agricultural policies and programs and the general outlook for the farmer. First, let me say that the farmer seems to be the forgotten man in the Economic Report of the President. I cannot understand the slight attention paid to our national policy for American agriculture, which, on the basis of most evidence, is a major failure.

I don't know whether "depressions are farm bred and farm led." I do know that agriculture is still at the base of the American economy, and I feel deep concern over the long and drastic downward trend in farm income.

This is a farm crisis because our present farm policies have failed to produce the results expected of them. Actions which we once supposed would bring solutions to our problems have not withstood the tests of adversity. And, in my opinion, the changes that were made in the Agricultural Act of 1954 were changes for the worse.

Because this is so I am asking that we here today take a "new look" at the problem. The "new look" which I propose is not destructive. Obviously, we cannot scrap the present program of price supports and acreage allotments until we can put something better in its place. But merely to continue down the same unproductive road is folly. We should be trying to expand consumer demand upward to overtake farm production rather than trying to restrict production downward to meet demand. Our basic approach is wrong. We should be using our total farm output to improve living standards both at home and abroad. Unfortunately, in neither case will our present price-support policies and acreage allotments help to expand consumption. Quite the opposite is true.

To me anyway, it is unthinkable that we should regard the farm problem as one of surpluses and overproduction and therefore try to figure out ways not to produce so much food. Neither should we try to fill caves with cheese, to cram warehouses with butter, or to load ships taken out of mothballs with grain.

What is the thing that stands out as we take this "new look?" The dominant thing that we see, I think, is that better times for farmers go hand in hand with an expanding economy and higher consumer spending power for all people. A full, growing economy is the best way to expand the demand for food upward to keep pace with farm production.

Full production and full purchasing power in our economy are also the solution to poverty in agriculture. About one-third of our farm families are working uneconomic farms and living at levels far below our American ideas of decency. No conceivable price-support program would raise these families up to a "parity" standard of living with urban groups.

When the country is growing, jobs open up. The marginal farmers shift to more productive and better paying occupations. To illustrate, in the prosperous year 1953, agricultural employment declined more than 660,000, while nonagricultural employment increased by 1.3 million. The shift raised productivity in agriculture and resulted in more needed goods for everyone.

If the country stagnates, however, poverty in agriculture is aggravated. For example, the recession of 1954 caused a relatively larger part of total employment to be located in agriculture. Whereas nonfarm employment fell by almost 1.4 million, the farm labor force was almost stationary. Productivity on the farm came to a virtual standstill in 1954 after very rapid increases during the postwar full employment years. Nor was this surprising, since depressed income conditions in agriculture far exceeded those for the whole economy, and farmers could not improve their land and their tools at anywhere near the earlier postwar rate.

The forced shift into agriculture of a larger percentage of the labor force—induced by unfavorable economic developments—must cause deep concern at a time when agricultural income is declining sharply; when many people are bewailing agricultural "surpluses"; when people on the farms are being exhorted to find jobs in industry where it is said they will be more "efficient"; and when the most genuine surplus in agriculture is a surplus of low-income people whose low consuming ability is hurting the whole economy.

What I am saying is that the solution to the farm problem depends more upon our achieving and maintaining maximum employment, production, and purchasing power for the whole economy than upon the type of level of price suports.

Agriculture is one important sector of our interrelated economy. Its purpose is to grow food and fiber—and food and fiber are for people to consume.

This is a simple and an obvious idea, yet when you think about it, you see that it leads to the creation of a national food policy instead of to the present notions of national farm policy.

What are the differences between a national food policy and a national farm policy? Well, a national food policy starts with food and the needs for food instead of the farmer, and aims to benefit both the producer and the consumer. It is based on the premise that every person should get a maximum amount of needed food at the lowest possible price. It seems clear to me that our attempts to solve the farm problem must benefit the whole economy—all the people—not just some of them. As a matter of fact, all people, not just farmers, are involved in this matter of a food policy. Certainly, it is clear that all people are involved as consumers.

Whether the food business is prosperous or depressed affects almost everyone. One-third of our total working population is in agriculture or related industries—6½ million on farms, 6 million producing for and servicing farmers, and 9 million processing and distributing farm products. These people are directly affected and—just as important—national prosperity depends on their well-being. A national food policy could and should protect everybody.

When your wife—or mine—goes to the grocery store, she makes her contact with this business of food. She doesn't do business with the farmer and, for that matter, neither does the grocer. The grocer is only the last link in the chain of food production and distribution.

The grocer buys from the processor and the packer. Every one of these are middlemen, intermediaries between the farmer and the housewife. But the important point is that they are as much in the food business as is the farmer, and a food policy must be comprehensive and include them.

That is also true of the manufacturers of fertilizer, of chemicals, of steel, and of the makers of electric power, and of the refiners of oil. How much these enterprises are part of the food business comes up clear in the fact that the farmers' biggest expenditures are for these items. In our time farm implements, electrical appliances and the fuel for them as as much the raw materials of farming as are fertilizers and seed.

The point is that if it is a food policy we are concerned with, we must be concerned with all of these enterprises. And we must assure that all do well, including the farmer. Each now has some sort of protection.

Business has its tariffs, its fair-trade laws, its tax-depletion allowances and its fast tax writeoffs. (Since Korea, rapid writeoffs have covered 61 percent—$16.8 billion—of the total cost of new defense facilities.) Labor has its guaranteed minimum wage, unemployment insurance and other guaranteed benefits. Farmers have their price supports and production controls.

It is good that all these groups should have these legal protections and benefits—and it would be even better if the benefits were more nearly balanced, with corporate business getting only a fair share instead of the lion's share. But when we think in terms of a national food policy we must thing first of ways by which to get food to people and that means we must seek to eliminate bottlenecks wherever they exist.

A business indulging in a monopolistic practice—rigging the price and limiting the supply—creates such a bottleneck. Labor when it "featherbeds" or uses some other restrictive practice creates another bottleneck.

There are many groups between the farmer and the consumer who set up such economic toll bridges to collect tribute from both sides. Not only do they deprive the farmer of his proper share of the consumer's dollar, but they deprive the consumer of the savings of mass production and mass distribution methods. Some of them I suppose work on the theory that if everyone sells at a high enough price, all will prosper.

In my opinion, many families, even today, are not buying the food they need—they buy what they can afford. What they spend for waste, inefficiency and extra charges levied by price-fixing monopolies comes directly out of their diets; and this means that it directly reduces the amount of farm products they can buy.

These trade restraints and price-fixing operations between the consumer and the farmer result in both higher prices to consumers and lower prices to farmers. Not only does the consumer's dollar buy less than it should, but the farmer's share of this dollar has been squeezed smaller and smaller.

Today, due to the perpetuation of inefficiencies and the seizure of market power, the retail price of milk is so high that it interferes with the consumers' health and the farmers' prosperity, and yet the cost of distributing milk continues to go up. Our per capita consumption of dairy products ranks well down the list when compared to other countries.

Here is a list of what the farmer actually gets from the housewife's food dollar in certain cases:

He gets:

2.3 cents for the wheat in a 17-cent loaf of bread
3.0 cents for the corn in a 22-cent box of corn flakes
3.4 cents for the carrots in a 10-cent bunch
6.5 cents for the milk in a 15-cent can of evaporated milk
3.8 cents for the corn in a 25-cent can
30.0 cents for the cotton in a $3.50 shirt

This is a consumers' problem as well as a farmers' problem. Some of the increasing spread is clearly due to increased labor costs in processing, transportation, and marketing. The middlemen say that another part is due to consumer demand for more and better processing, more conveniences (ready-to-serve foods plus their "built-in kitchen services") and improved packaging. This may be true in part, but high labor costs have led to more self-service, eliminating many clerks and delivery boys. And self-service, rather than the consumer, has demanded more and more prepackaging. There should have been no increase in distribution costs on this score.

Last year, the House Committee on Agriculture reported: "Thus far almost none of the lower prices received by farmers since 1951 has been passed on to consumers in the form of lower retail food prices * * *. Consumers can expect little benefit from lower farm prices, unless recent tendencies to increase marketing and processing charges are curbed." Yet, in 1953, the appropriations bill carrying funds for the Federal Trade Commission specifically forbade any inquiry into what was happening to the consumers' dollar. To me, this was an unprecedented admission by middlemen that the rising costs of distribution will not stand close examination. We must have a nationwide investigation of the costs of processing and distributing food. On the face of it, some part of the food business is obviously doing better than ever because of the bottlenecks it is able to impose on the flow of food from the farmer to the housewife.

And there is proof also that bottlenecks are paying off for the other side of the food-production picture—that side is where the steel, the fertilizer, the oil, and the electric power are supplied.

In the last year, farmers realized a decreasing share of their gross income as net income—the smallest percentage of any year since 1932. This is shorthand for saying the farmer had to pay out the same number of dollars to buy machinery and supplies as he had to pay in better years—and it took more of his diminishing income to do it.

There is, I think one immediately available way by which to get food to people without these bottlenecks, which means they will get it at lower prices even while the farmer gets a fairer share of the whole. I do not hold that my way is the only way, but I contend that for the creation of a proper national food policy—which seeks a way out of the scarcity and surplus—the use of cooperatives deserves not only a hearing but a large-scale test. Cooperative business can be an integral part of a national food policy. They can help farmers and consumers break some of the bottlenecks through which their goods must pass on their way from the farm to the dinner table.

Cooperative businesses are ideally suited to the job of fulfilling farm needs as well as the needs of consumers. Cooperative laws make it impossible for a few stockholders to control them or exploit them. In most cooperative businesses no person can own more than 5 percent of the total voting stock. Each member-stockholder gets one vote—and only one—in electing directors and determining policy.

In a cooperative business each stockholder gets a limited amount of interest (or dividend) on his invested capital. Cooperative businesses, again by law, must make patronage refunds in proportion to the use each patron makes of his co-op. Earnings cannot go to just a few. No other legal form of corporation meets these simple but significant qualifications.

Cooperative businesses are by no means a cure-all for farm or other economic ills. But their legal structure goes far toward guaranteeing that the benefits of cooperative action are reflected in real income. And I might mention that the late Senator Taft, though he did not always see eye to eye with me, did share my conviction on this point. "The cooperative movement," he said, "has made great strides and cut down the margin between the producer and the consumer. It should be encouraged still more by legislation and by sympathetic Government assistance." I might remind you, too, that only this year, Secretary of Agriculture Benson declared. "Farmer cooperatives now are accepted as an important part of our free enterprise system."

Well, a good many other people think a lot of cooperatives, too. Some 3 million farmers had invested more than a billion dollars in their cooperative businesses. The Farmer Cooperative Service of the Department of Agriculture reports that this investment was almost four times that of 1936. Today 1 out of every 2 farm families holds ownership in his own cooperative business. This is in sharp contrast with corporate business. The majority of the stock in all United States corporations is held by only the top one-half of 1 percent of the population—those with incomes of $25,000 and over.

Right here, let me tell you the Welch grapejuice story. It shows how farmers can acquire ownership of facilities for distributing their products from corporate business and thereby benefit everyone concerned. For 3 years now, almost 5,000 members of the National Grape Cooperative Association have been engaged in the process of becoming owners of the Welch Grape Juice Co. The transfer of ownership will take place under an agreement which requires the Welch company to turn over to the cooperative the entire net earnings of the company up to August 31, 1957, and 40 percent in subsequent years, in the form of 20-year promissory notes of the company. The cooperative, in turn, distributes allocation certificates to its members.

As soon as the Welch promissory notes issued to the cooperative reach $15 million, the Welch company is to transfer all of its assets to a company controlled by the cooperative. This would be done at cost, plus 1 percent of net sales for 10 years or whatever time the name "Welch" is used. During the first year the contract was in operation, cooperative members got $90 a ton for grapes in cash and $38.67 in allocation certificates, or a total of $128.67. For the 1952 crop the cash price was $95 a ton, and the allocation certificates mounted to $55.53 or a total of $150.30. This represented a total return to the farmer of more than half as much again as he would have received in the open market.

After 3 years of operation, the cooperative has accumulated almost $9 million of the $15 million needed to acquire ownership of the Welch plants. With expanded membership and rising sales, the cooperative can probably buy the company within 2 more years. Welch's president points out: "This program enables more people to enjoy a real participation in ownership and profits. It is free enterprise at its finest, a living proof that American capitalism can give men security and freedom, and is therefore in itself a complete refutation of Marxism."

Well, that's the way a cooperative business is helping the grape growers who own it to increase their income and to boost their standard of living. And it just occurs to me that if it's a good idea for grape farmers, it ought to be equally good for, say, dairy farmers. Take the National Dairy Products Corp. I figure that the same kind of a program would enable a cooperative business set up by milk producers, to buy all of the corporation's equity shares (at book value) in less than 3½ years, or at the current market value in less than 6½ years. It would take about a year longer to buy all the equity shares of the Borden Co. at market value.

And it might also just be that if farmers could have the opportunity to acquire ownership along these lines, the need for farm subsidies would not be nearly so great.

Cooperative business helps to market farm products more economically—and that is a cardinal need for a national food policy. Cooperative business aims to move the product to the consumer at the lowest possible cost with the least possible waste all along the line. Cooperative businesses already sell directly to consumers, and where they do there is no price-spread problem—nothing of the sort of bottlenecks so obvious in the corporate distributing setup in which food prices go up while farm prices go down.

One of our own insurance companies the other day loaned $4 million to a cooperative business known as American National Foods so that it could in turn buy American Fruit Growers, Inc., and become a nationwide fruit and vegetable marketing organization with terminal sales and shipping point service. Here we have funds pooled by farm and city people being invested to help farmers market their produce more efficiently so that, in the long run, it can lead to higher prices for the farmer and lower prices for the consumer—and that, gentlemen, is I submit, what a national food policy must do.

Cooperatives—now, right now—do dozens of helpful things outside the realm of supply and distribution, but their greatest role, so far as this discussion is concerned is (1) in providing farmers at low cost with the goods and services they need in order to farm—and so reduce the cost of producing food—and (2) in providing distribution machinery for delivering food to consumers at the lowest possible prices—and so helping to get our foods used up instead of stored.

This means that cooperative business can be of help to the Nation in eliminating the payment of the half million dollars which it now costs us every day just to store our surplus and it means that cooperatives can also help to save some of the billions of dollars we spend in subsidies now.

There are many who argue that cooperatives are some form of creeping socialism—that they have an unfair advantage in being free from taxes and that therefore they are not really more efficient. It's only, they say, cooperatives live on Government subsidy.

How wrong this is I can explain in one sentence. No business pays taxes. They simply collect taxes from the consumer for the Government and in this cooperative and corporate businesses are the same. But there are some differences between corporate business and cooperative business. It was corporate and not cooperative business which got all—or nearly all—of the $16.8 billion melon in fast writeoffs which have been delivered since Korea. Corporate business—not cooperative business—gets the lion's share of benefits of tariffs, depletion allowances, and fair-trade laws. If money saved by the Government is money earned, cooperative business serves both the National Treasury and the national interest.

But there is a bigger argument than that for boosting cooperative business. Cooperatives make owners. By the nature of the cooperative institution, these owners retain their right to determine policy and maintain their freedom of choice. Now if you want to make a conservative out of someone, see to it that he has something to conserve. A farmer who owns his land has more reason to be conservative than a tenant farmer. You won't find people who have something to conserve turning to communism or any other radical- ism, unless, of course, you threaten to take it away from them. Yes, cooperatives offer a way to make responsible citizens—something which was never more necessary in our Nation or in our world.

Now please don't misunderstand me. I'm not trying to tell you that all you have to do to solve the problem of the farmers is to make every farmer a member of a cooperative business. That would certainly help but I'm afraid the problem of the farmer isn't quite that simple.

However, it is will this in mind that I venture to propose that:

1. We must maintain a healthy, growing economy in America, and the sooner we gear it primarily to consumption rather than to production, the better. The core of any healthy economy is full employment and high consumer spending power. It is estimated that at the end of 1954, our total national output was running about $30 billion a year below the normal requirements for a growing American economy. It's a warning of unemployed manpower and other idle resources that should stir us to immediate action.

2. We must study future production needs. We'll need from 15 to 20 percent more farm production in this country to feed our increasing population in the next 10 years. We'll need more if we are to help ill-fed families in this country improve their diets. We'll need far more if we work out plans for distributing our foodstuffs to people of other countries. We must also get down to cases on costs of productin, particularly investigating the bottlenecks in farm implements, steel, oil, electric power, and fertilizer, to eliminate rigged prices and monopolistics practices. They bleed the farmer and penalize the consumer.

3. We must make an intensive study of ways to expand the market for farm commodities at home and abroad. One way to achieve effective use of agricultural resources is to launch a consumption expansion program which is broader in scope than anything previously proposed. We should look closely at possibilities for entering into reciprocal agreements with other nations under which we would trade foods for raw materials or minerals. Roger Babson has suggested a program of coöperative, rather than exploitative, investments abroad to develop foreign markets. The school-lunch program and food-stamp plans to get food to low-income people are other expansion plans which shuld be explored and acted upon more than they have.

4. We must seriously study distribution costs, with an eye to narrowing the price spread between the farmer and the housewife. Such studies have been proposed from time to time—the Marketing Act of 1946 authorized one—but they

have never been carried out effectively. Development of consumer cooperatives which could deal directly with marketing cooperatives would, it seems to me, narrow the price spread considerably. They would surely expose the bottlenecks imposed now in the distribution process and bring us closer to a national food policy.

5. We must stimulate the use of cooperatives, for cooperatives are good and useful, not only for farmer, but for America and the world. They have already been of much help; but we have barely scratched the surface of their possibilities. One way to apply stimulation would be through credit. Despite existing facilities, the development of cooperatives is limited by credit resources. The farm credit system should promptly, prudently, and generously deal with cooperative requests for credit.

Cooperative businesses have proved their worth as agencies of distribution. I think if the 11 million Americans who own the cooperative businesses of the United States were given the same opportunities for fast tax writeoffs and for credit that other groups have, they could make a historic contribution to the distribution of the abundance we know how to produce.

Let's not overlook the contribution that cooperatives, with governmental encouragement, can make in word trade. Indeed, if all of the world's marketing and purchasing cooperatives could be brought together to work at the problem of facilitating world trade, much of importance might be done. I'd like to suggest now that the United States, through its representatives in the United Nations Food and Agriculture Organization, ask the U. N. agency to call a meeting of the world's co-ops as an aggressive, nongovernmental attempt to solve this problem.

All this is part of a national food and fibre policy to replace the present farm policy. Let us stop this growing of unwanted crops for the warehouse and for the Govenrment loan—and let us compensate the farmer as part of a public program for growing wanted foods. Let us move the now immobilized mothball fleet—so heavy laden with wheat—to the hungry of the world. In all ways let us open the valves of our abundance and ease, in every practical way, the movement of food at the lowest possible price to the widest possible number of people.

Today most of us in the world are deeply troubled by the menacing shadow of the H-bomb. We need an antidote of faith in ourselves, of confidence in our neighbors. We need a symbol of our faith in human values. And, gentlemen, I humbly submit that we have that symbol. It is in this abundance that we can find the tool toward prosperity and peace. The motto of my organization, a cooperative, is "People have in their hands the tools to fashion their own destiny." Let us use the tools of plenty and abandon forever the fears and the ways of scarcity.

STATEMENT ON THE ECONOMIC REPORT OF THE 84TH CONGRESS, BY JOHN H. DAVIS[1]

Mr. Chairman and members of the Committee on the Economic Report, if it is agreeable with you, I first would like, briefly, to summarize the agricultural picture as I see it in relation to the Economic Report of the President and then give you categorical answers to the questions which you have submitted for discussion by the panel.

As a starting point let us accept as a general goal the recommendation of the President that we strive to expand our national productivity by 40 to 50 percent within the next 10 years. Then the specific question before us should be—what steps, if any, are necessary to assure that agriculture will be a full participant in such economic growth and expansion? By "full participant" I mean that farm people have an opportunity to earn and enjoy a standard of living consistent with that of other economic groups, considering, of course, the degree of training, skill, entrepreneurship, etc., required in farming. Full participation in economic growth by agriculture helps not only farm people but increases the economic potential of the whole Nation.

Today agriculture in many respects is unprepared for such a destiny. Among the major problem areas which need to be tackled agressively are (1) the vul-

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[2] This in large measure is because agricultural production is dependent upon factors which management cannot control such as the cycle of growth and the weather. It is further augmented by the fact that typical production units are too small to have any appreciable influence in the market.

nerability of agriculture to chronic periods of low prices because of the inability of farmers to adjust supply to demand,[2] (2) the improvement and expansion of markets for farm commodities at home and abroad and (3) the "reclamation" of the substandard units in our rural society. Actually, each of these problems is a complex of many knotty problems within problems.

The solution of such matters is made still more difficult by the dynamic forces which today are at work within our farm economy. Currently American agriculture is being subjected to the tremendous twin forces of change as a result of science and technology and adjustment from wartime dislocations. While the impact of war is gradually diminishing, the impact of science and technology are continuing to increase. Therefore, the task of formulating farm policy and improving our rural economy becomes an endless one. It is an evolutionary undertaking which has no terminus. Therefore, it is a mistake to attempt to establish farm policies and programs on a permanent basis at any one setting. Instead, our permanent policy should be one of creating procedures for constantly improving farm programs and policies while "on the march."

In order to organize the undertaking so as to make it manageable let up approach the farm situation by setting up three major theaters of operation, very much the same way we established theaters of military operations during World War II. These theaters might be described as (1) a hold-the-line action on the economic front to give us time for preparing for more basic operations, (2) action to expand and develop bigger and more adequate markets for farm products, both at home and abroad, and (3) action to resolve the problems of low-income farm units.

By means of action on the No. 1 theater we will be "buying time" in terms of economic balance and stability to permit us to undertake more basic operations on the other two fronts. By acting on theater No. 2, the developing of more adequate markets, we will be putting new dynamics into our farm economy. By action on theater No. 3 we will be making our farm plant more efficient and strengthening our total economy by rehabilitating those families who have been left behind in the march of progress.

I speak of these undertakings as theaters of operation rather than as farm programs because of their dynamic, changing nature. Both policies and methods must be subject to change as conditions alter.

Within each theater there is need for teamwork and cooperation by all interested groups and organizations all up and down the line. The desired approach is for these various interests, themselves, to take initiative in solving their own problems, thus minimizing the role of Government.

At the national level there also is need for coordination and teamwork in relating the operations of the separate theaters of action into a unified whole. Also, there is the task of relating all of this to the rest of the economy and to our international responsibilities. The need is to tackle the farm problem in the same comprehensive manner we did the creation of the atomic bomb. By this I mean that we should bring to bear on the subject the best know-how of the various interested groups—producers, handlers, processors, distributors, nutritionists, industrialists, Government, etc., all working in an integrated effort. By doing this, the various groups will be acting in their own enlightened self-interest as well as that of the Nation.

What about continued improvement in production—is not this still important? The answer is yes, it is fully as important as ever. There is every indication that research and progress in production will continue wth even greater momentum in the future than in the past. The new emphasis on market development and the solution of the problem of the low income farms, which I am suggesting, would itself tend to give new impetus to progress in production. Also, it will tend to give a better alinement to production efforts by more closely relating them to our economic goals, both for agriculture and the nation.

What about such functions as conservation, research, extension education, credit, and the like, where do they fit into this picture? The answer is that all of these are important and essential. They are tools for implementing the major operations which I have described. They should be provided to the extent necessary to get the total job done. My guess is that careful study will show that we actually need more, not less, of each such service than we are providing today. To the degree that such services are essential for the achievement of a dynamic and prosperous economy, they are a wise investment. Not to provide for them is to be penny wise and pound foolish. Also, in the case of resource conservation it is possible, during periods of acute imbalance to relate conservation practices and payments to the diversion of selected acres for use in building a fertility reserve for the future—thereby hastening the readjustment toward a balance between supply and demand.

The American philosophy is that Government should enter the farm field as little as possible. The degree of Government in agriculture is going to be determined more in terms of what we do then what we say. The surest way to move toward less Government and more private initiative is for farmers and private business firms to take increased responsibility for improving farm markets, making the total market structure more adequate to meet the farmer's needs without extensive aid from Government.

To do this, farm and business management will have to look beyond the operations of the particular farm or firms and, also, concern itself with the problem of the adequacy of the total market structure for the commodity involved. They will have to evaluate not only the economic operations at each successive step in the market process but, also, must concern themselves about the adequacy of the total market stairway from farm to consumer as a whole. This means increased teamwork between business firms and producers for the purpose of policy integration. It means a broader sense of a stewardship and teamwork all up and down the line. It may even mean modifying the antitrust laws to give sufficient latitude for this purpose, of course, at the same time protecting the interest of the public. Above all else, after the planning stage, it will mean the investiment of new capital behind new ideas.

Now, in the light of the general comments I have made, I shall attempt categorically to answer the general questions which you have listed for discussion by the panel. Recognizing that to do this will result in over-simplifying the issue, I submit these answers as "targets" for discussion by the panel.

Question 1: Analyze just what the Agricultural Act of 1954 and the rulings of the Secretary of Agriculture will do to support levels of basic and other commodities. What will be the effect on the demand for, and supply of, those commodites? Will there be adequate storage facilities for agricultural commodites? If not, what can be done about it?

Answer: Assuming weather conditions to continue as in recent years and no new international emergencies, I should expect support prices to show more of a downward than upward tendency. In general, this would have relatively little effect on the demand for or supply of commodities subject to price supports. This situation will vary some by commodities. Of course, in the case of wheat, consumption would increase if the price were to become competitive with feed grains. The storage problem will be similar to that of the past 2 years—the principal problem relating to grain. The answer is to encourage the building of some more permanent storage facilities at selected locations, and the expanded use of on-farm storage, steel bins, mothball ships, etc.

Question 2: What farm price movements do you anticipate during the coming year? During the long run? What can we expect the parity ratio to show this year and next?

Answer: Again, assuming weather similar to that of recent years and no new hostilities, we will do well to maintain average farm prices where they are during the current year. The same is true of the parity ratio. In the long run the picture should be brighter provided we aggressively strive to expand markets at home and abroad.

Questions 3, 4, and 5: What modifications in existing farm policies are needed to assure farmers as full participation as possible in the expected rapid growth and progress of our economy in the next decade?

What can be done to increase the productivity and levels of living of lower income farm families?

What effect would the realization of maximum employment and production during the next decade have upon the demand for various farm products?

Answer: I think that my answer to all three of these questions has been given in my earlier statement. However, I would like to stress the importance of maintaining a relatively high level of farm income as an incentive for speeding up adjustments. Adjustments within agriculture require capital formation at a relatively high rate. Also, the migration of people from agriculture to urban employment requires expanding productivity and employment outside of agriculture. In general, both of these conditions are related to the maintenance of a relatively high level of income within agriculture.

Question 6: In view of the decline in farm prices and incomes while national income is rising, when do you expect farmers' incomes to rise again and what forces will bring about a recovery?

Answer: It seems to me unlikely that higher farm prices or income will be generated by existing farm programs. Of course, higher income is the thing we seek. This, then, will come from reducing farm costs, expanding farm markets, or both. The achievement of this depends upon how aggressively and successfully we proceed on theaters 2 and 3 as I outlined them earlier.

Question 7: Are the prospects for developing continuing new market outlets promising?

Answer: The prospects of developing continuing new market outlets do look promising.

Question 8: Under the Agricultural Act of 1954 the suport level for wheat may be reduced to 75 percent of modernized parity within a few years if supplies continue large. Would this bring about a reduction in wheat prices of 30 to 35 percent from present levels? In your opinion would this reduction in wheat prices result in a restoration of the submarginal wheat lands to grazing?

Answer: It is conceivable that wheat prices may be reduced by as much as 30 to 35 percent from present levels under the existing law. Should this happen, and should it result in the withdraway of considerable acreage from wheat production, the use of such acreage would vary by location. In the diversified farming areas most land going out of wheat would be put to other crops or grazing. However, in the Great Plains area the tendency would be to abandon submarginal wheat land and let nature take its course. This land would not be returned to grazing readily unless special incentives were created.

Question 9: To what extent are lands not suitable for crops in the Western States (primarily because of wind erosion hazards) now being cropped?

Answer: The needs of World War II and the prices which then prevailed caused several millions of acres of land to be put under the plow in Western States which should not be cropped.

Question 10: Is there any reason for concern over current prices of agricultural land or over the availability of agricultural credit for land purchase or operating purposes?

Answer: At present, I feel, we need to be more concerned over credit requirements than over agricultural land prices. Credit needs are increasing for several reasons—the growing capital requirements for mechanization and larger-sized farm units, the squeeze between falling farm prices and high production costs and the constant subdivision of estates among heirs upon the death of current owners.

In conclusion, I reemphasize the importance that agriculture participate as a full partner in the achievement of our goal of a dynamic, growing, prosperous national economy. It is only as all major segments of the economy progress in unison that optimum results will be realized.

Remarks of M. R. Benedict, Panel Session of the Joint Committee on the Economic Report

Only 2 or 3 of the points listed by the chairman can be touched on in this opening statement.

Agriculture, like the rest of the economy, has come through the postwar years in rather good shape. Because of this, we have our sights set pretty high. Most of us, I am sure, agree that they should be set high. However, our striving for these new and higher goals needs to be tempered with realism. The achievements and phenomenal prosperity of the past 15 years are things of which all are justly proud. We do need, I think, to recognize that the high rate of increase in farm production, farm incomes, and general prosperity has few, if any, parallels in past history. One does not always stand at the peak. There are plateaus and valleys to be crossed as well as mountain ranges, in economic affairs as in transcontinental travel. If we choose our course wisely, we will avoid the deeper depressions and the more difficult routes. But there are bound to be some setbacks and some periods in which progress will not be all we would like to have it be.

After World War I, farm prices fell to little more than half what they had been 2 or 3 years earlier. Farm mortgage debt, created by speculation and inflation, had placed on agriculture a back-breaking burden for which there was little offsetting increase in real wealth. Our farm plant was perhaps even in poorer condition than when the war began. The World War II situation has been markedly different. The postwar years have been the best American agriculture has ever known. Furthermore, we have come out of them with a vastly better equipped farming industry and a rather moderate level of indebtedness. However, there were artificial elements in the agricultural prosperity of these postwar years that it may not be easy to reproduce even with the most active cooperation of Government. Some of the demand, both farm and nonfarm, grew out of delayed spending of high wartime earnings. Some grew out of the continuance of deficit spending and some was a result of an almost unique combination of great need abroad for American farm products and a willingness of our Government to supply funds with which to purchase them.

Coupled with these, there has been in recent years an enormous accumulation of unsold farm products in Government holdings which could, unless very wisely and skillfully handled, act as a delayed pressure on the supply side and thus be a price-depressing influence. The current holdings of the Commodity Credit Corporation should be worked down to more suitable levels as fast as that can be done practically.

There was an inflationary upsurge in both farm and nonfarm prices and incomes in 1950 and 1951 which stemmed mainly from the outbreak of war in Korea. Farm prices reached 107 percent of parity in 1951. Since then they have eased off and stand now at 86 (December 1954), a drop of about 20 percent. Both gross and net income have fallen off somewhat less, about 15 percent.

Are they likely to go lower or to level off about where they are? It seems to me the immediate prospect is for a leveling off, assuming a continuance of prosperous conditions in the nonfarm economy. The most serious setback to farmers and to the Government's farm program would be a severe slump in nonfarm employment and incomes. The maintenance of high activity in the nonfarm economy is, therefore, the most important objective both from the standpoint of farmers and of the Nation as a whole.

The national economy has shown remarkable strength and resiliency in the past year. There seems reason to hope that we have now learned enough about fiscal and monetary management to be able to hold in check the more violent changes in economic activity. However, it is too early to be sure of that. A full, or nearly full, employment situation is a brittle thing and could be badly upset by anything that would seriously affect confidence and optimism.

Such a change in consumer and business expectations could set in motion deflationary influences that might be harder to control than those of the past year. This, I think, is one of the hardest things to predict and the one we know least about. Can we maintain continuously the buoyant optimism that has characterized the economy in recent years? I was particularly impressed by what seemed to me the realistic and sensible reservations mentioned in the first full paragraph of page 22 of the Economic Report of the President.

Factors of that kind could more than offset such corrective devices as were used with apparent success in the past year. On the other hand, a renewed outbreak of hostilities could, in the situation we now have, give rise quickly to an inflationary situation similar to that of 1950 and 1951.

We have, I think, made real progress toward the achievement of a more stable economy but we do not yet know how much and what kinds of Government action may be needed if deflationary or inflationary forces become more powerful than those of the past year. Both the timing of the actions taken and the skill with which the situation is interpreted and handled are of great importance.

If we assume a continuing high level of prosperity, it seems to me the more serious problems in agriculture can be narrowed down to a relatively few commodities. The livestock industries, except in butter production, are in fairly good shape. They have shown remarkable ability to make necessary adjustments. Cattle prices are lower than cattlemen would like them to be, but it should be remembered that the price parities reported for them, which are well above present prices, reflect the extremely favorable price situation of the early postwar years.

Hogs are in a relatively good position and adjustments in that industry are carried out rather quickly if such action becomes necessary. Furthermore if needed adjustments are made in grain prices, the profitability of hog and cattle feeding may increase, even if prices of the end products do not increase materially. Poultry producers are in a less favorable situation but, here, needed adjustments in output are customarily made even more quickly and effectively than in other livestock industries.

Cotton is not far out of balance. A rather moderate adjustment in its price would apparently clear the markets and give cotton producers more freedom of action. I do not think corn production is seriously out of balance or that any drastic action by the Government is needed at this time.

The big and difficult problems are in wheat, butter, and rice. I shall not discuss rice, a minor crop, though the problems there are acute and difficult. Wheat production is overexpanded in terms of present needs. This is an aftermath of war influences, but the measures taken in the postwar years have tended to keep it overstimulated instead of aiding in the readjustment needed. We should cease as soon as possible to treat all wheat as one commodity. There is no over expansion in the durum wheats and little in the Hard Red Springs. The big problem is in Hard Winter, Soft White (that is, Pacific Northwest) and Soft Red Winter. In those areas, wheat production will inevitably have to be cut back or much of the crop will have to be chaneled into feed uses. The price programs should be revised so as to face that problem realistically. The danger of a disastrous price break from continuing increase in the stockpile of wheat is potentially of far greater importance to wheat growers than the price adjustments that would be needed to bring the industry into better balance with available outlets.

The wheat growers responded magnificently in the period when national and world needs for wheat were large. They should not be left out on a limb. But the program must, in their interest as well as that of the Government, be brought into closer touch with realities. They should be given effective help in making the changes needed. The set-aside provided in last year's legislation seems to me an appropriate action, but it is purely a stopgap arrangement. It does not solve the basic problem.

The butter problem is far more perplexing, and as yet no satisfactory solution seems at hand. Some help can be given, but the kind of help given in recent years is, in my opinion, more damaging to the industry than helpful to it. The current program of price support and storage is weakening to the very sizable market for butter that still exists. The approach to this problem should be revised as soon as possible.

There are other and longer-term problems that will need continuing study and action. Some of them no doubt will be discussed later today. Generally speaking, I would not expect any severe decline in farm prices, provided buying power remains high, and if production is not overstimulated by actions taken by the Government itself. The major problem is that of how to carry through, with as little hardship as possible, until the postwar adjustments still required can be made.

Looking ahead 5 to 10 years, it seems to me likely that the market for farm products will be relatively strong. Our population is growing rapidly. Many of the babies born in the early postwar years are now coming into the age of heaviest per-capita food consumption. At the same time, the farm population is shrinking. Our overall farm output will no doubt, continue to increase, but I think there is a good possibility that, for most products, demand will increase fast enough to absorb the increase if the economy continues to be active and prosperous.

In the interim, there is need for some support for farm prices and for some aid in making needed readjustments. But once the needed postwar adjustments have been made, the farm programs should, in the main, be designed to aid farmers in stabilizing their industry, achieving reasonable flexibility as to time of sale and obtaining help when difficult situations arise with respect to particular industries or areas. Normally, such agencies as the Commodity Credit Corporation should not be under heavy strain in times of strong demand and customary volumes of output. They should, so far as possible, be kept in a position to give needed and prompt help if emergencies arise. It is necessary to keep in mind that the reservoir that is full cannot absorb a flood when and if the flood comes.

(The following statement was subsequently submitted for the record:)

ADDITIONAL STATEMENT OF M. R. BENEDICT

While I concur in most of the comments made about the importance of aiding low-income farmers to better their situation, I would make one reservation. In general, I think the program outlined by Mr. Nicholls is appropriate. I do think, however, that we should recognize that, even with the best of programs, changes

of that kind can be made only slowly. There is some danger of overselling this program.

The low-income farm group is extremely diverse, and we tend to oversimplify the reasons for the conditions that exist. Those in the older age group may not want to change their way of life very markedly. Many of the part-time farmers have worked out solutions that are reasonably acceptable to them and to society. Some members of the low-income farm group are there because of physical or other handicaps which make their present way of life one that is best suited to their abilities and capacities.

Many of these may need help of one kind of another but it will not necessarily be through farm enlargement, more credit or improved methods of farming. The kind of program outlined by Mr. Nicholls can be very helpful to a sizable group of full-time, small-scale operators in the younger age groups. It will not reach or help all low-production farmers and the program required is a long-term, gradual one, not something that can be expected to show sensational results quickly.

STATEMENT BY DON PAARLBERG, ASSISTANT TO THE SECRETARY, UNITED STATES DEPARTMENT OF AGRICULTURE

Mr. Chairman and members of the committee, I am an economist in the office of the Secretary of Agriculture. My work consists primarily of economic analysis and presentation of economic facts to the Secretary and his policy determining staff. I am not a member of the policy staff in Agriculture. Therefore, my remarks today will be directed primarily to the economic situation affecting Agriculture, and not to questions of a policy nature.

The general economic health of America is good. Our country has been enjoying a period of relative economic stability during the past year. During the past year the general price level in the United States has fluctuated within the very narrow range of 2 percent. On January 15, 1955, it was 1 percent below the figure for a year earlier. Fluctuations of such small magnitude are evidence that price stability has been achieved. Inflation has been stopped.

The widely advertised business readjustment of 1954 evidently reached its bottom about last July. The slow erosion of prices and business activity which had been in progress since shortly after the Korean boom halted. Business has turned up modestly. Although the upward course has not been spectacular, it has been fairly steady for the past several months. Our economy is experiencing a healthy growth rate, production is increasing, consumer incomes are rising, consumer spending continues at a record rate, and still higher average standards of living are in prospect.

We have achieved a fairly stable economy at a high level. The transition from post-Korean inflation to semipeace conditions has been made with the least disturbance to our general economy of any similar postwar economic adjustment in our history.

Farm prices likewise have fluctuated with in a relatively narrow range of 8 percent during the past year. On January 15, 1955, prices received by farmers were about 5 percent below a year earlier. They were 2 percent above 1 month earlier. The 1954 yearly average of prices received by farmers was about 3 percent below the 1953 yearly average. This compares with a decline of 5 percent from 1951 to 1952, and a decline of nearly 10 percent from 1952 to 1953.

Although farm income has declined slightly more in the last year than has that of the general economy, it is significant that the decline has been very markedly slowed from the rapid drop of 2 years ago. The most rapid drop in farm prices and farm income both occurred in 1951 and 1952 following the Korean inflation.

The price parity ratio likewise has been remarkably stable during the past year. It stood last month at 86, which is 8 points below the figure for 2 years earlier when this administration assumed office. In the 23 months before January 1953, the price parity ratio had dropped a total of 19 points. In the last 8 months the parity ratio has fluctuated in the very narrow range of 3 points. The postwar decline appears to have been stopped.

Realized net income of farmers last year was approximately $12.5 billion. The United States farm income has about stopped its postwar decline. Net farm income in 1955 should approach that of 1954. Prices received by farmers may be expected to average close to the levels prevailing at the present time, and cost rates or prices paid by farmers probably will not change much in the year ahead. This means that the parity ratio likewise will remain fairly stable in the year ahead.

The small changes in farm income and farm prices between 1953 and 1954 suggest that most of the postwar adjustment has been completed, and that we are in a period of comparative stability. The adjustment agriculture has undergone the last few years has been difficult. However, statistics alone don't tell the full story.

While our total farm income was declining from 1947 to 1954 by some 25 percent, our farm population was also declining about 20 percent. This means, therefore, that per capita income in agriculture has declined markedly less than has total income. In the last 7 years, per capita income from agriculture has declined only about 5 percent. If we take account of the income that farm people receive from nonfarm sources, the realized per capita income of farm people from all sources actually increased 6 percent from 1947 to 1954.

It is essential that we maintain fluidity in our agricultural population. As we increase efficiency of our production of food and fiber, it is possible to do our production job with fewer workers on farms. This results in a higher living standard for our farmers as well as for our urban people.

AGRICULTURAL ACT OF 1954

The Agricultural Act of 1954 established a new direction in the price support activities of the Department of Agriculture. This act became effective January 1, 1955, just 1 month ago. The record shattering stocks of surplus food and fiber owned by or under loan to the Commodity Credit Corporation were accumulated under the rigid price support programs of previous legislation.

No abrupt changes in levels of price support are contemplated under the Agricultural Act of 1954. The act itself provides for graduality in shifting to the plan of flexible price supports.

The Agricultural Act of 1949 as amended provided for price support for basic commodities at 90 percent of parity through the 1954 crops year. It also provided for the use of the old parity formula through 1955 for those basic commodities for which the old parity was higher than the new (wheat, corn, cotton, and peanuts).

In the absence of any additional legislation, that act would have required support levels for 1955 crops of basic commodities (except tobacco) to be not more than 90 percent of parity and not less than a percentage of parity determined in accordance with a schedule of supply percentages specified in the law. A support level of 75 percent of parity was indicated when the supply percentage exceeded 130 percent of a normal supply. Parity prices for four of the basic commodities would have ben reduced in 1956 as a result of the change from the old to the new parity formula. On the basis of present relationships the following reductions would have been indicated: Wheat, 14 percent; corn, 11 percent; cotton, 3 percent; and peanuts, 18 percent.

The Agricultural Act of 1954 modified the Agricultural Act of 1949 as amended in several respects. It provided that support prices for 1955 crops of the basic commodities could not be less than 82½ percent of parity regardless of the supply situation and that in the transition from old to new parity, the parity price would not be reduced by more than 5 percent of the old parity price per year. The Agricultural Act of 1954 also provided for a set-aside of agricultural commodities. This set-aside will tend in the direction of somewhat higher support prices for wheat and cotton than would have otherwise been the case. The Agricultural Act of 1954 also provided for somewhat higher support levels for wool. Price support for major types of tobacco remains mandatory at 90 percent of parity.

It may be of interest to this committee to indicate the probable level of price supports for basic and designated non-basic commodities.

Basic commodities

Wheat support for 1954 crop is 90 percent of parity, or $2.24 per bushel. The 1955 crop will be supported at 82½ percent of parity, or not less than $2.06 per bushel.

Cotton support for 1954 crop is 90 percent of parity, or 31.58 cents per pound. While there has been no definite announcement of the support price for the 1955 crop of cotton, indications at this time point to a support level of 90 percent.

Corn support for 1954 crop is 90 percent of parity, or $1.62 per bushel in the commercial corn area. No announcement has been made of support level for the 1955 crop. Available information on supplies indicates that minimum support will probably be about 88 percent of parity.

Rice support for 1954 crop is 90 percent of parity, or $4.92 per 100 pounds. No announcement has been made of support level for the 1955 crop, but if prospective supplies remain about as now expected, support for the 1955 crop of rice is expected to be near 90 percent of parity.

Peanut support for the 1954 crop is 90 percent of parity, or 12.2 cents per pound. In view of the relatively short supplies of peanuts this year, the support level for the 1955 crop will probably be at or near 90 percent of parity.

Marketing quotas for the 1955 crops of wheat, cotton, rice, peanuts, and the major types of tobacco have been approved by the producers of these commodities and will be in effect. Acreage allotments for corn will be in effect in the commercial corn area.

Designated nonbasic commodities

Milk and butterfat support levels for the 1954 marketing year were 75 percent of parity, or $3.15 per 100 pounds for milk for manufacturing and 56.2 cents per pound for butterfat. The same level of supports are being continued for the marketing year beginning April 1, 1955. As of January 15, 1955, these prices represent 76 percent of the parity price for butterfat and 80 percent of the parity equivalent for milk for manufacturing.

Wool and mohair prices of the 1954 clip of wool are being supported at 90 percent of parity, or 53.2 cents per pound grease basis. The incentive price for the 1955 clip has been announced at 62 cents per pound, or 106 percent of the September 1954 parity price. The 1954 support level for mohair was 83 percent of parity, or 64.3 cents per pound. For the 1955 clip the support level has been announced at 70 cents per pound, which is 91 percent of the September 1954 parity price.

Tung nuts. The 1954 crop is being supported at 60 percent of parity, not less than $54.96 per ton. The 1955 support level has not yet been announced.

Honey. The support level for 1954 marketing season was 10.2 cents per pound. This is equivalent to 70 percent of parity adjusted to the 60-pound container level. There has been no announcement on 1955 support level.

Other nonbasic commodities

The 1954 and 1955 support levels for the 1955 crops of oats, barely, rye, grain sorghums, and crude pine gum in percentages of parity and dollars and cents are as follows:

Item and unit	1954		1955	
	Percent of parity	Dollars	Percent of parity	Dollars
Oats ... bushel	85	0.75	70	0.61
Barley ... do	85	1.15	70	.94
Rye ... do	85	1.43	70	1.18
Grain sorghums ... hundredweight	85	2.28	70	1.78
Crude pine gum ... production unit	90	130.33	90	129.02

While the provision for flexible price supports in the act of 1954 did not become effective until the 1955 crops, it has been possible to eliminate the earlier requirement for rigid controls on total diverted acres and for cross compliance. It is anticipated that as flexible price supports go into operation with the 1955 and succeeding crops, it will be possible still further to relax controls on production and marketing.

THE AGRICULTURAL SURPLUS SITUATION

The rate of disposal of Government-owned stocks of surplus agricultural products has been stepped up markedly in 1954. Sales have been made from CCC stocks to the private United States trade totaling $940 million during 1954. About $500 million of this total has been sold for export. The total value of all disposition of CCC stocks during 1954 have totaled about $1.4 billion.

The best market for our farm produce is at home. That market is being cultivated actively. The dairy situation is a case in point. Consumption figures for 1954 indicate that per capita use of butter increased by about 5 percent over a year earlier, thus reversing the downward trend of 15 years duration. The average American ate a fraction of a pound more cheese and drank a little more milk last year than in 1953.

There is a trend toward an unmistakably better balance between dairy supplies and demand—a balance which is being brought about not through distasteful and uneconomic production controls but rather through increased consumption of health-giving dairy foods.

In December of 1954 the Government bought not a single pound of butter. This was the first full month in 2 years in which no purchases were made. During December 1953, we bought more than 11 million pounds of butter and the heavy flow was just beginning.

During the final 3 months of 1954, butter purchases totaled only half a million pounds, as compared with 15 million a year earlier. Although we have bought some butter in recent days, purchases are well below the rate of a year ago.

Government buying of cheese and nonfat dry milk has also declined greatly in recent months. Last December cheese purchases totaled about 1¼ million pounds, compared with nearly 7 million for December of 1953. This was the smallest amount we had bought in any month for 2 years. We purchased 11.2 million pounds of dry milk in December 1954—less than one-third of the amount of a year earlier.

An important factor in the generally improved dairy situation is the aggressive merchandising and promotional campaign which is being carried forward by the industry with our full cooperation. We have yet to see the full effect of this program. It is steadily gathering momentum. In the months ahead we may confidently expect to see more dairy advertising, greater emphasis upon making milk more readily available through vending machines and other outlets.

All of these things which I have cited are reflected in the fact that milk prices have improved somewhat in recent months. For the final quarter of 1954, wholesale prices received by farmers for all milk averaged 86 percent of parity—the same as in March of 1954, when price supports were still at 90 percent of parity.

THE SCIENTIFIC REVOLUTIONS IN AGRICULTURE

This is the age of science and technology in agriculture. Expanded emphasis on research and education is paying tremendous dividends in more efficient production and better living for progressive farmers.

Total output from agriculture in 1954 was 14 percent greater than in 1947, the year when net realized income from agriculture was at an all-time high. This output was produced by 18 percent fewer workers than we had on farms in 1947. This means that output per man was about 40 percent above the 1947 level and nearly double 1939, when World War II began. These comparisons give eloquent proof of the continuing technological revolution that has made American agriculture the most efficient in all the world.

American agriculture remains a dynamic industry. As in any growing and dynamic sector of our economy, some parts of it will always fare better financially than other parts in a particular year. Some areas will fare better financially than other areas. Some individual farmers will be better off than others. This is one of the essential characteristics of a dynamic industry and a free economy.

Within the framework of modest economic fluctuations of this character, and as a part of a growing prosperous general economy, American agriculture faces a challenging decade ahead.

The basic philosophy underlying the Agricultural Act of 1954 will encourage individual farmers who are efficient and ambitious to participate profitably in the thrilling opportunities immediately ahead of us in the growing science of agriculture.

Agriculture offers equally as good an opportunity over the next generation as any other comparable vocation for the young man or young woman who desires a satisfactory living standard, an opportunity to live and rear a family in a wholesome environment, and the ability to provide one's own security for his declining years.

Our constant objective in the United States Department of Agriculture is to do all in our power to promote a stable, prosperous, and free agriculture.

(Whereupon, at 4:30 p. m., the committee adjourned to 10 a. m., Thursday, February 3, 1955.)

JANUARY 1955 ECONOMIC REPORT OF THE PRESIDENT

THURSDAY, FEBRUARY 3, 1955

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

The joint committee met at 10 a. m., Senator Paul H. Douglas, chairman, presiding.

Present: Senator Douglas, chairman, and Representatives Bolling, Kelley, Talle, Curtis, and Patman, vice chairman.

The CHAIRMAN. This morning we are going to discuss the subject of public works. We appreciate the willingness of all of you to take part and be with us.

Mr. Dupont, whom we invited, cannot come because the President's highway program has not yet been submitted to Congress, but we are very glad to have General Itschner, who is the Assistant Chief of Engineers for Civil Works, and Assistant Secretary Aandahl who is here from the Department of the Interior.

In previous sessions of the panel, we have called upon the Government representatives first; but I would like to experiment, and this morning I am going to call on the nongovernmental members of the panel and then ask the governmental members to conclude.

I shall ask Mr. Fisher to begin the discussion.

OPENING STATEMENT BY JOSEPH L. FISHER, ASSOCIATE DIRECTOR, RESOURCES FOR THE FUTURE, INC., WASHINGTON, D. C.

Mr. FISHER. I have been asked to comment briefly on the proposals in the field of conservation of resources, as set forth in the January 1955 Economic Report of the President. More particularly, and along with other members of the panel, I have been asked to comment on the two questions: (1) What should be the Nation's public works policy in 1955, especially in the resources field; and (2) what part if any of the costs of construction and maintenance of resource facilities should be shared by the Federal Government, and how should these costs be shared? I would like also to blend with my remarks concerning resources conservation and development a number of basic points regarding public works policies in general.

First, I would like to note the high quality of the report and compliment the Council of Economic Advisers and others who aided in preparing it for the emphasis upon economic growth. I hope that this attention to economic growth represents a continuing interest rather than a viewpoint stressed only at this particular time when the general business movement is upward and there seems to be no critical need for policies relating primarily to business cycle movements—

either those suitable for times of recession or those suitable for impending boom and possible collapse.

In my view, there is a gradual and subtle blending of factors which are important to stabilization and to growth, and that a sharp separation of the two is most unrealistic. Indeed, economic decisions are always made in the present, even the decision to postpone is a present decision. The effects of these decisions, however, may be left at different times in the future, unless these considerations are kept to the forefront in our thinking; there is always the tendency to defer basic public and private investments in natural resources, highways, and the like.

Fiscal or budget policies which make such expenditures the bond servant of short-run considerations, whether they are to make larger deficits or reduce them, are not in my view in the long-run public interest. In the end, such policies will defeat the establishment and continued expansion of the very base of resources and facilities without which growth is severely handicapped and the business cycle becomes much harder to manage.

Therefore, in a general way, the Nation's public-works policy in 1955 should be one of proceeding steadily and confidently with investment and investment decisions which will serve to expand basic public works and facilities in the interests of long-term growth. The budget outlook clearly is not so severe, nor the need for balance in conventional terms so impelling, as to indicate any less in spending for natural resources and other public works than the recent 1956 budget envisages. In my view, a good case can be made for somewhat higher expenditures in the resources field than the budget proposes.

I have here to address my remarks more to the budget than to the Economic Report, since the Economic Report says very little directly about resources.

During the 5 years, 1951–56, as estimated in the budget, the amount spent by the Federal Government for water-resources development, to name the natural resources of greatest budget concern, has decreased by roughly 10 percent. Federal water-resources expenditures as a percent of total Federal expenditures reached a high of 4.1 percent in 1938; according to the 1956 budget estimates, they will be 1.9 percent. As a percent of gross national product, estimated Federal water-resources expenditures for 1956 are one-fifth to one-quarter less than in 1951.

The CHAIRMAN. Now, by water, do you mean power, irrigation, and navigation?

Mr. FISHER. That is correct. Those are the large items.

It would seem that Federal Government spending for the development of water resources is not keeping pace either with other items in our Government and national economic accounts or with the opportunities and needs of the times. Yet the Economic Report states—

> of all our natural resources, none requires more immediate attention than water.

The way to reconcile emphasis on the need for water development with declining budget allocations is to offer convincing evidence that resources investment funds will be forthcoming from non-Federal sources. This brings up the "partnership" concept. This approach has a genuine appeal. I think it to be excellent, and in its general form

I endorse it highly. It strikes a good note and one which most Americans will applaud. However, I believe the general idea needs to be thought through more carefully, if it is to be made to work effectively. The biggest single difficulty, as I see it, is to enlist the responsible cooperation of States, localities, and private groups. This means financial responsibility and participation as the acid and final test of genuine partnership. If the partnership idea is to amount to more than it has in the past, if it is to be a genuine thing, then both local and State governments, and in some instances private groups, must participate substantially in investment and repayment.

The 1956 budget proposes $20 million in Federal expenditures for partnership projects under the Corps of Engineers and the Bureau of Reclamation. I hope the amount may be enlarged in future years. It would be advisable to follow the working out of these initial partnership projects with an eye to revealing the strong and weak points and finding out what really can make the idea work. I think it is important not to oversell the partnership idea lest the day come when people realize that more has been held out under the attractive label of partnership than can be delivered.

Particularly, I think the Federal Government will have to act sternly in refusing Federal participation except upon terms which require significant State, local or other participation. There will have to be a tougher resistance to political pressures, in which public agencies and private pressure groups sometimes combine, than has been characteristic of the past. The will of people to raise money at the State and local levels will have to be strengthened, as well as their desire to see through the long repayment periods which may be involved. The partnership program is a hopeful one, it deserves to be nourished and tended carefully; but proclaiming it does not necessarily make it work.

Another question we were asked to deal with briefly is the amount which the Federal Government should contribute to various public works programs. Here I do not think definite general rules can be set out very easily. The emphasis has to be upon the uncovering and the experimenting and testing of suitable criteria to work out the degrees of participation from State, local, and Federal governments, and even private sources. Flexibility seems to me to be desirable, especially in the resources field, where formula treatment has never been as successful as it has in highways, hospitals, and some of the others.

The CHAIRMAN. What do you mean by "flexibility"? That is a commonly used term, but I have often been puzzled as to what precisely it meant.

Mr. FISHER. I think it is partly a dodge for getting away from thinking through exactly what you mean. In the resources field the programs are extremely varied, all the way from very small flood control and agricultural projects to large dams and to research programs, and so on. It is impossible to find a single formula, or at least it is difficult to find a single formula such as in the Highway Act which sets up three definite criteria, and say this is the way the Federal money shall be distributed, whatever that sum may be. The purposes of resources projects, the nature and characteristics of them, are much more varied, in my view.

The CHAIRMAN. Then would you allow this to be determined entirely by administrative discretion?

Mr. FISHER. Not necessarily. I propose a little later on that this needs to be the subject for a considerably more intense examination than heretofore.

I think, further, that the resolution of such problems lies, in large part, in the fields of public organization and finance, since if the States and localities are to become partners with the Federal Government, they must have the sources from which additional funds can be raised, as well as the will to do it. The Council correctly recommends that outmoded State tax rate and debt limits be relaxed.

The possibilities for interstate or regional development corporations for resources development might well be explored more intensely than has been true in the past. I think ways might be found for the chartering of such corporations with power to issue mortgage or revenue bonds and which could also receive appropriations from State, local, and Federal Governments. An extension of this idea would encourage private participation for certain phases of multiple purpose projects such as electric power production and distribution, for which there is clearly a market and a determinable market price. I do not think we have begun to exhaust our organizational administrative resourcefulness along this line. An important consideration is that any development corporation operates over a sufficiently wide geographical area and span of resources so that a truly balanced and integrated development may be achieved.

At another place in the Economic Report the proposal is made that advance planning loans to States and localities should be enlarged and made permanent on a revolving fund basis, instead of having an on-and-off activity of this sort. I would suggest careful study be given to an extension of the advance planning approach to embody the idea of planning for total readiness for antirecession public works activities. Such a readiness would recognize that even with plans and specifications all prepared, there would still be made many roadblocks in the way of actually spending money for antirecession public works. Financial arrangements between Federal, State and local Governments would have to be arranged. Appropriations would have to be made, construction organizations perfected, and decisions as to precise time, place, and type of project reached.

I would propose careful consideration of an antirecession fund, established by Congress, and with its use limited by Congress to authorized projects. Congress might limit the fund as to total amount, and specify general criteria which should trigger its actual use. It might also lay down general rules regarding the geographical distribution of the spending. The establishment of such a fund would place in the hands of the President the authority to engage in antirecession public works spending in speedy and timely fashion, but with appropriate safeguards and general directives laid down by the Congress.

I am not so much proposing the establishment of such a fund as I am proposing that it be examined with greatest care looking toward the advisability of recommendation at a later date. This is not a new idea, but it is a good one which so far as I know has never been adequately investigated. Perhaps the chief value of such a study would be to point out the severe limitations of antirecession public works because of timing difficulties. The study should specify the kinds of projects which lend themselves to antirecession use, as well as those that do not. It should be realistic with respect to the methods of financing.

My final point, and one which I think is of major importance and one overlooked almost entirely in the Economic Report, relates to resources development, and the need for a partnership arrangement, not by which projects would be built, but by which they might be planned cooperatively. Surely this goal cannot be achieved if miscellaneous private companies, localities, even States, acting separately, pick off such projects as suit their interests and leave the scraps for the National Government. I think a guiding general plan, or at least a set of general objectives and procedures is needed. This is especially true in the water and related land field, in my view.

The CHAIRMAN. You are not speaking of the upper Colorado project, by any chance, are you?

Mr. FISHER. I have that and some others in mind. Such planning need not be in detail, but it should block out the main development potentials, appraise the benefits and costs of each, provide for wide public consideration, and in short, make possible the emergence of general approaches and plans of development which will permit any private concern or public body to undertake a project, and in such a way so as not to foreclose on other projects more clearly in the long-run interest.

I think we have to look beyond TVA and beyond the interagency river committees to find new patterns for cooperative planning of this character. Which group actually builds or owns a structure seems to me of far less importance to the Nation than that the river valleys are developed intelligently, comprehensively, and economically.

During these few years we are committing ourselves to the structures and programs which will fix the general character of river basin development in this country for perhaps a century or longer, just as the location of our main railroads in the 19th century set a pattern of location of people and industry which continues to this day.

Cooperative planning of the type I have suggested, it seems to me, is the way to assure an intelligent arrangement of investments by public and private bodies and that the long-range national interest will be enhanced.

The CHAIRMAN. Thank you very much.

(Mr. Fisher's prepared statement appears at p. 801.)

The CHAIRMAN. Mr. Greer, I understand you are going to speak on the highway question.

Vice Chairman PATMAN. I can state, Mr. Chairman, he is mighty well qualified to speak on that question.

STATEMENT OF DEWITT C. GREER, STATE HIGHWAY ENGINEER, TEXAS HIGHWAY DEPARTMENT

Mr. GREER. The President of the United States is definitely correct in his statement that the highway improvement program of this country is not keeping pace with the expansion of our economy, and consequently, must be expanded if our Nation is to continue its forward progress.

The State highway departments throughout the country are now in the process of developing the public road systems with the aid and benefit of the Federal-Aid Highway Act of 1954 as passed by the 83d Congress and placed into effect May 6, 1954. In order that there may be no cessation in the roadbuilding program of this country, this act must be supplemented by the Congress at least by the spring of 1956.

The annual income to the Federal Government this year from taxes relating to the motor vehicles of this country is estimated at $2,577 million. Our highway system is within itself a modern, industrial machine yielding a $2,577 million income to its owner, namely, the people of the United States. If this profitable machine is permitted to deteriorate and become obsolete, the reduction in net profits to the owner will be inevitable. Any efficient private industry, for business reasons alone, constantly endeavors to keep its machinery in good repair and modernized in order to continue the flow of profits to its owner.

The highway system of this country is no exception. We, the owners, must do a major overhaul job primarily for the public good and also to guarantee the continued flow of income as paid by the users of motor vehicles to Federal, State, and local branches of government.

Our Federal Government enjoys the privilege of providing inspiration and leadership to the States in many fields of endeavor, including highways. In providing this leadership during the past year, the Federal Government has contributed approximately 13 percent of the expenditures on the highway transportation system of this country, and the States and local political subdivisions have contributed the remaining 87 percent. It would seem that with the established need, the Federal Government could lend additional impetus to the expansion of the highway program of the country.

The National Congress is to be commended for its balanced program of improvements on public roads, which program has been in effect for the past 11 years. The four categories of roads and streets constituting the major portion of the Federal-Aid Highway Act give balance to the improvement of our transportation arteries. This balanced program should be continued in full force and effect with some added emphasis on the primary and interstate systems. The Federal Government should continue this balanced program of work, increasing the overall allotment to the road system of the country each year, commensurate with the increase in tax yield from the motor vehicle user accruing to the Federal Government. Public roads should be built in accordance with present and anticipated traffic volumes. For the greatest value to the economy of the country, these roads should be so built as to serve a threefold purpose, namely, through traffic, local traffic, and some aid rather than deterrent to the development of real properties. These factors are more forceably brought to attention when we realize that 70 percent of the vehicle miles of travel on our highway system actually goes less than 30 miles per trip.

The President of the United States has repeatedly urged in his discussion of this problem that the States' rights principle should continue in any expanded highway program. (For the President's highway message submitted subsequent to these hearings, see p. 1264.) In my estimation, this can only prevail if the States do their part in the plan of finance, as has been true in the past 34 years of Federal-State highway relationship.

I would suggest that the present policy providing for the maintenance of public roads and streets by the responsible local agency be continued. I would further suggest that the matching ratio on the secondary, the urban, and the primary highway systems be continued at the 50–50 ratio as now provided in the Federal-Aid Highway Act and that the matching ratio on the interstate system be increased to 75 percent Federal and 25 percent State in order that a priority in this system might be purchased by the Federal Government, due to the interstate and military characteristics of this particular system of roads.

The allocation of Federal grants-in-aid to the States should be on a specific formula and definite allocations among the four systems of roads; however, sufficient flexibility should be used in the law to permit the interchange of funds among the systems when just cause can be shown for such transfer.

The CHAIRMAN. I want to commend you for the brevity as well as the conciseness of your statement. If the Federal Government were to meet 75 percent of the cost on the interstate highways, who should let the contracts, the Federal Government or the States?

Mr. GREER. I mentioned that the three systems should be 50–50.

The CHAIRMAN. I understand, but on the interstate.

Mr. GREER. That would be 75 percent and 25 percent, and herefore I think the contracts should be subject to the concurrence of the Federal Government.

The CHAIRMAN. Would you have the States still let the contracts and supervise the construction, even though they meet only one-quarter of the cost?

Mr. GREER. Yes; subject to the concurrence of the Federal Government as to any contract.

The CHAIRMAN. You would have 25 percent of the appropriation really determining the policies. If the Federal Government is called upon to pay three-quarters of the cost, why should not the Federal Government carry through the letting of contracts? Aren't you insisting that the tail wag the dog?

Mr. GREER. The present matching basis is 60 percent Federal and 40 percent State and, under that, the States are now handling the operation.

The CHAIRMAN. I understand, but you propose to step it up to 75. I am struck with the fact that the States seem to love to come to the Federal Government for money, but they are not always anxious to contribute funds themselves. Then they are very anxious to control the expenditure of such Federal money as is appropriated. This is all done in the name of States rights.

Mr. GREER. Mr. Chairman, if you will permit this statement, I was speaking generally for the majority of the States on that score. Insofar as Texas is concerned, we would prefer that all systems be on a 50–50 basis.

The CHAIRMAN. Oh, I see. That is, you would not want 75 percent.

Mr. GREER. Generally we prefer all of it 50–50. That is a better partnership arrangement. However, not all States are, let us say, quite as fortunate as we are in being able to provide the funds that are necessary.

The CHAIRMAN. I commend your consistency. We wish it were more widespread.

Vice Chairman PATMAN. Mr. Chairman, may I comment briefly on your statement. It looks unusual for the State to ask for 75 percent and insist on letting the contracts. In view of the statement used by the witness, that it would be subject to the concurrence of the Federal Government, wouldn't that be a great advantage to the Federal Government? In other words, the States would look after all of the deals, and all of the contracting part, up to a point, and then we would have to get the concurrence of the Federal Government; in other words, the Federal Government would have the veto power over it, and I assume they could actually demand, the Federal Government could, Mr. Greer, that they even ask for new bids, if necessary.

Mr. GREER. That even happens under present conditions. We submit all of the data to the Federal Government before we ask for bids. They sit in on the actual receiving for bids, the opening of bids, tabulating of bids, and they review everything before they concur in the award of the contract.

Vice Chairman PATMAN. And they have a veto over it if the officials desire to use it?

Mr. GREER. Yes, sir.

Vice Chairman PATMAN. Therefore, I do not think it should be disturbing to the chairman.

The CHAIRMAN. Well, knowing something of the circumstances under which some States let highway bids, I would say that there is more to this subject than has been touched on this morning. I think we should proceed to the next witness.

Mr. Olds.

OPENING STATEMENT OF LELAND OLDS, DIRECTOR OF ENERGY RESEARCH ASSOCIATES, PUBLIC AFFAIRS INSTITUTE

Mr. OLDS. I was asked to comment on the President's proposals in the field of power resources:

The Economic Report of the President is completely lacking in recommendations with regard to electric power or recognition of the part played by ample supplies of low-cost electricity in an expanding economy with provision for defense.

The report fails to recognize that the electric-power field is one in which the proved shortsightedness of private monopoly can result in seriously retarding the vigorous economic growth which the report offers as the best way to avoid recessions.

The President's power policy, if carried out in terms suggested by his report, would result in a power-short America, measured by the requirements of an expanding economy, which will call for supplies of electricity multiplying at least 3 times over within 15 years and 10 times over by the beginning of the last decade of this electric-power century. It would result in an America hampered by rising power costs. It would mean a slowing down of automation in industry, on the farm, and in the home, which will enable us to couple rising living standards with reductions in the working week to 35, 30, and ultimately 25 hours.

And there is a direct tie between adequate power and employment because, as President Gadsby of the Utah Power & Light Co. points out, electric energy now required per man-hour in industry is equivalent to 154 unseen workers under the direction of each visible worker, with the prospect that the number of invisible helpers will rise to 250 for each worker on the production line.

The President's power policy, as set forth in the Economic Report, by favoring private monopoly in the business of power supply, will result in underdevelopment of our hydro, hesitant development of low-cost atomic power, slower progress toward all-electric homes, cramped expansion of farm electrification, and a general restriction on improvement in American living standards.

In terms of national security, this may prove serious, for although the Office of Defense Mobilization and the Department of the Interior disagree on the adequacy of planned capacity to 1957, both agree that the prospect of power shortage in the Pacific Northwest and the Southeast is serious.

In this connection, we may note the effort of Westinghouse Electric Co. to spur timely orders for new generators. Westinghouse shows that although 9.3 million kilowatts of new generating capacity will be required for installation in 1956, only 5.1 million had been ordered as of September 21, 1954. According to their statement:

> It is too late to furnish the 4.2 million kilowatt deficiency on a 30-month production schedule. Practically no commitments have been made for 1958 and 1959.

With what seems a careful avoidance of the mention of electric power, the Economic Report apparently takes some pride in the administration's reversal of the power policy of the last 25 years. Advocating expansion of investment in conserving and utilizing soil, water, mineral, and other resources, the President indicates that—

> to speed this process, the Federal Government has attempted to distinguish as clearly as possible the field of Federal enterprise from the field of private or local enterprise.

He applies this to water resources by setting forth the administration's so-called "partnership" policy under which, broadly speaking, the people would put up the nonreimbursable investment and non-Federal interests, mainly private, the reimbursable.

This means in the main a shift of Federal partnership in the field of electric power from partnership with local community public or cooperative electric systems to partnership with private monopoly. It will ultimately destroy the type of public or cooperative competition which has proved the most effective supplement to the otherwise largely ineffectual efforts to regulate utilities in the public interest.

The type of public or cooperative competition provided by Federal power legislation, including the Tennessee Valley Authority, Rural Electrification, Bonneville Power Administration, Reclamation, and Flood Control Acts, has stimulated neighboring private power companies to greater reductions in rates and greater expansion in business than has occurred where this influence is lacking.

The power policy set forth in the President's Economic Report purports to be based on the premise that power supply is a local responsibility. This is technologically inaccurate. Today low-cost power is power from integrated regional systems, and where the Federal Government abdicates responsibility most public and cooperative systems are thrown upon the mercy of their private competitors or must depend on relatively high cost, small local generating stations.

Except in rare instances, public and cooperative systems cannot hope to take full advantage of river basin or atomic power unless the

Federal Government takes a portion of the responsibility for wholesale power supply. The shift in partnership described in the President's report will mean that the people of the country will get less power from their water and nuclear power resources at higher cost.

(I am going to change slightly the order of my presentation from that of the copies which have been distributed here.)

We can interpret the contrasting power policies, one leaning toward private monopoly, the other toward public competition, including Federal investment in some generation and transmission, rather specifically in terms of immediate effects on employment.

In the first place, the sensitive response of the private-power industry to fear of overbuilding in the face of business recession tends to accentuate those recessions, as well as to cramp later recovery when power supply becomes tight. Thus the September 20, 1954, issue of Electrical World forecasts capital expenditures by all agencies for electric generating capacity falling from a high of $2,088 million in 1953 to an estimated $1,475 million in 1957, or by more than $600 million. Already by its January 24, 1955, issue this trade journal reports actual investment in generation for 1954 at less than the prediction of 4 months earlier and drops its 1955 estimates by nearly 10 percent. This recalls the Westinghouse figures for generators on order, to which I have already referred.

Such reductions in new investment have far-reaching effects on business and employment, as well as reducing the power supply available for future expansion. The Federal program I am recommending can help to remedy this situation.

In the second place, reductions in electric rates, due to an effective competitive power program, will mean hundreds of millions of dollars savings in electricity costs which will be available for consumer expenditures on such soft goods as textiles and shoes which need such a spur to absorb unemployed workers in a number of depressed areas. Figures prepared by the Federal Power Commission for a former Member of Congress in 1952 showed possible savings of over $2 billion in 1950 if all electric sales in the United States had been billed at rates prevailing in the TVA area. Of course, if all rates had been so reduced the result would have been big boosts in sales of electricity and appliances, so that actually power revenues would not have been reduced by anything like this amount. In other words, the savings would have been distributed among the soft goods and electrical appliance industries.

In the third place, if the expansion of power requirements is not cramped by the proposed change in Federal power policy, it will mean a tremendous boost in employment in the depressed coal-mining areas. The forecast for 1970, even assuming reasonable expansion in hydro capacity and atomic power, will require approximately double the 117 million tons burned to produce coal's share of electric generation in 1954. This assumes coal continuing to provide 65 percent of the total thermal generation, although as the last half of the century unfolds the share carried by oil and gas is due to decrease. With the requirements for cement mills, the steel industry, the coke, gas, and chemical industry, rail transportation, other industries, and retail sales, this would call for bituminous coal production in excess of the present Bureau of Mines' estimates of full-time production of existing mines, with this year's work forces.

Table 1 and table 4 in the report suggest that the authors fail to be influenced by their own proof of the relationship between dynamic power policy and an expanding economy. Table 1 shows expansion of electric power production outdistancing all other growth factors between both 1939 and 1946 and the present.

Table 4 shows some rapidly growing commodities and services to illustrate the widening economic horizons of consumers, with the comment that "one of the marvels of our generation has been the growth of consumer capital." The significant fact is that 8 of the 15 rapidly growing commodities shown are electric appliances and a ninth involves electric freezing.

The influence of Federal power policy, as embodied in the TVA and the Bonneville Administration, in producing this result is apparent in the annual statistics of electric appliance sales, published in the January 1955 issue of Electrical Merchandising, a trade journal. These statistics show that in 1954 sales of electric appliances, the States of Tennessee and Washington exceeded the United States average per 1,000 residential customers for 10 of the 13 appliances covered. Both also equaled the national average in 2 of the 3 remaining appliances.

The administration should reread the subtitle under which this table appears. It reads: "Lessons From the Past and Guides to the Future."

The President's report stresses the importance of assisting new and small businesses, stating that our economy is strong and progressive because it contains, in addition to its 5 million farm enterprises, 4 million independent centers of business decision. My comment is that the Federal rural electrification program has probably been the outstanding Federal contribution to the strengthening of small-business enterprise and that it is an integral part of the larger Federal power program, in which the Government assumes a partnership responsibility for assuring rural electric systems, directly or indirectly, low-cost wholesale power supply.

The report specifically claims credit for ending Federal power responsibility for power supply, which has played an important part in this boost to America's premier small businesses.

The President finds the history of our country and the Western World demonstrating—

> that economic progress depends fundamentally on the enterprise and initiative of millions of people seeking to better themselves.

No clearer illustration of this could be cited than the economic progress of the country's farms which has come through the enterprise of millions of farmers in organizing and managing their nearly 1,000 rural electric cooperative systems, raising the percentage of electrified farms from 11 percent in 1936 to over 92 percent last year.

Yet the testimony before the Senate Judiciary Antimonopoly Subcommittee shows that the new power policy, set forth in the President's report, is making it possible for private power monopoly, which contended that areawide rural electrification was not feasible, to undermine these very vital cooperative enterprises.

Low-cost electric power in abundance is an important key to an expanding economy. So said the Paley Commission. And the expansion in power demand is always exceeding private company expectations. So says Westinghouse. General Electric says industry expectations of 1 trillion kilowatt-hours in 1970 are now advanced to 1965, and the Paley Commission estimates of 1.4 trillion in 1975 are advanced to 1970. General Electric says that the upward trend of total residential use will pass industrial use by 1973 and that prophets look for an overall requirement of 5 trillion kilowatt-hours in the year 2000. I predict it will be reached by 1990.

And the newspapers carried just yesterday and today the story that the 10 billion kilowatt-hours a week purchase of electricity mark in this country has just been passed.

To meet this challenge of the electrical age, with all that it will require in hydro, conventional fuels, and nuclear energy, will require expansion of Federal, State, and local public, private, and cooperative generating capacity, all working together, and all stimulating each other by the special brand of competition deriving from the freedom of all communities to choose whichever form of ownership best meets their needs. Without Federal participation in the wholesale field, making possible public and cooperative competition, private monopoly will dominate and will prove a restrictive influence on expansion. And we must not forget the wider implications, stated by Representative Jensen of Iowa in last year's atomic energy bill debate. Warning of possible Federal monopoly, in words even more applicable to private monopoly, Mr. Jensen said:

> Mr. Chairman, the man who controls the electric energy of any nation, especially in a nation that is dependent on electric energy as we, controls that nation. Any one of you Members of the House, or any other American, could control America lock, stock, and barrel today if he or she had control of the electric energy of America. Let us not forget that.

The recommendations of the economic report should have included, as a part of the public works program, (1) the undertaking of new Federal multipurpose river-basin projects, including Federal development of power, in the Columbia, Colorado, Central Valley (Calif.), Missouri, Arkansas-White, Alabama-Coosa, Chattahoochee, Roanoke, Connecticut, Merrimac, St. John, and Kennebec River Basins——

The CHAIRMAN. Are there any rivers that you do not want to develop, Mr. Olds?

Mr. OLDS. Not rivers that have the possibility of sound multipurpose developments with power involved, and where the use of Federal investment will make possible a fuller development of the potentialities than would be possible with the use of private funds.

The CHAIRMAN. When you speak of the Colorado, do you mean the upper Colorado?

Mr. OLDS. Yes.

The CHAIRMAN. Including irrigation?

Mr. OLDS. Yes.

The CHAIRMAN. Have you noticed the costs per acre on the upper Colorado, including irrigation?

Mr. OLDS. Yes.

The CHAIRMAN. Including interest, is it not true that the cost would be around $2,000?

Mr. OLDS. That is so.

The CHAIRMAN. Do you think it economic to construct land at a cost of $2,000?

Mr. OLDS. With our population going up by 1970 to 200 million and by the year 2000 to 270 million, that will put such a strain on our resources that, in the same way the Government has found it possible to secure copper production from relatively uneconomic copper mines, it will warrant bringing in all of the land that can be irrigated to make this kind of subsidy to irrigation development as a long-run proposition.

The CHAIRMAN. Is it not true that the administration is planning to withdraw 40 million acres, roughly, from circulation and turn it back to grasses?

Mr. OLDS. That is a temporary thing, in part, and in part involves a desirable shift of acreage which should never have been put under wheat, for instance, and grains, and should have been put under grass as a conservation measure.

The CHAIRMAN. Well, if it is desirable to add additional acres at high altitudes at a cost of $2,000 an acre, which is roughly 4 times or 3 times the cost of the more fertile land in the United States, do you think the administration might consider the possibility of constructing land on the skyscrapers of New York and growing vegetables on the terraces? I think it would cost less than $2,000 an acre to create very rich land there, and I wondered if that might not be included in your program.

Mr. OLDS. I think if the administration was set on doing that kind of an investment job it would better put the money into harnessing of the energy of the sun with the possibility of being able to achieve control of the photosynthesis process.

The CHAIRMAN. As you know, I tend to support the public power projects, but I have very real reservations as to whether we have not gone too far in the field of irrigation, and whether the costs are not excessive in terms of yields on extremely fertile land. It seems to me that we are expending enormous amounts of money which are uneconomic.

Take the richest belt in this land, running from the Indiana line to the Mississippi River, across my State, that is now selling from five to six hundred dollars an acre, including the land across the river in Iowa.

Representative TALLE. Thank you, Mr. Chairman.

The CHAIRMAN. To take arid land and build it up at $2,000 an acre which when finished would be worth $150 an acre, always seems to me to be an extraordinary performance explainable only by the great political power of the semiarid States in the United States Senate.

Representative TALLE. Mr. Chairman, would it be permissible to say just a few words at this point?

The CHAIRMAN. Oh, certainly.

Representative TALLE. As a case in point, Mr. Chairman, right along the lines that the Chairman has spoken, there is practically no waste land in the State of Iowa. We have 25 percent of the grade A land of the Nation. We don't take credit for that. That is nature's gift. We do take credit for good use of that land, though. We have very good farmers in Iowa. But there is a river in my district in which siltation occurs every year. It has worked back from the mouth of the Mississippi westward. It has worked back now to the extent of 7 miles. The acres that used to produce excellent corn crops when the grandfathers of the present owners farmed that land and the fathers of the present owners raised good crops, that land to the extent of

36,000 acres is practically wasteland every year because of floods. In successive years the siltation fills the channel upstream.

After all, if the channel is filled with silt, the water can do nothing but fan out over the acres, and crops are destroyed. The channel, while reopening has been authorized, is still silted up, and I am hunting around for some money that the Congress does not vote for aid to some remote part of the world, so this channel can be opened up and these 36,000 acres be put back to good corn production.

Mr. Olds, any help that you can give me along that line to make good use of what used to be very good land, I will appreciate, and I think you will agree with me that we should do that before we spend a lot of money making new land.

Mr. OLDS. Well, because my discussion runs primarily to power, and I think the power resources of the upper Colorado are going to be very important in the development of that whole intermountain area——

The CHAIRMAN. I was trying to rescue you from an entangling alliance, Mr. Olds.

Mr. OLDS. Thank you very much. I am still willing also to support the objectives on a long-range basis of the people that are interested in irrigation.

The CHAIRMAN. Do you mean that you have to get the votes of the people who are interested in irrigation in order to get the power projects?

Mr. OLDS. No, sir; when I was in charge of the studies for the President's Water Resources Policy Commission, I made a series of studies in the field of land and land economics, as I did in power, and I was convinced by that study, and the men working on it, that on a long-range basis we are going to be able to justify the bringing in of more land, a great deal more land, in order to meet the requirements of the future population.

On the question of siltation, I think that is one of the very important problems in water resources that has to be dealt with. When I was chairman of the Federal Interagency River Basin Committee, I worked very closely—it is my recollection I appointed a committee—on the study of the whole question of sedimentation and siltation. This has been a serious problem in the corn country, not only in Iowa but in Illinois, where Lake Sangamon is, and near the city of Decatur. They have had that same problem of siltation and sedimentation filling up in that case a lake which was designed to furnish the water supply of Decatur and also to provide recreation.

But the great problem there and the great problem in the corn country is due to the fact that many farmers feel that it is more important to get at relatively high prices what they can get out of the production of corn than it is to actually undertake the kind of farming that is necessary to keep the soil from washing into those rivers.

Decatur appointed 2 land conservationists to work with the University of Illinois, and the Federal Soil Conservation people in an attempt to control about 2,000 square miles of the Sangamon Valley in Illinois, and up to the time of about 3 or 4 years ago that I talked on the subject at the Department of Agriculture I was told that only 15 percent had been brought under conservation, that the answer they frequently got was a nickel under the foot was worth more than a dollar 10 years from now.

Representative TALLE. I think it is fair to state that the Congress has taken a much more constructive view of conservation for a good many years than was the case quite some time back, and in the 83d Congress I thought that legislation pertaining to conservation on the basis of watersheds was very good legislation, and in this specific instance in my district, I am not asking that the channel be opened, and then be permitted to fill up again. I am working with the conservation people to prevent the filling up again after that channel had been opened up, and I think that is the way to deal with it, to prevent siltation from occurring again.

Mr. OLDS. I concur entirely with your view, and I would support entirely that kind of program.

I mentioned what I felt the Economic Report should have recommended in the way of a public-works program as far as rivers are concerned, particularly with reference to power.

Second, it should have recommended assurance of public development of the Niagara-St. Lawrence power resources, under conditions that will bring down the restrictive high rates still prevailing in the Northeastern region; third, legislative and administrative action to initiate the immediate construction of large-scale Federal atomic powerplants in addition to licensed private construction; fourth, active pressing of a cooperative program for development of economically feasible small-scale atomic powerplants adaptable to the needs of small community power systems; fifth, placing of the TVA on a sound basis for continuing to assume utility responsibility for the power requirements of its distributors; and, sixth, provision and such Federal transmission facilities as prove necessary to assure public and cooperative systems first call on power generated at Federal projects.

That, in general, covers my recommendations in connection with the Economic Report.

I might just mention one other thing briefly: In referring to the effect of the growing power requirements of the country on the coal industry, I neglected to point out that when the requirements of the country reach the 5 trillion kilowatt-hour mark suggested by General Electric, even with more than half of the electric energy produced by hydro or atomic power, the power industry alone is likely to call for from 5 to 8 times as much coal as was used for the generation of electricity in 1954, or considerably more than total production in that year.

Thank you.

Representative KELLEY. Does that hold out hope for the coal industry?

Mr. OLDS. Definitely. I think the coal industry has a definite stake in a program which will lead to the greatest expansion of the use of electricity in this country, and I think that is the prospect of the industry at present.

Representative KELLEY. The coal industry is in such a poor state now that any hope that is offered I am sure will be received with gratitude.

Mr. OLDS. One of the interesting things is that as you bring in this larger production of coal even though as predicted you may run into situations where you are getting into thinner veins, perhaps, and what is normally considered more expensive mining, nevertheless, and this is based on my contacts with the Bureau of Mines, when you get your coal industry on a full production basis with a market for your fines, as well as your better grades of coal, you are actually going to be able technologically to bring down the cost of your coal so that I think coal will be in a better competitive position as the rising demand for power calls for more and more coal.

Representative KELLEY. I do not think we need to worry very much about the cost of production of coal because there has been a great reduction in the production of coal due to the mechanization of mines, and I am sorry to say to the elimination of labor.

(Mr. Olds' prepared and supplemental statement appears at pp. 804, 808.)

The CHAIRMAN. Mr. Renne.

OPENING STATEMENT OF ROLAND R. RENNE, PRESIDENT, MONTANA STATE COLLEGE, BOZEMAN, MONT.

Mr. RENNE. Mr. Chairman, as so happens when one is fourth or fifth in presentations, some of the points which I would emphasize have already been covered. Mr. Fisher brought up several of those points. I was asked to discuss water resources, and I will limit my discussion to irrigation and to flood control and the watershed situation, because I think Mr. Olds has covered the power end of it.

The President's report concludes that it is desirable to expand investment in facilities for conserving and bringing into economic usage, more of our soil, water, mineral, and other resources. I am in full agreement with this conclusion. The report also concludes that of all our natural resources none requires more immediate attention than water, and effective conservation, control, and utilization of the Nation's water resources requires energetic implementing of sound policies. I can find no fault with this point.

The report then expresses full approval of the present partnership policy of the Government of developing water resources whereby State and local governments and private interests—

> are encouraged to provide all physical facilities they can, leaving for Federal execution only those parts of water-development projects which serve national purposes—

and I find great difficulty, Mr. Chairman, in separating the national interest in certain projects from the other interests—

> or which, because of great size or complexity, are beyond the capability of others.

The report argues that this approach will accelerate the development of water resources, but will not involve the Federal Government in huge expenditures for operations.

This statement of policy sounds perfectly logical and in principle is basically sound, yet its execution may very easily result in serious damage to the public welfare and to the ultimate growth and progress of our country. The first, and probably most important, question raised by this policy is whether private development or partnership development result in less than maximum use of a particular resource situation. In the case of water resources, good reservoir and dam sites are definitely limited. Moreover, the structures to be placed upon such sites are of a very permanent nature. Since construction is completed it is difficult and usually impossible to build onto the first structure, or to modify the original structure to any great extent. It is highly important, therefore, that the first structure be one which will make maximum utilization of the site and the water resource. The Nation cannot afford less than the maximum development and use of its water resources in the light of the limited number of good development sites available and the projected future population and demand.

The CHAIRMAN. Dr. Renne, I do not want to get you into difficulty, but would you be willing to comment on the application of this principle to Hells Canyon?

Mr. RENNE. Yes, I feel that Hells Canyon is the type of project in which the Federal Government not only should take the lead in the planning, but in the development and operation.

The CHAIRMAN. And you feel it is better to have one high dam which will store the surplus waters during the period when the snows are melting than a series of low dams which will not have such storage capacity and which will result in an ultimate wasting of the waters down the Columbia into the Pacific, going through the spillways on the way, rather than creating power?

Mr. RENNE. That is correct.

The CHAIRMAN. I congratulate you for your courage and also for your good sense.

Mr. RENNE. Thank you for the statement on courage. I have lived in that country for 25 years, and I feel that the Pacific Northwest particularly is an area where we have to take a courageous stand unless we are to prevent making some mistakes now which 25 or 50 years hence will be much more serious than they look today.

I cannot forget in the case of Hungry Horse, for example, that for many, many years that was considered not feasible at all, and I am sure would not be feasible taken alone and developed as an intra- or interstate project, but when tied in with the Bonneville and the rest of the system of power, Hungry Horse has a definite place.

I am also reminded in the case of Fort Peck, in the case of floods in the Kansas City area, the figures I have been able to get indicate that the flood-control functions of Fort Peck resulted in a reduction in the flood tide peak at Kansas City of 14 inches.

Private development or partnership development in which the Federal Government is cast in a residual role of undertaking only those projects that State and local governments or private interests do not care to or cannot undertake, is certain to result in less than maximum development and use of water resources in many instances. Private interests are ordinarily concerned primarily with immediate needs and with only a part of the total services the water resources may be able to provide. The interests of State and local governments are frequently such that only a part of the total services are of major concern. The Federal Government is the only agency clothed with responsibility for, and concerned with, maximum development of the resource in the interests of the welfare of all the people. It cannot perform this function effectively in a residual capacity, but only in a leading role.

The second question raised by the partnership policy concerns fiscal policy of the Government. The desire to avoid heavy Federal expenditures and to achieve a balanced budget is understandable, but we should not abandon sound water resources development policy simply because traditional budget procedures may result in a bookkeeping deficit. Federal expenditures for construction of water development projects should be distinguished from Federal expenditures of the usual operation type. Water resources development project outlays which expand the capacity of these resources to support the needs of a growing population—and I might insert that our births this year exceeded 4 million, and our net gain is such that at this rate we shall have 200 million by 1975—should be set up in an investment account as distinguished from the regular operating budget. Establishment of an Office of Coordinator of Public Works Planning within the Executive Office of the President, as recommended in the report, is highly desirable.

The CHAIRMAN. Will you permit me to interrupt at this point?

Congressman Bolling was too modest to state this, but I am not, so I will say that we jointly introduced a bill which met with very cold reception from the executive department on the subject, but we are delighted to see the child adopted this year. We point out that the paternity of the child is a little bit different from what might appear on the surface.

Mr. KELLEY. Mr. Chairman, I am not quite so modest. I also introduced such legislation.

The CHAIRMAN. Good. I think that on occasion modesty can be carried to too great an extent.

Mr. RENNE. So much for the two general and perhaps theoretical discussions.

The next is the consideration of the costs. I think the staff asked especially that that be commented upon.

In the case of conservation treatment of watershed lands, the head of the Federal agency responsible for the conservation treatment function should execute repayment contracts with organizations representing the primary beneficiaries. These contracts should provide for payment of an annual amount sufficient to cover that part of the annual operation and maintenance costs allocated to conservation treatment, the cost of replacements allocated to conservation treatment, and repayment without interest for a period of not more than 50 years, beginning the first year after the initiation of such conservation treatment of so much of the capital investment allocated to conservation treatment as the agency head annually determines after consideration of ability of the beneficiaries to pay in relation to their net income derived from the project or activity during the preceding year, and to current agriculture production and market conditions.

The CHAIRMAN. I suppose their ability to pay over a period of 50 years is considerably less than the cost of the project. Who would assume the difference?

Mr. RENNE. I think that is where the National and State interests come in. If contracts could be worked out between the Federal and State I think the State should assume some of those costs, but I think over and above those there will be national considerations and I think the Federal Government should pay those.

The CHAIRMAN. It is a very grave problem of national policy and I know people who defend local interests have a deep concern about this, but I think it is very questionable as to whether we should have the taxpayers of the country subsidizing at great cost building of additional land into cultivation, when it is said that the increased productivity per acre and per man in the old agricultural sections of the country is such that our problem is really a surplus of goods, certainly in some of the commodities, rather than a deficit. We know the great political power of the semiarid States, but I wonder if they have not pushed their advantage a little too far? I would like to point out that we have a section of the country which is drying up now, extending from Texas up through Illinois and Indiana. It seems to me it would be a wiser policy to conserve the acres we have rather than to bring additional acres into cultivation. Without wishing to indulge in sharp adjectives, I think the East and the Middle West have been taken for a buggy ride on a lot of these irrigation projects which hitherto we have borne uncomplainingly; but perhaps the time has come for the East and the Middle West to assert their interests rather than implicitly to go along with these proposals.

I honor you, sir, and I realize that you are representing your locality, but we have interests, too.

Mr. RENNE. I want to make it clear that I am in full agreement with watershed conservation, and particularly in areas like Iowa, where so much of our good land is located, but I don't want to get now into a discussion of buggy rides by regions, because I think maybe the Northwest and the Rocky Mountains might have a point, but I do feel that in the overall consideration there are certain national implications in which the National Government has some responsibility, too.

In the case of flood control, I think our policy should be one of executing contracts with State or local governments to provide payments sufficient to cover that part of the annual operation and maintenance costs allocated to flood control, the cost of replacements allocated to flood control, and repayment without interest, and within 50 years, of the capital investment allocated to flood control to a degree corresponding with the production of primary benefits and secondary regional benefits. All remaining flood-control costs should be borne by the United States.

I realize this may sound general, but I don't think you can develop concise formulas. I agree with Mr. Fisher. You have to keep the objectives in mind, and apply them to individual projects.

Local contributions should be secured to reimburse the United States for any navigation benefits conferred specially upon local interests, otherwise, all navigation costs should be borne by the United States until and unless Congress prescribes a general reimbursement standard after further consideration of charges for transportation by all means, including transportation by water.

The investment of the Federal Government in irrigation projects should be recovered by the head of the responsible Federal agency executing contracts with organizations representing primary beneficiaries——

The CHAIRMAN. May I interrupt a minute. Perhaps this will stir up a discussion with my good friend from Pennsylvania.

There has been a proposal for a $90 million development of the Delaware River, of which $30 million is a proposal to deepen the channel from 38 to 43 feet. The only group which will be benefited by this is the United States Steel Corp., which has put a new mill, Fairless Mill, around Trenton, N. J., to enable South American oil to come up the Delaware River, and the local interests want this cost borne by the Federal Government.

Isn't this a subsidy of the United States Steel Co. by the taxpayers?

Mr. RENNE. I was raised on the Delaware River. I am not sure the only beneficiary would be United States Steel.

The CHAIRMAN. The immediate beneficiary?

Mr. RENNE. The immediate beneficiary, yes. But I am not sure that the immediate beneficiary should pay the entire cost.

The CHAIRMAN. Shouldn't they pay some in the form of tolls because of the lower navigation costs which will accrue to them?

Mr. RENNE. Definitely, I would agree with that.

Representative KELLEY. Mr. Chairman, would that establish a precedent in cases of the improvement on rivers and harbors? Heretofore it has always been in the hands of the Federal Government.

The CHAIRMAN. I think it might check some of the pork-barrel requests that pour in on this.

Representative KELLEY. It is not only in the interests of Pennsylvania, but for the benefit of New Jersey and Delaware. While United States Steel Corp. is a beneficiary, it will open up for other industries the whole area bordering on Pennsylvania and New Jersey and Delaware.

The CHAIRMAN. It seems extraordinary that you need a 43-foot channel for these other industries. I have always thought 38 feet was an adequate channel.

Vice Chairman PATMAN. Mr. Chairman, I have a little information on that subject, I believe, that I would like to bring up in view of what has been said.

It is my understanding that last year during the second session of the 83d Congress there was a bill to authorize this project; is that correct, Mr. Kelley, and our committee in the House recommended, at the request of the Corps of Engineers, that with the channel deepened from 38 to 43 feet that the industry that will directly benefit should pay the cost, and the bill in that form went through the House; is that correct?

Representative KELLEY. I believe so.

Vice Chairman PATMAN. Then it went to the other body, and then the other body put the amendment in—I do not recall whether there was any fight over it over there at the time.

The CHAIRMAN. I was ill at the time and was not able to walk onto the floor, but if I had had the physical strength, I would have fought that proposal.

Vice Chairman PATMAN. I am not trying to place responsibility, but it seems to me that amendment went in without objection. Oftentimes that happens in that great body over there, because they are told that conference will take care of that. You have heard that before.

The CHAIRMAN. Yes, sir.

Vice Chairman PATMAN. Well, it went in, and then the conference takes care of it. There was pressure brought to bear to allow that. So I do not know who was asleep at the switch, but that is when it started.

The CHAIRMAN. I was not asleep. I was feeble.

Mr. OLDS. Mr. Chairman, may I introduce one thought on this specific thing: One of the very interesting parts of this whole debate on this Delaware deepening is that the United States Steel Corp., in justifying the thing done entirely at the expense of the Government, is using the same arguments which the United States Chamber of Commerce condemns when they are applied to the justification of assigning values to the navigational facilities of the whole Tennessee Valley Authority development of the Tennessee River.

Vice Chairman PATMAN. Since we all reserve to ourselves the right to be inconsistent, I guess we can allow that to the United States Chamber of Commerce.

Representative KELLEY. Has there ever before in the history of our Nation been an instance where outside interests are asked to bear the costs of river improvement?

The CHAIRMAN. We have the St. Lawrence situation.

Vice Chairman PATMAN. This is a benefit just for United States Steel. The extra 5 feet is just for them. Nobody else needs it. Only United States Steel needs it.

Representative KELLEY. Well, for the present.

The CHAIRMAN. Well, why should it not be paid for by tolls?

Vice Chairman PATMAN. You are not that archaic in your views.

The CHAIRMAN. If you have lower costs for iron ore, why not have the iron ore pay it.

Vice Chairman PATMAN. I was trying to be facetious.

Representative KELLEY. Well, I have in Pennsylvania some immediately affected.

Mr. RENNE. I live in Montana, so am not immediately affected.

The CHAIRMAN. Well, that is the trouble we get into.

Vice Chairman PATMAN. I think it would be an interesting study to find what pressure was brought to bear to cause the conference committee to agree to that very unusual amendment.

The CHAIRMAN. I can say this: On any appropriation bill this year I shall strive to undo the effect of Senate negligence last year.

Mr. RENNE. Just to finish up, Mr. Chairman, on irrigation, I certainly am not proposing that we have an extensive development of irrigation lands at a cost of $2,000 an acre, but I do think in some parts of our country population has already exerted pressure on resources to the extent where we are going to have to consider some of the long-range benefits, and we find in many parts of the Western States that we can make as much net per acre from irrigated lands raising cattle and sheep, but particularly cattle, beef, as we can farming the land. I think with a population of 220 million, if we are to continue to be the kind of meat-eaters we have been in these recent years, we are going to need more of our basic western resources, and many of them irrigated acres that will raise pasture and hay and barley to fatten off and finish our cattle, because now our hogs and our cattle are moving more and more to the west coast, with its tremendous population expansion. In that Rocky Mountain-Pacific Northwest area I think there are many projects involving irrigation which, while they will take a long time to develop, because after the structure is finished it takes 20 to 30 years to develop the irrigation lands, I think if we do not go too fast, and there is nothing which requires us to put all of the irrigation structures in when you build the dam, if we do our accounting properly it seems to me we ought to plan our structures for the overall multiple-purpose long-term needs instead of just the immediate.

(Mr. Renne's prepared statement appears at p. 814.)

The CHAIRMAN. We have with us Dr. William G. Carr, executive secretary of the National Education Association. He is going to speak on school needs.

STATEMENT OF WILLIAM G. CARR, EXECUTIVE SECRETARY, NATIONAL EDUCATION ASSOCIATION

Mr. CARR. I would like to state that we regret it was impossible for the president of the National Education Association to be here. Miss Walker has been in sunnier climes, to wit, Hawaii, and is unable to arrive here. I will try to present quickly to the committee the general scope and dimensions of the needs for the construction of public-school buildings in the United States at large.

In order to do this it will be useful, I think, to identify three major factors which create a need for school buildings. The first factor is the removal of the deficit commonly called the backlog, which has arisen because of a long period of relative neglect during the depression, during the arsenal of democracy period, during the hot war, and during the World War. There are many reasons why this neglect occurred. Many people think it should not have been allowed to accumulate, but that is past, and the fact is that we have a very substantial deficit now of school buildings.

The evidence of this deficit can readily be seen in almost any part of the country. You see conditions of extreme crowding in many communities. There are many children now who have never known what it is to go to a school for a full day, and if something isn't done rather suddenly we shall have hundreds of thousands graduating from our schools who have never had a full day's schooling in their lives. Because there isn't room for them, they have to go part time.

There are other evidences of crowding which the most casual walk through any one of our communities will reveal. Now, the removal of this deficit as it has accumulated over the past quarter century would call, according to the best information we can get, for about 312,000 classrooms in the next 10 years. At $34,000 a classroom that is $10.6 billion.

Now, the second factor that we have to reckon with is, of course, obsolescence, which is continually going on. If you assume, which is contrary to fact that we have no obsolescence now, and all the buildings where our children are found are safe and sanitary, you will have in the future buildings that will wear out and ought to be replaced. If you take a useful life of a school building at 50 years, which is probably far too long, the obsolescence in the next 10 years will require about 220,000 classrooms, which is $7½ billion at the same rate of construction.

There is, of course, a third factor in our economy and in our educational system which adds to the needs for school buildings, and that is the expanding school population. This expansion in enrollment, in turn, is due to 2 other causes, 1 the dramatic increase in the birthrate which has marked recent years, and the other the general tendency of people to stay in school longer.

We, of course, have had compulsory attendance laws in this country for many years, and though they have not been perfectly enforced they have by and large kept our people in school for the elementary school years. But now the tendency to consider at least a high-school education as a basic minimum for almost any kind of employment is resulting in an expanding enrollment.

Now, if we take this third factor, Mr. Chairman, over the next 10 years and plot it in terms of what we know about children who have already been born and will mostly survive to attend our schools 6 years after birth, and make reasonable assumptions as to the continuation of this birthrate and of the demand for education, and if we assume that people do not withdraw from school earlier than they do now, we have 420,000 classrooms which at the same rate is $14.3 billion.

These three factors, then, the removal of the backlog, or deficit, the removal of obsolescent buildings, and the meeting of enrollments which are expanding because of greater demand for education and more people to be educated, will add up, if my arithmetic is right, to $32.4 billion between now and 1963. I am not, of course, predicting that this is what will be spent to construct public school buildings. This is, I think, a reasonable estimate as to what might be spent.

In concluding I will be happy to answer any questions of policy or program that I can. The estimates that I have been giving to you do not assume any improvement in the basic quality of our schools. We are not putting anything in here for a swimming pool in every school, for any improvements in the general construction, for any more gracious space than we now have, for any more beautiful buildings, and so on. We have assumed merely the continuation of the present conditions, and, of course, these present conditions are infinitely varied.

In many of our communities the schools are very fine buildings. In others they are very poor buildings.

These figures do not contain anything in the way of a dramatic improvement in status. It is merely a question of keeping where we are.

I hope, Mr. Chairman, and members of the committee, that this brief analysis will supply you with the information you desire. Perhaps I ought to add just one other word partly for the advantage of the record or the staff: It happens that in this public school building field we are at the moment in an unusually good position to make a statement. The 81st Congress, I believe, authorized a $3 million study of our school building problems, and this study has been substantially completed. It is on the basis of this study covering every part of the United States that the figures I have just given you rest.

The CHAIRMAN. Thank you very much.

The CHAIRMAN. Mr. Wheaton, professor of city planning, and acting head of the Institute for Urban Studies, University of Pennsylvania.

OPENING STATEMENT OF WILLIAM L. C. WHEATON, PROFESSOR OF CITY PLANNING, AND ACTING HEAD OF THE INSTITUTE FOR URBAN STUDIES, UNIVERSITY OF PENNSYLVANIA

Mr. WHEATON. Mr. Chairman, members of the committee, because of the lateness of the hour, I am going to attempt to abbreviate my written statement and just speak briefly to you on the subject of housing.

During the last 5 years we have been building about 1.2 million units a year. This is a considerable achievement in terms of past housing production, and is pointed to with satisfaction in the Economic Report. I hold that while this is indeed an achievement in which we can take pride, it is nothing with which we should be contented. I have made available to members of the committee copies of an estimate of American housing needs during the next 15 to 20 years. This is a study that I made a year ago on what we ought to be building in the field of housing.

That study suggests that we should be building about 2 million units a year if we are to keep up with the formation of new families, the obsolescence of existing dwellings, and with a 20-year program for replacement of houses that are now substandard, and that will become substandard during that 20 years. The rate of building ought to step up from about 2 million units a year at present rates to about 2½ million units a year by 1970.

There is reproduced in that report comparable estimates of other organizations and agencies, the Twentieth Century Fund, the National Association of Home Builders, the National Association of Real Estate Boards, and Fortune Magazine, and some others. While they vary in their estimates from a million and a half to 2 million, these estimates indicate that our present level of building is not enough to meet our current and our future housing requirements, to create adequate vacancies and to put a little competition into a business which has traditionally lacked competition to a considerable extent.

If we relate this need to gross national product we find that to build 2 million units a year we would have to devote the same proportion of our total product to home building that we devoted during the 20 years following 1915. In other words, this is not an excessive requirement in terms of the allocation of resources. We are falling today somewhat below that level.

Now, we should note also that in the last 20 years we have had a great development of Government aids to housing with which the members of the committee are familiar. Those aid systems now directly aid 40 to 50 percent of new residential construction each year. When I say directly aid, I mean FHA insurance or VA guaranties, and they are backed up, of course, by the Home Loan Bank System, the Federal National Mortgage Association, and other less direct credit aids.

If we look at the income levels of families who are served by this vast program, we find that in general the families who are able to take advantage of these aids are those in the upper half or in the upper 40 percent of the income distribution. There are local variations. We can point to instances in which families below the median income can buy new houses, but in general across the country, it is the upper 40 percent that is being served.

I believe that we can expand the market for housing with these conventional Government aids and with conventional financing in a number of fields, particularly in housing for Negroes. Virtually nothing has been built for Negroes in the North and only a little in the South in recent years. There is an opportunity to expand the market in rental housing. There are opportunities in rural nonfarm housing and in housing for the aged. These, it seems to me, will require only minor perfections of our present direct aids to housing, plus some expansion of the secondary credit activities of the Home

Loan Banking System and the Federal National Mortgage Association.

If we are to expand housing substantially beyond the present levels, we must look to other markets not now being served. These are chiefly the market in the middle income groups and the market in the low income groups. It is a deplorable fact that in America today the average wage-earner who works steadily year-round in a factory, who makes the median income, in most cities cannot afford to buy a new house. If Mr. Average American cannot afford to buy a new house, it seems to me this is a matter that requires national attention.

I believe that a more direct form of Federal credit aid would permit this middle income market to be served by private building rather than by public building. I am strongly in favor of having it served by the conventional processes of mortgage lending and private speculative building, rather than by some vast expansion of the public housing program.

It seems to me that this is a problem of major importance now facing the Congress, and that as long as we have relatively idle or underutilized resources, we should seek to expand housing production, particularly in this middle income field.

Finally, in connection with that——

The CHAIRMAN. Which field did you say, middle income or low income?

Mr. WHEATON. I am speaking about middle income.

The CHAIRMAN. What about the low income?

Mr. WHEATON. I will come to that in a moment. Particularly in this middle income field, let me note that this is a form of public works which can be entirely self-liquidating. If the Federal Government will extend credit aid, these middle income American families are eager to buy homes and will pay the full cost of their homes in the sense of the cost to the Federal Government. I think, again, this can be done through private activity.

Now below the middle-income levels there are about 10 million families who are living in substandard homes and who have low incomes. These are families whose incomes cannot possibly permit them to buy or to rent or to maintain decent private housing. The Congress in 1949 recognized a national responsibility for providing public housing to meet the needs of low-income families. That program got off to a rather slow start and has since been curtailed by congressional action. I strongly urge the reenactment or the reopening of the public housing program now going on on a nominal basis to permit the resumption of that program of providing housing for low-income families.

It seems to me that is the only way that we can meet low-income housing need. When somebody comes up with a better way I will be very glad to support that better way, but in the meantime, I hold with Senator Taft on the early hearings on the 1949 bill, we cannot afford to neglect this problem.

Let me note in passing, too, that the administration has supported and is continuing and now proposes to continue the program of urban redevelopment, which Mr. Zeckendorf is to speak of shortly. That program, in my opinion, is going to be stopped dead in its tracks in the next few years unless a substantial amount of public housing is available in which to house the families displaced by slum clearance and urban redevelopment activities.

The scale of the present redevelopment program has been small, clearing very few slums, because it is new and experimental. It hasn't raised this problem in the forceable way that it will be raised if the program is continued or if it is expanded to about twice its present level, which seems to me to be needed if we are to clear slums as fast as they are being created.

The CHAIRMAN. Do you mean that the slums have actually been gaining on us?

Mr. WHEATON. Gaining at a rate of about 2 to 1. I would say dwellings are becoming obsolescent and substandard at a rate of somewhere between 200,000 and 500,000 units a year. We do not have good figures on that. You have to interpolate from census data. We are clearing at substantially less than a rate of 100,000 a year. Doubling the program would stretch resources of local communities at the present time, so I suggest this is a first step toward meeting this problem.

There is one other subject I want to mention in connection with housing, and that is the program of local community facility-type public works. I am not talking about dams and I am not talking about interstate highways. I am talking about water and sewage facilities and schools and community centers and parks and playgrounds, and the things that have to go with housing.

We have a shelf, which has been adverted to, a reservoir of public works, ostensibly. This is actually so tiny and so picayune in size that it is scarcely worth mentioning. That program, it seems to me, must be expanded very considerably to provide a much more substantial reservoir of public works to go along with housing. I emphasize, to go along with housing, because I do not want to get into the larger subject of highways and other facilities.

Let me note also that the President the other day recommended that we make a study and devote several million dollars of Federal funds to research on the air pollution caused by urban development. No agency of the Federal Government has a research program now going on on the much larger problems of urban development itself, of housing, of the relationship between housing and fiscal policy and of the problems of making the housing industry more widely useful to the American people.

We urgently need a resumption of the research program in housing and urban development authorized by the Housing Act of 1949.

There is also an urgent need for Federal leadership in the field of metropolitan planning. I note that Mr. Zeckendorf is going to avert to that and so I won't say more.

In conclusion, let me say we can improve and expand our present conventionally financed housing industry, in my opinion, particularly in the market for Negro housing, more rental housing, rural nonfarm, farm, and housing for the aged. We need supplementary credit resources through the Home Loan Bank and FNMA to permit that expansion. We need a new housing program for middle-income families, one which will use Federal credit, use private lending institutions and use private building to enable families with stable moderate incomes to buy new houses, perhaps 200,000 to 400,000 units a year. We need a reactivated public housing program at the minimum level prescribed in the Housing Act of 1949, and in my opinion, at a substantially higher level.

We need a greatly enlarged urban redevelopment program and we need a greatly enlarged program of advanced planning of local community facilities. These things, except for the community facilities and the continuation of the urban redevelopment program, are not given appropriate emphasis in the report which is before this committee.

Thank you.

Representative CURTIS. Could I ask one question of Mr. Wheaton or make a comment?

The CHAIRMAN. Yes.

Representative CURTIS. Mr. Wheaton, I was very much interested in your comments as to the demand and need for additional housing in this country and the fact that, in your opinion, even though our constructure and new housing starts are well on the increase, we still are not going to be filling the demand of our society. The reason I say that is we had a previous panel—I forget what day it was—of several prominent economists, and they were raising the question of whether indeed, we weren't going ahead too fast in the housing starts and in the construction field, and they were warning us that we could not count on that aspect of our growing economy as a factor in seeing to it that we did have continued business activity in the country.

Your expression here seems to indicate that you think there is a great future for the building industry, immediate future.

Mr. WHEATON. In my oral statement I did not put in the qualifications which appear in the written statement, Mr. Curtis. The most eminent housing economist in the United States, I suppose, is Miles Colean, and he said in writing in 1947 or 1948, that if we ever built a million and a quarter units a year, that would be followed by an immediate and disastrous depression in the real-estate industry. So deep was his gloom about the future of America. I think that this kind of attitude is typical of people in the housing industry. They got burned badly 20 years ago and they still remember those burns.

My statement in writing was that as long as we maintain a stable and growing economy, the market appears to be there to sustain conventionally financed home construction at 1,200,000 to 1,400,000. The evidence in 1949 and 1950 is that if the growth of the economy ever slackens, this market disappears at a remarkably fast rate. We could have a sharp recession in home building.

I am a little surprised that we did not have it last year when we had a year in which momentarily we did not go forward, but my prognostication is based upon the assumption that the economy can and will continue to grow at 3 or 4 percent per year. Under those circumstances, the rising income of families that we have had in the past suggests that we will have a very steady flow of people in the real-estate market.

I further suggested new or additional programs to expand housing production. The public housing program requires a subsidy, as we all know. I believe that subsidy is small compared to what we are going to spend on highways and some other subjects, but it could do an enormous amount of good. And in the middle-income housing field, I do not think we require a cent's worth of subsidy. We require credit.

Representative CURTIS. Well, the gloom expressed was not expressed by those in the housing industry. The gloom was expressed by men who were looking at the overall economy picture, and as I analyzed it, after questioning them, it seemed to be that they just felt the demand woud not be there; not the financing. Unless I misunderstood what they said, it was their concern that we were overbuilding the demand, and incidentally I might state that they expressed the same feeling about another field of private enterprise, the automobile industry; they thought that that industry was going beyond the demand.

In fact, the discussion involved both those aspects of our economy. But I take it from your expression that you feel that if the housing industry is certainly willing to go ahead with these new starts and feels confident, the general economist should not be too alarmed.

Would you say that is a fair observation?

Mr. WHEATON. Yes; and let me first point out we do not have adequate facts on the housing program. The HHFA research program, authorized in 1949, had a good beginning. Several universities participated in it. It is now terminated. We are now starting a project to find out how deep the housing market is in Philadelphia, but there has not been any decent study of the housing market in any major city that really got the facts out in the last 5 years. This is a deplorable state of ignorance.

Then, second, let's think about some of the sustaining forces in the housing market. Ten percent of our population in the United States is Negro. They have made remarkable advances in recent years in income, education and stability of employment.

I find that in Philadelphia there have in that last 5 years been built 137 houses for sale for more than a quarter of million Negroes. Now there should have been built probably 40,000, 50,000 or 60,000.

Representative CURTIS. I am familiar with the situation in St. Louis. It seems that the Negroes, as a general rule, have been buying older homes and moving into those areas, and incidentally, in St. Louis, at any rate, the homes that they have been moving into have been very fine neighborhoods, and the new homes seem to be being bought by the white population going out.

I wonder if that is true in Philadelphia.

Mr. WHEATON. The same thing is true, and yet the very preliminary canvass we make of the Negro market suggests that there are wonderful opportunities for home building there.

Representative CURTIS. For new construction?

Mr. WHEATON. For new construction, and I am happy to note that the National Association of Home Builders is putting on a major drive to open up this market. I feel the same opportunities exist in rental housing.

One banker friend of mine, has been looking at the situation in rural nonfarm areas. He finds an amazing shortaige of credit and large numbers of people in rural nonfarm areas in a populated State like Pennsylvania, where mortgage credit has not been available for building and where people wanted to build. If that is true in eastern Pennsylvania, it must be much more true in the southern and western parts of our country, which are much less adequately served with credit facilities.

I think that you could find specific areas like this where the potential of the building industry has not been tapped yet. These new markets can fill a market gap which results from the dropoff in the rate of new family formation which will carry on for about the next 5 years. After about 5 years new families will be being formed at such a rapid rate that the building industry will be sorely pressed to catch up with the demands then created.

Representative CURTIS. Thank you. I certainly share your optimism in that statement.

(Mr. Wheaton's prepared and supplemental statements appear at pp. 816, 818, 819.)

The CHAIRMAN. Thank you very much, Mr. Wheaton. We are very glad to have Mr. Zeckendorf, president of Webb & Knapp, with us.

I have never met Mr. Zeckendorf, but I have read about his activities, and it seems to me he has taken as his motto that of Mr. Burnham, a former city planner of Chicago, "Make no little plans, they have no power to disturb the blood."

Mr. Zeckendorf's plans disturb my blood very much, and so I am eager to hear Mr. Zeckendorf.

OPENING STATEMENT OF WILLIAM ZECKENDORF, PRESIDENT OF WEBB & KNAPP, INC.

Mr. ZECKENDORF. Thank you, Mr. Chairman. I have been asked to talk on the subject of urban redevelopment. This problem, which afflicts most of the older cities of the United States, falls into many categories, each of which is related to the particular situation that uniquely affects each community, there being no single state of facts that is identical in any two cities. There are certain common denominators, however, that affect all communities of the aging variety; they are as follows:

(1) Downgrading of central areas due to a so-called trend to decentralization. This is is often aggravated by the physical condition of the buildings in such zones since, in the opinion of the owners, they are not bad enough to tear down and not good enough to justify substantial capital reinvestment for upgrading.

(2) Most of these communities are plagued by parasite-like types of incorporated and unincorporated towns or villages ringing the periphery of the central city. The populations of these centers are the recipients of the benefits of the downtown area through employment, central community urban service facilities, rapid transit, and many other costly benefits paid for by the central community and not reimbursed by the dwellers of the satellite areas.

The CHAIRMAN. Mr. Zeckendorf, I want to say "Amen" to what you just said.

Mr. ZECKENDORF. State and municipal legislatures might well carry out objective studies to determine whether or not sound fiscal and social policy should dictate the reincorporation of such peripheral communities into the whole.

The CHAIRMAN. But, you know, our cities are underrepresented in the State legislatures and are virtual serfs of the States, with the control of the States in the hands of the rural regions, although the population in most of these States is relatively small.

For instance, in the State of Rhode Island, the city of Providence has only 3 Senators out of 43, and Providence, Woonsocket, and Pawtucket, of the majority of the population, have 5.

This is true in New Jersey, it is true in Michigan, it is true in Minnesota, it is conspicuously true in California, and I am glad there is somebody here to speak up for the cities.

Representative CURTIS. You can add Missouri to that, too.

Mr. ZECKENDORF. (3) Growth of urban centers without direction has resulted in two major voids: (*a*) inadequate highway and parking facilities to cope with the automobile; (*b*) lack of overall planning with the power of implementation.

This master planning is impotent unless it can accurately state the case for the individual community. Before it can intelligently plan for anything, the community through self-analysis must discover its potentialities, its possibilities, and its limitations.

To know what it wants to become implies that it is aware of its function in the national orbit. Obviously, Pittsburgh, however ambitious, would not endeavor to become like Los Angeles, nor would Los Angeles wish to emulate New York City, and surely New York City would not try to appear like Denver. Each of these communities has a distinctly separate function in the overall national picture, each having uniquely important contributions to make and a separate and fascinating personality of its own.

All master planning should be done with forward-looking, broad-range perspective, courage and daring, balanced against a knowledge of what financial capacity will permit it to achieve.

The most important single source of civil revenue is real-estate taxation. It therefore must be recognized that the future of any community's real estate is of the utmost importance to it. It is not far from the mark to state that basically every community is in the real-estate business because its ability to meet its obligations and to go forward are related to the soundness of its real estate.

This statement is made, based upon the pure direct economics of the essential part played by real-estate taxation which does not obviate or minimize the sociological results from better or poorer real-estate improvement, as the case may be. Unfortunately, the cost of city maintenance for police, fire, sanitation, health, and general community morals is higher from the slum and downgraded areas, and out of all proportion to the ability of such zones to contribute to the city treasury. These indirect, but equally important, effects are to be weighed in considering this problem along with direct realty taxation.

Every community and owner of real estate in the urban areas should think not of what is being done through Federal legislation to provide incentives looking toward renewing the slum and rundown zones within our cities.

I would like to say two things on this point: (1) That existing Federal aid is ample to spur redevelopment, provided red tape is cut to a minimum; (2) the community should act on its own and not wait for the Federal Government to solve a problem which so intimately affects the city's tax base and therefore its future. The Federal legislation of 1954 is, of course, geared to induce the community to do just this, and I believe this policy will bring private capital into the job.

The writer has devoted some years of study to this subject, and believes he has basic solutions to certain of these major problems.

Amplification of these solutions would take more time than is allowed in this requested 5 minute introductory statement.

The CHAIRMAN. Congressman Curtis.

Representative CURTIS. No questions at this point, Mr. Chairman.

The CHAIRMAN. Congressman Talle.

Representative TALLE. Mr. Chairman, at least two of the gentlemen on the panel mentioned "obsolescence" and it seemed to me that the rate was very high. Was the construction bad at the start, was the maintenance bad, or both, to make this rate of obsolescence so high?

Mr. CARR. You are speaking about my reference to schools?

Representative TALLE. Yes, sir.

Mr. CARR. I thought that to say a school ought to last 50 years before it was worn out would be at the other end of the scale. I did not mean to imply that the buildings had been badly built in the first place, or that the upkeep had been faulty. I was saying, and perhaps I did not make myself clear, that if we assume that buildings will last 50 years in order for them to be worn out or before being replaced, then the figures I gave would be the price of meeting the problem of obsolescence.

Representative TALLE. In other words, you took that as a standard from which to start?

Mr. CARR. I thought, sir, it was a very low standard. That is, I think it is an unusual school that would last 50 years. It probably should, in the interests of educational efficiency and convenience and comfort and the beauty of the community, probably should be replaced in less than 50 years.

I took what I considered to be the outside life of a building of this nature. They get hard wear, too.

Representative TALLE. Yes; that is true. Perhaps I am wrong, but I have a feeling if it is planned properly and constructed properly, a building should last longer than that.

Mr. CARR. It is possible some of our fine new schools being built today will last longer. Who can tell what is around the corner in the ways of lighting, heating, and all of the things that go into the making of schools? I think if you would look at schools built 50 years ago, you would not see too many of them that you would think would be suitable for use today. I do not pose as an expert on this matter of construction, however. I could be wrong.

I would be interested in knowing what Mr. Zeckendorf thinks about the reasonable life of the school building.

Representative TALLE. Yes; I would like to have Mr. Zeckendorf's opinion, too.

Mr. ZECKENDORF. I think it is like automobiles. Every time we build a new one, it looks a little bit better than the one before and the old one, by comparison, looks inferior. I think if we are going to continue to raise our sights and our standards, that what we are satisfied with today we will not be content with tomorrow, and we will have a continually, and I surely hope, an accelerated viewpoint toward obsolescence.

The mere physical wearing out of a building is not the answer. We have changed our idea on lighting, ventilation, on school facilities. We have building in New York that could last as long as the Coliseum. They would not fall down. Yet we tear them down through private capital, recognizing obsolescence, through economic wear-out, sociological neighborhood changes, economic changes. We tear them down and we replace them. And I would say that that probably is the most important single factor in American progress and the virility of the American economic bloodstream, our willingness to declare obsolete and susceptible to demolition and replacement everything that is not within a reasonable standard of the current new advancement in technological construction and standard of living.

Representative TALLE. What would you say would be a fair period of life for a dwelling?

Mr. ZECKENDORF. Well, I am sure that General Washington's Mount Vernon is still a very beautiful house and one that no one would be ashamed to live in today, yet I would say that there is no across-the-board determination of what might be the length of life of a building.

I would say that based upon our experience and the rate of improvement of construction methods and the demand that has been generated in people for improved living conditions, the probabilities are that the housing being built today will be considered obsolete within 30 years. I hope so.

Representative TALLE. It sort of amazes me because my old house out in Iowa is over a hundred years old and I have lived in it for 33 years myself.

Mr. ZECKENDORF. We have to distinguish between the classic house and the mass house, and that is what you are talking about.

Representative TALLE. Yes.

Mr. WHEATON. Mr. Talle, let me point out this. The census statistics show that after you get above 40 years of age in neighborhoods, you get 10 percent substandard; at 50 years, it may be 20; and 60 years it may jump way up to 40 or 50. This operates not necessarily because the structure gets worse and the owner is unwilling to maintain it as a structure, but because the neighborhood becomes obsolete. If I own a piece of property in an old and declining neighborhood and I know that I cannot get more than $40 a month rent for it, I am not going to invest $2,000 or $3,000 to put in new bathrooms and new central heating, because I will never get that money back.

It is an unsound investment because the neighborhood has become obsolete. So you have structures which may be structurally sound but are economically obsolete and, therefore, do not get the maintenance and renewal that a structure has to have.

You have new bathrooms in your house, but there are many neighborhoods in Philadelphia, in any major city of the country, where it is not economically justified for the property owner to invest a lot of money in that structure. He will never get it back, and so the neighborhood becomes obsolete and the structures begin to decline much more rapidly.

Mr. ZECKENDORF. There is more to it than that. The house of today is expected to absorb in its kitchen, for example, an entirely new gadget setup. Its lighting system and electric-power systems will be called on to transmit 10 times the amount of power for all the gadgets that are being used than were originally installed 20 or 30 years ago, and all of these things continue to change, and it is like an autmobile. We found during the war that the 10- and 12-year-old automobiles still ran but we shed them as fast as we could when the new ones became available.

(Mr. Zeckendorf's prepared statement and supplemental material appear at pp. 835, 836, 841, 845.)

Representative TALLE. Now, Mr. Chairman, I would like to ask Dr. Renne some questions about coal.

The CHAIRMAN. Surely.

Representative TALLE. Isn't there something going on at Billings, Mont., with reference to coal that you would like to say a word about?

Mr. RENNE. We have some experimental work going on in the treatment of coal and its byproducts which I think will make coal economically much more competitive and revive an industry that is hit pretty badly in our State.

Mr. ZECKENDORF. Is that soft coal?

Mr. RENNE. Yes; about 11,000 or 12,000 B. t. u.'s a ton. That is pretty soft.

Representative TALLE. Is that lignite?

Mr. RENNE. Yes, lignite.

Representative TALLE. Also there is the western half of North Dakota, and some of that coal is above ground. You must have tremendous reserves.

Mr. RENNE. We have 3 trillion tons of known reserves of lignite underground.

Representative TALLE. Are your scientists endeavoring to find new uses for coal?

Mr. RENNE. Yes, we are studying a new process, and char is the main product to be derived from this new process, which our men tell us will be used in Butte as against the present source of charcoal, which comes from the East. So our market for coal in the general area there will be stepped up considerably, and that is just a development of the last 18 months.

Representative TALLE. Well, now, that kind of research is certainly an indication of progress and is the right way to go about making use of a natural resource, in my opinion.

Mr. RENNE. I would agree with that.

Representative TALLE. I do not think we can force society to burn coal, except in public institutions. If they want to dieselize their transportation, they will do it, as they have done in West Virginia. You cannot very well force them to use coal, so I want to compliment you on that.

Mr. RENNE. Thank you.

Representative TALLE. You and the people of Montana.

Mr. RENNE. Thank you. I will convey your thoughts to the men who are largely responsible.

Representative TALLE. Thank you, Mr. Chairman.

(Whereupon, at 12:22 p. m., a recess was taken to 2:30 p. m.)

AFTERNOON SESSION

The joint committee reconvened at 2:30 p. m., Senator Paul H. Douglas (chairman) presiding.

Present: Senators Douglas and Goldwater, and Representatives Bolling, Kelley, Talle, Curtis, and Patman (vice chairman).

The CHAIRMAN. We will begin the session this afternoon with a statement by Mr. Aandahl, Assistant Secretary of the Department of the Interior.

STATEMENT OF ASSISTANT SECRETARY FRED G. AANDAHL, DEPARTMENT OF THE INTERIOR

Mr. AANDAHL. Mr. Chairman, the President's Economic Report calls for an acceleration of the development of our natural resources. To speed this process, with particular reference to the programs for reclamation and hydroelectric power under the Department of the Interior, the Federal Government has attempted to distinguish as clearly as is possible the proper role for Federal participation, and to encourage the States, local governmental bodies, and private investors to undertake as much resource development as they possibly can.

The Government can contribute in a very substantial degree by undertaking those multiple-purpose projects which may not readily be undertaken by others. Where projects are of great size or complexity, or where they serve numerous national interests, such as flood control, navigation, reclamation, fish and wildlife conservation, recreation, and pollution abatement, as well as hydroelectric power production and municipal water supply, and produce many benefits which are not always accessible against the beneficiaries, there is an excellent opportunity for the Federal Government to supplement the enterprise of others in the work of resources development.

An adequate water resources development program to meet the demands of our national economy is a matter of national concern. It is appropriate that the Federal Government take cognizance of the problems in this field and endeavor to formulate sound national policies in the public interest. As you may know, the President's Cabinet Committee on Water Resources Policy is currently reviewing many aspects of existing policies and programs in the field.

The planning of development of water resources on a river-basin basis with active and cooperative participation by both Federal and non-Federal interests is necessary to assure coordination of construction and operation of related units within a river system, and to promote the maximum economic utilization of the valuable resource with a minimum of interference in the case of conflicting uses.

The policies we have been following in the Department of the Interior are based on the development of the natural resources of the country through the initiative and industry of its citizens with the assistance but without domination of the Federal Government.

The Department of the Interior constructs hydroelectric power plants as part of the reclamation program, markets this power, and also markets power generated at hydroelectric plants constructed by the Corps of Engineers as a part of the national flood control and navigation program.

Over a year ago the President approved a power policy for this Department. The policy recognizes that the Federal Government has a proper but limited role in the power field. The Reclamation Act of 1902 and various other acts of Congress have made Interior the power-producing and power-marketing agency at many Federal plants.

These various laws have established basic policies for the marketing of power, as well as for the planning of facilities for generation and transmission. Primary responsibilities of the Department in the field of water resources are the reclamation of arid lands and the development of natural resources as authorized by Congress. This includes a disposal of electric power which can be economically produced in such developments.

The Department, therefore, actively plans and recommends construction of generating facilities in water projects under its jurisdiction when such facilities are economically justified.

We recognize that the primary responsibility for supplying power needs rests with the local people. We do not oppose the construction of facilities which local interests, either public or private, are willing and able to provide and which are consonant with the best development of the natural resources of the area. The Department will construct and operate transmission lines that are economically feasible and necessary for proper interconnection of Federal plants.

Transmission facilities also will be built and operated to carry power to load centers within economic transmission distances unless other public or private agencies will provide the necessary facilities upon reasonable terms.

We do not favor a general disposition or transfer of title to the project facilities now held by the Federal Government. In two exceptional instances, discussions have been pursued regarding the transfer of ownership of physical facilities to the States concerned. In both cases the States initiated the negotiations but in neither case has the transfer been arranged.

California inquired as to the terms on which the Central Valley project might be transferred to that State. Arizona inquired as to the purchase of the feeder transmission system in that State. In any case, in the event that an equitable arrangement could be agreed upon and the repayment of the Federal investment assured, legislative action by the Congress would be necessary before a property transfer could be made.

Direct Federal participation in water resources development, in keeping with the President's policies, is provided in his recent budget message. It was recommended in the message that the Secretary of the Interior, through the Bureau of Reclamation, be authorized to undertake the construction of two comprehensive river-basin improvements which together will require an investment of over a billion dollars.

These projects will require some years of progressive development before their long-range objectives are reached. They are beyond the capabilities of local initiative, public or private, but are needed in their respective regions for irrigation, power, flood control, and municipal and industrial water supply. These projects, which are familiar to many of you, are the Colorado River storage project, serving the States of Wyoming, Utah, Colorado, Arizona, and New Mexico; and the Fryingpan-Arkansas project, in the State of Colorado.

The Budget for 1956 contemplates initiation of construction on these two projects in the fiscal year 1956 upon their authorization by the Congress. An amount of $7 million is included in the budget as an estimated 1956 supplemental appropriation to initiate these developments. Their construction will continue the pattern of Federal construction of such large-scale projects as the Central Valley project in California, the Columbia Basin project in Washington, and the Missouri Basin project.

In addition to such vast developments, however, the small irrigation project which does not have the ability to show ready repayment by the irrigators alone, but is otherwise economically justified, is equally a part of our balanced program.

Thus, the budget contemplates initiation of 5 small reclamation projects having an estimated total cost of $33 million. These are: Foster Creek Division, Chief Joseph Dam project, Washington; Haystack Equalizing Reservoir, Deschutes project, Oregon; Michaud Flats project, Idaho; Palo Verde project, Arizona-California; and Santa Maria project, California.

The total appropriation estimate for the Bureau of Reclamation in the 1956 budget is $176 million. This finances planning, operation, and continuation of construction on 63 projects in the Western States.

The appropriations for all Interior water and power agencies as submitted for the 1956 fiscal year total $201 million, as compared to $195 million for 1955.

In regard to your question on the sharing of costs of construction and maintenance by the Federal Government, it is to be commented that today certain Federal programs in the field of water resources are entirely reimbursable, others partially reimbursable, and some essentially nonreimbursable. Thus, municipal water supply and hydroelectric power are reimbursable with interest; irrigation is reimbursable but without interest; and flood control, navigation, and certain conservation programs are essentially nonreimbursable in respect to the Federal investment, although frequently there is required the provision of rights-of-way, local maintenance, or other local contributions. These practices are founded on the provisions of existing law.

The President has stated in his budget message that an important policy of this Government is to encourage an increased sharing by State and local governments of our long-range development projects. For example, under legislation passed last year the Markham Ferry project in Oklahoma and the Priest Rapids projects in the State of Washington, both with large power developments, will be built by State or local units with modest Federal contributions for those purposes such as flood control which involve national responsibilities.

The message goes on to say that achievement of the resource development basic to the economic progress and security of the Nation requires encouragement of local public and private initiative and, where Federal participation is necessary, requires emphasis on the partnership aspects of essential cooperative arrangements with State and local governments or with private enterprise.

To the greatest extent possible, the responsibility for resource development, and its cost, should be borne by those who receive the benefits.

The CHAIRMAN. This may be out of your jurisdiction, but would you say the same thing should apply on the Delaware River?

Mr. AANDAHL. I believe I would prefer to not comment on that, Mr. Chairman.

In many instances, private interests or State and local governments can best carry on the needed programs. In other instances Fedeal participation or initiative may be necessary to safeguard the public interest or to accomplish broad national objectives where projects, because of size or complexity, are beyond the means or the needs of local public or private enterprise.

The Federal Government must be willing and ready to share the cost of improvements made for national purposes; but in all cases where the partnership pinciple logically applies, there is automatically acquired a concern for economy and efficiency that is often lacking when no local contribution is required.

In connection with the general question of cost sharing, it is of interest that in order to establish equity between the Federal Government and other interests, the administration repeated in this year's budget message the recommendation for enactment of legislation to provide that the Federal Government make payments to non-Federal owner of water resources projects when Federal hydroelectric developments benefit from these projects.

May I say in conclusion that under our policy we will revive and encourage local responsibility; avoid greater demands for Federal investments than our national income will permit; and continue the Government's proper participation in developing the water resources of the Nation.

(The unread portion of Mr. Aandahl's statement follows:)

1955 appropriations and 1956 estimates of appropriations

[Millions]

	1955	1956
Bonneville Power Administration	$30.3	$23.1
Bureau of Reclamation	162.4	175.9
Southeastern Power Administration	1.2	1.2
Southwestern Power Administration	1.7	1.1
Total	195.6	201.3

Mr. AANDAHL. Mr. Chairman, in respect to the question that you just asked me, may I further comment that at the secretarial level in the Department of the Interior, we are reviewing and studying broad policies and principles that should apply to water-development programs and we may have a secretarial answer to your question, and it is because it is just in the formative position that I hesitate to express an opinion on it.

The CHAIRMAN. Well, I hope that it will be consistent with the policies that you lay down.

Vice Chairman PATMAN. May I ask one question: This reimbursal without interest, the irrigated land; how does that operate?

Mr. AANDAHL. By statute governing the operation of the Bureau of Reclamation. The money that is appropriated for the investment in the irrigation facilities, including the joint cost of a reservoir itself, is interest free and is expected to be repaid by contracts with the water users over a 40-year period.

Now oftentimes the repayment cannot be accomplished in 40 years and power revenues are used to supplement the payment, and sometimes the repayment period has been extended to a considerable number of years beyond the 40-year period.

Vice Chairman PATMAN. The reason I ask that, many of the letters I am receiving now about this road-bond issue pose this question. Why should not the Government get its money for purposes like that up to a limited amount without interest? In other words, suppose you needed $25 billion over a period of years for roadbuilding purposes, transcontinental highways or interstate highways; why not sell $25 billion of the non-interest-bearing bonds to the 12 Federal Reserve banks in proportion to their resources and have them hold these bonds and get repayment, a part each year, from gasoline taxes; in other words, $25 billion in bonds, a billion dollars a year? In other words, there would be no interest. Have you given any consideration to a question like that?

Mr. AANDAHL. No, I have not, but I do feel that the condition of roads throughout the country is such that we should give a sizable amount of Federal encouragement to highway programs.

Vice Chairman PATMAN. That way you would get encouragement and I can see where you would issue interest-bearing bonds, which, of course, is the orthodox method. By the time you pay the bonds, by the time you have paid 100 percent in interest, you still owe the bonds and they do not pay off bonds any more, they just refund them. There is lots of agitation to create more debt paper, especially bond paper, but no agitation to pay it off.

Mr. AANDAHL. I might say that my experience in State government in North Dakota would prompt me to make this observation. I think that highway construction is an endless responsibility. They are going to be constantly needing improvements in our highways.

Vice Chairman PATMAN. That is right.

Mr. AANDAHL. And I think, in the most part, especially during periods of reasonably strong economic prosperity, our highway program should be pretty much on a cash basis. We should be able to collect enough revenue from the highway users and from the other sources of taxation to support our highway building program on a taxation basis.

Now, if we get into a period of depression when construction costs become low, it might be advisable to speed up the program at that time and encounter some degree of indebtedness in doing that.

Mr. ZECKENDORF. Mr. Chairman, I would like to ask a question on the subject.

The CHAIRMAN. May I say this. One of the sore points in the discussion procedure was the degree to which Government witnesses could be questioned, which was discussed at an executive meeting. The decision has been reached that governmental witnesses cannot be questioned by members of the panel.

Mr. ZECKENDORF. This question is not put to the last speaker, it is just a general question on the subject of water.

The CHAIRMAN. Yes.

Mr. ZECKENDORF. So much of the Rocky Mountain area is being used as a watershed for the coastal State of California and Arizona, and it seems to me——

Senator GOLDWATER. Pardon me, Mr. Chairman.

Would you repeat that, please?

Mr. ZECKENDORF. I said that so much of the Rocky Mountain area is being used as a watershed for California——

Senator GOLDWATER. Did you say Arizona, too?

Mr. ZECKENDORF. And partially Arizona.

Senator GOLDWATER. I will get to that later.

The CHAIRMAN. Go ahead, Mr. Zeckendorf.

Mr. ZECKENDORF. That it occurred to me that among the possible peacetime uses of atomic power that perhaps the tremendous surplus heat of atomic power—and this is not meant to be controversial, Senator Goldwater, but simply to be of a little bit of help—might be used to distill ocean water and take the pressure and demand for that tremendous amount of water now going to California off of those areas that are so controversial now, and that seem to cost so very much money to produce and create, and it is conceivable that if such an achievement were possible, that the entire economics and the land economics of the whole world would change. It would be one of the greatest peacetime moves our country could make if it could perfect such a device. A very small part of the money that is now being spent for these reclamation programs and a much smaller than is being used for defense in connection with nuclear weapons, if used for this purpose, might, to an extent, minimize the need for nuclear weapons by creating surpluses all over the world because most of the great world deserts border salt water, and I throw that suggestion in here to the gentleman who are so conversant on this subject and who are facing the problem of water from our mountain lands where, in the last analysis, if we took the pressure off by creating water at sea level, it would change our whole problem in the interior.

The CHAIRMAN. I quite agree with you, if we could get an effective and economical condensation of salt seat water into fresh water, it would probably be one of the greatest developments of modern times.

Mr. ZECKENDORF. And the byproduct residuals of chemicals now in solution in the ocean waters bring untold wealth, too, and with the use of the fantastic heat of atomic power, the waste material that has gone into the Columbia River has raised the temperature of the river by 6°.

The CHAIRMAN. Mr. Olds.

Mr. OLDS. I think I would like to point out that there have been funds appropriated by Congress for the development of processes to desalt sea water. Mr. Aandahl can possibly tell you more about that. There has been considerable progress made in that direction. One process is showing signs of eventually becoming an economic process.

I think the suggestion is valuable, that when we get—as I think we are going to get very soon—economical atomic power, that it will fit into that general program. The Government of France is trying to carry out a variant of this at Abidjan off the western coast of Africa, where they are trying to use the difference in temperature between deep seas, say 1,500 feet down offshore, and the surface water, to develop power for the desalting process and surplus power for use in the region.

I had many conferences with them during the years I was with the Government when they were seeking funds for the carrying on of the experiment, and they felt they had pilot setups which indicated that the process ultimately would become feasible in that part of western Africa where the desert is closely adjacent to the sea. Some of the people I have been working with who are interested in the whole power question have felt that the Government should undertake a much larger expenditure in order perhaps to develop more rapidly this or some other process that would be economical for the conversion of sea water to water that could be used both for city water supply and for irrigation. I think that might be well taken under consideration by this committee in terms of the general economic problem, particularly of areas where water is necessary for the growth of crops, and so forth.

Senator GOLDWATER. I would like to comment.

The CHAIRMAN. Certainly.

Senator GOLDWATER. First, Mr. Zeckendorf, I wondered if I was hearing an old Arizonan right when I heard we might be getting our share of the Colorado. Then I want to comment on the fact that while Mr. Zeckendorf is now a citizen of New York, he is a member of one of Arizona's oldest families, and we are proud of him as is his adopted State of New York, and we hope he comes back home sometime.

Mr. ZECKENDORF. Thank you.

The CHAIRMAN. He happens to have been born in Illinois, so a number of States claim him.

Senator GOLDWATER. My mother shares that honor, too. In the West we are increasingly interested in this process of turning sea water into palatable or irrigationable water. The University of California led off in that, and in 1944 published an interesting discourse on the possibilities of it.

I think the cost is now down below $50 an acre-foot, but we have to get it down someplace between $5 and $12 an acre-foot before it will be feasible. But, Mr. Zeckendorf, I can envision with you the day when water will be piped across this country like gas and oil, and I think it may come sooner than we expect.

Mr. ZECKENDORF. I surely join you in that hope.

Representative CURTIS. I would like to ask Mr. Aandahl a couple of questions about the charts, the 1955 appropriations and the 1956 estimated appropriations.

I know you have it broken down into four items. Do you have similar breakdowns for the obligated but unexpended balances for the same items?

Mr. AANDAHL. I think we can get you that information. I do not have it here.

Representative CURTIS. What I was interested in, of course, is the anticipated expenditures for 1955 and 1956. There have been a lot of questions raised, and properly so, by the economists, of what the expenditures will be, going into the economy in a given year, from our various public-works projects.

Now, maybe you can answer this: Have the ratios that would be anticipated in the expenditures field for 1955 and 1956 increased or decreased over the period of the past few years? Will we be spending about what we have spent before?

Mr. AANDAHL. In the construction program for the Bureau of Reclamation we are experiencing a small but gradual increase in the construction expenditures.

Representative CURTIS. In the construction end?

Mr. AANDAHL. Yes. I might give you the measure of that by appropriations over a period of several years.

Representative CURTIS. Yes; that would be somewhat helpful.

Mr. AANDAHL. For the Bureau of Reclamation, fiscal year 1951, the appropriation was $271,679,000. For the following year, 1952, it was $234,408,000. For 1953, it was $205,847,000. For 1954, it was $143,669,000, and then we have 1955 and 1956 on the supplement to my remarks.

Representative CURTIS. Yes; and they are on the upgrade.

Mr. AANDAHL. They are on the up. The low point was for fiscal 1954, and we are gradually moving up again.

Representative CURTIS. I imagine the unspent balances on those previous obligations are considerably more than the new appropriations. They usually are.

Mr. AANDAHL. That is correct. I think we probably had a maximum of carryover in 1954 when we had the small appropriation.

Representative CURTIS. Yes; so that your actual expenditures probably would be a fairly even curve.

Mr. AANDAHL. Probably not too much of a change there.

Representative CURTIS. Thank you.

Mr. AANDAHL. Of course, there is this circumstance also with respect to the reclamation: We are gradually completing more projects, both irrigation projects and transmission facilities, and the maintenance expense for those facilities is gradually going up, which is a part of the overall appropriation figures that I have given you.

Representative CURTIS. Wait, let me understand that. The maintenance figures are going up. The ones you have mentioned, though, I think, are projects that you referred to in here as being somewhat self-liquidating. Am I right? What projects did you mention where the maintenance was going up? Transmission lines?

Mr. AANDAHL. Yes, and also in the case of reclamation projects that have not been turned over to the local irrigation district for operation and maintenance.

Representative CURTIS. I see.

Mr. AANDAHL. And the Federal expenditure, even though it may be repaid in full, is taken out of the appropriation that is made for the Bureau of Reclamation. The expenditure may be a reimbursable expenditure, but any money that we spend through appropriations for persons employed by the Bureau of Reclamation comes from our appropriated funds.

Representative CURTIS. I see, the money coming back would go into the General Treasury?

Mr. AANDAHL. Some of it goes to the reclamation fund.

The CHAIRMAN. On that very point, is it not true that on these reclamation projects while the amounts are ultimately repaid over a period of 50 years, they do not go into the General Treasury, but go into the reclamation fund, and are therefore used for new reclamation projects, so that, in effect, the rest of the country never gets its money back, and what you have is an accumulating snowball which is devoted to more and more reclamation?

Mr. AANDAHL. It is correct that these revenues build up the reclamation fund.

Representative CURTIS. But to go into a new reclamation project you have to go to Congress to get authorization to use money from the reclamation fund?

Mr. AANDAHL. That is correct, and we also have to have specific appropriations for that purpose.

Representative CURTIS. I see; yes.

The CHAIRMAN. But the rest of the country cannot put its hands on these funds and devote them to any other purpose? They are earmarked.

Representative CURTIS. That is true; but, of course, if Congress is going to go ahead and authorize and appropriate for a new project, it does not make too much difference as far as the taxpayer is concerned whether you take it out of their pockets or whether you take it out of a fund for that purpose.

The CHAIRMAN. But the will of Congress to turn down reclamation projects is weakened because here are these funds that can be used for reclamation projects, and cannot be used for anything else, and so these are the only purposes for which they can be spent. So let us go ahead and appropriate. This is another case of narcoticizing the will to economy on the part of the country.

Senator GOLDWATER. It is pretty much like TVA funds.

The CHAIRMAN. No, in the case of TVA the repayment of capital with interest, and then the funds do go into the Treasury, whereas the irrigation is without interest and the funds do not go into the General Treasury.

Senator GOLDWATER. But they do not have to come to Congress for specific permission to spend their moneys.

The CHAIRMAN. I think the payments made by TVA go into the General Treasury.

Am I wrong on that?

Mr. AANDAHL. I am not too sure about TVA. It is a separate agency which does not come under the Department of the Interior and I am not close to its functioning.

The CHAIRMAN. Mr. Fisher.

Mr. FISHER. I believe you are correct.

Representative CURTIS. Could I ask in regard to the hydroelectric projects that are in the Department of the Interior, do the moneys come back to you or to the General Treasury?

Mr. AANDAHL. They come back either to the reclamation fund or to the General Treasury depending on their source.

Representative CURTIS. The hydroelectric project moneys would come to the reclamation fund, too?

Mr. AANDAHL. Depending on what the project is. We are marketing power from both the Corps of Army Engineer projects and Bureau of Reclamation projects, and the money that we receive in repayment of the investment in the Corps of Engineer projects does not go into the reclamation funds.

The CHAIRMAN. I want to break in here again.

Not only does the Government never get back the money which it originally appropriates for reclamation, except for more reclamation projects, but reclamation in addition takes a large portion of the power revenues for the purpose of reclamation.

Mr. AANDAHL. There isn't any question but what a sizable portion of power revenues are ultimately dedicated as an aid to irrigation.

The CHAIRMAN. Absolutely.

Mr. AANDAHL. And probably that is a wise policy because it means that the people in the area where the powerplant is, and where the reclamation projects are, are carrying the burden of the reclamation project in excess of the ability of the water users to repay it.

The CHAIRMAN. It also means that the consumers of power have to pay a higher price in order to subsidize reclamation projects which, in general, are uneconomical.

Mr. AANDAHL. But they are the people living in the community whose broad economy is strengthened by the reclamation project and not the people of the United States as a whole.

The CHAIRMAN. Well, Mr. Secretary, we could discuss this for a long time.

I merely say that your theories on this point go back to the 18th century. The French Physiocrats who believed the only initiating activities in the world were farming, that the activities of farming alone gave employment to other people.

I would say manufacturing enterprises create production and purchasing power and stimulate demands for other industries and production of other goods. This idea that only farm production creates a demand for other projects, while commonly held, Mr. Secretary, is, to my mind, completely fallacious.

Senator GOLDWATER. Mr. Chairman, I am sincerely glad to hear you say that because while I have heard you say it before, I have also heard it expounded that farming was the only source of income in this country, and that we had better take care of it.

The CHAIRMAN. Well, I have never said that.

Senator GOLDWATER. I have just commented that I never heard you say it, but I am glad to hear you reiterate your stand.

Of course, in reclamation, we look at it as a service to the country, because the time will come when we have 200 million population, and the rich farming States of Illinois and Iowa and the other farming States will not be able to take care of the country, and while we admit that an investment of $400 to $2,000 an acre seems high today, the day will come when that seems a bargain.

The CHAIRMAN. When that days comes, let us consider it, but let us not create land at a cost of $2,000 an acre when the richest land in the country is worth only five to six hundred dollars, and when we are taking out 40 million arable acres, why should we create fertile land out of this arid land? It is just one more means by which the industrial States are exploited, and the powerful semiarid States are subsidized at the expense of the general taxpayer.

Senator GOLDWATER. I am glad to hear the chairman say that the arid States are powerful. It is the first indication I have had that we are.

By the same token, we might take that attitude toward the inland waterways.

The CHAIRMAN. There is a working agreement between the advocates of inland waterways and reclamation. Each scratch each other's back, and you have a political combination of the Mississippi River and of the arid States. They dominate the United States Senate, and both of them get what they want at the expense of the industrial States.

Senator GOLDWATER. Well, we could argue that all day.

The CHAIRMAN. Well, it is true.

Senator GOLDWATER. I disagree with you. I think you could look at it from the national economy standpoint. What is good for one part of the country is good for all of the country.

The CHAIRMAN. But when the kissing takes place the industrial States are never under the mistletoe.

Senator GOLDWATER. I might call the Senator's attention to the great railroad industry that was developed at the expense of the Western

States through land grants. We did not ask that the railroad hub out of Chicago begin with gifts to hundreds of thousands of acres in Arizona.

The CHAIRMAN. This is the first time that I have heard the industrial States gain in such a fashion.

Mr. OLDS. If you consider the economic system as well as the governmental system, the exploitation is not all one way. The exploitation is not altogether by the arid land States as against the urban populations, is it?

The CHAIRMAN. You mean because the bonds of these concerns are owned in the investing centers. As far as public appropriations are concerned, it is all the other way.

Mr. OLDS. There is one thing that I think should be pointed out in connection with this $2,000 an acre question. I cannot say it in terms of any specific projects, but I know in those Mountain States where there are many irrigated acres that are simply parts of larger ranches, the value of the lands that can produce the feed for the livestock, run on the range acres, is such, and adds so to the value of the ranch, that the irrigation investment might well be spread over the total acreage benefited rather than over the specific irrigated cropland.

The CHAIRMAN. It would have the indirect effect of an increase in production.

Representative CURTIS. Mr. Chairman, could I ask a final question of Governor Aandahl?

The CHAIRMAN. Certainly.

Representative CURTIS. In order to get this thing in a proper perspective, my question along the line of fiscal policy, this policy of the reclamation fund and these moneys going back into that is not a changed policy. That has existed for some time.

Mr. AANDAHL. No, that is an established policy, established by Federal statute, and one that has been in existence for a long time.

Representative CURTIS. So there has been no change. That policy has occurred over several administrations?

Mr. AANDAHL. That is correct.

The CHAIRMAN. Let me make it clear that I do not charge this as a unique evil of the present administration.

Representative CURTIS. Mr. Chairman, I am trying to direct this back to a discussion of economics, if I can, and that is what I was trying to do, in order to understand trends, and I think it is important——

The CHAIRMAN. Let the record show that this is a long continuing evil.

Representative CURTIS. I don't know what is an evil and what isn't. I am interested in what has happened in the past to the extent that that can throw light on what is happening right now and what might happen in the future, and that is why my questions to the Secretary were directed along the lines of what our expenditures might be in 1955, whether this seemed to be a constant expenditure.

Incidentally, if that expenditure is going up, it would simply be keeping the same ratio in regard to other public and private expenditures, if it were slightly going up, inasmuch as we are still in a rising economy.

Mr. AANDAHL. I would think so, and then our understanding of it should be further seasoned to the fact that for several years there we made a very sizable cut in appropriations to reclamation.

Representative CURTIS. During the war years.

Mr. AANDAHL. Yes, and during the Korean war period, and we got down to a low of $143 million, and now we are just moving up a little bit, approaching the level that we had been at in the past.

Representative CURTIS. Now, one final general question: I have heard that there is quite a backlog of authorizations in these fields, and also of requested authorizations. Is that a fair statement?

Mr. AANDAHL. I would be inclined to say that there is a limited number of authorizations, and that in the Bureau of Reclamation we have a limited number of plans for further authorizations. In fact, it is my feeling that we should step up our general investigative program to be a little better appraised of the water development programs that might be needed in the future. Construction comes only a long, long time after you begin investigation and study of a possible project development.

Representative CURTIS. Now, the reason I asked that question was in relation to the much broader question that has been posed which is this: In the event of a recession or decline in activity in private enterprise, the Government might move more strongly into the field of public works. I was just interested to know whether there was any planning along that line for that future possibility?

Mr. AANDAHL. We are attempting to do that, but we haven't gotten very far, and we can well use a little strengthening of our investigation funds for that purpose, and I believe the President's budget, as submitted this year, includes an increase in investigation funds for the Bureau of Reclamation over what we had a year ago.

Representative CURTIS. For that kind of thing.

Mr. AANDAHL. For that kind of thing.

The CHAIRMAN. Mr. Kelley.

Representative KELLEY. Mr. Chairman, there are still many distressed areas in this country, in my State, Pennsylvania, for one. There is a great deal of unemployment, and there are other areas of the United States in addition. I have been perplexed at the disinterest that seems to be shown by the Government in this matter of broad public works on a matching basis where the States or local communities would handle the funds and decide what public works should be done in the area. There is a lot of impoverishment in these areas. I know personally that there is, and I repeat I cannot understand why something has not been done about it, except maybe it was an extreme desire to balance the budget.

Of course, any public-works program would be a temporary measure to tide over a period from recession to good business conditions. I was certainly impressed in seeing in U. S. News & World Report, for February 4, of which David Lawrence is the editor, it says that official concern is beginning to be directed at inflational forces. It says inflation will not be a real threat so long as excess capacity exists in big industries, and so long as there is a surplus of workers seeking jobs. That was a startling statement to read coming from that magazine.

Then a thought occurred to me, and I am sure to many of them who read it, are we to think that the budget must be balanced at the price of impoverishment and misery? I cannot believe that that is the purpose, although one is certainly led to think that that is the objective, to keep a surplus of labor in order to keep down inflation and balance the budget.

Now, I would like to have an expression of some of the members of the panel about that. Why haven't we had a public-works program, at least a blueprint on hand so that a public-works program could be put into effect on a matching basis for the areas that want to use it?

The CHAIRMAN. Does anybody want to volunteer a comment on that?

Mr. RENNE. I think one of the major reasons is that our planning has been very piecemeal, both in terms of the scope of our thinking and the agencies responsible for it. There has not been an overall planning agency operating over the years that could do that type of job. It has been out in the different agencies, and I do not think you get the kind of planning you are talking about that way.

Representative KELLEY. But I am thinking in the 1930's we had an overall public works program that was very successful, and it did take care of the unemployment situation to some degree, and I was wondering why in the light of the information that has come before us, a statement like this, why something hadn't been foreseen, and the blueprint made for a broad public-works program, and then put into effect, if it was necessary, as it is necessary now?

Representative TALLE. Mr. Chairman, if I may comment on that, it is clear that the public works program in 1953, as Mr. Kelley mentioned, and the subsequent years, was not adequate because there were over 9 million unemployed in 1939 in spite of all that Government tried to do for over 6 years.

The CHAIRMAN. As compared with 16 million in 1933.

Representative KELLEY. Well, the unemployment is perhaps not generally distributed, but there are certain areas in this country, and mine is one, where there is a great deal of unemployment. There is a great deal of distress and impoverishment as a result of it. I am sure that is not the only area.

With a public works program on a matching basis certainly those local communities could avail themselves of the measure to help themselves, to relieve themselves. It would be only a temporary help, but some measure of that type should have been in effect a long while ago, I believe.

The CHAIRMAN. Mr. Olds.

Mr. OLDS. There is one question raised here that was given a lot of consideration by the President's Water Resources Policy Committee in 1950. It is a matter of great interest to this committee, and it may have been raised before by other economists. That is whether the public works program of the Government should be a compensatory one, that is the investment fluctuated in an effort to deal with depression conditions when they begin to show themselves, or whether it should be a stabilizing factor in the economy by maintaining a fairly stable, fairly large participation by the Federal Government in the general creation of capital working in its own particular field. That would recognize a Federal investment function that would tend to create a greater stability because of its magnitude where there were fluctuations, for instance, as I suggested this morning in the expenditures of utilities for equipment or railroads for equipment, which as they fluctuate up and down have a very material effect on the total economy.

I think the President's Water Resources Policy Commission was of a unanimous opinion that, whereas there could be a shelf of public works that would permit some fluctuation where recession began to appear, nevertheless, the more important function of a public works program was to serve as a stabilizing element in the total expenditure for projects, which would be geared not so much to the fluctuations in the business curve as it would be geared to the requirements of the country in terms of water-resource projects, school projects, housing projects, public roads, etc. Thus you would have a fairly large segment of the total economy, where if you maintained a stability of constant expenditure it would have a very moderating effect on the other factors which come from private sources which tend to create instability.

Representative KELLEY. It wouldn't be necessary to limit it to just those. Suppose a municipality needed besides schools, municipal buildings, courthouses, sewage disposal?

Mr. OLDS. I did not mean to limit it to those; I just cited those as possible things at the Federal level.

Representative KELLEY. They could apply for projects as they needed them. It would help the area. It would necessarily affect the steel industry, and the railroads to a certain degree. It would depend on how big the project was. It would certainly help the economic situation in those areas where it is so severe.

That is my thought and, as I say, I am surprised that something hasn't been done in that direction. I think sometimes that the officials in charge are not aware of the amount of impoverishment there is in certain areas in this country. Maybe that is one answer.

Mr. RENNE. I think that is probably the best answer. I do not think most of us have been sufficiently aware of those areas of impoverishment, because the overall level has been high and relatively speaking highest in the world, and so we haven't been in the position of feeling that we needed to do this so much.

Representative KELLEY. It could be confined to the local areas if they wished to help themselves. The Government would make available the funds on a matching basis. It seems to me that that is one answer to the problem that affects many districts, many areas of the country, and I say mine is one of them.

Mr. ZECKENDORF. I would like to say something, if I may, Mr. Chairman.

The CHAIRMAN. Mr. Zeckendorf.

Mr. ZECKENDORF. In line with my earlier talk, Mr. Kelley, you weren't present, but when you read it you will find when I refer to the subject of urban redevelopment I said I had various solutions to the problems of the cities, which I didn't have time to set forth in that little statement. But one of them is the whole subject of urban redevelopment through the use of power of eminent domain and reconstruction, opening the cities up to provide more modern facilities for traffic and for growth, to get away from the congestion that exists, so that it is possible that local reclamation work can be conceived in communities as and when they need it for purposes such as you speak, and I am sure in your area you must have cities with substandard conditions that require general redevelopment, and such a program as you suggest could create great employment during these periods when you have unemployment to the ultimate long-term benefit of the community, and it can be done on a self-bailing basis without cost to the community, or to the Federal Government, by one single process that I should like to mention, Mr. Chairman, and if you don't mind I will have to leave it at that because I am expected back in New York.

By condemning excess land beyond the requirement for the improvement and preventing a windfall profit to a free rider who happens to be in the way of a civic improvement, it is my belief that a well-conceived urban improvement will create increments in the surrounding areas.

Suppose, for example, you have a slum area and you decide to put a park in the middle of it, instead of just putting a park in the middle of the slum and letting these people running the slum tenements get a free ride on increment, condemn the whole lot of them and put back on the market for private development all of the surplus land around that park—I am oversimplifying this now—and having removed so much slum, what it will have cost you to dedicate the park you will get more than that amount back by the increment that will have arisen through three factors:

One, the existence of the park and the benefit that surrounding properties would get from it; second is the fact that land has greater value if it is assembled than it has in individual units. In other words, a 50-foot plot is worth more than twice the value of a 25-foot lot, and having eliminated an eyesore in the area you encourage private redevelopment.

Now, I do not propose for one minute that you should take something away from one man and give to to another. I am simply talking the negative. Whoever has an asset in that area should be paid all it is worth. I simply do not believe in giving that fellow a present and not being able to have the community to get the bait back, and also you will never get urban redevelopment really off the ground by waiting for the process of attrition to finally get some fellow to get off his seat and help them do something about it. But once you have condemned it, and you put it back in large plots, I assure you that private capital will come in.

This can be true of new streets. For example, in the city of New York after we made the deal for the United Nations we advocated the condemnation of six square block around the United Nations. We said if they condemned 6 blocks and took 2 center blocks, demolished them and made a grand monumental approach to the United Nations, that it was our opinion that the 4 blocks that remained would have at least as much value pro forma as the 6 blocks. The two blocks would have come for nothing.

We told the city if you don't believe that, you think it is too speculative, we will put up a bond and guarantee it, and then someone will pay much more as a result of having done that. There was a case that I speak of where you can by ingenuity and resourcefulness and pro forma thinking get back the cost of redevelopment on an operation bootstrap, so to speak, creating wealth by concept, and in your communities that is possible without having to go into leaf raking, for example.

Representative KELLEY. I question whether that would be effective in my community.

Mr. ZECKENDORF. Perhaps not.

Representative KELLEY. There are no large cities larger than 30,000. It is a very industrial district.

Mr. ZECKENDORF. I would be surprised if it wouldn't be effective.

Representative KELLEY. Pardon me?

Mr. ZECKENDORF. I would be surprised if it wouldn't be helpful.

Representative KELLEY. My question is whether it would be helpful enough.

Mr. ZECKENDORF. Well, I wouldn't know.

Representative KELLEY. Mr. Talle, I believe you have something.

Representative TALLE. Well, I don't want to cut in on your questioning.

Mr. Chairman, I have a report here from the Library of Congress re "The scientific and professional manpower shortage," "The need for a national policy to alleviate manpower wastage," and "Specific scholarship and loan proposals." Without objection I would like to have permission to incorporate it in the record.

(The material referred to is as follows:)

HUMAN RESOURCES AND THEIR RELATION TO A FEDERAL SCHOLARSHIP PROGRAM

I. THE SCIENTIFIC AND PROFESSIONAL MANPOWER SHORTAGE

Since World War II much has been said and written on the subject of human resources and several important studies of our manpower resources have been undertaken by private organizations as well as governmental agencies. Our experience with the lack of a well-defined manpower policy prior to the Second World War has had some influence on the recognition of the problem. The best utilization of our manpower resources is gradually being recognized as one of the most significant factors affecting this country's future welfare and world leadership. As one university president pointed out:

"We can no longer afford to waste or neglect available resources of human skill. It has suddenly become clear that as a Nation we are still too casual, too inexpert, too wasteful, in our attitude toward brains and ability. Because we have never lost a war, because we are almost continental in our extent, because more than any other people we have turned the raw earth into a flood of food and goods, we are in real danger of living in a world of false proportions, and of acquiring the delusion that we can always be adequate to the tasks thrust upon us. Today we must accept new magnitudes and make new comparisons." [1]

We are not developing the Nation's greatest asset, the brains of our citizens. A large number of the people of this country are working at levels below their true potentialities, which is a waste of manpower. It is imperative that we have the "highest possible correlation between talent and national welfare" whether in preparation for defense or for the purposes of peace.

Numerous studies have appraised America's "educated manpower" as the country's most valuable resource. One commission stressed this when it stated:

"Since the whole population profits from the work of its ablest members, it would appear to be good business for the Nation to use its brains well, just as it is good business to use well its forests, it waterpower, and it minerals. It is more than good business; it is a great national concern." [2]

The National Manpower Council in 1952 also emphasized the need for a continued comprehensive research program in the field of human resources. Trained personnel and technological superiority are more vital to the national security

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[1] C. W. Kiewiet, Education for Survival, the ACLS Newsletter, summer 1953, p. 3.

[2] Dael, Wolfe, editor, Report of the Commission on Human Resources and Advanced Training, 1954, p. 1.

than are numbers of population. One educator described it in the following manner:

"In the final analysis there is no substitute for the qualitative development of our best brains. Our foreign and military policy has no better ally than the educational system. In any assessment of American power, higher education has the same stature as our system of food production, our industrial organization, or our system of defense." [3]

Historically, the Manpower Council pointed out, that:

"* * * the concern with human resources centered largely on the span of human life, health, and immigration. Efforts to conserve human resources aimed mainly at the elimination of preventable deaths. Disease and accidents were the specific targets, and improved hygiene, preventive medicine, and industrial and other safety measures were the major means relied upon. Until quite recently, questions of the effective use of the country's human resources, the development of skills and capacities, and the waste of ability received relatively little attention." [4]

Manpower policies in a democratic society, however, have been uncoordinated except in periods of defense mobilization. The development and utilization of our human resources usually comes as a result of many different forces. In fact, the effective development and utilization of our resources of scientific and professional manpower is a continuing important issue concerning public policy. Experts urge that the present world situation "compels consideration not only of current manpower needs but also of long-range policies to provide the country with the highly trained manpower it will require in the future." [5]

The National Manpower Council had this to say concerning the country's future needs for "educated manpower":

"It is safe to assume that, barring a catastrophe which would destroy the bases of Western civilization, the major factors which have been responsible for the very rapid growth of the professions and the sciences in recent years will continue to operate in the future. The rate of progress in science and technology will certainly not be slowed and will probably be accelerated. The gain in productivity, estimated at about 3 percent per year in recent decades, is not likely to be less in the near future. An expanding national income will result in a greater capacity to consume the services of professional personnel. A dynamic economy, high levels of employment, rising living standards, and the aspiration for improved health, education, and social security all point to the need for larger numbers of scientifically and professionally trained workers. In spite of the uncertainties which must qualify any judgment on the future, a long-run view clearly points to a continuing high level of demand for scientific and professional manpower." [6]

It is not possible to estimate the exact demand which might be made for each group of scientific and professional personnel within the overall manpower category for the next 10, 15, or 20 years. A system of "manpower allocation" is held by experts to be impractical when a country is not engaged in an all-out emergency, which is the only time the nation is ready to sacrifice certain objectives in order to survive.

II. THE NEED FOR A NATIONAL POLICY TO ALLEVIATE MANPOWER WASTAGE

In its 1954 report, entitled America's Resources of Specialized Talent, the Commission on Human Resources and Advanced Training held that it would be sound national policy to encourage and help to bring more of the ablest young people into institutions of higher education. It was expressed as follows:

"To make the maximum use of those who are potentially well qualified means to get each into the job which he can do best and in which he can contribute most effectively to the Nation. College training is one means to that end. Getting more of the ablest high-school graduates into college is therefore a major step in preparing them for positions of greater responsibility and usefulness than they would be likely to achieve without college training." [7]

The Commission also believed that there should be no limit placed upon the choice of fields of specialization students could enter.

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[3] DeKiewiet, C. W., op. cit., p. 7.
[4] National Manpower Council, A Policy for Scientific and Professional Manpower, 1952, p. 32.
[5] Ibid., p. 243.
[6] Ibid., p. 244.
[7] Dael Wolfe, op. cit., p. 242.

The Commission emphasized this latter recommendation, as follows:

"Educating the Nation's highest intellectual potential, but letting each student specialize in the field of his choice, is a means of making the best use of America's intellectual resources and of assuring intellectual flexibility to meet whatever conditions the future brings.

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"The existence of a sizable body of educated workers, flexible enough in skill and interest to move into the fields in which demands and rewards are greatest is a major national asset." [8]

This view has been previously supported by the Vannevar Bush report Science the Endless Frontier (1945), which declared:

"We think as we think because we are not interested in setting up an elect. We think it much the best plan, in this constitutional republic, that opportunity be held out to all kinds and conditions of men whereby they can better themselves. This is the American way; this is the way the United States has become what it is. We think it very important that circumstances be such that there be no ceilings, other than ability itself, to intellectual ambition. We think it very important that every boy and girl shall know that if he shows that he 'has what it takes,' the sky is the limit. * * *

"By proceeding from point to point and taking stock on the way, by giving further opportunity to those who show themselves worthy of further opportunity by giving the most opportunity to those who show themselves continually developing—this is the way we propose. This is the American way: A man works for what he gets." [9]

There are many capable young people who are financially unable to attend college. This group represents a considerable loss to the Nation of more highly trained manpower potential. The President's Scientific Research Board called attention to this in its 1947 report on manpower for research when it stated:

"It has repeatedly been estimated that approximately as many students with high ability drop out of school before reaching college as enter college in any 1 year. Many of these young people take mediocre jobs, and very few of them ever rise high enough in their occupations to put their excellent abilities to use in intellectual or creative work of a high order. While some of these able students drop out because they do not have the ambition to go on with further training, thus pointing toward the need for better guidance in the secondary school, some of the students have to leave college because they cannot afford financially to go on. * * *

"Thus, there is a large group of able students whose talents could be put to much more profitable use by society if society were to invest in education." [10]

Former President Truman in his 1952 budget message to the Congress placed emphasis on this country's wasted manpower when he said:

"At a time like this we cannot afford to waste any resources, yet this pool of inadequately used human resources is being continually enlarged because many young people are denied the opportunity for a proper education."

Of the high-school graduates who are among the top fifth in ability, only 53 percent enter college and 43 percent graduate. Every year this country loses a high proportion of the young people who might become leaders in the professions. Almost 60 percent of the group with the greatest potential fail to complete a college education.

We waste much of our potential talent.

"College graduating classes could be twice as large as they currently are, and with no loss of quality. The potential supply gets drained off, in large and small amounts, all the way through the educational system. Practically all potentially good college students enter, and most of them finish, high school, but after high school the loss is large. Fewer than half of the upper 25 percent of all high-school graduates ever earn college degrees; only 6 out of 10 of the top 5 percent do. Society fails to secure the fullest benefit of many of its brightest youth because they do not secure the education that would enable them to work at the levels for which they are potentially qualified." [11]

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[8] Ibid., pp. 266–267.
[9] Vannevar Bush, Science the Endless Frontier, 1945, p. 141.
[10] President's Scientific Research Board, Science and the Public Policy, vol. 4, p. 124.
[11] Dael Wolfe, op. cit., p. 269.

This Nation's future strength is closely linked with the adequate development of its manpower resources. Again, this was stressed by the Commission on Human Resources and Advanced Training in the following statements:

"A nation with as complex an economy, as important a role in world affairs, and as tangled a web of social, economic, military, and technological problems as confront the United States is peculiarly dependent for its future welfare upon its citizens who are competent to work effectively with ideas. The development of new weapons, the conduct of government and statesmanship, the discovery and development of means to improve health, increase productivity, and add to human welfare, the ability to bring all these forces to the benefit of the less fortunate peoples of the world, and the ability to use them effectively to counteract the influences of totalitarianism all depend primarily upon those of the Nation's workers who labor chiefly with their heads instead of their hands.

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"The Nation needs to make more effective use of its intellectual resources. * * * Democracy at its best gives each child access to the education and opportunities which will enable him to develop his potentialities. Each can then progress to the highest level which his abilities and interests allow. The United States stands in too vital need of the high abilities of its ablest sons and daughters to adopt any lesser goal." [12]

III. SPECIFIC SCHOLARSHIP AND LOAN PROPOSALS

In the latter part of 1947 the President's Commission on Higher Education made its report to President Truman and among its recommendations it declared that:

"Immediate steps be taken to establish a national program of federally financed scholarships and fellowships as a means of removing further the economic barrier and enabling our most competent and gifted youth to obtain for themselves and for society the maximum benefits to be gained from higher education.

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"Not only is it important for the welfare of the Nation that adequate low-cost opportunities for higher education be made available to all the people of America, but it is of utmost importance that the Nation's most talented youth be encouraged and given the opportunity to continue their education to the fullest extent possible. For this reason the Commission advocates: (1) That a continuing Federal program for undergraduate scholarships be established beginning with $120 million in 1948–49 and continuing each year for the succeeding 5 years in an amount sufficient to provide scholarships for 20 percent of the nonveteran undergraduate enrollment; (2) that in addition to the existing Federal fellowships programs a new program be established for graduate students through the appropriation of sufficient funds to provide 10,000 grants of $1,500 each in 1948–49, 20,000 grants in 1949–50, and 30,000 grants in 1950–51, 1951–52, and 1952–53; and (3) that before 1953–54 the program of scholarships and fellowships be reexamined with a view to expanding it.

"On the basis of the anticipated enrollment in 1948–49, the granting of scholarships to 20 percent of the nonveteran undergraduate enrollment would provide assistance to some 300,000 students. This would be in addition to the 10,000 fellowships also proposed for the first year of the program." [13]

From the 79th through the 83d Congresses a number of different proposals have been made for Federal grants-in-aid for a scholarship program, and in some cases a loan program. The following selected bills indicate the scope of these proposals:

79th Congress

S. 1782. Mr. Langer; January 31, 1946 (Education and Labor):

Directs the Commissioner of Education to make loans up to $500 to individuals desiring to obtain a college or university education and authorizes $3 billion for a revolving fund. Loans shall be made without security but the borrower shall execute a 1-percent 15-year promissory note payable to the United States.

S. 2499. Messrs. Murray, Morse, and Pepper; July 31, 1946 (Education and Labor).

II. For scholarships and fellowships (scholarships for students in last 2 years of high school and in junior colleges, technical institutes, vocational schools,

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[12] Ibid., pp. 5–6.

[13] Higher Education in American Democracy, vol. V.

colleges, and universities, and fellowships for students in graduate or professional schools or departments of colleges, universities, and research institutes in the United States or other countries): $70 million for 1948; annual increases of $35 million for 2 years, thereafter annual increases of $30 million; $350 million for 1957, allotments to be based on a State's population within the age range 16 to 24 years, inclusive.

H. R. 5465. Mr. Savage; February 13, 1946 (education):

Provides Federal aid to States in establishing and maintaining a scholarship and fellowship program in colleges and universities. Authorizes for the purpose $35 million for 1946–47; $50 million for 1947–48; $65 million for 1948–49; and $80 million for 1949–50 and for each fiscal year thereafter. In order to secure the benefits of this act a State shall establish a State scholarship and fellowship board which shall submit to the United States Commissioner of Education plans showing the ways in which it proposes to discover and encourage the development of unusual abilities among the youth of the State. Such plans shall provide for expenditure of 25 percent to 50 percent of the funds for students in the first year after high school and 50 percent to 75 percent for students above the first year of college. The average scholarship stipend shall not exceed $30 per month and the average fellowship stipend shall not exceed $50 per month. This act shall be administered by the United States Commissioner of Education under supervision of the Federal Security Administrator.

80th Congress

S. 1131. Messrs. Pepper and Murray; April 18, 1947 (Labor and Public Welfare):

To aid the States in providing education in the 11th grade and above there is authorized: (1) For scholarships: $80 million in the fiscal year 1948, $100 million for 1949, $125 million for 1950, and $150 million for 1951; and (2) for loans, a revolving fund of $250 million. Apportionment shall be on the basis of the number of persons from 14 to 26 years of age in the State and its per capita income compared with the per capita income of the United States. States must provide an equitable apportionment where separate schools are maintained for separate population groups. They shall provide: (1) For certification of persons solely on the basis of ability without reference to race, color, creed, sex, or religion; and (2) that 10 percent shall be expended for scholarships for education in the 11th and 12th grades; 30 percent for high-school graduates, and 20 percent for students above the 16th year of school grade in graduate schools, etc. Scholarships or loans shall not exceed $125 a month for a person without dependents, $150 if 1 dependent, and $175 if 2 or more dependents. No scholarship or loan shall be made to a person while he is receiving education under title II of the Servicemen's Readjustment Act. Federal control over an educational or training institution in which funds are expended under this act is banned.

81st Congress

H. R. 3630. Mr. Lesinski (by request); March 21, 1949 (Education and Labor):

There is authorized, in the form of outright grants or Reconstruction Finance Corporation guaranteed low-interest loans, to assist qualified needy persons from 16 to 25 years of age to continue their education $100 million for the fiscal years ending June 30, 1950 and 1951; $150 million for the years 1952, 1953, and 1954, and $200 million for the years 1955 and thereafter, to be apportioned in the same proportion as the number of persons within the class in each State bears to the total number in all the States. Recipients of assistance shall be named by a State approval board to be set up under the act. The Commissioner of Education shall from time to time publish a list of approved institutions (including industrial and on-the-farm training establishments). Expenses covered include tuition, fees, travel, and subsistence allowance.

S. 3455. Messrs. Murray and Humphrey; July 2, 1952 (Labor and Public Welfare):

Student Aid Act of 1952—Authorizes annual appropriations for Federal scholarships beginning in fiscal 1953 with $32 million and increasing by $32 million each year until in fiscal 1956 the authorization shall be for $128 million, whereafter it shall remain the same unless the Congress change it. Provides that this money shall be used for certificates of scholarship awarded to high school students in the several States for pursuit of higher education, without any discriminations as to sex, creed, race, etc. The State quota of these scholarships shall be determined as follows: One-half of the total number of scholarships shall be allotted among the States in percentages equal to the percentage the State's high school graduates bear to the national total of high school grades for the year; and the remaining one-half shall be allotted in the proportion that the State's population between 19 and 21 bears to the national total population of that age.

The recipients must (1) (a) have a certificate of graduation from a high school of that State or (b) if graduated from an out-of-State high school, have the course of studies recognized as adequate by their own State, (2) must not be eligible for veteran's educational training, (3) must apply in accordance with State rules and (4) must not have had any Federal scholarship under this or any other act vacated except for good cause.

The State commission shall, in accordance with objective tests and other measures prescribed by the Commissioner of Education, make its selection on basis of intellectual capacity and financial need. The scholarship stipend shall be uniform and not in excess of 4 years. The requirements for continuance during this time shall be (1) continued financial need, (2) full-time attendance. (3) no scholarship aid from other sources. The recipient may attend any higher institution within or without the United States.

Each State desiring to participate shall establish a commission on Federal scholarships and submit it to the Commissioner of Education for approval. The payments of scholarships under this act shall be by check payable to the individual recipient transmitted through the administartion of the institution he is attending.

Administration of this act shall be under the Commissioner of Education who in turn shall be responsible to the Federal Security Administrator. He shall consult with all agencies of the Federal Government,with a view to coordinate all Federal scholarships; and shall be assisted by a National Council on Student Aid of 12 members with the Commissioner as Chairman to represent individual, organizational, and professional interests.

Authorizes $10 million for insurance of loans to students in higher institutions of learning. No loan in excess of $600 shall be made to any student in 1 year, nor shall the aggregate unpaid balance exceed $2,400. Reimbursement under the insurance shall not be in excess of 80 percent of the unpaid balance of the loan including interest accrued at the time of default. Eligibility of lenders shall be determined by certification by the State commission: loans shall be insurable whether from funds fully owned or from trust funds of the lenders.

Eligibility of students shall depend on: (1) full-time educational work; (2) the signing of a note or other agreement, payable by installments commencing the fourth year after student ceases to devote full time to study: (3) requires full payment plus interest within 6 years after payments begin; (4) until such date of commencement carries interest at a rate not exceeding the average market rate of Treasury obligations by 1 percent, or after commencement, not exceeding such rate by more than 2 percent; (5) permits acceleration and (6) contains any necessary terms stipulated by the Commissioner.

Certificates shall be issued under this title and upon default, death, or disability of the borrower, prior to any enforcement proceedings, the beneficiary shall inform the Commissioner who shall pay off such insurance and be subrogated to the rights of the insured against any security given for the loan. Premiums and all other funds acquired by the Commissioner under these operations shall be deposited in a revolving fund in the Treasury. Five hundred thousand dollars is authorized for initial establishment of this fund.

83d Congress

H. R. 6079. Mr. Boland; July 2, 1953 (Education and Labor):

Federal Scholarship Act—creates a Federal Scholarship Fund and authorizes therefor $10 million for 1953 and such sums as are necessary for succeeding years to make loans to students selected by State agencies in proportion to number of Members of House of Representatives from States which have accepted provisions of this act. For a student to be eligible for a loan, his State must designate a State Agency, establish certain methods and standards for selection, and make certain deposits into the scholarship fund which amount shall not exceed 10 percent of aggregate amount of advances made to students from that State during preceding calendar year. Sets forth the procedure for application. approval, security, and the making of loans to eligible students. The Commissioner of Education may suspend a loan where he finds that a State has made selections on a discriminatory basis. Provides for loans up to $1,000 a year for the first 4 years in college grade studies, up to $1,500 a year for first 4 years of post college studies, and for repayments of loans to begin the 2d year after advances have ceased. Assures all educational institutions where students attend on loans freedom from interference from Federal or State Governments.

In addition to these congressional proposals for an unrestricted Federal scholarship or loan program, in the present Congress at least one bill has been introduced to provide scholarships for persons of unusual ability in the fields of engineering, physics, chemistry and the related sciences. No action has been taken on these bills in previous Congresses.

The existing scholarship and fellowship programs financed by the Federal Government for education at colleges and universities were established for the benefit of a special group, such as veterans, or for postgraduate work in scientific fields.

Current Federal program in higher education can be classified as follows:

(1) Aid for the education of a special group of individuals, such as veterans;

(2) Aid to individuals for study in special fields, such as military science and medicine;

(3) Educational activities carried out largely for the promotion of some policy of the Government, such as the development of international goodwill, or building up an officer reserve;

(4) Annual grants to particular institutions for specific purposes, such as agricultural education;

(5) Grants and contracts awarded to institutions for research in certain fields, such as the physical sciences.

The Federal Government has a stake in the quality, productivity and efficiency of this Nation's skilled manpower. Can Congress be indifferent to the consequences and meaning of the findings concerning "the nature ad distribution of talent and skill in American society"? What are the steps Congress should take to implement a national policy in this area? What form should they take and where should the emphasis be placed?

The CHAIRMAN. Mr. Talle.

Representative TALLE. Mr. Chairman, I am very much interested in public-works programs. Government could proceed on a program covering a period of years, in good times and in bad times. We might proceed because we wanted to build the country up without regard to depression or inflation or anything else, but generally you hear a good deal more about public works in a time of recession.

Early in this hearing public works were mentioned, and it is one way of alleviating unemployment, but as Dr. Gainsbrugh pointed out at the time, it takes a long while to get started. In other words, a recession comes along, and you want to carry out public works to alleviate unemployment, but you are not ready to go ahead.

If you do not have your gun loaded, you cannot shoot, and therefore I think we should take a look at this problem of having our plans ready so that if we want to use public works as a relief in times of depression and unemployment when we have good times, we should be working on our plans. I should like to ask General Itschner, who certainly is well-informed in this field, how many steps must be taken and how long a time is required to take those steps to get a project ready for construction from the time the project is an idea in somebody's mind until you are ready to do the work, actually using the bulldozers and the other things you must use.

General ITSCHNER. Well, sir, it takes a great many years from the time the project is first conceived by local interests who desire that project until the project is actually under construction. We found recently that we had something like $8.9 billion worth of projects already authorized, which meant that it had been maybe six or so years prior to that time they were conceived, and yet, they were not ready for construction.

It takes on an average of perhaps 2 years to plan a project after the initial funds are made available for planning, and as an average in the first year of construction, we find that we can spend at a normal rate of progress just about 10 percent of the cost of that project. So that means that in our type of program, at least, during the initial year, even after the construction has commenced, we do not have too much effect upon the economy.

It has to go to the second or third year until the project progresses and consumes a large amount of money. So the entire process is a very long one and we are trying now to improve that condition. We feel that it will be improved because in fiscal year 1956 we have in the budget $5 million for planning, as compared to $2½ million in fiscal year 1955.

Representative TALLE. There is an aspect of that which probably is not very well known to the public. Before a project can be undertaken at all by the engineers, there must be authorization in law. Now that, I submit, takes a long time. I know that from experience. From the moment the idea is born something should be done, to the hour when Congress has passed a bill and the President has signed it—that is typically a long time. That is correct; isn't it, General?

General ITSCHNER. That is correct; yes. There were many projects in the 1954 omnibus bill, which is the authorizing bill for our work, for which the reports were prepared as far back as 1946, 1947, and 1948, which means some of the data contained in those reports went back to 1945, so it is a long process.

Representative TALLE. I have several urgent projects in mind. So, if you have a flood-control problem and you have the authorization, you still have not got anywhere, as far as stopping floods is concerned, for you have another big step, and that is to get the money to do what has been permitted by law. Would you like to comment on the problem, General Itschner?

General ITSCHNER. Well, after the authorization, the next step, as you say, is the obtaining of funds by appropriation, and that takes a great length of time, in many cases. The reason is that the backlog of authorized projects is many times the amount of an annual appropriation that we might expect for construction. I did give the figure of $8.9 billion as being the present backlog of authorized projects. Our annual appropriations for new construction has been something on the order of $400 million as a maximum. So that means 22 years of appropriations before we could accomplish the backlog.

We all know that some of those projects never will be built.

Representative TALLE. That is right. Turning back to that first big step, a project is authorized by law. Even if money is appropriated for carrying out that project, isn't there a preliminary step called planning for construction before you actually start the job?

General ITSCHNER. That is correct, in almost all cases. In cases where the project is one which is rather simple to plan, such as a dredging project, the construction funds and the planning funds might be combined in a single annual appropriation, but as a rule, we have 1 or 2 years' planning money first, usually 2, before we ask for construction funds.

Representative TALLE. I think the Office of Army Engineers has worked out a chart showing the different steps that must be taken, and if we had some of those, it would help to clarify that point.

I would enclose them in some letters I write. Thank you, General.

Let me get back to the point that I started with. If we decide to depend on public works for the alleviation of unemployment in a time of distress, then it is not any solution at all, unless we have all of these steps completed and are ready to shoot the gun.

Is that correct, Mr. Chairman?

Representative KELLEY (presiding). I would say so, Mr. Talle. I would agree with that.

Mr. WHEATON. I would just like to say in the fields of housing the comparable times are 3 years for housing and 5 years for redevelopment projects. This means you have to have a program in operation with more than 5 years of programing in the works if you want to have something that can be telescoped at any one time and concentrated to meet local unemployment situations. It is for that reason that I believe that we have to have a large going program and a rather steadily expanding program to meet our actual needs, as well as to create this kind of a reservoir that Mr. Talle is speaking of, which is a reservoir of live, active programs, rather than a reservoir of dead fish.

Mr. CARR. Mr. Chairman, I wonder if I might just follow that up on a closely comparable matter, the building of schools, about which I spoke this morning. We do not have to wait, I am sure nobody intends that we should wait, until people are unemployed to build schools. The reason for building schools is to educate children, primarily, and only incidentally, if it is so at all, to take care of unemployment. From the evidence I presented this morning, I think it is clear enough that we need the schools.

Because we were under a time limit this morning, I did not make the point which I would like to make now. We not only need the schools in many communities and States of this country, but the study to which I referred shows quite clearly that under existing circumstances they cannot be built with State and local funds, because those funds are already committed. Communities have reached the legal limit of their borrowing and of their current revenues for construction purposes.

You asked, Mr. Kelley, why there is so little interest in a program of Federal matching grants for use in local and State public works. I cannot answer the question as to why there is so little, but I would like to express the hope that there will be a great deal of interest in it, particularly from the point of view of schools.

We are all looking forward to the message which President Eisenhower will send to Congress on the construction of schools in the very near future and hoping that it will contain some of these provisions for matching grants to which you referred.

Representative TALLE. It looks as if we are in a pretty bad situation, then, because if the States and local communities have such ceilings and the Federal Government also has a ceiling—its debt limit—we cannot do anything more than we are doing.

Mr. CARR. I still believe in our country and its wealth. We are going to find a way to provide good schools for our children. I just think that Congress is going to do that.

Representative TALLE. Oh, I want education for our children, believe me, I do, but you see what the trouble is: The ceiling will have to be punctured by one or both.

Mr. CARR. I see that it involves some difficult choices.

Representative KELLEY. Senator Goldwater.

Senator GOLDWATER. In regard to what Mr. Carr is talking about, you might be interested in a study my staff has been carrying on, together with Health, Education, and Welfare, regarding available moneys, should the Government take action this year to provide them. We found—in fact, we did not have to look far—2,400 pieces of real estate in this country belonging to the Federal Government or commercially operated projects owned by the Federal Government that would produce $307 million a year on average school tax rates.

The question I have raised to HEW and to the administration is one of the possibility of the national parks, for instance, including in its budget an amount for lieu payments because you cannot tax Federal land. Then in defense areas where large defense plants have been built and immediately taken off the taxrolls and title put in the Government. The suggestion there has been either to return that property to the taxrolls or there, again, to let the Defense Department appropriate lieu amounts.

Now, $307 million is about two-thirds of what the Hill bill is asking. I do not think that is an adequate amount, but it is a large sum of money, and I just mention that to you so that you might pursue that further in your studies. But it has grown in this country to the point that it is dangerous. I do not like to see the Federal Government build schools when the local school districts can build them. But as you say, many of them are now to their bonded limit, and it is impossible for them to build more.

Mr. CARR. Thank you, sir.

Representative KELLEY. Mr. Curtis.

Representative CURTIS. Mr. Chairman, I would just like to comment, too. Of course, I realize, at least I hope I realize this tax problem, particularly with respect to the ability of the State and local governments to tax, but I cannot fail to compare the State and local debt in comparison with the Federal debt. When we talk about debt limitation, I was just looking at this chart very quickly on Government financing, 1954–55, the chart on page 201, total Federal, State, and local debt, and in 1932 the Federal debt was about equal to the State and local debt, about $18 billion apiece. In 1953 the local and State debt has only risen to about $32 billion, which is less than a 100-percent increase, from $18 billion to $32 billion, but the Federal debt has increased from about $18 billion to almost $300 billion, and I am well aware of this problem of local and State taxation. That is why we have this committee studying it, but I am impressed with the fact that somehow or other local and State communities, in my opinion, have not been sizing up to their job.

There has been this great tendency, and perhaps this is a political observation, although I do not mean it to be, a great tendency of going to the Federal Government, which will increase the Federal debt. It is bound to, unless we have the revenue, instead of trying to dig down and solve the thing locally.

Now in schools I recognize that we have got an added job. We do not have it in the environs of St. Louis, Mo., but we certainly do have it in the Ozarks, in Missouri and Arkansas, where the argument is you do not have the wealth in the community to solve that thing. But even in areas like around St. Louis, Mo., where, heaven knows, they have got the wealth, it seems to be an easy thing for people to let the Federal Government tax them, but they are not willing to vote bond issues for local matters when it is actually going to come out of their pockets in the same way. I do not know what the answer is unless people are going to pay a little more interest in their own communities.

Mr. CARR. Well, sir, I certainly agree that every locality should do everything it reasonably can to support its schools just as I agree that every locality should do what it can to build its streets and its roads and should not come flying into Washington every time it does not rain.

Representative CURTIS. Let me ask you this $64 question. Do you think they really have been doing that?

Mr. CARR. I do not think the American people at any level of government—Federal, State, or local—have supported their schools as much as they should.

Representative CURTIS. Of course, we get into this: Those who believe as I do, were very much concerned about keeping education within the control of the local communities and we know, as a matter of fact, that whenever you pay out funds, there is bound to be some restriction on the payment of those funds. That is why so many of us who all recognize the great need for education—I could not be more interested in it, having five children of my own—are deeply concerned about education, and feel it is a dangerous thing to get the money up here at the Federal level because we know that that is bound to bring some sort of control. That is one of our great jobs, I say, to try to get the proper solution to this dilemma.

Mr. CARR. I would not want, Mr. Chairman, to prolong this discussion. We took quite a while on irrigation. But maybe you would let me go into this educational question just a bit more. It is a big question, and I would like to say to Mr. Curtis and Mr. Talle——

Representative KELLEY. I think there is this matter of control. If the Government gets its nose under the tent, nobody knows how far it will go, although there has been great pressure put on the Members of Congress to do something on a Federal level to aid education.

Mr. CARR. Yes, sir; it was on that point that I wanted to speak, and as I was brief this morning, I will try to be brief this afternoon.

I want to say, in the first place, that I expressly do not wish to leave the impression that anybody who is against, or doubts the wisdom of, Federal support for education is thereby unfriendly to education. The gentlemen who have just recently spoken, and you, sir, have raised questions, and I do not interpret these honest questions as being in any sense unfriendly to the schools. I know they are not meant in that sense.

Now we have three questions here. I think I can express a viewpoint on one right after the other in a staccato fashion. First, the statement is made, and we have heard it many times, that if the Federal Government assists the schools, it will control them in some measure.

Representative KELLEY. Some day.

Mr. CARR. Some day. Rebuttal: The Federal Government has been assisting the land-grant colleges of the United States, which are educational institutions, with regular grants every year since the law was signed by Abraham Lincoln. When President Buchanan vetoed that law just before President Lincoln signed it, Mr. Buchanan, whose veto message is interesting, predicted the direst results, because he said the long hand of the Federal Government would be running our land-grant colleges.

Well, we have been giving money to them ever since then, nearly a hundred years, and I appeal to any president of any land-grant college as to whether the long arm of the Federal Government has dictated a single course or a single policy or limited the academic freedom. On the contrary, they have been free. So let's not make too quick a generalization that, under all circumstances, this kind of assistance involves Federal control. I think it would involve control under some circumstances, but I do believe the historical evidence will support me that control is not necessary.

Now, the second point, the question of whether it makes any difference whether money comes from the State or from the locality; they are both finding difficulty meeting their finances; they are both carrying debts. I think it does make a difference. I think the rapidly growing wealth of our country does not exist in the form of real property, and some of the other testimony this morning supports that. Real property limps along behind even when it is fully assessed. The tremendous explosive growth in the production of wealth in this country is such that if you are going to tap the real wealth of the country you cannot do it by taxing real property. You must tax other forms of wealth, particularly income, and if you tax income largely on the State level, you get the moving of industry from one State to another to avoid taxation, and all the other undesirable effects with which you are much more familiar than I am.

The instrument for reaching out to this real wealth is the Federal income-tax system and if we do not use that system to support our schools, you deny the schools a very significant share in the economic lifeblood of the country.

Third, may I just point out to the committee the inevitable results of matching, as applied to other activities than schools. If you have Federal matching for roads and Federal matching for X and Y and Z, but no Federal matching at all for school construction, you can see the inevitable result. The States are going to use their money to match the Federal Government in those areas where the Federal Government has decided to match. I greatly fear that this continued expansion of matching, if the schools are left out, is going to exclude our schools, and worse than that, is going to discriminate against our schools in the competition for economic support which goes on all of the time among all of the objects of government. I hope this has not been too long.

Representative KELLEY. Thank you very much.

Mr. FISHER. Mr. Chairman, I wanted to suggest, particularly in reference to a number of comments made to Mr. Talle, that in my opinion, the outlook for accelerating public works in time of recession or depression is not nearly so bleak as the general run of comments would perhaps lead you to think. I should say, first, that I take my general stand on the year-in-year-out steady pursuit and development of public works—resources, schools, highways, and so on—but then I must add that there still are, in my view, possibilities for acceleration that are not to be overlooked, and if they can be identified with care and if a state of rather total readiness can be created so that they may be engaged in very timely and prompt fashion, then they may serve to exercise quite a leavening effect when a recession comes upon us.

For example, it is perfectly clear that a vast urban renewal scheme or a tremendous multiple-purpose dam, reservoir, and power project, or a large program of school building, which may involve hundreds of structures, take some years to get under way. But I still feel quite strongly that it is possible to identify particular types of work which can be accelerated on as little as a 3-months' basis, provided people are willing and ready. For example, I think in the acceleration of channel dredging or smaller scale farm and forest conservation work this is true. I think that certain local public works, such as street extensions, sewer and water line extensions, the additions to school buildings, can be accelerated in timely fashion. While I would rely mainly upon a steady development of these programs, I think it is important to identify those works which can be accelerated quickly, not only to go as far as is sensible with the blueprints and specifications, but also with the financial preparations, the site acquisitions, and so on.

Every last ounce that can be got from public works to meet a depression situation should be got. I think this is an important point to bring out, lest it be overlooked. I am not sure that this helps very much in the coal areas of Pennsylvania, West Virginia, and Kentucky, where the problem, by and large, I believe, is not a business-cycle matter, but a chronic problem closely connected with the fortunes of the coal industry as it competes with oil and gas.

Representative KELLEY. Mechanization of mines.

Mr. FISHER. That is right. So I would not hold out any kind of temporary spurt in public works as a total solution to that problem. Even so, I think it is incumbent upon everyone to look them over most carefully, to try to see which particular public works might well exert a longtime effect upon the kind of problem that exists in these areas.

Representative TALLE. Mr. Chairman.

Representative KELLEY. Yes, Mr. Talle.

Representative TALLE. I think it would be fair to say, as far as school buildings are concerned, they would not be a very good illustration of something that would be done in time of depression, because there is a time when children must go to school. When a child is 6 years old, it should be in school, maybe at 5. But there are other worthwhile public works that could be carried on. Unfortunately, it takes such a long time to get ready to do them. Perhaps we can improve on that.

Senator GOLDWATER. Mr. Chairman, just to preface a question that I want to throw to the whole panel, and it does not need answering now, but sometime in the future it should have consideration. It has been my privilege to see the President's school plan, and I think it is the most workable, best approach to the school problem that I have seen yet. I know that the country will rally around it when it is presented next week. Mr. Fisher, together with the joint committee staff, I made a study last year of the effect of the public-works approach to the solving of unemployment, to the solving of recession or depression.

Of course, the only period we had to use was the period between 1932, 1933, and 1939, prior to the war, because that is the first time we made a real all-out effort to solve those problems in this country through Government expenditures.

A surprising number of things cropped up. One of them is this, and we keep forgetting this; in that 7-year period—mind you, this is for 7 years, and you won't believe it—but for 7 years our total Federal budget was $51 billion, and out of that $51 billion about twenty-five billion-plus dollars, just a little over 50 percent, went into the public-works approach and also CCC and the other things that we used during that period.

Now, the question that remains in my mind after studying that report is: Did we spend enough money? Did we spend it soon enough—because we still had terrific unemployment in 1939, after spending over 50 percent of the budget for 7 years in this public-works approach. The great question then that comes from all of this is if it was not enough and if it was not soon enough, but particularly if it was not enough, where could we today get 50 percent more in addition to the present Federal budget?

Now, there are a lot of questions in there, and I do not ask that they be answered now. You are interested and concerned with the public-works approach, and I think it is the duty of this committee to consider how much we can actually do with this approach.

I do not think it is right for us to fool the public, if we are fooling them. We may be telling them the truth. I do not think it is fair to say to the American people: Do not fear another depression, because the Federal Government can step right in with public works, if that is not true. If you would like a copy of basic table in that study, I will be very glad to send it to you.

It has left a lot of questions in my mind, and I think it has left a lot of questions in the staff's mind as to just the extent of effectiveness of the public-works program if it is effective.

Representative KELLEY. Would you wish to have Mr. Fisher supply that for the record?

Senator GOLDWATER. Yes; if he wants to and can get it in time. I think I know some of the answers he might give. I have a copy of the table here and I will put it in the record.

Representative KELLEY. Very well.

(The materials referred to are as follows (table supplied by Senator Coldwater for the record) :)

Total Federal Government receipts, expenditures, and budget surplus or deficit—and major direct Government expenditures to aid the economy, fiscal years 1933 through 1939 [1]

[Millions of dollars. On basis of daily Treasury statements (unrevised) adjusted to provide uniform classification of expenditures]

	1933	1934	1935	1936	1937	1938	1939
Total receipts	$2,079.7	$3,115.6	$3,800.5	$4,116.0	$5,028.8	$5,854.7	$5,164.8
Total expenditures excluding public debt retirements	3,863.5	6,011.1	7,009.9	8,665.6	8,177.4	7,238.8	8,707.1
Net surplus or deficit [2]	−1,783.8	−2,895.5	−3,209.4	−4,549.7	−3,148.6	−1,384.2	−3,542.3
Relief and work relief: [3]							
(a) Direct relief: Federal Emergency Relief Administration [4]	336.0	707.8	1,820.1	494.3	[5] 933.0	4.2	1.7
(b) Work relief:							
Civil Works Administration		805.1	11.3	.7	.3	.2	.2
Works Projects Administration and National Youth Administration				1,263.7	1,896.4	1,472.5	2,239.6
Civilian Conservation Corps	14.2	331.9	435.5	486.3	385.8	326.4	290.4
Total relief and work relief	350.2	1,844.9	2,267.0	2,245.0	2,281.6	1,803.2	2,531.9
Public works [6]	442.4	698.0	883.4	729.7	1,023.9	803.5	1,000.5
Aid to agriculture [7]	203.7	775.3	1,071.3	932.7	970.5	853.8	1,228.2
Total major direct Government expenditures to aid the economy	996.3	3,318.2	4,221.7	3,907.4	4,276.0	3,460.5	4,760.6

Total, 1933 through 1939:	
Relief and work relief	$13,323.8
Public works	5,581.4
Aid to agriculture	6,035.5
Total major direct Government expenditures to aid the economy	24,940.7

[1] Source: H. Doc. No. 505, 77th Cong., 2d sess., the Annual Report of the Secretary of the Treasury on the State of Finances, pp. 416, 417, and 476.

[2] Net surplus or deficit is before giving effect to expenditures for retirement of public debt, chargeable to sinking fund, etc.

[3] Does not include total expenditures from emergency appropriations and allocations to other departments and agencies. Such allocations totaled approximately $2 billion for the period 1933-39.

[4] Includes Reconstruction Finance Corporation loans and grants to States, municipalities, etc., for direct relief.

[5] Excess credits (deduct).

[6] Includes Public Roads Administration, forest roads and trails, Public Buildings Administration, Tennessee Valley Authority, reclamation projects, river and harbor work (including flood control), Public Works Administration (including administrative expenses), and U. S. Housing Authority.

[7] Includes agricultural adjustment program, Farm Credit Administration, Federal Farm Mortgage Corporation, Federal intermediate credit banks, Federal land banks, Farm Security Administration, Farm Tenant Act, Rural Electrification Administration, Federal Surplus Commodities Corporation 1938 to 1939, Commodity Credit Corporation, and Department of Agriculture. Department of Agriculture expenditures include aids for the benefit of the general public such as meat inspection and enforcement of the Food and Drug Act.

Comparison of present economic conditions to earlier dates

	1929	1932	1939	1949	1950	1954
Gross national product:						
1932=100 (current dollars)	[1] 178	[1] 100	[1] 157	[2] 447	[2] 454	[2 3] 618
1932=100 (1939 dollars)	[1] 139	[1] 100	[1] 147	[2] 232	[2] 239	[2 3] 282
Industrial production: 1932=100	[4] 171	[4] 100	[4] 159	[4] 292	[4] 292	[4] 362
Unemployment as percent of labor force: 1932=100	[1] 13	[1] 100	[1] 69	[4] 21	[4] 30	[5] 23
Per capita real disposable income: 1932=100	[1] 133	[1] 100	[1] 133	[2] 180	[2] 188	[2 3] 192

[1] Annual average.
[2] 1st quarter.
[3] Estimated.
[4] February figures.
[5] March figures.

REPLY TO SENATOR GOLDWATER'S QUESTION REGARDING PUBLIC WORKS DURING THE DEPRESSION OF THE 1930'S

The question which Senator Goldwater raises is intriguing and important, but one which can't be answered definitely. The question is, to what extent can public works be used to combat depression successfully; particularly, was the Government spending for this purpose during the depression of the 1930's helpful in restoring prosperity?

The statistics furnished me by the staff of the Joint Economic Committee show about $25 billion from 1933 through 1939 in major direct Government expenditures to aid the economy. This figure seems to be somewhat misleading since it includes a number of programs which probably would have been undertaken regardless of the depression, at least to a considerable extent. Among such programs were reclamation projects, river and harbor work (including flood control), public buildings, and even TVA and REA. Also, the agricultural adjustment program might have been launched without a catastrophic depression and resulted in substantial expenditures.

Although the point has remained in dispute, my own view is that Federal efforts to stimulate the economy generally by expenditures for relief, work relief, public works, and aids to agriculture during the period 1933 through 1939 were moderately successful. Relief and work-relief programs were expanded rapidly from 1933 to 1935; thereafter larger and more permanent construction projects became relatively more significant.

While the total of major direct Government expenditures to aid the economy increased by nearly 400 percent from 1933 to 1939, the corresponding increase in GNP was only about 50 percent in constant dollars. Industrial production rose nearly 60 percent and gross private domestic investments by nearly 500 percent. Total private construction increased nearly 250 percent; total public construction rose about 130 percent; personal-consumption expenditures went up one-third. Unemployment dropped by slightly more than one-fourth. While the rate of increase of these items was less than that of the major direct Government expenditures, the absolute amounts of increase in GNP, personal-consumption expenditures, and gross private investment were considerably larger than for the Government expenditures.

Those who expected an increase of a few billions of dollars in Government expenditures to convert a severely depressed economy to a highly prosperous one in the space of several years were disappointed. It took the massive defense and war expenditures following 1939 to do that. Nevertheless, there was a definite and fairly steady recovery following 1933, except for the sharp setback in 1938. It seems likely that Government expenditures to aid the economy were of some effect in the recovery, particularly in the maintenance of income and spending and hence on economic activity generally.

In the future, as for the past 15 years, there is a good prospect that major depressions can be avoided. We know more about the timing of monetary measures. Fiscal policy over which Government has some degree of control now has a large potential for business-cycle control. Public works, carefully selected, can help to offset business decline. Large-scale projects, slow in the planning, offer little for mild and short recessions such as those occurring in 1949–50 and 1953–53. Small-scale works such as upstream-flood protection, channel dredging, sewer and water lines, school additions, and forest roads and trails, if planned ahead and with financing and sites already provided for, can help to contain a recession. It is important not to exaggerate the possibilities in acceleration of public works to meet minor business setbacks.

Mr. AANDAHL. Mr. Chairman, I would like to make a further brief statement with respect to power. It throws some light on this question of Federal-local community relationships and it also relates to a question that was raised this morning on power shortage and what might need to be done to meet the power requirements of the American people.

In October 1954, the electric-generating capacity in the United States just went over the 100-million-kilowatt mark.

Representative CURTIS. What date was that, sir?

Mr. AANDAHL. That was in October, 1954. Our best estimates of the nationwide load was 79,400,000 kilowatts in November of 1954, and it was then estimated that the peak load in December would be 84 million. I haven't checked to see just where the actual December figure went to, but I presume it was very close to that amount. That means that in the United States at the present time we have a reserve generating capacity of somewhere between 16 and 19 percent. At the present time about 14 percent of the generating capacity is that which has been built by the Federal Government, and 86 percent has been built and is supplied by local entities, public and private, at the local level.

As far as we are able to determine, that reserve capacity of 16 to 19 percent is ample to safeguard the requirements of the American people and there is strong indication that local entities are ready and willing and eager to supply additional generating capacity as rapidly as it might be needed.

Now in the Pacific Northwest we find power region 7 as set up by the Federal Power Commission, and in that region where Federal power in the Bonneville area is 60 percent of the total power that is used, we have the lowest reserves. I do not mean to make that statement with the assumption that the reserves are the lowest there because the supply is coming in the most part from Federal sources, because we know that there has been defense industry shifted to the area and many other factors there, but it is an area in which the reserve of power, electric power, is the lowest.

A little better than a year ago, the Department of Interior took active steps to encourage a partnership program and that relieved the concern among local entities in the area, that if they went ahead with power installation, it might later be absorbed by the Federal Government. It recognized a responsibility at the local level, and shortly after that, the application of local entities, public and private, to the Federal Power Commission for license to put in hydroelectric developments in the rivers of the area equalled 4,150,000 kilowatts. About half the applications by public power at the local level and the other half by private utilities.

That information means to me that in this field of power, local entities are ready and willing to make the additional installations that are necessary and that the Federal Government, by just following a constructive program as far as water development is concerned with the development of power as it comes in conjunction with irrigation and flood control, can make a helpful contribution to the power needs, but doesn't need to take the responsibility of attempting to supply the full power needs of the area. That is what is involved in the partnership power policy that is being suggested and put into effect at the present time.

General Itschner.

OPENING STATEMENT OF BRIG. GEN. E. C. ITSCHNER, ASSISTANT CHIEF OF ENGINEERS FOR CIVIL WORKS, CORPS OF ENGINEERS, DEPARTMENT OF THE ARMY

General ITSCHNER. Mr. Chairman, I shall abbreviate my remarks. You have the longer printed statement before you.

Vice Chairman PATMAN. Yes; and it will go in the record as it is.

General ITSCHNER. However, I do think it would be well to describe the civil-works activities of the corps in order to provide a background for discussion and to present certain problems which are inherent in a program of this kind.

These works include the improvement of the Nation's rivers, lakes, and harbors for navigation, flood control, shore protection, and for related purposes such as water supply, pollution abatement, preservation of fish and wildlife, and notably for development of hydroelectric power.

At the present time the active authorized program has a total cost of $15.2 billion. Works with a cost of $3.1 billion are complete or essentially complete. Work under construction has a total cost of $5.6 billion and appropriations of about $2.4 billion will be required for completion. And authorized improvements with an estimated cost of $6.5 billion have not been started.

In addition, after review of the entire authorized program, the Corps of Engineers has classed over 400 projects with an estimated cost of $3.6 billion as inactive or deferred for further study.

Work under this program has been accomplished in recent years with annual appropriations of about $330 million for new construction. The President's budget for fiscal year 1956 contemplates construction expenditures of $397 million; an increase of about 20 percent. In addition about $100 million will be provided for maintenance and operation of completed works and for investigations.

During the past year 31 projects with an estimated total cost of $1.2 billion were placed in effective operation, either wholly or in part. These works involve: Provision of over 39 million acre-feet of storage; flood protection of over 4 million acres of land; installation of 803,000 kilowatts of power during the year.

One of the pertinent questions affecting water resources development in this country is in regard to the relative degree of Federal participation in this activity and as to how costs should be shared. We feel that the relative Federal-State-local interest and participation in water-resource development should be generally in accordance with the distribution of benefits and in accord with the character of the benefits.

This will vary according to various phases of water-resource development, and with regional needs. However, where different phases of water-resource development produce essentially the same result, the degree of Federal participation should be generally uniform.

The Federal interest in water-resource development generally will vary across a rather wide "spectrum." At one end would be a major improvement, such as the main protective system for the alluvial valley of the Mississippi, in which there is primary Federal interest and which may properly be undertaken wholly or largely at Federal cost. At the other end of the spectrum is the minor, local flood problem and improvement, where benefits will accrue to readily identifiable local beneficiaries.

Such work probably should be undertaken largely by States or local organizations. Between these extremes are intermediate cases where judgment and equity will indicate a variable sharing of cost depending on whether benefits are general and widespreal, or local and readily identified.

In brief, there should be greater non-Federal participation in water-resource development, but this participation should not be so great as to impede progress at a time when sound conservation and development of our water resources is more essential than ever before.

Another important question affecting this program concerns the procedure for planning for water-resource development. This should be accomplished by river basins or by appropriate related regions. The Federal Government should take the lead in planning, but States should participate actively. On the Federal side this planning should be carried out by the agencies concerned, or by groups of agencies where appropriate. The two interagency surveys of the Arkansas-White-Red River Basins and of the New York-New England area, both of which studies will be completed in the next few months, and in which the States are participating, may well be pioneer experience in such coordinated water-resource planning.

Federal participation in water-resource development is only one of many heavy demands upon the Treasury. Progress insofar as Federal participation is concerned must necessarily recognize budgetary ceilings and limitations. With limited funds, however, we must be selective and proceed first with those improvements most urgently needed and which will bring the greatest economic and social returns to the nation.

Vice Chairman PATMAN. Thank you very much, General. We will not interrogate you now until we hear from the other panel member who has not been heard from.

(General Itschner's prepared statement appears on p. 850.)

Vice Chairman PATMAN. Mr. Charles P. Lawrence, Jr., program analysis officer, Department of Health, Education, and Welfare. Mr. Lawrence.

STATEMENT OF CHARLES B. LAWRENCE, JR., PROGRAM ANALYSIS OFFICER, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Mr. LAWRENCE. Mr. Chairman, members of the committee, the Secretary of Health, Education, and Welfare has asked me to thank you for your invitation to appear before your comittee. She has expressed her regret at not being able to be here in person. The Department welcomes this opportunity to discuss with you the importance of public works in the development of the Nation's investments in health, education, and welfare.

These investments are important during peace or war, and in fact, provide a broad base for expansion of economic opportunity. Because of the necessary diversion of resources from civilian to defense requirements during the war years, many deficits have developed in our health and educational facilities to the tremendous task of overcoming those deficits. We must add the equally imposing task of building additional facilities for our rapidly growing population.

With respect to medical care facilities, services for the protection and improvement of the Nation's health require public works of many different types, including hospitals and outpatient departments, nursing homes, clinics for ambulatory patients, diagnostic and treatment centers, rehabilitation centers, and so forth. Huge unsatisfied needs for facilities in all these fields were built up during the war years. The programs of the Public Health Service of the Department of Health, Education, and Welfare have been aiding substantially in meeting the demands for medical care facilities, but many communities are not yet adequately supplied. The Congress in enacting the medical facilities Survey and Construction Act of 1954 at the President's recommendation reoriented the Federal Air Program. State surveys are now being initiated preparatory to the establishment of priorities and of plans for construction that will add to present medical care facilities.

There are now approximately 1,100,000 acceptable hospital beds of all types in the United States; 114,000 of these beds in nearly 2,400 projects have been provided with the aid of the hospital survey and construction program, chiefly in general hospitals.

We still need 838,000 additional hospital beds. Nearly half of these are needed in mental hospitals, and one-third in hospitals offering care for the chronically ill. General hospitals require about 200,000 additional beds.

Present evidence also indicates a need for about 200,000 additional beds in nursing homes, where skilled nursing care under medical supervision can be provided at a lower cost than is possible in hospitals. The demand for nursing-home care is steadily mounting, because of the increasing proportion of elderly people who are subject to more frequent and more prolonged illnesses. It is growing also because of changing conditions of family living, in limited quarters.

The ultimate health objective is to keep well people well. We now have available specialized knowledge and techniques for modern medical practice requiring more complex and expensive facilities which, except to a limited degree, are not generally available outside of major metropolitan centers. There is increasing recognition of the need for diagnostic and treatment centers. A minimum estimate of additional need for care in rehabilitation centers amounts to 12,000 additional patients treated annually.

In addition to the present backlog of unmet requirements, any appraisal of a future program involves an allowance for population growth, and for replacement of old and obsolete facilities. Now, need created by population growth, at a rate of 2.5 persons annually, will amount to 30,000 beds per year. About 22,000 beds each year will also be needed to take care of obsolescence. Our present backlog of needed hospital construction by currently accepted standards, is in the magnitude of $12 billion.

To meet all needs within a 10-year period (including backlog and new requirements) would require a level of construction in a magnitude of $1,700 million annually. The 1954 volume of all hospital construction nationally is $685 million. Of this total, about $135 million was constructed with the aid of Federal funds under the Hospital Survey and Construction Act. Federal funds amount to about one-third of the total aided construction work.

The President's special health message to the Congress on January 31 points to specific areas needing attention at this time and recommends a program for dealing with them.

(The message referred to follows:)

[H. Doc. No. 81, 84th Cong., 1st sess.]

RECOMMENDATIONS RELATIVE TO A HEALTH PROGRAM—MESSAGE FROM THE PRESIDENT OF THE UNITED STATES TRANSMITTING RECOMMENDATIONS RELATIVE TO A HEALTH PROGRAM

To the Congress of the United States:

Because the strength of our Nation is in its people, their good health is a proper national concern; healthy Americans live more rewarding, more productive, and happier lives. Fortunately, the Nation continues its advance in bettering the health of all its people.

Deaths from infectious diseases have diminished. During the past year, important progress has been made in dealing with such diseases as rheumatic fever, high blood pressure, poliomyelitis, and tuberculosis. Intensified research has produced more knowledge than ever before about the scourges of heart disease and cancer.

The 83d Congress, during the last legislative session, supported dramatic new strides in vocational rehabilitation. By 1959, consequently, we should be restoring to useful lives most persons who become disabled and who can be rehabilitated and returned to employment. In human terms, this will be a heartwarming achievement.

The 1954 amendments to the Hospital Survey and Construction Act opened another new chapter in the national drive for better health. Under these amendments, further provision was made to help build health care facilities for the chronically ill; to aid in the construction of nursing and convalescent homes; to provide for more diagnostic and treatment centers for patients who do not need hospital care; and to help make centers available for the rehabilitation of the disabled.

These achievements represent a major gain for the immediate and future welfare of countless Americans—in the health of both mind and body. Recent advances do not, however, represent our full capacity to wage war on illness and disability throughout the land.

THE IMMEDIATE NEEDS

As a Nation, we are doing less than now lies within our power to reduce the impact of disease. Many of our fellow Americans cannot afford to pay the costs of medical care when it is needed, and they are not protected by adequate health insurance. Too frequently the local hospitals, clinics, or nursing homes required for the prevention, diagnosis, and treatment of disease either do not exist or are badly out of date. Finally, there are critical shortages of the trained personnel required to study, prevent, treat, and control disease.

The specific recommendations that follow are designed to meet this threefold deficiency.

MEETING THE COSTS OF MEDICAL CARE

For most Americans, insurance—private, voluntary insurance—provides a sound and effective method of meeting unexpected hazards which may be beyond the capacity of the individual to bear. Risk sharing through group action is in the best tradition of vigorous and imaginative American enterprise.

The Government should cooperate with, and encourage, private carriers in the improvement of health insurance. Moreover, a great many people who are not now covered can be given its protection, particularly in rural areas where group enrollment is at present difficult.

Existing health insurance can also be improved by expanding the scope of the benefits provided. Not all private expenditures for medical care can or should be covered by insurance; nevertheless, many policies offered today are too limited in scope. They are principally for hospitalized illness and for relatively short periods of time.

I recommend, consequently, the establishment of a Federal health reinsurance service to encourage private health insurance organizations in offering broader benefits to insured individuals and families and coverage to more people.

In addition, to improve medical care for the aged, the blind, dependent children, and the permanently and totally disabled who are public assistance recipients, I recommend the authorization of limited Federal grants to match State and local expenditures.

Reinsurance

The purpose of the reinsurance proposal is to furnish a system for broad sharing among health insurance organizations of the risks of experimentation. A system of this sort will give an incentive to the improvement of existing health insurance plans. It will encourage private, voluntary health insurance organizations to provide better protection—particularly against expensive illness—for those who now are insured against some of the financial hazards of illness. Reinsurance will also help to stimulate extension of private voluntary health insurance plans to millions of additional people who do not now have, but who could afford to purchase, health insurance.

The Department of Health, Education, and Welfare has been working with specialists from the insurance industry, with experts from the health professions, and with many other interested citizens, in its effort to perfect a sound reinsurance program—a program which involves no Government subsidy and no Government competition with private insurance carriers. The time has come to put such a program to work for the American people.

I urge the Congress to launch the reinsurance service this year by authorizing a reasonable capital fund and by providing for its use as necessary to reinsure three broad areas for expansion in private voluntary health insurance:

1. Health insurance plans providing protection against the high costs of severe or prolonged illness;
2. Health insurance plans providing coverage for individuals and families in predominantly rural areas;
3. Health insurance plans designed primarily for coverage of individuals and families of average or lower income against medical care costs in the home and physician's office as well as in the hospital.

Medical care for public assistance recipients

Nearly 5 million persons in the United States are now receiving public assistance under State programs aided by Federal grants. Present arrangements for their medical care, however, are far from adequate. Special provision for improving health services for these needy persons must be made.

I recommend to the Congress, therefore, that it authorize separate Federal matching of State and local expenditures for the medical care needed by public assistance recipients. The separate matching should apply to each of the four federally aided categories: the aged, the permanently and totally disabled, the blind, and children deprived of parental care.

STIMULATING THE CONSTRUCTION OF HEALTH FACILITIES

Many communities in the United States today lack the hospitals, clinics, nursing homes, and other modern technical facilities required for the protection of the people's health. In other communities, structures are antiquated or otherwise deficient in construction or equipment.

Present methods of financing are not always satisfactory in meeting this problem. Many sponsors and operators are unable to qualify for grants under the recently extended Hospital Survey and Construction Act. Sponsors of health facilities often find it difficult to obtain private capital for construction.

In other fields, Government-insured loans have consistently helped produce the new construction required in the urgent national interests. The tested procedures developed by such successful Government guaranty programs as these should now be used to stimulate construction of additional health facilities.

I recommend, therefore, that the Congress authorize the Secretary of Health, Education, and Welfare to insure, for a small premium, mortgage loans made by private lending intitutions for the construction of health facilities.

The continuing responsibility of the mortgagor and of the lending institution should be preserved by limiting the insurance to less than the face amount of the loan and by requiring that a mortgage loan, to be eligible for insurance, must be for less than the full value of the property. The authorizing legislation should, of course, include any needed safeguards against the encouragement of substandard or unsound projects.

HEALTH PERSONNEL NEEDS

Whether we look at health problems in terms of services for the community or for the individual—at problems of research, prevention, or treatment of disease—we find that supplies of trained personnel are critically short.

The administration's legislative program for this year therefore contains proposals addressed to crucial areas of personnel shortages. These particular areas, moreover, hold the key to other possible advances and improvements in health programs.

Two proposals are aimed at shortages in nurse personnel: First, I recommend a 5-year program of grants to State vocational-education agencies for training practical nurses. Second, I recommend an expansion of Public Health Service operations to establish traineeships for graduate nurses in specialties such as nursing service administration, teaching, and research.

In addition, my recommendations for the revision of the present public health grant programs include authority for the establishment of traineeships in all public health specialties, including mental health.

PUBLIC HEALTH PROGRAMS

The Public Health Service, the Children's Bureau of the Social Security Administration, and the Food and Drug Administration are skilled and vigilant guardians of our Nation's health. All three of these agencies should be strengthened, and the programs of the Public Health Service and the Children's Bureau for aiding State health activities made more responsive to changes in State and local health needs. To this end, I urge the Congress to take the following steps:

1. Improve present grant-in-aid programs providing services for mothers, for crippled children, and for children requiring special health services. Separate funds should be provided for extension and improvement of these activities and for special projects designed to develop improved medical care techniques both for mothers and for children.

2. Permit greater flexibility in the use by the States of Federal grant funds for public health services. The States could adapt their programs more effectively to their own needs if the separate Public Health Service grants were combined into a single, unified grant-in-aid structure. In addition, separate funds should be provided for extension and improvement of existing public health programs and for special projects looking to the development of improved techniques.

3. Step up research on air pollution. As a result of industrial growth and urban development, the atmosphere over some population centers may be approaching the limit of its ability to absorb air pollutants with safety to health. I am recommending an increased appropriation to the Public Health Service for studies seeking necessary scientific data and more effective methods of control.

4. Provide greater assistance to the States for water pollution control programs. As our population grows, and demands for water increase, and as the use of chemicals expands, our water supply problems become more acute. Intensified research in water pollution problems is needed as well as continuing authority for the Public Health Service to deal with these matters. The present Water Pollution Control Act expires on June 30, 1956. This termination date should be removed and the act should be strengthened.

5. Authorize the Public Health Service to establish traineeships for both graduate and specialized training in public health in order to increase the numbers of trained personnel.

6. Strengthen the Public Health Service commissioned corps by improving its status and its survivor benefits.

MENTAL HEALTH

Care for the mentally ill presents a special set of problems.

Only in the past few decades have we, as a people, begun to regard mental and emotional disorders as capable of specific diagnosis, alleviation, cure, and rehabilitation. We now know that effective preventive and control programs are possible in the field of mental health.

I recommend, therefore, new and intensified measures in our attack on mental illness. These are:

1. Strengthening of present aid to State and community programs for the early detection, control, and alleviation of mental and emotional derangements;

2. Increased budgetary support for training activities which are now authorized, so as to increase the number of qualified personnel available for care of mental patients; and

3. Authorization of a new program of mental health project grants. Such projects would aim at improving the quality of care in mental institutions and

the administration of the institutions themselves. They would also search out ways of reducing the length of stay and the necessity of institutional care in as many cases as possible.

JUVENILE DELINQUENCY

As a vital part of our attack on a serious health and social problem, I also recommend new grants to the States to enable them to strengthen and improve their programs and services for the prevention, diagnosis, and treatment of delinquency in youth. There should be assistance for State planning, for coordination of all State and local agencies concerned with juvenile delinquency, for training of personnel, and for special research and demonstration projects.

INTERNATIONAL ASPECTS OF HEALTH

For half of mankind, disease and disability are a normal condition of life. This incalculable burden not only causes poverty and distress, and impedes economic development, but provides a fertile field for the spread of communism.

The World Health Organization of the United Nations is exerting forceful leadership in a cooperative worldwide movement toward better health. Its program merits adequate and growing financial support on the part of the United States. Our contribution to the World Health Organization should be raised, so that the effort to release men from the bondage of disease through international cooperation may be increased.

These recommendations to the Congress represent a broad and coordinated offensive against many of the problems which must be solved if we are to have better health for a stronger America. All the proposals recognize the primacy of local and State responsibility for the health of the community. They encourage private effort, with private funds. With the cooperation of the States and the medical profession, they can form the basis for better health for all.

DWIGHT D. EISENHOWER.

THE WHITE HOUSE,
January 31, 1955.

With respect to water and water pollution control works, water is a primary natural resource. The changes wrought in our national life would have had important consequences for water uses. Intensified and accelerated industrial growth and further urbanization of an enlarged population have increased the need for water, for water-pollution control, and for reuse of water. Long-term economic growth is dependent on safeguarding the Nation's water resources and facilitating reuse. This department is vitally concerned with water supply and waste-treatment works because of the close relationship between water and health.

While progress has been made in developing municipal water systems, providing sewers, and reducing pollution, we must not lose sight of the fact that the fight against disease arising from insanitary conditions is a continuing one. Our protective pattern must be maintained and enforced. Much work remains to be done. Especially is this true because of the increased production and use of chemicals and the complex wastes which are being discharged into streams.

The primary responsibility for furnishing municipal water supply and sewerage facilities rests with the community, aided and guided by the State health department. The Department of Health, Education, and Welfare, through the Public Health Service, works with the States, with interstate agencies, and with others in developing and implementing pollution-control programs on a watershed basis. State programs are developed and strengthened through Federal support. The Public Health Service activity places emphasis on research, technical consultation, and limited enforcement activities on interstate pollution problems.

Of our 12,000 sewer systems, only slightly over 7,000 have adequate treatment. Of the nearly 100 million persons served by sewers, only some 60 million are served by adequate treatment facilities. In addition, there are some 10,400 industrial plants which are not served by municipal sewers that discharge production wastes into our natural water bodies.

As the Economic Report of the President pointed out last year, an annual expenditure of $1,800 million would be necessary for 5 years to meet the backlog of needs for municipal sewerage and industrial waste facilities, as well as to provide for current population growth. The current rate of expenditure is about $600 million.

In the field of water supply, the Department is also working with State agencies through research programs and by furnishing technical assistance and consultation.

An increasing number of cities each year are experiencing water shortages. The shortages are often deterrents to economic growth. During the past decade municipal water supply capacity for domestic and industrial use has been expanded at the rate of 2 to 3 percent annually. Population growth, increased consumption per capita, and greater industrial requirements have increased the demand for water by 5 percent annually. Current expenditures for water-supply construction are $500 million annually, which is only enough to meet immediate urgent needs. To eliminate the backlog of needs, again assuming a 5-year period, would require an annual expenditure of $1,200 million annually.

The President in his January 31 health message to the Congress urged the amendment of the Water Pollution Control Act of 1948 to provide a continuing legislative base for Federal water pollution control activities. The basic principal of State responsibility would be maintained and strengthened. The recommendations, furthermore, would broaden Federal research activity, technical consultation, and support of State programs by grants-in-aid. Technical assistance would include studies and consultation on fiscal problems and local governments involved in financing the construction of abatement works.

Education facilities: In education, during the war years little was added to our school-plant inventory. Lowered maintenance standards often accelerated deterioration and obsolescence and intensified our problems of classroom deficits, overcrowding multishifting and the use of temporary and sometimes highly unsatisfactory accommodations. Increased enrollment resulting from higher birthrates following World War II, when added to the existing deficits, has created an inescapable demands for school construction. Some assistance in federally affected areas has been given by the Federal Government, but the major effort has been State and local where responsibility traditionally has been placed. The effort has in fact been outstanding.

The financing of school construction has been undertaken largely by State and local governments through bond issues. Despite the new highs in financing volume during 1954, interest rates have been low. This favorable market condition has benefited many school districts and has offset to some extent the rising level of construction costs. Some communities, of course, have been unable to undertake construction because of tax or debt limits, lack of local resources, or other conditions affecting their financial ability. This was specifically pointed out in the Economic Report of the President.

The President has announced that he will shortly send a special message to the Congress dealing specifically with the problem of classroom shortages.

(See p. 852.)

The Economic Report of the President devotes a section to coordination of public works and recommends the establishment of an Office of Coordinator of Public Works Planning within the Executive Office of the President. Continuity in assistance to States and municipalities for advance planning is also recommended. Such measures while helpful in good times, can have special significance if expansion of public works is needed as an economic measure. The concept of continuity in advance planning assistance to the States and localities is important. Under the Hospital Survey and Construction Act, surveys of State needs and the preparation of plans to meet them have been an integral part of the long-range program. As related above, State surveys are now proceeding for new types of facilities under expanded legislative authority.

Vice Chairman PATMAN. Thank you, sir. Senator Goldwater, would you like to ask any questions?

Senator GOLDWATER. No, I have no questions.

Vice Chairman PATMAN. Mr. Curtis, would you like to ask some questions?

Representative CURTIS. I would just like to ask one question of General Itschner. On page 4, you made this statement, General, and I just wanted to understand what you meant:

> In brief there should be greater non-Federal participation in water resource development, but this participation should not be so great as to impede progress at a time when sound conservation and development of our water resources is more essential than ever before.

By that you don't mean to imply that non-Federal participation would not be along the lines of sound conservation and development and yet it reads that way.

General ITSCHNER. It would not if it were in a proper amount depending on the particular case.

Representative CURTIS. Why would the size make a difference? What difference would it make whether there was greater non-Federal participation or less?

General ITSCHNER. I am afraid if the percentage of Federal contribution were much less, many projects would not be constructed. The statement was really aimed at planning for water-resource development. We feel that for certain types of projects there should be no local participation. In other types of projects there should be very substantial local participation.

Representative CURTIS. But you seem to imply in this statement that non-Federal participation, if it were of a certain size, would impede progress as far as sound conservation is concerned.

That is why I am puzzled, that you should feel that way.

General ITSCHNER. We do feel that the actual non-Federal participation in a going project, regardless of magnitude, would, of course, not influence the result.

But if it were planned so that the non-Federal participation were too great in certain types of projects, we believe that those types of projects would not in fact be constructed.

Representative CURTIS. It would be poor planning.

General ITSCHNER. It merely had in mind the planning phases at that time. During the planning phase, if the participation would not interests were too great, we feel certain types of projects would not be constructed.

Representative CURTIS. And, Mr. Chairman, one question of Mr. Lawrence.

You mention this hospital construction needs and what we would have to do over a 10-year period. Even if you fulfill these construction requirements, would we have the medical and nursing staffs available to properly staff those additional hospital beds?

Mr. LAWRENCE. At our present rate of construction, of course, that is not as serious a problem as if we were able to supply all of these needs as the various surveys have indicated. There is a severe shortage, certainly.

Representative CURTIS. The question, of course, would be this: Are we limited really in the amount of money that we are setting aside for construction or is the limitation rather on the nursing and medical staff that will be necessary? There could be a limitation on either side, couldn't there?

Mr. LAWRENCE. I think your question is very pertinent, sir, and it applies not only in this field but in many other fields as well.

Representative CURTIS. In other words, we could get ahead of our construction and not have the personnel to properly handle the facilities?

Mr. LAWRENCE. It is hoped, of course, that attention in this field will be given. It may be noted that about 20 percent of all the Hill-Burton dollars has gone into teaching institutions since the program started in 1946. That is 20 percent of $2 billion. This has been for the purpose of supplying personnel for the hospitals being built. It would have to be assumed that in a public-works program an appropriate amount would go to teaching institutions to help keep the situation of supply and demand for hospital facility personnel in balance.

Vice Chairman PATMAN. Dr. Talle, would you like to ask any questions?

Representative TALLE. Mr. Chairman, I do not want to ask any, but I just want to make a brief statement.

Vice Chairman PATMAN. Certainly, sir.

Representative TALLE. I am reminded of what President Eisenhower said during Education Week. I think the heart of the matter was that we should encourage scientists to do special work in our country, and that relates to this specific point that Dr. Renee mentioned this morning about new use for coal. That is an illustration of what can be done. Finally, I want to thank all of you who have participated in this panel discussion. You have been very helpful to the committee.

Vice CHAIRMAN PATMAN. You bring up an interesting point. Do you think from the Government there should be scholarships to certain deserving students who have demonstrated their ability and intelligence, but who do not have the means to secure a college education?

Representative TALLE. My curbstone answer to that is "Yes." I would favor encouraging that on an individual basis.

Vice Chairman PATMAN. Something along that line.

Representative TALLE. That is right. I would not name specific institutions or colleges.

Vice Chairman PATMAN. That is right.

Representative TALLE. I would let it be on an individual basis.

Vice Chairman PATMAN. Dr. Renne, would you like to comment on that?

Mr. RENNE. Well, the best statistics that are available indicate that about half of those who are competent to carry college work, about half really go to college, but a very sizable proportion, better than one-fourth of the top, in terms of brain power, or I. Q. do not get to college or university, primarily because of financial resources, and it would seem to us that this is one of our most important resources, and if some way could be worked out whereby the individual student who does have the ability could see his way clear financially or be stimulated by the honor which is associated with awards—and, after all, the awards are very limited in terms of numbers—we would not lose this high proportion of human ability which we are now losing.

Vice Chairman PATMAN. In other words, that is a great waste for our Nation.

Mr. RENNE. It seems to me it is.

Vice Chairman PATMAN. One of our greatest, and in a democracy we should certainly encourage things like that.

Mr. RENNE. I would say so.

Representative TALLE. Mr. Chairman, my attention has thus been called to a study prepared for the Committee on the Economic Report by the Legislative Reference Service of the Library of Congress, which I want to say, for myself, is a remarkable agency, a very helpful agency. The title of this study is "Trends in Economic Growth," a comparison of the Western and the Soviet bloc (83d Cong., 2d sess., joint committee print) and I should like to quote a sentence on page 5:

> It is important that the Western countries intensify their efforts in the field of education. The more immediate need is to train adequate numbers of scientists, engineers, and technicians. In the longer run it is essential to keep raising the level of general education.

I feel there is nothing that is really progressive except the human mind and I think the human mind should be trained.

Vice Chairman PATMAN. Thank you, Mr. Talle.

The hour is getting late. Did you want to ask some questions?

Representative CURTIS. I would like to ask a couple of questions of Mr. Olds, if I might.

Vice Chairman PATMAN. Go right ahead.

Representative CURTIS. First I want to apologize for not having been here this morning when Mr. Olds was testifying, but I have read his statement, and first I would like to comment. You are an advocate of public power, I would take it?

Mr. OLDS. I am an advocate of a combination of public and private power, in which there is sufficient public and cooperative competition to supplement the private power and keep private power systems on their toes.

Representative CURTIS. But in the popular concept you would be one who is regarded as a "public power" advocate as opposed to one in popular concept as a "private power" advocate. I interpret that from your statement.

Mr. OLDS. I think that interpretation is generally placed on what I say. I wanted to make it clear, though, that I am not an advocate of all public power.

Representative CURTIS. Now, I was interested in your first sentence where you say:

The Economic Report of the President is completely lacking in recommendations with regard to electric power—

Now, of course, if you are a public power advocate, I could see why you would conclude that. But being a private power advocate, as I am, I think it is full of recommendations.

Now, going on to the rest of your comment—

or recognition of the part played by ample supplies of low-cost electricity in an expanding economy with provision for defense.

Now, I would say, sir, that I think the President's report, talking for myself as a private power advocate, that you and I and the President's report are all concerned about an ample supply of low-cost electricity for an expanding economy and for defense. Our disagreements are not in what you want to achieve. Our disagreements are in how you achieve it.

Throughout your statement you beg the question. You just assume by having the Government do this and that and not have private enterprise that thereby you will get more supplies of low-cost electricity, and it is perfectly all right for you to argue that, but to assume here that those who disagree with your procedures and methods are not equally interested in the objective is what disturbs me.

Do you not think that this objective is in the mind of the President and those who advocate this new power policy which you suggest, incidentally, on the second page where you say that—

the Economic Report apparently takes some pride in the administration's reversal of the power policy of the last 25 years—

I would not say that was just apparent. They do. And there is no hiding of this thing that this is a reversal, and that we think that the procedures before were wrong.

So we should get down to the arguments of the thing and not as to whose motives are the correct ones, because I think our motives are identical. We both want ample supplies of low-cost electricity in an expanding economy, with provisions for defense. Now, will you not grant us that same motive?

Mr. OLDS. I will grant you the motive but not necessarily the wisdom in the choice of means.

Representative CURTIS. Exactly. The argument lies in the wisdom of the means, does it not?

Mr. OLDS. May I answer your question?

Representative CURTIS. Let me ask you that one thing. I want to pin you down.

Mr. OLDS. As far as the President's Economic Report is concerned, there are no recommendations in it whatsoever that apply to power.

You can look at the list of recommendations. I have them here as they have been mimeographed by somebody.

Representative CURTIS. I think one of the basic recommendations lies in this relationship of the Federal Government's position, the local and State governments' position, and the position of private enterprise, and therein lies the solution as to how we think maybe we can get more ample supplies of low-cost electricity and also provide for defense.

Now, you disagree with the means and the wisdom of it, which is perfectly all right. But if we will confine ourselves to that, then I can go on to a discussion of some of the suggestions here.

Mr. OLDS. I just want to point out that as far as the recommendations of the report are concerned, they do not concern themselves with power.

Representative CURTIS. Possibly not in so many words, but there is no question that you derived the proper meaning because you yourself have said the Economic Report "apparently takes some pride in the administration's reversal of the power policy of the last 25 years."

Now, if it does not say anything about it, how could you yourself conclude that there is a reversal of policy?

Mr. OLDS. I had to read between the lines in the report. The report talks about a change in partnership without mentioning the fact that that applies specifically to power.

Representative CURTIS. Well, it applies to many things, and power is one of them. Because it applies to a great many things that have been going on and that, too, is a reversal of policy, I might state.

But let us go on, if we may, to some of the specific points that you bring out. In the next paragraph you state:

> The report fails to recognize that the electric power field is one in which the proved shortsightedness of private monopoly can result in seriously retarding the vigorous economic growth which the report offers as the best way to avoid recessions.

Now, throughout there you have made statements like that. Now, where do you feel that there has been a proved shortsightedness? Who proved it and to whom was it proved?

Mr. OLDS. I am glad you raised the question. The shortness of the statement prevented me from introducing into the statement the proof. I am going to state at least two instances of proof.

In the first place, when the Federal Government, when the Congress was considering the legislation which created the TVA——

Representative CURTIS. That was back in——

Mr. OLDS. 1933.

Representative CURTIS. You mean what finally culminated?

Mr. OLDS. The final discussion. Witnesses appeared on behalf of the Commonwealth and Southern System, which was the system of operating companies down in the States of Tennessee, Alabama, Georgia, and Mississippi——

Representative CURTIS. May we get one thing straight: There was no power provision in the original TVA Act; am I right?

Mr. OLDS. No, sir; I am afraid you are not correct. One of the main purposes of the TVA Act was to provide a basis for the development of hydroelectric resources of the Tennessee Basin, and there are very definite provisions in the act for marketing that power in such a way as to encourage municipal and cooperative distribution of the power.

Representative CURTIS. My understanding was that it was originally to control navigation on a navigable stream and the power was incidental; is that right?

Mr. OLDS. Well, it was called incidental.

Representative CURTIS. That is what we are talking about. It was. Do not just say "called."

Mr. OLDS. The provisions of the TVA Act, the Norris bill, which became the TVA Act, was definitely pointed at the hydroelectric resources and its distribution under conditions which were designed to encourage general economic development in the basin.

Representative CURTIS. But was not the power aspect incidental to the flood control and the navigation features? That is the point, because after all the Federal Government—at that time the theory of constitutional law was based on that.

Mr. OLDS. There was a legal use of that phrase, but the fact is that the law was essentially to provide for the power development of that area.

Representative CURTIS. That is your interpretation.

Vice Chairman PATMAN. Mr. Curtis, would you pardon me just for a brief reference? I might help you on that.

Representative Alman from Alabama was here when I came to Congress in 1928, when I was elected to Congress, and he was working on the Muscle Shoals project and had been for a number of years. That was the beginning of TVA, and a few years preceding that Thomas Edison and Henry Ford and two of the tire manufacturers were on a trip and they went by Muscle Shoals. There is where Henry Ford gave out that statement that is still quoted about the Government should issue noninterest-bearing bonds and develop the electric there and pay it off in the manner that I suggested this morning about the payment of these road bonds. So I think you will find that it started with Muscle Shoals and electricity was one of the main things.

Representative CURTIS. I think that is a very basic source of disagreement in the beginning, but for the sake of Mr. Olds' statement I will grant him that he believes that. I disagree with you. But he certainly can go ahead with his belief. I go along with him. I figure it was incidental and it had to be incidental or there would have been no authority.

Mr. OLDS. I suggest, Mr. Congressman, that you read the debates in Congress at the time the bill was under consideration.

Representative CURTIS. I have, sir. We have both studied it and we disagree. I hope we are both honest people and can have disagreements.

Mr. OLDS. At least the representatives of the power companies there interpreted the bill as proposing to develop the power resources of the Tennessee Basin and in so interpreting it they took the position that that power would not be needed in the Tennessee Valley area.

Mr. Yates, who is now president of the Southern Co. and a partner of the Dixon-Yates contract which some of us have heard about in testifying before the House Military Affairs Committee on the TVA bill, took the position that there was no need for the power development in the Tennessee River as was proposed in the bill.

Representative CURTIS. Wait a second. If we are going to go back to 1934 I am not so much interested in the history. I thought your statement that I was calling to your attention had something to do with present times, not perhaps 1934. The electric-power field was one in which the proved shortsightedness of private monopoly can result—you are referring back to 1934.

Is there anything within the past 10 years that you feel indicates shortsightedness on the part, and, of course, you use the term "private monopoly" throughout your statement as an epithet rather than as a descriptive term, I am afraid. But you mean the private-power companies.

Mr. OLDS. Which are recognized under the law in general as natural monopolies in their fields of distribution.

Representative CURTIS. Natural monopolies developed and operated under the control of the public service commissions of the various States, and in a certain respect there is a type of competition because there are so many of them there in the broad field of private power, many, many different operations under different controls, although in a given area they are, of course, not competing. But referring to the past 10 years, do you feel that our present power companies have had shortsightedness, in view of the figures I have heard here where 86 percent of the power in this country comes from private concerns, and only 14 percent from Government?

Mr. OLDS. Only 14 percent from Federal Government.

Representative CURTIS. I beg your pardon.

Mr. OLDS. But the point I am emphasizing, Mr. Congressman, is the fact that the more important influence in the last 20 or 25 years in the power industry has been the influence of public competition.

Representative CURTIS. That is your feeling.

Mr. OLDS. Just in these terms that you are raising the question. If you will just let me finish my answer, I will try to illustrate.

I would like to point out the fact that although the power companies in the region where the TVA was coming into being indicated that there was no need for the power, the facts are that between 1933 and 1952, the period covered by the activities of the Tennessee Valley Authority, whereas the area served by the Tennessee Valley Authority experienced a growth of about 500 percent in the capacity to meet the power requirements——

Representative CURTIS. Just a moment. We are talking about trends and what happened. I might say to you to illustrate what I do not like in your comment, that on our farm up in Michigan, we had rural electrification in 1928 or 1929 from a private power company. It was just the beginning in those periods of the development of power in this country. Electricity had not been in this country too long, and certainly——

Mr. OLDS. Only since 1882.

Representative CURTIS. Well, that is not long. That is not long in these trends in development of the techniques, and so forth, of that industry. The automobile, I would say, is a very recent industry, and TV is a very recent industry, so in order to be fair in judging these things we have to recognize that there was a normal growth, a tremendous normal growth that was going to go on in that particular field regardless of how it was handled, whether it was private or public or a combination or what, and as students—and I hope we are students here—as students, what we would say would not be to take credit for all of the growth that occurred and say that that was because we did it this way. As students, we should think back if we had done it differently, would we have had the same amount of growth, would we have had more or would we have had less, and if you would discuss it from that standpoint, it would make a lot more sense to me.

Mr. OLDS. I was trying to.

Representative CURTIS. All right.

Mr. OLDS. I suggested that the growth as far as the Tennessee Valley area itself was concerned was 500 percent in that interval.

Representative CURTIS. What do you think it might have been had it been left to the resources of private enterprise and the States and local governments?

Mr. OLDS. The point I am trying to make is not associated with that particular 500 percent, but with the fact that in the 8 States adjoining the Tennessee Valley area the growth was 200 percent, as compared with a growth of 91 percent for the companies outside the influence of the Tennessee Valley Authority.

In other words, you have three growth figures, and I can give you a fourth one. A growth of 500 percent in the area served by the Tennessee Valley Authority. In the same period, a growth of 200 percent in the 8 States related in that general area.

Representative CURTIS. And the growth was what from the original beginning? That becomes important.

Mr. OLDS. I can put the figures in the record.

Representative CURTIS. You see, it has to be in relation to something. Did they both start from the same level?

Mr. OLDS. We are starting from a 100 percent level at the time TVA was created.

Representative CURTIS. In other words, there was the same amount of power in the Tennessee Valley as in the areas immediately outside?

Mr. OLDS. I am talking about rates of growth.

Representative CURTIS. I am, too, and I am talking about whether you start from 5 feet high or 4 feet high.

Mr. OLDS. You start from the level that the private power companies had brought that region to when that was created.

Representative CURTIS. Was that more or less developed at that time?

Mr. OLDS. About proportionately the same.

Representative CURTIS. What was this period of 500 percent growth?

Mr. OLDS. The period from 1933 to 1952, and in that same period——

Representative CURTIS. Is that measured in kilowatt-hours or what?

Mr. OLDS. That is measured in kilowatts of capacity for service. Then as I suggested, the private companies in the area surrounding the TVA had a 200 percent growth as against other private companies of the country having a 91 percent growth. In the New England States where rates were high and it was remote from the influence of TVA competition, the increase was about 75 percent.

Representative CURTIS. And also remote from the coal regions, too.

Mr. OLDS. Yes.

Representative CURTIS. And you would be willing to grant that, I think, 60 percent of TVA power today comes from coal; it has not anything to do with hydroelectric plants?

Mr. OLDS. That is right. New England, however, has abundant hydroelectric resources that because of the general opposition, the kind of development that went forward in the TVA did not occur in New England. There were no Federal hydroelectric projects built in the New England area.

Representative CURTIS. Do you think they lent themselves to the same type of thing?

Mr. OLDS. Yes. The studies made under my direction when I was at the Federal Power Commission indicate that they do lend themselves in certain instances to very excellent power development.

Representative CURTIS. Are there not people who disagree with your conclusions?

Mr. OLDS. I think that the New England Council and the power companies that are members of the New England Council have put forth different figures.

Representative CURTIS. Don't you think they are sincere men, Mr. Olds?

Mr. OLDS. I think they are sincere, but I think they are calculating their figures on a different basis from the calculations used for the purposes of developing the Tennessee Valley. I am citing the figures that the Federal Power Commission in its Bureau of Power, found to be the potentialities of the New England river basins.

Now, I would like to come closer to my own definite personal experience. I had the responsibility in 1939 and 1940 and down into 1941 under Secretary Ickes as Vice Chairman of the National Power Policy Committee for seeing that there was adequate power supply to meet the requirements of the war that was anticipated as a possibility.

Representative CURTIS. You anticipated World War II?

Mr. OLDS. There was an anticipation that we would need to have our defense capacities up to a maximum limit.

Representative CURTIS. When did Secretary Ickes start anticipating World War II?

Mr. OLDS. The Federal Power Commission even before I came to it, after its national power survey called the attention of the administration to the fact that if the world situation developed to the point where there was the threat of war or the possibility of war, the expansion of power capacity——

Representative CURTIS. What year are we talking about?

Mr. OLDS. I am talking about beginning about 1936 or 1937.

Representative CURTIS. That early?

Mr. OLDS. That early. As a result, the War Department, as it was then, before it became the Defense Department, began taking interest, because they were laying plans in terms of munitions production to assure adequate power supplies in case an emergency arose, and even before I came to the Federal Power Commission I was called down to participate in those studies as an adviser of a committee set up representing the different power agencies of the Government to work toward adequate power supply in case it was needed for defense.

Now, I can testify from my own experience to the fact that right down to 1940, the position taken by the private power companies would not have provided adequately for defense power supply.

Representative CURTIS. They did a pretty good job in World War II, though, did they not, the private power companies and local and State agencies did a pretty good job in World War II?

Mr. OLDS. They did a pretty good job after they were stimulated by rather extreme efforts on the part of those of us responsible in the administration for making sure that there were adequate power supplies for war.

Representative CURTIS. Do you mean by "threats" that you would take them over?

Mr. OLDS. No threats were necessary. It was only necessary to overcome their natural, we call it, conservatism, their natural unwillingness to build ahead of what they could immediately see ahead.

Representative CURTIS. They have built ahead, you will agree with that.

Mr. OLDS. The problem was to get them to order approximately the equivalent of 10 million kilowatts for installation over a 3-year period at the time Mr. Kellogg, who was president of the Edison Electric Institute and the power man down here for the power industry during those years, was taking the position that the utiilties had made adequate provision for power to meet any war emergency. Actually, that was not the case.

Representative CURTIS. That was in 1936?

Mr. OLDS. That was in 1940 and 1941. I can cite a statement.

Representative CURTIS. They felt that they had adequate facilities to take care of this increased load.

Vice Chairman PATMAN. Will the gentleman yield for an observation?

Representative CURTIS. Yes.

Vice Chairman PATMAN. We promised to let some of the members of the panel off at 5 o'clock, and it has gone beyond 5. The discussion is very interesting to me. May I suggest this, Mr. Curtis, if Mr. Olds would be willing to it, that you submit questions in writing to him to be answered in this record.

Would that suffice?

Representative CURTIS. I think it would be a very good idea and I do recognize I have been imposing on everyone's time. I have really got my main thesis across and I think we do agree, and that was this: Even though we might disagree on the details which is what we do, both you and I, and I hope everyone in this country, whether we are for public power, as it is so-called, or private power, we are equally interested in trying to get ample supplies of low-cost electricity in an expanding economy with provisions for defense and it is simply that I believe the techniques proposed by the President and this present administration in the long run are going to achieve that better than the techniques that have been used in the past, and there is plenty of room for honest disagreement and discussion.

Mr. OLDS. Plenty of room for honest disagreement, but I would not want to have your remarks leave in my replies the interpretation of the President's report as giving any consideration to the need for power in an expanding economy.

Representative CURTIS. Well, I do not think there is an American alive who does not recognize the need for power in this country, and so many statements have been made by the President and other people in this administration along this line that certainly, Mr. Olds, you have no monopoly on those feelings, and that deep concern, the only thing is, you think it has to be done the way you see it.

We think there is a better way of doing it.

Mr. OLDS. I would say this, Mr. Curtis. Assuming for the moment that each man has the right to choose which means he thinks would accomplish the end, a report on the national economy that practically ignores power, trends in power, throughout its pages, does not indicate a concern for power as an element in economic expansion.

Representative CURTIS. Well, then, I would suggest to you, sir, the recent Atomic Energy Act that was passed in the last Congress as a result of the President's message and his deep concern for power there, because that is a future source, and the amount of money we are spending on it and the attention that the administration has been devoting to it. This whole matter is a good issue for a 1956 campaign, and frankly, I would be very happy to draw it here right down the line. But do not ever worry about the private power people being willing to assume that that is the burden they are carrying.

Do not think we are trying to kid anybody by saying that that is not what we are for, because we are for it, and you, in turn, are for a different program. So let's argue it out, and see who wins.

Mr. OLDS. Mr. Chairman, in connection with your suggestion that I might be putting some additional material in the record——

Vice Chairman PATMAN. Yes, sir; may I say, Mr. Olds, that each one of you, the members of the panel, have the privilege of extending and expanding on your remarks to answer any question that you desire to answer or make any observation that you desire to make, and if you want to answer questions that were not asked directly of you, you are not only privileged to do so, but you are invited to do so.

Mr. OLDS. I wanted to be sure that I could comment on Mr. Aandahl's supplemental presentation. (See p. 814.)

Vice Chairman PATMAN. You are entitled to do that, and if Mr. Curtis wants to submit some questions to you, I am sure we would be glad to have you answer them for this record. For the committee, I want to express our appreciation for you gentlemen coming here and giving us the benefit of your views and your thinking. You are helpful to us. We appreciate it more than we can tell you.

We feel like, really, this is democracy. A lot of people say that it is a republic or a democracy, but, after all, it is a democracy and a republic, in my book, and this is a democracy where people from the outside not connected with Government can come in here and they at least get a good hearing and their views are considered and not only before this committee, but this testimony is gone over by you and by the members of this committee, after all of the corrections are made and the record is finished, it is printed at the Government Printing Office.

Not only will the members of this committee receive a copy, but all Members of the House and Senate will receive a copy, the 531. Not only that, but the different Government departments, not only in the United States, but all over the world, will receive a copy. Not only that, but the Government depositories and the libraries, between 600 and 1,000, they receive copies all over the United States. They are made available for sale at a low price by the Superintendent of

Documents at the Government Printing Office, so there is real distribution of the information that is received here by us and we feel like you make a really great contribution to the success of our country in coming here, and we appreciate it very much.

Senator Goldwater, would you like to say something?

Senator GOLDWATER. Only this, Mr. Chairman: I had quite a long list of questions to ask Mr. Olds myself. I intended to take over when Congressman Curtis quit, and I would like to have permission—in view of the fact that I think Mr. Olds will anticipate the questions—to submit written comments on his presentation this morning. If he cares to comment further on my remarks, he should have that opportunity.

(The following comments were received for the record:)

I would first like to comment on Mr. Olds' statement with a general observation or two. He continually, throughout his statement, refers to investor-owned electric companies as private monopoly. When referring to Government-owned electric utilities he calls them public competition. Mr. Olds knows, or should know, the situation is just the reverse. Monopoly means the power to fluctuate prices at will and restrain trade. Private utilities can do neither. Government utilities do both. Private utilities are controlled by public-regulating agencies but what public regulating agency has any say over Government utilities? Private utilities live under the threat of some form of Government competition and are always subject to competition from private industry which may at will provide its own generating capacity.

The general theme runs throughout Mr. Old's statement that only through Government competition or participation in the electric industry can we be assured of an adequate supply of low cost power. This is far from the fact. In the first place all electric power is cheap in comparison with other commodities and services we purchase. Secondly, the earnings of private utilities are regulated, which means their prices will always be kept well in line. In the third place the private utilities' planning and expansion programs are designed to keep them well ahead of demands upon them. This is true except in rare instances where some unusual load is located in their service area. No one could expect either Government or private utility to carry a million or two kilowatts in reserve so as to be available if the Government just happens to select its service area as the site of a new atomic plant or some other unexpected or unheard-of load. But the private companies have demonstrated by their actions they are ready and able to supply these requirements when such unusual loads are so located and they can supply the requirements as soon as the power consuming industry is ready.

Now, I would like to comment on several of Mr. Olds' statements in the order in which they appear. Mr. Olds refers to the President's power policy as one which would result in a power-short America with rising power costs and the slowing down of automation in industry, on the farm and in the home. He refers to Mr. Gadsby's statement of energy now required per man-hour in industry and predicts that this will increase materially, and so do I. Conversion from hand operation or from partial automation to full automation, however, does not occur overnight; it is a gradual process governed by experimental and development work. Increased uses on the farm and in the home do not occur overnight but are also dependent upon development of appliances and work savers and the promotion of use of these things. The utility companies have highly skilled men watching the trends of increased use in all of these various fields who plan the utilities' expansion program accordingly. It was this private initiative and not big Government paternalism that has made our country what it is today. Private utilities have no difficulty in financing or constructing additional facilities in advance of requirements. There is no reason for us to anticipate that they might run into future difficulties in this connection.

Mr. Olds states that reliance upon private power supply will result in underdevelopment of our hydro, hesitant development of low-cost atomic power, and slower processes in other fields which would restrict American living standards and jeopardize national security. Contrary to Mr. Olds' statement, the President, in his Economic Report for 1955, shows the tremendous increase in activity toward development of hydroelectric facilities on the partnership basis. Of course, there may be some slacking off in development of uneconomical hydro sites that public power enthusiasts hope to get the Government involved in. The utilities have organized into groups to work as partners with the Atomic Energy Commission in developing use of the atom for peaceful purposes. This will expedite work in this field. A sure way of having a slow or hesitant development program would be to maintain a Federal monopoly and depend upon the bureaucrats and uncertain Federal appropriations for this work. When Mr. Olds refers to national security is it his opinion that the Federal Government should construct tremendous power-generating stations and keep them on the shelf for some possible future needs in connection with national defense production? Such a program could be tremendously expensive and wasteful. The present program will keep well ahead of any reasonable foreseen requirements. Of course, if something else unheard and unthought of, such as the atomic-energy program, should come along requiring tremendous supplies of power, it would be necessary to build power-producing facilities along with the new development as was done in connection with atomic energy. In this changing world almost anything can happen, but to all of us, except the unrealistic, impractical dreamer, economics is still a factor. No private industry or government can economically afford to construct and keep idle unlimited facilities because of the fact that at some future time there is a remote possibility that such facilities might be needed during a national emergency. If the facilities are not kept idle they will be in other use and not available when required for this unexpected new defense load. During 1954 the utility industry was carrying 19.8 percent in reserve capacity. With the presently large integrated systems this is a reasonable and adequate margin.

Mr. Olds expresses the prospect of a power shortage in the Pacific Northwest and the Southeast. If those who give lip service to their anxiety over power shortages in those areas where the Government has preempted power supply would discontinue obstructing efforts by others to overcome the possibility of power shortage there would be no danger of it occurring. It is those who think that only the Government should take care of those situations and who fight and retard the efforts of others either through private initiative or the partnership arrangement who will be responsible for these shortages if they occur.

Mr. Olds quotes Westinghouse as an authority on the status of generating capacity on order. I can only tell Mr. Olds that Westinghouse builds the generators. The utilities are well aware of production schedules and of their needs, and schedule their equipment accordingly.

Mr. Olds speaks of the administration's reversal of the power policy of the last 25 years. I hope the power policy of the past 25 years is reversed, and it is high time for it, unless we want complete Government ownership of the electric industry. He refers to the fact that under the partnership arrangement the people would put up the nonreimbursable costs and non-Federal, mainly private interests, the reimbursable. This would leave the inference that the private industries were getting something for nothing. The people have always put up the nonreimbursable part of the investment, and under the partnership arrangement the Government's partner—private industry or some segment of State or local government—would have to put up their share of the cost, so it is no giveaway, as public power advocates would have us believe.

Mr. Olds' statement that public or cooperative competition has proved the most effective supplement to the otherwise largely ineffectual efforts to regulate utilities is an unwarranted and irresponsible slap at our public regulatory agencies. When Mr. Olds states that public power has stimulated neighboring private utilities to greater reductions in rates he apparently ignores the fact that electric rates have been coming down since power became an industry and that the decrease was as rapid prior to the advent of the New Deal power era as it has been since. Reduction in rates has been largely due to improvements in the technology of both producing and distributing power and to increases in use brought about by automation and appliances developed by private industry—not by Federal agencies.

Mr. Olds states that public and cooperative systems cannot hope to take full advantage of river basin or atomic power unless the Government takes a portion of the responsibility. No one has suggested that the Government should not assume a portion of the responsibility—that is the partnership arrangement. The main difference in thinking seems to be there are those who favor the partnership arrangement and those who want the Government to assume sole responsibility. Mr. Olds says that the partnership arrangement means that the people will get less power from water and nuclear power resources at higher costs. I would like to know how he assumes less power. Under the private-enterprise system the people will get all the power they need when they need it. This has been the industry's record, except of course for the additional time always required by any growing and expanding industry to get power to the more remote areas, which in this case was the farms. So far as costs are concerned the only difference between costs of power furnished by private companies and that furnished by Government is due to lower interest rates from the Treasury, tax-free bonds, and dodging taxes that private enterprise has to pay. One thing that public power advocates apparently fail to recognize is that when taxes are dodged it is not the Government, the State or municipality that is getting out of taxes, it is the individual, the business and industries using the power that dodge the taxes. And to me that is rank discrimination between classes of citizens.

Mr. Olds' reference to Tennessee and Washington exceeding the United States average in purchase of appliances for the year 1954 means nothing unless we know where we started from. A great many different things influence the purchase of appliances. For instance, in some sections of the country where there is an abundance of low-cost gas, you will naturally expect most of the water heating, cooking, and house heating to be done by gas. In colder sections of the country, people may want a type of cookstove that can be used for heating the kitchen and wouldn't supplant it with an electric stove if the electric rate were cut in half. Those two areas may have had a smaller saturation in electric appliances than the national average to begin with and that could be a very logical reason for their higher purchases in 1954. With the present low cost of electricity nationally I am convinced that the rate will have little influence on people getting and using an appliance if they want it. In generating and wholesaling power the Federal Government with all of the subsidies included can only beat the private electric companies' cost by a few mills per kilowatt-hour. With the average family it takes about 30 kilowatt-hours a month to run an electric refrigerator. Does anyone think that, with the Government saving 2 or 3 mills per kilowatt-hour, a family would be influenced for or against an electric refrigerator if they wanted it because of a small saving in rates? An electric washer requires about 4 kilowatt-hours a month, a coffeemaker requires about 7 kilowatt-hours a month, an electric blanket requires about 10 kilowatt-hours a month, and I could go on naming appliances. It is ridiculous to me for anyone to contend that a few mills difference in the cost of electricity is going to influence a family as to ownership of these appliances if they want them. About the only place electricity can begin to get expensive to the individual family today is if they want to use it for house heating. And the only sections where the ordinary family can afford to heat a house electrically is where Government is subsidizing their electric supply as it is doing in the TVA area.

Mr. Olds refers to the outstanding Federal contribution toward rural electrification and states that the Government assumes a partnership responsibility for assuring rural electric systems directly or indirectly low-cost wholesale power. I agree that the rural electrification program has been a tremendous success and has brought power to our farm communities much sooner than they would have otherwise gotten it. But the rural electrification program is a partnership arrangement whereby the Federal Government has loaned farm organizations money at a low-interest rate to help them provide their own power facilities. This is not Government monopoly. It is true partnership where the Government has made it possible for these citizens to construct their own rural systems when they probably could not have financed them through private investment firms. Through this partnership arrangement the Government also makes it possible for these systems to produce their own power if they are not able to obtain it from central stations at a reasonable cost, and this is perfectly proper. These systems have as much right to own their own generation as any other private power company. But because of the fact that the Government has been a partner and made it possible for these systems to be constructed puts no obligation on the Federal Government to get into the generating business as a Federal operation to supply them or anyone else with their wholesale power requirements. Besides that the few mills that a Government operation might save them in wholesale power rates is not going to make or break an REA. Some of the REA's paying the highest wholesale price for power are in the best financial condition, and some paying the lowest are in the poorest condition. There is no fixed pattern.

Mr. Olds refers to the hearings held by the Senate Judiciary Antimonopoly Subcommittee as showing that the new power policy would undermine cooperative enterprises. In my opinion this subcommittee's hearings are not at all conclusive. All you have to do is to examine the list and records of those who testified. The hearing was entirely one-sided with witnesses most of whom have a long record as proponents of public power.

Mr. Olds cites the Paley report, Westinghouse, and General Electric as to future industry expectations of power requirements and makes his own predictions for 1990. I will not dispute his 1990 prediction since neither of us will be here to determine who was right or wrong, but it is my best judgment that no matter what those requirements may be, private enterprise will be able and willing to meet them. If not, then I would look with more favor on the Government taking up the slack. But until such time as the Government is needed for this purpose our only sound policy is to rely upon the tried and proven free-enterprise system.

Mr. Olds quotes Representative Jensen in his statement during last year's atomic-energy bill debate and I want to reiterate Mr. Jensen's statement. Certainly "whoever controls power controls industry" but one thing is certain, as long as we rely upon free enterprise for our power supply it will never be under the control of one man or any small group of men. But the minute it goes under Federal control it will be under the control of one man or at best a small group of men. TVA is a good example today. That valley has become dependent largely upon the decisions of three men.

Mr. Olds makes six recommendations which he says should have been included in the Economic Report. It is interesting to note that in all of his recommendations the Federal Government plays the all-powerful predominant role. In other words his is a Government whole hog proposition. I wish to comment on his recommendations in order.

As to No. 1—I favor the development of all of our river-basins projects where the developments are necessary and desirable provided they are economically sound and local interests either State, county, municipal, or private, carry their share of the load in planning, constructing, operating, and financing them.

As to No. 2—I see no reason whatsoever why the Federal Government should develop the Niagara site when it has absolutely no connection with flood control or navigation—is entirely a power development—which private industry is ready and willing to build more expediently. Irrespective of who builds it, I have no illusions of it bringing down what Mr. Olds calls "restrictive high rates" in the Northeast region. In the first place it would hardly be a drop in the bucket when considering the power requirements of that region. If the rates there are high Mr. Olds must know it is due to an unfavorable fuel situation and higher construction costs due to climatic conditions.

As to No. 3—Why should the Federal Government build large-scale atomic powerplants and assume all that financial responsibility when they can use the assistance of private industry both from a standpoint of know-how and financing to get the job done.

I have no quarrel with Mr. Olds' recommendation No. 4. If small-scale atomic powerplants can be developed to assist cooperatives and small-community power systems in obtaining a more favorable power supply, I am all for it.

Mr. Olds wants to place TVA on a sound basis for continuing to assume utility responsibility for the power requirements of its distributors. I certainly agree with that, except I am afraid my definition and Mr. Olds' of "sound" are entirely different. There is no reason why the Government should continue to subsidize the power users in TVA's service area. TVA should be put on a sound basis. It should pay at least the prevailing interest rate to the Federal Treasury. It should pay taxes on the same basis that the private utility company has to pay. And financing, arrangements should be worked out whereby TVA and those dependent upon TVA power no longer have to look to the Federal Treasury. And last, TVA should be forced to include in its rate a sufficient amount of money to refund to the American people their investment in TVA, with interest, in a reasonable period of time.

Under No. 6—Mr. Olds wants Federal transmission facilities to assure public and cooperative systems first call on power generated at Federal projects. Here again Mr. Olds wants to establish two classes of citizens in this country. Although these natural resources and Government developments are supposed to belong to all the people, he wants the benefits to go only to those who are obtaining their power supply from some type of Government operation. I will fight for the right of the municipality or other Government power operation or the cooperatives to get its fair share of power produced at a Federal powerplant, but I do not favor putting the other 80 percent of our citizens who happen to get their power from a private utility company in a second-class category.

Mr. Olds refers to the sensitive response of the private power industry to fear of overbuilding in the face of business recession, tending to accentuate those recessions. I believe I have commented on this sufficiently when I say that plans of the industry, and its history, refute Mr. Olds' statement. Of course, the power companies have to take into consideration economics and cannot launch a large building program on their own just for the purpose of stimulating an economy. They will build what they need when needed to supply the requirements of their customers.

Mr. Olds refers to a statement that if all electric sales in the United States had been billed at TVA rates the consumers in the country would have saved over $2 billion in 1950—which money would be available for purchase of other things. I certainly disagree with this statement. In the first place, anybody with any knowledge of the power business knows that it costs more to do busines in some sections of the country than it does in others, depending upon fuel and other considerations. So the statement is ridiculous on the face of it. But if the Federal Government took over the power business and made TVA rates available over the entire United States thus saving the people some $2 billion on their power bill, they would not have this money available for spending on other commodities. They would have to pay out this money and probably a good deal more in taxes to support such a Federal power subsidy.

The remainder of Mr. Olds' statement does not warrant comment.

Under questioning by Congressman Curtis, Mr. Olds expressed his views on public-private power controversy to the effect that he was not against all private power. In other words, he thought there should be some private industry. I would like Mr. Olds to tell us what public-power developments he ever opposed and what private-power developments he ever supported if there was any question between public and private power involved. Even in his position as Chairman of the Federal Power Commission, which is our highest regulatory agency for the utility industry, supposedly an impartial one, it is my information that Mr. Olds spent a great deal of his time attempting to promote Government power operations of all types, and he has continued to do so since then. He must know that if all of his efforts in this connection are succesful it will be only a matter of a short time before we will have no privately operated power companies.

(Mr. Old's reply to Senator Goldwater's comments appears on p. 808.)

Senator GOLDWATER. Also in closing, I am glad that you recognize this as a republican form of government, because that responsibility is charged to the Federal Government in article 4 of the Constitution, and it does not mention "Democrat."

Vice Chairman PATMAN. Doesn't it say each State shall have a republican form of government, and I believe that the best creed that was ever gotten out was gotten out by a distinguished Republican. He was Speaker of the House of Representatives when I first came here. His name was William Tyler Page.

They offered a reward of $1,000 for the person who would put in 100 words the best and most acceptable creed, and William Tyler Page wrote that of exactly 100 words. He received the award of $1,000, and in that wonderful creed that goes all over the world, you will find the phrase "a democracy in a republic."

Without objection, we will recess until our next meeting, Tuesday, at room 318, Senate Office Building. We have as our panel a number of distinguished people.

(The extended statements of the panel are as follows:)

STATEMENT OF JOSEPH L. FISHER, ASSOCIATE DIRECTOR, RESOURCES FOR THE FUTURE, INC., WASHINGTON, D. C.

I have been asked to comment briefly on the proposals in the field of conservation of resources, as set forth in the January 1955 Economic Report of the President. More particularly, and along with other members of the panel, I have been asked to comment on the two questions: (1) What should be the Nation's public works policy in 1955, especially in the resources field; and (2) what part if any of the cost of construction and maintenance of resource facilities should be share by the Federal Government, and how should these costs be shared? I would like also to blend with my remarks concerning resources conservation and development a number of basic points regarding public works policies in general.

First, I would like to note the high quality of the report and compliment the Council of Economic Advisers and others who aided in preparing it for the emphasis upon economic growth. I hope that this attention to economic growth represents a continuing interest rather than a viewpoint stressed only at this particular time when the general business movement is upward and there seems to be no critical need for policies relating primarily to business-cycle movements—either those suitable for times of recession or those suitable for impending boom and possible collapse.

In my view, the long-run potentials for economic growth, and the policies and actions to realize those potentials, should be a principal subject for concern under the terms of the Employment Act in every Economic Report of the President. Shorter run fluctuations in business are likely to be much more manageable in an environment of steady, long-term economic growth, as the Council of Economic Advisers so well recognizes in this report. Furthermore, the distinction frequently made between economic growth and economic stability is largely a figment of imagination. It is somewhat analogous to the distinction between long- and short-run analysis in economics which is largely an analytical device for gaining understanding of the complicated movement of business. Actually there is a continuous and subtle blending of long- and short-run economic effects following upon new policies and actions. There is similar blending of stabilization and growth.

Economic decisions are always in the present even though the intended economic effects of those decisions may be months or years ahead. Even the decision not to decide, but to postpone, is a present decision. If we are to have a multiple-purpose dam, or a vastly improved interstate highway system, or large numbers of new and expanded school buildings by some date in the future, and that date may be 5 or 10 years ahead, decisions have to be taken in the present. Otherwise, the support which these and similar assets may provide to the total economy in the year 1960 or 1965 simply will not be present. Unless these considerations are kept to the forefront in our thinking, there is always the tendency to defer basic public and private investments in natural resources, highways, and the like. Fiscal or budget policies which make such expenditures the bondservant of short-run considerations, whether they are to create larger deficits or to reduce them, are not in the longer term public interest. In the end such policies will defeat the establishment and continued expansion of the very base of resources and facilities without which growth is severely handicapped and the business cycle becomes much harder to manage.

Therefore, in a general way, the Nation's public works policy in 1955 should be one of proceeding steadily and confidently with investment and investment decisions which will serve to expand basic public works and facilities in the interests of long-term growth. The budget outlook clearly is not so severe, nor the need for balance in conventional terms so impelling, as to indicate any less in spending for natural resources and other public works than the recent 1956 budget envisages. In my view, a good case can be made for somewhat higher expenditures in the resources field than the budget proposes. During the 5 years, 1951 to 1956, as estimated in the budget, the amount spent by the Federal Government for water resources development, to name the natural resource of greatest budget concern, has decreased by roughly 10 percent. Federal water resources expenditures as a percent of total Federal expenditures reached a high of 4.1 percent in 1938; according to the 1956 budget estimates they will be 1.9 percent. As a percent of GNP, estimated Federal water resources expenditures for 1956 are one-fifth to one-quarter less than in 1951. It would seem that Federal Government spending for the development of water resources is not keeping pace either with other items in our Government and national economic accounts or with the opportunities and needs of the times. Yet the economic report states "of all our natural resources, none requires more immediate attention than water."

The way to reconcile emphasis on the need for water development with declining budget allocations is to offer convincing evidence that resources investment funds will be forthcoming from non-Federal sources. This brings up the "partnership" concept. This approach has a genuine appeal. I think it to be excellent and in its general form I endorse it highly. It strikes a good note and one which most Americans will applaud. However, I believe the general idea needs to be thought through more carefully, if it is to be made to work effectively. The biggest single difficulty, as I see it, is to enlist the responsible cooperation of States, localities, and private groups. This means financial responsibility and participation as the acid and final test of genuine partnership. If the partnership idea is to amount to more than it has in the past, if it is to be a genuine thing, then both local and State governments, and in some instances private groups, must participate substantially in investment and repayment.

The 1956 budget proposes $20 million in Federal expenditures for partnership projects under the Corps of Engineers and the Bureau of Reclamation. I hope the amount may be enlarged in future years. It would be advisable to follow the working out of these initial partnership projects with an eye to revealing the strong and weak points and finding out what really can make the idea work. I think it is important not to oversell the partnership idea lest the day come when people realize that more has been held out under the attractive label of partnership than can be delivered. Particularly, I think the Federal Government will have to act sternly in refusing Federal participation except upon terms which require significant State, local, or other participation. There will have to be a tougher resistance to political pressures, in which public agencies and private pressure groups sometimes combine, than has been characteristic of the past. The will of people to raise money at the State and local levels will have to be strengthened, as well as their desire to see through the long repayment periods which may be involved. The partnership program is a hopeful one, it deserves to be nourished and tended carefully; but proclaiming it does not necessarily make it work.

The exact amounts or proportions of the cost of various resource projects which ought to be borne by the Federal Government cannot be set out in doctrinaire fashion. Yet certain general rules would have to be followed so that various State and local governments and private groups would have a feeling of confidence in the program and be able to count on the Federal Government's dealing with them all in similar fashion. This means that suitable criteria have to be worked out to cover the degree of local participation, or its range, for the different categories of projects and programs. Some flexibility would seem to be desirable here so that rules can be tempered to unique situations in such a way that work can get done. The Government has had a good deal of experience in setting up standards for Federal patricipation. For example, the agricultural conservation payment program has long faced the problem of how much aid in various forms to supply farmers so as to encourage and stimulate them to do conservation work on their own.

The resolution of these and related problems lies in large part in the fields of public organization and finance, since if the States and localities are to become partners with the Federal Government they must have the sources from which additional funds can be raised, as well as the will to do it. The Council correctly recomemnds that outmoded State tax rate and debt limits be relaxed.

The possibilities for interstate or regional development corporations for resources development might well be explored. Ways might be found for the chartering of such corporations with power to issue mortgage or revenue bonds and which could also reecive appropriations from State, local, and Federal Governments. An extension of this idea would encourage private participation for certain phases of multiple purpose projects such as electric power production and distribution. I do not think we have begun to exhaust our organizational and administrative resourcefulness along this line. An important consideration is that any development corporation operate over a sufficiently wide geographical area and span of resources so that a truly balanced and integrated development may be achieved.

At another place in the Economic Report the proposal is made that advance planning loans to States and localities should be enlarged and made permanent on a revolving fund basis. This is all to the good and I hope it will be done forthwith. I would suggest careful study be given to an extension of the advance planning approach to embody the idea of planning for total readiness for antirecession public-works activities. Such a readiness would recognize that even with plans and specifications all prepared, there would still be many roadblocks in the way of actually spending money for antirecession public works. Financial arrangements between Federal, State, and local governments would have to be arranged. Appropriations would have to be made, construction organizations perfected, and decisions as to precise time, place, and type of project reached. I would propose careful consideration of an antirecession fund, established by Congress, and with its use limited by Congress to authorized projects. Congress might limit the fund as to total amount, and specify general criteria which should trigger its actual use. It might also lay down general rules regarding the geographical distribution of the spending. The establishment of such a fund would place in the hands of the President the authority to engage in antirecession public-works spending in speedy and timely fashion, but with appropriate safeguards and general directives laid down by the Congress. I am not so much proposing the establishment of such a fund as I am proposing that it be examined with greatest care looking toward the advisability of recommendation at a later date. This is not a new idea, but it is a good one which so far as I know has never been adequately investigated. Perhaps the chief value of such a study would be to point out the severe limitations of antirecession public-works because of timing difficulties. The study should specify the kinds of projects which lend themselves to antirecession use, as well as those that do not. It should also analyze realistically the possible arrangements for sharing the financing among several levels of government.

Finally, I wish to add a point which I think of major importance and which appears to be overlooked in the few paragraphs in the Economic Report which relate to resources development. That is the need for some partnership arrangement, not by which particular projects get parceled out and built by this or that level of government or privately, but by means of which the planning for development of natural resources in the large areas of the country can be done in a cooperative and comprehensive way. Surely this goal cannot be achieved if miscellaneous private companies, localities, and even States, acting separately, pick off such projects as suit their interests and leave the scraps for the National Government. A general guiding plan, or at least a set of development objectives and procedures, is needed. This is especially true in the water and related land development in the large river basins which usually include several States. Such planning should not be in detail, but should block out the main development potentials, consider the several feasible types of development, appraising the benefits and costs of each, provide for wide public consideration, and in short make possible the emergence of general approaches and plans of development which will not permit any particular private concern or public body to undertake a project which will foreclose other projects more clearly in the long run and general interest. I do not feel that this kind of planning should be objectionable It makes sense. If done with care that all concerned have their say, it can provide for a river basin a general framework or skeleton within which the several private and public organizations can more intelligently choose their projects and relate them one to another.

In my opinion we should look beyond the TVA or the interagency river-basin committees to find new patterns for cooperative planning of this character. Which group actually builds and owns a particular structure seems to me of far less importance to the nation than that our river valleys are developed intelligently, comprehensively, and economically. During these few years we are committing ourselves to the structures and programs which will fix the general character of river-basin development in this country for perhaps a century or longer, just as the location of our main railroads in the 19th century set a pattern of location of people and industry which continues to this day. Cooperative planning of the type I have suggested, it seems to me, is the way to assure an intelligent arrangement of investments by public and private bodies and that the long-range national interest will be enhanced.

Statement of Leland Olds

ECONOMIC REPORT OF THE PRESIDENT FAILS TO RECOGNIZE IMPORTANCE OF ELECTRIC POWER TO THE ECONOMY

The Economic Report of the President is completely lacking in recommendations with regard to electric power or recognition of the part played by ample supplies of low-cost electricity in an expanding economy with provisions for defense.

The report fails to recognize that the electric-power field is one in which the proved shortsightedness of private monopoly can result in seriously retarding the vigorous economic growth which the report offers as the best way to avoid recessions.

The President's power policy if carried out in terms suggested by his report, would result in a power-short America measured by the requirements of an expanding economy, which will call for supplies of electricity multiplying at least 3 times over within 15 years and 10 times over by the beginning of the last decade of this electric-power century. It would result in an America hampered by rising power costs. It would mean a slowing down of automation in industry, on the farm, and in the home, which will enable us to couple rising living standards with reductions in the working week to 35, 30, and ultimately 25 hours.

And there is a direct tie between adequate power and employment because, as President Gadsby, of the Utah Power & Light Co., points out, electric energy now required per man-hour in industry is equivalent to 154 unseen workers under the direction of each visible worker, with the prospect that the number of invisible helpers will rise to 250 for each worker on the production line.

The President's power policy, as set forth in the Economic Report, by favoring private monopoly in the business of power supply, will result in underdevelopment of our hydro, hesitant development of low-cost atomic power, slower progress toward all-electric homes, cramped expansion of farm electrification, and a general restriction on improvement in American living standards.

In terms of national security, this may prove serious, for although the Office of Defense Mobilization and the Department of the Interior disagree on the adequacy of planned capacity to 1957, both agree that the prospect of power shortage in the Pacific Northwest and the Southeast is serious.

In this connection, we may note the effort of Westinghouse Electric Co. to spur timely orders for new generators. Westinghouse shows that although 9.3 million kilowatts of new generating capacity will be required for installation in 1956, only 5.1 million had been ordered as of September 21, 1954. According to their statement: "It is too late to furnish the 4.2 million kilowatt deficiency on a 30-month production schedule. Practically no commitments have been made for 1958 and 1959."

With what seems a careful avoidance of the mention of electric power, the Economic Report apparently takes some pride in the administration's reversal of the power policy of the last 25 years. Advocating expansion of investment in conserving and utilizing soil, water, mineral, and other resources, the President indicates that "to speed this process, the Federal Government has attempted to distinguish as clearly as possible the field of Federal enterprise from the field of private or local enterprise." He applies this to water resources by setting forth the administration's so-called partnership policy under which, broadly speaking, the people would put up the nonreimbursable investment and non-Federal interests, mainly private, the reimbursable.

This means in the main a shift of Federal partnership in the field of electric power from partnership with local community public or cooperative electric systems, to partnership with private monopoly. It will ultimately destroy the type of public or cooperative competition which has proved the most effective supplement to the otherwise largely ineffectual efforts to regulate utilities in the public interest.

The type of public or cooperative competition provided by Federal power legislation, including the Tennessee Valley Authority, Rural Electrification, Bonneville Power Administration, Reclamation, and Flood Control Acts, has stimulated neighboring private power companies to greater reductions in rates and greater expansion in business than has occurred where this influence is lacking.

The power policy set forth in the President's Economic Report purports to be based on the premise that power supply is a local responsibility. This is technologically inaccurate. Today low-cost power is power from integrated regional systems and, where the Federal Government abdicates responsibility, most public and cooperative systems are thrown upon the mercy of their private competitors or must depend on relatively high-cost, small local generating stations.

Except in rare instances, public and cooperative systems cannot hope to take full advantage of river basin or atomic power unless the Federal Government takes a portion of the responsibility for wholesale power supply. The shift in partnership described in the President's Report will mean that the people of the country will get less power from their water and nuclear power resources, at higher cost.

Table 1 and table 4 in the report suggest that the authors fail to be influenced by their own proof of the relationship between dynamic power policy and an expanding economy. Table 1 shows expansion of electric power production outdistancing all other growth factors between both 1939 and 1946 and the present.

Table 4 shows some rapidly growing commodities and services to illustrate the widening economic horizons of consumers, with the comment that "one of the marvels of our generation has been the growth of consumer capital." The significant fact is that 8 of the 15 rapidly growing commodities shown are electric appliances and a ninth involves electric freezing.

The influence of Federal power policy, as embodied in the TVA and the Bonneville Administration, in producing this result is apparent in the annual statistics of electric appliance sales, published in the January 1955 issue of Electrical Merchandising, a trade journal. These statistics show that in 1954 sales of electric appliances, the States of Tennessee and Washington exceeded the United States average per 1,000 residential customers for 10 of the 13 appliances covered. Both also equaled the national average in 2 of the 3 remaining appliances.

The administration should reread the subtitle under which this table appears. It reads: "Lessons from the Past and Guides to the Future."

The President's report stresses the importance of assisting new and small businesses, stating that our economy is strong and progressive because it contains, in addition to its 5 million farm enterprises, 4 million independent centers of business decision. My comment is that the Federal rural electrification program has probably been the outstanding Federal contribution to the strengthening of small business enterprise and that it is an integral part of the larger Federal power program, in which the Government assumes a partnership responsibility for assuring rural electric systems, directly or indirectly, low-cost wholesale power supply.

The report specifically claims credit for ending Federal power responsibility for power supply, which has played an important part in this boost to America's premier small businesses.

The President finds the history of our country and the Western World demonstrating "that economic progress depends fundamentally on the enterprise and initiative of millions of people seeking to better themselves." No clearer illustration of this could be cited than the economic progress of the country's farms which has come through the enterprise of millions of farmers in organizing and managing their nearly 1,000 rural electric cooperative systems, raising the percentage of electrified farms from 11 percent in 1936 to over 92 percent last year.

Yet the testimony before the Senate Judiciary Antimonopoly Subcommittee shows that the new power policy, set forth in the President's report, is making it possible for private power monopoly, which contended that area-wide rural electrification was not feasible, to undermine these very vital cooperative enterprises.

Low-cost electric power in abundance is an important key to an expanding economy. So said the Paley Commission. And the expansion in power demand is always exceeding private company expectations. So says Westinghouse. General Electric says industry expectations of 1 trillion kilowatt-hours in 1970 are now advanced to 1965, and the Paley Commission estimates of 1,400 billion in 1975 are advanced to 1970. GE says that the upward trend of total residential use will pass industrial use by 1973 and that prophets look for an overall requirement of 5 trillion kilowatt-hours in the year 2000. I predict it will be reached by 1990.

To meet this challenge of the electrical age, with all that it will require in hydro, conventional fuels and nuclear energy, will require expansion of Federal, State and local public, private, and cooperative generating capacity, all working together and all stimulating each other by the special brand of competition deriving from the freedom of all communities to choose whichever form of ownership best meets their needs. Without Federal participation in the wholesale field, making possible public and cooperative competition, private monopoly will dominate and will prove a restrictive influence on expansion. And we must not forget the wider implications, stated by Representative Jensen, of Iowa, in last year's atomic energy bill debate. Warning of possible Federal monopoly, in words even more applicable to private monopoly, Mr. Jensen said:

"Mr. Chairman, the man who controls the electric energy of any nation, especially in a nation that is dependent on electric energy as we, controls that nation. Any one of you Members of the House, or any other American could control America lock, stock, and barrel today if he or she had control of the electric energy of America. Let us not forget that."

The recommendations of the Economic Report should have included, as a part of the public works program: (1) The undertaking of new Federal multipurpose river-basin projects, including Federal development of power, in the Columbia, Colorado, Central Valley (Calif.), Missouri, Arkansas-White, Alabama-Coosa, Chattahoochee, Roanoke, Connecticut, Merrimac, St. John, and Kennebec River Basins; (2) assurance of public development of the Niagara-St. Lawrence power resources, under conditions that will bring down the restrictive high rates still prevailing in the northeastern region; (3) legislative and administrative action to initiate the immediate construction of large-scale Federal atomic powerplants in addition to licensed private construction; (4) active pressing of a cooperative program for development of economically feasible small-scale atomic powerplants adaptable to the needs of small community power systems; (5) placing of the TVA on a sound basis for continuing to assume utility responsibility for the power requirements of its distributors; and (6) provision for such Federal transmission facilities as prove necessary to assure public and cooperative systems first call on power generated at Federal projects.

We can interpret the contrasting power policies, one leaning toward private monopoly, the other toward public competition, including Federal investment in some generation and transmission, rather specifically in terms of immediate effects on employment.

In the first place, the sensitive response of the private power industry to fear of overbuilding in the face of business recession tends to accentuate those recessions, as well as to cramp later recovery when power supply becomes tight. Thus, the September 20, 1954, issue of Electrical World forecasts capital expenditures by all agencies for electric generating capacity falling from a high of $2,088 million in 1953 to an estimated $1,475 million in 1957, or by more than $600 million. Already by its January 24, 1955, issue this journal reports actual investment in generation for 1954 at less than the prediction of 4 months earlier and drops its 1955 estimates by nearly 10 percent. This recalls the Westinghouse figures for generators on order, to which I have already referred.

Such reductions in new investment have far-reaching effects on business and employment, as well as reducing the power supply available for future expansion. The Federal program I am recommending can help to remedy this situation.

In the second place, reductions in electric rates, due to an effective competitive power program, will mean hundreds of millions of dollars savings in electricity costs which will be available for consumer expenditures on such soft goods as textiles and shoes which need such a spur to absorb unemployed workers in a number of depressed areas. Figures prepared by the Federal Power Commission for a former Member of Congress in 1952 showed possible savings of over $2 billion in 1950 if all electric sales in the United States had been billed at rates prevailing in the TVA area. Of course, if all rates had been so reduced, the result would have been big boosts in sales of electricity and appliances, so that actually power revenues would not have been reduced by anything like this amount. In other words the savings would have been distributed among the soft goods and electrical appliance industries.

In the third place, if the expansion of power requirements is not cramped by the proposed change in Federal power policy, it will mean a tremendous boost in employment in the depressed coal-mining areas. The forecast for 1970, even assuming reasonable expansion in hydro capacity and atomic power, will require approximately double the 117 million tons burned to produce coal's share of electric generation in 1954. This assumes coal continuing to provide 65 percent of the total thermal generation, although as the last half of the century unfolds, the share carried by oil and gas is due to decrease. With the requirements for cement mills, the steel industry, the coke, gas, and chemical industry, rail transportation, other industries and retail sales, this would call for bituminous coal production in excess of the present Bureau of Mines' estimates of full-time production of existing mines, with this year's work forces.

When the country reaches the 5 trillion kilowatt-hour mark suggested by General Electric, even with more than half of the electric energy produced by hydro or atomic power, the power industry alone is likely to call for from 5 to 8 times as much coal as was used for the generation of electricity in 1954, or considerably more than total production in that year.

These are samples of the effect of a dynamic power program in stimulating vigorous expansion in the availability of low-cost electric energy. With such a program, a factor of prime importance in the expansion of the economy, maintenance of full employment, rising living standards and increasing leisure, which should characterize the progress of American civilization, will be assured.

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(The following statement was received for the record from Mr. Olds:)

COMMENT ON THE STATEMENT OF SENATOR GOLDWATER COMMENTING ON MY STATEMENT WITH REGARD TO THE TREATMENT OF ELECTRIC POWER IN THE PRESIDENT'S ECONOMIC REPORT

I am glad to find Senator Goldwater accepting my thesis that one of the limitations on monopoly in the power business is competition or the threat of competition. His statement that private utilities "are always subject to competition from private industry which may at will provide its own generating capacity" is particularly significant. The corresponding competition, protecting small residential, farm, and commercial consumers against the exactions of private monopoly, is found in the opportunity to use their municipalities or cooperatives to provide their power supply. The availability of power supply from Federal projects, under the preference provisions established by Congress, has proved an important factor in maintaining the same competitive right for small consumers that Senator Goldwater acknowledges are available to large industries.

This brings me directly to the point of difference between the point of view which Senator Goldwater is expounding and that set forth in my statement to the Joint Committee on the Economic Report. It involves the question whether public utility regulation, unsupported by actual or potential public competition, provides an effective check on the evils of monopoly in one of our most vital public service industries. It may be noted that the private power companies over the years have sought to use regulation as a protective front against public competition, while at the same time using every device to render it impotent. Thus, nearly 20 years ago, the Federal Trade Commission, in its "Summary Report on Utility Corporations, No. 73-A," said:

"An important part of the industry's propaganda against municipal or Government ownership has been a sedulous cultivation of the idea in the public mind that the existing regulatory mechanism was both sufficient and efficient as a middle course between the two extremes of private and public monopoly" (p. 1).

Later, summarizing the results of its exhaustive investigation, extending over a number of years, this same Commission said:

"From the foregoing it appears that comparatively few States have adopted any thoroughgoing policy or system of utility regulation. Those which have done so have encountered insuperable difficulties growing out of constitutional limitations, economic developments, and the attitude of the industry and the courts" (Ibid., p. 28).

The fundamental weakness of regulation in dealing with what are termed natural monopolies is due to its static approach to determination of reasonable rates. It consists largely in determinations as to whether the profits on last year's limited business are more or less than a fair return on some rate base. Where there is no competition, regulation lacks cost standards as a basis for rates. In general it must assume that the actual costs shown on the books of the companies are reasonable and cannot base rate orders on the important fact that unit costs of electric service come down very rapidly when a dynamic sales policy causes rapid increase in average sales.

Leverett S. Lyon, when vice president of the Brookings Institution, stated the problem of regulation very clearly at a 1937 symposium of the American Society of Civil Engineers on power costs. Lyon attributed the introduction of the TVA "yardstick" policy to the lack of any satisfactory cost basis for fixing rates under regulation. After paying tribute to the competitive system as a means of assuring the lowest possible costs, he asserted that in the field of power, because it was a natural monopoly, the competitive method of price determination will not apply. He pointed out that since monopoly cannot be trusted to create prices in the public interest, social regulation of rates has been established in every State. He continued:

"Since the commissions which have been given this responsibility have no competitive tests, they have groped none too happily in an effort to relate costs to prices."

"It is the raising of such issues of costs as these," he concluded, "which has introduced the now much discussed 'yardstick' as a proposed method of determining what prices should be."

At the same meeting Prof. B. Alden Thresher, of the Massachusetts Institute of Technology, definitely related the direction taken in the broadening of Federal power policy to the inadequacy of regulation. He suggested that the accepted scheme of regulation in the United States is, by its very nature, static and ill-adapted to the economic and technical changes characteristic of the power industry. He said:

"It is more accurate, therefore, to regard the Federal power program, whatever its merits or defects, as a response to a long-standing maladjustment * * *. The machinery of State regulation is often said to have 'broken down.' More strictly speaking, it has always lagged behind the situation with which it strove to grapple * * *."

There is perhaps no more enlightening discussion of the issue which I raised in my statement on the President's Economic Report than that found in an editorial in the Electrical World, trade journal of the power industry, in the issue of June 25, 1943, in which the editor suggested that the electrical industry must substitute the concept of competition for the outlook of monopoly, if the opportunity of private enterprise in the business is to be preserved. He said:

"In a competitive business, there is the same eagerness to secure a fair return on invested capital, but the approach is different. Return in competitive business comes from expansion of sales—from volume. * * *

"In a competitive business one does not start with a rate that will produce a return and struggle to build business at that price. Just the opposite; one sets a goal and then finds out what price is necessary to reach that figure. The costs are adjusted to make the price bring a return on the estimated volume.

"*What is the difference? Just this, that growth under the monopolistic concept is necessarily slower than under the competitive concept. Rates in one case are protective of investment, while in the other, they are volume creative.* * * *" [Italic added.]

I have supplied the emphasis to bring out that the industry trade journal, more than 10 years ago, suggested the very basis for my criticism of the President's Economic Report, insofar as that report attempts to justify the reversal of the power policy of the last 25 years which Senator Goldwater welcomes. For, as the President's Water Resources Policy Commission said in its 1950 report, A Water Policy for the American People, this trade journal editorial "is a precise statement of the changes in management outlook which Federal power policy is designed to foster. It is not so much excessive profits as it is a short-sighted sales policy which is responsible for high electric rates" (p. 229).

As the editor of the trade journal suggests, it is high monopoly rates under regulation that retard growth and so result in shortages, not measured in demand actually exceeding supply but measured in failure of demand to realize the full possibilities of desirable economic expansion. New England power company experience is a good example. As I pointed out to Representative Curtis in the course of the panel discussion, while generating capacity of private power companies in the general TVA area increased by 200 percent, the corresponding growth for New England companies amounted to only 75 percent.

There are many examples of the effectiveness of public competition in bringing reductions in rates charged by privately owned utilities which regulation failed to accomplish. A simple illustration is found in Illinois where, with an active State public service commission, the residential bill for 250 kilowatt-hours a month use charged by the Central Illinois Light Co. rises in direct proportion to the distance of the area served from the Springfield area, where the private company competes with the Springfield municipally owned system. The Federal Power Commission's typical electric bills report for 1954 shows this private company charging $5.22 in the competitive Springfield area, $5.78 some 60 miles away in the Peoria area, and finally $7 some 100 miles beyond Peoria in the DeKalb area, all for the same service.

A similar illustration on a much broader scale, is found in a map of the United States, contained in the Federal Power Commission typical bills report, showing the average bills for 250 kilowatt-hours of residential use of electricity in the several States. In general, the map shows clearly that the bills become higher and higher as the distances from the influence of the TVA system in the Southeast and the Bonneville system in the Pacific Northwest increase. Thus, moving northeastward from the TVA, the bills are $4.92 in Tennessee, $6.47 in Kentucky, $7.23 in West Virginia, $7.34 in Pennsylvania, $7.81 in New York, and between $8 and $8.85 in all the New England States except Connecticut. Similarly, moving northwestward from the same starting point, the bills are $4.92 for Tennessee, $6.59 for Illinois, $7.97 for Iowa, $7.74 for Minnesota and $8.46 and $8.28 for South Dakota and North Dakota, respectively.

Maps issued by the Director of Information of the Tennessee Valley Authority tell the same story by showing for 1932 and 1952, in concentric areas surrounding the TVA area, the average typical bills for 100 kilowatt-hours monthly residential use of electricity. These maps show that before TVA, the level of rates decreased slightly from a high of $5.26 in Tennessee to $4.97 in the first band, $4.73 in the second band, $5.07 in the third, and then down to $4.90 in the fourth. After 20 years of TVA influence, the trend had been reversed so that, beginning with $2.50 in the TVA market area, the average rises to $3.24 in the first band, $3.61 in the second, $3.83 in the third, and $4.12 in the most remote band.

As a final illustration, I would call attention to the way in which an official plan for public competition supplemented regulation in New York, bringing about a reduction of rates in New York City which the public service commission of that State ordered but was restrained by the courts from enforcing. In 1933, the major company serving New York City was ordered to reduce rates by what was at that time the most effective regulatory body in the country. The company took the commission into the courts and early in 1935 won a decision reversing the commission's order. But, within about 2 months, the company "voluntarily" reduced its rates. The explanation is that, while the case was pending in the courts, the mayor of New York City, Fiorello LaGuardia, supported by the Federal administration in Washington, had come forward with a well-worked-out plan to construct a 100,000-kilowatt municipal yardstick plant and had shown what such a plant could charge. It may be noted that within a year the company boasted that the rate reduction had proved good business.

Similarly, upstate New York private power companies during the same period reduced their almost prohibitive charges for rural electric service, maintained under regulation, when the farmers in Seneca County launched a drive to establish a rural electric cooperative to bring electricity to their farms at reasonable rates.

This analysis, amplifying my statement that public and cooperative competition has proved the most effective supplement to the otherwise largely ineffectual efforts to regulate utilities, should be sufficient answer to Senator Goldwater's reference to that statement as "an unwarranted and irresponsible slap at our public regulatory agencies." In general, I have attempted to show that the ineffectiveness of regulation is inherent in the process rather than in human failure on the part of public-service commissioners, many of whom I have known and respected.

But, since he has raised the point, I must note that regulation is also rendered ineffectual through the influence of private power companies in politics, reaching to decisions as to appointments of members of the commissions and, shall I say, reappointments. I could cite a number of concrete illustrations involving different States, but believe Senator Goldwater would probably be more interested in an instance out of Arizona regulatory history.

It is generally recognized that one of the handicaps under which State regulatory bodies labor is lack of funds to maintain the technical staffs required to meet the batteries of experts mobilized by the companies in rate cases. This led Congress, when it rewrote the Federal Power Act in 1935, not only to provide for cooperation between the Federal Power Commission and State commissions where there was concurrent jurisdiction but also to authorize the Federal agency to loan experts to State commissions on a reimbursable basis.

During the administrations of Gov. Sidney P. Osborn, every effort was made to have the State of Arizona avail itself of this cooperation provided by Congress. In response to the adoption by the State legislature of a Senate memorial and the request of Governor Osborn, transmitted through Senators Hayden and McFarland and Representative Murdock, the Federal Power Commission made a power survey of the State. Then in January 1943 in his annual message Governor Osborn expressed the hope that the legislature would immediately enact the necessary appropriation to secure experts from the Federal Power Commission to assist the State commission in preparing a rate case.

The initial request for such assistance was made in February of that year, but it was not until October 1945 that the Arizona Legislature appropriated $50,000 for that purpose. The Federal Power Commission immediately announced it would make personnel available about January 1, but the whole matter was held up for a year by court action involving the appropriation, affording time in which, through changes in membership and otherwise, to alter the decision of the State commission to go forward with the plan. In December 1946, following final action of the United States Supreme Court denying certiorari in the main suit to block use of the appropriation, on the specific request of the Arizona

State commission, a Federal Power Commission staff expert went to Phoenix to confer on further steps, but one of the commissioners actively pushing an effective rate case was about to be replaced and the other was quickly placed in the minority, so that the Governor's program was never carried out.

It is significant, however, that quickly following the appropriation by the State legislature and the Federal Power Commission's announcement that it would make personnel available to the Arizona commission, on a reimbursable basis January 1, 1946, the Central Arizona Power & Light Co., largest utility in the State, announced on January 20, 1946, an electric rate reduction of $648,000, and on April 1, 1946, a gas rate reduction of $380,000.

Subsequently, the new majority of the State commission charged that our attempt to respond under the Federal Power Act to the successive requests of the legislature, the Governor, and the Public Service Commission of the State of Arizona represented an attempt to usurp State jurisdiction. But Governor Osborn had at least the satisfaction of knowing that the possibility of such investigation, like potential public competition, brought customers of Central Arizona Power & Light rate reductions amounting to more than $1 million annually.

Senator Goldwater apparently misses the point of my effort to relate power policy to economic growth, including progress of automation leading to higher living standards and more leisure. To make my point clear, I will refer to authoritative reports indicating that New England manufacturers have adjusted their operations to high electric rates by restricting their use of electricity. Now, as high use of electricity per man-hour means higher productivity, a better competitive position, and higher standards of living, the high-rate policies of New England power companies are restricting the expansion of both industry and power in the region. And, as I have shown in my original statement to the committee, the same applies to use of appliances in the region's homes. In other words, power shortage appears in New England, not as failure to meet peak loads but as failure to develop the peak loads which would be possible with lower electric rates.

Thus, the report on the New England economy, submitted to the President of the United States in 1951 by the Council of Economic Advisers, points out that "manufacturers in New England have responded to the higher level of rates by holding down consumption." It says further:

"In view of the higher rates and lower consumption per establishment, New England manufacturers have adapted their products and processes to minimize the importance of power costs. In this respect the high costs of power have been a restrictive influence limiting the range of industries in which New England can compete. * * * Any policies which could reduce energy costs significantly would tend to broaden New England's industrial opportunities."

Similarly, a 1952 report prepared for the Boston Federal Reserve Bank by Arthur D. Little, Inc., research-engineering-investigation firm, contains numerous references to the influence of high power costs on the region. Among other things, it points out that "lower power costs should correspond with an increase in productivity per man, and this, in turn, would lead to a higher standard of living."

With final reference to the influence of power policy on economic expansion, I will quote from the foreword of Resources for Freedom (vol. III), by the President's Materials Policy Commission. After emphasizing the strong interrelationships among energy resources, the Commission says:

"Equally important, it (the Commission) wishes to stress the basic importance of ample, low-cost energy, along with technology, as the foundation on which industrial growth is built and a prime essential in supporting national security."

I turn now to Senator Goldwater's apparent misunderstanding of my reference to the underdevelopment of our hydroelectric power which will result from the President's power policy hinted at in the economic report. What I am referring to is the technical fact that determination of the best possible development of given waterpower resources is in terms of assumptions, including the rate of return required. The effect of assuming a high rate of return is, in general, to reduce the size of the works which appear to offer the greatest economic justification.

In other words, privately financed projects tend to be smaller projects, with less storage and, consequently, less contribution to downstream power development. The administration-favored Idaho Power Co. substitute for the proposed Federal high Hells Canyon project is a case in point. If the Federal Power Commission finally licenses the power company substitute, the people will have lost forever some 400,000 kilowatts of hydroelectric capacity which the Federal project, as part of the Columbia Basin control plan, would provide. The Montana Power Co.'s selection of the Buffalo Rapids project in another part of the Columbia Basin is another case in point. Construction of this project would prevent future construction of the proposed larger Federal Paradise project.

In 1949, in replying to a request from Senator Saltonstall of Massachusetts, the Federal Power Commission explained the wide difference between its estimate of over 3 million kilowatts of undeveloped hydro in New England rivers and private company estimates of about 500,000 kilowatts as in part due to the different assumptions involved in planning public and private developments. Just in terms of fixed charges it is my understanding that the New England-New York Inter-Agency Committee, which will report this summer on the possibilities of resource development in the river basins of that region, figures that projects would be economically justified for public construction which, with private fixed charges, show only a 0.7 to 1.0 benefit-cost ratio.

Let us turn next to the conclusion which both Senator Goldwater and Assistant Secretary of Interior Aandahl would have drawn, that Federal abdication in the field of waterpower development has led to a tremendous increase in activity toward development of hydro under the President's partnership program. To correct the picture, I need only point out that the bulk of this activity is in the Pacific Northwest and that most of it involves no more than the staking out of claims, through applications to the Federal Power Commission for preliminary permits. As yet, there have been no new starts to meet the threatened power shortage in the region as there would have been if the orderly Federal program had proceeded.

Furthermore, the fact that public power agencies have filed declarations covering about half the capacity involved in this activity in the region is not due, as Secretary Aandahl implies, to a release of local desire to construct these very large projects, but to a determination to keep the sites from falling into the hands of private power monopoly.

The people of the Pacific Northwest, who are behind these public applications, would much prefer their construction by the Federal Government as parts of the comprehensive development of the entire basin. They are convinced that this would provide greater assurance of full economic development of the region. But they also know that five privately owned power companies have joined to form the Pacific Northwest Co., with openly avowed intent to take advantage of the President's new "partnership" policy. And they know that the charter of this new company is broad enough to enable it not only to develop Columbia Basin power but also to purchase or lease Federal hydroelectric projects and transmission systems. They have been placed in the position of having to act as best they can to ward off ultimate private monopoly control of the country's greatest power stream, with its potential of more than 30 million kilowatts if federally developed.

And at this point it should be remarked that Senator Goldwater confuses the partnership issue when he refers to the present administration's partnership arrangement as the alternative of Government assumption of full responsibility. Actually, the issue is between two kinds of partnership: The first, which Congress has consistently incorporated in all Federal power legislation since the Reclamation Act of 1906, makes the Federal Government, as one source of power supply from Federal projects, the partner of distributors of electricity, with a preference for communities that have chosen public or cooperative ownership of their power systems. The second—the new administration approach—would make the Federal Government, as constructor of water-resources projects involving potential hydroelectric power, partner with non-Federal agencies (mainly private) which would own the project power works and market the power.

Due to the very nature of the power industry, this would mean that power from the new partnership river basin projects would be available to communities exercising the very important American right to choose public or cooperative ownership only through the tollgates of private monopolies. And the whole history of the past generation indicates that this would immediately eliminate the competitive influence which has kept down the rates that such systems have had to pay private power companies for their power supply. This can be graphically illustrated by a map showing by States the average charge to rural electric cooperatives for purchased power.

If Senator Goldwater will examine the reports of the Federal Trade Commission, to which I have already referred, he will find that the organizers of the Insull-dominated drive to eliminate municipal electric competition in the

1920's sought to accomplish this, in part, by causing municipal electric systems to pay higher prices for power supply purchased from private power systems. This is why it is so important to recognize that the right of American communities to choose public or cooperative distribution of electricity includes the right to secure the approval of Congress for projects which will assure them low-cost wholesale power supply, without being accused of advocating Federal power monopoly.

This approach has been recognized as sound by conservationists from the very start of the movement and was embodied in the original Federal Water Power Act of 1920. The legislative history of this act shows that Congress deliberately accorded to the Federal Government itself the first right to develop any waterpower resource, followed by a second preference to States and municipalities. This accords naturally with the requirement that any project must be best adapted to a comprehensive plan for development of the river for all purposes. Thus the preference in connection with the marketing of power from Federal projects is carried into the very authorization of the projects themselves. It is a preference for public development.

In this connection I am glad to find Senator Goldwater endorsing the rural-electric program. And I am sure he recognizes how closely it is related to the Federal power program of which the TVA was the pioneer, and that the partnership which he sees in the REA program involves providing not only low-cost financing but also low-cost power, to assure the financial feasibility of areawide rural service. This is particularly true where the number of farms per mile of line is relatively low. In other words, both phases of the bona fide Federal partnership are necessary to get away from the cream-skimming rural-electric program of the private-power companies which inevitably leaves many farms without electricity and all the other elements of civilized living which it brings.

As already indicated, the very possibility of Federal power supply, as an alternative, has been invaluable to rural electric cooperatives in securing low-cost power from private systems.

In my comments so far I have tried to suggest some facts about the power industry which may help to clarify thinking on the basic issues raised by Senator Goldwater's comments on my original statement. There are a number of other points where he challenges my interpretation of figures and trends on which I should comment, very briefly.

Thus, the 19.8 percent margin of reserve power capacity, which Senator Goldwater and Assistant Secretary Aandahl both cite, reflects a period in which the Office of Defense Mobilization has been very generous to private power companies in providing them with what amounts to free capital through "quick amortization" tax savings, at the expense of the American people. The falling off in proposed new investment in additional generating capacity, to which I referred in my original statement, may well reflect a reductiton in this type of subsidy and could quickly reduce this reserve margin. In this connection, Senator Goldwater's suggestion that we wait until 1990, to determine whether private enterprise will meet the challenge of projected load growth, begs the questiton. For failure will be reflected in a slowing down of load growth and, consequently, of expansioen in the country's economy rather than in a last-minute enforced curtailment when supply fails to meet a jump in demand. We cannot afford to wait for this to happen.

Senator Goldwater minimizes generally the contributions which low-cost Federal power supply can make toward reductitons in electric rates and, specifically, the importance to ratepayers of public development of Niagara power. This actually serves to underscore the point which I am making, that it is the marketing of such power in accordance with the congressionally established policy of preference to public and cooperative electric systems, rather than the mere saving in generating costs, which assures the public lower electric rates. In other words, it is the competitive factor that is important.

This brings me to a final point. The American system of power supply has always been a mixed system, including both public and private, and more recently cooperative, conduct of the power business. The competitive influence of either actual or potential public ownership on a local basis has always been present. Thus, as far back as 1882, considered the birth year of central station electricity, there were already 4 publicly owned electric systems in existence in this country and the number of public systems increased by 1923 to more than 3,000.

A reading of the record of the Federal Trade Commission investigation of electric utilities reveals the extent to which private power companies, organized into the Insull-dominated National Electric Light Association, felt the pressure of this public competition and sought to eliminate it. Public power systems at Jamestown, N. Y., Cleveland, Ohio, Springfield, Ill., Hannibal, Mo., Kansas City, Kans., Rochester, Minn., Los Angeles, Calif., and Seattle and Tacoma, Wash., to mention a few, were already providing important rate and service yardsticks before the TVA started to do business. And the very successful Ontario Hydroelectric Power Commission, distributing through municipal systems and rural districts, just across the border in Canada, was proving a constant source of embarrassment, as well as a spur, to private power enterprise in the United States.

As the 1920's developed, however, the industry had reached a point where some Federal participation in providing wholesale power supply became necessary if this 100-percent American combination was to continue. It became necessary (1) because local public power had not proved adequate to stimulate areawide electrification of the Nation's farms and (2) because the industry had progressed technologically beyond the point where small, isolated generating stations were competitive. Furthermore, with the arrival of the 1930's, another need for Federal public power had developed, related to the Government's interest in large expansion of the production of electrometals and electrochemicals, coupled with its further interest in fostering competition in these fields. The larger entrance of the Federal Government into the power field was thus directly related to healthy expansion of the economy and the national security.

It is the American combination of public, private, and cooperative power, with the resulting specialized form of competition adapted to the nature of the industry, which has been responsible for the great progress of this country in the field of power and the contribution of the industry to our expanding economy.

This statement provides a general background for the recommendations in my original statement to the committee. It also serves as my comment on the supplemental statement of Assistant Secretary of the Interior Aandahl which made some of the points contained in Senator Goldwater's statement.

LELAND OLDS.

STATEMENT OF ROLAND R. RENNE, PRESIDENT OF MONTANA STATE COLLEGE

WATER RESOURCES

The President's report concludes that it is desirable to expand investment in facilities for conserving and bringing into economic usage, more of our sol, water, mineral, and other resources. I am in full agreement with this conclusion. The report also concludes that of all our natural resources, none requires more immediate attention than water, and effective conservation, control, and utilization of the Nation's water resources requires energetic implementing of sound policies. I can find no fault with this point.

The report then expresses full approval of the present partnership policy of the Government of developing water resources whereby State and local governments and private interests "are encouraged to provide all physical facilities they can, leaving for Federal execution only those parts of water-development projects which serve national purposes, or which because of great size, or complexity, are beyond the capability of others." The report argues that this approach will accelerate the development of water resources, but will not involve the Federal Government in huge expenditures for operations.

This statement of policy sounds perfectly logical and in principle is basically sound, yet its execution may very easily result in serious damage to the public welfare and to the ultimate growth and progress of our country. The first and probably most important question raised by this policy is whether private development or partnership development result in less than maximum use of a particular resource situation. In the case of water resources, good reservoir and dam sites are definitely limited. Moreover, the structures to be placed upon such sites are of a very permanent nature. Once construction is completed it is difficult and usually impossible to build onto the first structure, or to modify the original structure to any great extent. It is highly important, therefore, that the first structure be one which will make maximum utilization of the site and the water resource. The Nation cannot afford less than the maximum development and use of its water resources in the light of the limited number of good development sites available and the projected future population and demand.

Private development or partnership development in which the Federal Government is cast in a residual role of undertaking only those projects that State and local governments or private interests do not care to or cannot undertake, is certain to result in less than maximum development and use of water resources in many instances. Private interests are ordinarily concerned primarily with immediate needs and with only a part of the total services the water resources may be able to provide. The interests of State and local governments are frequently such that only a part of the total services are of major concern. The Federal Government is the only agency clothed with responsibility for, and concerned with, maximum development of the resource in the interests of the welfare of all the people. It cannot perform this function effectively in a residual capacity, but only in a leading role.

The second question raised by the partnership policy concerns fiscal policy of the Government. The desire to avoid heavy Federal expenditures and to achieve a balanced budget is understandable, but we should not abandon sound water resources development policy simply because traditional budget procedures may result in a bookkeeping deficit. Federal expenditures for construction of water-development projects should be distinguished from Federal expenditures of the usual operation type. Water resources development project outlays which expand the capacity of these resources to support the needs of a growing population, should be set up in an investment account as distinguished from the regular operating budget. Establishment of an Office of Coordinator of Public Works Planning within the Executive Office of the President, as recommended in the report, is highly desirable.

The Nation's public-works policy in 1955 insofar as water resources are concerned, should be one of expanding development over and above the rate in 1954 or 1953. Major multiple-purpose projects in strategic areas should receive careful consideration. Where only strictly local interests are concerned, private interests and local and State governments should be encouraged and assisted by technical and planning staffs of Federal agencies to undertake development. Most projects, however, which will achieve the maximum use of water resources for irrigation and reclamation, river and harbor improvement, and power development, will necessitate use of Federal funds.

In the case of conservation treatment of watershed lands, the head of the Federal agency responsible for the conservation treatment function should execute repayment contracts with organizations representing the primary beneficiaries. These contracts should provide for payment of an annual amount sufficient to cover that part of the annual operation and maintenance costs allocated to conservation treatment, the cost of replacements allocated to conservation treatment, and repayment without interest for a period of not more than 50 years, beginning the first year after the initiation of such conservation treatment of so much of the capital investment allocated to conservation treatment as the agency head annually determines after consideration of ability of the beneficiaries to pay in relation to their net income derived from the project or activity during the preceding year, and to current agriculture production and marketing conditions.

Where flood control services are provided by a given project, agreements should be executed with one or more States or local governments, to provide for payments sufficient to cover that part of the annual operation and maintenance costs allocated to flood control, the cost of replacements allocated to flood control, and repayment without interest and within 50 years, of the capital investment allocated to flood control to a degree corresponding with the production of primary benefits and secondary regional benefits. All remaining flood control costs should be borne by the United States.

Local contributions should be secured to reimburse the United States for any navigation benefits conferred specially upon local interests, otherwise, all navigation costs should be borne by the United States until and unless Congress prescribes a general reimbursement standard after further consideration of charges for transportation by all means, including transportation by water.

The investment of the Federal Government in irrigation projects should be recovered by the head of the responsible Federal agency executing contracts with organizations representing primary beneficiaries, such contracts to provide for payment of an annual amount sufficient to cover that part of the annual operation and maintenance costs allocated to irrigation, the cost of replacements allocated to irrigation, and repayment without interest for a period of not to exceed 50 years from the date of delivery of water for an irrigation area of so much of the capital investment allocated to irrigation as the agency head annually determines after consideration of the ability of the beneficiaries to pay in relation to their net income derived from the project or activity during the prior year, and to current agricultural production and marketing conditions. Similar repayment procedures should be worked out for drainage services.

STATEMENT OF PROF. WILLIAM L. C. WHEATON, UNIVERSITY OF PENNSYLVANIA

During the last 5 years we have built nearly 6 million homes in the United States, a record far above that of any previous 5-year period. Residential construction has averaged between $11 and $12 billions per year, accounting for over half of all private construction, and from 35 percent to 45 percent of all construction activity. This is a record of which we can feel proud, but with which we cannot be content.

While we have been building 1,200,000 homes a year we have not begun to meet our housing needs. Recent building has kept up with the needs for new family formation. It has not been high enough to permit replacement of substandard homes, variously estimated at from 7 to 15 million units. It has not been enough to replace units which are becoming substandard each year. It has not been enough to provide for adequate vacancies to permit reasonable choice in the market or to create competitive conditions.

I have estimated that we need to build 2 million units a year during the next 5 years, with larger amounts in future 5-year periods. By 1965–70 we should be building 2.4 million homes a year. If we were to build at these rates, we would still have 5 million American families living in substandard units in 1970. This study, which is available to members of the committee, also reproduces studies made by other organizations which place total housing requirements at levels substantially above those now being achieved.

These general levels of residential construction are also consistent with the growth of our economy. The proportion of our national product going into housing has declined in recent years to a level below the 1919–35 average. We could devote a slightly declining proportion of gross national product to residential construction and still meet the required construction volumes under circumstances of moderate growth. I submit that a healthy housing economy is not only a result of, but also a cause of, a healthy national economy. In this connection we need to define policies which will contribute to stability and growth. The Housing and Home Finance Agency has never engaged in any research program attempting to analyze the requirements for a stable building industry. Today it lacks the resources and the authority to do so. Its research program has been terminated.

Our present systems of governmental aid to housing have accounted for 40 percent to 50 percent of new residential construction. These are chiefly the FHA program of mortgage insurance and the VA loan-guaranty program. They have been backed up by important credit aids of the Home Loan Bank System and the Federal National Mortgage Association. These programs have cost the Federal Government substantially nothing. They have directly aided nearly half of all building, and indirectly aided probably two-thirds of all building.

If we look further into the housing market, we find that these programs chiefly aid those families who comprise the upper 40 percent of the income distribution. In some areas as many as half of the population appear to be able to afford new homes, but generally the picture is less favorable. Only about a third to two-fifths are really in the market. This fact is emphasized when we realize that only a quarter of eligible veterans have been able to take advantage of the very favorable credit terms offered them. I presume that millions of the remaining three-quarters would like to buy a house but cannot afford to do so.

My analysis suggests that the present volume of home building can be increased slightly with present credit conditions and assuming that we can maintain full employment and a steadily expanding economy. Any decline in incomes would sharply curtail the number of potential home purchasers and might result in a serious decline in building. The present market can be expanded particularly among Negroes who have been most seriously neglected. The next largest opportunity for expansion appears to be in the field of rental housing. A third important area is the rural nonfarm housing market, with farm housing and housing for the aged as other fields for action. These 5 might account for 200,000 units a year and permit construction of 1,400,000 units in good years, or roughly the 1950 level.

If we are to expand into these market areas, we will need some minor revisions of present legislation, a substantial expansion of the activities of the Home Loan Bank System, and of the Federal National Mortgage Association. The last two in particular may also be essential to a stabilization of residential construction volume and the flow of mortgage credit. So much for what we might call conventionally financed housing.

Beyond this we are confronted with a need on the part of families who have steady jobs, earn average wages, are sound risks, and are the backbone of America, but who cannot afford a new home. In Philadelphia the average family earns about $3,700. The home this family can afford must be priced at no more than about $7,400. The lowest priced home on the market today is a little under $10,000. This situation is fairly widespread. It means that Mr. Average American Citizen is not a new-home buyer. I suggest that we should be building about 200,000 to 400,000 homes a year for such families. In my opinion, this need should not be met by public housing but can be met through the normal private channels of home building and home mortgage lending, if we will make Federal credit available for mortgage loans at lower interest rates and for such families. I believe that safeguards can be developed to assure that such a program would not compete with private lending.

I appreciate that some may not look favorably upon this suggestion. On the other hand we are spending billions for highways, and hundreds of millions for other programs, and we are reported to be considering other types of public works expenditures. Housing for millions of American middle-income families constitutes the only completely self-liquidating public-works program that I know of. These families can pay for housing at interest rates that would cost the Government nothing. This is a subject that deserves most careful investigation before we consider other types of employment-creating activity.

Below these middle-income levels there are about 10 to 15 million families who cannot afford new housing and who now occupy substandard homes, who live in slums, urban or rural. Under the Housing Act of 1949 the Congress launched a program to provide public housing for these families through a combination of Federal and local subsidies. The families themselves can and do pay for about half of the housing cost; subsidies make up the balance. That program was well conceived. No better way of meeting this need has yet been devised. Until a better method has been devised we urgently need a resumption of the public-housing program, now substantially stopped. In my opinion it is factually inaccurate and morally deceptive to claim, as some have claimed, that private builders can meet low-income housing needs. They never have, they cannot today, and they will not in the foreseeable future. In any event I would urge a reactivation of the public-housing program as authorized in the 1949 act. This would permit construction of up to 200,000 units a year of public housing.

Finally, let me note that the Government is pushing ahead with the urban-redevelopment program to clear and rebuild slums. This program will shortly be stopped dead in its tracks if public housing is not provided to rehouse the displaced families. Rehabilitation poses the same problems. The present urban-redevelopment program has proven to be a workable and practical method for clearing slums. The size of the present program, however, is too small. We are not clearing slums as fast as they are being created. The program should be doubled in scale.

I would like to mention one other related subject briefly. Any housing development necessitates community facilities: streets, water, sewers, schools, playgrounds, community centers. American communities are hard pressed to supply these, as you know. A community facility public-works program is also our largest potential reservoir of employment-creating works in the event of critical unemployment. The Congress has long recognized this need in the authorization for a shelf of public works. The shelf exists today, but it is pitifully small. Its total size provides less than 3 months of employment at the current rate of public-works expenditures. We need a shelf of works which would provide for at least 2 years of employment at present levels. The local public-works reserve should be built up to about $20 billions, roughly 10 times the present level. We should also consider the feasibility of a Federal guaranty of local bonds to acquire in advance sites for community facilities.

In conclusion let me note that there are urgent needs for research in housing and community development not now being met at all. We desperately need some Federal leadership incentives for metropolitan city planning. We need much more vigorous coordination of Federal-housing and public-works activities. We need five major programs to sustain and expand housing production:

1. Improvement in present programs, particularly directed toward expanding the market among Negroes, for rental housing, and in rural nonfarm areas, and through larger and more stable secondary market and credit facilities.
2. A new program of aid to private housing for middle-income families.
3. A reactivated public-housing program.
4. A greatly enlarged urban-redevelopment program.
5. A greatly enlarged shelf of local community facility-type public works.

(Supplementary statement on statistical needs submitted by Mr. Wheaton is as follows:)

OUR STATISTICAL NEEDS IN THE HOUSING FIELD

Considering the importance of housing in our economy, we are woefully lacking in our statistical resources for evaluating our position, measuring our progress, and planning our future course of action.

Today our principal statistical tools are a census once every 10 years, rather imperfect annual statistics on household formation, and, at long last, quite adequate monthly information on the volume of new home building. We also have reasonably adequate data on activity in the mortgage market and are, of course, well supplied with figures on the activities of the Federal Government in the housing field—FHA, VA, FNMA, HLBB, PHA, URA, CFA. It is largely with this assortment of facts and figures that the builders, the lenders, the city officials, the market researchers, the Federal agencies, and the Congress must make their respective judgments about the current and the future housing situation.

The paucity of our statistical material in the housing field is due in part at least to the mistaken attitude of some businessmen and some legislators that statistics were not essential to the understanding of the housing situation, or for that matter any other segment of our economic life. This point of view was fostered in part by the desire to see Federal expenditures reduced by the elimination of dispensable functions and services.

Fortunately, there has been a marked shift in the businessmen's attitude about the essentiality of statistics during the past year. Powerful industry groups have gone on record as favoring an expansion of the Federal Government statistical program in the housing and construction fields. As a result, the President's budget for fiscal year 1956 calls for: a badly needed intercensal housing survey to update the 1950 census of housing, a survey of expenditure for residential maintenance and repair—the so-called fix-up market—vacancy data on a limited scale, an updating of the 1949 study of the size of builders' operations, and the procurement of information on the characteristics of recently completed homes.

If the entire program is approved by the Congress, it will shed badly needed light upon where we stand in the housing field. As far as meeting our basic requirements, however, the proposed program leaves many serious gaps. If industry and Government are to do an intelligent job in housing, we must have on a current basis data not only on new houses built, but also on the impact upon the supply of conversions and demolitions. In other words, we should know rather than guess what the net change in the housing inventory at least year by year, but preferably monthly or quarterly.

It is well known that housing demand is profoundly affected by the rate at which new families are being formed, as well as by the extent to which existing families shift from place to place. Today our figures on family formation, migration, and mobility are little more than rudimentary. While the Bureau of the Census issues annual figures on the number of households in existence, it cautions against attaching any statistical significance to the indicated annual increment. Good usable data on the annual volume of family and household formation are absolutely indispensable to an intelligent evaluation of the housing situation. Equally important are data that would illuminate the question of the magnitude of the demand generated by migration and mobility.

We need more adequate vacancy data than are to be provided in the proposed statistical program for 1956. We also need come facts on the prices at which both new and used houses are being sold. We need better data on building costs and on the profits and losses of builders. There is much to be done in developing the statistical base which would enable us better to understand the role of FHA and VA in the mortgage picture.

It would be hoping for too much to look for the adoption of a complete housing statistics program in the forthcoming fiscal year. It is important, however, that all who have an interest in the housing situation in this country keep it clearly in mind that the proposed statistical program for 1956 is just a beginning. We must ever broaden our horizons until we have illuminated the entire housing scene with the facts and figures that will show us without question what our goals should be and how rapidly we are moving toward them.

(The following is also made a part of Mr. Wheaton's statement:)

[Reprinted from the Housing Yearbook, 1954, National Housing Conference, Washington 5, D. C.]

AMERICAN HOUSING NEEDS, 1955–70—A PRELIMINARY ESTIMATE—BY WILLIAM L. C. WHEATON, UNIVERSITY OF PENNSYLVANIA

ACKNOWLEDGMENTS

The author wishes to acknowledge the assistance provided by the Housing and Home Finance Agency, Office of the Administrator, Federal Housing Administration and Public Housing Administration; the Bureau of the Census, the 20th Century Fund, the American Federation of Labor, the Congress of Industrial Organizations, the National Association of Real Estate Boards, and the National Association of Home Builders in supplying data for this study. He is especially indebted to several of the directors of research of these organizations for critical comments and suggestions. The conclusions are, of course, those of the author.

Estimates of housing need have been prepared by a large number of organizations and individuals in recent years. During the debates which preceded the adoption of the Housing Act of 1949, leaders of the home-building industry or their spokesmen generally adopted the view that the sustained construction of more than 900,000 dwellings a year was impossible or in any event undesirable. A number of estimates in the range of 600,000–900,000 units per year were proposed to congressional committees considering housing policy.[1] The subsequent achievements of the industry in producing nearly twice the volume suggested by these leaders is evidence of the inadequacy of their estimates.

In 1944 the National Housing Agency estimated postwar housing needs at 1,200,000 units per year. This estimate, called fantastic by some business leaders at the time, has proved to be much closer to subsequently attained levels.[2] On the other hand, even this estimate appears to have understated the potentials of the economy, for it assumed that a very large share of the estimated needs could be met only by the replacement of existing housing. Later and higher estimates by the Housing and Home Finance Agency are based upon similar assumptions.[3]

Perhaps the dominent characteristic of these estimates is their pessimism concerning the economic future of the country. This was most succintly stated by 1 distinguished housing expert in a report prepared for an industry group which suggested that production levels of more than 900,000 units a year would be undesirable because they could not be sustained for more than a short period of time. This expert predicted that the construction of 1.5 million homes would produce immense and immediate instability.[4] These dire consequences have not appeared in the boom-building years 1950–53.

If business leaders and official agencies have underestimated our capacity to produce and consume housing, other estimates of higher requirements have failed to be realized. Thus the National Housing Conference and the American Federation of Labor estimates of the same period, calling for the construction of 1,800,000 units or more per year, assumed very high levels of replacement of existing units, and substantial programs of slum clearance and public housing.[5]

[1] Hearings before the Subcommittee on Housing and Urban Redevelopment of the Special Committee on Postwar Economic Policy and Planning, pp. 1685–1675 ff, 1841, 1986, 2078, 2171 ff, 2210. Washington, Government Printing Office, 1946.

[2] National Housing Agency, Housing Needs, National Housing Bulletin No. 1, Washington, 1944.

[3] Housing and Home Finance Agency, How Big Is the Housing Job?, Washington, 1951.

[4] Miles L. Colean, Future Housing Demand, the Producers Council, Washington, 1948.

[5] Estimates by 14 organizations and persons are summarized in U. S. Congress, 80th Cong., 1st sess., hearings of the Joint Committee on Housing, September 10–19, 1947, pp. 49–55.

Although the Congress authorized these programs, the authorizations were subsequently reduced and have never been carried forward at the levels intended. It is now evident that all of these estimates have underestimated the market demand for new housing under conditions of full employment and high output, and have overestimated the willingness or capacity of the country to replace substandard housing through slum clearance and public housing programs.[6]

ASSUMPTIONS OF THIS STUDY

The major weaknesses of many earlier studies derive from the assumptions, stated and unstated, which underlay them. They have assumed a stable or declining national output while the postwar economy has been characterized by steadily rising employment and productivity. They were based upon population forecasts which have proved to be consistently below subsequent population growth. Estimates of family formation, too, have been substantially below ultimate levels. In their analysis of the housing market itself many of these studies have apparently underestimated the willingness of families to purchase homes, the influence of liberalized federally aided credit upon the market, and the vast extent of suburban building.

The assumptions upon which this study is based are:

1. Continued expansion of our economy, at a steady rate, full employment and continuing increases in productivity.
2. Expenditures for national defense no greater than those of 1953–54.
3. Continued high increases in population and family formation in keeping with a prosperous economy.
4. An active desire on the part of the American people for higher standards of living, including higher housing standards but not at the expense of other essential expenditures.
5. Extension and expansion of Federal and local aids to housing to assist in achieving these goals.

These assumptions will be adhered to in the estimates of this study. It is further assumed that housing will be utilized to the fullest extent possible to stabilize economic trends and to assure continued economic expansion, in short, that housing production will be maintained or increased in the event of marked downturns in economic activity.

FACTORS AFFECTING HOUSING REQUIREMENTS

Future housing requirements are a function of population growth, family formation, migration, losses of housing units, obsolescence and deterioration, undoubling of families, and vacancy and occupancy rates. These factors are influenced to a considerable extent by changing housing standards, changing market preferences, by general economic conditions, and by market demands in the light of available credit. The most important of the above-named factors are discussed in the following sections and are summarized in table 1.

Family formation

Estimates of family formation have been developed from marriage rates, less allowances for divorce, death, and other dissolutions. When so developed the estimates considerably understate housing requirements. While most, but not all, marriages result in additional requirements for separate housing accommodations, few dissolutions of families result in reduced housing requirements. The widow, widower, or divorced person with children will usually give up separate housing accommodations only under strong economic compulsion. An increasing number of aged persons appear to prefer to maintain separate accommodations after the death of the spouse, and this is particularly true where the accommodation is suited to the need of aged persons. Old-age and survivors insurance, private pension plans, aid for dependent children, and veterans' benefits for widows and orphans, are steadily raising the ability of these classes of families to maintain separate households.

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[6] For other estimates, cf. J. Frederick Dewhurst and associates, America's Needs and Resources, Twentieth Century Fund, New York, 1947; Charles Abrams, The Future of Housing, Harper & Bros., New York, 1945; and XII Law and Contemporary Problems 1, 1947.

TABLE 1.—*Factors affecting nonfarm housing requirements per decade* [1]

[Millions of dwellings]

RECURRING REQUIREMENTS PER DECADE

Units required for—	Low	Medium	High
Additional household formation	6.0	[2] 8.0	10.0
Internal migration of families	3.0	5.0	7.5
Replacement of annual losses	1.1	1.3	1.6
Replacement of dwellings becoming obsolete or substandard	2.8	3.8	4.8
Total recurrent	12.9	18.1	23.9

NONRECURRENT REQUIREMENTS

Units required for—	Low	Medium	High
Replacement of dwellings substandard in 1950	6.8	8.3	10.2
Undoubling of families doubled in 1950	1.0	1.2	1.5
Undoubling of single persons	.2	.8	1.2
Overcrowded families in 1950	.5	1.0	1.6
Adequate available vacancies, 1950	1.1	1.6	2.2
Total nonrecurrent	9.6	12.9	16.7

[1] See text for basis. Low may be low estimate or early in the 1955–65 period. High may be high estimate or late in 1955–70 period.
[2] United States Census Series P20, No. 42, 1952, high. The census low of 2.75 could arise only under conditions of disastrous economic depression.

Current estimates of future family formation range from as low as 275,000 per year for the remaining years of this decade to the 2 million per year estimate of the National Association of Home Builders for the later years of the next decade.[7] The marriage rate has fluctuated from under 1 million to over 2.2 million in the last 20 years. The range of net new social family formation shown is from 6 million to 10 million per decade. This does not include single person families which are discussed below in connection with undoubling. If these were to be included in the estimate, the high estimate should be increased.

Migration

The migration of people from one area to another may result in increased housing requirements where in-migration is not balanced by out-migration. Those moving into the country from other countries, and those moving from areas of stable or declining population to areas of rapidly growing population, create such needs.[8] From 25 to 30 million persons move annually, and about a third of these, 8 to 10 millions, move across county lines. There is a steady movement of persons into the country, and of the rural or farm population to urban areas. Of the 10 million persons who moved across county lines in 1950, 9 million were members of families who presumably created demands for about 3 million dwellings.[9] Since a considerable part of this movement is to urban communities in the South and West where it results in net in-migration, it must be presumed that at least between 10 and 25 percent of this movement creates new housing requirements.

Replacement of current losses

The National Housing Agency and the Housing and Home Finance Agency estimate that 40,000 homes are lost each year as a result of fire, windstorm, and other types of demolition. To these annual losses there is usually added 300,000 temporary war and veterans' units required to be removed during the current decade if only by their physical deterioration. Thus it is customary to estimate 70,000 units per year as current losses requiring replacement.

These estimates require radical revision if only in the light of current urban highway construction. A modern superhighway built through developed areas will require clearance of from 250 to as high as 1,000 homes per lineal mile. If each metropolitan area built only 1 mile each year, and if the demolition

[7] Cf. U. S. Census Series P20, No. 42, 1952; NAHB Correlator, February 1954, pp. 4, 5. The National Association of Real Estate Boards estimates these at 700,000 per year currently. Cf. address of Charles B. Shattuck, president, 46th annual convention, November 10, 1953.
[8] Cf. E. E. Ashley, Mobility and Migration as Factors in Housing Demand, Housing Research, October 1953.
[9] U. S. Census Series P20, No. 39, 1952.

requirements in the 5 largest cities were at the upper limit and all others at the lower limit suggested above, the total would exceed 40,000 homes per year.

In some of our largest cities, demolitions resulting from highway construction have greatly exceeded demolitions from all other causes throughout the postwar period. With urgent highway needs measured in tens of thousands of miles, and current Federal aid programs including approximately 30,000 miles, it is clear that losses from this source alone will be exceedingly high for the next 2 decades. For current purposes it is assumed that losses from all causes will be 1,100,000 per decade in the 1950's and 1,600,000 during the 1960's, equivalent to previous estimates of loss plus 1 mile per metropolitan area in the former period and 2 miles per area in the latter.

Other losses not accounted for here include abandonments and conversions to nonresidential use. One expert estimates that the latter alone exceed all extra units gained by conversion. One group of Government officials concerned with housing statistics has reached the tentative conclusion that 200,000 units are lost each year through demolition, abandonment, and conversion, and that 100,000 are gained each year through conversion, for a net loss of 100,000 units. This estimate accords with the estimate above.

Obsolescence and deterioration

More than 6 million of our present housing units were built before the beginning of this century, and will be 60 or more years old by the end of this decade. Many of these are now dilapidated and should be replaced immediately, but many of them are merely old, obsolete, and now deteriorating at a rate reflecting their age. Some 1,400,000 of these units, now standard but becoming 75 years of age or older by 1960, should be replaced during the next decade.

With our present housing stock of over 50 million homes, it will be necessary to replace 500,000 units per year in order to replace homes at 100 years of age. Many hundreds of thousands of fine old homes will doubtless continue to be well maintained, and will retain historical, architectural, and other qualities worth preserving. But the speculative homes of the Gothic period and millions of drab shacks built since 1900 lack these fine qualities. Their useful life as structures, and the useful life of the neighborhoods they comprise, will be long past at 60 years. Applying this standard would necessitate the replacement of 2.8 million homes during the 1960's and 4.8 million in the succeeding decade.[10]

Substandard housing in 1950

Housing standards are not fixed and invariable. A wide range of judgment is involved in determinations of substandardness. What is standard for a primitive economy (mud huts) will be substandard for a more advanced economy. Standards are therefore in part determined by resources. In a society of abundant resources and high output, standards should rise steadily. There is no apparent reason why all American families should not have good homes within the next generation. This was particularly apparent during the 1930's when idle labor and unused materials led to the adoption of Federal aids to housing. The Congress has subsequently adopted a national goal of a "decent home in a suitable living environment for every American family."

Table 2 reveals the most serious inadequacies of our housing supply in 1950. For many years official agencies have used the standards of structural soundness and lack of plumbing facilities as measures of substandardness. Opinion has varied as to whether farm or country homes which lacked running water should be considered substandard. Under the assumptions of this study, of a rising standard of housing, all dwellings, rural and urban, should have interior plumbing.

According to the most recent census of housing, 10 million nonfarm dwelling units were dilapidated or lacked running water. This number includes farm residences in standard metropolitan areas. In addition to these dilapidated or substandard structures, 1.9 million other units were located in blocks containing more than 50-percent substandard units. These units contain structural and plumbing deficiencies not sufficiently serious to be recorded by the census, but their environmental substandardness is clear. They would almost certainly be razed in any slum-clearance program.[11]

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[10] The NAREB estimate of demolition requirements is 300,000-400,000 per year. Cf. Shattuck, op. cit.

[11] Slum-clearance projects to date involve clearance of 20 percent of standard units and 80 percent substandard units. The proportion in the blocks mentioned above is 28–72 percent.

4.9 million farm homes below par

Only 23 percent of our farm-housing units meet these urban standards. Thus by census criteria and urban standards, 4.9 million farm homes are substandard. The Department of Agriculture surveys of farm housing suggest, however, that by farm standards, only 3.4 million farm homes are substandard, 2 million of which contain serious deficiencies requiring replacement, the remaining 1.4 million being remediable.[12]

TABLE 2.—*Substandard dwellings requiring replacement or rehabilitation, 1950*

[In thousands]

	Substandard	Requiring replacement	Requiring rehabilitation
Urban housing:[1]			
Dilapidated	2,217	2,217	
Lacking plumbing or running water	4,721	2,725	1,996
In substandard blocks[2]	1,993	1,993	
Total urban	8,931	6,935	1,996
Rural nonfarm housing:[3]			
Dilapidated	1,131	1,131	
Lacking running water	1,841	614	1,227
Total rural nonfarm	2,972	1,745	1,227
Nonfarm total	11,903	8,680	3,223
Farm housing:[4]			
Serious deficiencies	2,024	1,524	[5](500)
Other deficiencies	1,405		1,405
Total farm	3,429	1,524	1,405
All housing	15,332	10,204	[5] 4,628

[1] All housing in standard metropolitan areas.
[2] Additional dwellings in blocks more than 50 percent substandard.
[3] Nonfarm dwellings outside standard metropolitan areas.
[4] Deficiencies based on U. S. Department of Agriculture data.
[5] 500,000 dwellings abandoned and not replaced.

Not all substandard dwellings need be demolished and replaced. A basically sound structure, lacking running water or a toilet, may be brought up to standard by relatively minor repairs and the installation of plumbing facilities if the structure is located in a sound neighborhood. On the other hand, where the structure is located in a slum, the installation of plumbing or heating facilities may be economically unsound. The rents required to finance the improvements may exceed the levels which renters are prepared to pay in slum areas. While precise data are lacking on the location and character of all housing units which are substandard because of plumbing deficiencies, data are available on 2.7 million urban units in substandard areas. It is reasonable to assume that these must be replaced. The remaining 1.9 million are in relatively scattered locations and may be brought up to standard. It is further assumed that two-thirds of the rural nonfarm units which are substandard because of plumbing deficiencies may be rehabilitated. One-third would then require replacement.

Of the 3.4 million substandard farm units, 2 million with serious deficiencies are beyond repair, but 0.5 million of these may be abandoned, leaving a 1.5 million replacement goal.[13] It is assumed that all of the remaining substandard units can be rehabilitated. Thus, of the 15.3 million substandard units in 1950, a total of 10.2 million must be replaced, 4.6 million must be rehabilitated, and 0.5 million abandoned.

Undoubling

In recent years the number of doubled-up families has been reduced steadily. Nevertheless over 1.7 million social families were still without separate housing

[12] This report draws upon tabulations of Census and Agriculture Department data prepared for a new edition of America's Needs and Resources, by J. Frederick Dewhurst and Associates, Twentieth Century Fund, to be published in fall, 1954.
[13] Census figures suggest 3.2 substandard farm units, of which 2.4 are dilapidated.

accommodations in 1950. An unknown proportion of the doubled families and single persons prefer to share housing accommodations with others for health or other reasons. For many, however, doubling up continues because of economic necessity or housing shortage. Under conditions of sustained prosperity and more adequate social security and old-age allowances, the number of doubled families should be reduced steadily. It may be assumed that under these conditions upwards of two-thirds of these families might prefer separate accommodations.

Single person families

In addition to these families, there were in 1950 some 10 million adult single persons not in families, of whom about one-third occupied separate households. This number may be expected to increase sharply with sustained prosperity. An important future influence upon single person families is the growing number of aged persons able to maintain separate accommodations. If one-tenth of these persons, those with incomes of over $3,500 per year, were to establish separate households a million additional housing units would be required. Thus the combined undoubling of families and single persons during the next decade might vary from 1.2 million (two-thirds of married doubled, no single) to 2.7 million (all married doubled and one-tenth of single).

Overcrowding

In 1950 over 6.6 million families (census households) were living in dwelling units which provided more than 1 person per room.[14] More than 2.5 million families were seriously overcrowded with more than 1.5 persons per room.

During the postwar years, several million young couples purchased small two-bedroom houses with floor areas far below those considered acceptable in prewar years. The continued high rate of births and the steady rise in the number of second, third, and fourth children born suggests that a larger proportion of these owners of too-small houses already are seriously overcrowded and that this number will increase.

Because of the overlap between families overcrowded and families living in substandard homes, only a quarter of the number of overcrowded homes are shown with other measures of need in the summary table. The range of estimates is from one-fourth of units containing more than 1.5 persons per room to one-fifth of units containing over 1 person per room. Under the assumptions of this study, a rising standard of housing should not require 5-person families to live in 2-bedroom homes. The estimates therefore leave three-fourths of the undoubling problem for future decades.

Vacancies

The number of vacancies required to permit freedom of choice in the market and to allow for mobility has been variously estimated at from 3 percent to 6 percent of supply. The number of available vacancies in recent years has been only about one-fourth of the nominally vacant units, a large proportion of which are dilapidated, seasonal, or not on the market. To achieve an available vacancy rate of 3 percent it might be necessary to have at least a total of 6 percent vacancies. A further consideration is raised by our annual volume of family movements, involving nearly 28 million persons including about 3 million families in 1950–51.[15]

PROGRAMING HOUSING NEEDS

The total housing requirements shown in table 1 suggest that we must build from 1.3 to 2.4 million units per year to meet our growing housing needs and must in addition replace accumulated deficiencies of the past of from 9 to 16 million units. Clearly all of these needs cannot be met at once, nor would it be economically wise to do so. Some of these needs tend to overlap, i. e., new family formation and undoubling, replacement of substandard houses and provision of homes for overcrowded families. Some orderly basis is required for estimating the changing volume of current housing requirements and for scheduling the replacement of existing substandard units. The first of these requirements will be served by the measure of household formation.

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[14] U. S. Census, Housing Census, vol. I.
[15] A 5-percent rate is considered desirable by the realtors; cf. Shattuck, op. cit.

Household formation

Census projections of household formation involve circular reasoning to some extent since household formation is in some degree dependent upon the volume of residential construction and remodeling. Nevertheless census definitions of households have been sufficiently loose to reflect the improvised housing conditions which families desiring separate accommodations have adopted in the past. Thus the room or rooms with an electric hotplate and a shared bath, occupied by a man and wife, are a household to the census taker. These conditions reflect an active desire for separate dwelling accommodations whether or not that goal has been reached in some more refined sense. The census household thus reflects in part the housing shortage.

Household size has declined steadily for the last generation. The decline was approximately the same in periods of prosperity and depression as is shown in table 3. This decline in average household size reflects both the smaller size of families containing two or more persons, and the larger number of single person families who desire and can afford to maintain separate housing accommodations. It is a measure also of rising standards of housing space and privacy. Continued declines in household size would reflect continued increases in housing standards in this sense.

TABLE 3.—*Population and average household size, 1930–70*

Year	Population (millions) [1]	Average household size [2]
1930	122.7	4.01
1940	131.6	3.67
1950	151.6	3.39
1955	164.8	[3] 3.35
1960	174.4	[3] 3.1
1965	189.9	[3] 2.95
1970	204.4	[3] 2.80

[1] U. S. Census. Series P.—25 No. 78, 1953.
[2] U. S. Census. P-20 No. 41, 1952; and P-20 No. 35, 1951.
[3] Straight line projection of 1930–50.

The total future population of the United States is also shown in table 3. This is the most recent high estimate of the United States Bureau of the Census, and is thus consistent with assumptions of sustained prosperity. It should be noted that census estimates for the last 20 years have generally underestimated future population growth. Absolute and specific birthrates and marriage rates have been higher, and death rates have been lower than those used in even the so-called high projections. Under conditions of sustained economic growth, these estimates may well prove below actual growth.

Total population and average household size have been used to project housing requirements by 5-year periods from 1955 to 1970 in table 4. Using this method, it is first necessary to reduce the total population by the number of persons not in households. An arbitrary percentage, approximately that of 1950, has been used as a constant. A 20 percent increase in this constant would reduce annual construction requirements by 4 percent in 1960. The resulting population in households is divided by a straight-line projection of the 1930–50 trend in number of persons per household. The result is increased by 4 percent to allow for necessary vacancies.

The method suggests the number of housing units which will be required at different future dates and the annual volumes of construction required during successive 5-year periods to achieve this stock. The population used is total population, farm and nonfarm. The housing units shown as required would be necessary to accommodate future population growth, future reductions in family size, increases in the number of single persons desiring separate accommodations, and reductions in the number of nonfamily households. The measure accounts for the undoubling of families now doubled. Finally, as used here, the measure assumes the same rate of progress in the relation between population and housing that obtained during the last 20 years.

The table indicates that we will require approximately 1.43 million new units per year from 1955 to 1960, 1.65 million new units per year from 1960 to 1965, and 1.74 million new units per year from 1965 to 1970 to house our growing population adequately. It should be noted that this measure produces results which are below the medium estimates of need in table 1. The method is used, nevertheless, because it suggests time periods within which houses are needed.

TABLE 4.—*Estimated changes in population, household size, number of households and dwellings required, 1955–70*

	1955	1960	1965	1970
Population (millions)	164.8	174.4	189.9	204.4
Less population not in households [1]	4.9	5.2	5.7	6.1
Population in households (millions)	159.9	169.2	184.2	198.3
Average household size [2]	3.35	[3] 3.1	2.95	2.80
Number of households (millions)	47.70	54.58	62.44	70.82
Plus vacancies, 4 percent (millions)	1.90	2.18	2.50	2.83
Total dwellings required (millions)	49.60	56.76	64.94	73.65
Additional dwellings required during preceding period (millions)		7.16	8.28	8.71
Average annual construction required during preceding period [4]		1.43	1.65	1.74

[1] Assumed 3 percent.
[2] Table 3.
[3] A lower rate of reduction in average household size would be:

Average size	3.15	3.0	2.90
Number of households	53.71	61.40	68.38
Total dwellings	55.86	63.86	71.11
Additional dwellings	5.44	8.00	7.25
Annual construction	1.09	1.60	1.46

[4] See text for explanation of relationship between family and household size. These estimates include needs arising from new family formation, undoubling, required vacancies, changes in family size, and increases in number of persons or families using separate housing accommodations.

Replacement rates

In addition to these requirements for new population and new families, the Nation must replace the 10.2 million substandard units requiring replacement shown in table 2. If these units were to be replaced in the period 1955–65 we would have to build nearly 2.5 million homes in each of these years. This could not be accomplished in the immediate future without inflationary pressures, unless other construction drops seriously and unless there is a substantial drop in armament production. From a purely housing standpoint, it would be undesirable to attempt any such volume of replacement until new homes are available to accommodate those displaced from substandard homes.

For these reasons it would appear to be both economically and socially desirable to spread the replacement task over a 20-year period. If this were done, the volume of current construction would have to be increased steadily and rapidly, but within magnitudes which could be readily achieved by the building industry. Such a program would permit relocation to proceed in a more orderly and humane fashion, and would be more nearly in keeping with the capacity of our cities to plan for slum clearance and redevelopment.

Finally, if the replacement job is scheduled over a 20-year period, the annual volume of new building for replacement will be stabilized over a 30-year period. For by 1975, when the job of replacing our 1950 substandard homes is completed, we will have to continue replacement construction at the rate of 500,000 units per year merely to replace dwellings then becoming 70 years old. Indeed a stepup of replacement construction to a level of over 600,000 units per year would be necessary to cover the 1950–70 backlog of deteriorated dwellings during the succeeding 20 years.

TABLE 5.—*Additional dwellings needed, 1955–70*

[In millions]

	1955–60	1960–65	1965–70
For additional households and vacancies	1.43	1.65	1.74
For replacement of 1,900 substandard dwellings	.50	.50	.50
For annual losses	.10	.13	.16
Total additional construction requirements	2.03	2.28	2.40

Construction program

Requirements for additional residential construction for new household formation, and for replacement of units substandard in 1950, are set forth in table 5. Additional housing needs are those shown in table 4, ranging from 1.43 million in 1955–60 to 1.74 million in 1865–70. Replacement of the 10 million 1950 substandard units is spread over 20 years at 500,000 per year. To these must be added replacement of current losses here scheduled at 100,000 to 160,000 per year or somewhat below the estimates shown in table 1.

The resulting new construction requirements are 2.03 million per year for the period 1955–60, 2.28 million for the period 1960–65 and 2.40 million for 1965–70. In periods after 1970 the new construction rate should be above 2.60 millions.

Some part of these requirements could be met, of course, by the conversion of existing larger homes and apartments into smaller apartment units. When conversions are made without structural and plumbing changes, they usually produce substandard or nearly substandard units. When accompanied by structural changes and the installation of needed plumbing facilities, satisfactory housing can be provided.

The total number of such potential conversions is substantial, but proportionately small. There were only 3.3 million units in the United States in 1950 with 8 rooms or more. Most units which were suitable for conversion must have been converted during the acute housing shortages of the war and postwar years. Many others are poorly located for rental use or are in areas zoned for single-family use only, or are dilapidated. If 25 percent of these 3.3 million units are still not converted and are legally, economically, and structurally convertible, and if half of them are converted during the next 10 years, this would reduce new construction requirements by only 40,000 units per year. The smaller size of houses built since 1920 makes improbable any large volume of conversions in the future.

Rehabilitation

In addition to new construction requirements, we have an estimated 4.6 million units which were substandard in 1950 and were presumed suitable for rehabilitation. If 400,000 of these units were rehabilitated each year for the next 5 years and 600,000 per year were rehabilitated thereafter, the 1950 backlog of substandard rehabilitation units could be eliminated by 1965. By that time the large volume of obsolete dwellings becoming 60 years of age should provide opportunities for sustaining this level of rehabilitation activity.

Data from the 1950 census indicate that only 500,000 of the nonfarm units which were substandard for lack of plumbing facilities are occupied by families with incomes of more than $4,000. These should provide a ready market for modernization. An additional 500,000 units occupied by families with incomes of $3,000 to $4,000 may also be rehabilitated if sufficiently liberal credit is available for these purposes.

The remaining 2.2 million nonfarm units, occupied by low-income families, of which 1.6 million have incomes of less than $2,000 per year, may present greater difficulties as will the modernization of 1.4 million farm homes. Only an aggressive campaign is likely to achieve the schedule set forth above.

Schedules for slum clearance or perpetuation

The construction program outlined above requires that new housing construction be increased by 80 percent over the 1951–53 levels and by 40 percent over the 1950 level. Any lesser volume of construction means that our slums and substandard housing will continue to accumulate and will never be reduced or eliminated. The consequences of different levels of construction and rehabilitation are summarized in table 6. If new construction continues at slightly above the 1951–53 average, and if in addition we can rehabilitate 400,000 to 600,000 units per year, the number of substandard units in use will increase by 2 million in the next 15 years. This means that substantially all of the 15 million units which were substandard in 1950 would still be occupied by American families in 1970.

At construction levels of 1.4 to 1.6 million units per year, approximately the 1950 rate, slight progress is made in reducing the number of substandard units capable of rehabilitation.. No elimination of the 10 million units classified for replacement appears possible. At 1.6 to 1.8 million new units per year, all of these 10 million units must be continued in use until 1965 and 1 million of these can be replaced by 1970.

Only if new construction is raised to 2 million units a year is real progress possible toward the elimination of units substandard in 1950. At the construction and rehabilitation rates shown in table 5 some 5 million of the present substandard units can be eliminated by 1960, but in 1970 some 5 million will still be required in use. Table 6 suggests that 2 million new units per year are essential for even slow progress toward the goal of a decent home for every family. Any lesser level perpetuates the slums.

COMPARISON OF NEED ESTIMATES

The estimates of housing need prepared by six national organizations or agencies in recent years range from 1.4 million units per year to 2.4 million units per year. The standards, methods of estimation and programs of these studies vary widely. Some include farm-housing, others deal only with nonfarm housing, some cover only the period to 1960, others project needs through 1975. Table 7 presents these estimates on a comparable basis, utilizing the standards adopted by each organization. The table shows a remarkable degree of agreement as to the inadequacy of present construction levels. Current needs for new construction are 1.4 million nonfarm units per year or 27 percent above present levels in all estimates.[16] Most of the estimates place current total requirements at or above 2 million units per year. A similar degree of agreement appears in the three estimates with respect to long-range requirements for new family formation. Here the range is from 1.8 to 2 million units per year.

ECONOMIC FEASIBILITY

The levels of residential construction proposed by this report are well within the limits of economic feasibility as measured by past output. In 1925 the Nation applied 6.5 percent of its gross national product to nonfarm residential construction, and in 1950, 4.4 percent of our national product was devoted to housing. These were boom years. Housing investments in other years are shown in table 8 as a percentage of national product. Over an entire building cycle, 1919–35, the average was 3.9 percent. This may be assumed to be a reasonable normal ratio of housing investment, one which can be increased substantially in favorable years.

With the sustained economic growth assumed in this report, national income should increase steadily. If this increase is continued at substantially less than the rates of recent years, our gross national product should reach the levels shown in table 9. The annual rate of growth here used declines from 3.6 percent per year to 2.1 percent per year over the period in the low estimate and is stable at 3.5 percent per year in the moderate estimate. This latter rate of growth corresponds to that used by the President's Materials Policy Commission in its projection of future economic growth.[17]

It is assumed that prices will be stable over this period, and that the average dwelling unit cost can be held to $8,000 or less. This assumes that building volume will include a relatively high proportion of low and moderate cost units. These assumptions are substantially below current average house prices. Building costs used in production analysis are well below home prices used in consumer cost analysis. Farm construction is excluded from table 8 but is included in table 9. Modernization expenditures are therefore excluded from the latter table.

Even at relatively slow rates of growth, housing goals can be achieved at the 1919–35 ratio of residential investment and at substantially below the 1950 rate. At the rates of economic growth of the last 2 decades, the expenditures for housing would be reduced to 3.2 percent. In short, if we continue to spend no more of our income than we have in the past, and if our economy continues to grow at a steady rate, we can afford to build from 2 million to 2.4 million homes per year in the next 15 years. Under favorable circumstances, lower ratios of expenditure will produce even more housing than these estimates require.

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[16] The Fortune estimate includes maximum demands (not needs) as shown in the table. Its estimated minimum demand of 1.1, 1.6, and 1.8 million units in successive 5-year periods relates to market demand rather than replacement and new need.

[17] U. S. President's Materials Policy Commission, Resources for Freedom, Washington, 1952, vol. 1, pp. 1–10; vol. 2, pp. 96–113.

TABLE 6.—*Projections of substandard dwellings remaining in use at various levels of construction and rehabilitation, 1955–70*

[In millions]

Annual construction and rehabilitation volumes	Substandard dwellings remaining in use			
	1955	1960	1965	1970
New construction: 1,200,000 units, 1955–60; 1,400,000 units, 1960–70	15	14	15	17
Rehabilitation: 400,000 units, 1955–70				
New construction: 1,400,000 units, 1955–60; 1,600,000 units, 1960–70	15	13	13	14
Rehabilitation: 400,000 units, 1955–70				
New construction: 1,600,000 units, 1955–60; 1,800,000 units, 1960–70	15	12	10	9
Rehabilitation: 400,000 units, 1955–60; 600,000 units, 1960–70				
New construction: 2,000,000 units, 1955–65; 2,400,000 units, 1965–70	15	10	7	5
Rehabilitation: 400,000 units, 1955–60; 600,000 units, 1960–70				

TABLE 7.—*Various estimates of housing need, converted to comparable basis, 1955–70*

[In millions]

Organization	1955–60	1960–65	1965–70
American Federation of Labor [1]	2.1		
Adjusted for farm housing [2]	2.3		
Fortune Magazine [3]	1.4	1.6	1.8
Adjusted for farm housing [2]	1.6	1.8	2.0
Housing and Home Finance Agency [4]	1.4		
Adjusted for farm housing [2]	1.6		
National Association of Home Builders [5]	1.4	2.0	[6] (2.0)
Adjusted for farm housing [2]	1.6	2.2	
National Association of Real Estate Boards [7]	1.5		
Adjusted for farm housing [2]	1.7		
National Housing Conference [8]	2.0	2.3	2.4
Twentieth Century Fund [9]	1.8		
United States President's Materials Policy Commission [10]		1.6	
Adjusted for farm housing [2]		1.8	

[1] Statement of the A. F. of L. Executive Council, Chicago, Aug. 12, 1953, p. 3.
[2] 200,000 dwellings per year added for farm housing. This is the low estimate of farm housing needs prepared by the Housing and Home Finance Agency, cf. note 4.
[3] Fortune, February 1954, pp. 103–104. This estimate is for market demand. A lower estimate is also presented. See text note.
[4] How Big Is the Housing Job? Washington, 1951, p. 13. The adjustment for farm housing is based upon p. 14.
[5] National Association of Home Builders Correlator, February 1954, pp. 4–6. The statement does not explicitly refer to farm and nonfarm housing, but is based upon nonfarm data. This estimate excludes 750,000 dwellings for rehabilitation in lieu of replacement dwellings which are included in other estimates. Thus comparative figures might better be 2, 2.5 for nonfarm construction. The report calls for 2 million new or "new condition" dwellings per year.
[6] After 1970, estimate is for 2 million per year for additional new dwellings. No estimate of rehabilitation or replacement after 1965.
[7] Speech of Charles B. Shattuck, president, National Association of Real Estate Boards, New York Times Nov. 11, 1953, p. 48. The text indicates that the reference is to housing demand, not need. It is estimated that there is demand for 1.1 to 1.4 million dwellings. The figure quoted above is therefore the high demand.
[8] Farm housing included. Rehabilitation of 0.4 to 0.8 million dwellings excluded since these do not add to supply.
[9] Manuscript of forthcoming edition of America's Needs and Resources, J. Frederick Dewhurst and Associates, Twentieth Century Fund, to be published in the fall of 1954.
[10] Resources for Freedom, Washington, 1952, vol. I and vol. II. This estimate is the volume required for the entire period 1950–75. The estimate is presumably lower in the early years and higher in the later years

MARKETING 2 MILLION HOMES A YEAR

The marketing of 2 million homes a year will present real challenges to the housing industry and to Government. Data are lacking on many of the most important variables which will affect the willingness of people to buy or rent new homes. These include changes in the distribution of incomes, mobility, the income and price elasticity of demand for housing, and the extent of the required or desired movements to suburban areas.

Intensive research on housing markets is necessary if we are to achieve our housing goals in an orderly way. Despite these limitations in our knowledge concerning the housing market, some broad relationships may be outlined with respect to the immediate future.

TABLE 8.—*Gross national product and new residential construction, selected years*

[Billions of dollars]

Year	Gross national product	New nonfarm residential construction	Percent
1919–35 average [1]	$73.3	$2.9	3.9
1939 [2]	187.9	7.1	3.8
1940 [2]	205.7	7.6	3.7
1950 [2]	320.1	14.1	4.4
1951 [2]	343.6	11.5	3.3

[1] American Housing, Twentieth Century Fund, appendix C, table 13.
[2] Economic Report of the President, 1954, table G-2. Prices are in 1953 dollars.

There appears to be a wide measure of agreement that approximately 1 million to 1.2 million homes can be sold or rented under economic conditions similar to those of 1953 and with the then available FHA and VA credit aids. Leaders of the National Association of Home Builders, the National Association of Real Estate Boards and other trade organizations have expressed such judgments repeatedly during the past year.[18] These estimates accord with projections in the forthcoming Twentieth Century Fund study.

Table 10 shows the income distribution of families of 2 or more persons in 1949–51 and also shows 42 million families distributed in proportion to 1951. The startling increase in incomes between 1949 and 1951 with its consequences for future housing markets are apparent. The number of families with incomes over $4,000 increased from 10.7 million in 1949 to 16.8 million in 1951. This should indicate at least 20 million such families before 1960, which might sustain a market of 1 million homes a year. In addition there are demands created by single persons, undoubling and mobility.

Importance of full employment

Table 10 also emphasizes the direct relationship between full employment and housing markets. Any slackening in employment or economic growth tending to recreate the income distribution of 1949 would sharply reduce the possibilities for sustaining large volumes of new home sales and rentals. It would normally result in price declines, decreases in construction and increases in vacancies which would defer or prevent the development of an adequate housing supply and the replacement of substandard housing.

TABLE.—*Projections of gross national product and new residential construction, 1955–70*

Period	Average projected gross national product (billions)		Number of new dwellings (millions)	Gross cost [3] (billions)	Percent of gross national product	
	Low [1]	Moderate [2]			Low	Moderate
1955–59	$416	$431	2.03	$16.1	3.9	3.8
1960–64	472	508	2.28	18.2	3.9	3.6
1965–69	534	604	2.40	19.2	3.6	3.2

[1] Gross national product increased from $390 billion in 1955 by a constant amount of $12 billion—or at a rate declining from 3.6 percent to 2.1 percent per year.
[2] Rate assumed by the Paley Commission. Gross national product increased by 3.5 percent per year (the 1925–50 rate).
[3] Assumed cost per dwelling is $8,000.

[18] Cf. National Association of Home Builders, NAHB Correlator, February 1954, pp. 4–6, and New York Times, January 22, 1954, p. 44; National Association of Real Estate Boards, speech of Charles B. Shattuck, president, New York Times, November 11, 1953, p. 48; Miles L. Colean, New York Times, November 13, 1953, p. 42.

TABLE 10.—*Family income distribution, 1949–51*

[millions of families]

	Nonfarm 1949 [1]	Nonfarm 1951 [2]	1951 income distribution applied to future non-farm families
Under $2.000	10.0	5.6	6.8
$2,000 to $3,000	6.4	5.1	6.2
$3,000 to $4,000	6.6	7.2	8.7
$4,000 to $6,000	6.8	10.0	12.1
$6,000 to $10,000	3.8	5.4	6.6
$10,000 and over	1.1	1.4	1.6
Total	34.7	34.7	42.0

[1] Unpublished tabulations of owner- and renter-occupied units, United States census, 1950. Families not reporting certain housing items are excluded from the tabulations.
[2] United States census, series P–60, No. 12, 1953. These are families of 2 or more persons, and exclude single-person families. The former are believed to be more representative of heads of households shown in the first column.

TABLE 11.—*Family incomes, 1951, and incomes of buyers of new FHA-insured houses, 1952*

	1951 income [1]		1952 FHA 203 new home buyers [2]	Distribution of homes requiring less than 20 percent of income [3]
	All families	2 or more persons		
	Percent	*Percent*	*Percent*	*Percent*
Under $2,000	25.0	16.2		
$2,000 to $3,000	15.4	14.7	2.9	0.2
$3,000 to $4,000	18.9	20.8	30.1	17.9
$4,000 to $6,000	24.4	28.8	41.4	39.5
$6,000 to $10,000	12.9	15.6	[4] 22.6	37.1
$10,000 and over	3.8	3.9	[4] 3.0	5.2
Total	100.0	100.0	100.0	100.0

[1] United States Census, PC—60, No. 12, 1953.
[2] HHFA Annual Report, 1952, p. 300.
[3] Computed from idem.
[4] Data adjusted to fit class interval.

Current marketing practices are revealed by table 11 which shows the distribution of incomes of families of two or more persons in 1951 in contrast to the incomes of buyers of new FHA-insured homes.[19] The table indicates that substantially no homes were sold to families in income groups comprising 30 percent of all families and that only a third of FHA buyers were in income groups representing over half of the market. This is not fully representative of all new residential construction since it appears that non-FHA homes include more higher-priced homes, and more lower-priced homes, although most of the latter may not meet FHA standards and many of them may be substandard when built. In addition, a very large proportion of FHA homes in the lower price brackets are purchased by families who will spend more than 20 percent of their income for housing. Indeed, some of these families are spending nearly 50 percent of their incomes for housing. Of the FHA buyers with incomes between $200 and $250 per month, 97 percent were spending more than 20 percent of their income for housing. A safe rule would be that families should not spend more than 20 percent of their incomes for housing and most families above the lowest income groups spend substantially less than this ratio. The average

[19] Data are sec. 203 homes. Similar income data are not available for other titles. The price distribution of all FHA new units is wider than that here used.

FHA sale requires 19.7 percent or less of the purchaser's income for all housing expenses.[20]

High ratio of housing expense risky

These FHA-insured sales are not necessarily unsound since they apply to few families numerically (less than 30,000 units below $3,600 income levels in 1952) and many of these families are clearly living from accumulated funds or are families whose homes are being purchased for them by others. It would be socially unwise and economically disastrous, however, if any substantial proportion of our families began to purchase or rent homes which required such high expenditures for housing as to prevent normal expenditures for food, clothing, medical expenses, and other necessities.

If purchases involving more than 20 percent of income for housing are excluded from the FHA experience table, the results would be more representative of the sales and rental possibilities of enlarged private housing production under present Government-aid systems. This distribution is shown in the third column of table 11. Limitations of the data are described above. This column suggests that 80 percent of new private construction is produced for income groups representing half of the market.

If actual ratios of income to housing expense were to be utilized, these conclusions would be even more apparent. In addition it should be noted that national housing market data tend to set low-priced homes of the South and West against relatively higher incomes of the North and East. When new house prices are compared with family incomes on a city basis, we rarely find situations in which homes are offered at prices within the means of more than 40 percent of the families; and these are in the main already well housed and not in the market in any urgent sense for a new home.

Finally, many families in these middle and lower income groups cannot use the lowest priced houses produced because such homes are universally 2-bedroom homes and most of our families have more than 1 child. The disparity between incomes and housing prices is thus widened further by the factors of location and family size.

A second approach to the problem of marketing a high volume of new homes is summarized in table 12. The method here used is a modification of the method developed by the National Housing Agency in its 1944 projection of housing needs. Basically, it involves a filtration of the 1950 supply, elimination of losses due to clearance and demolition, and the addition of new units during the 1950–54 period. The result is subtracted from a future distribution based upon current or past experience. Limitations in available data and in the number of market factors which can be treated in the model suggest that this method can be used only to identify broad magnitudes and relationships and should not be used to forecast actual market trends.

Market for high-priced houses will decline

The method does suggest these important conclusions:

1. The current excessive production in higher priced houses, i. e., those priced to sell or rent at monthly costs of $75 or more, will materially narrow the market for such homes in future years. To the extent that these homes filter down to lower prices, they may create a surplus under unfavorable conditions. This could result in excessive filtration of higher priced units and marketing problems for new homes.

2. There is a very large market for homes at prices and rents ranging from $60 per month downward, a market which could account for over 3 million units in the next 5 years. This is the market now not served by either private or public housing. In northern cities, it consists roughly of homes in the range of $40 to $60 monthly, and in southern areas, $25 to $50 monthly.

[20] FHA data on monthly housing expenses and income-expense ratios have been used throughout this report. These data have been criticized as understating housing expense. Despite this weakness, these data are among the best and most consistent in the field, and the only adequate source on this subject. Wider publication of local data by FHA would be a distinct service.

TABLE 12.—*Projections of nonfarm housing needed by price class with low filtration and clearance rates and high construction volume, 1955–60* [1]

[In millions]

Rent or monthly housing cost	Dwellings needed with 1949 income distribution of 1960 families [2]	Dwellings needed with 1951 income distribution of 1960 families [3]
0 to $20	2.3	1.5
$20 to $30	1.8	1.1
$30 to $40	1.6	.9
$40 to $50	1.8	1.0
$50 to $60	.9	.9
$60 to $75	−[4] .2	.6
$75 to $100	−[4] 1.6 ([5] 1.2)	.6 ([5] 3.4)
$100 and over	2.2 (−.6)	2.2 (−.6)
Total	8.8	8.8

[1] See text note for results of alternative assumptions regarding filtration. Other assumptions, demolition of 2.5 million substandard dwellings, 5% filtration, moderate current losses, 6 million dwellings built 1950–54 and 8.8 million dwellings required 1955–59.
[2] The 1960 families distributed by classes of rents and prices paid in 1950.
[3] The 1960 families distributed by classes of rents and prices paid in 1950 and adjusted upward for changes in income between 1949 and 1951.
[4] Negative quantities imply surpluses in the classes indicated. This presumes rapid filtration, price declines, and reduction of building in these price classes and the price classes immediately above.
[5] Under alternative assumptions regarding filtration. See text note.

TABLE 13.—*Increases in mortgage holdings, 1950–53; new residential construction and projections, 1954–58*

	1950 [1]	1952 [1]	1953 [2]	FHA estimate [3] 1954–58	FHA estimate additional funds available [4]
Increases in mortgage holdings (billions)	$7.5	$6.9	$7.1	$5.5	$3.5
New dwellings built (millions)	1.4	1.1	1.1	1.0	(450)
Average requirement	$5,400	$6,300	$6,500	$5,500	($7,800)

[1] HHFA, Housing Statistics, January 1953, p. 23.
[2] FHA Prospective Level of Residential Construction and Availability of Mortgage Money, 1954–58, table 6.
[3] Ibid, table 5. Estimate is for average year in this period.
[4] Computed from ibid. tables 5 and 6. Assumed average mortgage amount is the marginal rate assumed by FHA table.

3. Unless full employment and a steady rate of economic growth are maintained, there will appear positive surpluses in some price ranges, accompanied by softening of markets which will jeopardize all private housing production. On the other hand, a maintenance of full employment conditions could produce substantially greater markets than those shown in the table. Housing markets are highly sensitive to changes in family incomes.

4. There remains a large need for housing for low-income families, a need which is increased by 50 percent under less than full-employment income distributions. This need is at price and rent levels far below any which private construction can approach.

5. Other models of future income distributions suggest that very high levels of housing production could be maintained in all price classes if rates of redistribution of income comparable to those which occurred in 1949–51 could be repeated.

6. A stable demand for about 400,000 units of higher-priced homes appears in all estimates based upon this method. If the method overstates needs in the

higher price groups, this demand will appear in the price groups of $70 to $100 per month, just below the levels shown in the table.[21]

Must serve middle- and lower-income groups

These conclusions support the views widely recognized by industry leaders that future construction must serve the broad middle- and lower-income groups if it is to be maintained at high levels. Under favorable economic conditions, there appears to be a sustained demand for no more than 1 million dwellings a year in the price classes now produced by industry with current Federal aids. In addition, there appears to be a need for approximately 500,000 units a year in price classes below the levels now served by the industry with present credit aids, and for 200,000 to 300,000 units per year for families requiring public housing. These nonfarm needs are supplemented by farm needs of unknown price distribution of 200,000 to 300,000 units per year.

FINANCING 2 MILLION HOMES PER YEAR

Both the construction and the marketing of new residential construction will depend upon the availability of an adequate supply of construction and mortgage funds on terms which will meet the needs of the industry and of consumers. The Federal Housing Administration prepared an estimate for the President's Advisory Committee on Government Housing Policies and Programs of the probable mortgage fund requirements for the period 1954–58, and probable volume of savings available for mortgage lending.[22]

These estimates are extremely conservative. They assume construction of only a million new units per year[23] and a decline in the total volume of mortgage lending,[24] even under assumed conditions of prosperity in the rest of the economy. Selected measures from this report are presented in table 13. The average mortgage requirement is not to be interpreted as a function of prices alone. It is a product of the aggregate volume of new savings, repayments on existing mortgages, the volume and amount of mortgage loans on new and existing housing, and prices on new and existing homes.

The same study estimates that $9 billion annually will be available for new mortgage loans of which $5.5 billion will be utilized by the low level of construction assumed. This would leave unutilized $3.5 billion. In the last column of table 13 these funds have been applied to FHA's estimate of the average mortgage amount for new homes during the period. At this amount, funds would be available to finance an additional 450,000 units per year, or a total of 1,450,000 units per year.

The FHA estimate of new savings is probably low and the implication of its assumed low volume of construction is that mortgage interest rates will decline sharply and that funds will be readily available. If these estimates of available funds prove correct, full utilization of such funds would tend to hold interest rates at higher levels. Thus even if savings available for mortgage loans (but a small part of total savings) were assumed to average somewhat higher than the FHA estimate, such funds would probably not be available freely and on favorable terms at construction volumes exceeding 1.5 million new units per year under current institutional arrangements for savings and mortgage lending.

More mortgage funds needed

These considerations suggest that under conditions of prosperity, ample mortgage funds may be available on favorable terms through existing channels for 1.2 to 1.4 million units a year. Additional flows of money will probably be required to meet housing goals of 1.2 million nonfarm units a year in the next few years, and in part to meet farm goals.

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[21] The method assumes that all units in the existing supply will filter by 5 percent. In fact filtration rates will vary widely by location and price class, and recently built homes may not filter (i. e., suffer price or rent reductions) at all during the first 5 years of occupancy. If this is assumed to be true, construction requirements in the highest class interval above are sharply reduced and those in the next classes are correspondingly increased. This would indicate a negative demand (−0.6) in the class over $100 under the first assumption, and a substantial demand (1.2) in the $75 to $100 class. Under the second assumption, demand in the over $100 category would be the same (−0.6) and in the $75 to $100 class would jump to 3.4 millions, or nearly 700,000 units a year.

[22] Prospective Level of Residential Construction and Availability of Mortgage Money, 1945–58, Federal Housing Administration, 1953. These estimates and the following text deal with nonfarm financing.

[23] Ibid., pp. 4, 12, and 13.

[24] Ibid., table 5.

The prospective large volume of savings, increases in corporate savings to meet corporate investment requirements, and reductions in defense financing requirements suggest that ample funds will be available in fields which have not financed housing construction in recent years. These include particularly institutional savings which have been utilized for corporate investments and institutional and personal savings which have been going into Government bonds. The fuller utilization of these savings channels may be expected to provide funds on terms acceptable to the housing market. If funds are to be diverted directly from other sources, the implied increases in interest rate would make impossible the marketing of larger volumes of new construction.

These conclusions are consistent with the marketing requirements suggested in the preceding section. A substantial market appears to exist in the higher income levels for new homes at rents and monthly prices corresponding to the present output of the industry. If larger volumes are to be produced, they must be produced at prices and on terms which will be available to income groups substantially below those now in the market for new homes. If such terms are available, and only if such terms are available, it will be possible to obtain the goal of a decent home in a suitable living environment for every American family.

(William L. C. Wheaton received his A. B. from Princeton University, his Ph. D. from the University of Chicago. He has worked in municipal, county, State, and Federal agencies and served as special assistant to the Administrator of the former National Housing Agency and the present Housing and Home Finance Agency. He was formerly chairman of the department of regional planning at Harvard University. He is now professor of city planning in the department of land and city planning of the University of Pennsylvania. A consulting city planner and a member of the American Institute of Planners, Dr. Wheaton is also a vice president of the National Housing Conference.)

Statement by William Zeckendorf, President of Webb & Knapp, Inc.

This problem, which afflicts most of the older cities of the United States, falls into many categories, each of which is related to the particular situation that uniquely affects each community, there being no single state of facts that is identical in any two cities. There are certain common denominators, however, that affect all communities of the aging variety; they are as follows:

(1) Downgrading of central areas due to a so-called trend to decentralization. This is often aggravated by the physical condition of the buildings in such zones since, in the opinion of the owners, they are not bad enough to tear down and not good enough to justify substantial capital reinvestment for upgrading.

(2) Most of these communities are plagued by parasitelike types of incorporated and unincorporated towns or villages ringing the periphery of the central city. The populations of these centers are the recipients of the benefits of the downtown area through employment, central community urban service facilities, rapid transit, and many other costly benefits paid for by the central community and not reimbursed by the dwellers of the satellite areas. State and municipal legislatures might well carry out objective studies to determine whether or not sound fiscal and social policy should dictate the reincorporation of such peripheral communities into the whole.

(3) Growth of urban centers without direction has resulted in two major voids: (*a*) Inadequate highway and parking facilities to cope with the automobile; (*b*) lack of overall planning with the power of implementation.

This master planning is important unless it can accurately state the case for the individual community. Before it can intelligently plan for anything, the community through self-analysis must discover its potentialities, its possibilities, and its limitations. To know what it wants to become implies that it is aware of its function in the national orbit. Obviously, Pittsburgh, however ambitious, would not endeavor to become like Los Angeles, nor would Los Angeles wish to emulate New York City, and surely New York City would not try to appear like Denver. Each of these communities has a distinctly separate function in the overall national picture, each having uniquely important contributions to make and a separate and fascinating personality of its own. All master planning should be done with forward-looking, broad-range perspective, courage, and daring, balanced against a knowledge of what financial capacity will permit it to achieve.

The most important single source of civic revenue is real-estate taxation. It therefore must be recognized that the future of any community's real estate is of the utmost importance to it. It is not far from the mark to state that basically every community is in the real-estate business because its ability to meet its obligations and to go forward are related to the soundness of its real estate.

This statement is made, based upon the pure direct economics of the essential part played by real-estate taxation which does not obviate or minimize the sociological results from better or poorer real-estate improvement as the case may be. Unfortunately, the cost of city maintenance for police, fire, sanitation, health, and general community morals is higher from the slum and downgraded areas, and out of all proportion to the ability of such zones to contribute to the city treasury. These indirect but equally important effects are to be weighed in considering this problem along with direct realty taxation.

Every community and owner of real estate in the urban areas should take note of what is being done through Federal legislation to provide incentives looking toward renewing the slum and rundown zones within our cities. I would like to say 2 things on this point: (1) that existing Federal aid is ample to spur redevelopment, provided redtape is cut to a minimum; (2) the community should act on its own and not wait for the Federal Government to solve a problem which so intimately affects the city's tax base and therefore its future. The Federal legislation of 1954 is, of course, geared to induce the community to do just this, and I believe this policy will bring private capital into the job.

The writer has devoted some years of study to this subject, and believes he has basic solutions to certain of these major problems. Amplification of these solutions would take more time than is allowed in this requested 5-minute-introductory statement.

(The following materials were subsequently supplied for the record:)

NEW CITIES FOR OLD

[From the Atlantic Monthly]

By William Zeckendorf

How can we keep cities that represent the toil and sweat and invested labor and invested capital of generations from becoming ghost towns? It is wonderful to talk about going out into the country—as I see some of you have done here—to build a perfect city on a plateau; I don't say that that is easy, but I do say that it is much more of a challenge for somebody to tell you, "Here is a city in which there are $5 billion or more invested. Try to save it from disintegration and economic blight, which cannot miss if you do not do something about the core which you are permitting to rot; never mind doing something gaily and theoretically about the periphery."

We are all building these wonderful means of ingress to and egress from the central and urban areas, which simply means that we are developing easier and easier means of escape. They are roads from, not to, because people come to the town for reasons of necessity and leave it as fast as they can. That is the really greatest challenge that we've got in this country. People speak of inflation and of the results that will follow inflation, of economic and social waste and the fact that we are going to pass on to generations to come the errors of our ways through high debt, inflated money, dislocated economy. That is nothing compared with what is going on by attrition; attrition in the sense that the cities of the country are being permitted to die on the vine; cities that have been built and paid for, cities against which billions of dollars of municipal bonds have been levied in good faith and bought by citizens who have saved their life's labors to invest in these municipal securities and mortgage bonds, and indirectly through the life-insurance companies which reinvest their savings to make these cities go. If this attrition continues, these savings are going to be wiped out.

Inflation has almost no greater threat than the threat that has taken place in cities like Boston, one of the worst examples I know. Our firm is so concerned about Boston that it would not buy any real estate here. It is no joke. We believe that Boston, with its tax rate what it is, and justified because of the expense in comparison with the potential revenue, is going to go broke.

You have already put through a semiconfiscation of private property by your levied tax. Your tax rate is such and your assessment rate is such in the city of

Boston that you have practically confiscated the assets already. It is not something that you have to wait around for. And the first depression will find half the city on the town tax roll, because only the high occupancy, the extraordinary high rents due to a scarcity resulting from an unusual situation, make it possible to run these properties and pay the taxes and operating charges with some modest return on the investment. You have a town here that is completely dislocated, where your people work in one community and spend their money in another community that pays nothing to the town in which their labors are expended. There are other cities in this same dilemma. But Boston is an outstanding example.

I want to talk about the possible cure. That is more important. The cure, in my opinion, is really the greatest challenge to the imagination, much more challenging than going out in a pasture and building a city, and much more satisfying from a constructive and a creative standpoint than abandoning the core to eventual ruin—anybody can do that if given enough boondoggling subsidy. But it takes real thinking, real energy, courage, and imagination to work within the confines of an existing problem. As a matter of fact, you will find in your experience, as you go into architectural life, that the greatest results you can get in ingenuity are those which are dictated in alterations where the restrictions of existing conditions force you to do things that you would never do if you had a completely free hand. Working within limitations will often produce more striking results, because of the provocative problems that arise, than if you have no limitations.

Let me give you three examples of constructive developments which our firm has put through in the heart of New York City. The first begins on the day a broker called and offered us at a price of $700,000 the old riding academy at 66th Street running through to 67th Street just west of Central Park West, a piece of property consisting of some 40,000 square feet. We turned down the offer with the comment that it was impossible at that price—we could not afford to build apartments in that area at that square-foot figure—to which the broker responded that the buildings themselves were very valuable. We pointed out that we would pay more for the property demolished than with the buildings on it, as they had outlived their usefulness, and let it go at that.

Some weeks later I happened to be driving through 66th Street, and what follows illustrates the old adage that it is better to be lucky than smart. Because of a traffic jam my car was stalled in front of the academy. I decided that as long as I was there I might as well take a look at the property. I noted that the main building—the riding arena—was 92 by 200 with a great high vaulted ceiling and no interior columns. I said to myself, here is a perfect place for a television studio. Upon my return to the office I called the broker and we bought the property at his price, $700,000 with 20 percent cash, balance on purchase money mortgage.

We circularized all the radio companies immediately, offering the property for television purposes, and to our dismay received letters from all declining the proposal. This put us in the horse business. We bought 150 horses and went into the market to buy hay and sell manure, running a regular monthly loss of $3,500 to $4,500. This went on for almost a year, when one day the phone rang and a rather uncertain voice announced that he was Mr. E. J. Noble. Knowing by reputation that he was the owner of the American Broadcasting Co., I promptly told him that I had never heard of him. He said, "Some time ago you suggested that we buy your barn for a TV station. Perhaps we'd better have a look at it."

To make a long story short, we leased the academy to him and subsequently sold it to him at a profit of $600,000. He converted it into the most modern TV station in the United States. Some months late when we were lunching together at "21" he said he was going to invite me to become a director of ABC. He asked me if I knew why, and when I replied that I did not he said, "Because you're the first man to make money out of TV."

We had a much longer struggle in the transaction which we recently consummated in the 34th Street midtown shopping center of Manhattan. There we found an unusual situation in that Macy's, which is the largest department store in the world, doing an annual business of up to $200 million is separated from its chief competitor, Gimbel Bros., by a single block running from the south side of 34th Street to the north side of 33d Street. It seemed to us that if a large assemblage of smaller properties within this block could be engineered we could redevelop the property in the form of an arcade or through-street merchandising so that the customers of both great merchants, as they passed back and forth from 33d to 34th Street, could do window shopping or comparative shopping on their way.

Such assemblage, however, held many obstacles because of the existing leases. There were a variety of buildings, including a firehouse, a hotel, and a theater, all of which would have to be removed. In order to acquire the firehouse, Webb & Knapp had to persuade the city that it was in the interest of efficiency and that it would ease traffic if the patrol at 29th Street was combined with the one at 33d Street in a new station at 31st Street. We offered to build a new firehouse 75 feet wide in accordance with the specification of the city and exchange it on an even basis for the 50-year-old, 50-foot firehouse standing on 33d Street. The city agreed.

We have just signed leases with the F. W. Woolworth Co. for a new building that will occupy part of the site of the old firehouse, the Herald Square Hotel, and the Savoy Theater, and which will be the largest store in the Woolworth chain throughout the United States. This new Woolworth's will serve as an arcade; it will syphon off customers. Thus there will be a steady current instead of the logjam which exists between Macy's and Gimbel's; all will receive the benefit of greater customer circulation. Incidentally, it has taken us nearly 10 years to clear the block.

Our most challenging project in Manhattan involved the land that is now called the United Nations zone. This area runs north from 42d Street to approximately 48th Street, and east from First Avenue to the East River. It is a rectangular section of about 500 feet east and west, and about 2,000 feet north and south—roughly a million square feet.

At the time that we first heard or thought of it, the property easterly from First Avenue from 42d to 49th was called the slaughterhouse district of New York, and was occupied by the abattoirs of the Swift and Wilson companies. They had been there since the 1870's or 1880's. Prior to that time it was a pesthole, and when it came to granting a privilege to slaughter cattle on Manhattan, it was decided that the best place for it was that pesthole area to the east. The slaughterhouses were built there then. They were the best that were built at the time, and probably for slaughterhouses they were pretty good looking. But as time went on, the Grand Central zone came into concept, the subsurface rapid transit was developed, and the Grand Central Station was conceived. That 42d Street zone became probably the most intensive and the most interesting new development of any urban area in the United States. It was a great tribute to the planning and the foresight of the people who recognized its possibilities. I don't know of anything more important in long-term thinking than what was done at this place in the first decade of the century.

When the old steam railroad line was submerged under Park Avenue, which was a slum area, and air rights were built over the railroad tracks, there took place one of the most magnificent pieces of urban redevelopment ever seen. And it was so important and so virile that it overcame everything in its way—except the slaughterhouses. Its zone of influence moved easterly about as far as Second Avenue. It couldn't take in any more than that because the physical stench of the slaughterhouses prevented it. But those slaughterhouses remained there while they built apartment houses that rented in the 1920's for $500 and more a room, almost within niblick shot of the slaughterhouses.

But nobody did anything about the slaughterhouses. They stayed there indefinitely. I recall when I first went into the real-estate business as a broker that they said of the slaughterhouses, "They will never be sold," because nobody could ever get a franchise to build a thing like that in Manhattan again anywhere, even though from time to time the properties were offered to us for sale. They never could be delivered, and every time somebody talked of it, it became a joke.

In the early part of 1946 when a broker called up and said he wished to offer the slaughterhouses I asked him to see one of my associates. This had been going on in my own experience for over 20 years. He came and went, and a few minutes later the man to whom I had assigned him came in, and I said, "What did that fellow want?'

"Oh," he said, "the old chestnut, slaughterhouses."

"I presume you gave him the usual brushoff."

And he said, "Yes, sure, nothing to it. By the way, he said he was related to the Swifts."

"What?"

"Yes."

"Are you sure? Let's get him back here," I said.

So we got the broker back, and I said, "What makes you think you can deliver these slaughterhouses?"

"Well," he said, "my daughter is the sole heir to the Swift fortune and I think I can do it."

I said, "Sit down." Which he did. I said, "What do you want for them?"

He said, "Swift and Wilson have agreed that they want $17 a square foot, take one, take all. They have pooled their properties."

"Are you sure you can deliver?"

His reply was "Yes."

"What is the best price?" I asked.

"Seventeen dollars."

"Are you aware of the fact that the properties on the other side of First Avenue, running up and down and westerly all the way over to Second Avenue, are selling for $5 a square foot and less?"

He said, "I know it's a ridiculous price but that is what they want."

"Will you take back an offer of a lesser amount?"

"No," he said, "I've got to keep on offering it until I get a buyer."

I asked, "Have you offered it anywhere else?"

He replied, "No."

"Well," I said, "I'll talk about it with my associates if you'll wait a few minutes."

So I went inside and talked with my partners.

"Here is the greatest opportunity that I have ever seen in my life," I said, "and I never expect to see one like it again. This is the situation. Regardless of whether the properties are selling for $5 per foot, $1 per foot, half a dollar a foot, $3 a foot, around this area that they want $17 per foot for, that has nothing to do with it. The only reason they are selling for $4 a foot or $5 a foot is because the slaughterhouses are here. If you can think in pro forma terms of X, the slaughterhouses, there is no excuse for the $5 land and there is no excuse for the $17 land. The whole thing is worth $50. Actually, by eliminating the abomination, you can pull the whole thing up by its own bootstraps."

A very simple rule of real-estate economics. It was so centrally located, so beautifully located, with the site and size and dimensions of the property such that there were limitless potentials. Regardless of whether you could see them all the way through to the end at first view, you knew that they were there. "Therefore," I said, "I advocate buying the property for $17 a foot." Which we did. We also bought the $5 land. We bought some land for less, some for as little as $1 a foot.

There was one fellow, an Italian, who had put his life saving into a purchase for $10,000 of the only outstanding property on the east side of First Avenue that did not belong to the slaughterhouses. That was the northeast corner of 42d Street. Fifty by one hundred—$10,000. That is $2 per foot. We sent the broker over to buy that property, and his wife said she wouldn't sell it for less than $12,000. He came back and said, "Wife wants thirteen!" I said, "Buy it." This little dialogue went on between the broker and wife until finally we paid her $100,000. And that piece of real estate today would be worth a minimum of $500,000. A minimum! It would be a bargain at that price.

And it all happened the moment we said, there are no slaughterhouses. Just say it. Wipe them out with a piece of rubber. Here is the new concept of this development—this Grand Central zone at the East River point. Seventeen dollars a foot was meaningless. So was anything else. When you have a plot that size, located that way in an urban area, the values are almost infinite, limited only by your imagination, your courage, your ideas and your ability to execute them.

We had a concept for the development of what is now the United Nations area which was very much publicized. That concept arose after much study in which Mrs. Zeckendorf was a great aid because her thinking from a woman's viewpoint was of enormous help in projecting the residential phase of this development, which started commercial at the south and wound up residential at the north end at Beekman Place. We developed this plan, and the plan came into model form and was given a lot of publicity. On December 6, 1946, I read in the paper that the United Nations were going to Philadelphia because they were unwilling to go to the Flushing Meadows that New York offered them, they were rejected in the Westchester-Greenwich area where they wished to go, and the Russians had said that no "first class" diplomat would go to San Francisco. That morning I told Mrs. Zeckendorf that I was going to put those birds on the platform. And she said, "What birds on what platform?" And I said, "Those U. N. birds on the platform on the East River."

I called the mayor that day and he said, "What's your idea?"

I said, "I hereby offer you—" I said, "Do you want to keep those fellows in New York?"

And he said, "Yes, I'd give anything to do that."

"Well," I said, "put this down. I'll offer you 17 acres of land on the East River from 42d Street north at any price the United Nations wish to pay. That will be their new home."

Now, the important thing about this whole thing is the value of the visualization of a concept. Thanks to Life magazine, a few other magazines, and a lot of newspapers, a great deal of publicity was given to the design that we had for the redevelopment of the area, so that when they brought around the Site Committee of the United Nations, no two of whom spoke the same language—and they were all ready to build a Tower of Babel—they were shown first the property and then the visualization of the plan. They saw this development along the East River and they recognized that it could look like what they had always dreamed of for the United Nations. I am sure that if they had just been shown those red brick slaughterhouses with no concept, they never could have understood what we were talking about. But they did understand it because they saw it in print. And within 8 days, notwithstanding the 18 months of previous searching, Mr. Rockefeller, who recognized its potential, offered the money to buy it for the United Nations. The United Nations approved the site, and 8 days later it was a fait accompli.

When it came to the development of an approach to the United Nations—a monumental boulevard that was going to be grand enough, beautiful enough, functional enough, as would be warranted by such a basic conception—we proposed a minimum concept for redevelopment. We said that as a minimum the city should do the following: it should use its power of eminent domain, its right to redevelop communal area, and it should resell the surrounding zones so that the benefits of automatically increased valuation would go to the community and not to the guys who did nothing to get it. That may sound communistic or socialistic. But I cannot see any reason why the people who own those cold-water tenements in the area of the United Nations should be permitted to get a free ride or to hold up indefinitely, at their own will and whimsey, the redevelopment of an area that should be rededicated.

We presented that idea to the city fathers. "Condemn the north side of 46th Street to the south side of 49th Street from First Avenue to Third Avenue," we said. That area would involve 6 square blocks: the north side of 46th to the south side of 47th, the north side of 47th to the south side of 48th, and on up to 49th; 3 blocks north, 2 blocks east and west, from First Avenue to Second, Second Avenue to Third. Those blocks are precise, gridiron blocks, 200 feet north and south each, roughly 800 feet east and west, and the intervening streets are 60 feet.

We said, "Take the 2 central blocks, the ones from the north side of 47th to the south side of 48th from First Avenue to Second Avenue, from Second Avenue to Third Avenue, which means a strip 200 feet long and 1,600 feet wide plus the intervening street beds of 60 feet each, the street bed of 48th and the street bed of 47th. You have 120 feet of street bed, 200 feet of block, or 320 feet north and south by 1,600 feet east and west. Redesign that for a great boulevard: 320 feet is 230 percent of New York's widest street, Park Avenue, which is 140 feet. Let that be a great boulevard for pedestrians and for the well-designed traffic, with subsurface traffic and subsurface parking. And then you will wind up with these 4 blocks which you also condemned, from the north side of 46th to the south side of 47th, and the north side of 48th to the south side of 49th. Then take those 4 blocks, rezone them, dictate what may and may not be built, and say that they shall now go up at auction to the highest bidder, providing they are built that way. To assure you, the city, that you will take no loss for your speculation in having bought 6 blocks, but that you will get the 2 central blocks, plus the streets that you are going to use for this great boulevard, absolutely for nothing, we will guarantee to make a bid ourselves for a minimum figure which will equal 120 percent of the assessed valuation of all 6 blocks, land and buildings. That 120 percent is what we shall pay for the 4 blocks, so that you get the 2 blocks for free."

I also proposed that the 4 blocks should have levied against them a land assessment which would equal the full tax assessment of all the land, of all the buildings, of all 6 blocks, and that any improvements on top of that should be levied at the regular rate of assessment. The pro forma value of those 4 blocks fronting on that communal way and their plotage assembly value, which has been achieved by a single condemnation, is so vast as to make it a good real-estate investment for hard money, not boondoggling money. Here is a case where two-thirds is greater than three-thirds. Here is a case exactly like the situation with the slaughterhouses at $17 a foot against $5 surrounding land value. It is a subtle redevelopment by a new concept, and the center of New York could have been vastly improved at no one's expense, not even at the expense of the fellows who were condemned, because they would have gotten more than they ever dreamed of getting at 120 percent of assessed value. The city fathers made one of the greatest mistakes of their lives when they turned us down, but we are still hopeful they will come to their senses and reverse their decision before the opportunity is wholly lost.

Again it comes back to concepts. I don't believe that cities are lost unless we are prepared to abandon them. The present tendency indicates that we are ready to abandon them. I deplore that. I think that if any great challenge exists in this country for the architects and designers, the real-estate economists and builders, the urban redevelopers and the city planners, it is the saving of a city.

I am not against decentralization. I think every new means of transportation that comes along in the progress of mechanized development causes farther and farther flung communities. I believe those communities have to go out to meet the problem that arises from the new mode of transportation. But I do not believe it is necessary to have cities die on the vine and rot at the core. I think they can be things of beauty, light, and economic functionalism; but they have got to be attacked by a combination of three kinds of thinkers: The real-estate economist, the designer and engineer, and the city planner and civic thinker.

Baked Buildings

(By William Zeckendorf)

I should like to explore the relation between real-estate economics and architecture. I hope the time is coming when we shall have a much closer harmony between the arts and the engineering on the one side and the economics of real estate on the other.

On the one hand, we have people who build buildings. The so-called builders are interested in three phases of their activity: First, to buy a piece of land as inexpensively as possible; second, to conceive and execute a building as cheaply as possible—and I do not mean that in the flattering sense of the word; and third, to borrow the maximum that they can borrow, and subsequently either retain or sell the property. If they retain it, they retain it until it falls in by its own failure, from economic pressure; or else they sell it to someone who thinks he can make it work out. And, on the other hand, we have the aesthetic people of the architectural and engineering life, who are capable of thinking in very broad terms and producing things of importance—real contributions to art—but who fail to understand the down-to-earth essentials of real-estate economics.

I think it is just as fundamental for an architect to have a working knowledge of economics as it is to have an understanding of the classical, the traditional, and the modern concepts of art and architecture. Whatever education in the field of engineering is given him, until he understands the economic function and the size of buildings, I say he is no architect, he's an academician. On the other hand, to permit builders to go on, with no consideration except price, to erect whatever their fancy dictates, without regard to what they do to the neighbor who lives next door, brings about a potential form of iconoclasm which is injurious to the entire neighborhood and seriously impairs the general economic structure of the community in which they build.

It is a curious thing that in the great depression of the thirties, it was the buildings that were mortgaged for the greatest amount by the most speculatively minded builders, who were interested chiefly in borrowing the maximum and building for the least cost, and whose costs of operation were the highest, and whose vulnerability was the most pronounced—those buildings were the first to fall. As they fell into the hands of creditors, they undermined the sounder and more conservative investments, because when something goes through the bankruptcy court, there is no bottom. The receiver rents for what he can get; he rents at whatever price he has to take to fill his vacancies because he is not interested in any other way; and the more conservative man who borrowed a smaller amount and built more wisely finds himself in competition with a mortgage that has been wiped out. As a result, his equity is wiped out too because his rents are undermined when he has to compete with bankruptcy renting.

This is a hard-boiled approach, but it brings home the extent to which even the toughest investor who is not interested in the esthetic side, who is not interested in anything relating to beauty or functionalism, but who thinks only in terms of the conservative—how very much concerned this investor is with the general subject of having buildings built by builders who are interested in something that is functional, beautiful, and soundly economic, and designed by architects who understand the investor's problem and who, therefore, do not design buildings that are art for art's sake or merely expedient.

That is why I should like to see architectural schools make as part of their "must" courses the subject of basic real-estate economics and construction. If that is done, these schools will send out men who will develop this country on a basis that we will be proud of. We may well be entering upon a golden era of construction, when the merger of the real-estate builder-economist and the artist and designer can be so skillfully integrated that we shall bring forth residential, industrial, and commercial architecture which will stand the two important tests of time: economic soundness and beauty and functionalism. If we continue as we have been going, letting the devil take the hindmost—the builder builds for as little as he can and borrows as much as he can and runs, and the architect follows him—then the rebel who would design only things of great beauty can find no clients or only a few clients who are as crazy as he is because they do not understand. In that case, I say, we still have to wait for our golden era. But it is not necessary to wait. Not at all.

Let us analyze for a moment the reasons why all this confusion comes about—why it is that we do not have architecture that is both beautiful and functional, and why we do not have buildings that are economically sound in every sense of the word. I should pause here to make it very clear that there are exceptions to what I have said on this subject. There are many instances of buildings which combine beauty, functionalism, and economic soundness. But wherever you find them the percentage in proportion to the total number of buildings erected is infinitesimal. Therefore, I do not address myself to the few but to the many.

Let us talk first about the builder. You go to him, a speculative builder—speculative builders build about 90 to 95 percent of all the things that are built in this country for rent—and you say, "Why do you dare to build that terrible-looking 6-story apartment house that looks as though it came out of an oven, baked, according to a stenciled plan?"

He will say, "Well, maybe I like that and maybe I don't. Maybe I would like to build something more beautiful and maybe I wouldn't. But that's not my business. My business is to build within the framework, concept, and spirit of the FHA."

Well, I do not have to spell that out, but I shall do so for the record in a very simple way. It means designing as cheaply as possible, borrowing as much as possible, building as inexpensively as you can and never mind the rest.

The builder says, "I'm not going to take a chance and build something more beautiful than that, something revolutionary. Maybe I do like a more modern design. But when I take that into a lending institution and they say to me, 'What is this plan here? We've never seen that before. We'll discount that by 25 percent in the amount of a loan you've asked for'—well, that puts me out of business. I'm not that kind of a builder." And he speaks for 95 percent of the boys. "I have to borrow from the man who will lend me the maximum that is permissible, and that man is the fellow who will lend me on exactly what every predecessor building of the same character looked like and was all the way back. Don't blame me. Blame the fellow I borrow from. Someday I'll build something more beautiful. I'd like it perhaps. But I cannot borrow and I'm no contributor to the general welfare of the community. If I want to give charity, I'll find my own way to give it. But not in my business."

I am oversimplifying this, of course. But basically the fundamental philosophy of the speculative builder is exactly what I've said. You try to find out who this guy is who finances him, who limits his horizon, his vision, and his potential.

Who is he? He is the insurance companies, the big ones and the small ones; he is the savings banks, the building and loan companies—the impersonalized corporations that people visualize when they see a great tall building with a beacon on the top of it. But basically, those beacons are supported by a little group of self-perpetuating trustees, mainly of the same social strata, and you go talk to them. You say to a typical one, "What is the idea of financing these baked buildings that look like everything that was ever built before? What is the idea of perpetuating these monstrosities?"

The trustee will say, "Who are you?"

"Well, I'm just a fellow who wants to know what is going on; why you do it. You are in control of the purse strings. You're the fellow who calls the tune and the other fellow dances because it is your money that makes these buildings go. And if you say X song, they will dance X dance, over and over again until they're dizzy. How come? Why have you made so little contribution to the furtherance of thinking in design and execution?"

Now here is the answer you'll get from the typical trustee. He will say to you, "I am a manufacturer; I'm a chemist; I'm a banker; I'm a retired industrialist; I'm a professor, or I'm something—something completely unrelated to the subject specifically involved, the subject of lending money. I'm a trustee of this institution or that institution." He will say to you, "I'm interested in beauty. Come to my home and I'll show you beauty. But when it comes to lending, I want to bake them."

"Why do you want to bake them?"

"I want to bake them because I know that they've been baked for 25 years and they've never failed. The six-story flat is a good thing. You know I don't work here. I come here without pay. I do not even get a director's fee for attending a meeting. I'm only here because I think it's my duty to run this institution."

Of course he doesn't add that he enjoys being in association with a lot of other fellows like him who finally got up there, or that he is filling his father's seat in the chair that his father and his father before him filled. But he says, "I'm here and I am going to make sure that this institution doesn't go broke. I know there's one thing certain," he says; "I never can be criticized for doing what has been done before, I can't be criticized for doing something new, something that was never done before—it might succeed; but the Lord won't spare me if it doesn't—and I am not going to take that chance."

That is the attitude of perhaps 80 to 90 percent of the trustees of the eleemosynary and mutual institutions that are financing the vast bulk of the construction in this country. Add to that the FHA and its own completely unimaginative and limited scope in thinking and design, which is understandable because they are trying to protect themselves by the most minute specifications against the chicanery of the builder who is only interested in borrowing the most and building for the least. There you have the double hazard, these two, the builder and the banker, on their high stools. And right between them our architecture and design fall flat.

There are exceptions. There are provocative thinkers among the boards of trustees, and every once in a while you will see a great new thing come out which finally brings us a notch forward and lifts us up because the power of emulation is something that is always with us. But it comes from such a minute number of those who are in control of the purse strings, and is given to that very small percentage of those who would build and who are interested in doing something more progressive and more important, that progress is painfully slow. We are now building new slums for old slums, anachronistic conditions following upon the horrors of years before, so that notwithstanding the billions of dollars that are at our disposal we are still building approximately the same thing that we have had in the years gone by.

There is a great and important lesson to be learned from this. And that is, to find out how we can change it. I'm an optimist, perhaps too much of an optimist. I have no doubt that we will pull out of this trough. I have no doubt that this country will take the lead, and I believe that our time will be looked back upon as the beginning of the greatest renaissance in design and construction that has ever been known. To crystallize your thinking and to try to dramatize how sluggishly, how slowly, how foolishly we are traveling down that path which has got all its ways greased and ready for a 50,000 miles a minute move if we can ever organize ourselves to think straight. I draw your attention to the fact that this building industry and the real estate business are the largest businesses, in terms of dollars employed, of any business in the world. You can talk about automobiles or chemicals or merchandising or anything you want. I say there is more money invested in real estate than in anything else.

You can tell the difference between a 1951 hand iron and a 1949. The difference between a 1951 automobile and a 1929 automobile makes you turn around and look at the one of 1929. You don't look at the 1951 one. Why? Why is that true of hand irons? Why is it true of automobiles? Why is it true of new products that were invented and never dreamed of before, whether they be radios or television sets or anything else? Every product you can name is the result of research and design, and research in the laboratory of the great companies of America. All the products of Johns Manville, Libby Owens, the metal companies, the air-conditioning concerns, are available to real estate and construction, but the building industry is the only one where the signs of progress are slight and the finished products are cheap in the least flattering sense, less functional yet more costly. Why is it we have not been able to bring housing down in cost? Today a Ford is more beautiful, faster, more functional, much more pleasant to ride in than a Simplex-Crane was in 1915—the Simplex-Crane that was the most expensive car built at that time. The automobile industry gives us a better car today than the best car of 1915 and for much less money.

You cannot say that about our business. Our business costs more than ever, notwithstanding that it is the heir—and incidentally the heir without pay—of all of the products of the laboratory. Can we blame the architect? Can we blame the builders? Can we blame the financiers? I do not know. Perhaps they are all to blame. Perhaps none. All I can say is that we are reaching the point very rapidly where it is almost impossible to build a building which will pay at all without some form of subsidy. And the FHA is a form of subsidy. And the FHA has accounted for perhaps 80 percent of the construction in the United States for the past 12 years.

What an indictment of an art, of an industry, and of a phase of finance! There is an answer because there must be. We at Webb & Knapp have tried to seek that answer by developing what we call the department of architectural research. Headed by a brilliant young architect, I. M. Pei, this department works hand in hand with a very active economic-minded organization of real-estate people who are not subsidized by anybody.

Pei and I got together to discuss a program and develop some sort of order of priorities for the more important challenges that exist in the real-estate industry and the architectural profession. It was obvious to me that the scope, however wide, pointed definitely to the multiple-dwelling housing as the first job to tackle. The reason for this was the obvious wastefulness resulting from shortsighted thinking on the part of planners and builders through the all too rapid obsolescence of apartment houses. I knew from firsthand experience that buildings 25 to 30 years of age were considered old while at the same time they were structurally sound and had a physical life of centuries—that the only serious deterioration that takes place in fireproof buildings is in mechanical equipment such as elevators and plumbing. With the small return available from this kind of construction, it was apparent that the income was rarely adequate to write off the structure by conventional depreciation methods and yet leave a satisfactory return on the investment.

Buildings seems to wear out for two reasons, both cyclical in character. The first reason was economic and the other sociological. As to the former, the good flush times resulting from economic booms made it desirable to have large luxury-type suites. The undercycle known as depression required the antithesis. Thus in the thirties the owners of buildings found themselves unable to meet the new demand and the would-be tenants could not afford to take the large, luxurious apartments even at drastically reduced rents, for the simple reason of the high cost of maintenance. The other cycle, the sociological one, occurs in every city all over the country irrespective of economic conditions. It is the usual trend of American residences to move from class character to mass character as the "class" moves steadily farther and farther out, partly for snobbish reasons but partly for the sound reason that the encroachment of the commercial aspects of the city on high-grade residences takes place everywhere as cities grow.

This sociological cycle calls for a change in layout and type of building. But our planning is so rigid, so inflexible, that it cannot adjust itself. If you could change the walls around, have greater latitude in expanding or contracting space by adding acoustical wall panels—which are better than walls a foot thick—your building would keep abreast of the market. Families could take more space in good times, less in bad.

Another thing we have to consider is extracting the utmost from the construction dollar by bringing together the thinking of the structural, mechanical, air-conditioning construction engineers with the thinking of the architect before the design is fixed, before the building is baked.

Well, I talked it over with Pei and gave him a rough idea in the form of a sketch of a building with a core for utilities and arms reaching out with apartments on them. He embodied these concepts into a spiral building which we called the Helix.

The result briefly is this. He gets his construction savings through a central mechanical core in which all the utilities, air conditioning, all the pipes for water and heat and electricity, and the elevators are located. All kitchens and bathrooms back up on this core and tap into it.

Structurally speaking, the circle enables you to use radial reinforced concrete wall, structural walls, as against the forest of girders in the conventional system. You can standardize wall panels, kitchen and bathroom units. On the periphery of the circle you can provide private terraces, 8 x 35 feet, giving every apartment a taste of the outdoors. You get better living space for smaller capital investment and have a building which is more likely to stay 100 percent occupied over a long term. That, I think, meets the problem.

Webb & Knapp believe that Mr. Pei's Helix, which is the first fruit of our laboratory, may be a forerunner of a complete change in philosophy toward design of multiple-dwelling construction And for that reason, and without concerning ourselves with FHA construction thinking, or stuffed-shirt banking thinking, or conventional architectural thinking, or art for art's sake thinking, we are going to try this one out ourselves and take the risk that it is a good idea. Having looked the country over from one end to the other to find the most appropriate site for this new design, we have bought the top of Nob Hill and shall locate the Helix at the very apex of San Francisco. If we are fortunate, it will be a reality in 1953–54.

We want to prove that research, an intelligent economic approach, and modern assembly methods can produce in the housing industry miracles of progress comparable to those in any other industry in the world. And we seek this development through reaching out for a relationship of the closest possible character between ourselves, who are real-estate men, builders, and real-estate economists, and you who are architects and designers. And we have no doubt that we are on the right road.

Cities Versus Suburbs—A Struggle for Survival

(By William Zeckendorf)

The idea of decentralization is not original with our generation. Nations, cities, all communities work on the same principle. New York, which started at the Battery and once had its northerly boundary at Wall Street, decentralized; they thought they were decentralizing enormously when they got as far north as Chambers Street and a little later, as far as the Bowery—that was the open country. Today, of course, we know the Bowery as in a sense an outmoded, abandoned area. With the advent of rapid transit the city decentralized still further, but that did not mean the destruction of the city. It merely meant that the city was growing, and enjoying the benefits of greater population and better communications.

Distance is not space but time. A man who had to walk 10 miles to go to work took more time than a man who today flies from New York to Chicago on a job. Naturally, as new means of transportation and better roads are developed, more remote places continually become accessible. The whole principle of real-estate economics changes.

Today, however, a new and vicious development has arisen in cities throughout the United States, which makes decentralization feared as the death knell of the central core area. This fear will continue at least as long as we have the present inept laws bearing on municipalities and satellite towns.

Satellite towns, which are the product of decentralization, are parasites. The high cost of maintenance of the central core that supports the whole metropolitan area is borne by the city, but the revenues and benefits go to the towns at the periphery—each having its own political setup, its own separate fire department, police department, water supply, its own mayor, its own councilmen; all a duplication of the cost of the city's core. Every satellite town saps off the buying power, the taxing power, and the vital factors that make for a cohesive, comprehensive, healthy city. This is just as though the United States suddenly lost the taxing power of California and New York through their setting up independent operation, but continued with the central bureaucracy and cost of maintenance of the Army and Navy, and so on. It wouldn't take very long for the United States to go broke on such a basis, and as long as this sort of thing can be done by the satellite towns around the mother city, we are jeopardizing the entire fiscal and political future of our great municipalities.

What I conceive as the answer would consist of a change in the basic law, providing that municipalities have the right of unilateral incorporation or of involuntary incorporation of the communities that live on them at the periphery. The satellite communities should be forced into the large city and taxed to make them a contributing part of the whole community.

The test as to whether a community is an independent community is simple and obvious, and if it fails to meet the test, then it should be incorporated into the large city. Otherwise, the township should retain its independence. This test should be: "Can this community survive financially, socially, and economically without the benefits from the large city?" Take employment, for example. Does the bulk of employment or earning power and other benefits come from the mother city or is the town a self-reliant, independent community? If the former is the case (which it happens to be in 90 percent of the satellite towns in the immediate vicinity of large cities), then the city should have the right to incorporate the town.

The net result would be beneficial. We could have integrated roads and highways. We could eliminate duplication of Government officials and bring about a vast reduction in repetitive bureaucratic setups. There could be a single taxing power, and there could be truly comprehensive zoning and planning so that the entire area becomes one interrelated unit. As long as we continue growing in the present unrelated pattern where each community imposes its own zoning and controls its own street system, and where it will do its own taxing and waste its own money and disregard what happens to the central core, just so long we shall have more and more confiscatory taxes by the central city, and less and less control of central city politics by the general citizenry, who will have abandoned the mother city to ward politics of the lowest order. The eventual result will be financial catastrophe.

There are many horrible examples of what we are speaking about, and perhaps the saddest of all is Boston. The present tax load on Boston real estate is as great in proportion to its sound value as the average tax plus first mortgage charges on the average city throughout the United States. One might say that already the city of Boston has gone a long way down the road toward confiscation of the real property asset, including the complete subordination of institutional first mortgages. This is merely symptomatic of the inevitable termination of decentralized communities each playing its own game, siphoning off the strength of the central core. There are 43 independent cities and towns in the metropolitan Boston area. Boston's tax rate compared with tax rates in some of the surrounding "bedroom towns," whose residents make their living in Boston, gives some indication of the burden on the taxpayers in the mother city. These are the 1951 tax rates per $1,000 of assessed valuation:

Boston	$62.80	Medford	$49.40
Arlington	54.20	Milton	41.40
Belmont	38.00	Newton	38.40
Brookline	38.90	Winchester	40.00

Another flagrant illustration of how termite communities feed on a great city can be seen in New York Harbor. On the Jersey shore of the Hudson River, along a 10-mile stretch running from Bayonne to Edgewater, there are piers vital to the welfare of the harbor generally. Yet they are situated in a series of townships notorious for their bureaucratic wastefulness. In communities such as Jersey City the tax rate raises the cost of pier occupancy beyond the ability of private ownership to pay taxes and maintain the piers and still to rent to shipping concerns at rates competitive with those in other ports. In Hoboken, for instance, a pier owned by our company has an assessed value of $622,000 and a tax rate of 8.3 calling for annual taxes of more than $50,000. This figure represents approximately 75 percent of the total rental revenues. Because of lack of earning power the value of the pier has been depressed to a point where we would gladly sell the property for 25 percent of its reproduction value and less than half of the city's assessment. The diversion of shipping from New York Harbor which is now taking place can be attributed to a large extent to waterfront costs, including pier rentals.

Many factors are involved in decentralization. The obvious one is ease of transportation, but among others which have a potent force is sociological and economic change. There is snob appeal: the desire of the rich or the newly rich or the aspiring rich to disassociate themselves from those in a more modest economic or intellectual category. The established families tend to hold themselves above the Johnny-come-latelies. The Johnny-come-latelies soon reach the same category as their former "superiors," when their income improves and their education or their children's education brings them up to acceptable country-club standards. Fortunately the tracks can be crossed either way, and the cross-currents soon get mixed after the third generation. As the less desirable encroach on the established communities of the right people, the right people move farther out, discovering new fields and following the social leader. They leave in their wake a void which is rapidly filled by those aspiring to the higher level, who in turn follow their leader, abandoning what was once the best location in the community close to the central core ("best" because it was originally selected by the settlers for reasons of convenience) to the poorest economic and sociological level. The result is that we have some of the worst slums within the shadow of city hall all over the United States. This pattern is to be found in almost every community over a hundred years old.

These city-hall slums offer a wonderful opportunity for real-estate speculation and a challenge to the entrepreneur because large-scale redevelopment at a great profit can be achieved in the central area. But one of the worst tendencies in redevelopment throughout the United States is to demolish slums close to the central core after condemnation, and then to replace them with low-cost housing. The downtown area of the cities in the United States should not be used for housing but should be devoted to high tax producing sites, to give the cities the greatest long-term tax benefits.

Now a city can maintain its beauty and functionalism only by determining what it is best qualified to offer to the general economy. Where does it stand in the national orbit? New York is an excellent example of a city that has gone a long way toward achieving the greatest development consistent with its abilities.

First, it is a great port. Being a port, it must have great distribution and collective transportation power. It must be able to take in the imports and distribute them through the country and collect the products from the factories and farms of the Nation so that they can reach the distant cities of the world by water-borne traffic. New York has made the most of the Hudson River. It has the greatest network of railroads in the world. Back in the middle of the 19th century it recognized the necessity of tapping the western development and was the first to go in for an integrated group of canals to the Middle West.

Before decentralization of manufacturing took place it was a great location for manufacture, for the processing of the world's raw materials and the distribution of the commodities which came to its door. With the decentralization of heavy industry and a great deal of light industry, New York changed its pattern accordingly, and rapidly became not only the distributive point but also the merchandising point, leaving it to the rapidly growing industrial areas of the Nation to do the manufacturing. New York enlarged the concept of the idea-exchange market, financial center, executive center, cultural, advertising, and style center, and took comfort in the fact that in spite of the loss of heavy industry and some light industry through decentralization, it could well make on the bananas what it was losing on the peanuts. The city realized that as fast as manufacturing would be decentralized, just as fast would it be imperative to centralize the market place, the idea center, and the world of finance which, in turn, would make possible the further development of the decentralized areas.

Boston, on the other hand, failed to accommodate itself to change. Boston held on to its old spinning mills, and its weaving and its water power, and had the rug pulled out from under while it tried to retain plants that long since were outmoded by competition which it could no longer meet. New York has been the most rapidly changing of all the cities. It has proved the wisdom of abandoning heavy industry in favor of office buildings. There is no city in the whole Nation that has strength and solvency of office-building investments comparable to that of the city of New York. New York gets the highest rent, has always enjoyed the highest occupancy, and has always had the finest corporate representation. When the world capital, the United Nations, was seeking a home, it was New York that reached out and grabbed it, recognizing the importance to the city of this international forum. The United Nations, seeking a city that best suited its character and function, realized that New York was its proper home for a long-term future; and so, finally, New York in addition to all the other things has now become the capital of the world.

Other cities have a similar opportunity to develop within the scope of their potential—Houston, for example, or Buffalo. Many of them are achieving their destinies, some unconsciously; but the moment they start to try to be or to look like New York they are going to fail. The city of San Francisco has a distinctive personality. The same thing is true of Los Angeles, of Atlanta, and of many other cities throughout the country. They must find what they can best do most profitably in the large sense, and then readapt themselves according to this realization.

Incorporation of the communities that live off the mother city is by far the most important single remedial step that can be taken to stop the breakdown of cities which we are currently pleased to call decentralization. Cities, meantime, must make themselves more attractive; they must reattract people to the central core. Let's say a city has analyzed its potentials. It should then take stock of what it has to offer the people who live in it and around it, and go all out to satisfy their fundamental demands.

In too many cities—especially in the manufacturing and industrial cities—there is an element of grimness, a lack of balance between work and play, which drives people out. The automobile enables people to escape, and they are no longer trapped within a narrow radius as they were before the automobile was invented.

Take the city of Buffalo as illustrative of this point. Basically Buffalo is a vibrant city, strong and virile, with a tremendous growth potential, a great urge to expand. The city is strong industrially. It has a reasonable diversification, although not as much as I like to see. If there were more interests owned locally or more interest taken locally in the home industries, probably less of the city's earnings would be siphoned off and spent elsewhere. But Buffalo is most deficient, as I see it, in this respect: it has not devoted much of its time or thinking to the lighter side of life for the people who are its industrial employees.

Well, what to do about it? We have the trend toward shorter hours and more leisure time. I urge upon the many cities across the country in which this situation exists that they take a well-located site and, making the most of the desire to eliminate blight, replace it with a development just as important as housing: namely, a play area—a place for fun. Each city must find the best place for its center of fun and entertainment, and since most have their share of substandard properties close to the central core, the selection should not be difficult. Watch the way Pittsburgh is developing its new recreation park, once a railroad yard, at the meeting of the rivers.

I visualize these fun centers as consisting of a tremendous dancehall, bowling alleys, skating rinks, merry-go-rounds for the children, a swimming pool for the children and one for the adults too—in short, a happy, functionally designed center for dancing and exercise and entertainment. In addition to lifting the morale of the people, such a place would give balance to the labor of the men who make the basis for the city's economy. And they would say, "Let's go to town. Let's have some fun tonight." People would feel that their city is a great place to live in, not a great place to get away from.

Curiously enough, such a center would pay for itself. There is no type of investment well conceived and well located and well executed which will pay as high a return in relation to the invested capital as this sort of thing. If your city is one that people want to come to, one of the great and important problems of your economy can be substantially solved simply through the attraction of more and better labor. And you can reattract to the central area a large part of the buying power that is now being lost to the nontaxpaying satellite communities.

Atlanta, like Buffalo, is virile and dynamic, and is growing out of its breeches. It is a great distributing city—possibly the greatest for its size in the United States except for cities that are seaports. It is blessed with a geographical position beyond the pull of such cities as Chicago, Washington, Philadelphia, New Orleans. Atlanta has no important nearby competition that is going to bypass it and leave it dying on the vine. Geography makes Atlanta's position safe if its potential is fully exploited.

Atlanta is a great retail market as well as a secondary wholesale market. The position of the city with respect to the many communities within its radius is strong and growing stronger. It can draw as a magnet from farther and farther points, thanks not the least to its merchants, who know how to offer people things that they come for. The city is well located from the standpoint of proximity to good labor and raw materials. Since these advantages are correlated with a well-integrated transportation system—air, rail, and highway—the city should continue to grow with a strong, diversified industrial expansion in balance with the distributing, light manufacturing, and retail end. The city has everything except water shipping and makes up for that with railways.

But the same thing applies to Atlanta as applies to Buffalo. All work and no play makes Jack a dull boy. Atlanta, in my opinion, has not devoted enough time and thought and investment of capital to entertainment and play. It should wipe out the blighted central area and, as part of the park system, plan a center of fun. Atlanta should also have cultural and theatrical facilities worthy of its potential, and it should have convention and auditorium facilities that can handle the people whom it will continue to attract and reattract.

This brings us to the heart of the matter—the problem of overall planning. I am a great believer in planning but a great disbeliever in spot planning. Planning means the cooperation of the private developer and municipal authority. Cooperation furnishes the key. I am not in favor of any city authority going into private real-estate business. Planning alone by planners without hard-boiled knowledge of real-estate economics means boondoggling and bankruptcy. On the other hand, I would not permit two or three holdouts in an area to stymie a great development would be in everyone's interest. We need a marriage between Government and private capital on a practical, workable basis for the redevelopment of our cities.

What is the city's role in development? First, to analyze itself to discover the things it can do and the things it can't do, and then to implement its potentials through a master plan. This master plan may be a somewhat idealized conception, but it can be a vastly important one as a standard to live up to and as a guide.

The city should then enforce its plan through those powers which in its position of arbiter are proper to it: (1) the right to zone; (2) the right to condemn: (3) the setting up of a revolving fund for the purpose of buying and selling land, not in the speculative sense but to achieve the best in its redevelopment program.

Most people know about number one. The city says: If we are going in for office buildings, for example, let's place the highest type here, the second-type there; light industry and semi-heavy and heavy industry would be here and over there, where they logically go with utilities and functions allied to them. If we are going in for theaters, let them have a logical relationship to the things that are connected with them—the hotels, dining places, cabarets, and perhaps opera, music, ballet, and allied arts, and schools of all kinds in these several fields. The city must rigidly restrict the different sections again encroachment by an irrational type of building. Second-rate retail stores with neon signs and cheap buildings should not sit next to residential property; residences should be kept to appropriate areas, and industrial activity should not encroach on residential or office space areas. Each has to have its place in the scheme. Leave it to the ingenuity and individuality of the man to plan his own buildings; but in order to protect the community, give him limitations as to where he may build what he wants to build.

The right to condemn is a most important municipal function. The city should continue to deliver the communal developments such as parks, streets, and highways; but, in my opinion, it should be much more generous in its use of eminent domain for redevelopment purposes and it should also try to make a profit. This may be heresy, but I am against the windfall profit for the fellow who had nothing to do with the creation of increment through a communal development. If the city, in other words, decides it is going to build a park, it should condemn an area around the park and should realize on the increased value of the land around the park through the resale to private developers.

In this way it will be possible for the city to redevelop itself and get its money back for the communal project. Furthermore, the city can create increment merely by virtue of assemblage. If a block consisting of 10 separate 25-foot holdings is assembled, it is a simple principle of reale-state economics that the whole is worth more than the 10 individual parts. Appreciation of real-estate values in urban areas takes place through assemblage. That costs nobody anything. It is purely the constructive result emanating from the greater functional utility of larger areas. By this means the city can recapture the greater part, if not all, of the cost of areas it wants redeveloped, directly from the properties that realize the benefit reflected in increased value.

The actual redevelopment work would, of course, be left in the hands of private enterprise. To have private capital develop or redevelop the urban areas is vital and essential. I do not believe a bureaucratic, citywide, statewide, or national planning or executive commission could possibly accomplish the actual work. It has to be done under the hard, cold analysis that venture capital will give everything that it goes into. Success of individual enterprise is the only true test.

One more point—in some ways the most important of all. The question of master planning and supervision of design can almost never be carried too far so long as it is in intelligent, imaginative, and honorable hands. The relationship between city authorities and private enterprise, therefore, in meeting the great challenge of our cities should be one of mutual openmindedness. Pride of authorship should be forgotten in the interests of all, and the planning authorities should encourage the submission of plans by creative private enterprise, thus insuring that no bets are overlooked, that their own planning ideas are compared with those of private enterprise, and that all men in the community are making their best contribution toward a living community.

STATEMENT OF BRIG. GEN. E. C. ITSCHNER, ASSISTANT CHIEF OF ENGINEERS FOR CIVIL WORKS, CORPS OF ENGINEERS, DEPARTMENT OF THE ARMY

It is my purpose in this statement to describe briefly the civil-works activities of the Corps of Engineers in order to provide a background for discussion, and to present certain problems which are inherent in a program of this kind.

The civil functions of the Department of the Army which are administered by the Corps of Engineers are a part of the overall Federal activity in water resource development. These under existing law include the improvement of the Nation's rivers, lakes, and harbors for navigation, flood control, and shore protection, and for related purposes such as water supply, pollution abatement, preservation of fish and wildlife, and notably for development of hydroelectric power.

When the Federal Government first began to participate in work of this kind, early in the 1800's, the program was limited to navigation improvements of moderate cost. In more recent years the civil-works activity has been broadened by congressional authority, particularly since the first general Flood Control Act of 1936. At the present time the active authorized program has a total cost of $15.2 billion. Works with a cost of $3.1 billion are complete or essentially complete. Work under construction has a total cost of $5.6 billion and appropriations of about $2.4 billion will be required for completion. And authorized improvements with an estimated cost of $6.5 billion have not been started.

In addition, after review of the entire authorized program the Corps of Engineers has classed over 400 projects with an estimated cost of $3.6 billion as inactive or deferred for further study.

Work under this program has been accomplished in recent years with annual appropriations of about $330 million for new construction. The President's budget for fiscal year 1956 contemplates construction expenditures of $397 million—an increase of about 20 percent. In addition, about $100 million will be provided for maintenance and operation of completed works and for investigations.

During the past year 31 projects with an estimated total cost of $1.2 billion were placed in effective operation, either wholly or in part. These works involve:

Provision of over 39 million acre-feet of storage.

Flood protection of over 4 million acres of land.

Installation of 803,000 kilowatts of power during the year.

The projects in the program range from the large project for flood protection and navigation in the alluvial valley of the Mississippi River to small channel and harbor improvements. It includes large multiple-use projects in the Columbia and Missouri River Basins; reservoirs for flood control and water supply in Texas; flood protection for the densely populated Los Angeles area; the complex project for water control in central and southern Florida; improvements of all of our major ports; and work on the harbors and connecting channels of the Great Lakes.

It is inevitable that a major program of this kind, which affects basic natural resources such as water, land, and power, and many diverse interests, will generate difficult problems. And conflicts of interest often result from impingement of one national program on another. Such differences are healthful so long as they arise in good faith and lead to a thorough exploration of all aspects of the situation. These matters are now being explored by the Hoover Commission and by the President's Cabinet Committee on Water Resource Policy. The Federal agencies themselves took the initiative last year in strengthening the machinery for interagency coordination.

One of the most pertinent questions affecting the civil-works program and water resource development in this country is in regard to the relative degree of Federal and non-Federal participation in this activity; and as to how costs should be shared. We feel that the relative Federal-State-local interest and participation in water resource development should be generally in accordance with the distribution of benefits and in accord with the character of the benefits. This will vary according to various phases of water resource development, and with regional needs. However, where different phases of water resource development produces essentially the same result, the degree of Federal participation should be generally uniform.

The Federal interest in water resource development generally will vary across a rather wide "spectrum." At one end would be a major improvement, such as the main protective system for the alluvial valley of the Mississippi, in which there is primary Federal interest and which may properly be undertaken wholly or largely at Federal cost. At the other end of the spectrum is the minor, local flood problem and improvement, where benefits will accrue to readily identifiable local beneficiaries. Such work probably should be undertaken largely by States or local organizations. Between these extremes are intermediate cases where judgment and equity will indicate a variable sharing of cost depending on whether benefits are general and widespread, or local and readily identified.

In brief, there should be greater non-Federal participation in water resource development, but this participation should not be so great as to impede progress at a time when sound conservation and development of our water resources is more essential than ever before.

Another important question affecting this program concerns the procedure for planning for water resource development. This should be accomplished by river basins or by appropriate related regions. The Federal Government should take the lead in planning, but States should participate actively. On the Federal side this planning should be carried out by the agencies concerned, or by groups of agencies where appropriate. The two interagency surveys of the Arkansas-White-Red River Basins and of the New York-New England area, in which the States are participating, may well be pioneer experience in such coordinated water resource planning.

Federal participation in water resource development is only one of many heavy demands upon the Treasury. Progress insofar as Federal participation is concerned must necessarily recognize budgetary ceilings and limitations. With limited funds, however, we must be selective and proceed first with those improvements most urgently needed and which will bring the greatest economic and social returns to the Nation.

(The following letter was subsequently received for the record:)

CHESTNUT HILL, PHILADELPHIA 18, PA., *January 31, 1955.*

Hon. PAUL H. DOUGLAS,
Chairman, Joint Committee on the Economic Report,
United States Senate, Washington 25, D. C.

DEAR SENATOR DOUGLAS: Would you be good enough to have the following read into the record of the hearing of February 3, 1955, on public works policies:

As President Hoover gave me the credit for drafting and sponsoring the Federal Employment Stabilization Act of 1931, I would like to support the proposal before the committee to create the coordinating body on public works planning, as proposed in the President's message.

The Federal Employment Stabilization Board, set up in 1931, had the same purpose and was based on the same theory. It came too late to have any effect in mitigating the then existing depression. Its functions were taken over by a number of emergency agencies set up by President Roosevelt. These extemporized agencies initiated large quantities of public works of many kinds, some more effective in relieving unemployment and stabilizing industries than others.

If the coordinating agency now proposed had been in existence several years before the depression of the thirties, the severity of the depression would have been mitigated and the work done under this economic theory would have been more effective, better planned, and better coordinated.

The President's proposal to place the new body in close connection with the budget is correct. It is apparently proposed to include State and municipal public works in the general stabilization scheme. This is important and, experience proves, very difficult. Municipalities have a way of borrowing, when their credit permits, and constructing their maximum during boom periods and periods of economic growth and upswing.

The only way that this can be controlled, that I know of, is by the device contained in a recent amendment to the Constitution of the Commonwealth of Pennsylvania, applying to the city of Philadelphia. This amendment is now operative in Philadelphia and is working well. It provides that the borrowing power of the city shall be based, not upon the real estate valuation of the preceding year, but of the preceding 10 years. Thus when the city is growing in valuation the curve of its borrowing capacity does not rise as rapidly as the curve of its growth. Conversely, when valuations begin to go down, or are stationary, and growth is slowing down or stopping temporarily, there is a period in which the borrowing power is still rising from the accumulated effects of the increased valuations of the preceding 9 years.

My suggestion is that, after the coordinating body is created, it studies this amendment and method of applying an economic theory to borrowing power and see how far it can be promoted in cities and States.

One of the authorities on this subject is Prof. Karl Scholz, professor of economics of the University of Pennsylvania.

The man who carried this through the legislature was the then speaker of the house, Representative Charles C. Smith, of Philadelphia.

The person who has to put this theory into practical effect is Edward Hopkinson, Jr., chairman of the City Planning Commission of Philadelphia.

I was the initiator and promoter as chairman of the committee of the Philadelphia Committee on Public Affairs.

If desired, I could appear in support of the President's message and this application of it.

Sincerely yours,

OTTO T. MALLERY.

(The following message on Federal cooperation with States in regard to building additional classrooms was sent to the Congress subsequent to the hearing on public facilities.)

[H. Doc. No. 84, 84th Cong., 1st sess.]

FEDERAL COOPERATION WITH STATES IN REGARD TO BUILDING ADDITIONAL CLASSROOMS—MESSAGE FROM THE PRESIDENT OF THE UNITED STATES PROPOSING A PLAN OF FEDERAL COOPERATION WITH THE STATES IN REGARD TO BUILDING ADDITIONAL CLASSROOMS FOR SCHOOLCHILDREN

To the Congress of the United States:

For the consideration of the Congress, I herewith propose a plan of Federal cooperation with the States, designed to give our schoolchildren as quickly as possible the classrooms they must have.

Because of the magnitude of the job, but more fundamentally because of the undeniable importance of free education to a free way of life, the means we take to provide our children with proper classrooms must be weighed most carefully. The phrase "free education" is a deliberate choice. For unless education continues to be free—free in its response to local community needs, free from any suggestion of political domination, and free from impediments to the pursuit of knowledge by teachers and students—it will cease to serve the purposes of free men.

STATE AND LOCAL RESPONSIBILITY FOR EDUCATION

A distinguishing characteristic of our Nation, and a great strength, is the development of our institutions within the concept of individual worth and dignity. Our schools are among the guardians of that principle. Consequently, and deliberately, their control and support throughout our history have been, and are, a State and local responsibility.

The American idea of universal public education was conceived as necessary in a society dedicated to the principles of individual freedom, equality, and self-government. A necessary corollary is that public schools must always reflect the character and aspirations of the people of the community.

Thus was established a fundamental element of the American public school system—local direction by boards of education responsible immediately to the parents of children and the other citizens of the community. Diffusion of authority among tens of thousands of school districts is a safeguard against centralized control and abuse of the educational system that must be maintained. We believe that to take away the responsibility of communities and States in educating our children is to undermine not only a basic element of our freedom but a basic right of our citizens.

The legislative proposals submitted to the last Congress were offered by the administration in the earnest conviction that education must always be close to the people: in the belief that a careful reassessment by the people themselves of the problems of education is necessary; and with a realization of the growing financial difficulties that school districts face. To encourage a nationwide examination of our schools, the 83d Congress authorized funds for conferences on education in the 48 States and the Territories and for a White House conference to be held in November of this year.

THE CURRENT PROBLEM

These are the facts of the classroom shortage:

The latest information submitted by the States to the Office of Education indicates that there is a deficit of more than 300,000 classrooms, a legacy, in part, of the years of war and defense mobilization when construction had to be curtailed. In addition, to keep up with mounting enrollments, the Nation must build at least 50,000 new elementary and high-school classrooms yearly. It must also replace the thousands of classrooms which become unsafe or otherwise unusable each year.

During the current school year, about 60,000 new classrooms are being built. Capital outlays for public-school construction will reach an all-time high of $2 billion this year. During the last 5 years, new construction, costing over $7 billion, has provided new classrooms for 6,750,000 pupils in our public schools. During that time more than 5½ million additional children enrolled in school. Thus the rate of construction has more than kept pace with mounting enrollment. But it has only slightly reduced the total classroom deficit.

As a consequence, millions of children still attend schools which are unsafe or which permit learning only part time or under conditions of serious overcrowding. To build satisfactory classrooms for all our children, the current rate of school building must be multiplied sharply and this increase must be sustained.

Fundamentally, the remedy lies with the States and their communities. But the present shortage requires immediate and effective action that will produce more rapid results. Unless the Federal Government steps forward to join with the States and communities, this emergency situation will continue.

Therefore, for the purpose of meeting the emergency only and pending the results of the nationwide conferences, I propose a broad effort to widen the accepted channels of financing school construction and to increase materially the flow of private lending through them, without interference with the responsibility of State and local school systems. Over the next 3 years, this proposed effort envisages a total of $7 billion put to work building badly needed new schools, in addition to construction expenditures outside these proposals.

THE RECOMMENDATIONS

1. Bond purchases by the Federal Government

The first recommendation is directed at action, effective as rapidly as school districts can offer bonds to the public for sale.

I recommend that legislation be enacted authorizing the Federal Government, cooperating with the several States, to purchase school bonds issued by local communities which are handicapped in selling bonds at a reasonable interest rate. This proposal is sound educationally and economically. It will help build schools.

To carry out this proposal, I recommend that the Congress authorize the appropriation of $750 million for use over the next 3 years.

2. State school-building agencies

Many school districts cannot borrow to build schools because of restrictive debt limits. They need some other form of financing. Therefore, the second proposal is designed to facilitate immediate construction of schools without local borrowing by the school district.

To expand school construction, several States have already created special statewide school-building agencies. These can borrow advantageously, since they represent the combined credit of many communities. After building schools, the agency rents them to school districts. The local community under its lease gets a new school without borrowing.

I now propose the wider adoption of this tested method of accelerating school construction. Under this proposal the Federal Government would share with the States in establishing and maintaining for State school-building agencies an initial reserve fund equal to 1 year's payment on principal and interest.

The State school-building agency, working in cooperation with the State educational officials, would issue its bonds through the customary investment channels, then build schools for lease to local school districts. Rentals would be sufficient to cover the payments on principal and interest of the bonds outstanding; a payment to a supplemental reserve fund; and a proportionate share of the administrative expenses of the State school-building agency. In time, the payments to the reserve fund would permit repayment of the initial Federal and State advances. When all its financial obligations to the agency are met, the local school district takes title to its building.

I recommend that the Congress authorize the necessary Federal participation to put this plan into effect so that State building agencies may be in a position to issue bonds in the next 3 years which will build $6 billion worth of new schools.

3. Grants for school districts with proved need and lack of local income

My first message to the Congress on the state of the Union stated the view that "the firm conditions of Federal aid must be proved need and proved lack of local income." In my judgment, any sound program of grants must adhere to this principle. Some school districts meet the conditions. In them the amount of taxable property and local income is so low as to make it impossible for the district either to repay borrowed money or rent a satisfactory school building.

I now propose a program of grants-in-aid directed clearly and specifically at the urgent situations in which the Federal Government can justifiably share direct construction costs without undermining State and local responsibility. Under this proposal the Federal Government would share with the States part of the cost of building schools in districts where one of the following conditions is met:

(*a*) The school district, if it has not reached its legal bonding limit, cannot sell its bonds to the Federal Government under proposal 1 because it cannot pay interest and principal charges on the total construction costs.

(*b*) The school district, if it has reached its legal bonding limit, is unable to pay the rent needed to obtain a school from a State agency on a lease-purchase basis, as described in proposal 2.

The State would certify the school district's inability to finance the total construction cost through borrowing or a rental arrangement. It would also certify that the new school is needed to relieve extreme overcrowding, double shifts, or hazardous or unhealthful conditions.

The Federal and State aid would be in an amount sufficient for a school district to qualify under either proposal 1 or proposal 2 for financing the remainder of the building costs. The requirement that Federal funds be matched with State-appropriated funds is an essential safeguard to preservation of the proper spheres of local, State, and Federal responsibility in the field of public education.

By authorizing this program of joint Federal-State aid to supplement the financing plans set forth in proposals 1 and 2, a workable way will be provided for every community in the Nation to construct classrooms for its children. I recommend that the Congress authorize the appropriation of $200 million for a 3-year program.

4. Grants for administrative costs of State programs

In addition to immediate school construction, the Nation needs to plan sound long-term financing of the public schools free from obsolete restrictions. Our State conferences on education will help accomplish this. Out of these meetings of parents, teachers, and public-spirited citizens can come lasting solutions to such underlying problems as more efficient school districting and the modification of unduly restrictive local debt limits.

The Federal Government, having helped sponsor the State conferences on education, should now move to help the States in carrying out such recommendations as may be made. I propose, therefore, that the Federal Government furnish one-half of the administrative costs of State programs which are designed to overcome obstacles to local financing or to provide additional State aid to local school districts.

For this purpose, I recommend a total authorization of $20 million with an appropriation of $5 million for the first year of a 3-year period.

This program is sound and equitable. It accelerates construction of classrooms within the traditional framework of local responsibility for our schools. It does not preclude other proposals for long-range solutions which undoubtedly will grow out of the State conferences and the White House Conference on Education.

CONCLUSION

The best possible education for all our young people is a fixed objective of the American Nation. The four-point program, herein outlined, would help provide proper physical housing for the achievement of this objective. But the finest buildings, of themselves, are no assurance that the pupils who use them are each day better fitted to shoulder the responsibilities, to meet the opportunities, to enjoy the rewards that one day will be their lot as American citizens.

Good teaching and good teachers made even the one-room crossroads schools of the 19th century a rich source of the knowledge and enthusiasm and patriotism, joined with spiritual wisdom, that mark a vigorously dynamic people. Today, the professional quality of American teaching is better than ever. But too many teachers are underpaid and overworked and, in consequence, too few young men and women join their ranks. Here is a shortage, less obvious but ultimately more dangerous, than the classroom shortage.

The conferences now underway and the massive school-building program here proposed will, I believe, arouse the American people to a community effort for schools and a community concern for education, unparalleled in our history. Taken together, they will serve to advance the teaching profession to the position it should enjoy.

Federal aid in a form that tends to lead to Federal control of our schools could cripple education for freedom. In no form can it ever approach the mighty effectiveness of an aroused people. But Federal leadership can stir America to national action.

Then the Nation's objective of the best possible education for all our young people will be achieved.

DWIGHT D. EISENHOWER.

THE WHITE HOUSE, *February 8, 1955.*

(Whereupon, at 5:20 p. m., Thursday, February 3, 1955, the committee adjourned to Tuesday, February 8, 1955.)

JANUARY 1955 ECONOMIC REPORT OF THE PRESIDENT

TUESDAY, FEBRUARY 8, 1955

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

The joint committee met at 10 a. m., Senator Paul H. Douglas, chairman, presiding.

Present: Senator Douglas, chairman, Senators Flanders and Goldwater, and Representatives Bolling, Kelley, and Talle.

The CHAIRMAN. Before the panel starts, Senator Flanders would like to make a brief statement.

Senator FLANDERS. Mr. Chairman, I would like to call attention to a remarkable series of events. There is a joint committee print on trends in economic growth giving a comparison of the Western Powers and the Soviet bloc, with particular attention to the failure of the Soviet bloc in agricultural production. The study was released a week ago Friday. Last Friday a rather embarrassed young man from the Soviet Embassy came to the committee offices and got some copies of this document, which is entitled "Trends in Economic Growth." This morning we find that Malenkov has resigned, largely on account of the failure of the agricultural program.

I think it is evident, Mr. Chairman, that the work of our committee and our staff has resulted in a major change in the rule of the whole Soviet Government, and I wish the record to show it.

There is one other point, and that is——

Representative TALLE. Will the Senator yield? Inasmuch as the Senator from Vermont is a fine Latin scholar, we might say this is a case of post hoc ergo propter hoc.

Senator FLANDERS. Well, I do not want to diminish in any way my conviction of the result of the activities of this committee, and so I regretfully refuse to accept the Latin maxim which the Senator has proposed.

For the benefit of others who did not have Latin in high school as I did, I would say that Representative Talle is trying to say that this is a case in which, because a thing occurred afterward it must have been the cause, but I indignantly refute or refuse to agree with the implications of my friend, the Representative from Iowa.

Representative TALLE. I share the Senator's point of view, in fact.

Senator FLANDERS. Thank you.

Now the second point is, Mr. Chairman, I think it might be well to introduce into the record the message of the White House on the recommendations for developing foreign economic policy of the United States, and I ask that it be included in the record.

The CHAIRMAN. That will be done, and the chairman will reserve the right to file certain declarations of the Democratic Party dating back to the year 1801 on the subject of foreign policy, too.

(The mesage referred to is as follows:)

FOREIGN ECONOMIC POLICY OF THE UNITED STATES—MESSAGE FROM THE PRESIDENT OF THE UNITED STATES (H. DOC. NO. 63)

To the Congress of the United States:

For the consideration of the Congress, I submit my recommendations for further developing the foreign economic policy of the United States. Although largely based upon my special message to the Congress of March 30, 1954, these proposals are the product of fresh review.

The Nation's enlightened self-interest and sense of responsibility as a leader among the free nations require a foreign economic program that will stimulate economic growth in the free world through enlarging opportunities for the fuller operation of the forces of free enterprise and competitive markets. Our own self-interest requires such a program because (1) economic strength among our allies is essential to our security; (2) economic growth in underdeveloped areas is necessary to lessen international instability growing out of the vulnerability of such areas to Communist penetration and subversion; and (3) an increasing volume of world production and trade will help assure our own economic growth and a rising standard of living among our own people.

In the worldwide struggle between the forces of freedom and those of communism, we have wisely recognized that the security of each nation in the free world is dependent upon the security of all other nations in the free world. The measure of that security in turn is dependent upon the economic strength of all free nations, for without economic strength they cannot support the military establishments that are necessary to deter Communist armed aggression. Economic strength is indispensable, as well, in securing themselves against internal Communist subversion.

For every country in the free world economic strength is dependent upon high levels of economic activity internally and high levels of international trade. No nation can be economically self-sufficient. Nations must buy from other nations, and in order to pay for what they buy they must sell. It is essential for the security of the United States and the rest of the free world that the United States take the leadership in promoting the achievement of those high levels of trade that will bring to all the economic strength upon which the freedom and security of all depends. Those high levels of trade can be promoted by the specific measures with respect to trade barriers recommended in this message, by the greater flow of capital among nations of the free world, by convertibility of currencies, by an expanded interchange of technical counsel, and by an increase in international travel.

From the military standpoint, our national strength has been augmented by the overall military alliance of the nations constituting the free world. This free world alliance will be most firmly cemented when its association is based on flourishing mutual trade as well as common ideals, interests, and aspirations. Mutually advantageous trade relationships are not only profitable but they are also more binding and more enduring than costly grants and other forms of aid.

Today numerous uneconomic, man-made barriers to mutually advantageous trade and the flow of investment are preventing the nations of the free world from achieving their full economic potential. International trade and investment are not making their full contribution to production, employment, and income. Over a large area of the world currencies are not yet convertible.

We and our friends abroad must together undertake the lowering of the unjustifiable barriers to trade and investment, and we must do it on a mutual basis so that the benefits may be shared by all.

Such action will add strength to our own domestic economy and help assure a rising standard of living among our people by opening new markets for our farms and factories and mines.

The program that I am here recommending is moderate, gradual, and reciprocal. Radical or sudden tariff reductions would not be to the interest of the United States and would not accomplish the goal we seek. A moderate program, however, can add immeasurably to the security and well-being of the United States and the rest of the free world.

TRADE AGREEMENT AUTHORITY

I request a 3-year extension of Presidential authority to negotiate tariff reductions with other nations on a gradual, selective, and reciprocal basis. This authority would permit negotiations for reductions in those barriers that now limit the markets for our goods throughout the world. I shall ask all nations with whom we trade to take similar steps in their relations with each other.

The 3-year extension of the Trade Agreements Act should authorize, subject to the present peril and escape clause provisions:

1. Reduction, through multilateral and reciprocal negotiations, of tariff rates on selected commodities by not more than 5 percent per year for 3 years;
2. Reduction, through multilateral and reciprocal negotiations, of any tariff rates in excess of 50 percent to that level over a 3-year period; and
3. Reduction, by not more than one-half over a 3-year period, of tariff rates in effect on January 1, 1945, on articles which are not now being imported or which are being imported only in negligible quantities.

THE GENERAL AGREEMENT ON TARIFFS AND TRADE

For approximately 7 years the United States has cooperated with all the major trading nations of the free world in an effort to reduce trade barriers. The instrument of cooperation is the General Agreement on Tariffs and Trade. Through this agreement the United States has sought to carry out the provisions and purposes of the Trade Agreements Act.

The United States and 33 other trading countries are now reviewing the provisions of the agreement for the purpose of making it a simpler and more effective instrument for the development of a sound system of world trade. When the current negotiations on the revision of the organizational provisions of the General Agreement are satisfactorily completed, the results will be submitted to the Congress for its approval.

CUSTOMS ADMINISTRATION AND PROCEDURE

Considerable progress has been made in freeing imports from unnecessary customs administrative burdens. Still more, however, needs to be done in the three areas I mentioned in my message last year: (1) the simplification of commodity definitions, classification and rate structures; (2) improvement in standards for the valuation of imports; and (3) further improvement of procedures for customs administration.

An important step toward simplification of the tariff structure was taken by the Congress last year with the passage of the Customs Simplification Act which directs the Tariff Commission to study the difficulties of commodity classification of imports. The interim report of the Tariff Commission to be made by next March 15 should help enable the Congress to determine whether further legislative steps should then be taken or should await submission of the final report.

The uncertainties and confusion arising from the complex system of valuation on imported articles cause unwarranted delays in the determination of customs duties. I urge the Congress to give favorable consideration to legislation for remedying this situation.

The improvement of customs administration requires continuous effort, as the Congress recognized by enacting the Customs Simplification Acts of 1953 and 1954. The Treasury Department in its annual report to the Congress will review the remaining reasons for delay or difficulty in processing imported articles through customs and will propose still further technical amendments to simplify customs procedures.

UNITED STATES INVESTMENT ABROAD

The whole free world needs capital; America is its largest source. In that light, the flow of capital abroad from our country must be stimulated and in such a manner that it results in investment largely by individuals or private enterprises rather than by Government.

An increased flow of United States private investment funds abroad, especially to the underdeveloped areas, could contribute much to the expansion of two-way international trade. The underdeveloped countries would thus be enabled more easily to acquire the capital equipment so badly needed by them to achieve sound economic growth and higher living standards. This would do much to offset the false but alluring promises of the Communists.

To facilitate the investment of capital abroad I recommend enactment of legislation providing for taxation of business income from foreign subsidiaries or branches at a rate 14 percentage points lower than the corporate rate on domestic income, and a deferral of tax on income of foreign branches until it is removed from the country where it is earned.

I propose also to explore the further use of tax treaties with the possible recognition of tax concessions made to foreign capital by other countries. Under proper safeguards, credit could be given for foreign income taxes which are waived for an initial limited period, as we now grant credit for taxes which are imposed. This would give maximum effectiveness to foreign tax laws designed to encourage new enterprises.

As a further step to stimulate investment abroad, I recommend approval by the Congress at the appropriate time of membership in the proposed International Finance Corporation, which will be affiliated with the International Bank for Reconstruction and Development. This Corporation will be designed to increase private investment in less developed countries by making loans without Government guaranties. Although the Corporation will not purchase stock, it will provide venture capital through investing in debentures and similar obligations. Its operation will cover a field not dealt with by an existing institution.

The executive branch will continue through our diplomatic representatives abroad to encourage a climate favorable to the private enterprise concept in investment.

We shall continue to seek other new ways to enlarge the outward flow of capital.

It must be recognized, however, that when American private capital moves abroad it properly expects to bring home its fair reward. This can only be accomplished in the last analysis by our willingness to purchase more goods and services from abroad in order to provide the dollars for these growing remittances. This fact is a further compelling reason for a fair and forward-looking trade policy on our part.

TECHNICAL COOPERATION

The United States has a vast store of practical and scientific know-how that is needed in the underdeveloped areas of the world. The United States has a responsibility to make it available. Its flow for peaceful purposes must remain unfettered.

United States participation in technical cooperation programs should be carried forward. These programs should be concerned with know-how rather than large funds. In my budget message next week, I shall recommend that the Congress make available the funds required to support the multilateral technical cooperation programs of the United Nations. The bilateral programs of the United States should be pressed vigorously.

INTERNATIONAL TRAVEL

The United States remains committed to the objective of freedom of travel throughout the world. Encouragement given to travel abroad is extremely important both for its cultural and social importance in the free world, and for its economic benefits. Travel abroad by Americans provides an important source of dollars for many countries. The executive branch shall continue to look for ways of facilitating international travel and shall continue to cooperate with private travel agencies.

One legislative action that would be beneficial in this field is the increase of the present duty-free allowances for tourists from $500 to $1,000 exercisable every 6 months. I recommend the passage of such legislation.

TRADE FAIRS

International trade fairs have been of major importance to foreign countries for many years, and most of the trading nations have strengthened the promotional aspects of their industrial displays in many fairs with a central exhibit designed to emphasize the industrial progress and achievement of the Nation.

Soviet and satellite exhibits, for example, have been costly, well planned, and housed in expensive structures designed to convey the impression that the U. S. S. R. is producing on a large scale for peace and is creating a paradise for workers.

The United States, which has a larger volume of international trade than any other nation, until recently has been conspicuous by its absence at these trade fairs. American visitors and participants have pointed out the failure of their Government to tell adequately the story of our free-enterprise system and to provide effective international trade promotion cooperation.

As a result, I have undertaken an international trade fair program under the direction of the Department of Commerce. Since the inauguration of this program in August, participation has been authorized in 11 fairs to be held before June 30. Sixteen additional fairs are being considered for exhibition purposes in the latter part of the year. The first fair in which the United States presented a central exhibit is that at Bangkok, which opened December 7, 1954. At it our exhibit was awarded first prize. Over 100 American companies supplied items for inclusion in it.

I shall ask the Congress for funds to continue this program.

CONVERTIBILITY

Convertibility of currencies is required for the development of a steadily rising volume of world trade and investment. The achievement of convertibility has not been possible in the postwar period due to dislocations caused by the war, inflation, and other domestic economic difficulties in many countries, which have contributed to an imbalance in international trade and payments. However, steady progress, particularly by Western European countries, is being made toward our mutual objective of restoring currency convertibility. The foreign economic program proposed here will make an important contribution to the achievement of convertibility.

AGRICULTURE

No single group within America has a greater stake in a healthy and expanding foreign trade than the farmers. One-fourth to one-third of some major crops, such as wheat, cotton, and tobacco, must find markets abroad in order to maintain farm income at high levels.

If they are to be successful, programs designated to promote the prosperity of agriculture should be consistent with our foreign economic program. We must take due account of the effect of any agricultural program on our foreign economic relations to assure that it contributes to the development of healthy, expanding foreign markets over the years.

CONCLUSION

The series of recommendations I have just made are all components of an integrated program, pointing in a single direction. Each contributes to the whole. Each advances our national security by bringing added strength and self-sufficiency to our allies. Each contributes to our economic growth and a rising standard of living among our people.

DWIGHT D. EISENHOWER.

THE WHITE HOUSE, *January 10, 1955.*

Senator FLANDERS. Is this a case of post hoc ergo propter hoc?

The CHAIRMAN. There is a certain capacity of the human mind to absorb, even after 150 years of density.

Senator FLANDERS. I think this might be continued indefinitely, Mr. Chairman, and I leave you with such honors as there are.

The CHAIRMAN. I did not start it, but I felt I was compelled to make an observation because I have been greatly amused at the way in which it is said that the Republican administration has discovered the idea of freer trade. We welcome their conversion and we appreciate their help, but I think we should realize who bore the heat and burden of the day when to advocate freer trade was extremely unpopular.

Senator FLANDERS. Mr. Chairman, since this matter is being continued, I would suggest that it was President McKinley who initiated the move toward the reciprocal trade treaties.

The CHAIRMAN. I believe that was done the day before he was assassinated.

Senator FLANDERS. It was not a Republican who assassinated him.

Mr. TAFT. On the contrary, it was Mr. McKinley, as chairman of the Ways and Means Committee, who first introduced them in 1890, and the Wilson committee that repealed them in 1903.

The CHAIRMAN. I always thought of the McKinley tariff, as well as the Dinkler tariff as being a high tariff. We could continue this for some time and we are very glad, indeed, to have this alliance. We appreciate it very, very much, but they should not regard themselves as pioneers. They should take their place, rather, as contrite signers who now have given evidence of a change of heart and who are duly welcomed into the fellowship of enlightened persons. We will now proceed in the order in which the members of the panel are listed. In preceding sessions we have taken up each question in turn, but this morning we are going to ask the members of the panel to make a satement and then call on each in turn, but I think members of the committee should have the right to question each man after the conclusion of the statement, rather than postpone questions until the end.

We will now hear from Mr. Harlan Cleveland, who is executive editor of the Reporter magazine.

Mr. Cleveland.

STATEMENT OF HARLAN CLEVELAND, EXECUTIVE EDITOR, THE REPORTER MAGAZINE

Mr. CLEVELAND. Mr. Chairman, my name is Harlan Cleveland, executive editor of the Reporter magazine. I was formerly Assistant Director (for Europe) of the Mutual Security Agency, and Deputy Assistant Administrator of the Economic Cooperation Administration.

This year the President's Economic Report polishes off our foreign economic policy in a little more than 3 pages—reading time 5 minutes.

It is true that foreign trade and investment are only a tiny segment of the entire American economy. Our exports amount to barely 3 percent of our national product, private investment to about one-third of 1 percent. And these percentages are constantly diminishing, since the amounts they represent remain fairly constant while the rest of our economy—domestic production and employment—is growing steadily.

Since 1947 we have added more than 50 percent to our gross national product, from $232 billion to $357 billion, but we still export only about $12 billion or $13 billion worth of goods a year, and private investment is still averaging out at less than a billion dollars a year—a little more in 1954, but much less in 1953.

The importance of foreign economic matters cannot, of course, be measured in mere numbers of any kind. In its simplest terms, the central objective of our foreign economic policy is—and should be—to promote rapid, constant, and balanced economic growth in the free world. The purpose of this economic growth, in turn, is to provide greater elbow room for other forms of human progress.

Our problem now is what it has always been: How to further these purposes without saddling the United States taxpayer with a large and disturbingly perennial bill for foreign charities. The administration's program, as set forth in the Economic Report and the President's message of January 10, is at best a weak flank attack on this central problem.

Take trade policy. If the administration gets its heart's desire this year, Congress will extend the Trade Agreements Act for 3 years. The President will be allowed to gut any tariff rate by one-twentieth a year for 3 years and set at 50 percent any duty that is now above this level.

The CHAIRMAN. I notice the verb as printed is "gut," but as read is "cut." Which verb do you wish to use?

Mr. CLEVELAND. "Cut." I think it might even be "shave."

Congress may also chop a small clearing in the jungle of customs procedures and definitions, and let tourists bring in $1,000 instead of $500 worth of perfumes and knickknacks.

These then are the bold steps that the administration, guided by what its economic advisers call broad vision, describes as "freeing the channels of trade." If the plumbing in your house is clogged up, it is no doubt possible to make some progress by attacking the problem with a bottle washer. But some real plumbers' tools would be better.

The protectionists will, of course, raise a great hue and cry about this program, feeble as it is. But there is certainly very little danger that, even if enacted, it will have much effect on the flow of imports into the United States. For the administration also wants to retain the escape-clause and peril-point provisions of the Trade Agreements Act.

(As now written, this act tells the Tariff Commission to set for each product a rate of duty below which concessions should not be made in trade treaties, for fear of injury to domestic producers. This is the peril-point provision. The Tariff Commission is also supposed to advise the President when a tariff concession already made is causing serious injury to American producers; if the President takes the advice, as he did in the Swiss watch case last year, he can cancel the concession under the escape clause that must be written into every one of our trade treaties.)

The Committee for Economic Development has pointed out that with the single exception of the trade pact with Venezuela, no major cuts in United States tariffs have been made while the peril-point provision has been in effect. The escape clause exists, as Clair Wilcox has put it, to intimidate the American negotiators. It means that even such offers as we can make in these negotiations have a large and well-publicized string attached to them.

What foreign producer in his right mind will invest heavily in restyling and advertising his product for the American market, knowing that any successes he may have in our market will automatically increase the likelihood of the escape clause being used to put him out of business?

Looked at from abroad, our trade policy is an enigma of uncertainty. What the foreign producer wants most of all from us—far more than he wants any kind of charity—is at least a minimum of predictability. From this standpoint, there is a great deal of food for thought in the idea advanced by former Ambassador William Draper in an article he wrote for the Reporter: to declare a 10-year moratorium on any increase in tariffs. But an easier approach to the problem of predictability would be to eliminate the escape clause entirely.

I would like to suggest, Mr. Chairman, three general points that might be taken into account by the joint committee, which has the responsibility to stand back and look at foreign economic policies and United States economic policies as a whole.

One is that it seems clear from our past experience that we never will achieve important reductions in our tariffs until the Government sets up some system of aid to the fields of labor and industry which freer trade hinders. This is a complex subject. But some combination of unemployment compensation, small-business loans and technical aid, all administered as a single program in localities that become depressed areas as a result of foreign competition, is essential if the political pressure from the injured businessmen and workers is not going to keep our tariff wall inviolate forever.

As the CED's tariff study says, direct assistance for readjustment "is preferable to continued tariff protection because it aims at facilitating competitive adjustments rather than at giving permanent protection against import competition."

Point No. 2: The reciprocity idea in the present trade-agreements program is now badly out of date. It is often vastly more important to the United States, in dealing with another country, to promote economic recovery or land reforms or the building up of new industries, than it is to increase the market for United States exports as such.

When we limit ourselves to trading one tariff concession against another, we spoil the chance to use our tariff concessions to get concessions in other fields that will advance our foreign policy. In other words, since our economic interests are not usually the most compelling, the tariff should be viewed not merely as a commercial or economic instrument, but as an instrument of our whole foreign policy.

The third point is this: The whole of our foreign economic policy has limped along much too long as a year-to-year program, subect to change with very little notice. For steadiness and predictability, the laws that govern trade and investment should not come up for review every year. One year, or even 3 years, is too short a period for our basic trade law.

One year is impossibly short for the technical assistance program, and anything less than 5 years is ridiculous for any form of investment program. The Government's foreign economic agency, which has run through 6 sets of initials in 8 years, should be made a permanent part of the Federal establishment. We are part of the world for good, and it is high time we stopped pretending each year that our current attempt to strengthen the free world will be our last.

Let me mention two other subjects—travel and investment. If we cannot do much about trade, maybe we can encourage more foreign travel.

The CHAIRMAN. Do you give up on trade?

Mr. CLEVELAND. I do not give up on trade, but it appears to me the administration has given up, and it is their report we are commenting on. I hope the Congress will not give up.

Travel is now very big business. Worldwide, it adds up to more money than the world trade in wheat. American travelers alone are putting into foreign hands some $1.2 billion a year—the equivalent of one-tenth of all our merchandise exports, more than the net outflow of United States private investment.

Big as it is, international travel can get much bigger. Americans travel mostly to the places that are easiest to reach: Canada, Mexico, Europe. But, whole segments of the globe are largely untouched by organized tourism: Africa, the Middle East, South Asia, and the Pacific; some parts of Latin America.

Even in Europe, most countries have hardly scratched the surface of their potential earnings in this field. Given our restrictive trade practices, international travel may show the greatest proportional rise of any element in our foreign economic relations. Unlike trade and investment, tourism is already growing at a rate which matches our rate of domestic economic growth.

What does it take to cash in on this potential? The answer is simple—foreign governments have to persuade tourists to visit their countries by promotion and advertising in the United States. The promotion has to be done mostly by governments because the people who benefit from tourist spending are the little businesses, from shops to restaurants to taxi drivers, who cannot very well finance a great promotional effort themselves, but who can pay taxes to a government for the purpose. The airlines, steamship lines, and a few big hotels can carry a part of the load, but the major share of the task is bound to fall on governments.

With rising incomes and more leisure time, a growing number of Americans can be sold on travel. During the past few years, intensive promotion of travel to certain areas has ben fabulously successful—when it has been done on a large enough scale. National and State tourist offices which have bet on their own tourist attractions, like England, Hawaii, Nassau, Bermuda, Florida, southern California, and New York State, have quickly taxed their capacity to handle the Americans who respond.

In this whole picture, the administration's lone proposal to let tourists bring in $500 more in foreign goods is a helpful, but minor, item. The most important thing the United States Government can do is to help persuade other governments to step up their promotion in this country and strengthen their tourist offices here. There is a technical assistance function, too; some governments want to tap the American tourist flow, but need help in learning how best to tackle the large and mysterious American market.

Now there is a small office in the Department of Commerce that is supposed to handle these functions. The Randall Commission, you know, was quite enthusiastic about the potential of travel, but a diligent search of the President's budget fails to turn up any provision at all for the promotion of international travel or the continuance of the Department of Commerce's interest in the subject.

Was it forgotten, or doesn't the administration believe itself when it says, in the President's message of January 10, that—

> encouragement given to travel abroad is extremely important both for its culture and social importance in the free world, and for its economic benefits?

Presumably the administration would not object if Congress were to take the initiative, as it did last year in the Javits amendment to the mutual security appropriation, to provide the executive branch with funds to carry out its expressed intentions. A $100,000 spent by the

Department of Commerce could be multiplied a hundred times in the effect on the travel item in our balance of payments.

The crisis in the Far East has revived the whole question of a more vigorous investment policy for the underdeveloped areas. On this subject again, the President's Economic Report is eloquent about the reasons for action. But the proposals for action are sparse and, with one exception, shopworn.

Every year for half a decade or more, Congress has asked what can be done about getting more American investors to put their money into foreign economic development. Every year Congress has had to listen to a lot of trumped-up optimism. Every year the witnesses for the executive branch try to skirt their way around the obvious fact that private foreign investment is small, and is not getting any larger. Speaking from red-faced experience, I can testify that it's most embarrassing for these unfortunate representatives of the executive department to have to admit, year after year, that foreign countries are actually paying to the United States on past investments half again as much as Americans are currently investing abroad.

Year after year, the executive branch suggests that Congress do something about inducing private investors to help cover our trade deficit by planting more of their dollars overseas. And Congress dutifully responds with exhortations and guarantees, which so far have had extraordinarily little effect in the real world of investment decisions. This year the administration is proposing again that something be done about giving private investors a break on taxes. The new gimmicks may help some, but in my opinion they offer no solution.

The only solution is simple and drastic: to have a deep recession in the United States. The main reason private investors don't send their money abroad is that the United States provides such a good market for investment right here at home. And judging from the Council's rosy optimism about the future of our domestic economy, there seems, happily, little hope that United States prosperity will be removed as the main obstacle to more private investment overseas.

So we are thrown back on one form or another of public investment—that is if we really believe, as the President says, that "A great challenge of our time is to find constructive ways of aiding the economically underdeveloped countries in different parts of the world."

We already have the International Bank, which is doing that part of the public investment job that a bank can do very well, especially in Latin America. The Export-Import Bank, which should be doing part of the job too, has never really succeeded in cutting loose from its narrow original purpose, which was to lubricate United States trade rather than to invest in other countries' growth. Last year, like the private investors, the Eximbank took in more money than it loaned out—$276 million disbursed, $343 million received in repayments.

The administration has made one excellent proposal this year for breaking out of the eternal circle of rosy predictions and disappointing facts. At the proper time, says the Economic Report, Congress will be asked to contribute to the capital of an International Finance Corporation. This proposal, which has been kicking around since Nelson Rockefeller's Board proposed it in 1950, encountered the unrelieved hostility of the United States Treasury until a few months ago, when it was revived on the occasion of the Caracas conference.

By investing in private equities, helping get new private industries on their feet, and then selling off its holdings locally, such a corporation can promote industrial development and help create a capital market at the same time. This kind of partnership makes a lot of sense. Even in those underdeveloped areas where there is some local capital for development (as in countries getting oil royalties) it is essential to create channels for capitalism. An International Finance Corporation can help prove to prospective local investors that it is at least as profitable—and certainly more important—to invest in their own country's growth as in real estate on the Riviera or a casino on the Las Vegas strip.

In this public investment field, the need for something more than meer words is dramatized right now by the crisis in the Far East. Suppose, just for the sake of supposing that somehow or other we do get a cease-fire in the Formosa Strait. We shall then still be left with our main task in Asia; to help the non-Communist nations prove that government based more or less on consent is not only better for their people but also more efficient in the long run than the Communist model of police and promises. In this task, investment by the United States is only one of several essential elements. But taken together with the technical knowledge and the spirit of vigorous enterprise that American investment (public as well as private) can bring into Asia, it is certainly one of the major factors in the equation of Asia's future.

In mobilizing public investment funds, and applying them in Asia, we can take account of four new facts

1. Red China's development program has a major defect—the Communists have not yet figured out how to make farmers produce more food through police control. Collectivising the farmers according to Stalin's old methods will bring on an internal crisis much faster in China, which starts with a food deficit, than it did in Russia and the Eastern European satellites, which started with a sizable food surplus

2. India's 5-year plan is working well. Its emphasis on agricultural output, its realistic targets for industrial development, the wide participation in village community projects, all this has established a pattern by which United States aid can be applied in support of a truly Asian program.

3. Japan needs both markets for her industrial goods, and sources of food and raw materials. The United States is not a stable market for Japan—not just because of our trade policy, but also because only a minor segment of what the Japanese have to sell is truly competitive with United States production. There are good political objections to more Japanese trade with the Communists, but that trade wouldn't solve Japan's problem even if it were encouraged. Communist China would willingly take most of what Japan has to sell, but the Chinese cannot offer much in return besides limited amounts of coal and unlimited amounts of those curious commodities like hog bristles and tung oil which have always bulked so large in Chinese export statistics. Therefore the economic development of south and southeast Asia is essential to solving both sides of Japan's trade problem, by stepping up the production of primary goods and providing rising incomes to buy Japan's finished products. There is, indeed, only one other solution: an expensive Marshall plan for Japan.

4. The Colombo plan, which is already well established as a regional system of technical aid, could easily be expanded to provide sponsorship for a more flexible regional investment program as well. The application of United States funds through a regional bank would probably be more acceptable to most Asians—because the Colombo plan is in some senses their own club—than a bilateral United States program of investment, which would always be subject to the interpretation that we were engaged in a disguised form of colonial imperialism. A regional program would secure the advantages of the multilateral approach, without getting involved with the Soviet Union and other countries that are either uninterested in Asia or actively hostile to successful economic development there.

These new conditions suggest that the administration needs a new look at the public investment phase of its foreign economic policy right away, this year. For while we are debating how to turn the tide in Asia, that tide is still running fast. Time is not on our side side unless we employ it for constructive purposes. Or, as Ralph Waldo Emerson put it:

> Economy does not consist in saving the coal, but in using the time while it burns.

The CHAIRMAN. Thank you very much.

Any questions of Mr. Cleveland?

Mr. Talle.

Representative TALLE. No, thank you, Mr. Chairman.

The CHAIRMAN. Senator Flanders.

Senator FLANDERS. Not at this point.

The CHAIRMAN. The next member of the panel is Mr. O. R. Strackbein, chairman of the Nationwide Committee of Industry, Agriculture, and Labor on Import-Export Policy.

Mr. Strackbein.

OPENING STATEMENT OF O. R. STRACKBEIN, CHAIRMAN, THE NATION-WIDE COMMITTEE OF INDUSTRY, AGRICULTURE, AND LABOR ON IMPORT-EXPORT POLICY

Mr. STRACKBEIN. Mr. Chairman, members of the committee, the President in his special message to Congress on January 10, 1955, stated:

> The Nation's enlightened self-interest and sense of responsibility as a leader among the free nations require a foreign-economic program that will stimulate economic growth in the free world through enlarging opportunities for the fuller operation of the forces of free enterprise and competitive markets.

He added that—

> our own self-interest requires such a program because (1) economic strength among our allies is essential to our security; (2) economic growth in underdeveloped areas is necessary to lessen internatonal instability growing out of the vulnerability of such areas to Communist penetration and subversion; and (3) an increasing volume of world production and trade will help assure our own economic growth and a rising standard of living among our own people.

Thereafter the message contained, among other things, specific legislative recommendation that had 5 days earlier made their appearance in H. R. 1, or the trade agreements extension bill of 1955, introduced by Mr. Jere Cooper, Democrat, of Tennessee, chairman of the House Committee on Ways and Means.

The statements above quoted, taken from the President's message, are acceptable as generalities, but the extent to which the attainment of the stated goals or objectives rests upon the provisions of H. R. 1, it is based upon certain false assumptions and erroneous deductions from past achievements and failures. The message, to repeat a part of it, says:

An increasing volume of world production and trade will help assure our own economic growth and a rising standard of living among our own people.

Of course, it would not necessarily do anything of the kind. Increasing world production and trade could just as easily take place at our expense and to our detriment.

The sublime or naive faith in foreign trade as the great cure-all for the world's economic ills or as a sure road to the peace of the world, reflected in the message, is a curse and an affliction. It has prevented a clear-headed assessment of the facts for too many years and has reached the ridiculous stage. It is like a spell or a hypnosis under which the victim merely repeats uncritically what the hypnotist says. Or, differently stated, it ranks as a nostrum with the notion that if 1 spoonful of medicine is good, 2 spoonfuls are twice as good.

Trade is not and never was a good thing in and of itself. It can be evil and harmful, as the trade in opium. It may be thoroughly immoral as is prostitution. The slave trade was lucrative, but does that mean it was good? The trade in ivory created exchange and added to the income of the people who engaged in it, but was it in the national interest of the African tribes where it was carried on?

The halo must be torn from international trade before we can reason soberly about it.

Am I then saying that the President is naive or that those who participated in shaping the part of the message relating to trade are naive or unthinking?

The fact is, a whole people can be blind, and a whole national leadership can be led along by a false idea until it explodes in their face. We do not have to strain our memories for examples.

One notion held not so many years ago was that Russia would quickly crumble under the Hitler onslaught. The fallacy of that judgment was amply demonstrated by events. Another notion was that the German people would throw up their arms and surrender once the war went against them. That also was a false estimate, but very widely accepted. There are enough of such false notions and fads floating around us in other fields, such as medicine, diet, child psychology, etc., to give us pause. Ordinarily, it is necessary only to wait a few years for the upset or for knowledge to catch up. In the field of trade we cling to a used-up idea because we do not seem to know how, when, or where to stop.

It is understandable why certain export interests wish to perpetuate the idea that increased trade, meaning, of course, increased exports, is an unmixed blessing. On the other hand, the support of this idea by economists and private organizations of voters who cut across the economic spectrum merely suggests a bankruptcy of ideas. This in turn may be the result of immersion in a constant flow of inspired comment that in itself has taken on the dangerous aspect of unreflecting acceptances of what is fed to it.

After 20 years of tariff reductions, carried out in 29 bilateral agreements, followed by 3 multilateral agreements; after a reduction of

75 percent in the protection afforded by our tariff and after witnessing the great number of nontariff restrictions on trade imposed by other countries, it is about time that we turned away from this broken-down vehicle to carry us to the promised land. Many of these nontariff restrictions were justified and justifiable and were symptomatic of the economic disruption of war, but that does not change the fact of their existence or obliterate their cause.

The CHAIRMAN. Mr. Strackbein, do I understand the meaning of what you are saying is that while some European countries have agreed to reduce tariff rates that they have imposed quotas upon imports which have had the effect of restricting our exports to these countries?

Mr. STRACKBEIN. That is correct, import quotas and import licenses, and exchange control.

The CHAIRMAN. Do you regard these as a violation of the meaning or purport of the reciprocal trade agreements which they signed?

Mr. STRACKBEIN. I would not say so across the board at all. As I say here some of them may be justified. Some of them may be used in the guise of protection and in that way have violated or undone, let us say, the concessions that they had previously granted.

The CHAIRMAN. So you would say that the effect has been that we have not reaped the advantage in exports which we might have expected from a reciprocal reduction of tariff duties?

Mr. STRACKBEIN. I do not even want to go that far, Senator, because I think that our exports were limited by certain other factors, by the amount of our own imports, and by the amount of our foreign aid.

Now, if those countries had not put on those limitations their currency reserves would probably have dwindled much further even than they did, so I am not accusing the countries of bad faith.

I say the situation was inherent in the postwar conditions of the world.

We would do far better to study the great shifts that have taken place in the basic foundations of trade in the past 15 years, the distortions in the world economy caused by the great upheavals of World War II, and the effects of the political and military realinements of the world. We should ponder the meaning of a policy that would subordinate the strongest economy in the world to the vicissitudes of a necessarily shifting diplomacy in an unsettled world.

We have in the past 10 years contributed heavily to the righting of the war-upset world; we have greatly liberalized our trade; we have greatly increased our imports. They are more than half again as high per capita in physical volume as in 1938–39.

Our diplomacy has been profoundly at fault in not saying these things to the world about our trade. On the contrary, our diplomats and various officials traveling about overseas have aided and abetted the idea that it was our stiff-necked policy about tariffs and trade that caused and sustained the dollar gap. They converted the protests of other countries thus incited into instruments of political pressure on the homefront in behalf of more tariff cuts. Only very recently has there been some evidence of a change.

We have actually reached the point in our tariff reductions where a halt is urgent. I don't say a stop, but a halt. We have cut to the quick and in some instances well into the living nerves of many of our producers. However, no great reversal is involved; no general rise in tariff rates.

Our producers who are asked to absorb the foreign competition uncovered by 20 years of tariff cutting are entitled to a remedy against errors of judgment committed in the wholesale approach to tariff cuts or against adverse changes in competitive conditions. There is no demand for undoing such good as may have come from the liberalized trade policy; only for a means of rooting out the evils. This remedy is not in hand. An escape clause that is more responsive to the needs of the case than the present one is called for.

All the minimizing of the losses caused or threatened by lower tariffs, so eagerly practiced by those interested in import profits or export markets or in upholding an intellectual position, cannot overcome the very widespread and legitimate concern of the exposed industries and their workers. Final success in this campaign of belittlement would in any case succeed in depriving the very propagators of any real reason for advocating their own program.

In a nutshell, the trade-agreements program has run out of magic. Its constant elevation to the position of arbiter of world economic questions is not justified. As a measure that may be looked to for the attainment and maintenance of full domestic employment, the further general lowering of tariffs would bring us greater liabilities than assets.

Now, I say the further general lowering. There is much more employment at stake, directly and indirectly, in the industries and agricultural pursuits that are vulnerable to import competition than exists in manufacturing or producing for export.

The fact that some of these producers are already highly protected by import quotas, such as wheat, wheat flour, and cotton, does not remove them from the list of exposed producers or from the list of beneficiaries of protection. That these groups themselves, cotton, wheat, and wheat flour, heavily support freer trade for others is only a measure of the high degree of inconsistency of which man is capable.

As for investment in foreign countries as a means of developing and strengthening them, the idea has some merit, but again it is not foreign investment, as such, that is important. The kind of investment and the conditions under which it is made are more important. Investment in economically unsound projects will not only not accomplish what is sought, but will go sour. The same may be said of investment where expropriation, nationalization, or refusal to allow profit transfers may sooner or later confront the investors.

Inasmuch as tax incentives would tend to overcome the prudence and caution that should be exercised in such investments, their long-term value may be questioned. Also as inducements to industry to seek low-wage areas for location of new plants, tax incentives on foreign investments might do more harm than good. If our capital cannot find foreign outlets that are sound enough or free enough from State control or confiscation to make them attractive without special tax incentives, it certainly is not clear that the granting of such incentives would remove their obstacles to investment, but they might cause the taking of unjustifiable risk.

From present trends of world population it does not appear that our point 4, and similar elements of assistance, will accomplish much more than to demonstrate the continuing validity of the Malthusian theory of population.

Thank you very much.

The CHAIRMAN. Thank you very much, Mr. Strackbein.

Inasmuch as I think that Mr. Strackbein perhaps is the only opponent of the proposal for continuation of reciprocal-trade agreements—we have allowed him to take more time than would normally be the case, some 15 minutes.

Mr. STRACKBEIN. I thought I was going over.

The CHAIRMAN. That was quite all right. We thought we should lean over backward in being fair.

(Mr. Strackbein's prepared statement appears at p. 974.)

The CHAIRMAN. Mr. Taft.

OPENING STATEMENT OF CHARLES P. TAFT, PRESIDENT, COMMITTEE FOR A NATIONAL TRADE POLICY

Mr. TAFT. I apologize for not having a prepared statement, Mr. Chairman. I finished testifying before the Ways and Means Committee at 20 minutes past 7 last evening.

I am very glad to be here with this panel. I feel like the man that put his mule in the Hambletonian trotting race and said he was very glad to have him run with those thoroughbreds.

I might say that Mr. Cleveland enjoys the responsibility of being a newspaper editor, and is not in charge of getting two committees of Congress behind a measure that is controversial. When he suggested that there is no general rise in tariffs at present, I am sure he hasn't observed the number of escape-clause actions that are pending or the number of bills introduced for raising individual tariffs.

Apart from that, I will leave for the committee a statement I presented yesterday to the Committee on Ways and Means which deals with some of the arguments Mr. Strackbein has given you.

(The statement referred to appears at p. 976.)

Mr. TAFT. Now for some general comments on the subjects listed for discussion. I want to start by saying that on the general problem of the relationship of our tariff policy to defense, we face the difficulty today of not knowing exactly what a mobilization base is in an era of atomic warfare. If we have a strike which wipes out a considerable part of our industrial areas, or if we have simply the kind of saturation bombing which devastated Germany, then it is most important that we retain flexibility and adaptability in the use of our resources, particularly our skills.

The strategic bombing survey after World War II certainly demonstrate that that is what kept Germany going despite the destruction of her physical resources. Now, under those circumstances the most important thing, it seems to me, is not to use tariffs to protect every individual pocket of defense essential skills but rather to expose our economy to the competition that sharpens our ingenuity and our enterprise. This is what is generally described as the "free-enterprise system." And it applies to foreign competition as well as domestic competition.

When you say that you want the information program to tell the Communists and uncommitted peoples about the material progress in our economy, that seems to me to be an unsound approach. They are not interested in the number of ice boxes and telephones and automobiles we have, but they might be interested in the general ideas of competition, the effort to excel, the necessity of calculated risk taking, the benefits of ingenuity, the kind of hard work and integrity that goes with our operations in an atmosphere of free choices. That, it seems to me, should be the base of the information program and I would say that our foreign-trade program, which is good in itself, quite contrary to Mr. Strackbein's suggestion, can be used to spread these kinds of ideas.

As far as the investment program abroad is concerned, I think the greatest interference with it is the lack of incentive for investing abroad. This incentive is far greater at the moment than it has been. The spread between stocks and bonds of approximately 2.8 points as it has been in the past offers no incentive for putting any money any place else. Now that it has been cut down to about 1.4 points it changes the situation for an investor, even an institutional investor, and he may be looking, therefore, for the possibilities of greater increased profits now.

The proposals for special tax treatments of income from foreign investments may therefore have considerable more effect than it did a year ago, before the stock market moved so far. It is very difficult today to buy income at the same rate you could have 12 months ago. So it does seem to me both factors result in increasing the incentive for investment abroad. It is also important to train people in the understanding of the foreign investment problem.

I think the most distinctive comment of those who have testified against H. R. 1 is that they either do not have or don't listen to people skilled in foreign trade. Mr. Percy of Bell & Howell, who came before that committee, and who made a most extraordinary statement, and I have a copy of that for this committee also, was one of the first men to testify before that committee in many years who is under a protected system and is up against extremely difficult foreign competition, but who nevertheless has stood out in favor of a reduction in trade barriers. One of the reasons why he is able to do that is that he has a most competent adviser and director of his foreign-trade activities.

We have not brought up a generation which knows how to manage foreign business under today's circumstances.

I visited, for instance, Mr. Paul Armstrong, the head of Sunkist. I have heard many objections from those who ship fruit abroad. Mr. Armstrong sends oranges. He shipped oranges and lemons to Holland, and he had to get paid for them. He took 30 percent of his pay in notes given by American citizens—this is Holland, mind you—notes given by American citizens for Israel bonds, which he then was able to sell to a bank in New York.

That kind of ingenuity and understanding of foreign trade is what we have in general lacked. If you get that then you get investment, and increased foreign investments, it is good. It is not as concentrated in a few areas as it has been in the past, and it will certainly increase in the future.

When you come to the specific measures that are proposed to help produce increased trade and investment, these must obviously be tailored to the practicalities of politics in the Congress. I would agree that predictability in our policies is the most important element to be secured. This comes about both through the improvement of customs regulations, which is at least under way, and also through the passage of a bill, almost any bill, which represents progress by an administration which is headed by a Republican President. If that is done, and it goes in for 3 years as expected, that helps increase predictability. It helps to reduce the number of escape-clause proceedings, because when it is not expected that these actions will be successful, they will not be tried since they do cost money for those who go into them.

Now, as far as help for those injured as a result of increased imports, and the numbers injured are limited, this is something in which the Government can be of assistance. If the Small Business Administration works on the question of towns which may be shut down because of the closing down of a plant, that would be helpful. But imports don't always cause the trouble. Take the Sanford Carpet Co. case, which is not a case of import competition, that closed because people don't want to buy Axminister rugs. Besides, it is an old plant, and they are moving to New England.

Contrary to what the New York Times said yesterday——

Senator FLANDERS. May I say——

Mr. TAFT. I haven't finished.

Quite contrary to what the New York Times said yesterday that New England is suffering from leukemia, the carpet plant in Thompsonville is moving to Connecticut. Someone just bought a plant in Cincinnati and is moving that to New England. Actually, New England lost 40,000 jobs in textiles and gained 400,000 jobs in other industries over the past 10 to 15 years.

That doesn't get in the newspapers. The textile plant closing does.

So it is this kind of readjustment that is going on, and in which the Small Business Administration could be of great help in finding diversified industries to come in. A Government agency has greater scope than a local committee could have.

Finally, as to travel, I would say that goes right along with ideas. It seems to me there could be started a program which would go particularly to the service clubs, for instance, which cover a wide range of small business in many towns, urging them to see to it that every person who is a member of their club, or that they know of who goes abroad, promises to assign at least 2 days in every month to talking to people of his own general situation in the foreign country about the values that exist in the United States and finding out about their values which, in turn, we might get some benefit from. Under those circumstances, it seems to me that the portion on foreign trade of the President's Economic Report is certainly a step in the right direction. It may not go very far, but a step in that direction which, if firmly nailed down, would certainly represent very great progress at the present stage.

The CHAIRMAN. Thank you very much, Mr. Taft.

Any questions of Mr. Taft?

Mr. Bolling?

Mr. Kelley?

Representative KELLEY. Yes.

I note you said the A. F. of L. or the CIO are proponents of H. R. 1. You didn't mention that the United Mine Workers are opposed to it. They are primarily opposed on account of residual oil coming in from South America, which is increasing the loss in coal, which means

20,000 or 30,000 miners have been displaced. When you multiply that by 4 to a family—miners' families are larger than that—you have 100,000 people affected.

I direct this question to you, sir: Don't you believe that an amendment to the escape clause might bring some help to the coal industry in the point that the Tariff Commission's recommendations would be mandatory?

That is an isolated case, I admit, but the promiscuous dumping of residual oil has injured the coal industry. I know that a great deal of imports go to the oilfields of South America, particularly Venezuela, but I see no reason why the coal miners and the coal industry itself should suffer because of that.

Mr. TAFT. Mr. Kelley, I have supplied you with a copy of my statement before the Ways and Means Committee. I think in view of your question, I had better read the answer to it, which appears on page 9 in my statement:

> The coal problem, like that of the wool-textile business, is the problem of a sick industry. Let us by all means do all we can to help each cure itself. But let us have all the facts, not the selected ones which coal spokesmen and their auxiliaries bring to this committee.
>
> Let me give you a few basic ones.
>
> 1947 was the alltime peak production year for bituminous coal. Since 1947, through 1953, bituminous coal demand has decreased by 155 million tons.
>
> What was the composition of this decline in demand? Bituminous lost:
>
> 1. 82 million tons in railroads, largely to diesel oils, which are domestically refined.
> 2. 38 million tons in space heating to natural gas and light fuels.
> 3. 35 million tons in exports, kept out by currency restrictions, not tariffs.
> 4. 29 million tons to other industries.
>
> Coal consumption in public utilities increased 26 million tons. There have also been minor gains in other categories. Compared to this coal loss of 155 million tons in 6 years, heavy residual fuel oil consumption increased by only 11 million tons equivalent over the same period. Six million tons of this was in public utilities where coal consumption increased by 26 million tons.
>
> Residual oil in not "dumped." Over a period of 7 or 8 years, except for 20 months' total, the barge-delivered price of heavy fuel oil in New York Harbor area was higher on an equivalent basis than barge-delivered coal. The prices fluctuated independently. The coal people have never made any request to the Government under the Antidumping Act.
>
> There is no evidence that shutting out residual oil helps coal. In the first 10 months of 1954, use of residual oil by public utilities reporting to the Federal Power Commission dropped 21.4 percent from the prior year, coal increased 1 percent—more than accounted for by new facilities—and natural gas increased 13.6 percent.
>
> Shutting out residual oil definitely hurts American manufacturers in 30 States employing 30,000 people in manufacturing for export to Venezuela. They send $170 million of goods paid for by the 80 percent of Venezuela residual oil imports that would be excluded by the proposed 5 percent quota.

Some of the bills propose 10 percent.

> So far as national defense is concerned, existing mines by going to a full week without overtime could add 150 to 200 million tons of coal a year.

That would run them 'way over the estimates of the Defense Department as to needs in wartime.

> With all the shifts that have taken place to oil and gas, even with our present industrial capacity, 400 million tons of bituminous in 1954, plus 70 million tons, is ample for war needs. According to the latest Bureau of Mines data, current capacity in the bituminous industry actually is 670 million tons.
>
> The real employment problem in coal mining is the turn to strip mining, which accounts for fully 25 percent of total bituminous production. This is a technological change opposed as vigorously by the United Mine Workers as is the

importation of residual oil, but with less publicity. This is because strip mining employs many fewer people, and has no place for most of the skills of deep miners. In fact, of the 142,000 out of work since 1947, the loss of 85,000 can be attributed to improvements in technology and productivity. How much of this is better machinery in deep mines, and how much strip mining, is a question the coal people had better answer to this committee. At least, it is not imports of residual oil.

And I have just been arbitrator in southern Kentucky where the percentage in strip mining has increased from 10 percent to 40 percent.

In addition, I found out last week that the mines in southern Kentucky and Tennessee, on the Southern Railroad at least, had no competition from residual oil since the last reduction in freight rates down there.

They sell to Georgia Power, and they have moved back from residual oil to coal.

Representative KELLEY. Of course, I don't say they have lost it all.

Mr. TAFT. It is only the equivalent of 11 million tons of coal since 1947, which was the year of peak coal production.

Representative KELLEY. The point is that it is increasing.

Mr. TAFT. No, sir; as I gave you the figures for the 10 months of last year, residual went down on the east coast, and it was replaced by natural gas.

Representative KELLEY. Do you mean to tell me that the amount of residual oil coming into our seaboard is less?

Mr. TAFT. I can only refer you to what I just read to you which are our statistics which we got from a thoroughly reliable source.

Just a minute. In the first 10 months of 1954, imports are down a million tons of residual fuel oil, and I have given you the figures there at the bottom of page 10, on the reporting of the first 10 months of 1954 to the Federal Power Commission. I think the coal people just haven't given you the facts, Mr. Kelley, with all respect.

Representative KELLEY. I cannot pretend that they don't know the facts. They must know after being concerned with this matter for a long time. From my own personal experience in the industry I know that they have lost business due to the residual oil coming into the United States.

The CHAIRMAN. Mr. Flanders?

Senator FLANDERS. I will pass on to the next witness. I am going to concentrate my fire on a professional economist who is also an old friend.

The CHAIRMAN. Mr. Talle.

Representative TALLE. No; thank you, Mr. Chairman.

The CHAIRMAN. Mr. Thorp, who was former Assistant Secretary of State for Economic Affairs and now Director of the Merrill Center for Economics.

OPENING STATEMENT OF WILLARD L. THORP, DIRECTOR, MERRILL CENTER FOR ECONOMICS, AMHERST COLLEGE

Mr. THORP. The Economic Report states flatly that—

the foreign economic policies of the United States can be a powerful instrument for strengthening the security of our Nation and the free world.

It emphasizes their relationship to overall foreign policy in saying that—

our trade and investment policies affect our ability to increase the solidarity of the free world.

It recognizes their economic significance when it says:

> Such actions will not only help to increase world production and trade, they also will help to assure a rising standard of living for our own people.

With this evaluation of the importance of "strengthening our economic ties with other countries", I am in complete agreement. Unfortunately, the specific program laid out falls far short of the challenge of these statements of high purpose. Although the Council and the President are pointing this powerful instrument in the right direction they propose to touch the accelerator ever so gently, and always to keep one foot poised over the brake.

First are the proposals dealing with trade barriers. Authority would be given to negotiate further trade agreements on a reciprocal basis, reducing present rates on individual commodities by not more than 5 percent per year in each of 3 years. Disregarding the fact that the machinery can hardly be put in motion to use the first of the 5 percent, a 15 percent reduction from present levels is little indeed, from 50 percent to 42½ percent or from 20 to 17 percent. The authority to bring rates above 50 percent down to that level is fine but it will leave so much protection that I doubt if this will have much significance except to those who calculated unweighted averages of rates, and the same goes for the cases of negligible imports. I fear that the proposals will mean relatively little effective reduction in tariff rates.

Other difficulties which handicap the importer are also given little relief. I heartily applaud the suggested changes in customs procedures, for these have been a large but little appreciated obstacle to imports. However, we are still to operate under the escape clause, which is a continual threat to any importer who endeavors to expand his market in the United States. Since this procedure was intended to prevent or correct mistakes made by our trade-agreement negotiators, I would suggest that there be some time limit set, so that if a lowered rate has not caused injury for, let us say, 3 years, it can no longer be challenged. Under its present form the escape clause stands as a permanent threat to the development of new trade channels.

One other type of uncertainty is that once again it is proposed to set our trade policy for only 3 years ahead. Why must we keep on this business of going over and over the same ground every year or 2 or 3? Since 1934, the Trade Agreements Act has been renewed again and again. The same witnesses have presented the same arguments again and again. The Congress can always enact amendments to permanent legislation, so why must the world be led to believe that we cannot determine the outlines of commercial policy for more than 1 to 3 years ahead?

The basic economic problems in the area of trade is still that of bringing the relationship between the dollar area and the rest of the world into balance on an economic basis. We still are providing substantial foreign aid in the form of grants and extraordinary expenditures abroad; foreign countries are still trying to hold down their purchases of American goods by quota restrictions; and the lack of general currency convertibility still interferes with the most efficient distribution of economic goods. I am a believer in growth and expansion. I should like to see our program for "freeing the channels of trade" one which would move much more vigorously toward breaking down these barriers to economic progress.

I have the same feeling that the proposals for fostering foreign investment do not match up to the scale and urgency of the problem. I have done my part in the past to try to improve the climate for private investment abroad, and I am convinced that the greatest obstacle today is the basic tension in international affairs.

The CHAIRMAN. Do you mean the fear that if appreciable investments are made abroad either the Communists will take over or there will be a domestic program of nationalization?

Mr. THORP. That is correct. We already have the proposed tax incentive in operation in the Western Hemisphere, and I doubt if the wider geographical extension will have much impact on private investment in Africa or Asia, except as it enriches all those who have already made investments there.

The CHAIRMAN. May I interrupt for a moment. I have always understood that the investments of the oil companies in the Near East were perhaps the most profitable investments in the world because, as I understand it, the production costs are low and they sell their oil in Western Europe at the Galveston price plus shipping costs from Galveston to Europe. The result is that under this world basing system they have a highly inflated price accompanied with low costs, and, therefore, have a tremendous differential.

Am I substantially correct in that?

Mr. THORP. I cannot testify with authority on that. The investments have been tremendous, and I suppose whether or not this will result in high profits in the end turns around the length of time——

The CHAIRMAN. High annual profits?

Mr. THORP. I would feel quite sure that under circumstances of full production and the existing price structure that oil is very profitable.

The CHAIRMAN. Is it not true that the European price which is charged is the Galveston price plus the cost of shipping from Galveston to European ports, even though the oil comes from the Near East?

Mr. THORP. I believe there is such a world basing-point operation; yes.

The CHAIRMAN. And, therefore, a 14-percent reduction would give a tremendous increase in income to those who are already making large annual profits; isn't that correct?

Mr. THORP. Yes; that is the point I was suggesting in my comment here.

Perhaps more help will come from the International Finance Corporation. But all these proposals are of limited effectiveness in the face of the requirements of economic development. I hope that still other steps are implied in the sentence in the report: "The program of technical and other assistance to economically underdeveloped countries should be strengthened." Economic development is a slow and difficult process, requiring assistance in various forms. I should like to feel that the United States was prepared to give strong support in practical ways to countries which could present reasonable programs for their development. We must keep in mind that many developmental steps may have to be taken before private investment can play its full part.

Foreign economic policies can be a powerful instrument, but they must take the form of actions. If we talk of individual enterprise, competition, and open markets, or if we urge other countries to bring their trade into balance by increasing exports, we can hardly be convincing if we ourselves act by closing markets and increasing protection. I am happy that the Economic Report is liberal in its approach. It faces in the right direction, but I regret that the motion which it promises is only at a snail's pace.

The CHAIRMAN. Mr. Flanders.

Senator FLANDERS. Mr. Chairman, I have often been puzzled by trying to make out in these hearings what was on the questioner's mind, what his own position was, and trying to figure that out from the questions he asked.

I therefore ask the privilege of stating my position to start with so that there will be no doubt about it. Let me say, in the first place, that as a matter of principle with me, as a Republican, if I cannot clearly follow an administration line I should let the responsible officers of the administration know before I make any public pronouncement on the subject. I have done that on this question of trade policy. I sent to the White House fully a month ago a statement of my belief on this trade policy. At one of these afternoon parties which are so prevalent in Washington, two young men came up to me and said they had this statement under consideration and were shortly going to come up to my office and set me right. The two bright young men have not come up.

The emergency of this public hearing has arisen, so I have to proceed without the benefit of the criticism of the administration.

Let me say briefly, Mr. Thorp, that my questioning will be from this standpoint. I believe that standards must be set up for the administration of the so-called reciprocal—which, by the way, have ceased to reciprocate—trade policies, that instead of being a flat overall action we must divide the whole field of tariff revision into categories, and my brief sent to the White House related to these categories. I want, first, to mention a couple of them and ask you what your judgment is on them.

The 2 cases I will mention were cases in which I had protested to the President. One was one way, in increasing the tariff; the other was the other way, in lowering a tariff. The protest against lowering of the tariff was on clothespins, spring clothespins.

The CHAIRMAN. That happen to be made in Vermont.

Senator FLANDERS. They certainly are, and I do not deny that fact, and I want it entered into the record.

The CHAIRMAN. Good.

Mr. TAFT. Are they used only in the spring, or do they cover the whole year?

Senator FLANDERS. They have nothing to do with the clear, cold water which springs from the mountains of Vermont, nor do they relate to the seasons of the year.

My objection to lowering the tariff on spring clothespins was on what seems to me a broad policy which should be followed in regard to minor industries whose contribution to international trade is so minute as to be practically invisible. My point was that the massive machinery of stimulating foreign trade should just pass by those minor industries because there were social implications involved which were important for these small areas as a whole, for small businesses in the villages, etc., and why drag them into the maelstrom of international trade?

Now, I would like, Mr. Thorp, to ask what your opinion is on my judgment in that respect?

Mr. THORP. I am not quite clear on one question, Senator. It really isn't the product, I take it, that you are judging on. It is being a minor item as against some complicated product. It is rather that you would like to define protection by size and geographical location; is that it?

Senator FLANDERS. Well, geographical location, in part, but the fact that in dollar volume it is inconsiderable. In importance to a given locality, it is considerable.

I might say it is not only Vermont, it is also Maine, it is also Indiana, and one other State which I forget.

Mr. THORP. Well, first, as to the dollar volume, the characteristic of our gross national product is that it is made up of a lot of items, a very large number of which are, if one looks at them separately, small. I would have great difficulty in trying to make a list of non-small products. One can see the automobile, for example. But it would seem to me that to try to define a policy in terms of size of industry gets one into difficulty.

One might try to deal with this problem in terms of scale production on the grounds that the large-scale industries are the ones in which we are without question the most efficient, and the small-scale industry which often is in a sense almost a handicraft industry may be the one in which the cost abroad provides the foreign country with the opportunity of getting a comparative advantage.

However, I think that the gains that I would hope to achieve in balancing out trade might nevertheless be over a large number of smaller industries.

The CHAIRMAN. May I be permitted to reply to the Senator from Vermont with the type of literary allusion which he likes so well?

Senator FLANDERS. If it is pertinent.

THE CHAIRMAN. I remember that in Washington Irving's story of Rip Van Winkle, when Rip Van Winkle was addicted to the bottle he would excuse his successive drinks by saying he wouldn't count that one since it was only a small nip, but these cumulatively operated to produce a very bad set of habits.

I would suggest that the Senator from Vermont realize that the whole is made up of a series of small parts.

Senator FLANDERS. The whole is made up of a series of small parts, but the total may be a change in the character of village life and small community life in the country.

I am not making a special plea for some clothespin manufacturers in Vermont, though I will admit that my thoughts on this subject was instigated by the Vermont situation.

Well, I have made that point about the standards; it seems to me that should be considered in not an overall broad policy but one in which we set up categories.

Now, that is one on which I protested to the President about his decision.

Mr. THORP. May I just make one added point?

Senator FLANDERS. Yes.

Mr. THORP. It would seem to me if one takes as a basic proposition that one should protect operations of this sort, there are other threats also. Probably one ought to try to limit invention and the development of substitute commodities, and a whole series of other threats. Competition and progress are cruel things. There is no question about this for the people who lose out in competition. This is true in the economic world, just as it is in the political world.

It would seem to me that if one adopts a policy of somehow preserving a particular kind of enterprise, one has to go much beyond the possible threat of import.

Senator FLANDERS. You now, sir, are speaking to my third question, and I will bear in mind what you have just answered.

Mr. THORP. If I may just illustrate, I would have thought the clothespin people would have been very much concerned about the spin-dry washing machines, and this is where protection should have taken place.

Senator FLANDERS. Yes, they ought to have gone into spin-dry washing-machine business, there is no doubt about it.

I may say, however, that one of the factors mentioned in the President's decision was that they were already having competition from the plastic spring clothespins, and that was argued as a reason for reducing the tariff on the imported clothespins.

Mr. TAFT. Wasn't it a question of not raising the tariff, Senator?

Senator FLANDERS. It was a question, let me say, which I did not support. It was a question of setting a quota, and I was against that. I was against setting the quota. I did protest, and would continue to protest on the preceding lowering of the tariffs, particularly when 5 percent of the tariff rate was given by negotiation with Mexico, and Mexico afterward repudiated the new agreement, but still the new 5 percent remained.

We could go into all the complications of the thing, but I think the principle is what I am talking about.

But the decision which involved the plastic clothespins was simply to the effect that if an industry is having trouble let us give them more. That is the way I interpret that decision.

Mr. THORP. May I express the way in which I interpret it?

Senator FLANDERS. Yes.

Mr. THORP. If an industry is being injured, and there is very clear indication that injury is coming from domestic competition, then there is question as to how much one should attribute the injury to the reduced tariff. This is a question of attributing the injury.

Senator FLANDERS. Well, the increased imports attribute the injury.

Now, the next point is one on which I protested to the President on an exactly opposite line on the basis of my analysis of what the standards of protection should be. That was when he raised the tariff on watches. The principle to my mind, which I set forth in my memorandum, was that any industry which through its own lack of initiative, through its own lack of willingness to engage in competition, had found itself in trouble, was not entitled to additional protection to protect its own inefficiency.

Now, 45 years ago I was very familiar with the watch industry in an era which is still represented by this old Waltham Riverside watch. I defy any country in the world to have competed with the Waltham watch of that day. The productive methods were magnificent, and I do not see how the Swiss or anybody else could have matched that competition. But the Swiss came along with smaller watches, and still smaller ones, and got down to the miniature watch of today, which is a marvelous thing in its timekeeping ability and inconceivably small movement. There is where they forced the pace with the American watchmakers.

There was no ingenuity, there was no sense of competition in the American watchmakers at all.

So a second principle which I set forth in my memorandum was that tariffs should not be used to protect an inefficient industry. So you see I am on both sides of the fence, but on principle.

There were other things in this memorandum which I will not go into at this time. One of the suggestions made in it, however, I think it is still pertinent, and that is the greatest contribution that can be made to the health and prosperity of the industry of Europe, is an extension of Benelux to cover the whole western continent of Europe, so that they have their own mass production market. Now, that is worth 10 times for them anything that we can do for them by the way of tariff reductions. And that idea, by the way, was first put forth to my knowledge by Ortega y Gasset in his book, The Revolt of the Masses. I forget how long ago that was. I think the book is at least 15 years old. It is the way for Europe to save itself, and if not save itself to increase in prosperity.

They need a mass market, and it is right there on the European Continent for their getting.

Now, my third question, Mr. Thorp, and that will be my last one at this time: It seems to me that we get in these presentations reference to—I hate to use the word "doctrinaire" because that has come to have unfavorable connotations—free trade. But I use it because I don't have any other word to take its place. Most of the proposals go back to a doctrinaire position.

I wish you could give us the limit to which we are approaching in these things. If ultimate complete world free trade is the limit, what would you assume to be the nature of the industries and operations which would result for the United States as we approach that limit, if that is the limit?

Mr. THORP. That is a fascinating question, and I am not at all sure as to the exact answer.

Senator FLANDERS. It is a practical question.

Mr. THORP. Obviously there are a certain number of industries which cannot easily be internationalized, because of transportation costs——

Senator FLANDERS. Dry cleaning establishments, barber shops?

Mr. THORP. Yes, housing, construction, and so forth. There are many things where transportation is high. Then there are other industries which have to adapt themselves rather rapidly to shifts in American tastes, and are peculiar to American tastes. We now have forms of styling which change rapidly enough so that there are whole areas in the garment trades, for instance, which probably couldn't be taken over from abroad.

On the other hand, there are, of course, many raw materials which we know as we expand we will have to bring in from foreign countries. I would expect that foreign trade never would become a major percentage in American operations. We would not reach the kinds of percentages that have been reached in Denmark or in France or in smaller countries.

Actually, it has been quite interesting to see that our imports have been declining in percentage, that even though the tariff rates have been declining our imports have not held pace with our national income.

I would have to say I think as a first reaction, and maybe some of my brethren have thought about this more than others, that I would not expect in a free trade world a major reorientation in American industry. I would think there would be undoubtedly some industries which would not be able to meet foreign competition. Obviously, the things in which we are most skillful, the application of capital, the production of complicated machinery, are the things in which we would stand out. A handicraft product like a power generator might be done in one of the other countries, whereas electric refrigerators might be something in which we would provide the supply all through the world.

But I cannot feel that there would be major changes that would create a great volume of trade. The American economy will be one in which 90 percent, shall we say, of our goods and services will be produced within the United States.

Senator FLANDERS. You have an optimistic viewpoint. I may say that mine is not quite so hopeful.

I see a tendency to concentrate on the advantages of mass production, which would include such things as automobiles and household equipment, and also in agriculture, both in the intensive agriculture for feeding ourselves, and the extensive agriculture for the great products which move in world markets. However, that depends on our finding some way in reaching a free market pricing system. We still have a barrier to get over in our price support on those world products.

I do not see that we are necessarily hurting the rest of the world if we decide that we had better look at our final point and see where we are going. As far as Western Europe is concerned, that necessity for developing their own mass market is a way out for them, and I was glad to hear Mr. Cleveland make just a casual reference to Japan and eastern, southern, and southeastern Asia, because the way out for Japan she already saw before the Second World War. Japan went at it the wrong way. That was the greater Asian co-prosperity sphere where you will remember started them off on a war. It should not have started them off on the war, it should have started them off on commercial and trade negotiations because there is that whole area where she is fitted to supply the manufactured goods, and they in turn fitted to supply her the food and the raw materials.

So we don't have to look solely or even, I think, properly to our selves as carrying the whole responsibility for the prosperity of Europe or of Asia. It lies largely in their own hands. Our responsibility in Asia lies in doing what we can to restore free trade, normal trade arrangements, and that, of course, is a problem.

But I have talked more than you have. I do commend to you a thought on the question of just what we are heading into as we approach what seems to be the end of our series, which is world free trade.

Mr. TAFT. Mr. Chairman, may I comment on the Senator's question?

The CHAIRMAN. Yes, indeed.

Mr. TAFT. We have attempted to make an estimate, which my distinguished colleagues here will know is very inaccurate, but at least it is an attempt. If the present proposals were put into effect completely, and at once, which is not proposed or thought of by anybody, we estimate that it would represent roughly one-seventh of the way toward total free trade. Now, that is not proposed. The powers lapse if they are not exercised in each of the 3 years, and it isn't proposed to make it across the board anyhow.

I should also comment that as far as the supporters of my committee are concerned, they extend far beyond the mass producers. We made up a list at the request of the Ways and Means Committee of the industries that are represented by our supporters, and it covers a perfectly extraordinary range of small business as well as large.

On the other side, it is not at all just small producers who are opposing any changes. The major opposition is coming from part of the electrical industry and from the chemical industry, which are anything but small, and, the height of the tariffs involved in chemicals, may offer some explanation.

On two pages here of my statement which I submitted to the Ways and Means Committee yesterday, page 8 and page 9, there are two tables of chemical tariffs which I think will startle you as far as the height of the duties is concerned.

One other comment which the Senator made, Mr. Chairman, and I would like to put a rather factual statement in the record on that, if I may: This has to do with the question of reciprocity. Since 1945 there has been what amounts to a universal tariff truce throughout the world; there have been none of the outbursts of tariff wars that sporadically used to rock the world's trade in the interwar period. More than 50 items have been reduced or prevented from increasing. It is fashionable to say that other countries' tariffs don't really matter because they have put on exchange controls and quantitative restrictions. This is a substantial overstatement of the case because Canada and Cuba don't use these devices and Switzerland hardly uses them at all, and they are three of our biggest customers.

On quantitative restrictions, in 1946, I would say that a hundred percent of our foreign trade was covered by quantitative restrictions in other countries by reason of balance of payments considerations. Since that time, there has been an extraordinary change in this picture. It has come about slowly, but certainly, especially in the last 2 years; it has taken large steps.

The trend began with Canada. In 1948, the Canadians dropped the quantitative restrictions they had been using to ration their scarce dollars and invited United States goods to come in without license.

The next major steps took place in 1951 and 1952, when Belgium first began to relax its import restrictions against dollar goods on a broad scale; today the Belgians have just about wiped out the extensive system of restrictions they had 4 years ago.

In 1952, the dismantling process moved a great deal faster. The United Kingdom paced the process when in the fall of 1953 it authorized unlimited imports of wood, wheat, and grains, then followed up by freezing copper, lead, zinc, and many chemicals from import restrictions. In 1954, the United Kingdom went so much further in the process that by the end of the year 50 percent of its trade with the United States was free of restrictions.

In Germany, Holland, Italy, Greece, and other Western European countries, very much the same prcess has been taking place.

So I think it should no longer be said that the trend is entirely in that direction. It is quite in the opposite direction, and we now have more quotas in effect than we have had at any time since 1946.

The CHAIRMAN. Would you say that France has been the conspicuous exception to the general pattern?

Mr. TAFT. Yes; but even France, in reducing their exchange and quantitative restrictions, compensated for them with special taxes which accomplished the same purpose. But they have now finally agreed to remove these taxes because of pressure from OEEC and GATT, according to the New York Times. So France is being pushed further. They have been the bad boy, without any question, on this general subject, but even they are improving.

The CHAIRMAN. Mr. Bolling.

Representative BOLLING. Mr. Chairman, I would like to ask some questions along a somewhat new line, at least from what I have heard. There has been a great deal said, particularly in the last year and a half or 2 years, when at least in a portion of that time there was recession in this country—there has been a great deal of discussion of the techniques and the rightness of the basic policy of this country with regard to trade with the Soviet bloc, the Iron Curtain countries, and there have been at least some who have had the suspicion that some of heavy industry in this country, in a natural and reasonable desire to find additional markets, were moving in the position held by some producers in the 1930's in regard to trade with our potential enemies.

I found myself relatively unpopular in almost any circle when I voiced the belief that there was no occasion in any history that any totalitarian country's attitude toward another country or the world was in any way modified by trade. I would like to get Mr. Thorp's opinion on that—in any modified by trade out of the purely expedient material advantage that might or might not be obtained from that trade.

In other words, there was no softening of attitude because of trade. I would like to get Mr. Thorp's comment on that thesis.

Mr. THORP. I think it would be very difficult to demonstrate that any attitude had ever been affected by trade with a totalitarian country. On the other hand, it is very clear that they themselves regard trade as a very important instrument to total policy.

You just have to recall the treatment of Yugoslavia, for example, when Tito defected, and the immediate embargo against Yugoslav trade; or the case of Australia, when some Russian representative or his wife refused to go back to Russia and there was an argument about whether the Australians were preventing him from returning. This was a question about freedom of diplomats, and Russia announced that because of the behavior of Australia in this particular respect, they would withdraw from the Australian wool market. You get this very real identification.

Now, I think it is probably fair to say that in the same way they would use the problem of purchasing, both in terms of things that they might need and also in terms of what possible political effect or atmospheric effect, shall we say, might be created by that.

Representative BOLLING. Mr. Thorp, at that point might I ask this: Do you think that what we did in the way of trade with an Iron Curtain country, whether it were gifts of food or actual trade, do you feel that our efforts, our generosity, would ever be transmitted to the people of the Iron Curtain countries and thus ever have a political effect in the Iron Curtain countries?

Mr. THORP. Well, now you have got a number of different situations there. I am sure that in East Germany, for instance, the people were aware of the fact that they were getting certain food from the Western countries at the time that we were distributing food through Berlin. The people knew that and I am sure it had some real effect on the situation.

As to what effect the attitude of people in one of these countries may have on Government policy, that is another question. I think one may take the position that as of several years ago there had to be modifications in policy because of rising discontent on the part of people. There is no question but what the agricultural area is one in which the reaction of the citizens in these countries doesn't meet what the Government would like, and the Government is having to adjust itself to peasant resistance. And I would think, therefore, that there is some impact on the people, but how much this translates itself up to the governments in these countries is very hard to say.

Representative BOLLING. Now, Mr. Thorp, I would like one more refinement on that. Would there be any more impact on the people if the items in question were so-called producers goods, as opposed to consumer goods?

Mr. THORP. I suppose this depends on whether these items came in and were fairly anonymous and word did not get around about them.

Representative BOLLING. East Berlin, where the food undoubtedly apparently had an impact, was an area that was most vulnerable to our information program. It was certainly a very specific item that inevitably got to an individual or was not distributed at all.

What I am getting at is the obvious: Must we not in our trade with Iron Curtain countries have very specific practical reasons for engaging in that trade, and not operate on the general thesis, which one hears a great deal of these days, that trade in itself will have the effect of breaking down tensions?

Mr. THORP. Yes, I have never had great enthusiasm for that. I think trade has some impact, because it necessarily does bring some people into contact with each other. It means some people have to come out or some people have to go into the country to do it. Also in some cases the items may create a respect for the source of those items, but I think I would agree with what I suspect is your chief point; namely, that in developing trade with these countries, one should consider what one is going to get, what items one is going to get, as well as the items that one is going to ship to them.

My feeling has been that, by and large, in Europe, the European countries who have been most interested in expanding trade have been negotiating pretty carefully to get the things they need—timber, coarse grains, and things of that sort.

The CHAIRMAN. Mr. Viner.

Mr. VINER. It seems to me fairly obvious that one has to consider the question of freer trade as an instrument of foreign policy with respect to aggressive powers in terms of the historical circumstances and the powers you have in mind.

To me, it seems foolish to think that we could woo the Russians or convert them to a respectable foreign or domestic policy by whatever trade policies we adopted. But I do think an important East-West cold war issue is involved in our trade policy, and that is that insofar as restrictions of the Western World's trade with the Soviet can weaken the Soviet world, our tariff policy stands as a barrier to use of that strategic instrument. The major burden of such restrictions would not fall on us—we never have been important traders with the Soviet countries—but they would fall on certain Western European countries in particular. If we do not offer them outlets, if we do not offer them substitute markets for the markets of the East, which are their historical and traditional markets, they may be forced, phychologically, politically, economically, physically, to come to terms in trade with Russia. I would also say that with respect to Japan we ought to bear that issue in mind.

As to whether trade in itself is a peace-making thing, I think it is debatable whether it has made more for peace or for war. It depends on what kind of trade policies prevail. Trade based on discriminatory and restrictive policies is probably more enmity creating than friendship creating. I would like, however, to give two illustrations where countries became extremely aggressive who might not have done so if the Western World, including the United States, had had more liberal trade policies. One of those was Hohenzollern, Germany, before 1914, which saw the world expanding in an imperialistic way, closing colonies to German trade, and creating a situation where it felt it could not avoid colonial encirclement. The second was Japan in the 1930's. Even in our period of more liberal trade policy it was being pushed out of our market and out of the markets of the British Empire everywhere. It was facing restrictions everywhere and experiencing a rising population, and rightly or wrongly, it saw no escape by peaceful means in a world in which countries would not trade liberally with it.

The CHAIRMAN. Are you suggesting, Mr. Viner, the same point that I think Mr. Taft emphasized in his testimony yesterday before the House Ways and Means Committee, that if we close our markets to Japanese exports, we inevitably throw them back on trade with Communist China?

Mr. VINER. Either trade with Communist China or some hopeless collapse. I see no possible economic future for Japan, not only if we do not open our own market to them more freely, but also if we do not foster a situation, in general, in which they have good prospects for making a living out of an economy which must in large part depend upon foreign trade.

Representative BOLLING. Mr. Chairman, I have to leave in a minute and I would like to make this very clear with what Dr. Viner has said with regard to Western Europe and Japan, I am in entire agreement.

I would like to have the opportunity at another time to discuss the other final statement he made, because my own feeling offhand would be that the trade was rather more the excuse than the core reason with regard to Germany in World War I, and Japan in the thirties, but I heartily agree with the first two points, the positive points that are made.

Mr. VINER. You may be right, but I know the politicians used the argument with their people. They may have been military aggressors, but this is what persuaded the people, and it comes to the same thing in the end. They needed public support, and they needed this argument which served their purpose, even though it may have been used insincerely by their leaders. As to whether they use it sincerely or insincerely, I reserve judgment.

Mr. TAFT. I would only note the relevance of this to foreign investment. For instance, you may have read the article in the New Yorker about Afghanistan, where we have a point 4 program, but we also have some American foreign investment. The Russians have now come in, and the Czechs, and are putting in quite a number of plants, in addition to which they are taking over in payment for those plants the so-called Persian lamb, or karakul, which comes from Afghanistan, and may therefore acquire economic control through that kind of foreign investment and this could become very dangerous.

Now they are pretty smart people. Maybe they are just trading with us, I do not know about that, but at least that is something that ought to be considered along with current trade.

Mr. CLEVELAND. On the question of Japan, it is my view that both the possibilities of Japanese trade with the United States and the possibilities of Japanese trade with the Soviet bloc, particularly Communist China, are overrated.

In the case of Communist China, the Chinese are already having difficulty finding enough Chinese products to exchange with Russia for what the Russians are sending them. Apart from coal, where the Chinese might be able to develop some surplus for Japan, Japan is likely to have to take the usual run of hog bristles and tung oil, and other items that have always bulked so large in Chinese export statistics.

As far as the United States is concerned, if there were really free trade between the United States and Japan, I will bet we would find that the area of comparative advantage isn't very large on any but the very high-labor-content commodities. That, I think, leads inevitably to the conclusion that the economic development of the rest of Asia—with rising incomes providing a market for industrial exports from Japan and more efficient production of primary goods providing some of the raw materials, some of the coal and some of the food that the Japanese need—is necessary to the Japanese problem. An Asian development program is necessary anyhow on political and other grounds in the development of our foreign policy in Asia.

The CHAIRMAN. Mr. Strackbein.

Mr. STRACKBEIN. May I comment on the Japanese situation?

The CHAIRMAN. Surely.

Mr. STRACKBEIN. Mention has been made here of the cutting off trade with Japan. Of course, that is not encouraged at all. I think that the members of this committee must know that under the unconditional most-favored-nation clause, Japan has received all of the benefits of any tariff reductions that we have made since 1934 in trade agreements. Now, not all concessions have applied to Japan because not all applied to goods coming from Japan, but where they did apply to goods coming from Japan, Japan got the benefits without ever entering into a trade agreement with the United States and without giving any concessions in return.

So it is not a question of our restricting our trade with Japan. The real question is if we make further duty reductions on our imports from Japan, to what extent our own domestic industry would stand the increased competition. Another question is, as you say, or as some have said, How much will it actually increase the shipments from Japan to the United States?

One of the great blows against Japan and Japanese exports to the United States was the development of synthetic textiles in the United States. Silk was the great staple product of Japan and much of it was sold in the United States. They do not have that any more, or at least only in very reduced quantities. So how far we can go to substitute for that by permitting toys and tuna, and knickknacks of one kind or another to come in here at lower rates is a highly debatable question.

I would not look at the reduced trade barriers against Japanese goods to lead to as great a volume as some people might think. I think at the same time it could do a great deal of damage because the competition from Japan is the most difficult that we face, and that is true in textiles, cotton textiles, and others, woolen textiles, even the synthetics. So my view is if we must have a trade agreement with Japan, and recognizing the difficult international situation, that we should have made a bilateral agreement instead of going through GATT.

In that case we could have made it possible to live with the competition by putting on import quotas, liberal, if you please, but nonetheless limiting the damage instead of having an open end to the competition which becomes upsetting to our own producers.

Mr. THORP. Mr. Chairman, may I just make a footnote on this statement of Mr. Strackbein's, because I think he has given a slightly wrong impression. While it is true that the previous trade agreement negotiations are, under our principles, generalized through the most-favored-nations clause, the fact is that the negotiators of trade agreements with other countries have not negotiated with respect to the main items of importance in trade with Japan.

What one does in negotiating with a country is to negotiate on the chief trading items with that country. This has meant in many cases that there have been differentiations made within a single product, by price level or something of that sort, so that a tariff cut is applied to the quality of that product which might come from some other country, but not from Japan, and so the actual fact is that as of the moment there has been reserved, one might say, until the day when negotiations took place with Japan, the items which promise to be most important in our trade with Japan.

The CHAIRMAN. What would those be, Mr. Thorp?

Mr. THORP. Well, this is a long list of items that has been put out. There have been public hearings on it. I can't offhand define what it is.

Mr. TAFT. It was published in advertisements in the New York Times and Journal of Commerce last week, and Washington Post and Times Herald.

The CHAIRMAN. I regret to say I do not always read the advertising pages.

Mr. TAFT. It was a full page: You could not have missed it, Senator. May I add, in addition to what Mr. Thorp has said, the classification operation in the Customs Bureau of the Treasury Department has been rather carefully used to exclude Japan from benefits of trade agreements that may have been negotiated.

Mr. STRACKBEIN. Well, that is certainly not true universally. In the case of tuna, trade agreements were made with Iceland, and there were included certain items of tuna, and that benefit did go to Japan. It was not possible in these broad trade negotiations to cut Japan out by value brackets or other devices.

Mr. THORP. Not completely, but to a large extent.

Mr. TAFT. They tried.

(Mr. Thorp's prepared statement appears at p. 984.)

The CHAIRMAN. Mr. Upgren.

OPENING STATEMENT OF ARTHUR UPGREN, DEAN, AMOS TUCK SCHOOL OF BUSINESS ADMINISTRATION, DARTMOUTH COLLEGE

Mr. UPGREN. I have prepared a rather longer paper, so I will try to keep my testimony short and stay inside the limit, but I would like to speak to three points:

First of all, the methods we have for strengthening the Allies, and how we have used them. Second, the problem of the standard of living and jobs at home, as opposed to the question of security. And, thirdly, a guide that we might have for agriculture, which the President noted in his message was a very special problem.

First, with respect to aiding the free world, we have had some five general methods. Of the five, I think the tariff reduction has not been better than fourth in importance and probably could not be better than fourth in the immediate future.

The first and greatest method of helping the world, of course, is to keep the domestic economy strong because that pulls in the imports regardless of whether they are dutiable or free and, of course, it is to that which this committee has dedicated its major effort.

The second way in which we have assisted the world is by giving aid, which the Department of Commerce said a week or two ago has added up to $50 billion since the end of the war. That would be an average of five and a half billion dollars a year, and I suspect we have given aid in that manner rather than by tariff reduction because of our huge, powerful fiscal budget. We are able to raise the money to give that aid, and to assess the burden on Americans as fairly as the Ways and Means Committee can manage to do that, whereas in the case of tariffs, we are unable yet to find a device to assess the very localized burden on our people.

The third most important way of assisting the world is in terms of trade. American industry produces more and more goods without as much a rise in prices as the rest of the world which has really supplied us with a lesser increased flow of goods at a much more greatly increased price.

Then comes our fourth way, tariff reduction, and I think, because we have had so many rather doctrinaire questions, we might digress briefly to point out that the barrier to a great inflow in imports is largely the $160 billion investment of American plant in new industry.

With that huge investment American industry would generally meet the price conditions which would be imposed by tariff reduction. What I am saying here is that the proposal of trade, not aid about a year or two ago, could not have accomplished but a very small amount of the achievement that was dramatized by the visit of two members of the British Cabinet. This was important, but we should not try to persuade the American people that we can do so much more than is possible.

The reason is that our industry is generally profitable. It will meet the price conditions imposed by reductions of tariffs. We discovered this working in the Trade Agreement Section of the State Department 20 years ago, and it is the price effects that industry is concerned with because it does have this huge investment which will keep most of its output coming forth to meet the competition of any inflow of European imports.

The CHAIRMAN. That would help the consumer, would it not?

Mr. UPGREN. Yes, it might help the consumer in terms of a lower price, but it wouldn't be the method necessarily of strengthening our allies. That is entirely correct.

The fourth method of assisting the world—by reducing tariffs—would be very slow, though there might be certain price gains. There could be adverse effects from this lowering of price such as the slowdown of that very, very important factor in maintaining a high level of prosperity, which is a sustained flow of American investment in new plant and equipment. I would assume that one of the very great benefits secured a year ago from the abandonment of the excess-profits tax was the maintenance of total construction at the very high rates which were maintained during this past year, thus giving the consumer a gain in that direction to offset a gain he might not have gotten by the failure to lower that tax, or to lower the tariff to use the other case.

The conduct of foreign trade does not increase jobs, as Dr. Goldweisser on many occasions would emphasize. Rather, it makes better jobs, and there we have a key to the last point about which I would like to talk briefly, and that is the rule that might guide agriculture in its own self-interest.

I think of that because I lived in the Midwest until 2 years ago. In the Midwest our agriculture has made a very marked shift from cereal farming of 50 years ago over to production of meat and all products of livestock. That has been a remarkable shift efficiently accomplished and it reflects the high-income position of the American people. Agriculture, therefore, is interested in a high rate of marketing of livestock and its products, or in other words, meat, dairy products, and all that, with the result that the importance of cereals is very greatly reduced.

Now the sale of such products is much greater when the American family income is high. I can recall estimates—I confess I am not up to date here—that families some years ago who had a $65 or $70 weekly income consumed two-thirds more meat than a family with a $40 or $45 weekly income. Then it becomes in the interests of agriculture, which now has a production of 55 percent livestock and its products—and in the States of Indiana, Wisconsin, Iowa, the proportion is over 70 percent—to encourage high consumer income.

Here we might suggest that agriculture reverse its position against the lowering of tariffs. By favoring tariff reduction agriculture would constantly put the pressure on those industries which are paying low wages and, therefore, which provide somewhat poorer customers for agricultural products.

Now the clue to this, I think, will also answer some of the questions which have been raised, and that is how do you create a high wage industry. The high wage industry generally, I think, is created by the use of large amounts of capital and machinery. Larger amount of capital and machinery increases the productivity and results in a higher wage.

For example, the utility and the oil industry—and I guess the chemical industry, and the steel industries—do have very high investment per worker and high wages. Workers in these industries provide excellent markets for agriculture. Other industries, not to make any invidious comparisons, have lower wage rates and agriculture might very greatly gain markets here if income were higher.

The CHAIRMAN. Those happen generally to be the protected industries, too, do they not?

Mr. UPGREN. I think that is right.

The CHAIRMAN. I notice the industries in the past which have had high tariff rates tend to be low-wage industries.

Mr. UPGREN. That is right.

Mr. STRACKBEIN. Mr. Chairman, don't you think the differential in wage rates in the United States is more regional than it is among industries? I had occasion for a period of several years to observe the wage rates in different parts of the country. That was under the Walsh-Healey Act. The highest wage-paying section of this country was Washington and Oregon. Now that very fact may upset many classical economic theories, but it is nonetheless a fact. The lowest rates were in Southeastern United States. Fairly high rates prevailed throughout New England, in Massachusetts, coming down through New York, Pennsylvania, and then Ohio.

The wages were lower in the Southwest, lower Middle West, and southern California. From San Francisco up, they were higher. I do not think you can equate that with whether the industries there located were protected or unprotected.

The CHAIRMAN. There are undoubtedly regional differences, but I think it is also true that woolen, cotton, jute, hemp, most of which have had high tariff rates, have been low wage industries; in fact, low wage industries all over the world.

Mr. STRACKBEIN. Another differential was in the size. In almost all cases, the large companies paid high rates, the medium sized companies middle rates, and the small companies low rates. I do not think you can equate that either with whether industries are protected or unprotected. So there are many causes of wage differentials in this country operating aside from whether industries are protected or not.

The CHAIRMAN. Of course, I would not maintain that this is the only or perhaps the chief reason. I would simply suggest that it is the position the proponents of high tariffs take when they say it is necessary to protect the American wage scale, and yet the industries which have the greatest amount of protection happen to be low-wage industries. That fact sticks out like a sore thumb.

Mr. STRACKBEIN. I wonder if an examination has been made of that thesis in the postwar years.

The CHAIRMAN. Well, my information doesn't go much beyond 1940. I will say I would be surprised if there were a great change.

Mr. STRACKBEIN. I think you would find it very interesting to see what changes have been taking place in that case.

(Mr. Upgren's prepared statement appears at p. 986.)

The CHAIRMAN. Mr. Viner.

OPENING STATEMENT OF JACOB VINER, PROFESSOR OF ECONOMICS, PRINCETON UNIVERSITY

Mr. VINER. Mr. Chairman and members, I support heartily the general principles stated by the President with respect to the economic foreign policy of the United States in his economic report, and in his message to Congress of January 10. I, in general, support also most of his specific recommendations. I would have preferred, however, a closer match between the vigorously expressed and highly persuasive exposition of the general policy and the meager, hesitant, and partial program proposed for carrying out this general policy.

It is in the interest of the prosperity and the security of the United States that the economies of our allies, friends, and potential friends abroad shall experience steady and significant growth from year to year. More liberal access to the American market for their commodities and services can be a major factor in promoting this result.

American prosperity would be promoted by a more liberal commercial policy on our part. It is in our own economic interest that we shall move steadily toward the objective that we obtain from abroad in exchange for exports of our own commodities and services such desirable commodities and services as cannot be produced here, under normal conditions and in normal years, at as low or nearly as low a cost as the cost to us of buying such or equivalent commodities abroad.

In the past 20 years there have been substantial reductins in our tariff rates and, because of inflation, there has been also a substantial reduction of the ad valorem equivalents of the specific duties of our tariff. The cuts that have been made in our tariff, however, have been in large part those that could be made without appreciably reducing the control of our protected industries over the domestic market. To a large extent the reductions in our tariff which would really lower the effective margin of tariff protection remain to be made. The percentage of imports of dutiable goods to total domestic production of such goods in the United States is probably less today than it was in 1934, when the process of tariff reduction began. This decline in the relative importance of imports is due to many factors, of which failure to make genuine and important reductions in the effective level of our tariff protection is only one. This decline serves, nevertheless, to support the verdict that much of the tariff-liberalization of the past two decades was make-believe.

Even deep cuts in tariff rates may have only token effects on the volume of trade if the foreign producers and the American importers of the commodities in question cannot be reasonably confident that these cuts are made with serious intent to encourage imports and will not be withdrawn as soon as it becomes evident that they are having their supposedly intended effect. In many cases successful entrance into the American market requires redesign of products, adjustment and expansion of production facilities, establishment in the United States of warehousing and distribution facilities, expensive sales effort to win market acceptance for the products. Sober foreign businessmen will often rightly conclude that the risk that the tariff will be raised on their products as soon as it becomes clear that there is an American market for them is too great to justify the investment necessary to find out whether they can sell their products here.

In the light of these considerations, the proposed limitation to 3 years as the period of authorization of reductions of duty by executive action, the limitation, with respect to most dutiable items, of reductions not to exceed 5 percent per annum, the continued subjection of the reduced duties to the hazard of cancellation of the reductions under the escape clause, these make the program as a whole a very insubstantial and timid contribution to the goal of a more liberal commercial policy for the United States.

Whatever may be said in favor of tariffs on imports, there is nothing which can be said in support of import restrictions being given the form of making the importing process unnecessarily costly in legal and clerical expenses, in deliberately manufactured risks for the importers, uncertainties, and delays, through archaic administrative procedures which burden the American Government, the foreign exporters, the American importers, and the American consumer. The delay in instituting a thoroughgoing reform of our customs administration which has already occurred is inexcusable. What has recently been accomplished in this direction is good as far as it goes, but goes only a small distance toward removing abuses whose nature has been evident for many years. There has been more than ample time for exploration and for resolution of the technical questions to which revision gives rise. The time for real remedial action is long overdue.

The CHAIRMAN. Mr. Viner, would you say that the chief difficulty in this connection is the uncertainty and the varying standards which are applied in the determination of what the price of a commodity is?

Mr. VINER. I think that is probably the most important single one. If one looks, however, at the record of the items which cause procedural difficulty to the importers and make litigation a normal part of our importing procedure on a wholesale scale, without parallel at any time or anywhere in the world elsewhere, it is, I think, not so much the valuation procedures but rather the classification procedures. These give customs officials too much leeway because of the vagueness, the uncertainty, and the great detail, the fineness, of the classification of commodities for duty purposes. Fitting a commodity into its class is difficult for the most accomplishel person. When the final decisions are made, very often after a prolonged legal procedure, going through three legal stages, the final decision sometimes reveals that the judges themselves are often amused at the arbitrary and trivial considerations which decide the issue—whether, for instance, once actual case—an imitation bird in a cage was a toy, or a musical instrument, or a manufacture of feathers and brass, and, if so, whether the important constituent was feathers or brass. This sort of thing has occurred in thousands of cases.

Moreover, the backlog of delay is always tremendous. There is a backlog of tens of thousands of cases in a normal year.

The CHAIRMAN. What would you suggest in the way of simplification?

Mr. VINER. Well, if there were not a very wide range of duties in our tariffs, which would be practicable if none or few of our duties were at very high levels, there would be so little point in having one duty, say, at 8½ percent, and another at 9¼ percent, that it would be easy to put hundreds of commodities in one duty class, and then the classification decision would shrink in importance and difficulty and uncertainty. One of the things that has been missed in all of the able and conscientious work that has been done over 20 years, trying to prepare the way for tariff liberalization, is the failure to realize that as tariff levels fall by negotiation, or through inflation, that provides an opportunity for lumping many items into one group, without appreciably changing the duties applicable to any item. Classification could thus become relatively unimportant, for both the customs staff for whom it is a headache, and for the importers, for whom it is also a headache.

If we followed a general policy of reducing the range of duties by reducing the maximum rates, we could then move without much resistance, and without important adverse effect on anyone, toward reducing the number of rate classes. This would not reduce the number of dutiable items, but only the number of rate classes. You could have a great number of commodities, for example, in the 15 percent ad valorem class bracket.

The CHAIRMAN. Do you think this could be reached by the present proposal?

Mr. VINER. As I understand the present proposal, it is a proposal for further study. I was with the Tariff Commission back in 1917. I think they knew enough then to know how to produce within 6 months an adequate program of simplified classification procedures, although I am not denying that it would give rise to some technical difficulties. I think they knew enough 2 years ago, and 4 years ago. A proposal for still further studies and for waiting for the results of such studies, amounts chiefly to a proposal to postpone at this legislative session any real action.

The CHAIRMAN. Would you recommend the amendment of the present bill which would give to the President and the Tariff Commission the power for this broader classification which you suggest?

Mr. VINER. Well, in some respects I am a conservative, and I am conservative about excessive tampering with the tariff-rate structure, where it is not clear that it is being done with the sanction of Congress. If you gave complete discretion, it would be possible by a change in classification to change rates from 80 percent to 5 percent, or vice versa. Therefore, I would recommend, and it would suffice for a great deal of simplification, that wherever the Tariff Commission would find that a change in classification would not change the rate by more than a specified moderate amount, it could be done by executive action.

The CHAIRMAN. Let me see if I understand your proposal. You would say that the rates could not be decreased below a given point?

Mr. VINER. By mere change of classification, so that if important reduction—or increase—in rates, would not be made possible without

Congress knowing in advance that it is giving the power and the administration knows that it is carrying out a mandate of Congress.

The CHAIRMAN. But rates could be reduced down to that point?

Mr. VINER. Yes.

The CHAIRMAN. Do you have in mind a figure of "X" percent?

Mr. VINER. I would say 5 percent ought to be readily acceptable. I mean 5 percentage points, or 5 percent of the value of the commodity.

Mr. TAFT. Mr. Chairman, may I complete the record on this? The bill on tariff simplification submitted by the President last year provided for the setting up of a reduced number of classifications. Within each classification it was provided that the total revenue derived from that classification should remain at the same amount. This automatically required that certain tariffs might be raised and certain others might be lowered in order to arrive at a standard for that classification. It did not provide for a further reference to Congress.

Mr. Byrnes, who introduced the bill in the House last year, was unwilling to accept it in that form, and it was introduced with those provisions but with the further provisions that when the President arrived at these conclusions after a Tariff Commission study, it should sit in the two Houses for 30 or 60 days, whatever it was, subject to a congressional veto. This bill, however, when it came to the Senate—it was passed in that form, roughly, in the House—when it came to the Senate, it was revised so that the study itself should come to the Congress, and that is the form in which it was passed. This problem becomes so serious, and increasingly serious, because of the number of new products. First, the total categories, I think, are about 8,000 in the present Tariff Act of 1930. And in the chemical industry alone there are 7,500 new products since the period of the last tariff act. And when you take all of the other categories, you get innumerable products that cannot be squeezed into anything that you have got as it stands now, and then the discretion to which Professor Viner has referred in the Bureau of Customs that lets them take almost any infinitesimal part and apply the highest rate applicable, just gets things into a terrible jam, just as he has described.

Mr. STRACKBEIN. Mr. Chairman, may I make a comment on this customs simplification? This is only a guess, I would admit, but I would say that 95 percent of our imports come through in routine fashion without any difficulty.

Mr. VINER. That is quite possibly so. I think the same sort of thing can be said about our import duties; a very large part of our imports come in free of duty. Nobody says that it is the free duty list that keeps the imports out. It is the customs administrative procedures on dutiable items and the higher duties that keep products out.

I am interested in the imports which do not come in because of the trade barriers and not in the ones which do come in. When you appeal to the ones that do come in you are just begging the question.

On the proposal of last year, I must say I did not like it because it would involve automatically the increase of some duties. Also, figuring the total receipts from a class of duties means that you are forecasting the effect of change in duties on the volume of imports or the effect of change in business conditions on the volume of imports.

I have great skepticism about the capacity of anybody, even my fellow economists, to forecast such things with any degree of accuracy. Moreover, the total revenue collected is largely irrevelant. But my chief objection is that you could not carry out last year's proposal consistently with our agreements with other countries. We have pledged ourselves to certain specific rates on certain designated commodities. Because we have decided to change our customs administration, we cannot now tell them that unfortunately the duty which was formerly 12 percent on their item is now to be 15 percent, when we have agreed to keep it at 12.

Mr. TAFT. May I add just one comment on what professor said as to the relationship of the free list by value to the rest.

The implication would be that the more you reduce the tariff the higher the proportion of the free-list value. It is the exact opposite. The highest percentage of free tariff was after the passage of the Smoot-Hawley Act, and it has gone down ever since.

Mr. VINER. If we let in all of the products we have no interest in producing here and imposed a 5,000 percent ad valorem tax on the items we do wish to produce, the amount of duties received would be zero.

Mr. STRACKBEIN. We hear a lot of discussion on this point. I would like to see what items are being excluded other than by quarantine.

Mr. TAFT. If he will look at page 8 of my statement he will see a great number of them. Here is a list of chemical incomes in 1952 in thousands of dollars, and the tariff rate next to them. There are 3 out of this list of 15 or 20, one is $104,000, one $81,000, and then one $15,000, and one $12,000, and there are half of them that don't come in at all, over rates that vary from 50 percent to 250 percent.

Mr. STRACKBEIN. That is not responsive to the question, Mr. Chairman.

Mr. TAFT. It is what you asked for.

Mr. STRACKBEIN. No, I said give some examples of items excluded because of custom administration, not because of the height of the tariff rates.

Mr. VINER. I think the only procedure by which you could get reliable results on that would be to get the expert buyers for the important importing stores, Sears, Roebuck, and so on, and let them tell you why certain things cannot profitably be introduced in the United States. I know over the years in talking to such people that they could literally accumulate these items by the list of hundreds up to the thousands, items which they have explored. There is in the first place the uncertainty as to what the duty would be; in the second place, the fact that the product in question may be experimental. They would first have to know at what price they could lay it down and, secondly, whether the American public would respond. They do experiment, and they do decide in the negative after experimenting, time after time; they are experimenting steadily, and you can go to Macy's, go to Marshall Fields, go to Sears, Roebuck, and talk to the appropriate people. They will give you the list of these items if you ask them to.

Mr. THORP. I can also testify to the fact that while I was in the State Department I knew of a number of cases which people told me about where a new commodity coming in, not specified in the Tariff Act, would come in under the basket clause, the nonspecified level of tariff rate, which is usually very high. This would mean that its competitive item which was specified in the tariff rate at a lower tariff would continue to have the market and the new item, not having been specified, would be kept out. This is, of course, customs administration in the sense that it relates to the character of the classification procedure which automatically places high tariffs on unspecified and new items.

Mr. VINER. That is right.

Mr. STRACKBEIN. My only point is in place of citing these horrible examples that we have some factual data. As it is we are merely tossing words back and forth, and we have no real factual data, and I think we should have it instead of generalizing.

Mr. KALIJARVI. I think a dramatic instance of this was withholding of appraisal on rayon faille for 8 or 10 months and that represented an embargo of about $10 million on fiber that would have normally come into the United States.

The CHAIRMAN. Mr. Viner.

Mr. VINER. Our treatment of agricultural imports is entangled with the special measures which we have taken to promote the prosperity of our domestic agriculture. It would admittedly be inconsistent and impracticable to allow foreign agricultural products to enter freely into the American market while domestic agricultural products are supported at higher than world-market prices. But whatever our policy should be with respect to the income levels of the persons and resources engaged in agriculture, we should carry it out by measures which retain in American agriculture only those amounts of human and other productive resources which without subsidy can earn in free competition the economic equivalent of what corresponding American productive resources earn in American industry at large.

It is our restrictions on agricultural imports which press most severely on the underdeveloped countries and on our neighbors to the north. It is our agricultural program, with its quotas on imports, its subsidies to exports, and its governmental trading, which conflicts most obviously and most importantly with our declared objectives of free private enterprise operating in free competitive markets and of the confinement of restrictions on foreign trade to nondiscriminatory and moderate import duties. When agricultural policy comes to be considered and, I hope, to be reformed, it is urgent that one of the major objectives shall be such a revision of that policy as to make if consistent, in its foreign economic policy aspects, with all the principles of liberalized foreign trade to which we so repeatedly declare our adherence.

The CHAIRMAN. Thank you very much.

(Mr. Viner's prepared statement appears at p. 991.)

(Whereupon, at 12:35 p. m., a recess was taken until 2 p. m. of the same day.)

AFTERNOON SESSION

The committee reconvened at 2:45 p. m., Senator Paul H. Douglas, chairman, presiding.

Present: Senator Douglas, chairman, Senator Sparkman, and Representatives Kelley and Talle.

The CHAIRMAN. We thank you, gentlemen, for coming back this afternoon. Mr. Kalijarvi.

OPENING STATEMENT OF THORSTEN V. KALIJARVI, DEPUTY ASSISTANT SECRETARY OF STATE FOR ECONOMIC AFFAIRS

Mr. KALIJARVI. Mr. Chairman, you raised the question as to the items contemplated for negotiation with respect to the Japanese agreement. I have here the TAC report on those, and perhaps it might be useful for the record if they were inserted at this point.

The CHAIRMAN. We wish you would.

(The information referred to is as follows:)

[Department of State Publication 5653, Commercial Policy Series 145]

THE GENERAL AGREEMENT ON TARIFFS AND TRADE

NEGOTIATIONS UNDER THE TRADE AGREEMENT ACT OF 1934 AS AMENDED AND EXTENDED

NOTICE OF UNITED STATES INTENTION TO NEGOTIATE

LIST OF PRODUCTS TO BE CONSIDERED

NOTICE OF PUBLIC HEARINGS

Prepared by the Interdepartmental Trade Agreement Organization consisting of the Departments of State, Treasury, Defense, Agriculture, Commerce, Labor, Interior, the United States Tariff Commission, and the Foreign Operations Administration, November 1954

UNITED STATES INTENTION TO UNDERTAKE TRADE-AGREEMENT NEGOTIATIONS

The Interdepartment Committee on Trade Agreements today issued formal notice of the intention of the United States Government to participate, under the authority of the Trade Agreements Act of 1934, as amended and extended, in reciprocal tariff negotiations involving Japan. The President has given high priority to expansion of Japan's trading opportunities because of Japan's vital importance to free-world mutual security.

Today's announcement, including the listing of products and the scheduling of hearings, formally opens United States preparations for participation in an international tariff-negotiating conference to be convened next February in Geneva, Switzerland, under the sponsorship of the countries associated in the General Agreement on Tariffs and Trade. The purpose of this conference will be tariff negotiations looking to Japan's full accession to the general agreement, thus enlarging her trade possibilities with other countries as well as with the United States.

To aid in the development of positions which the United States should adopt in the proposed tariff negotiations, and in accordance with established procedures, a list is also published today of the products on which the United States may consider offering concessions. Hearings are also scheduled and opportunity is provided for submission of briefs for the purpose of obtaining views and information from interested persons on all phases of these negotiations, including views for or against concessions which the United States might seek or offer on particular products.

Attached to the committee's notice of intention to negotiate is a list of products on which modifications may be considered during the negotiations. Listing of an item is for the purpose of gathering information on the possibility of a concession: it does not necessarily mean that a concession will be offered on the product. No tariff concession can be made by the United States on any product not included in this or a subsequent published list.

As indicated in the announcement, the United States also proposes to take advantage of the occasion of these tariff negotiations to carry out four renegotiations arising out of various United States actions. In two cases, there was enacted legislation calling for modification of certain trade-agreement obligations by an upward adjustment of import duties for commodities affected by exceptional developments. The laws in question are Public Law 689 on fish sticks and Public Law 479 on certain rubber-soled shoes. The third case relates to the escape-clause action taken by the United States in which it modified the concession on dried figs. No change is contemplated in the present tariff treatment of figs, but under the agreement the escape-clause action permits other countries to seek compensatory adjustments either by new concessions on our part or by withdrawal of concessions by affected countries. In the fourth case, when Uruguay became a party to the agreement last December, the United States did not find it possible to proclaim certain concessions that had been negotiated on meat products.

The majority of the listed articles are included for the purpose of giving consideration to concessions in negotiations directly between the United States and Japan. There are, however, many articles which are of primary interest to other countries. For these articles consideration will be given to possible concessions under circumstances where these other countries are also negotiating with Japan under the general agreement and where a concession by the United States would broaden the overall results of the multilateral negotiations through the triangular exchange of benefits.

In addition, because of the extensive and time-consuming nature of the procedures for getting information on possible concessions, there are a relatively few articles of interest primarily to countries which may decide to negotiate with Japan though they have not yet done so. As a general rule no concessions would be made on such products if the country having a primary interest does not complete its negotiations with Japan.

The Interdepartmental Trade Agreements Committee's notice and the list are attached to this release.

As required by law, the Committee for Reciprocity Information also gave notice that it will receive views of interested persons concerning any aspect of the proposed negotiations. The members of the Committee for Reciprocity Information and the Committee on Trade Agreements are the same. They include a member of the United States Tariff Commission and representatives designated by the Secretaries of State, the Treasury, Defense, Agriculture, Commerce, Labor, and Interior, and the director of the Foreign Operations Administration.

Domestic producers, importers, and other interested persons are invited to present views and all possible information regarding products on the published list, including information relative to section 2 of the Trade Agreements Extension Act of 1954. This section provides that no action should be taken to decrease the duty on any article where the President finds that such reduction would threaten domestic production needed for projected national defense requirements. Consideration will be given to submissions concerning wages in the exporting country in accordance with the President's message of March 30. All views and information will be carefully considered in arriving at a decision as to whether or not a concession should be offered by the United States on each product.

There is no limitation on the products on which the United States may request concessions, and domestic producers or exporters interested in developing markets in Japan are invited to present suggestions to the Committee for Reciprocity Information as to concessions which should be sought. The Department of Commerce also furnishes the Interdepartmental Committee on Trade Agreements with studies of the trade in and other facts regarding articles exported from the United States on which the United States might consider seeking concessions in the negotiations.

Hearings before the Committee for Reciprocity Information will open on December 13, 1954. Applications for oral presentation of views and information should be presented to the committee not later than 12 noon, December 3. Persons desiring to be heard should also submit written briefs or statements to the Committee for Reciprocity Information by 12 noon, December 6, 1954. Only those persons will be heard who presented written briefs or statements and filed applications to be heard by the date indicated. Persons who do not desire to be heard may present written statements until noon, December 27, 1954. Details concerning the submission of briefs and applications to be heard are contained in the committee's notice attached to this release.

The United States Tariff Commission also announced today that it would open public hearings on December 13, to receive views and information useful in preparing its "peril-point" report to the President, as required by section 3 (a) of the

Trade Agreements Extension Act of 1951, on the extent to which United States concessions on particular products may be made in the negotiations without causing or threatening serious injury to a domestic industry producing like or directly competitive products.

Views and information received by the Tariff Commission in its hearings referred to above will be made available to the Committee for Reciprocity Information for consideration by the Interdepartmental Committee on Trade Agreements. Persons whose interests relate only to import products included in the list published today, and who have appeared before the Tariff Commission need not—but may if they wish—appear also before the Committee for Reciprocity Information.

However, persons wishing to present material on United States import concessions other than the material they have presented to the Tariff Commission should file written statements or briefs with the Committee for Reciprocity Information, or may, if they wish request appearance before that committee. Persons wishing to suggest additional items on which United States import concessions may be considered, and which do not appear in a published list, should present their views to the Committee for Reciprocity Information.

Copies of the notice of the Tariff Commission may be obtained from the Commission.

INTERDEPARTMENTAL COMMITTEE ON TRADE AGREEMENTS

I. Trade-agreement negotiations under the General Agreement on Tariffs and Trade relating to Japan.
II. Possible adjustment in preferential rates on Cuban products.

Pursuant to section 4 of the Trade Agreements Act, approved June 12, 1934, as amended (48 Stat. 945, ch. 474; 65 Stat. 73, ch. 141) and to paragraph 4 of Executive Order 10082 of October 5, 1949 (3 CFR, 1949 supp., p. 126), notice is hereby given by the Interdepartmental Committee on Trade Agreements of intention to participate in trade-agreement negotiations, on a reciprocal basis, looking to Japan's accession to the General Agreement on Tariffs and Trade, as a means of improving Japan's trading prospects in the free world. With a view to the further expansion of such trading prospects, the United States is also considering, in addition to negotiations directly with Japan, participating in limited negotiations with other contracting parties to the general agreement that will also be negotiating with Japan, in order to broaden the overall results of the negotiations.

There is annexed hereto a list of articles imported into the United States to be considered for possible modification of duties and other import restrictions, imposition of additional import restrictions, or specific continuance of existing customs or excise treatment in the trade agreement negotiations of which notice is given above. In addition to articles of primary interest to Japan, there are also being listed some articles of interest to certain contracting parties as well as to Japan, and a few articles which are believed to be of primary interest to other contracting parties that may be negotiating with Japan, some of which articles are closely related to articles of primary interest to Japan.

Notice is also given of intention to negotiate settlement of several outstanding problems arising out of various actions by the United States. Negotiations are contemplated looking to such modification of trade agreement obligations as may be necessary in view of the enactment of Public Law 479 of the 83d Congress relating to certain rubber-soled shoes and Public Law 689 of the 83d Congress relating to certain prepared fish. In addition the United States modified its concession on figs, fresh, dried, or in brine, as a result of an escape clause action. Finally, the United States did not find it possible to carry out obligations negotiated with Uruguay with respect to certain meat products. Among the possible outcomes of these negotiations might be a granting of such concessions on some items in the annexed list as may be necessary to compensate for the above actions of the United States.

The articles proposed for consideration in the negotiations are identified in the annexed list by specifying the numbers of the paragraphs in tariff schedules of title I and title II of the Tariff Act of 1930, as amended, in which they are provided for together with the language used in such tariff paragraphs to provide for such articles, except that where necessary the statutory language has been modified by the omission of words or the addition of new language in order to narrow the scope of the original language. Where no qualifying language is used with regard to the type, grade, or value of any listed article, all types, grades, and values of the article covered by the language used are included.

In the case of each article in the list with respect to which the corresponding product of Cuba is now entitled to preferential treatment, the negotiations referred to will involve the elimination, reduction, or continuation of the prefernce, perhaps in some cases with an adjustment or specification of the rate applicable to the product of Cuba.

No article will be considered in the negotiatiosn for possible modification of duties or other import restrictions, imposition of additional import restrictions, or specific continuance of existing customs or exercise treatment unless it is included, specifically or by reference, in the annexed list or unless it is subsequently included in a supplementary public list. Only duties on the articles listed imposed under the paragraphs of the Tariff Act of 1930 specified with regard to such articles and import taxes imposed on such articles under the Internal Revenue Code will be considered for a possible decrease, but additional or separate ordinary duties or import taxes on such articles imposed under any other provisions of law may be bound against increase as an assurance that the concession under the listed paragraph will not be nullified. In addition, any action which might be taken with respect to basic duties on products may involve action with respect to compensating duties imposed on manufactues containing such products. In the event that an article which as of January 1, 1954, was regarded as classifiable under a description included in the list is excluded therefrom by judicial decision or otherwise prior to the conclusion of the trade-agreement negotiations, the list will nevertheless be considered as including such article.

Persons interested in exports may present their views regarding any tariff or other concessions that might be requested from Japan. Any other matters appropriate to be considered in connection with the negotiations proposed above may also be presented. Public hearings in connection with the "peril point" investigation of the United States Tariff Commission in connection with the articles included in the annexed list, pursuant to section 3 of the Trade Agreements Extension Act of 1951, as amended, are the subject of an announcement of the date issued by that Commission.

Pursuant to section 4 of the Trade Agreements Act, as amended, and paragraph 5 of Executive Order 10082 of October 5, 1949, information and views as to any aspect of the proposals announced in this notice may be submitted to the Committee for Reciprocity Information in accordance with the announcement of this date issued by that Committee.

By direction of the Interdepartmental Committee on Trade Agreements this 13th day of November, 1954.

CARL D. CORSE,
Chairman, Interdepartmental Committee on Trade Agreements.

LIST OF ARTICLES IMPORTED INTO THE UNITED STATES PROPOSED FOR CONSIDERATION IN TRADE AGREEMENT NEGOTIATIONS WITH JAPAN AND OTHER COUNTRIES

TARIFF ACT OF 1930, TITLE I—DUTIABLE LIST

SCHEDULE 1. CHEMICALS, OILS, AND PAINTS

Par.		
5	Ajinomoto and other monosodium glutamate preparations	
27 (a) (1) (5)	Acetanilide not suitable for medicinal use,	
	alphanaphthol,	aminobenzoic acid,
	aminonaphthol,	aminophenetole,
	aminophenol,	aminosalicylic acid
	aminoanthraquinone,	aniline oil,
	aniline salt,	anthraquinone,
	arsanilic acid,	
	benzaldehyde not suitable for medicinal use,	
	benzal chloride,	benzanthrone,
	benzidine,	benzidine sulfate,
	benzoic acid not suitable for medicinal use,	
	benzoquinone,	benzoyl chloride,
	benzyl chloride,	benzylethylaniline,
	beta-naphthol not suitable for medicinal use,	

TARIFF ACT OF 1930, TITLE I—DUTIABLE LIST—Continued

SCHEDULE 1. CHEMICALS, OILS, AND PAINTS—continued

Par.

bromobenzene, chlorobenzene,
chlorophthalic acid, cinnamic acid,
cumidine, dehydrothiotoluidine,
diaminostilbene, dianisidine,
dichlorophthalic acid, dimethyl aniline,
dimethylaminophenol,
dimethylphenylbenzylammonium hydroxide,
dimethylphenylenediamine,
dinitrobenzene, dinitrochlorobenzene,
dinitronaphthalene, dinitrophenol,
dinitrotoluene, dihydroxynaphthalene,
diphenylamine, hydroxyphenylarsinic acid,
metanilic acid, methylanthraquinone,
naphthylamine, naphthylenediamine,
nitroaniline, nitroanthraquinone,
nitrobenzaldehyde, nitrobenzene,
nitronaphthalene, nitrophenol,
nitrophenylenediamine,
nitrosodimethylaniline,
nitrotoluene, nitrotoluylenediamine,
phenylenediamine, phenylhydrazine,
phenylnaphthylamine, phenylglycine,
phenylglycineortho-carboxylic acid,
phthalic acid, phthalimide,
quinaldine, quinoline,
resorcinol not suitable for medicinal use,
salicylic acid and its salts not suitable
for medicinal use sulfanilic acid,
thiocarbanilide, thiosalicylic acid,
tetrachlorophthalic acid,
tetramethyldiaminobenzophenone,
tetramethyldiaminodiphenylmethane,
toluene sulfochloride, toluene sulfonamide,
tribromophenol, toluidine,
tolidine. tolylenediamine,
xylidine,
carbazole having a purity of 65% or more; all the foregoing products (not including phthalic anhydride, anthracene, or naphthalene) whether obtained, derived, or manufactured from coal tar or other source.

27 (a) (3) (5) All products (except products chiefly used as assistants in preparing or finishing textiles and except azo salts, fast color bases, fast color salts, and Naphthol AS and its derivatives), by whatever name known, which are similar to any of the products provided for in paragraph 27 or 1651, Tariff Act of 1930, and which are obtained, derived, or manufactured in whole or in part from any of the products provided for in either of said paragraphs.

27 (a) (4) (5) All mixtures including solutions, consisting in whole or in part of any of the products provided for in subdivision (1), (2), or (3) of paragraph 27 (a), Tariff Act of 1930 (except sheep dip and medicinal soaps, and except products chiefly used as assistants in preparing or finishing textiles).

41 Agar agar.

47 Licorice, extracts of, in pastes, rolls, or other forms.

51 Camphor, natural (crude and refined) and synthetic.

51 Menthol.

58 Oils, distilled or essential, not mixed or compounded with or containing alcohol:
Sandalwood.

60 Safrol, not mixed or compounded, not containing more than 10 per centum of alcohol, not marketable as cosmetics, perfumery, or toilet preparations, and not specially provided for.

66 Pigments, whether dry, mixed, or ground in or mixed with water, oil, or solutions other than oil, not specially provided for:
Vandyke brown and Cassel earth.

58422—55——58

TARIFF ACT OF 1930, TITLE I—DUTIABLE LIST—Continued

SCHEDULE 1. CHEMICALS, OILS, AND PAINTS—continued

Par.	
67	Barytes ore, crude or unmanufactured, or ground or otherwise manufactured.
83	Potato starch.
84	Dextrine, not otherwise provided for (not including dextrine made from potato starch or potato flour), burnt starch or British gum, dextrine substitutes, and soluble or chemically treated starch.
87	Cerium nitrate, cerium fluoride, and other salts of cerium not specially provided for.

SCHEDULE 2. EARTHS, EARTHENWARE, AND GLASSWARE

204	Dead burned and grain magnesite, and periclase, not suitable for manufacture into oxychloride cements.
206	Pumice stone, wholly or partly manufactured.
210	Rockingham earthenware.
211	Earthenware and crockery ware composed of a nonvitrified absorbent body, including white granite and semiporcelain earthenware, and cream-colored ware, terra cotta, and stoneware, including all articles wholly or in chief value of such ware; any of the foregoing which are tableware, kitchenware, or table or kitchen utensils, however provided for in paragraph 211, Tariff Act of 1930.
211	Articles, other than tableware, kitchenware, or table or kitchen utensils, however provided for in paragraph 211, Tariff Act of 1930, if valued under $10 per dozen.
212	China, porcelain, and other vitrified wares, including chemical stoneware (but not including chemical porcelain ware, sanitary ware and fittings and parts therefor, or electrical porcelain ware), composed of a vitrified nonabsorbent body which when broken shows a vitrified or vitreous, or semivitrified or semivitreous fracture, and all bisque and parian wares, including clock cases with or without movements, plaques, pill tiles, ornaments, charms, vases, statues, statuettes, mugs, cups, steins, lamps, and all other articles composed wholly or in chief value of such ware; all the foregoing, however provided for in paragraph 212, Tariff Act of 1930, not containing 25 per centum or more of calcined bone.
213	Graphite or plumbago, crude or refined: Amorphous (except artificial).
218 (c)	Illuminating articles of every description, finished or unfinished, wholly or in chief value of glass, for use in connection with artificial illumination: Chimneys, globes, and shades, and parts thereof, wholly or in chief value of glass.
218 (f)	Table and kitchen articles and utensils, and all articles of every description not specially provided for, composed wholly or in chief value of glass, blown or partly blown in the mold or otherwise, or colored, cut, engraved, etched, frosted, gilded, ground (except such grinding as is necessary for fitting stoppers or for purposes other than ornamentation), painted, printed in any manner, sand-blasted, silvered, stained, or decorated or ornamented in any manner, whether filled or unfilled, or whether their contents be dutiable or free: Christmas tree ornaments valued under $7.50 per gross; Other articles or utensils valued not over $1.66⅔ each (except articles or utensils commercially known as bubble glass, if produced otherwise than by automatic machine but not cut or engraved and valued at $1 or more each, and except Christmas tree ornaments).
225	Spectacles, eyeglasses, and goggles, and frames for the same, and parts thereof, finished or unfinished, valued at not over $2.50 per dozen.
226	Lenses of glass or pebble, molded or pressed, or ground and polished to a spherical, cylindrical, or prismatic form, and ground and polished plano or coquille glasses, wholly or partly manufactured; all the foregoing (except lighthouse lenses and except eyeglass and

TARIFF ACT OF 1930, TITLE I—DUTIABLE LIST—Continued

SCHEDULE 2. EARTHS, EARTHENWARE, AND GLASSWARE—continued

Par.	
	spectacle lenses with edges unground and valued at $10 or more per dozen pairs).
228 (a)	Spectographs, spectrometers, spectroscopes, refractometers, saccharimeters, colorimeters, cathetometers, interferometers, haemacytometers, polarimeters, polariscopes, photometers, opthalmoscopes, slit lamps, corneal microscopes, optical measuring or optical testing instruments, testing or recording instruments for ophthalmological purposes, frames and mountings therefor, and parts of any of the foregoing, finished or unfinished.
228 (a)	Prism-binoculars, having a magnification of 5 diameters or less, and valued at not over $12 each; frames and mountings therefor, and parts of any of the foregoing; all the foregoing, finished or unfinished.
228 (b)	Opera or field glasses (not prism-binoculars), frames and mountings therefor, and parts of any of the foregoing; all the foregoing, finished or unfinished, not specially provided for (except opera or field glasses valued over $1 each).
228 (b) and 1551	Photographic lenses, frames and mountings therefor, and parts of any of the foregoing; all the foregoing, finished or unfinished, not specially provided for (including cameras and parts of cameras of which a photographic lens is the component of chief value).
228 (b)	Telescopes, valued not over $2 each; frames and mountings therefor; parts of any of the foregoing, suitable in type and not excessive in quantity for use with, and imported in the same shipment with, telescopes valued not over $2 each; frames and mountings for, and parts of telescopes and of frames and mountings therefor, imported separately; all the foregoing, finished or unfinished, not specially provided for.
228 (b)	Azimuth mirrors, parabolic or mangin mirrors for searchlight reflectors, mirrors for optical, dental, or surgical purposes, projection lenses, sextants, octants, microscopes, all optical instruments (not including photographic lenses, opera or field glasses, and telescopes), frames and mountings therefore, and parts of any of the foregoing; all the foregoing, finished or unfinished, not specially provided for.
229	Incandescent electric-light bulbs and lamps, with or without metal or other filaments.
230 (b)	Glass mirrors (except framed or cased mirrors in chief value of platinum, gold, or silver), not specially provided for, not exceeding in size 144 square inches, with or without frames or cases.
233	All articles composed wholly or in chief value of agate or other semiprecious stone (not including rock crystal), except such as are cut into shapes and forms fitting them expressly for use in the construction of jewelry, not specially provided for.

SCHEDULE 3. METALS AND MANUFACTURES OF

301	Iron in pigs and iron kentledge, whether or not containing vanadium, tungsten, molybdenum, or chromium in quantities specified in paragraph 301, Tariff Act of 1930.
302 (c)	Tungsten ore or concentrates.
302 (d)	Ferromanganese containing 4 per centum or more carbon.
302 (n)	Titanium.
312	Sheet piling.
329	Chains of iron or steel, used for the transmission of power, of not more than 2-inch pitch and containing more than three parts per pitch, and parts thereof, finished or unfinished; and all other chains used for the transmission of power, and parts thereof.
331	Upholsterers' nails and thumb tacks, of two or more pieces of iron or steel, finished or unfinished.
343	Needle cases or needle books furnished with assortments of needles or combinations of needles and other articles.
343	Needles for knitting machines of every description, not specially provided for.

TARIFF ACT OF 1930, TITLE I—DUTIABLE LIST—Continued

SCHEDULE 3. METALS AND MANUFACTURES OF—continued

Par.	
354	Cuticle knives, corn knives, nail files, tweezers, manicure or pedicure nippers, and parts thereof, finished or unfinished, by whatever name known.
359	Surgical instruments, and parts thereof (except hypodermic and other needles, but including hypodermic syringes and forceps), composed wholly or in part of iron, steel, copper, brass, nickel, aluminum, or other metal (but not in chief value of glass), finished or unfinished.
359	Dental instruments, and parts thereof, wholly or in part of iron, steel, copper, brass, nickel, aluminum, or other metal, finished or unfinished: Dental burrs.
359	Surgical instruments and parts thereof and dental instruments and parts thereof, any of the foregoing in part of iron, steel, copper, brass, nickel, aluminum, or other metal and in chief value of glass, finished or unfinished.
364	Bicycle, velocipede, and similar bells, finished or unfinished, and parts thereof.
365	Shotguns, valued over $25 each.
365	Barrels for shotguns, further advanced in manufacture than rough bored only; stocks for shotguns, wholly or partly manufactured; parts of shotguns, and fittings for shotgun stocks or barrels, finished or unfinished; and shotgun barrels, in single tubes, forged, rough bored.
366	Pistols and revolvers, automatic, single-shot, magazine, or revolving, valued not over $8 each.
372	Sewing machines, not specially provided for, valued over $10 but not over $75 each.
372	Parts of sewing machines, not specially provided for, wholly or in chief value of metal or porcelain.
372	Printing machinery; and parts of printing machinery, not specially provided for, wholly or in chief value of metal or porcelain: Duplicating machines (not including printing presses), and parts thereof
372	Knitting machines (except full-fashioned hosiery and circular knitting machines), finished or unfinished, not specially provided for, and parts thereof, not specially provided for, wholly or in chief value of metal or porcelain.
382 (a)	Aluminum foil less than 6/1000 of one inch in thickness.
397	Articles or wares, not specially provided for, not plated with platinum (unless in chief value of platinum), gold, or silver, or colored with gold lacquer, whether partly or wholly manufactured: Composed wholly or in chief value of lead. Composed wholly or in chief value of base metal other than iron or steel: Screws, commonly called wood screws, having shanks not exceeding 12/100 inch in diameter; and screws other than those commonly called wood screws, having shanks or threads not exceeding 24/100 inch in diameter. Composed wholly or in chief value of platinum.

SCHEDULE 4. WOOD AND MANUFACTURES OF

404	Japanese white oak and Japanese maple: In the form of sawed boards, planks, deals, and all other forms not further manufactured than sawed, and flooring.
409	Split bamboo.
409	All articles not specially provided for, wholly or partly manufactured of rattan, bamboo, osier or willow (except tennis-racket frames, valued at $1.75 or more each).
410	Toothpicks of wood or other vegetable substance.
411	Porch and window blinds, baskets, bags, chair seats, curtains, shades, or screens, any of the foregoing wholly or in chief value of bamboo, wood, straw, papier-mache, palm leaf, or compositions of wood, not specially provided for (except baskets and bags wholly or in chief value of straw or willow or osier).

TARIFF ACT OF 1930, TITLE I—DUTIABLE LIST—Continued

SCHEDULE 4. WOOD AND MANUFACTURES OF—continued

Par.	
412	Bentwood furniture, wholly or partly finished, and parts thereof.
412	Folding rules, wholly or in chief value of wood, and not specially provided for.
412	Manufactures of wood or bark, or of which wood or bark is the component material of chief value, not specially provided for: Brush backs.

SCHEDULE 5. SUGAR, MOLASSES, AND MANUFACTURES OF

505	Levulose.

SCHEDULE 7. AGRICULTURAL PRODUCTS AND PROVISIONS

703	Hams and shoulders, prepared or preserved: If cooked and packed in air-tight containers, but not made into sausage.
710	Cheese, made from sheep's milk, in original loaves, not suitable for grating.
712	Birds, prepared or preserved in any manner and not specially provided for (except chickens, prepared by removal of the feathers, heads, and all or part of the viscera, with or without removal of the feet, but not cooked or divided into portions).
713	Eggs of poultry (except of chickens), in the shell.
713	Dried egg albumen, whether or not sugar or other material is added.
717 (b)	Fish, fresh or frozen (whether or not packed in ice), filleted, skinned, boned, sliced, or divided into portions, not specially provided for: Swordfish.
717 (c)	Fish, dried and unsalted (except cod, haddock, hake, pollock, and cusk, and except shark fins).
718 (a)	Fish, prepared or preserved in any manner, when packed in oil or in oil and other substances: Tuna.
718 (b)	Fish, prepared or preserved in any manner, when packed in air-tight containers weighing with their contents not more than 15 pounds each (except fish packed in oil or in oil and other substances): Tuna.
721 (a)	Crab meat, fresh or frozen (whether or not packed in ice), or prepared or preserved in any manner, including crab paste and crab sauce.
721 (b)	Clams other than razor clams, and clams in combination with other substances (except clam chowder), packed in air-tight containers.
721 (e)	Oysters, oyster juice, or either in combination with other substances, packed in air-tight containers.
727	Broken rice, which will pass readily through a metal sieve perforated with round holes five and one-half sixty-fourths of 1 inch in diameter.
730	Soy bean oil cake and soy bean oil-cake meal.
730	Vegetable oil cake and oil-cake meal, not specially provided for: Coconut or copra. Linseed.
736	Berries, edible (except blueberries), prepared or preserved (not including berries in brine, dried, desiccated, evaporated, or frozen), and not specially provided for.
738	Cider.
743	Oranges, Mandarin, packed in air-tight containers.
748	Plums, prunes, and prunelles, green, ripe, or in brine.
753	Lily bulbs.
760	Walnuts of all kinds, shelled, or blanched, roasted, prepared, or preserved, including walnut paste.
761	Cashew nuts, shelled (including blanched) or unshelled.
763	Grass seeds and other forage crop seeds: Clover, not specially provided for.
764	Tree and shrub seeds.
768	Mushrooms, dried.

TARIFF ACT OF 1930, TITLE I—DUTIABLE LIST—Continued

SCHEDULE 7. AGRICULTURAL PRODUCTS AND PROVISIONS—continued

Par.	
775	Vegetables (including horseradish), if cut, sliced, or otherwise reduced in size, or if reduced to flour, or if parched or roasted, or if packed in oil, or prepared or preserved in any other way and not specially provided for (not including dehydrated onions in any form or vegetables pickled, or packed in salt or in brine).
775	Soybeans, prepared or preserved in any manner.
775	Pastes, balls, puddings, hash (except corned beef hash), and all similar forms, composed of vegetables, or of vegetables and meat or fish, or both, not specially provided for.
776	Chicory, crude (except endive), or ground or otherwise prepared.
779	Rice straw, and rice fiber.
781	Curry and curry powder.

SCHEDULE 8. SPIRITS, WINES, AND OTHER BEVERAGES

804	Rice wine or sake.

SCHEDULE 9. COTTON MANUFACTURES

904(a) (b)(c) (d)	Cotton cloth, however provided for in paragraph 904, Tariff Act of 1930 (not incduding tire fabric or fabric for use in pneumatic tires).
905	Cloth, in chief value of cotton, containing silk, or rayon or other synthetic textile.
909	Pile fabrics (not including pile ribbons), cut or uncut, whether or not the pile covers the entire surface, wholly or in chief value of cotton, if velveteens.
910	Table damask, wholly or in chief value of cotton, and all articles, finished or unfinished, made or cut from such table damask.
911 (a)	Blankets or blanket cloth, napped or unnapped, wholly or in chief value of cotton, whether in the piece or otherwise, if Jacquard-figured.
911(a)	Quilts or bedspreads, wholly or in chief value of cotton, whether in the piece or otherwise, not Jacquard-figured, if block-printed by hand.
911(a)	Towels, other than pile fabrics, wholly or in chief value of cotton, whether in the piece or otherwise, and whether or not Jacquard-figured.
911(b)	Sheets and pillow cases, wholly or in chief value of cotton.
911(b)	Table and bureau covers, centerpieces, runners, scarfs, napkins, and doilies, made of plain-woven cotton cloth, and not specially provided for.
912	Boot, shoe, or corset lacings, wholly or in chief value of cotton or other vegetable fiber.
915	Gloves and mittens, finished or unfinished, wholly or in chief value of cotton or other vegetable fiber, made of fabric knit on a warp-knitting or other machine.
917	Underwear, outerwear, and articles of all kinds, knit or crocheted, finished or unfinished, wholly or in chief value of cotton or other vegetable fiber, and not specially provided for (except knit underwear valued over $1.75 per pound, and crocheted underwear).
919	Clothing and articles of wearing apparel of every description, manufactured wholly or in part, wholly or in chief value of cotton, and not specially provided for (except coats valued $4 or more each; vests valued $2 or more each; dressing gowns, including bath robes and beach robes, valued $2.50 or more each; underwear valued 75 cents or more per separate piece; and except pajamas valued $1.50 or more per suit).
921	Rag rugs, wholly or in chief value of cotton, of the type commonly known as "hit-and-miss": chenille rugs, wholly or in chief value of cotton; and all other floor coverings, including carpets, carpeting, mats, and rugs, wholly or in chief value of cotton (except cut-pile and hand-hooked floor coverings and imitation oriental rugs).

TARIFF ACT OF 1930, TITLE I—DUTIABLE LIST—Continued

SCHEDULE 9. COTTON MANUFACTURES—continued

Par.	
922	Rags, including wiping rags, wholly or in chief value of cotton, except rags chiefly used in paper-making.
923	Manufactures, wholly or in chief value of cotton, not specially provided for (except articles of pile construction other than terry-woven towels, and except bougies, catheters, drains, explorateurs, instillateurs, probes, sondes, and other urological instruments, yarns containing wool, molded cotton and rubber packing, and printers' rubberized blanketing).

SCHEDULE 10. FLAX, HEMP, JUTE, AND MANUFACTURES OF

1001	Flax, hackled, including "dressed line".
1001	Flax, not hackled.
1003	Jute yarns or roving, single; and jute sliver.
1006	Gill nettings, nets, webs, and seines, and other nets for fishing, wholly or in chief value of flax, hemp, or ramie, and not specially provided for.
1015	Fabrics with fast edges, not exceeding 12 inches in width, and articles made therefrom:
	Webbing wholly or in chief value of jute.
1019	Bagging for cotton, gunny cloth, and similar fabrics, suitable for covering cotton, composed of single yarns made of jute, jute butts, or other vegetable fiber, not bleached, dyed, colored, stained, painted, or printed, not exceeding 16 threads to the square inch, counting the warp and filling, and weighing not less than 15 ounces nor more than 32 ounces per square yard.
1021	Common China, Japan, and India straw matting, and floor coverings made therefrom.
1021	Floor coverings not specially provided for:
	Grass or rice straw.
1022	Pile mats and floor coverings, wholly or in chief value of cocoa fiber.

SCHEDULE 11. WOOL AND MANUFACTURES OF

1101(a) (b)	Hair of the camel, however provided for in paragraph 1101, Tariff Act of 1930.
1111	Blankets, and similar articles (including carriage and automobile robes and steamer rugs), made as units or in the piece, finished or unfinished, wholly or in chief value of wool, not exceeding 3 yards in length.
1114(b)	Hose and half-hose, finished or unfinished, wholly or in chief value of wool.
1114(d)	Outerwear and articles of all kinds, knit or crocheted, finished or unfinished, wholly or in chief value of wool, and not specially provided for:
	Hats, bonnets, caps, berets, and similar articles (except infants' headwear), valued over $2 per pound.
	Other (except infants' headwear and other infants' outerwear).
1117(c)	Floor coverings, including mats and druggets, wholly or in chief value of wool, not specially provided for, valued over 40 cents per square foot (except such floor coverings wholly or in chief value of hair of the alpaca, guanaco, huarizo, llama, misti, suri, or a combination of the hair of two or more of these species, or wholly or in chief value of hair of the Angora goat).
1117(c)	Floor coverings, including mats and druggets, wholly or in chief value of wool, not specially provided for:
	Wholly or in chief value of hair of the Angora goat.

SCHEDULE 12. SILK MANUFACTURES

1201	Silk partially manufactured, including total or partial degumming other than in the reeling process, from raw silk, waste silk, or cocoons, and silk noils exceeding 2 inches in length; all the foregoing, if not twisted or spun.

TARIFF ACT OF 1930, TITLE I—DUTIABLE LIST—Continued

SCHEDULE 12. SILK MANUFACTURES—continued

Par.	
1202	Spun silk or schappe silk yarn, or yarn of silk and rayon or other synthetic textile, and roving, whether or not bleached, dyed, colored, or plied.
1205	Woven fabrics in the piece, wholly or in chief value of silk, however provided for in paragraph 1205, Tariff Act of 1930 (except fabrics with fibers wholly of silk, not bleached, colored, dyed, or printed, if Jacquard-figured; with fibers chiefly but not wholly of silk, not bleached, colored, dyed, or printed, if Jacquard-figured, or bleached, colored, dyed, or printed, whether or not Jacquard-figured; and except silk bolting cloth).
1208	Gloves and mittens, knit or crocheted, finished or unfinished, wholly or in chief value of silk.

SCHEDULE 13. MANUFACTURES OF RAYON OR OTHER SYNTHETIC TEXTILE

1301	Yarns of rayon or other synthetic textile, singles or plied, not specially provided for (except single yarns weighing 150 deniers or more per length of 450 meters), and regardless of the number of turns twist per inch.
1302	Filaments of rayon or other synthetic textile, not exceeding 30 inches in length, other than waste, whether known as cut fiber, staple fiber, or by any other name.
1309	Gloves and mittens, knit or crocheted, finished or unfinished, wholly or in chief value of rayon or other synthetic textile, valued under $1.50 per dozen pairs.

SCHEDULE 14. PAPERS AND BOOKS

1403	Masks composed of paper, pulp, or papier-mache, not specially provided for.
1404	Papers commonly or commercially known as stereotype paper, copying paper, or bibulous paper, not specially provided for, colored or uncolored, white or printed, whether in sheets or any other form, and weighing less than 10 pounds to the ream.
1405	Bags and other articles, except printed matter, composed wholly or in chief value of any of the papers provided for in any of the provisions of paragraph 1405, Tariff Act of 1930, preceding the provision for bags, and not specially provided for (not including boxes of paper or papier-mache or wood covered or lined with any such paper).
1405	Sensitized paper to be used in photography.
1409	Hanging paper, printed, lithographed, dyed, or colored.
1409	Papers, not specially provided for (except stencil paper, unmounted, and except strawboard and straw paper, under 0.012 but not under 0.008 inch thick).
1410	Books, unbound or bound (except those bound wholly or in part in leather), and sheets or printed pages of books bound wholly or in part in leather, not specially provided for, if of bona fide foreign authorship: Prayer books and sheets or printed pages of prayer books.
1410	Blank books and slate books: Diaries, notebooks, and address books.

SCHEDULE 15. SUNDRIES

1502	Baseballs, and balls wholly or in chief value of rubber (except golf and lawn-tennis balls), finished or unfinished, primarily designed for use in physical exercise (whether or not such exercise involves the element of sport), all the foregoing, not specially provided for.
1502	Tennis rackets.
1503	Beads of ivory; hollow or filled imitation pearl beads of all kinds and shapes, of whatever material composed; imitation solid pearl beads; and iridescent imitation solid pearl beads.

TARIFF ACT OF 1930, TITLE I—DUTIABLE LIST—Continued

SCHEDULE 15. SUNDRIES—continued

Par.	
1504 (a)	Braids, plaits, laces, and willow sheets or squares, composed wholly or in chief value of straw, chip, paper, grass, palm leaf, willow, osier, rattan, real horsehair, cuba bark, or manila hemp, and braids and plaits, wholly or in chief value of ramie, all the foregoing suitable for making or ornamenting hats, bonnets, or hoods, whether or not bleached, dyed, colored, or stained, and whether or not containing a substantial part of rayon or other synthetic textile (but not wholly or in chief value thereof), *except* any of the foregoing (other than willow sheets or squares) not containing a substantial part of rayon or other synthetic textile and not bleached, dyed, colored, or stained.
1504 (b) (1) (2)	Hats, bonnets, and hoods, wholly or in chief value of chip, paper, grass, palm leaf, willow, osier, rattan, real horsehair, cuba bark, or manila hemp, whether wholly or partly manufactured, not blocked, trimmed, or sewed, whether or not bleached, dyed, colored, or stained (not including any of the foregoing known as harvest hats and valued under $3 per dozen, or hats and hoods, not bleached, colored, dyed, or stained, wholly or in chief value of fiber of the *carludovica palmata*, commercially known as toquilla fiber or straw).
1504 (b) (2) (4)	Hats, bonnets, and hoods, whether wholly or partly manufactured: Wholly or in chief value of straw or ramie, bleached, dyed, colored, or stained, but not blocked, trimmed, or sewed; or wholly or in chief value of straw, if sewed (whether or not blocked, trimmed, bleached, dyed, colored, or stained).
1504 (b) (3)	Hats, bonnets, and hoods, composed wholly or in chief value of straw, chip, paper, grass, palm leaf, willow, osier, rattan, real horsehair, cuba bark, ramie, or manila hemp, whether wholly or partly manufactured, blocked or trimmed (whether or not bleached, dyed, colored, or stained).
1506	Toilet brushes (not including tooth brushes), the handles or backs of which are composed wholly or in chief value of any product provided for in paragraph 31, Tariff Act of 1930.
1506	Handles and backs for tooth brushes and other toilet brushes, composed wholly or in chief value of any product provided for in paragraph 31, Tariff Act of 1930.
1506	Hair pencils in quills or otherwise.
1506	Brushes, not specially provided for (except paint brushes).
1510	Buttons not specially provided for (except horn and composition horn buttons, buttons wholly or in chief value of any compound of casein and valued over 60 cents per gross, buttons wholly or in chief value of glass, buttons commonly known as Roman pearl, fancy buttons with a fish-scale or similar to fish-scale finish, buttons wholly or in chief value of wood, and buttons wholly or in part of textile material).
1511	Cork tile in the rough or wholly or partly finished.
1513	Dolls wholly or in chief value of china, porcelain, parian, bisque, earthenware, or stoneware, or wholly or in chief value of any product provided for in paragraph 31, Tariff Act of 1930, and parts of dolls (including clothing), and doll heads, however provided for in paragraph 1513, Tariff Act of 1930 (except dolls and doll clothing composed in any part, however small, of any of the laces, fabrics, embroideries, or other materials or articles provided for in paragraph 1529 (a), Tariff Act of 1930).
1513	Toys, and parts of toys (not including dolls or parts of dolls) composed wholly or in chief value of any product provided for in paragraph 31, Tariff Act of 1930.
1513	Toy games, toy containers, toy favors, toy souvenirs, of whatever materials composed; toy balloons; and toy books without reading matter (not counting as reading matter any printing on removable pages), other than letters, numerals, or descriptive words, bound or unbound, and parts thereof.
1513	Toys, not specially provided for: Wholly or in chief value of china, porcelain, parian, bisque, earthenware, or stoneware.

TARIFF ACT OF 1930, TITLE I—DUTIABLE LIST—Continued

SCHEDULE 15. SUNDRIES—continued

Par.	
	Wholly or in chief value of rubber.
	Toys having a spring mechanism (except figures or images of animate objects, wholly or in chief value of metal).
	Stuffed animal figures not having a spring mechanism.
1513	Parts of toys, not specially provided for.
1515	Bombs, rockets, Roman candles, and fireworks of all descriptions, not specially provided for (not including firecrackers).
1516	Matches, friction or lucifer, of all descriptions, in boxes containing not over 100 matches per box.
1518	Artificial or ornamental fruits, vegetables, grasses, grains, leaves, flowers, stems, or parts thereof, composed wholly or in chief value of yarns, threads, filaments, tinsel wire, lamé, bullions, metal threads, beads, bugles, spangles, or rayon or other synthetic textile, or composed wholly or in chief value of other materials (except feathers) and not specially provided for: and boas, boutonnieres, wreaths, and all articles not specially provided for, composed wholly or in chief value of any of the foregoing fruits, vegetables, grasses, grains, leaves, flowers, stems, or parts.
1523	Hair press cloth, not specially provided for.
1526 (a)	Hats, caps, bonnets, and hoods, trimmed or untrimmed, including bodies, hoods, plateaux, forms, or shapes, for such hats or bonnets, composed wholly or in chief value of fur of the rabbit, beaver, or other animals, and valued over $24 but not over $48 per dozen.
1527 (a) (2)	Jewelry, commonly or commercially so known, finished or unfinished (including parts thereof), of whatever material composed (except jewelry and parts thereof composed wholly or in chief value of gold or platinum, or of which the metal part is wholly or in chief value of gold or platinum); all the foregoing valued over 20 cents but not over $5 per dozen pieces.

Paragraph	
1527 (c) (2)	Articles valued above 20 cents per dozen pieces, designed to be worn on apparel or carried on or about or attached to the person, such as and including cardcases, chains, cigar cases, cigar cutters, cigar holders, cigar lighters, cigarette cases, cigarette holders, coin holders, combs, match boxes, mesh bags and purses, millinery, military and hair ornaments, pins, powder cases, stamp cases, vanity cases, watch bracelets and like articles; all the foregoing and parts thereof, finished or unfinished, composed wholly or in chief value of metal other than gold or platinum (whether or not enameled, washed, covered, or plated, including rolled gold plate), or (if not composed in chief value of metal and if not dutiable under clause 1 of paragraph 1527 (c), Tariff Act of 1930) set with and in chief value of precious or semiprecious stones, pearls, cameos, coral, amber, imitation precious or semiprecious stones, or imitation pearls (except cigar and cigarette lighters and parts thereof, buckles, collar, cuff, and dress buttons, ladies' handbags set with and in chief value of rhinestones, mesh bags and parts thereof, all the foregoing valued above 20 cents and not above $5 per dozen pieces or parts; and except all articles and parts, other than cigar and cigarette lighters and parts, valued above $5 per dozen pieces or parts).
1528	Diamonds, rubies, and sapphires, cut but not set, and suitable for use in the manufacture of jewelry.
1528	Pearls and parts thereof, drilled or undrilled, but not set or strung (except temporarily), if cultured or cultivated; imitation half pearls, and hollow or filled imitation pearls of all shapes, without hole or with hole partly through only; imitation solid pearls and iridescent imitation solid pearls, unpierced, pierced or partially pierced, loose, or mounted, of whatever shape, color, or design.
1529 (a)	Laces, lace fabrics, and lace articles, made wholly by hand and containing no machine-made material or article provided for in paragraph 1529 (a), Tariff Act of 1930, all the foregoing not wholly or in chief value of vegetable fiber other than cotton, if over 2 inches

TARIFF ACT OF 1930, TITLE I—DUTIABLE LIST—Continued

SCHEDULE 15. SUNDRIES—continued

Par.

wide and valued not over $50 per pound, or if not over 2 inches wide, regardless of value.

1529 (a) Fabrics and articles (not wearing apparel), in part but not wholly of handmade lace and containing no machine-made material or article provided for in paragraph 1529 (a), Tariff Act of 1930, if all or part of the lace is over 2 inches wide and the fabrics or articles are valued not over $50 per pound, or if none of the lace is over 2 inches wide, regardless of the value of the fabrics or articles.

1529 (a) Fabrics and articles embroidered (whether or not the embroidery is on a scalloped edge), tamboured, appliqued, ornamented with beads, bugles, or spangles, or from which threads have been omitted, drawn, punched, or cut, and with threads introduced after weaving to finish or ornament the openwork, not including one row of straight hemstitching adjoining the hem; all the foregoing, and fabrics and articles wholly or in part thereof (not including fabrics and articles in any part of lace), however described in paragraph 1529 (a), Tariff Act of 1930; any of the foregoing if wholly or in chief value of cotton and included in subdivision [6] of paragraph 1529 (a) of "United States Import Duties (1952)" (but not including wearing apparel), or if included in subdivision [9] of paragraph 1529 (a) of said "United States Import Duties" (except gloves and mittens included in such subdivision [9] wholly or in chief value of wool and except other wearing apparel included in such subdivision [9] wholly or in chief value of cotton or other vegetable fiber or wholly or in chief value of rayon or other synthetic textile).

1529 (a) Bureau and table covers, centerpieces, doilies, napkins, runners, and scarfs, made of plain-woven cotton cloth, block-printed by hand, and in part of fringe.

1529 (a) Quilts or bedspreads, wholly or in chief value of cotton, in the piece or otherwise, block-printed by hand, and in part of fringe.

1530 (b) Upper leather made from calf or kip skins, rough, partly finished, or finished, but not cut or partly or wholly manufactured into uppers, vamps, or any forms or shapes suitable for conversion into boots, shoes, or footwear.

1530 (e) Boots, shoes, or other footwear, made wholly or in chief value of leather, not specially provided for:
- Slippers (for housewear).

1530 (e) Boots, shoes, or other footwear (including athletic or sporting boots and shoes), the uppers of which are composed wholly or in chief value of wool, cotton, ramie, animal hair, fiber, rayon or other synthetic textile, silk, or substitutes for any of the foregoing:
- With soles wholly or in chief value of leather.
- With soles wholly or in chief value of india rubber or substitutes for rubber.[1]
- With soles wholly or in chief value of other materials (except boots, shoes, or other footwear with uppers wholly or in chief value of vegetable fiber other than cotton, or with uppers and soles both in chief value of wool felt, and except alpargatas with uppers wholly or in chief value of cotton).

1531 Bags, baskets, belts, satchels, cardcases, pocketbooks, jewel boxes, portfolios, and other boxes and cases, not jewelry, wholly or in chief value of leather or parchment, and manufactures of leather, rawhide, or parchment, or of which leather, rawhide, or parchment is the component material of chief value, not specially provided for (except straps and strops):
- Belts and buckles designed to be worn on the person.
- Coin purses, change purses, billfolds, bill cases, bill rolls, bill purses, bank-note cases, currency cases, money cases, cardcases, license cases, pass cases, passport cases, letter cases,

[1] Listed subject to amendment of paragraph 1530 (e), Tariff Act of 1930, by Public Law 479, 83d Congress, approved July 8, 1954.

TARIFF ACT OF 1930, TITLE I—DUTIABLE LIST—Continued

SCHEDULE 15. SUNDRIES—continued

Par.	
	and similar flat leather goods, not wholly or in chief value of reptile leather.
	Women's and children's hand bags or pocketbooks, not wholly or in chief value of reptile leather.
	Leads, leashes, collars, muzzles, and similar dog equipment.
	Wearing apparel (other than belts and buckles).
	Bags, baskets, belts, satchels, pocketbooks, jewel boxes, portfolios, and boxes and cases, not jewelry (except articles named in any of the above subdivisions, whether or not wholly or in chief value of reptile leather).
1531	Articles provided for in paragraph 1531, Tariff Act of 1930, if wholly or in chief value of reptile leather and permanently fitted and furnished with traveling, bottle, drinking, dining or luncheon, sewing, manicure, or similar sets.
1532 (b)	Gloves, wholly or in chief value of leather made from horsehides or cowhides (except calfskins), whether wholly or partly manufactured.
1535	Artificial flies, snelled hooks, leaders or casts, finished or unfinished; fishing rods, and parts thereof, finished or unfinished, not specially provided for: fish hooks, artificial baits, and all other fishing tackle and parts thereof, fly books, fly boxes, fishing baskets or creels, finished or unfinished, not specially provided for, except fishing lines, fishing nets, and seines (and not including fishing reels and parts thereof).
1536	Candles.
1536	Manufactures of amber or bladders or of which these substances or either of them is the component material of chief value, not specially provided for.
1537 (a)	Manufactures of bone, chip, grass, sea grass, horn, straw, weeds, or whalebone, or of which these substances or any of them is the component material of chief value, not specially provided for.
1537 (a)	Manufactures of chip roping.
1537 (b)	Manufactures of india rubber or gutta-percha, or of which these substances or either of them is the component material of chief value, not specially provided for (including boots, shoes, or other footwear, wholly or in chief value of india rubber), *except* the following:
	Bougies, catheters, drains, sondes, and other urological instruments; gloves; gaskets, packing, and valves; golf-ball centers or cores, wound or unwound; nursing nipples or pacifiers; tires wholly or in chief value of india rubber; heels and soles for footwear wholly or in chief value of india rubber; hose and tubing; and other articles (not including automobile, bicycle, or motorcycle tires), wholly or in chief value of gutta-percha only.
1537 (c)	Combs of whatever material composed, not specially provided for:
	Combs composed wholly of rubber or compounds of cellulose.
1541 (a)	Musical instruments and parts thereof, not specially provided for:
	Stringed instruments (not including pianos) and parts thereof (not including bows).
1541 (c)	Carillons containing not over 34 bells, and parts thereof.
1549 (a)	Pencils of paper, wood, or other material not metal, filled with lead or other material, and pencils of lead, not specially provided for.
1549 (a)	Pencils stamped with names other than the manufacturers' or the manufacturers' trade name or trade-mark.
1549 (a)	Pencil point protectors, and clips, whether separate or attached to pencils.
1550 (c)	Mechanical pencils.
1551	Photographic cameras and parts thereof, not specially provided for (except motion-picture cameras and parts thereof and cameras, other than fixed-focus, valued $10 or over but not over $50 each).
1551	Photographic dry plates, not specially provided for.
1552	Pouches for chewing or smoking tobacco, finished or partly finished (except pouches wholly or in chief value of leather).

TARIFF ACT OF 1930, TITLE I—DUTIABLE LIST—Continued

SCHEDULE 15. SUNDRIES—continued

Par.	
1553	All thermostatic bottles, carafes, jars, jugs, and other thermostatic containers, or blanks and pistons of such articles, of whatever material composed, constructed with a vacuous or partially vacuous insulation space to maintain the temperature of the contents, whether imported, finished or unfinished, with or without a jacket or casing of metal or other material, and parts of any of the foregoing.
1554	Walking canes, finished or unfinished.
1554	Handles and sticks for umbrellas, parasols, sunshades, and walking canes, wholly or in chief value of wood and valued under $2.50 per dozen or wholly or in chief value of compounds of cellulose.
1558	Raw or unmanufactured articles not enumerated or provided for: Frogs (not including live frogs) and frog legs.
1558	Articles manufactured, in whole or in part, not specially provided for: Coconut shell char.

TARIFF ACT OF 1930, TITLE II—FREE LIST

1656	Coir yarn.
1677	Fish imported to be used for purposes other than human consumption: Goldfish.
1686	Gums and resins: Kadaya. Natural gums, natural gum resins, and natural resins, not specially provided for: Talka.
1688	Hair of horse, cattle, and other animals, cleaned or uncleaned, drawn or undrawn, but unmanufactured, not specially provided for: Goat and kid hair (except dressed soft hair).
1703	Joss stick or joss light.
1705	Kelp.
1731	Oils, distilled or essential, not mixed or compounded with or containing alcohol: Camphor.
1754	Santonin, and salts of.
1756	Tuna fish, fresh or frozen, whether or not packed in ice, and whether or not whole.
1761	Shellfish, fresh or frozen (whether or not packed in ice), or prepared or preserved in any manner (not including pastes and sauces) and not specially provided for (except shrimps, prawns, lobsters, crabs, clams, quahaugs, unfrozen fresh scallops, fresh or frozen oysters other than seed oysters, and abalone).
1762	Silk cocoons and silk waste.
1763	Silk, raw, in skeins reeled from the cocoon, or rereeled, but not wound, doubled, twisted, or advanced in manufacture in any way.
1768 (2)	Spices and spice seed: Cardamom.
1796	Wax, vegetable, not specially provided for: Japan.
1803 (1)	Sawed lumber and timber, not further manufactured than planed, and tongued and grooved, not specially provided for: Japanese white oak, Japanese maple, and teak.

COMMITTEE FOR RECIPROCITY INFORMATION

I. Trade-Agreement Negotiations under the General Agreement on Tariffs and Trade relating to Japan;
II. Possible Adjustment in Preferential Rates on Cuban Products.

Submission of Information to the Committee for Reciprocity Information:
Closing date for application to be head, December 3, 1954.
Closing date for submission of briefs, December 6, 1954.
Public hearings open, December 13, 1954.

The Interdepartmental Committee on Trade Agreements has issued on this day a notice of intention to participate in trade-agreement negotiations, on a reciprocal basis, looking to Japan's accession to the General Agreement on Tariffs and Trade, as a means of improving Japan's trading prospects in the free world. With a view to the further expansion of such trading prospects, the United States is also considering, in addition to negotiations directly with Japan, participating in limited negotiations with other contracting parties to the General Agreement that will also be negotiating with Japan, in order to broaden the overall results of the negotiations.

Annexed to the notice of the Interdepartmental Committee on Trade Agreements, is a list of articles imported into the United States to be considered for possible concessions in the negotiations. The Committee for Reciprocity Information hereby gives notice that all applications for oral presentation of views in regard to the proposed negotiations, which must indicate the product or products on which the individuals or groups desire to be heard, and an estimate of the time required for such presentation, shall be submitted to the Committee for Reciprocity Information not later than 12:00 noon, December 3, 1954, and all information and views in writing of persons who desire to be heard in regard to the foregoing proposals shall be submitted to the Committee for Reciprocity Information not later than 12:00 noon, December 6, 1954. Written statements of persons who do not desire to be heard shall be submitted not later than 12:00 noon, December 27, 1954. Such communications shall be addressed to "Committee for Reciprocity Information, Tariff Commission Building, Washington 25, D. C." Fifteen copies of written statements, either typed, printed, or duplicated shall be submitted, of which one copy shall be sworn to.

Written statements submitted to the Committee, except information and business data proffered in confidence, shall be open to inspection by interested persons. Information and business data proffered in confidence shall be submitted on separate pages clearly marked "For official use only of Committee for Reciprocity Information."

Public hearings will be held before the Committee for Reciprocity Information, at which oral statements will be heard. The first hearing will be at 2 p. m. on December 13, 1954, in the Hearing Room in the Tariff Commission Building, 7th and E Streets, N. W., Washington 25, D. C. Witnesses who make application to be heard will be advised regarding the time and place of their individual appearances. Appearances at hearings before the Committee may be made only by or on behalf of those persons who have filed written statements and who have within the time prescribed made written application for oral presentation of views. Statements made at the public hearings shall be under oath.

Persons or groups interested in import products may present to the Committee their views concerning possible tariff concessions by the United States on any product, whether or not included in the list annexed to the notice of intention to negotiate. However, as indicated in the notice of intention to negotiate, no tariff reduction or specific continuance of customs or excise treatment will be considered on any product which is not included in the list annexed to the public notice by the Interdepartmental Committee on Trade Agreements, unless it is subsequently included in a supplementary public list.

The United States Tariff Commission has today announced public hearings on the import items appearing in the list annexed to the notice of intention to negotiate to run concurrently with the hearings of the Committee for Reciprocity Information. Oral testimony and written information submitted to the Tariff Commission will be made available to and will be considered by the Interdepartmental Committee on Trade Agreements. Consequently, those whose interests relate only to import products included in the foregoing list, and who appear before the Tariff Commission, need not, but may if they wish, appear also before the Committee for Reciprocity Information.

Persons interested in exports may present their views regarding any tariff or other concessions that might be requested from Japan. Any other matters appropriate to be considered in connection with the proposed negotiations may also be presented.

Copies of the list atached to the notice of intention to negotiate may be obtained from the Committee for Reciprocity Information at the address designated above and may be inspected at the field offices of the Department of Commerce.

By direction of the Committee for Reciprocity Information this 13th day of November 1954.

EDWARD YARDLEY,
Secretary, Committee for Reciprocity Information.

Mr. KALIJARVI. The basic aim of our foreign policy is to improve the security and well-being of the United States. This objective is generally accepted and understood. What is less widely understood is the fact that our international economic policies are a major instrument for achieving this objective.

The President clearly outlined the objectives of his foreign economic policy in his message to Congress on the program, and Mr. Strackbein read the section I have here and which I will not repeat.

As these objectives are attained they will aid and expand the economy of the United States as well as those of other countries. Thus the objectives of the Full Employment Act will be served, for the program is designed to—

> promote maximum employment, production, and purchasing power * * * in a manner calculated to promote and foster free competitive enterprise.

The principal trade measures in the President's program are the 3-year extension of the Trade Agreements Act, the revision of the General Agreement on Tariffs and Trade with submission to the Congress of the organizational provisions of the new agreement, multilateral trade negotiations with Japan, customs simplification, clarification of customs evaluation, increased tourism, support for trade fairs, and a liberalization of the administration of the Buy American Act.

Chief measures pertaining to investments are the so-called 14 points tax advantage on investments abroad, the deferral of tax on income of foreign branches until such income is withdrawn from the country in which it is earned, tax treaties, the International Finance Corporation, the encouragement of measures by other countries to attract private United States capital, and increased Export-Import Bank loans.

Other parts of the program include foreign economic aid, technical assistance, and the use of agricultural surpluses to expand consumption abroad and to promote economic development.

The President has referred to this program as "moderate" and "minimum." In his letter of transmittal of the report here under consideration, he says:

> Measures by ourselves and other nations to reduce existing barriers to international trade, payments, and investment will make the free world stronger and aid our own economic growth.

This seems axiomatic to most of those who deal with foreign economic policies. Unfortunately it is not always so clear to those not so occupied. There is a ready acceptance of the need for the many political and military arrangements that we have with other countries, such as NATO. But the reasons why the Schuman plan, for example, should have active United States support are not as widely recognized. And when it comes to trade liberalization and the free flow of capital the connection with our broad foreign policy objectives seems remote indeed to some. But alliances of the free world either reflect a mutuality of interests shared by the peoples of the countries involved or they are doomed to a destiny of frustration.

Specifically, when fears, doubts, and disputes over economic matters develop between countries, they undermine intergovernmental confidence creating an atmosphere inimical to political and ideological loyalties among peoples. Thus if the United States is to exercise political leadership in the world, it cannot escape the companion role of economic leadership. That means that it must pursue economic foreign policies that will produce the results it seeks; namely, growth, stability, trust, and confidence among the nations of the free world.

Wise and constructive policies today are more imperative than ever. Not only are they calculated to create confidence among our allies in the cold war and to make new ones for us. But, they are of direct immediate benefit to us in the sense of the Full Employment Act. Let us note for a moment what is involved from the standpoint of our own economy.

In 1953, when the gross national product was $365 billion, exports including military aid came to $21 billion, or almost 6 percent of the GNP. This compared with gross receipts from farming of 8.5 percent; nonfarm residential construction of a little over 3 percent; business expenditures for capital equipment of a little over 6.5 percent; and consumer purchases of durable goods of a little over 8 percent. About 4⅓ million jobs are attributable to work generated by our exports and handling of imports. About 10 percent of our agricultural income is derived from exports. In recent years the production of 30 to 50 million acres of our cropland has been devoted to foreign consumers.

In the most recent market year 1953–54, wheat, cotton, and tobacco farmers shipped from 19 to 26 percent of their production overseas while ricegrowers exported almost one-half their harvest.

The CHAIRMAN. In the case of the first three crops, that is a very appreciable reduction, is it not, in recent years?

Mr. TAFT. Rice has gone up, however, way up.

Mr. KALIJARVI. Last year 10 percent or more of the output of machine tools, tinplate, steel rails, refrigerators, motor trucks were sold abroad. These are only a few statistics. The short-run effect of United States economic aid is to increase United States exports, e. g. every Eximbank loan and guaranty promotes the export of a United States commodity. The long-run purpose of technical and economic aid is to raise the productivity and purchasing power of foreign recipients. The result over time is (*a*) to enlarge markets for our exports, and (*b*) to promote the expanded output of basic materials we need to procure from abroad.

The CHAIRMAN. It is the contention of Senator Malone of Nevada that in aiding foreign countries to produce more more effectively we are breeding rivals for ourselves. What would you say to that contention?

Mr. KALIJARVI. I think if the assistance were indiscriminate and if it were over a period of time, without regard to our own interest, that probably will hold true.

The CHAIRMAN. He argues if you increase productivity per man or per unit of capital, that that increases the ability of foreign countries to undersell American products, and hence contributes to unemployment here.

I wondered what you would say to that.

Mr. KALIJARVI. I do not think those consequences necessarily follow from the original hypothesis.

The CHAIRMAN. I would like to have you clear that up. I have tried to explain that to Senator Malone on numerous occasions, but I have been unsuccessful. I wondered if you couldn't make a more successful venture.

Mr. KALIJARVI. I would like to assure the Senator that we have been before Senator Malone on many occasions and we have been equally unsuccessful.

The CHAIRMAN. Well, I wonder if you might suggest a facet of thought which I might use.

Mr. KALIJARVI. For once I am completely at a loss, Senator.

The short-run effect of private foreign investment is to increase the export of United States commodities, since United States direct investment is generally tied to United States goods. The long-run effect of private foreign investment is to increase production and income abroad, with the result of expanding markets for United States goods and increasing the output of scarce basic materials on which United States economic growth depends.

When we look abroad, the significance of the President's program is equally forcefully borne in upon us.

The CHAIRMAN. I do not wish to score points off you, but I gave vent this morning to my irritation of having this program referred to as the President's program. It is true it is in the immediate foreground the President's program, and I know you should not be requested to make any comment about this, but, again, for the sake of the record, I would like to say this has been the program of the Democratic Party ever since 1801, under Thomas Jefferson, and we are delighted to find that at long last, after 51 or 52 or 53 years, it has gradually penetrated then into the ranks of the Republican Party.

Mr. TAFT. Senator, you remember there was more joy over one lamb who was lost.

The CHAIRMAN. Over one Senator who repented. We are delighted to have him, but we do not want to have the record stand that this is the unique contribution of the Republican National Party in the present national administration. They are in this as in other matters merely adopting the policies which we Democrats have been advocating for a long time, only they have to go through a rigamarole to pretend it is their theory they first created, or that there are differences, which in reality are nonexistent, which are played up in their program. You are not expected to comment on this, but I would like to keep the record straight on this matter.

Mr. THORP. There may be some difference in timidity.

The CHAIRMAN. We are much more determined in this matter than our Republican friends and we only hope that they will maintain courage throughout this session and will not bolt and run as they did in the last session.

Senator SPARKMAN. Mr. Chairman, I was about to offer the suggestion that our greatest concern right now was whether or not this would continue to be the President's program beyond March 31. I believe it was about that time it died last year.

Mr. TAFT. Senator, I am sure this won't be true in the Senate, but over in the House what worries us is southern Democrats bringing in bills to prevent any reduction in the tariff on cotton and some bills on residual oil and even some bills on other items.

The CHAIRMAN. The Democratic Party has never been completely virtuous on this point. Virtue is relative, however, and I think it was Winfield Scott Hancock, in the campaign of 1880, who said that the tariff is a local issue, but generally our localities have been low-tariff areas.

Senator SPARKMAN. Mr. Chairman, I would be willing to predict that every one of those fellows that has introduced a bill to cover some particular local commodity will be supported. This program will be supported vigorously. Of course, one reason they offer those bills is because there is no adequate overall program.

Mr. STRACKBEIN. Mr. Chairman, I would like to comment on this southern attitude. I would call it the great enlightenment. They are just now beginning to face a situation that other parts of the country have been facing for many generations and are beginning to learn what we have been talking about all of this time.

Mr. KALIJARVI. Mr. Chairman, I am delighted to hear among the panel a program on which there is practically complete unanimity.

When we look abroad, the significance of the President's program is equally forcefully borne in upon us. The United States occupies a position of economic leadership regardless of its wishes. The question is whether it uses this position for good or for harm—that is, to build or to undermine the strength and cohesiveness of the free world. It hardly seems possible that United States economic policies could operate merely as a neutral force.

The predominance of the United States in the world economy is well known. Accordingly, the course of economic conditions in the United States and the policies we pursue in the international economic field assume tremendous importance in terms of our relations with our allies.

In 1949 we had a slight recession here—a drop in our national income of 3.4 percent. During this mild adjustment Western Europe's exports to the United States dropped almost 22 percent. Chile's sales to us dropped 36 percent and Australia's 34 percent, partly as a result of the United States economic situation.

In 1954–55 a slight economic adjustment——

The CHAIRMAN. At this point, the chairman interjects the word "recession."

Mr. KALIJARVI. In the United States brought about a drop of $1 billion in the amount of goods we imported. This adjustment in the United States did not, however, have an appreciable effect on Western Europe, proving that that area had recovered its economic strength sufficiently not to "catch pneumonia when the United States catches a cold." In fact, European imports from the United States were sustained throughout this period and there is evidence to indicate that this was a factor toward stabilizing the growth in world trade and production.

This dependence is dramatic in the case of many underdeveloped countries whose foreign exchange earnings are highly concentrated in a few primary materials. For example, 60 percent of Brazil's income from exports is derived from coffee; in Chile, 51 percent is derived from copper; Columbia, 78 percent from coffee; Cuba, 82 percent from sugar; Venezuela, 97 percent from petroleum; Egypt, 89 percent from cotton; Indonesia, 95 percent from tin and rubber; Ceylon, 78 percent from tea and rubber; Iraq, 80 percent from petroleum; Pakistan, 87 percent from cotton and jute.

Access to foreign markets is also far more vital for some highly developed countries than it is for the United States. Though large in absolute terms, United States exports constitute only about 6 percent of the national income. The United Kingdom's exports amount to 21 percent of the national income; Canada's, 26 percent; Denmark's, 27 percent; the Netherlands', 46 percent; New Zealand's, 37 percent; Australia's, 21 percent.

Since most of these countries are tied to us by way of defense arrangements, we cannot be indifferent to their economic interests and problems. Therefore, the President's program takes them into account.

But the interests of the United States are even broader. The United States has an affirmative interest in the economic well-being of the free world and the President's program asserts it as something good in itself. Even if there were no Communist threat, it is in our interests to promote economic development in the underdeveloped areas and to raise the level of production and trade in the world. In this way we improve our own well-being.

Our conception of the proper role of Government in economic affairs is much more narrow than that of most other countries. In peacetime we tend to think primarily in terms of private action rather than in terms of governmental capabilities. For us the major normal function of Government in the economic sphere is to provide an environment in which private enterprise can flourish free from artificial restraints.

This basic creed we carry over into our economic relations with other countries. Our principal specific objectives relate to the removal of artificial restraints on the movement of goods, services, and capital, whether publicly or privately imposed. We seek to reduce tariffs, eliminate quotas, get rid of cartels, do away with exchange restrictions, and remove restraints on foreign investment.

We feel that the Government should interfere as little as possible with the free market, it should act as the promoter and guardian of conditions under which the market can operate most effectively.

The CHAIRMAN. Senator Sparkman.

Senator SPARKMAN. Dr. Kalijarvi, back on page 7, you gave the percentage of the income from exports of the various foreign countries. Then in the next paragraph you gave some other figures, and I notice one relates to the percentage of income from exports, the other the percentage of national income.

They are not analagous at all, are they?

Mr. KALIJARVI. No.

Senator SPARKMAN. They are not intended to be?

Mr. KALIJARVI. No.

Senator SPARKMAN. I first thought they were, and I see now they are not.

Mr. KALIJARVI. They were selected because they highlighted the point I wanted to make.

Senator SPARKMAN. By the way, I notice you say "Venezuela, 97 percent from petroleum." What year was that?

Mr. KALIJARVI. 1953.

Senator SPARKMAN. I wonder if that has been changed by the heavy exports they have made of iron ore. I think it has started.

Mr. TAFT. The value isn't nearly as high, in relation to oil.

Senator SPARKMAN. I realize that, but 97 percent is the figure that impressed me.

Mr. TAFT. The shipments did not begin in large quantities until 1953, but I don't think it has been changed too much even in 1954.

Mr. KALIJARVI. If you wish, I will follow it up.

Senator SPARKMAN. No, I was just curious how it might be changed with that. Of course, I suppose any country that has to depend so largely on one commodity for its income from exports is in not the most comfortable position.

Mr. KALIPARVI. It certainly is not.

Senator SPARKMAN. Are any of our programs aimed at a greater variety of products that they might export?

Mr. KALIJARVI. There is all kinds of incentive, as far as lies within our capabilities for countries that have possibilities of diversification.

For instance we have definitely interested ourselves in Indonesia in diversification of production from their tin and rubber operations, and in other countries.

Senator SPARKMAN. I was surprised to learn from your paper that 95 percent of the income from exports of Indonesia was made up of those two items.

Mr. KALIJARVI. And we run into a great many problems, as Mr. Thorp certainly knows, where the countries are very much concerned in terms of the rise and drop in price and how they can dispose of their products. Indonesia, for example, with the drop in prices of rubber, is looking for a means of disposing of it. That sort of thing was a basis for a good deal of the thought in the international commodity discussions we had. The answer to your question is "Yes."

Senator SPARKMAN. Taking Indonesia, since we are talking about that, as an example; doesn't it have a good many natural resources?

Mr. KALIJARVI. Oh, yes.

Senator SPARKMAN. Isn't it fairly rich in natural resources?

Mr. KALIJARVI. Yes, but not developed.

Senator SPARKMAN. But not developed. And it is that kind of challenge that serves as an incentive for our developing a technical aid program.

Mr. KALIJARVI. It certainly does.

Senator SPARKMAN. And you feel, as we talk about a trade program, a technical aid program would be supplemental to it?

Mr. KALIJARVI. Decidedly.

Senator SPARKMAN. I believe that is all.

Mr. STRACKBEIN. Mr. Chairman.

The CHAIRMAN. Mr. Strackbein.

Mr. STRACKBEIN. I just wanted to make this comment about heavy percentages of exports in particular commodities from particular countries. It seems to me that is exactly the kind of pattern that free trade would lead to throughout the world. Sixty percent of the Brazilian exports consist of coffee. Brazil is exceedingly adept at producing coffee.

The CHAIRMAN. Would you suggest that we produce coffee?

Mr. STRACKBEIN. No, I would suggest that we maintain our economy on a diversified basis and not expose it to such an extent to specialization.

Senator SPARKMAN. Don't you think ease of access serves as an incentive to diversification? That is true of farms and it might be carried on to nations.

Mr. STRACKBEIN. If we had free trade, it is just this kind of undiversified production you would expect in the world.

Mr. TAFT. Mr. Chairman, may I suggest that the problem comes first in inducing domestic capital and then capital from outside to go into the new investments that are successful. There is a very interesting piece in Barron's Weekly for January 31 on the efforts of the Rockefeller International Basic Economy Corp., operating in Latin America.

They have attempted and insisted on local capital and turned it over to the local operators when they get to the point that they can get out. But they have made a number of failures because they pick the wrong thing. The first most successful one, according to this article, is an operation in partnership with Foremost Dairies in distributing pasteurized milk and ice cream and cottage cheese, and the next one was in setting up supermarkets. I don't think anybody looking at it from the outside would think that is the sort of thing that would work, but apparently it does work, and now they have local capital going in and stimulating diversification.

I suggest if such things are not done to stimulate diversification, they will continue with 1 or 2 things they have. In Indonesia, I think the psychological state of mind is important, because apparently there is a disposition to reject anything which depend on skills developed by the Dutch prior to their independence.

That makes it difficult in Indonesia.

Mr. STRACKBEIN. One of the problems in the negotiations leading to GATT gives an indication of how we will have problems in diversification. The underdeveloped countries said they needed protection to start new industries and, as a matter of fact, the charter for the International Trade Organization recognized that, and so does the General Agreement on Tariffs and Trade for that matter. So, again, as long as you do not give protection, you do not get away from this one-crop, one-commodity situation in those countries. They cannot pull themselves up by their bootstraps.

Mr. KALIJARVI. Mr. Chairman, that makes a nice philosophical argument, but I think if we look at our own country there is the most eloquent factual denial of that thesis.

The CHAIRMAN. Because of the national market, do you mean?

Mr. KALIJARVI. Yes, the greatest market in the world.

Mr. STRACKBEIN. This country has been built up on the protection system.

The CHAIRMAN. I must put in a word in support of Mr. Strackbein. The thesis he espoused is the one of Alexander Hamilton and Thomas Clay, the necessity for building up home industries. But it never worked.

Senator FLANDERS. I recollect the campaign in which Benjamin Harrison beat Grover Cleveland. I think that was 1888, as I remember, and I remember the torchlight processions, and they wore oilcloth garments to preserve their clothes from the drippings of the torches they carried.

The CHAIRMAN. That started with the Wide Awakes in 1860.

Senator FLANDERS. Well, your memory goes back further, and I remember they chanted as they marched along the street, "Tin, Tin, American, Grover's out and Benjamin's in," and, as a matter of fact, the American tin industry did start with that protective tariff.

I cannot think offhand of another infant industry that did start in such a way.

Mr. TAFT. The chemical industry in 1918.

Senator FLANDERS. That may be so.

Any other comments?

The CHAIRMAN. Yes; I was not present in the campaign of 1888, although my first visit to Washington was paid in the administration of Benjamin Harrison at an early age, but I wonder if the Senator's memory is correct that it was tin that was being protected?

Senator FLANDERS. It was tinplate which we had previously had to get from Wales.

Now, there is one other point I wish to make, and I hope it is constructive, following up the suggestion that the greatest benefit to Western Europe would come from a customs union of their own; we have had the customs union of the States, which as just mentioned, has worked out very well, even if it is exceedingly painful at times. New England can testify to that, and don't think that any customs adjustment can be made without great pain. It cannot. We endured the pain because we are all one country.

I expected a satisfied smile, Senator Sparkman, to spread over your countenance.

Senator SPARKMAN. It always does when you philosophize.

Senator FLANDERS. Now, here is one great customs union covering Western Europe. There is an opportunity for another great customs union extending from Japan clear around to India, probably stopping short of India because they wish to develop themselves industrially.

Now, there are three great customs unions, which within those unions, not setting up too great barriers against the rest of the world, could generate and maintain each for his own conditions a high degree of prosperity, and it seems to me that the development of those three unions is on the whole far more realistic and far more hopeful and far more practical than trying to put us all into one big union. There will be less of these exceedingly painful readjustments that have to be made.

I am through with that dissertation, Mr. Chairman.

The CHAIRMAN. Mr. Kelley.

Representative KELLEY. Mr. Chairman, I would like to renew the conversation I had with Mr. Taft this morning about residual oil and the coal industry.

I see him smiling. Unfortunately for renewing the discussion I have to go to the floor again.

I would like to have permission, if I may, to set forth a statement of the industry, and of the United Mine Workers, and their position in that. There is quite a difference in the opinion as set forth by Mr. Taft and that of the industry.

(See statement, p. 1005.)

The CHAIRMAN. Very well.

Mr. TAFT. I may say I got most of my facts, or a good many of them, out of Mr. Pickett's brief.

Representative KELLEY. You mean you took what you saw in Mr. Pickett's brief to get an argument out of it, to set up a defense?

Mr. TAFT. Mr. Chairman, I referred to one new enterprise in foreign investment. I think perhaps there should be in the record also a second one. From February 28 to March 3 there will be in New Orleans a meeting sponsored by the city of New Orleans and by Time-Life International of representatives of quite a number of Latin-American countries with various kinds of proposals for investment which have been circulated before that time to various bankers and other persons who might invest in Latin America. It is contemplated that there will then be direct discussions or even negotiations over the carrying out of those proposals.

I have a press release of December 11 on this which happened to come to my desk. I think it might be worthwhile to have it in the record as representing a new type of approach which might be very helpful.

(The press release referred to follows:)

INTER-AMERICAN INVESTMENT CONFERENCE, NEW ORLEANS, LA., FEBRUARY 28, MARCH 1, 2, 3

In a private-enterprise sequel to the recent intergovernmental conference at Rio de Janeiro, leading industrialists and businessmen of the United States and Latin America will meet in New Orleans February 28 through March 3, 1955, to explore the role of private initiatives and finance in United States-Latin American economic relations.

Organized under the auspicies of private business, the New Orleans meeting, to be known as the Inter-American Investment Conference, will bring together representative industrial and financial leaders of both continents for a 4-day examination of present opportunities for productive capital investment in the swiftly growing nations of Latin America.

The New Orleans conference was announced today by Rudolf S. Hecht, chairman of the board, International House, New Orleans, and Edgar R. Baker, managing director, Time-Life International. The city of New Orleans and Time-Life International are serving jointly as sponsors and hosts for the conference.

Widespread interest in the conference has been shown by leading business and industrial organizations both in the United States and Latin America.

In this country, the Chamber of Commerce of the United States, the National Association of Manufacturers, the Investment Bankers Association of America, and the United States Inter-American Council are serving as cooperating organizations.

Some 50 business organizations in 16 Latin American countries are cooperating actively in organizing Latin American representation at the conference. (See list attached.)

The Organization of American States, representing all of the Latin American nations, and the International Development Advisory Board, a private citizen group appointed by the President to advise on certain aspects of United States foreign economic policy, are also cooperating with the sponsors of the conference.

In announcing the conference, Mr. Hecht recalled that President Eisenhower, in a letter to Eric Johnston, chairman of the International Development Advisory Board, last July had expressed personal approval of a meeting of the kind to be held in New Orleans. At that time, the President wrote:

"The suggestion of the International Development Advisory Board that representatives of private business, industry, and finance in the United States and Latin America take the initiative in organizing a privately sponsored conference to promote economic progress in Latin America through increased private capital investment is a good one. As you well know, private investment has been the major stimulus for economic development in this hemisphere. An increased flow could contribute significantly not only to the development of the countries in which made, but also to the economic progress of the United States.

"The administration looks with favor upon positive, forward-looking steps of this kind by private enterprise. We also urge appropriate action on the part of our Government to encourage the outflow of private American investment and on the part of foreign nations to encourage its inflow."

Mr. Hecht said the primary purpose of the Conference is to stimulate greater participation of United States capital in productive enterprise in the Latin American countries.

"The sponsors of this meeting believe," said Mr. Hecht, "that private capital, with its managerial and technical skills, is going to be the most effective long-range answer to Latin America's need for development funds.

"We are convinced that if the private-enterprise system is to prevail in the nations of the Western hemisphere, main reliance for the development of economic potentials must be placed upon the forces of private initiative. These forces will respond in both continents if they are properly encouraged to do so.

"While we recognize existing barriers and uncertainties, and urge continued intergovernmental action to remove them, we feel that a meeting jointly sponsored by United States and Latin American business and industrial interests will help to dispel apprehensions, increase mutual confidence, and spotlight the immense and varied opportunities which exist today for safe and sane investment in the Latin American republics.

"We are confident that much can be accomplished right now through a frank and full exchange of views between entrepreneurs of both continents who speak the langauge of business whether they speak it in Spanish, English, or Portuguese."

Mr. Hecht said that while the Conference is a private-enterprise undertaking, the Government of the United States, as well as the Governments of many Latin American countries have indicated interest. It is expected that official observers and technical advisers will attend the meeting.

Mr. Baker recalled the emphasis placed on private capital during the recent inter-American economic discussions at Rio de Janeiro. "The New Orleans meeting," he said, "will constitute a serious effort on the part of private enterprise in the United States and Latin America to find practical answers to some of the problems which have slowed up the flow of United States private capital to our Latin American neighbors. While the idea of the New Orleans Conference was conceived weeks before the Rio meeting, it comes as a logical next step in our joint efforts to develop stronger economic relations in this hemisphere. It might be regarded, in fact, as private industry's answer to the challenge inherent in Latin America's need for financial assistance for development.

"In helping to organize the New Orleans Meeting," Mr. Baker added, "we have been astonished by the intense interest shown by the business communities of all the Latin American countries. Their enthusiasm and willingness to help make the Conference a success have greatly exceeded our expectations."

The Conference will be conducted both as an assembly and as a workshop. Speakers will include men of international reputation in the field of business and industry. Panel discussions on major questions will offer all in attendance an opportunity of personal participation in the discussions. In addition, the program will provide ample time for direct personal discussions between individual Latin American and United States participants.

In order to assure consideration of practical measures rather than generalities, definite preliminary steps are being taken by the cooperating organizations in Latin America to send business representatives to the Conference prepared to put forward specific investment proposals. The Laten American cooperating organizations are asking their respective members to prepare outline data regarding specific investment proposals which they would like to discuss with United States capital interests. On the basis of this information, the Conference management will extend special invitations to United States business concerns which might be expected to have an interest in the specific proposals put forward by Latin American participants.

While no assurance can be given with respect to United States acceptance of proposals offered by the Latin American representatives, every facility for discussion and negotiation will be offered during the Conference.

A portion of the Conference period will also be reserved for "country" meetings at which the representatives of the business communities of each of the Latin American countries will be available for direct discussion with United States participants interested in the investment picture in a particular country.

LATIN AMERICAN COSPONSORS

Argentina:

Confederación General Económica de la República Argentina

Confederación General de Comerciantes

Bolivia:
- Cámara Nacional de Industrias
- Cámara Nacional de Minería
- Santa Cruz Agricultural and Industrial Organization
- Banking group:
  - Banco Central de Bolivia
  - Crédito Hipotecario de Bolivia
  - Banco Nacional de Bolivia
  - Banco Mercantil
  - Banco Popular Colombo-Boliviano
  - Banco Popular del Perú en Bolivia

Brazil:
- Federação das Indústrias do Estado de São Paulo (FIESP)
- Centro das Indústrias do Estado de São Paulo (CIESP)
- Confederação das Indústrias (Nacional)

Colombia:
- ANDI—Asociación Nacional de Industriales
- Asociación Bancaria
- ACOPI—Asociación Colombiana de Pequeños Industriales

Costa Rica:
- Cámara de Industrias
- Banco de Costa Rica
- Cámara de Agricultura
- Junta de la Caña

Cuba:
- Asociación Nacional de Industriales de Cuba
- Cámara de Comercio de la República de Cuba
- American Chamber of Commerce of Cuba
- Asociación de Bancos de Cuba
- Asociación de Colonos de Cuba
- Asociación Nacional de Hacendados de Cuba

Ecuador:
- Cámara de Industriales de Pichincha
- Cámara de Industrias (Guayaquil)
- Cámara de Agricultura de la Segunda Zona
- Banks of Guayaquil
- Cámara de Comercio de Guayaquil

El Salvador: Cámara de Comercio e Industria de El Salvador

Guatemala:
- Cámara de Comercio e Industria de Guatemala
- Asociación General de Agricultores
- Banks of Guatemala

Honduras: Cámara de Comercio e Industrias de Tegucigalpa

Mexico: Secretariado Méxicano de Relaciones Internacionales de la Iniciativa Privada, representing:
- Asociación de Banqueros de México
- Confederación de Cámaras Industriales
- Confederación de Cámaras Nacionales de Comercio

Nicaragua: Comité para Inversión de Capital Privada in Nicaragua, representing:
- Cámara de Comercio e Industrias
- Cooperative Nacional de Agricultores
- Sociedad Cooperativa Anónima de Cafetaleros de Nicaragua

Panama:
- Cámara de Comercio Industria y Agricultura de Panamá
- Sindicato de Industriales de Panamá
- Instituto de Fomento Económico
- Colon Free Zone

Paraguay: FEPRINCO (Federation of Production, Industry and Commerce)

Peru:
- Cámara de Comercio
- Cámara de Industrias
- Sociedad Nacional Agraria
- Sociedad Nacional de Minería y Petroleo
- Banco de Crédito del Perú
- Banco Wiese, Ltdo.
- Banco Popular
- Banco Internacional del Perú

Venezuela:
Federación Venezolana de Cámaras y Asociaciones de Comercio y Producción
American Chamber of Commerce in Venezuela

The CHAIRMAN. Thank you very much.

Mr. Talle.

Representative TALLE. No questions, thank you.

The CHAIRMAN. Mr. Knowles, who is Acting Deputy Director of the Bureau of Foreign Commerce.

Mr. KALIJARVI. Mr. Chairman, before you call on Mr. Knowles, may I insert in the record at this point a statement prepared in the Department as a result of some of the things we have received as a result of this program? This statement is called "Relaxation of Restrictions Against Dollar Imports."

Even we were surprised with what we came up with as a consequence of our study. There are some 12 pages with a graph at the end.

(See p. 995.)

With your permission, we would like to insert it.

The CHAIRMAN. Yes.

(Mr. Karijarvi's prepared statement appears at p. 992.)

The CHAIRMAN. Mr. Knowles.

OPENING STATEMENT OF NATHANIEL KNOWLES, JR., ACTING DEPUTY DIRECTOR, BUREAU OF FOREIGN COMMERCE, DEPARTMENT OF COMMERCE

Mr. KNOWLES. Mr. Chairman, members of the committee, in view of the many quotations entered into the record by the several panelists, I would like to abbreviate my paper and just call attention to a few of the highlights, but I would like my whole paper in the record.

The CHAIRMAN. You may so proceed.

Mr. KNOWLES. As a representative of the Department of Commerce, I can perhaps make some contribution to today's discussion by indicating the present and past relationships of United States foreign trade to various elements of our national economy.

One way to measure the importance of foreign trade to our economy is to express it as a percentage of our gross national product and to compare that percentage with the similar percentage for other important components. Attached to my statement is a table showing such percentages for a selected number of years, starting with 1929 and ending with an estimated figure for 1954. These percentages, of course, are based on the current prices for each year.

In the year just past, that is 1954, our merchandise exports were about 4.2 percent of the estimated total gross national product of $357 billion. This figure, which includes military aid exports, compares with 5 percent in 1929 when there was no military program. Excluding the military program, the 1954 estimated figure of 3.5 percent was slightly higher than in 1953, and moved upward contrary to most other trends in the national economy. Our merchandise imports in 1954 declined slightly from 1953, and were about 2.9 percent of the gross national product.

I would like to point out in these figures that the 3.5 percent excluding military represents a very much smaller proportion of our gross national product than it did in 1929. These figures may not appear impressive when compared with similar relationships in some of the important trading countries of Europe whose exports reach 25 percent or more of their gross national product. Such a comparison, however, ignores a very important difference between our economy and those of European countries. No one factor makes an overwhelming contribution to our total economic picture. The strength of our economy results from its diversity. Even cash receipts from farming were only 8.5 percent of the gross national product in 1954. Thus, this important component which has commanded so much attention of the Government of the United States made only about twice as much a contribution to our economy as did the exports of merchandise.

Another very important component of the gross national product which is frequently consulted to determine whether our economy is functioning properly is residential nonfarm construction. This housing component was about 3.8 percent of the gross national product in 1954. Even in 1954 when housing construction moved upward contrary to most business trends, it was lower than the exports of goods and services. Other new construction representing about 4 percent of the gross national product in 1954 was also exceeded by merchandise exports.

The foreign trade contributions to our total economy also compared favorably with such investment components of our gross national product as business purchases of capital equipment which represented 6.2 percent of the gross national product in 1954 and consumer purchases of durable goods which were about 8.1 percent.

For your convenience, I am leaving a table entitled "Selected Elements—Percentage of Gross National Product" which gives additional details.

The significance of exports and imports is reinforced by a consideration of their relationships to some of our most important and progressive industries.

During the 3 years 1949–51 nearly one-half of our exports came from industries which sold more than 10 percent of their production abroad. One-third of our exports were accounted for by products which rely upon foreign markets for more than 25 percent of their sales.

Export markets are of central importance for some of our major agricultural products such as cotton, wheat, rice, and tobacco. In the crop year 1952–53 we exported 24 percent of our wheat and 20 percent of our cotton despite the fact that this was a year of comparatively low exports. In the preceding 5 years we exported, on the average, about one-third of these crops. In 1953 we also exported 56 percent of our rice, 22 percent of our tobacco, 61 percent of our inedible tallow, and 18 percent of our lard.

The critical importance to our economy of the imports of many raw materials and foodstuffs which we do not produce at all or where our production does not come even close to meeting our needs has been well known for many years.

About 58 percent of our commodity imports are essential for consumption or for the operation of our economy, given the present industrial and technological pattern of production. Of these, one-third, or 20 percent of total imports, cannot be produced at all in the United States. Another one-third are not available domestically in sufficient quantity.

The remaining one-third, of which coffee, tea, and cocoa are typical examples, have become an accepted part of our daily consumption and we are anxious to obtain them in exchange for our produce.

The other 42 percent of the total are imported even though they could be produced here because foreign countries are able to deliver at lower costs, or because they are sufficiently different from domestic products to stimulate demand.

The level of our imports governs the level of our exports, since they provide the dollar exchange for the purchase of exports. As our grant aid to the rest of the world is reduced and ultimately eliminated, we must increase our imports unless we are willing to see our exports decrease.

American investments abroad tend to create markets for our finished product as well as raw material sources of supply.

It is almost a truism that our best customers are the more highly developed countries. The import demands of countries with low standards of living while frequently large in relation to their domestic production are small in absolute terms. As our investments abroad contribute to the economic development of other countries and increase the standards of living in those countries, new demands are created, some of which will be translated into increased exports from the United States. This is in addition to the capital-goods requirements necessary to translate the money investment into plant and equipment.

Moreover, a very large part of our investments abroad has gone into the development of raw materials which we must increasingly import from abroad as our economy expands and our known domestic sources of supply prove inadequate.

I want to emphasize the role of both exports and imports in generating employment, wages, and profits in the United States.

Let me just underscore it by pointing out that some 70 percent of our exports consist of manufactured goods shipped in substantially the forms in which they are finally utilized abroad. The great bulk of the end-use value of these goods is thus contributed by American labor, capital, and management.

Our imports, in contrast to our exports, consist preponderantly of raw materials and crude foodstuffs requiring extensive further processing before entering into consumption channels here. For at least 80 percent of the goods we import, a very large part of their end-use value is added by American industry after they are purchased from abroad. The activities contributing to this added value represent jobs and profits for United States workers and employers, just as surely as do those involved in the production of our exports. Less than one-fifth of our imports enter the country as substantially finished products, and even these contribute significantly to employment and earnings in our distributive and service industries.

Thank you, sir.

The CHAIRMAN. Thank you.

(Mr. Knowles' prepared statement appears at p. 1002.)

The CHAIRMAN. I would like to throw out a couple of general questions for discussion which have been touched upon but not discussed in detail. The first is the question: What changes, if any, should we make in the present law relating to the escape clause, to the peril points, and to the "Buy American" provision, from a foreign-aid angle?

Mr. VINER. I would like to suggest as a reasonable compromise between leaving the escape clause and "Buy American" legislation as it is and wholly repealing it, which I consider impractical and perhaps not desirable on principle—and the percentages I give I think are reasonable, but I suggest them merely as a basis of consideration.

I would suggest that commodities be ineligible for the application of the escape clause, first, in case the reduced rates of duty on them are now in excess of 20 percent on the principle that if they already have 20 percent or more protection they need not and they are not entitled to have still additional protection.

Mr. TAFT. That is the equivalent ad valorem?

Mr. VINER. Yes.

Secondly, any commodity of which in the preceding calendar year the imports did not exceed 10 percent of American production. That industry is unlikely to be in distress or in imminent distress because of the volume of importation and, therefore, until the imports exceed 10 percent it would not be eligible for the application of the escape-clause provision.

Third, any commodity whose domestic production has increased by over 5 percent in the preceding calendar year is not to be entitled to additional protection.

Senator FLANDERS. Is that increase in volume or value? I am just thinking that inflation might keep everything in there.

Mr. VINER. I would prefer, as more rational, increase in volume.

Mr. TAFT. That is 5 percent.

Mr. VINER. Five percent increase in domestic production in the prior year.

For "Buy American," I would limit the preference which the buying officers of the Government are permitted to exercise to 10 percent after duty.

Mr. TAFT. It is now 6 to 10.

Mr. VINER. I would make the statutory maximum 10, to go with the other provisions.

Second, I would make any commodities ineligible for governmental preference in purchasing on which the duty is in excess of 20 percent, because the Government preference is in addition to the duty.

Third, I would make commodities ineligible whose import in the preceding calendar year did not exceed 10 percent of American production.

Senator FLANDERS. You said that before.

Mr. VINER. No; these are limitations for "Buy American." However, for these provisions with respect to "Buy American," I would make this qualification: I would make these limitations not apply to commodities which receive certification from the security agency or the defense authorities, that it is important that they be obtained from domestic sources.

Senator FLANDERS. May I make an inquiry with regard to that 10 percent limitation on "Buy American"?

Supposing there comes a time when an industry is suffering from unemployment, and it might well be that such an industry suffering from unemployment still was in the field in which the import was less than 10 percent. Wouldn't you find it politically difficult, as I think I would find it humanly difficult, to say that we would nevertheless buy from abroad at a time when there was unemployment in that industry, simply because there was the 10 percent criterion applied?

Mr. VINER. Senator Flanders, my definition of a statesman is a politician who does difficult things. I would not make the tariff, the "Buy American" provision, and the escape clause our machinery to deal with cyclical changes or regional depressions. I do not say that these things are not to be given very serious consideration, too, and that Congress should not deal with them.

But in the same way as with distressed areas, I would not try to deal with them by manipulating the tariff. That would mix up different things. It would increase the vested interest in tariff protection which I would try to avoid. I would be happy if there were serious study of the experience of other countries, particularly England, with respect to the so-called distressed areas and the careful working out of provisions whereby the Federal Government does assume some responsibility to relieve special stresses not due to demerit on the part of regions or of the employees of particular industries, but without regard to whether the impact that is hurting them is technological change, changes of fashion or taste, or foreign competion.

The CHAIRMAN. What would you suggest as specific measures?

Mr. VINER. I have not given too much thought to it because I think fruitful thought cannot be given to it without investigation of the administrative difficulties which I am not qualified to discuss. With respect to agriculture, I think the distortions of our agricultural policy have been due in part to genuine and deserved sympathy with respect to distressed areas and the population in those areas. I would have dealt with those areas either by the encouragement of new industries to enter such areas or the encouragement of the movement of people, particularly young people, out of such areas, so that there would be gradual adaptation to the situation.

Government preference in its purchasing to areas in need of employment, I would be in favor of, if workable provisions can be designed. I would watch out that Federal minimum wage legislation, and so on, be not so rigid that it itself becomes a factor in throwing a distressed area into still more distress by imposing on that area a level of wages which that area is no longer able to yield. But these are just my casual suggestions.

What I would advocate is a Washington investigation by a competent staff to find out what is in principle desirable, and in practice workable.

Senator FLANDERS. Mr. Chairman, I am wondering if I do not have in my old friend, Dr. Viner, a recruit for the idea of establishing criteria instead of making across-the-board changes of one sort or another in that tariff. It seems to me that the establishment of criteria is the direction in which we should be moving.

Mr. VINER. Well, if we would agree on a definition of the term "criteria"——

Mr. FLANDERS. We couldn't do that this afternoon.

Mr. VINER. No. I would be in hearty agreement with that proposition. But I would include as criteria those already included in practice. After all, nobody is seriously proposing across-the-board elimination of tariffs. I haven't heard a word in all of the discussion here, or in discussion elsewhere, against the selective approach. The word "selective" is a key word. In other words, every reduction in some way or another should receive careful consideration in the light of all of the surrounding circumstances.

On the other hand, I would include in the criteria limits beyond which it is unreasonable to provide protection. I have suggested limits beyond which you should not increase the existing protection. I would approve of the proposal that there be executive authority to reduce any duty which is now, ad valorem or its equivalent, in excess of 50 percent. I regard that as a limited proposal. I would be happy if it were made 30 percent. But I would limit the extent of protection you give on any item to some maximum rate, because one of the things I would like to emphasize is that when you impose a duty of 50 percent on a commodity you are not taking something good out of an unlimited supply that costs nobody anything and giving it out of your kindness to a deserving beneficiary. You are imposing a burden on some other Americans. Somebody pays that 50 percent. It may be the consumer, or the processor, or it may be the Government, but somebody is paying for it. If you impose a duty and that keeps out an import, somebody in the United States pays a price that has been increased by that action. It is unfortunate that the unfavorable effects of a reduction in tariff can be seen and felt quite readily, whereas the benefits are not immediately recognizable, and cannot be demonstrated as a problem in arithmetic can, although they are real and can often be tenfold the costs or burdens.

When I start working out my definition of the appropriate criteria, I am afraid it will turn into an essay. It would attempt to take account of the cost of protection and not merely of the benefits some persons receive from it.

Senator FLANDERS. I think we agree on that.

Mr. VINER. I think, Senator, we have agreed before without too much strain on either side.

The CHAIRMAN. Does anyone else want to discuss these two topics of what should be done about the escape clause, the "Buy American," or adjustments for regions severely hit?

Mr. THORP. I would like to develop one point Mr. Viner raised, and that is the extent to which these policies may be used for quite different objectives, and the difficulty if this is in terms of cyclical fluctuations or agricultural policy or what not, and just speak of the one that is the fashion, that all this is in relation to defense. As a person very much concerned with being adequately defended I would like to protest strongly on the use of the tariff as a device for assuring me proper national defense.

This is a very clumsy and inaccurate instrument. To take the case Senator Flanders mentioned this morning as to the watch industry, it may be that preservation of some of the skills in our watch industry are important to our national defense. We raise the tariff. We don't know whether this will give us too much or too little. I don't know whether this amount of tariff increase is providing me with the defense I am alleged to need from this industry. It seems to me that if the problem is national defense we should know what we need and that should be arranged directly as a burden on us under our defense budget, and not dealt with in this very ineffective and inexact method of trying to say that some particular tariff will provide just what is needed for national defense.

The CHAIRMAN. Would you propose that we buy specific items which at some future time may be needed for national defense and stockpiling them then?

Mr. THORP. That is one way of dealing with it. I think this can be done by stockpiling. It can be done by direct contract with industries. It might even be better for the Government to purchase a certain number of watches, and if they cannot be stockpiled give them away or even destroy them, although this is a very extreme process.

I think by proper contracting or subsidies, it should be possible to keep this industry active and the skills there without the loss of value. I hesitate to have the prices of all watches bought by all people having to carry this extra burden.

Senator FLANDERS. Mr. Chairman, it is a skill rather than a product which is in question in regard to watchmaking, and you cannot stockpile—well, maybe you can stockpile a skill. I never thought that subject through.

The CHAIRMAN. Stockpiling the products of skill?

Senator FLANDERS. It is not the products.

It is largely in instrument making. I, myself, think in that particular case, the case was not too strong, but there are such things, for instance, lens grinding, I think, is a very important case of a requirement for defense, the skill of the lens grinder.

Mr. THORP. I am granting that, Senator. I merely am saying if we need that, I want somebody to say how much we need, and to assure us of having that, rather than using this uncertain method of tariff protection.

Senator FLANDERS. In the extreme form, which perhaps I either have misunderstood or you may regret, you suggested that we might have people preserving the skill by grinding lenses which we afterwards threw away.

Mr. THORP. Well, that was just for making the extreme case clear. I don't think we need to do it that way.

Mr. UPGREN. Mr. Chairman, I was just going to comment that 20 years ago the Hutchins committee looked into it, and there was widespread recommendation of subsidy and contract, but it seems to me you build up a tighter interest with that arrangement, and while tariffs are subject to change once the vested interest is built up the record of subsidies is just as smelly as the record at an earlier date, perhaps, of tariffs.

Mr. VINER. I would question the history of that. There is no durable vested interest in congressional appropriations, and no recipients in the American history of congressional appropriations for subsidies have ever been able to be certain they would get them 5 years later.

Shipping subsidies are a case in point.

The CHAIRMAN. Having been successful in knocking out the subsidy to the American merchant marine at one session of Congress I bear the mark of their successful comeback. The ship operators of the country are very powerful fellows.

Senator FLANDERS. They are not powerful enough to keep the shipyards going.

Mr. STRACKBEIN. Mr. Chairman, may I comment on the escape clause?

It seems a shame to disturb all this harmony.

The CHAIRMAN. We invited you to stir up the lions.

Mr. STRACKBEIN. The escape clause is a subject to which I have paid a good deal of attention over a period of years. It was first introduced into the trade agreements, I think in a trade agreement with Mexico in 1943. I think it made its appearance in a somewhat different form earlier than that, but in any case it was introduced and was explained as providing a remedy against the mistakes that might be made by the Department of State negotiators in reducing the tariffs in conferences with other countries.

It was admitted that when thousands of items came up for reduction in duty that even though hearings had been held before the Committee for Reciprocity Information that actually adequate data could not be obtained in so short a time. So they said "We are not allwise, we admit we can make mistakes, but you have a remedy."

Now, we have found that when steps are taken to apply the remedy, less than 10 percent of the cases actually result in the proclamation of a remedy, and certainly the suggestion now that no remedy be applied unless the rate of duty is 20 percent or less in ad valorem equivalent seems to me to be completely and wholly unrealistic with respect to the different levels of import competition faced by particular products.

I could cite you an example in pottery. Pottery comes in from Japan and competes with our own pottery. The Tariff Commission found that the difference in the cost of production was 284 percent. Now, that may or may not be accurate. The fact is that the prices were extremely low compared with prices from other countries.

Now, to say that no escape-clause remedy should be applied unless the duty is 20 percent, or less, seems to me to overlook completely the difference in the competitive level of various countries in shipping to this country, and the same with respect to the condition that no escape-clause remedy be given unless imports are 10 percent or more of the domestic consumption.

Again, there is no magic in this 10 percent. Why not 5 percent? Why not 20 percent? There is no possible defense for establishing one particular percentage point as being the dividing line. It has no relation at all to the amount of damage that may be done by imports.

The CHAIRMAN. It has been my own feeling, Mr. Strackbein, that after a movement such as reciprocal trade gets under way that the opponents do not so much attack the principle as try to limit its application. Groups which you honestly represent are never really reconciled to Mr. Hull's program, and sought at every turn to limit it. So these devices of the escape clause, the peril points, and so on, were inserted. But the cumulative effect of these has been to greatly, in my judgment, reduce the possibility of expanding imports and, hence, of expanding exports, and has therefore restricted the volume of international trade.

Mr. STRACKBEIN. I want to comment on that. It has been said, and repeated many times, that the mere existence of the peril-point legislation and the mere existence of the escape-clause legislation was a deterrent to any increase in imports or was a deterrent in any case to the flow of imports; that other countries, producers in other countries, hesitated to put on a real sales campaign in this country because if they succeeded then the peril point or the escape clause would be invoked.

Now, I can give you examples from the record of instances where there have been escape-clause applications made and hearings held, not only once, but twice, and where in the face of that fact imports have not only increased but have doubled, and in some cases more than that. So the mere existence of the escape clause certainly cannot be held as a deterrent to imports.

The CHAIRMAN. Well, a partial deterrent.

Mr. THORP. Mr. Chairman, it is worthy of note, that if an escape-clause action is threatened, the importer rushes to get as much of the article into the country as possible before the action is taken.

Mr. STRACKBEIN. The increase in imports I mentioned took place during the nine months allowed for the decision. You can see no change in the upward trend in the imports of tunafish, as one example, bicycles as another, and groundfish fillets, and I think there are some others.

Mr. TAFT. There ought to be some distinctions made here, Mr. Chairman, because certainly you can't make general statements about some of the different categories. If you are talking about various kinds of the raw or semi-processed materials, then the question as to whether they increase or do not increase when they are being sold to manufacturers is one kind of a question.

When you are talking about a manufactured product, a consumer product which is to go to a consumer, then you are dealing with something completely different. It is in the latter category that the fears of spending considerable money to prepare the public for the sale of the new imported product are so great that they do not start, whereas if it is a raw material for chemical manufacture, or something which is semiprocessed, again going to a major manufacturer, that is something entirely different. That goes into channels that are used to handling that kind of thing and it, therefore, is not nearly as much restricted as it would be if you are talking about an end product which is going to the consumers. Now, then, also in this connection, I think that the objective of what Dr. Viner is saying ought to be very clear. The problem we are discussing essentially is whether or not an industry is injured if its proportion of the market decreases. That is, if its own production increases absolutely even though the foreign importer increases his percentage share of the market.

Now the Tariff Commission at no time has held that to be damage, although producers have constantly filed escape-clause proceedings on the theory that it was damage.

There are a number of samples of this. Tableware is one, for instance, china, and other things of that sort, which is one of the items always looking for higher tariffs.

There, the imports over a 5-year period, 1948 to 1953, went up from $7 million to $11 million. At the same time domestic production went up from $10 million to $15 million. Now, are the domestic producers damaged? I say the Tariff Commission has never held that they are, and it certainly seems to me they are not. This is what Dr. Viner is feeling for when he tries to get some limitation below which you cannot file any escape-clause proceeding.

Senator FLANDERS. Is that for fine china?

Mr. TAFT. Fine china and other types of tableware.

Senator FLANDERS. As far as I know, it is only within the past few years that we have had any clay sources, any sources of the proper clay for that.

Mr. TAFT. I am not sure of that because the Rockwood Pottery has been going since the seventies or eighties.

Senator FLANDERS. Is that the fine pottery?

Mr. TAFT. It is of the Wedgwood type and draws from the clays in the mountains of Georgia.

Senator FLANDERS. I am thinking of the porcelains.

Isn't that comparatively recent?

Mr. TAFT. Lenox China goes back very far.

Senator FLANDERS. I do know in Europe the supply of that clay is so limited that Swedish or Danish and much of the French china is made from clay dug in Devonshire in England.

Mr. TAFT. That may well be. I will just give one more sample of this situation, the bicycle case, which the Tariff Commission turned down about 2 years ago, I think and which is now before the Commission again. The figures here are something like this: For balloon tire bicycles which we see usually ridden by young boys, production in 1937 was 1,200,000 units. They reached a peak in 1946 and 1947 because of the shortage of manufacture during the war. Production dropped to 1,400,000 units in 1949, a normal year, and in 1953 they reached 2 million. On the other hand, we started importing lightweight bicycles from Britain, the kind with gears, and so on. My boy in 1947 bought one over my protest because it cost more than a domestic bike. In 1949, with the devaluation, the price came down relatively in the United States, and imports are now about 500,000 units.

The American industry reached a peak of—I forget the exact amount, but I think it is 180,000 in 1953 of this type of bicycle.

Now in 1954, the situation is different, I agree with that, but I am telling you what the prior escape-clause proceeding was, and the Tariff Commission found there was no basis for it again, on the ground that they had increased absolutely in their production even though the importers had been able to sell a lot more of a new kind of product that the American public liked. I can't see that there is any damage to the American producer in that kind of situation.

Senator FLANDERS. Mr. Chairman, bicycles come in my list of categories, in the list in which no greater tariff protection is warranted, simply because American bicycle manufacturers were asleep at the switch.

No child who knew the difference between an American bicycle and an English bicycle would buy an American one, if his father would let him buy an English one. We were asleep at the switch completely.

Mr. STRACKBEIN. Mr. Chairman, before we get too far from this subject, I want to answer the point that Mr. Taft made; namely, that if the product was a consumer item, then the existence of the escape clause did act as a deterrent. I want to point out that canned tuna fish is a consumer item. It is bought by housewives from the shelves of grocery stores.

Mr. TAFT. Made out of imported tuna fish?

Mr. STRACKBEIN. Yes. And the imports, in spite of the Tariff Commission escape-clause hearings and in spite of a bill in the Congress to levy a tariff on fresh and frozen tuna, has gone up. The imports of canned tuna have gone right up undeterred by the existence of the escape clause, the peril point or anything else.

The bicycle is another consumer item. The imports there have gone up even though the Tariff Commission at this time has before it the second application of the manufacturers under the escape clause. So to say that the mere presence of the escape clause is so offensive that it should be wiped off the statute books simply does not make sense. Let's turn it around. Supposing we did not have an escape clause. Are not American producers deterred from expanding their plants or from making plans about increasing their production, and so on, when they do not know what kind of import competition will strike them?

The CHAIRMAN. Well, isn't that something that everyone faces in a competitive market? If you believe in the competitive system, to what degree can you gauarantee in perpetuity a given physical volume or a given share of the market to any one concern?

Mr. STRACKBEIN. But there is competition and competition. We have tried to wipe out unfair competition within our own ranks. We have put a minimum-wage law into effect so sweatshop products cannot move in interstate commerce. We have done a lot of things to make for fairness of competition. The question is: what kind of competition? If the competition is on a roughly equal basis, we should meet it and welcome it, but when goods come in at prices we can't touch, that is something else.

The CHAIRMAN. You mean because of extremely low-wage scales?

Mr. STRACKBEIN. That is right. We say that our protection under the escape clause should not be taken away or nullified by Executive action or by administration that is not under the control of the Congress.

Senator FLANDERS. I would like to get into the record, Mr. Chairman, the best explanation that these eminent panelists can give of the doctrine of relative advantage. Does that mean anything to any of you? Did you ever hear of the doctrine of relative advantage?

Mr. VINER. I have made my living out of it for a good many years.

Senator FLANDERS. I hope, Dr. Viner, that you are not in the position of the doctor whose son took over while he took a vacation and cured his best patient. In other words, you do not feel if you revealed it here so even I could understand it, that you would lose your source of income?

Mr. VINER. No. And if there is any difficulty in my making it clear, I will assume the blame for myself, and I will not assign it to anyone else. I will try to put it in a way, perhaps, a little bit different from the usual way.

Senator FLANDERS. I am serious in this. I think it should be in the record. I have always classed Mr. Hull as a doctrinaire freetrader and have felt that his point of view has permeated this whole great undertaking in procedure and I have assumed that in the creed of the doctrinaire freetrader this question of relative advantage loomed large and that there was some way in which it worked out, so that the high-labor-cost producer, the general high-cost producer, and the extreme low-cost producer over in another country would, supposing there were only those two areas in the whole world, would somehow be able to divide the trade between them to the advantage of both.

Is that a fair statement of the doctrine of relative advantage?

Mr. VINER. Yes. I would say if there were three countries, the problem gets complicated.

Senator FLANDERS. Let's assume just two, Japan and the United States.

Mr. VINER. Yes. The way I would like to put it is who is entitled to control the manner of use of American productive resources? Shall it be an entrepreneur who, paying standard American wages, cannot produce a product costing no more than it is worth. If that is so, we should get it from abroad. Whenever you have an industry living on 50 percent protection year after year, it probably has not been paying more than the standard American wages—the historical fact is that it has probably been paying less—and yet it has been taking from the consumer two prices: first, the world price and, second, the additional price that the tariff makes possible. In other words, that industry has not had a legitimate claim to use the labor and the other resources that this country has available.

Now I am considering the position of the labor in that industry. The labor in it has at some stage or other been enticed into it wrongly. It belonged somewhere else. Let's assume it is receiving the American standard of wages without giving the American people a full equivalent in return. It may be that it has been trapped into it. The persons who are caught in it, with skills that they acquired painfully, we ought to treat very gently and sympathetically. But we ought to avoid drawing in new labor resources to that industry. We ought to avoid training youngsters for that industry, in which they will make their living partly out of earned wages and partly in getting a supplement from a handout forced on the consumer for their benefit.

With respect to low wages abroad we profit from the low wages paid abroad if that results in a low cost to us of the product. But in many cases the low wages abroad are a reflection, and an inadequate reflection, of the inefficiencies of the labor, the unsuitability or scarcity of raw materials, the unfavorable climate, the low quality of business enterprise, so that while they may pay miserably low wages, they can't produce the goods at as low prices as we can. What wages are paid abroad should not be any concern of ours, except possibly a humanitarian one. But you are not helping a country paying low wages by saying to it: "Because your people are inefficient and have poor natural resources, therefore we are going to keep you from making even the miserable living you are making now, by preventing you from exporting your products here, by raising our tariff."

Senator FLANDERS. Let's not get humanitarian aspects into this thing. Let's stick to economics. Here we have this country, high labor rates, large cost of production, high prices, as a result.

Over here is Japan with low labor rates, perhaps in other respects inefficient production, but when our goods on the whole reach the shores of Japan, she cannot pay for them. When her goods reach our shores competing with what we make, we can pay for them. How is the balance struck so that both Japan and we have something to do that we are adapted to doing and exist in the world together to our mutual advantage?

I think this gets back to the question I raised this morning as to what the end point of free trade is, what does it lead us into, what does it lead Japan into, but I am not sure.

I have not quite yet pinned this down to the doctrine of relative advantage, but if you want to yield to Mr. Taft there, or if you want to proceed, the chairman can decide. I have great respect for both of you. In fact, I do not know of a better presentation of a difficult case than Mr. Taft made this morning.

Mr. TAFT. Thank you, sir.

Mr. VINER. I do not agree that it was a difficult case. It was by far the easier of the two cases presented here today, although I think it was very ably presented by Mr. Taft. It is Mr. Stockbein's case which is the difficult one to argue.

Mr. TAFT. Mr. Chairman, I think this point the Senator has raised is a very important one. I was in Europe in 1948 and met the Premier of Maastricht, and I was then in the City Council of Cincinnati, and I told him about the machine which we use which is now generally used, a planer, which levels the black-top on a street. It is a perfectly huge machine and quite expensive, but it nevertheless makes a surface quite different from anything else. Now, he would be delighted to have it, no tariff, no trade restriction would stop him from getting it; he just does not have enough money to pay for it. If you are going to sell, abroad, you have to adapt your products to their needs abroad and what they can pay.

If the man making that product wishes to sell it in Maastricht, they will have to develop a cheaper model which is within the financial capacities of Maastricht to buy, and this is not just a question of the taste and likings and packaging and everything else that goes with selling something to somebody else.

Americans have not always paid enough attention to that kind of item. If that sort of intelligence is applied to foreign trade, then I think the objection which the Senator makes, in a great many instances, might be eliminated.

Mr. CLEVELAND. Could I come back to the problem of readjustment assistance raised by Dr. Viner, because it strikes me if something could really be done along the lines suggested, it would make unnecessary the other suggestion he was making for a rather complex compromise on the escape clause. It is perfectly clear not only politically, but as a matter of right, humanitarian values, and so on, that there has to be some escape hatch of some sort from the difficulties into which individual domestic industries that aren't able to meet foreign competition are put by a reduction of tariffs. But at the moment we are escaping by a hatch that really has a very bad effect on our foreign policy; that is, through a tariff rise or a failure to reduce the tariff.

It is important on this subject to make a distinction that I do not think was fully made by Mr. Upgren when he spoke of subsidies. I think what Mr. Viner talked of is not really what you could call a subsidy. At least it is not a subsidy to enable an inefficient business to remain in business.

I take it he means, assistance of various kinds, unemployment compensation, small-business lending, perhaps some technical assistance, the creation of all sorts and kinds of climate for readjustment that will enable the resources to move out of the inefficient industries and into something else. I would like to make one suggested amendment or an addition to what Dr. Viner suggested.

We are inclined, I think, to consider this too much as a Federal problem—because the tariff is a Federal problem. It seems to me, as a matter of administration, that this is basically and primarily a regional and local problem. It is an appropriate kind of problem for State governments and even lower levels of government to be involved with. The Federal Government can come in with Federal aid, probably more appropriately than it can by trying to declare a Federal depressed area in a locality that might be only two counties big.

With this in mind, it does seem to me that the Congress ought to search for ways of setting up a coordinated system for readjustment assistance, placing that responsibility in some coordinator's hands, perhaps, on the executive side, operating it primarily as Federal aid to local and State levels of government. This could be part of a larger policy decision that would eliminate the other escape hatch so that you substitute one escape hatch for the other. Morally as well as politically, it seems to me, working along this line would make sense, rather than compromising on the escape clause. Setting up a readjustment assistance arrangement gives you the handle to eliminate the escape clause over the same period of time, and perhaps even in the same legislation.

Mr. TAFT. Mr. Chairman, I was just going to say that in the pamphlet which I have submitted to the committee, which contains the proposals presented by the Committee for a National Trade Policy to the Randall Commission a year ago with a supplement on some new items that came up later, there are some eight pages which outline exactly this sort of program.

Most of it has been incorporated in several bills, one of them by Mr. Harrison Williams in the House, and another one by Congressman Eberharter. I think perhaps this pamphlet might well be in the record, if that is satisfactory.

The CHAIRMAN. Good.

(The pamphlet referred to is as follows:)

RECOMMENDATIONS FOR UNITED STATES POLICY ON WORLD TRADE

Committee for a National Trade Policy, Washington, D. C.

INTRODUCTION

To Members and Friends of the Committee:

For the convenience of its members and others interested in the subject of world trade, the Committee for a National Trade Policy is republishing in a single pamphlet its recommendations for the formulation of United States foreign trade policy.

On October 29, 1953, I presented testimony before the President's Commission on Foreign Economic Policy (the Randall Commission) on behalf of the Committee for a National Trade Policy. In December 1953, this testimony was supplemented by the submission of a series of concrete proposals to the Randall Commission. These two submissions to the Randall Commission represent a statement of the views of this committee on United States policy on world trade. They are reprinted in the following pages.

Subsequently, on January 23, 1954, the Randall Commission made its report to the President and the Congress. After a thorough review by the several departments of the Government, the President presented his program on foreign economic policy to the Congress on March 30, 1954. With minor exceptions, the 83d Congress did not act on the President's program because of a crowded legislative calendar and for other reasons.

The existence of the Committee for a National Trade Policy dates from September 1953 and coincided with its first expression of views to the Randall Commission. When the Randall Commission issued its report, we endorsed its recommendations on tariffs and trade. Upon the presentation to the Congress of the President's message of March 30, 1954, the committee endorsed his program, which was based on the findings of the Randall Commission, and worked actively thereafter for its wide dissemination and understanding among the business community. The committee has also actively concerned itself with a wide variety of issues of both a legislative as well as administrative nature in the area of trade policy which have arisen over the past 12 months.

In the process of dealing with foreign-trade policy issues over the past year, the committee has concerned itself with matters that were not included in its original statement of policy of a year ago. Brief statements on supplementary subjects with which the committee has dealt and which can be expected to be of importance in 1955 are to be found immediately after the text of the committee's proposals.

Our fundamental policy position remains the same: We repeat our warm approval and support for the President's enlightened program; 1955 is the crucial year (the 84th Congress will, we hope, take affirmative action on this program). Eventually, as circumstances require, the committee may wish to advocate certain of its own proposals going beyond that program. We will continue in the months ahead to deal with issues of American trade policy as they arise and to make recommendations and proposals on specific problems when the occasion warrants it.

JOHN S. COLEMAN, *Chairman.*

STATEMENT BEFORE THE COMMISSION ON FOREIGN ECONOMIC POLICY, OCTOBER 1953

My name is John S. Coleman. I appear here today in my capacity as chairman of the board of directors of the Committee for a National Trade Policy.

Our committee is drawn from all sections of the United States. Most of our members are heads of industrial enterprises, although we have representatives from other sectors of the economy. I will file with the Commission a full list of the directors, officers, and members of the committee.

The Committee for a National Trade Policy was created to promote public understanding of the issues which our country faces today in its trade relations with the rest of the world. The committee was founded in the belief that American leadership in the expansion of international trade and the reduction of trade barriers is essential to the prosperity and security of the United States.

This Commission will no doubt hear witnesses with arguments as why our national interest requires us to reduce our trade barriers. Other witnesses may advance arguments as to why our trade barriers must be maintained to protect particular interests. We can contribute little to the decision of your Commission by rehearsing all of these arguments again.

Our own views are, however, quite clear. We believe that as a matter of principle when the national interest conflicts with local or special interests, the national interest must prevail.

Our country today is the leader of the free world. The value of our total production is nearly equal to that of all of our allies. Because of this fact, every decision with respect to our economic policy will have an important consequence for our friends abroad.

DOLLAR SHORTAGE

In the period since the war we have fully recognized this fact. Our allies in the free world are not able to earn all the dollars they need to maintain the stability of their economies and to build their defenses to the level that our combined security requires. We have met the problem of a dollar shortage by an elaborate and costly system of foreign aid.

But while we have been supplying dollars through foreign aid we have been restricting the dollar earnings of our allies by a variety of trade barriers. This, I submit, not only violates the economic logic which has been an essential element in Ameica's growth, but is contrary to the basic American principle that work is better than charity—both for the giver and for the recipient.

I don't want to misstate or overstate our position. Let me make it quite clear.

We do not think a reduction of United States trade barriers is the cure for all the world's ills.

More specifically we do not favor free trade beginning tomorrow morning or even next year.

We do not even believe that a reduction of our trade barriers and an expansion of our imports would be a complete substitute for foreign assistance during the present period when we are building up the military strength of our allies.

And we do not consider that injury which may be done to investors, labor, and farmers by a reduction of trade barriers should be ignored.

We make these points for the purpose of clarity, not to minimize the value of a liberal trade policy. Certainly when American taxpayers are faced with a tax burden which weakens economic incentives, measures which will enable us to meet our responsibilities of leadership while permitting us to reduce taxes, have a virtue which is apparent to all. A reduction of trade barriers can go a long way toward elminating the dollar gap, which is one of the greatest impediments to our common strength and prosperity.

Some people are now saying that the problem of the dollar gap has disappeared. They point to the fact that our nonmilitary exports are hardly greater than our imports. Such a contention ignores several important considerations.

1. One should not exclude military exports from the computation merely because we are financing them by foreign aid, out of the pockets of the American taxpayers. If our allies could earn more dollars, they would be able to pay for a larger share of these military goods.

2. The dollar gap cannot be accurately reflected by statistics of actual imports and exports. At the present time, foreign purchases of American goods are in most places subject to tight governmental restriction. If foreign producers could earn more dollars, foreign governments would not have to suppress the demand for our goods.

3. Temporary factors tend to distort the present position. The dollar problem of our allies is easier today because the United States Government is spending vast amounts of money to build airbases and to support its Armed Forces in many parts of the world.

4. It is a mistake to regard present levels of trade as stationary or permanent. What we seek is a high level of trade. The present reduction in the dollar gap has occurred partly through a reduction of our exports. To accept this way of closing it as a permanent policy would involve an immense cost to our economy. We need only look at the effects of the recent cuts in the export of agricultural commodities to see how serious that policy would be.

I think, therefore, that we are deceiving ourselves and that we would be deceiving the American people who pay the taxes if we were to conclude that the dollar shortage was ended and that such a persistent problem has been completely solved.

Our committee is for reducing the burden of the American taxpayer without jeopardizing our security. This burden can and must be reduced by permitting foreign producers to trade in our markets.

Since the war, the free world has gained a measure of economic health but it is still convalescing. It will never attain the economic strength which our security requires so long as it is strangled in a web of trade restrictions. American policy must, we believe, seek to restore greater freedom in the movement of goods, to bring about general convertibility of currencies, to eliminate the need for Government licenses and quotas and the other paraphernalia of trade restriction. Until those objectives are accomplished the Western alliance will be strained by what is in fact economic warfare between its several parts. Because the dollar shortage has been temporarily relieved, we are not content to say that we have reached our goal. This is at best a halfway house. I think that we would mislead the American people if we told them otherwise.

AMERICAN GENIUS FOR CHANGE

The American genius has been a persistent discontent with the status quo. We lead the world today because we have constantly raised our standard of living, have constantly sought new economic opportunities, have broken the barriers of limited objectives. In 1783 the farmer who brought cordwood from Connecticut into New York was stopped at the New York border and made to pay a tariff duty. One of the most important provisions of our Constitution prohibited the States from interfering in the free flow of goods by such measures. Under our Constitution, we have built a market within our vast domestic territories; through the development of that market we have erected a prosperity unequaled in human achievement. For Americans to be satisfied with the present level of trade, either within our own market or in the rest of the world, is to do violence to our national instincts.

As a businessman nurtured in the American business tradition, I resent attempts to limit the horizons of American enterprise. We face each day the challenges of competition from our domestic rivals, and I would fear for the day when American business is unwilling to accept the challenges of competition from abroad.

The advocates of protection say that it is all very well for certain sectors of American industry to take a bold position about foreign competition. The industries which take this position, it is said, are not in danger from foregn producers. The protectonists say also that it is one thing to meet competition from American producers and quite a different thing to face competition from abroad where the standard of living and the wage scale differ from our own.

These arguments, I think, magnify the problem out of all proportion. In the United States we have found that in most cases we can meet competition by increasing the productivity of labor and the efficiency of management. We have pretty well destroyed the old myth that the company which pays low wages is necessarily the company which succeeds. In many industries, in fact, the company that pays the highest wages is the lowest-cost producer.

I think that most American industries have the resourcefulness and the imagination to meet the challenge of foreign competition if they are required to do so. But in those cases where American industry cannot produce a better product at a competitive price, then I think we harm only ourselves if we deprive the American people of the right to choose the foreign product.

If the market for his product is threatened, an American businessman can generally adapt himself to the situation in one of a number of ways. He can get his costs down and meet the competition; he can expand his other products; he can develop new ones. The whole history of American enterprise is a history of ingenuity and flexibility in adjusting to new circumstances and meeting new situations. The kind of adjustment a business has to make when barriers are reduced is no different from the kind it has to make when the competitor introduces a technological improvement that lowers costs or when he brings out an improved model or a new product.

I was brought up in a West Virginia town in which one of the principal activities was the manufacture of buggy whips. Now that community employs 4 or 5 times as many people. Today they don't make buggy whips, but deep freezers, and they are prospering.

At one time workers smashed up new machines that they feared would put them out of work and employers conspired to suppress new inventions.

But today labor and management take improvements in their stride. Indeed, the development of new ideas is the vital force of the American economy.

I do not believe that American business is a hothouse plant which cannot be exposed to the rigors of an international climate. In my opinion, one of the faults of the trade-agreements program as it was conducted in the past was that it always stopped short of allowing American industry to meet serious foreign competition. American business is a lot tougher than many people seem to think and it doesn't need that kind of featherbedding.

READJUSTMENT ASSISTANCE

Having said all this, however, I do not want to suggest that while tariffs are being reduced there may not be some dislocations in certain limited sectors of industry. And I think that when such dislocations come about as a result of an overriding national policy the Government should take appropriate steps to cushion the transition. To say that such changes may produce dislocations does not mean, however, that the changes should never be made. That would attribute a rigidity to our system which it does not have. The point I am making is that while we must not try to prevent these changes, we must find some form of governmental action to mitigate their effects.

I shall not attempt at this point to spell out a detailed system for dealing with the problems of injury and dislocation. This is a question which I am confident your Commission will consider. It may be that the Committee for a National Trade Policy will wish to submit more detailed views at a later time.

Let me say, however, that our committee is more confident than many people seem to be about the administrative possibilities of dealing with the problem of dislocation resulting from tariff reductions. The administrative techniques that we have developed in this country in the past few decades have enabled our Government to tackle the most difficult economic problems. We have had experience in the determination of damage resulting from complex economic factors, in the retraining and movement of labor, and in the relief of temporary community distress. But whatever program we may devise for meeting the problem of dislocation, there is one point that should be emphasized. Any system of compensation should be of limited duration and it should be undertaken only in relation to a specific plan of readjustment. To those who may oppose any compensation on the ground that it is a subsidy, we say this: It is better to subsidize the readjustment of an enterprise during a limited period of transition and be done with the problem once and for all than to use a tariff to subsidize that enterprise forever because it cannot meet competition.

The Committee for a National Trade Policy wishes finally to make one earnest plea to this Commission. What the present time requires is not the reshuffling of all the shopworn arguments about trade policy, with an attempt to fit them together in some variant pattern. What is needed is a forthright acknowledgment that a policy which may have been appropriate for the United States in 1900 is not necessarily appropriate in 1953. Conditions have changed, the perils that beset us have changed, the world position of our country has changed.

This Commission, as I understand it, was created to take a fresh look at our trade policy—to consider that policy in relation to the realities of today. I know of no greater responsibility than that which this Commission bears. The world awaits your report with eagerness and hope.

I trust, therefore, that the findings and recommendations of this Commission will strike a note of confidence in the American businessman, the American farmer, the American worker. I trust that this Commission's report will be an expression of faith. Ours is a great country because it is an adventurous country. That, I hope, will be your guiding principle and you have our earnest wishes for the success of your endeavors.

PROPOSALS FOR UNITED STATES POLICY ON WORLD TRADE, DECEMBER 1953

1. In order to increase predictability in matters of trade, the President should be authorized to extend existing trade agreements and to negotiate new ones having an assured duration of at least 5 years.

2. The statutory provisions and administrative regulations governing the valuation of imported goods should be revised to allow simpler and more easily computed assessments of duties by customs authorities.

3. The present complicated system of classifying imported goods to determine the applicable duty should be substantially revised and simplified.

4. Discrimination against foreign goods by Government procurement agencies should be reduced by administrative action under existing authority and Congress should consider eliminating preferences by the repeal of Buy American legislation.

5. The reduction of trade restrictions should be based on an assessment of the total national interest, and reductions should not be precluded merely by reason of the single test of cause or threatened serious injury to particular private interests, as existing legislation requires.

6. Where special measures are required in the interest of defense or national security, efforts should be made, wherever possible, to use means other than trade restrictions to protect these interests.

7. In negotiating trade agreements, the President should be authorized to accept as reciprocal concessions from other countries not only the reductions of foreign tariff duties but other economic measures that will promote higher levels of economic activity, international trade, and international investment.

8. Additional authority should be provided for the progressive reduction of trade restrictions, where such reductions are found to be in the national interest. This additional authority would permit further reductions with respect to particular items where such action is found to be to the net national advantage, but would not require a reduction across the board.

9. Assistance should be provided to enterprises, communities, and employees affected by reductions in import restrictions where it is needed to help them adjust to dislocations. Such assistance should be provided so far as possible through or in cooperation with local and State agencies.

The Committee for a National Trade Policy recognizes that separate recommendations concerning trade restrictions applicable to agricultural products need to be developed, and that such recommendations will inevitably involve questions relating to domestic agricultural policy. The committee is continuing to study suggestions for dealing specifically with these problems.

DISCUSSION OF THE PROPOSALS

1. In order to increase predictability in matters of trade, the President should be authorized to extend existing trade agreements and to negotiate new ones having an assured duration of at least 5 years

By the provisions of existing trade agreements, the United States reserves the right to withdraw the tariff concessions after 6 months' notice in some cases and 60 days in most. Furthermore, most past tariff reductions are now subject to the escape-clause provisions of the Reciprocal Trade Agreements Act which require the withdrawal of concessions if imports increase sufficiently to threaten substantial competition. As a result of these provisions, the continuance of reductions in United States trade barriers is unpredictable.

The committee cannot emphasize too strongly the importance of predictability in trade policy. To permit orderly adjustments of production, the domestic producer should know the amount of protection he can expect. Similarly, the foreign producer should be in a position to know the trade barriers he will face in undertaking to enter, or expand, his operations in the American market.

Under present agreements, American producers have sometimes avoided facing the problems of readjustment following tariff reductions; they have tended to rely instead on the possibility of nullifying those reductions through the escape clause, or when the Reciprocal Trade Agreements Act is again before Congress for extension. At the same time, foreign producers have been unable to predict with any certainty the character of the trade restrictions that will be in effect beyond a year or two in the future.

The foreign producer is willing and, in fact, is able to undertake the investment in time and money required to enter the American market only when he has some assurance as to the extent of the barriers which imports will encounter over a period of time. At present, he must approach the market in jeopardy that once he establishes a good position, increasing pressure from American competitors will soon bring about action to raise trade restrictions against him.

2. The statutory provisions and administrative regulations governing the valuation of imported goods should be revised to allow simpler and more easily computed assessments of duties by customs authorities

The so-called first Jenkins bill, which was enacted last spring, has carried into effect many of the reforms of administrative customs procedures which those concerned with foreign trade have urged for years. But it did not deal with the great uncertainties which now exist in valuing imports for the purpose of assessing customs duties. Today, foreign producers and American importers are faced with a valuation procedure which rests on a complicated and ambiguous formula. As a result, thousands of appeals are brought before the customs court, and are not decided for years. The valuation provisions were removed before the bill passed the Congress. They were then reintroduced in the form of the so-called second Jenkins bill, which will be before the Congress in 1954.

3. The present complicated system of classifying imported goods to determine the applicable duty should be substantially revised and simplified

The American tariff schedule is exceedingly complex, with more than 3,000 separately described products or classes of products, many of which are quite similar. Since widely differing rates may be applied to an imported article depending upon the particular class in which it is placed, a tremendous amount of uncertainty with respect to rates—and therefore with respect to the prices at which imported goods can be offered for sale—is bound to survive until the number of classifications is very much reduced and until there is much greater standardization of the rates of duty.

At present, for example, the collector in 1 port of entry may place a particular article under 1 tariff classification or subclassification and assess the applicable rates, while the collector in another port will place the same kind of article in another classification bearing another rate. This causes confusion and interferes with the most economic routing of traffic.

The President could employ the power to negotiate reductions in trade restrictions in a manner that would tend to equalize tariff rates within classifications and thus to eliminate some of the multiplicity of classifications and subclassifications which now complicate tariff administration.

Present procedures also result in some cases in the application of high and seemingly irrelevant rates. For example, under paragraph 1529 of the Tariff Act of 1930, articles consisting in part of lace, braids, fringe, etc., are subject to the 90-percent duty that applies to lace and braid. Tuxedo trousers with a braid stripe and bridge-table covers with braided loops at the corners have been subjected under this provision to a 90-percent rate. Such results could be avoided without subjecting the entire classification structure to review.

The broader problem of the general uncertainty created by the multiplicity and diversity of classifications is one which will require major action by Congress. The simplification of the system should be accomplished by providing the President with authority under principles specified in the legislation. The Congress should not undertake to consider classifications product by product.

4. Discrimination against foreign goods by Government procurement agencies should be reduced by administrative action under existing authority and Congress should consider eliminating preferences by the repeal of buy American legislation

Many Federal laws require Government procurement agencies to give preference in their purchasing to goods produced in the United States. They also impose similar requirements in purchasing by non-Federal agencies which receive funds from the Federal Government. Such discrimination applies also to purchases of materials used by private suppliers in producing goods for the Federal Government. There are also a number of State and municipal measures requiring discrimination against imported goods.

The basic Federal legislation ,the Buy American Act, was passed in March 1933 at the depth of the depression, as an artificial stimulus to employment. Under this act, as amended, goods produced or mined outside of the United States, and even goods manufactured in the United States from materials produced or mined outside of the United States, may be acquired for public use only under specified conditions. Two of these conditions are that the cost of the domestically produced commodity is unreasonable and that the head of the agency concerned determines in a particular case that exercise of the discrimination is inconsistent with the public interest.

Goods produced in the United States from domestic materials are generally regarded as unreasonable in cost only if their price is more than 25 percent higher than the landed duty-paid price of other goods. This criterion of unreasonableness was determined by administrative decision. It can and should be relaxed by administrative decision, as the first step in the gradual elimination of the extra discrimination involved in Federal procurement legislation.

At the same time, heads of Federal agencies procuring goods, in applying the criterion of consistency with the public interest, should be instructed to use a comprehensive definition of the net national interest.

Finally, consideration should be given to the repeal of all provisions of Federal legislation which require Federal procurement agencies, or non-Federal agencies receiving United States funds, to discriminate automatically against foreign goods in their purchasing activities.

5. The reduction of trade restrictions should be based on an assessment of the total national interest, and reductions should not be precluded merely because of the single test of "caused or threatened serious injury" to particular private interests, as existing legislation requires

The test of national interest which the committee proposes would require that before a trade restriction was reduced there be a determination that such reduction would contribute to the net interest of the Nation. In making a determination with respect to national interest, possible injury to the domestic economy as well as all other effects of the reduction would be taken into account. The difference between such a test and the present one would be that injury to a particular interest would not be the controlling factor in making a reduction or in reversing the previous reduction of a restriction.

The committee believes that "caused or threatened serious injury" is an inadequate criterion for determining reductions in trade barriers. As it has been applied, the doctrine has tended to prevent or vitiate trade-barrier reductions which would result in an adequate increase of imports. If the trade-agreements program continues to be administered so as to preclude action which may result in substantially increased imports, it can contribute little to further the expansion of international trade.

Moreover, the committee believes that the concept of threatened serious injury is bound to result in a trade program based on an exaggerated fear of dislocations and on an underestimate of the ability of American producers to deal with such dislocations as might occur.

Little or no dislocation may occur in cases where total demand for the product is growing rapidly or in cases where the product is one for which the market expands substantially when added competition brings about a reduction of price.

In some cases, however, a reduction of trade barriers would probably result in a loss of sales and profits for the American producer. In the opinion of the committee these dislocations would be small in relation to the overall national advantage, even if the liberalization of our trade policy is vigorously pursued. These dislocations would, moreover, be temporary, whereas the national advantage can be permanent.

6. Where special measures are required in the interest of defense or national security, efforts should be made, wherever possible, to use means other than trade restrictions to protect these interests

Domestic industries faced with the possibility of foreign competition as a result of a reduction in trade restrictions have contended with extraordinary regularity that such reductions threaten the national security. Each industry has tended to regard itself as vital to our defense even where its claimed connection with defense was extremely tenuous.

The committee recognizes that certain industries are truly vital to United States defense. It believes, however, that as a general principle the maintenance of trade restrictions is uneconomic and is an undesirable way of protecting our security interests in most of those industries.

The committee recommends that before entering into any trade agreement the President obtain the advice of the National Security Council with respect to the importance to our security of the industries which will be affected by such agreement. To the extent that the maintenance of facilities for the production of defense articles is involved, alternative means of assuring the availability of that production should be explored. It is probable that in the case of most articles in which there is a real security interest, the essential production capacity could be maintained by standby orders and exploration contracts. The committee believes that this technique for maintaining essential production facilities is generally preferable to the maintenance of trade restrictions to protect industries which are otherwise unable to compete with foreign producers.

7. In negotiating trade agreements, the President should be authorized to accept as reciprocal concessions from other countries not only the reduction of foreign tariff duties but other economic measures that will promote higher levels of economic activity, international trade, and international investment

Under existing trade-agreements legislation, representatives of the United States Government have sought in the negotiation of trade agreements to obtain only the reduction of traditional trade barriers imposed by foreign governments on imports of American products. The committee believes that the United States Government should utilize more fully the bargaining power which it may obtain from its authority to reduce barriers. The President should be authorized to request and accept in exchange for the reduction of trade restrictions not only the reduction of foreign tariffs but other economic measures. In other words, he should be permitted to employ the trade-agreement mechanism as a broad instrument of natonal policy.

The precise concessions which the President could accept might include appropriate measures to bring about a favorable climate for United States investments in the foreign country with whom negotiations are conducted. They might include measures in the direction of convertibility of foreign currency or measures in furtherance of European economic integration.

By expanding the President's power to make reductions in United States trade restrictions and by expanding the scope of reciprocal concessions which the President might accept in exchange, the committee hopes that trade-agreements negotiations could be a powerful instrument in bringing about the improvement of the economic climate for international trade. The committee recommends, however, that the most favored nation principle be retained.

8. Additional authority should be provided for the progressive reduction of trade restrictions, where such reductions are found to be in the national interest. This additional authority would permit further reductions with respect to particular items where such action is found to be to the net national advantage, but would not require a reduction across the board

The committee believes that the President should be given additional authority to reduce trade barriers, and that, in exercising his authority, he should be required to examine the products that would be affected before determining that a particular reduction of restrictions would contribute to the net interest of the United States.

Other than the test of national interests in any particular case, this new authority should be subject to only two principal kinds of limitation—a limit on the aggregate amount by which the trade barriers on any product may be reduced, and a limit on the amount of such reduction which may take effect during any one year. The principle of progressive reduction should apply whether the barrier is in the form of a tariff or other trade restriction. It would be premature to recommend at this time precisely what these limits should be. Acceptance of the principle is the first essential.

The committee recommends against putting any time limit on the period during which the President can exercise such new authority. The authority should continue until the Congress takes the initiative to repeal or modify it.

The committee believes that if the reduction in any one year is limited and the total authorized reductions can take place only progressively over a period of years, both domestic and foreign producers would be in a position to make long-range plans, and would benefit from a program which would avoid the necessity of immediately facing the full effect of the total authorized reductions.

In the last few years the practice of bringing the trade-agreements legislation before the Congress for renewal every year or two has not only made the trade policy of the United States unpredictable for American as well as foreign producers, but it has also prevented the orderly reduction of trade restrictions required for the development of a systematic, long-term policy.

Reductions must be phased with a view to minimizing dislocations in particular industries or particular geographical regions. They must also be timed to assure that they provide the President with the maximum of bargaining power in obtaining reciprocal advantages. If, as the leading political and economic power in the world, we are to exercise our power wisely, the President must be able to time his tactical and strategic moves in relation to developments in other areas of policy. For reasons quite unrelated to trade considerations, he may find it advisable to undertake trade-agreement negotiations with country A this year but postpone negotiations with country B until the following year. If the President knows that his power to negotiate will expire at the end of the first or even the second year, he will be unable to exercise a free judgment with respect to timing.

9. *Assistance should be provided to enterprises, communities, and employees affected by reductions in import restrictions where it is needed to help them adjust to dislocations. Such assistance should be provided so far as possible through or in cooperation with local and State agencies*

In contrast to proposals for a straight indemnification against injury, the committee's proposal places emphasis on forms of assistance that will promote a more economic and efficient use of resources and that will permit the avoidance of injury where possible.

The committee believes that the real economic cost to the country involved in any dislocations caused by gradual reduction of trade restrictions will be less than the costs of continuing protection at present levels. It also believes that the costs of any assistance required in adjusting to such dislocations will be more than compensated for by saving in Government expenditures and increased revenues that will result from the favorable effects of a higher level of United States foreign trade.

Trade restrictions are a form of concealed subsidy. Furthermore, they tend to be a permanent subsidy, and in many, if not most cases, trade restrictions serve to protect production that cannot compete because it is inefficient or uneconomic. The committee, therefore, prefers a program of assistance which is temporary in character and limited in cost. Such a program has the advantage of shifting resources to more economic uses and, at the same time, permitting an expansion of international trade.

(a) *Extent of dislocation.*—The extent of the dislocation which would accompany even the total elimination of tariffs has often been exaggerated. It would depend not only upon the timing and amount of the reductions, but also upon the level and direction of economic activity during the period of reduction. While no exact estimate can be made, it is possible to make an outside estimate of the order of magnitude of the gross job displacement. According to the most careful available estimate, the increase in imports that would result from a complete abolition of tariffs and quotas—a course not advocated by the Committee—might be as little as $1.2 billion or as much as 2.6 billion. These figures rest on the assumption that the absence of barriers is assured for only 5 years. If we suppose thatthe domestic sales of products which compete with imports decline by an amount equal to this estimated increase of imports, we will be able to measure the maximum direct adverse effects on employment of trade barrier reductions.

In the year 1952, the gross value added per man in the private employment for the national economy as a whole averaged $5,593.[1] If this average figure of $5,593 is applied to the domestic products affected by increased foreign competition, the $1.2 to $2.6 billion of estimated sales of imported goods are equivalent to the production of between 215,000 and 465,000 workers. This is only between one-third and two-thirds of 1 percent of our total 1952 labor force and it would be spread over the period during which imports rose.

We believe this range of figures not only indicates the maximum direct adverse effects on employment of a total elimination of tariffs and quotas for a temorary period, but can be regarded as a generously estimated maximum for the direct adverse effects of a more permanent but only partial reduction of all import barriers, as proposed by the Committee.

Moreover, the Committee's proposal envisages gradual reductions, not a cut in restrictions across the board or in one step. If trade restrictions were reduced progressively over a 5-year period, the range of the estimate of maximum direct adverse effects on employment amounts, on an annual basis, to between 43,000 and 93,000 workers.

It is necessary to remember that this set of maximum estimates leaves out of account the offsetting favorable effects of a liberalization of trades restrictions and therefore greatly exaggerates the net effects upon employment. These estimates do not take into account any expansion of the total market for the affected product, although increased imports would tend, in the case of many products, to bring lower prices and a larger market. Furthermore, they do not take into account any expansion of employment opportunities that would result from an increase in United States exports as a consequence of increased earnings of dollars by other countries, or from a decrease of taxes consequent upon a reduction of foreign aid programs. These and other indirect consequences of a reduction in United States import restrictions would necessarily limit the net adverse effects on job opportunities to a number much smaller than those indicated as a maximum.

(*b*) *Vitality of the United States economy.*—Those who strongly emphasize the adverse effect on employment which would result from liberalization of our trade policy greatly underestimate the vitality of our economy. The American economy successfully meets every year a much larger problem than is involved in finding jobs for workers who would be adversely affected by increased imports. American business and labor are accustomed to meet dislocations every day because we have a dynamic economy. The American market is constantly shifting in response to changes in consumers taste, the movements of population, the development or employment of new materials, and the exhaustion of raw material sources. American industry time and time again has demonstrated its resourcefulness and ability to adapt to such changes. Each year our production must expand enough to provide employment for the equivalent of at least 1.9 million workers. Of this number, at least 1.2 are workers made available by the annual increase in our productivity while 700,000 are net additions to the labor force. Even the maximum range of annual gross job displacement over 5 years would represent only a 2 to 5 percent addition to the expansion normally required. As we have already indicated, the net adverse effect would be far smaller.

(*c*) *Experience in adjusting to local economic dislocation.*—If an enterprise or industry affected by increased imports is located in a large urban area where there are alternative job opportunities the problem of adjustment should be relatively simple. In such a case, the adjustment of production for even a moderately large enterprise, while difficult for the management and owners, should create no serious problems for the employees or the community. Where, however, the enterprise is the dominant factor in the economy of a small community, a substantial readjustment of production may create a problem for the employees and community as well as for the management and owners.

[1] According to figures in the Survey of Current Business for July 1953, private employment in 1952 was 56.7 million and gross value added in private employment was $317.1 billion, which averages out to $5,593 per man in private employment.

We have had valuable experience in this country in dealing with the problems of dislocation resulting from shifts of population and production. Forty-one of our States have established economic devolopment commissions or similar bodies which are equipped to assist in easing the adverse effect of economic dislocation. The activities of the Michigan Economic Development Commission in the case of Iron Mountain provide a good example of this type of action.

Iron Mountain is a community of 10,000 located in the upper peninsula of Michigan. It was originally established in the latter part of the 19th century as a mining town in connection with the exploitation of iron ore deposits. In the first 40 years of the community's existence the principal economic activities were mining and logging. As the ore deposits were depleted and the mines were gradually shut down, the community found itself almost wholly dependent upon a Ford Motor Co. plant, which employed at one time as many as 7,500 workers to manufacture wooden automobile bodies. Beginning in the latter '40's, however, there was a change in the preferences of the public. Metal came more and more to supplant wood in station wagon construction. Employment began to decline, and in 1951 the plant was closed. The 1,200 men employed at that time were thrown out of work, leaving the community in a critical economic position.

In the past 2 years the combined efforts of the State development commission and local business men have brought the community three new industries. Within the next year, local payrolls of these three industries are expected substantially to exceed the single major payroll on which the community was long dependent. The community will, in fact, be stronger because it will have a more diversified economy. This adjustment was made without help from the Federal Government.

The case of Iron Mountain has been described to indicate the extent to which problems of dislocation can be handled by State and local authorities without the need for intervention by the Federal Government or for Federal financial assistance. The Committee recognizes, however, that in some cases Federal intervention and assistance may be necessary. When necessary it should be provided, and a Federal agency should be designated to administer the program, through or in cooperation with public and private State or local agencies.

(*d*) *Suggested program for adjustment assistance.*—(1) Assistance to enterprises: There is much to be gained by being generous in providing assistance which would increase economic mobility and bring about a more economic use of resources, whether of managerial ability, materials or manpower. The initiative for proposing specific plans of adjustment, however, should be left to enterprises which consider that they will be adversely affected by specific reductions of trade restrictions.

Any enterprise should be permitted to submit an adjustment plan and be eligible for assistance if it receives a substantial portion—perhaps 20 percent—of its gross reecipts from products that compete directly with goods on which import restrictions are to be reduced. The enterprise should be permitted to propose a plan as soon as the reduction of applicable trade restrictions has been announced; it should not be required to wait until it has incurred actual injury. On the other hand, it should not be eligible for assistance unless its own plan is submitted within 2 years after the effective date of the reduction in the applicable trade restriction and unless the plan can be carried out within 3 years from the time of approval.

A plan might provide for the modernization of plant and production facilities in order to reduce costs, for the movement of production to more favorable producing areas, for the development and production of new or modified products, or for a combination of these and other solutions.

When assistance, whether financial or other, is not available from other sources, it should be made available to permit the enterprise to carry out a feasible plan of adjustment. This assistance might take several forms. The Federal Government might make loans to enterprises, directly or through local agencies, for a part of the cost, at low rates of interest and for a sufficiently long term to permit easy amortization. Accelerated depreciation might be provided under the Federal tax laws similar to that provided for the construction of defense facilities. Procedures now exist for channeling defense orders into areas where unemployment is present, and might be adapted to plants undergoing adjustment.

To be eligible for assistance, an enterprise should submit a concrete plan which is found to be feasible by the designated Federal agency, and such plan should have the approval of the state development commission, or comparable agency, of the State in which the enterprise is located or the State to which it proposes to move.

In addition to assistance which may be provided pursuant to a plan of adjustment, the Committee recommends that, by amendment of the tax laws, more generous "carryback" provisions be made applicable to enterprises affected by a reduction of trade restrictions. It is proposed that an enterprise which produces items competing with those on which a trade restriction is reduced be permitted for a period of 5 years after the effective date of such restriction. to "carry back" operating or liquidating losses for a period of 5 years prior to the year in which the loss was suffered, provided that the enterprise demonstrates that the losses are a result of increased imports of competing products.

(2) Assistance to employees: As a condition of approval, a plan of adjustment for an enterprise should contain reasonable provisions for protecting the interests of its employees. To the extent possible, the applicant enterprise should undertake as a part of the plan to provide for retraining of workers to adapt them to any new types of production that may be contemplated. Where the plan proposes a diminution in the number of employees, the enterprise should give workers an adequate period of notice so as to permit them to find new employment.

The Federal Government should assist those employees for whom continued employment is not provided under a plan of adjustment. This assistance could take a variety of forms. The Federal Government could finance retraining, preferably through State or local agencies. It might extend the applicable period of unemployment insurance benefits for such workers up to perhaps 90 days beyond the normal period. In the case of older workers, the date of eligibility for old-age and survivors insurance could be accelerated. Where affected employees cannot find jobs locally, the Federal Government could lend them money, at low rates of interest, to facilitate movement to other localities. If employees of an enterprise are not adequately provided for under a plan of adjustment, they should be eligible for assistance if they have been engaged for a reasonable period—perhaps 1 year—in employment which has been adversely affected by the reduction of import restrictions.

(3) Assistance to communities: Where an affected enterprise or industry is the principal economic support of a community, assistance should be provided for the protection of that community, where local and State facilities are inadequate. To the extent that the needed assistance is financial in character, it should be provided through State and local agencies on the basis of matching funds. The Federal Government might also facilitate the work of State economic development commissions by establishing a central clearinghouse to provide information regarding the industrial advantages offered by various distressed communities, and to provide State and local agencies with information as to the success of various techniques for achieving diversification.

Mention should also be made of the development credit corporations which have been created in the New England States. The banks and insurance companies in those areas have furnished capital, more or less in proportion to their own capital and surplus, to these credit corporations, which in turn can then make loans available for warranted development risks beyond the amounts the individual participants could advance. The existence of institutions of this sort makes it possible to visualize utilizing them as instruments to increase diversification of employment opportunities even before trade restrictions have been reduced.

Careful study needs to be given to the adequacy of credit resources available for the development of new industries, to directing publicly financed projects toward these communities when other conditions are suitable, and to such interim measures as the channeling of defense orders and Federal procurement.

(4) Financing the assistance program: It is impossible to estimate with precision the long run financial cost or the immediate cash outlays that would be required to carry out the program of assistance herein proposed. The long run cost would be less than the cash outlays, of course, because a large part of the assistance would take the form of repayable loans. Both would depend in part on the extent and phasing of trade liberalization actions and the general state of business activity.

The committee does not exclude the possible need for appropriations to finance assistance, but it believes that such a program could be financed partially, and perhaps entirely, from additional Government revenues directly related to the reduction of trade restrictions. These will also be savings in Government expenditures as a result of the relaxation or repeal of "Buy American" preferences, from reductions in foreign aid made possible by increased imports, and from reductions in farm price-support operations made possible by increased exports of agricultural products.

Customs revenues can be expected to increase for a number of reasons. Where nontariff restrictions, such as quotas and "Buy American" preferences, are reduced and tariff rates remain unchanged, customs revenues must rise. Customs revenues will rise also in cases where tariff duties are reduced, but the market for the imported product increases to a greater degree. Other factors will also enhance the possibility of greater revenues; for example, the growth of dutiable imports that tends to accompany the normal growth of the economy.

Where the reduction of a trade restriction does not increase imports sufficiently to produce additional revenue, it is unlikely that much adjustment assistance would be necessary.

CONCLUSION

The Committee for a National Trade Policy believes that the concrete program it has outlined would contribute materially to the objective of expanding international trade and demonstrating the responsibility of the United States as the leader of the free world coalition. The only appropriate test of a new trade policy is the test of our total national interest.

SUPPLEMENTARY STATEMENTS OF POLICY, DECEMBER 1954

1. General agreement on tariffs and trade

GATT has been the instrument through which the United States has sought to put into effect the reciprocal trade agreements program in the postwar period. There are many advantages that can accrue to the United States from continued participation in a stronger and more effective GATT.

(*a*) The multilateral negotiation of the reciprocal tarff concessions in GATT makes certain that for every concession we grant on a particular commodity to a given country, we get reciprocal concessions from all our other trading partners as well. This expands the markets for American exports.

(*b*) Universal agreement on the part of the member countries to the principles of GATT gives continuity and stability to the commercial policies of individual countries and promotes the increased flow of mutually beneficially international trade.

(*c*) By providing the machinery for consultation and review of tariff problems, the chance is reduced that a country will take unexpected and hasty action in raising a trade barrier.

The general agreement has two aspects: the tariff schedules and the articles of agreement which embody the general principles of international trade to which the contracting parties are committed. Since the GATT is still a provisional instrument, an organizational protocol will be renegotiated at the ninth session of GATT which will provide for a permanent organizational structure. This protocol should be approved by the Congress to eliminate any doubts that now surround United States participation in GATT. In the main, subscription by the United States to the articles of agreement of GATT requires no such ratification but where a conflict with domestic legislation exists, the pertinent article of GATT should be renegotiated. It is important that Japan's accession to GATT be completed through the medium of a multilateral trade agreement to which Japan is a party.

2. East-West trade

While it may not be desirable to restrict trade in nonstrategic goods between the East and West, we must recognize that it is part of Soviet strategy to encourage increased dependence on the part of the free world on Soviet markets and sources of supply. The need for increased economic cohesiveness among the nations of the free world presents a fundamental challenge to American trade policy. The only good way to assure such unity is by increasing the flow of mutually beneficial trade between the countries of the free world.

3. Agricultural import restrictions

American agriculture enjoys an overwhelming net stake in exports. Our domestic price support schemes for certain agricultural staples require the restriction of imports, not to protect the American farmer against competition but rather to protect the United States Treasury and the taxpayer. The imposition of excessive import quotas, however, may invite retaliation from those countries that are the principal markets for American farm exports. Import quotas on agricultural products should be imposed only to the extent that they are needed to restrict the inflow of excessive imports, that is, imports that are being attracted to domestic markets because of the operation of domestic price-support schemes for agriculural commodities. Quotas should be reviewed periodically and modified when necessary or desirable in the light of changed conditions.

4. Antidumping Act.

The administration of the Antidumping Act should serve to protect American producers against serious injury from dumping practices and should not act as a deterrent against legitimate imports. The act should be revised to provide for a simpler method of determining the fair value of an import and consideration should be given to defining a statutory deadline for the time consumed in such determination. Consideration should also be given to revising the statute to permit the continuance of imports pending an investigation of suspected dumping. The criteria for serious injury should be clarified and findings of such injury by the Tariff Commission should be subject to Presidential review.

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Mrs. James Wyker, president, United Church Women, Columbia, Mo.

The CHAIRMAN. Bills have also been introduced by Senators Humphrey and Kennedy.

Mr. TAFT. I would only say as to those bills, the ones last year proposed to increase the absolute amount of unemployment compensation. This seems to me a mistake, because then you have people drawing different rates of unemployment compensation. We prefer a simple extension of the period of compensation so that retraining over a longer period will take place. This seems a sounder approach, to me.

The CHAIRMAN. You would suggest an additional 13 weeks?

Mr. TAFT. We suggested about 90 days.

The CHAIRMAN. It is about the same.

Mr. TAFT. Yes.

Mr. STRACKBEIN. Mr. Chairman, there seems to be an assumption that everybody is in favor of such a program.

Mr. TAFT. No, 16 out of 17 members of the Randall Commisison refused to go along with it, to our disappointment.

Senator FLANDERS. I am faced with the problem of determining how I shall vote on the trade legislation which shall be presented to us, and I can tell you where I am at the present time.

The CHAIRMAN. Well, it isn't necessary, unless you wish to bare your soul.

Senator FLANDERS. No. I am perfectly willing to bare my soul and also my burden of responsibility. At the present time I am concerned about the end of this series of terms which is leading toward free trade on the free trade doctrine basis which, I believe, is the basis of it all, and which stems from Mr. Hull.

The CHAIRMAN. Mr. Flanders, I respect and revere you. We love you. We have great affection for you.

Senator FLANDERS. I accept part of that.

The CHAIRMAN. But I would say you are suffering from a complex developed in youth hearing too many protectionist speakers.

Mr. TAFT. May I say, Mr. Chairman, that Senator Flanders testified for me when I was putting on the State Department case 10 years ago.

Senator FLANDERS. My conversion to these reactionary doctrines, if such they be, are recent, because I started my economic reading with John Stewart Mill. I did not start with Adam Smith, unfortunately. I only started with John Stewart Mill, and went through 2 or 3 other perfectly respectable writers and joined up with Charley Taft. I am not quite so sure as I was. I do want to see where we are going and what Dr. Viner had to say about the division of the world's activity between the United States and Japan, or if we wish to say the United States, Japan, and China, supposing China is ever admitted into the fellowship of nations, it seems to me is something that must give us, lead us to some thought, because the best that I have been able to see as the end toward which we are moving is that this country will retain certain extractive industries, retain its agriculture, and also mass production, and that most everything else will go to the low labor-cost countries.

Now I may be right or wrong, but sincerely, that is the only picture that I can see, and a possible alternative, I have also brought up, seems to me to lie not so much in the tariff policy area as in the area of these various agreement areas, such as Western Europe, on its own behalf, eastern and southern Asia, on its own behalf, and our own country, on its own behalf.

Now that does not mean that there would be no commerce between these 3 separate groups, but the commerce between these 3 separate groups could most evidently be to the advantage of all. It would not be a case of either exploiting the other in any way, and so my advice to statesmanship, which I am assuming at this point lies outside the Halls of the Senate and the House, is that every effort be made to develop these three areas which are practically free of any trade restraint.

That, sir, is my statement of the position in which I find myself as of 4:27 p. m.—I do not know what the date is.

Mr. CLEVELAND. Speaking from several years of experience in trying to persuade the Europeans to set up the kind of economic union you are talking about, could I just say this: The thing that was continually thrown in our teeth was United States trade policy. If, in trying to follow the very excellent line you are suggesting on the establishment of a customs union and economic integration in Europe, it were possible for United States representatives to bargain with some real liberalization of United States trade policy, it would be a whole lot easier. The answer is not more protection and more unification of Europe. The practical situation is, I think, that we won't get the more unification of Europe unless we have a more liberal trade policy.

Senator FLANDERS. In other words, they are not willing to move to their own advantage in their own territory and we have to subsidize them in some way to persuade them to move for their own good; is that what you are saying?

Mr. CLEVELAND. They have the same difficulties seeing what their own advantage is as we do on our trade policies.

Senator FLANDERS. Of course, the question is whether we see real or imagined difficulties. I think the difficulties are real for reasons which I have given, and I see no reason why those abroad cannot take a leaf out of the American book, which is to have a large domestic trade area without tariffs.

Mr. CLEVELAND. But they do not think we believe in competition.

Senator FLANDERS. Well, let them come over here and see how Senator Sparkman's area competed with New England for the textile industry. If they do not believe we have competition, they do not know anything.

Mr. STRACKBEIN. Mr. Chairman, I would like to address myself briefly to one of the observations that has been made here this afternoon and which comes up time and again in any discussion of this kind, and that is to the effect that the consumer pays the tariff. Now, generalizations of that kind can be made in an area where there is no proof and they can be repeated time without end because nobody can prove it one way or the other.

That is just like the question of whether the income tax is paid by the consumer or not. The situation may be that in a seller's market when we have a shortage economy that the consumer pays the tariff; that is to say, inasmuch as the demand is greater than the supply, the imports, even though imports can be brought in at lower prices, do not reduce the price.

We have had much evidence of that in the postwar years. While imports were entering at lower prices as shown by the invoices, they nonetheless reached the consumers at the same price level as domestic products. That was in a seller's market. So at exactly the time when imports coming in at lower prices would be very welcome in their function of reducing prices, they do not have that effect.

Now the time that they do have that effect is in a buyer's or a surplus market, that is precisely the time when the domestic producers are least able to stand the competition and when it leads to deflationary pressure.

Mr. TAFT. Mr. Chairman, I would like to come back to Senator Flanders' point. It seems to me, I may be wrong, that his thinking is based primarily on the distinction drawn between the so-called big mass production industry and smaller industry which is assumed to have a higher proportion of labor costs in its production.

I am convinced this is not an accurate description of American industry. I think, for instance, of a small plant that I saw in a northwestern Ohio county seat that did not have a population over three or four thousand. This plant belonged to the Sylvania Co., which is also in Salem, Mass. This was a factory in which they make television tubes. I saw a room which I suppose is about the width of this hearing room, with a series of tables across it, and a rather large group, I would say probably 75 or 100 women working.

It was a production line. The items that go in the heart of the tube started with some raw materials at the end of the table at one end and it went across that table and around across the next table, and all the way down to the other end and came out with the piece with a large degree of handwork, but a very carefully worked-out in-line production.

Now you can call it mass production if you want, but it is something very different from a perfectly huge mile-long plant that starts with some steel and ends up with an automobile.

Senator FLANDERS. May I interrupt here. I use the term mass production because that is something that everybody hears and, the term is familiar. I have never been satisfied with it. The real term, as a manufacture I will say is continuous production.

Mr. TAFT. In-line production.

Senator FLANDERS. Continuous production which, instead of making a batch of this and a batch of this and a batch of this, you are working all of the time at the same spot on a product which flows through. Continuous production is the term for economists to talk about, and not mass production.

Mr. TAFT. And I also saw another example in another Ohio county seat in a firm which is the best-known firm in making heavy-duty cabin cruisers. I do not mean the flossy ones you see in the advertisements. I mean the kind that a fellow would buy who wants to get a cabin cruiser that he knows will go to England if it has to. That was in Port Clinton, in a plant not more than twice the size of this room, and yet they had these great, big cabin cruisers moving around at stages.

They weren't continuously moving but they moved around in stages for different operations to be put on them. That is a small concern by any definition, by volume, by dollar production, or whatever you want.

It is a small concern, but it uses these American ideas. Now I emphasize that because I want to offer for the record here the first part—it is only preliminary—it is the only one out yet—of a study being made by Fred Harbison and Eugene W. Burgess, at the University of Chicago Industrial Relations Center of Management Practices in Western Europe. I will just give you a summary of it and, then perhaps this might be introduced in the record.

The study showed the number of persons in management is small, about half that in the United States, on the average. Decision-making is highly centralized. The burden of routine duties by individuals is extremely heavy. European companies have few, if any, people in market research, advertising, sales promotion, production engineering, training, labor relations, and research in general.

They have a shortage of qualified personnel. The top man intentionally makes him indispensable and he does not delegate authority. The company often, in France and Italy, at least, is in the family. So you get nepotism. There is no future for those at the bottom. You can go to foreman and no further. The educational system abroad produces imagination engineers but not practical production men and it does not produce many compared to the United States.

If we talk about a shortage, then what we have is a flood compared to what they have got. What our better management produces is better planning, constant improvement in product, and better personnel, better morale and labor relations and, therefore, continued higher productivity on the same machines and with 40 hours against 50 hours.

That element, I think, is the only possible explanation of why we can export $12 billion in competition with anybody.

(The pamphlet referred to is as follows:)

[Reprinted for private circulation from the Journal of Sociology, vol. LX, No. 1, July 1954]

The University of Chicago Industrial Relations Center

MODERN MANAGEMENT IN WESTERN EUROPE, No. 48

(F. H. Harbison and Eugene W. Burgess)

ABSTRACT

American management of business enterprise is compared with that in France, Belgium, and Italy. By comparison, business management in Europe is undermanned, and decision-making highly centralized. Access to the managerial class is rigorously restricted by family or by education. European businessmen strive to control rather than to build organization. Their class consciousness largely explains the class consciousness of workers. Management's concern for security forces other classes to safeguard their own, making business enterprise static. But certain businesses are now becoming more dynamic.

It is generally agreed that the private-enterprise system as it exists today in the United States is more "dynamic" than the capitalism which prevails in many countries of western Europe. The contrast is both strikingly illustrated and partially explained when one compares the nature of entrepreneurship on the two continents. For it is entrepreneurship or, more precisely, business management, public or private, which initiates ventures, employs workers, organizes and directs production, develops markets, and thus contributes to the building of a nation's economy.[1] Indeed, in looking closely at management we find very important clues for understanding some of the basic social, political, and economic problems of modern Europe. The nature and status of managerial systems aid in explaining the political orientation of labor organizations, the persistence of cartels and other restrictive institutions, the lower productivity of European enterprise in comparison with its Amercan counterpart, and the current tenuous postion of capitalism in many European countries.

In this article we compare the American type of management with our conception of typical management in France, Belgium, and Italy, justifying impressionistic analysis based upon visits to both American and European firms as a temporary substitute, in the absence of objective empirical studies of entrepreneurship on the two continents. In so doing, we are aware of the dangers of constructing stereotypes of business management which may obscure significant differences not only between countries but also within them. Yet stereotypes not only serve to distinguish the differences both between and within countries but also give a reference point for measuring significant changes in progress.[2] Thus stereotypes are used here as a starting point for further research rather than as a faithful characterization of any enterprise system.

MANAGEMENT ON TWO CONTINENTS—A COMPARISON

The "typical" American management and its counterpart in France, Italy, and Belgium can best be compared by reference to the organizational development of the enterprise, the means of access to managerial positions, and the goals of management. This comparison is made in terms of the American system of values, which should explain what might to some seem biased statements.

In the European firm the number of persons in management is relatively small, decision-making is highly centralized, and the burden of routine administrative duties borne by individual executives is extremely heavy. The managerial force in the European firm is probably less than half that in an

[1] We use the term "management" in the same sense in which many other writers use the term "enterpreneurship." Following James H. Strauss, the firm rather than the individual is regarded as the entrepreneur, the firm being the innovator, the supplier of capital, and the manager and coordinator of activities through the medium of the individuals who have decision-making responsibilities. (See James H. Strauss, The Entrepreneur: The Firm, Journal of Political Economy, LII (1944), 120.)

[2] The impressions set forth in this article are based upon many years of acquaintance with American business concerns and three trips by each author to western Europe. During 9 weeks in France, Belgium, Holland, Luxembourg, Germany, and Italy, we made a pilot study of managerial problems and management development. This study, undertaken by the University of Chicago's Industrial Relations Center under a grant from the Ford Foundation, involved interviews with approximately 85 persons in or serving business concerns, mostly in the ranks of top management in European enterprises. This project is part of a program of research on the utilization of human resources in selected countries, both developed and underdeveloped, throughout the world, by a team of specialists from Harvard, Massachusetts Institute of Technology, the University of California (Berkeley), and the University of Chicago.

American firm of comparable size and technology. Whereas the American firm generally has large numbers of people engaged in activities such as market research, advertising, sales promotion, production engineering, training, industrial relations, and research, the comparable European firm customarily has only skeleton forces in most of these areas and often no specialized personnel in the others. Staff services to the line organization are rare, and even the key executives appear to have few assistants. The European executive must work harder than his American counterpart because he must personally supervise a great many of the functions of the enterprise.

For this undermanning in management there are perhaps several explanations. Many functions, such as sales and industrial relations, are performed for the firm by sales organizations, cartels, or trade associations. Others do not appear sufficiently important to the European businessman to require specialized managerial talent. Also, there is a shortage of capable people who can be "trusted" to fill managerial positions. Finally, some top managers in Europe take obvious pride in their ability to run a business "economically" with a small managerial force.

By American standards, the organizational structure of even the largest and most progressive European enterprises is haphazard. Organizational charts are rare, and where they exist, they are often kept secret. Jobs in the managerial hierarchy are seldom defined, described, or alined. The organization tends to be built around personalities, among whom the division of responsibility is not clear. As one managing director said, "the goal of most of our executives is to make themselves as indispensable as possible."

This organizational structure, which appears so nebulous to an American, is attributable in some cases to family ownership and management. In France and Italy, for example, it is often impossible to distinguish between the objectives of the family and the objectives of the firm. As David Landes points out in a penetrating study of French business enterprise, the business is not an end in itself, nor is its purpose to be found in any such independent ideal as production or service. It exists by and for the family, and the honor, the reputation and wealth of the one are the honor, wealth, and reputation of the other.[8]

Under these circumstances, managerial organization is of necessity geared as much to personalities as to functions.

Many European enterprises are, of course, directed by professional managers rather than by family dynasties. In some cases there is a dual authority shared by a technical managing director and an economic managing director, each reporting on an equal and independent basis to a board of directors. Yet, whether the firm is run by members of the family or by a professional group, the managing directors of the typical European enterprise hold the reins in a tight grasp. Whereas the chief executive of a large American corporation is supposed to devote his major energies to building an organization and integrating the many functions of the enterprise, his European counterpart is more likely himself to be the boss of most of his departments. The European executive finds it difficult to delegate responsibility to subordinates. In the first place, he does not have enough people to whom he can delegate authority. Second, he feels that he cannot trust many of the subordinates he has. In France, Italy, and Belgium managing directors repeatedly explained: "We have no confidence in our subordinates"; "The people in lower management won't assume responsibility; they aren't well enough trained; they lack experience; they're too young; and some of them are even members of leftwing unions." The head of a multiplant manufacturing company would not even permit his factory managers to hire their personal secretaries until after he had himself passed upon their qualifications and potential loyalty to the organization.

Undermanning and overcentralization management naturally discourage the growth and expansion of the enterprise. "Why should I try to expand my market," said one harassed owner of a business, "when I have to spend 14 hours a day controlling the business I have now." Obviously opportunities for younger executives are limited, incentives to assume responsibility are stifled, and taking initiative is not attractive. While the typical business organizaton may be well designed to preserve the status quo, it is peculiarly ill-adapted to dynamic growth.

[8] Business and the Businessman in France, in E. M. Earle (ed.), Modern France (Princeton, N. J.: Princeton University Press, 1951).

Access to managerial positions is rigidly restricted. In the United States many people, including workers and union leaders, aspire to enter management, whereas in Europe only a select few ever have access to it. It is commonly understood in Europe that people get into management by virtue of being sons or heirs of existing owners, by marrying into the families of the owners dynasties, by using the leverage of a financial interest, or by acquiring a degree from a university or technical institution of higher learning. While this also happens in the United States, it is not so common a course as it is abroad. The European does not expect to work his way up into management from the ranks of the worker.

An aggressive and competent worker may become a foreman, but in Europe foremen are not members of management. Indeed, the European foreman is more comparable to the lead man or strawboss in America, a member of the working class and identified as such. He generally belongs to unions and is often active in protest movements ideologically hostile to the managerial class. Foremanship is not an avenue to upper management, as it so frequently is in the United States. It is rather the highest status to which a worker—without education or family connections—may hope to rise.

But an even more fundamental contrast lies in the educational prerequisites for entry into the managerial class. In the United States, a qualified person can get into management without a degree, in Europe this is much more difficult. Yet in America about five times as many people (proportionate to population) go to colleges and universities and get degrees than is the case in most European countries. Also, in the United States a very substantial proportion of persons in institutions of higher learning come from families with relatively little educational background, whereas the students in comparable institutions in Europe come predominantly from families already in the educated class. Thus in Europe business recruits its managerial personnel almost exclusively from the educated, whose numbers are already quite limited; in the United States business recruits its managers from the uneducated as well as from the educated even though the latter are proportionately much more numerous.

Thus the managerial group in France, Belgium, and Italy is a small and distinct elite. Since entry into the elite is restricted, management is decidedly class-conscious. Once admitted to the management class, either by education or through family connections, a person customarily acquires permanent tenure in the hierarchy. Moreover, once a member of management in a particular company, a man is likely to remain there throughout his entire career. It is unethical for one company to raid and woo executive personnel from another. A person who leaves the company where he has tenure as a member of management to accept a position in another firm may be branded as a disloyal and unscrupulous opportunist. For this reason vacancies are not likely to occur frequently, and members of management jealously safeguard their positions. The lack of horizontal mobility within the managerial class results in an inbreeding within business enterprises which hampers the spread of new ideas and new technology from firm to firm.

Finally, from a qualitative standpoint, the system of higher education through which one must pass to gain access to management is not well adapted to developing the kind of leaders which a more dynamic system would require. In the first place, in countries such as France and Italy the curriculums turn young people to careers in government, the armed forces, the professions, or the arts (which are looked upon as higher-status fields than business management) rather than in management leadership. In the second place, theory rather than applied practice is given predominant emphasis in university training, even of engineers. For example, in the engineering universities, there is great emphasis on higher mathematics and engineering design and relatively little on industrial engineering or on the application of engineering principles to factory operations. Courses in such subjects as management organization and administration, marketing, human relations, economics, and labor problems are rarely included. Without question, the typical graduate from the École Polytechnique in France is a brilliant and hard-working fellow who has successfully survived a system of competition which gets more and more rigorous as he advances through his training. He often turns out to be an imaginative engineer. Yet, by the same token, he may be a complete misfit in a job calling for sophistication in organization and management.

It follows that there is a wide gulf between the theoretical training provided by the universities and technological institutes and the practical world of business management. The educational institutions concentrate on the training of technicians, but they make no attempt to develop administrators or to teach skill in managing people, reflecting the European notion that management is a craft which must be handed down from one generation to another and which can be learned only by long years of apprenticeship in the enterprise. Yet the young technical graduate of high intellect and good character will consider it beneath his dignity to leave the office and get his hands dirty in the shop. His university degree is his membership card in the managerial elite, setting him apart from the working classes which he may be called upon to govern. With this status and this attitude, he is not likely to develop either interest or skill in administration.

The typical American businessman and his counterpart in France, Italy, and Belgium have different values and strive for different goals. In the United States, the businessman feels a compulsion to build an organization, to expand production and sales, and to make even more profits, while the European is more concerned with holding on to the organization he has, with retaining his share of the existing market, and with insuring financial and institutional security.

Management on both continents is interested in greater productivity. However, American management usually thinks of greater productivity as increased output and consequent lower unit cost, whereas European management normally struggles to reduce unit cost while rigidly limiting output. The latter emphasizes such things as savings in materials, elimination of waste, and improvement of quality, whereas comparable American plants would aim at increasing production. This is a logical consequence of the European businessman's assumption that the total size and composition of the market are unchangeable. The same assumption explains in part why the European manufacturer favors high unit profits on a small volume to large volume with small unit returns.

Another goal of European management, apparently, is to keep free of debt and to avoid reliance on outside credit. In countries where the interest rate is 2 to 3 times that in the United States and where bankruptcy is looked upon as a catastrophe rather than a convenient means of reorganization, this is understandable. Yet this concern makes the European businessman a caretaker rather than a risk taker. As Landes observes, the French family firm is "as solid as the rock precisely because it is almost drowned in its own liquidity."[4] In Europe the concern of the entrepreneur is to survive a recession rather than to seek opportunities which involve risks as well as chances for gain.

In Italy, France, and Belgium, the successful management of an enterprise is not an end in itself. The European businessman may strive for and even enjoy leisure. His interests are apt to be broader than those of our modern tycoons. The captains of industry in Europe are certainly as brilliant as, and if anything, more broadly cultured than the American, and if they are relatively poor organization builders, it is because they lack the American compulsion to organize.

The security-conscious attitude of European management is a consequence not merely of cultural milieu, but rather of the chaotic economic environment. In the last two decades Europe has been ravaged by wars; factories and even entire industries have been demolished, fortunes have disappeared, and whole populations uprooted. Successive waves of inflation have destroyed capital investments, and unstable currencies, coupled with fluctuating foreign-exchange rates, are problems which the European businessman must face almost every day. The typical American businessman, if thrust into this sort of economic environment, might also soon lose his opportunity-mindedness and learn to play safe, and he should be cautious in criticizing European management for its lack of aggressiveness, its tendency to look back to "the old days," and its openly expressed lack of confidence in the future. However, even if currencies were stabilized, if trade barriers were eliminated, and if the ideal of the common European market were realized, the typical management in France, Italy, and Belgium would probably continue to value security because of the differences in mobility and in institutional organization described above.

MANAGEMENT AND LABOR

In Europe the social distance between management personnel and workers is much greater than it is in the United States as, to repeat, are the differences in education and income. Consequently, development of understanding between workers and management, which is a problem even in America, is far more diffi-

[4] Op. cit., p. 339.

cult in France, Italy, and Belgium. Management-labor communication tends to be from the top down and to be dictatorial. This does not make it easy for management to enlist loyalty and interest on the part of workers in the enterprise, nor does it lead to participation among workers in lowering costs and in improving efficiency. Workers in European plants seldom "talk back" to their bosses. Upward communication is neither expected nor encouraged.

The more enlightened employees in Italy, France, and Belgium have a sense of responsibility toward their workers and express it in such things as company housing, day nurseries, medical services, clubs, and recreational programs, and other services. Such employers, particularly those in small cities and towns, also recognize the necessity of providing steady employment for workers and their families. Indeed, they may be willing to sustain considerable financial loss to keep their people employed, knowing that displaced workers may be dependent ultimately upon their charity. The socially conscious employer is a benevolent industrial lord who takes care of the people in his domain partly because of humanitarian motives and partly because of fear of uprising by the masses. At the other extreme are the owners and employers who recognize no responsibility to workers, to the community, or to society as a whole, who live according to a doctrine of "sauve qui peut." They look upon labor as an economic commodity, while they live in constant fear of political agitation for basic changes in ownership and management.

In these countries, the paternalistic employer appears to develop in the working forces a feeling of gratitude and dependence mingled with resentment. Socially irresponsible management creates active opposition and outright hatred. The result is an almost universal distrust of management by the working classes. The overt respect which the individual worker shows his boss in the factory in no way conceals his resentment of the authority of the employer over his life and his underlying lack of respect for the capitalistic system. It is with good reason, then, that many European businessmen are so fearful of their workers that they shudder at the thought of building any kind of genuine two-way communication with them.

Certainly we would not argue that management provides the sole explanation for the class-conscious and often revolutionary orientation of European labor movements. The laboring masses may join unions for many reasons, including protest against the government, a landed aristocracy, or simply the status quo. Yet the only logical response to the typical kind of management which exists in Europe is class-conscious unionism. In France and Italy the effective labor movements have been at various times and under various conditions reformist, syndicalist, and revolutionary. Today they happen to be Communist-dominated. The Socialist and Catholic unions in Belgium, though currently more right-wing than those in the other two countries, are certainly not supporters of the existing capitalistic order. But, if the ranks of management are closed to members of the working classes and if business enterprise in collusion with government builds systems of protection to safeguard its vested interests, what could be more logical than for labor organizations to oppose the employer class politically? The character of protest movements in all societies is largely determined by the orientation, status, objectives, and practices of the elite toward which the protest is directed. If this proposition is so, then the orientation, status, and tactics of management in Europe help to explain why most labor organizations in Europe are political enemies of the employer class, whereas unions in America are for practical purposes committed to working within the framework of a private-enterprise system.

The preoccupation of management in Europe with security rather than with growth and expansion explains the dependence on cartels to share markets and on informal understandings to control competition. It accounts for the reliance of European industrialists on trade associations to come to terms with their labor unions. It explains, in part, the pressure from business for tariffs and import quotas for protection from foreign competition. In Belgium, France, and Italy management typically stands for planned protection of enterprise. Now, obviously, many American businessmen stand for some of these things. They have advocated protective tariffs, bargained with unions on an industrywide basis, entered into collusive agreements with competitors, and sought all kinds of favors from government. However, they depend on such measures much less than the Europeans, and the proportion of rugged individualists who advocate and actually succeed in upsetting such arrangements is far greater. In America the prevailing opinion among businessmen is against most of these restrictions, whereas in Europe it is one of uncritical conformity to, if not open defense of, them.

Management, of course, is not the only class that wants protection. The laboring classes are, if anything, even more anxious for guaranties of security. In the three European countries, the social-security systems are far more comprehensive and considerably more costly than those in the United States: their cost ranges from 30 to 40 percent of pay rolls, or about 6 to 7 times that of ours. Also, the right of employers to discharge or to lay off workers is much more closely circumscribed by unions and by legislation than in the United States. So labor in Europe is less mobile, both because of restrictions and because of customs, than in this country.

The employers logically point out that these protective measures for workers result in high labor costs and unwarranted rigidity in the labor force, and act as a brake on expansion of enterprise. In short, management is prone to cite restrictions on employment and overemphasis on social security as primary reasons for Europe's failure to build more dynamic economies. Yet the lack of labor mobility has its counterpart in lack of mobility within the ranks of management. Labor's restrictions on employment tenure are matched by management's protection of the tenure of its own members, and overemphasis on social security goes hand in hand with formal and informal agreements among manufacturers to limit output and to share markets. To be sure, all these protectionist measures are manifestations of a society in which all classes want security above other things. Yet security-consciousness motivates employers as well as workers. Therefore, business management must be held responsible, at least in part, for the overriding desire of the working masses to put their immediate security ahead of economic progress.

MANAGEMENT AND PRODUCTIVITY

It is generally agreed that manufacturing firms in Europe are less productive than those in the United States. A main reason, of course, is that there is more machinery in American plants, since capital is more plentiful. Yet even in firms with comparable technology many more workers seem to be required in Europe than in America. In part, the explanation may be that labor is relatively cheap and that employers are not free to discharge surplus workers. But a possible interpretation is that the European firm has an overdeveloped labor force largely because of the underdevelopment of its management. Here we find a basic explanation for the fact that labor costs in Europe are high, even though wages are pitifully low.

Because of the difficulty of developing qualified and trustworthy people within the middle-management ranks, European management tends to use incentive systems of one sort or another as substitutes for effective supervision. Such a policy seldom works, even in the United States where the rapport between workers and managers is reasonably good. It is likely to be even less successful in Europe, where workers are more apathetic, more fearful of losing their jobs, and more distrustful of their employers. It is thus unrealistic to expect that the productivity of European business enterprises will automatically be increased if capital can be found to purchase equipment and engineers employed to develop new processes and new incentive systems. The typical business enterprise in the three countries studied is, from an organizational standpoint, poorly equipped to direct and manage its human resources effectively.

Many influential intellectuals as well as people at large are naturally becoming more and more critical of capitalistic systems under which the holders of economic power fail to exercise dynamic and progressive leadership. Significantly, in Europe business enterprise is neither glorified nor publicized as it is in the United States. Instead, management lives in an atmosphere of suspicious toleration rather than widespread respect. The reasons for this are not hard to find. First, management is typically security conscious and static, and therefore it is not identified by other groups as a creative force for bringing about a higher standard of living for all. Second, the fact that management is an elite into which entry is restricted arouses the jealousy and antagonism of other classes. Third, although economically powerful, the managerial class is numerically very small, and this makes its position politicaly precarious in any democratic society.

DYNAMIC FORCES IN EUROPEAN ENTERPRISE

Fortunatey, however, the economies of France, Belgium, and Italy are by no means static, and among their business leaders are some imaginative innovators. Indeed, there may be ground for belief that the ingrown and stagnant type of business enterprise described above is becoming obsolete under the pressure of new economic and political forces at work in Western Europe.

The more progressive businessmen in France, Italy, and Belgium have correctly diagnosed the problems of undermanning and overexclusiveness in managerial organization. They are convinced of the need for the reform of higher education as it relates to training of future leaders. They also advocate the lowering of trade barriers and the economic integration of Europe. In this respect the progressive European businessman is perhaps more honest and perceptive in criticism of himself and of his system than the American. In each country one finds a handful of very progressive business enterprises which may be the potential carriers of new techniques, new concepts, new outlooks in human relations, and new schemes of building managerial organizations. La Compagnie Télémécanique Électrique in France is an outstanding example. This company was founded in 1925 by four workers who had creative ideas both in technology and in industrial democracy. Now an organization of over 2,300 workers, Télémécanique manufactures circuit breakers and similar electrical equipment, which it markets not only throughout Europe but in the United States as well. It has well-developed research, marketing, quality control, planning, and personnel staffs effectively integrated with line operations. It has successfully timed the introduction of laborsaving machinery to coincide with expansion in output and thus has never faced the problem of layoff of workers. Workers are paid on a monthly salary basis, with production bonuses adding currently about 65 percent to base salaries. There are not time clocks in the plants; toolrooms and stockrooms are not guarded; and the workers have direct access to managerial personnel for developing improvements in methods and procedures of work. The plants are up to date in production methods, equipment, layout, lighting, air conditioning, and employee services of every kind. Communications and rapport between management and workers are comparable with the very best in the United States. Located in Nanterre, a suburb of Paris which has been dominated by Communist unions and political control, the vast majority of workers at Télémécanique consistently vote for "right wing" representatives in plant elections for the works council.

Another example is Necchi, of Pavia, Italy, a manufacturer of sewing machines. Only a few years ago this company developed a machine of exceptionally high quality for home use, which is now underselling other internationally known machines, not only in Europe but in the United States. This plant is ultramodern in design, layout, and machinery. Its managerial organization is equal to that of most comparable American companies. Its workers are paid wages nearly twice as high as those prevailing in related industries in Italy. As the general production manager of this company pointed out, "the techniques of mass production are well known to most European engineers. The greatest difficulty in our country is to build the kind of organization which is needed to utilize them." Necchi appears to have mastered this problem. A great deal of attention and planning is given to the development of executives with administrative skills, and conscious attempts are being made to draw from the ranks at least some of the new blood needed for the expanding managerial ranks.

In both Télémécanique and Necchi we see the fullest development of managerial organizations which are pioneering in production and marketing and in the broad area of effective management-labor relations as well. These companies exhibit dynamic management in countries in which customs, tradition, and class distinctions provide the most hostile kind of environment for innovation. They provide concrete evidence that a well-managed European manufacturing enterprise can successfully compete, even in the American market, with the best American firms and at the same time raise the standard of living of its working forces. But as yet it is too early to know if these innovators will establish new patterns of management or will simply persist as anomalies in their respective economies.

Another straw in the wind is the concern of progressive businessmen with education for management. In all three countries "advanced management-training programs" are being started on an experimental basis. In France, teams composed of businessmen, educators, labor leaders, and Government representatives are studying American experience in education in industrial relations, business administration, and engineering, with a view to recommending reforms in the French system of higher education. There is widespread interest in all three countries in the establishment of business-management institutes for junior executives. The advocates of these programs appear unanimous in stressing administration, marketing, and human relations rather than the purely technical aspects of production management. This new interest appears to have been stimulated by the productivity and technical assistance programs which the United States has been developing in cooperation with the productivity centers in the European countries. To be sure, the prerequisite of long-range fundamental improvement in the system of developing people for managerial positions is a basic change in the curriculums of universities and higher technological institutes, through which practically all new entrants to the managerial class must pass. As a prominent French managing director remarked, a revolution is needed in the whole system of higher education. There are businessmen and educators in Europe who would like to lead such a revolution.

Many people in France, Belgium, and Italy feel that the economic integration of Western Europe will be a force making for greater dynamism in business enterprise. Indeed, Jean Monet, the spiritual father of the present European Iron and Steel Community, is widely reported as believing that fundamental reforms in the French entrepreneurial system can be brought about only by the external pressure of free competition with enterprise in other countries. If the new Coal and Steel Community succeeds in its objective of creating a single competitive market for steel and coal in Western Europe, one may expect far-reaching changes in outlook and organizational development in the basic industries, not only in France but in the other member countries as well. For, theoretically, at least, the success of the individual companies will rest much more upon managerial efficiency than upon the tariffs and artificial protections previously relied upon. Here, of course, the crucial question is whether the Steel and Coal Community will actually succeed in creating a free market or whether it will succumb to vested interests which could turn the whole venture into an international superbody for protectionistic and restrictive measures.

Finally, in Europe it is possible that a more dynamic type of management may be developed in publicly owned and operated industry. Here there is real opportunity for building a management profession as distinct from a class-conscious elite. Already, many of the younger and progressive members of the managerial class are being attracted to public enterprises despite the comparatively low salaries which are offered. As a French productivity expert remarked, "Our goal cannot be to build a free-enterprise system which will be only 'second best' to that in the United States. We have the opportunity to make significant innovations in the successful operation of public enterprises and in the planned integration of economic activity in Europe." In this development two questions are crucial: First, will public management be reasonably free from political control which might interfere with its effective development? Second, will it attempt to recruit some of its new blood from the ranks, or will it follow the example of private enterprise in drawing its managerial personnel almost exclusively from the educated elite?

In conclusion, there is evidence that dynamic changes may be taking place in the static enterprise systems of France, Belgium, and Italy. It is these changes, rather than the traditional stereotypes of management, which demand thoughtful consideration and future systematic study.

So I see no reason whatever to look forward even under free trade to any change in the general component of our industrial production because these principles are applied to small companies as well as to big companies. If they don't get all of their investigation through their own company they may have either a trade association or a relationship to a university, so they get it somehow. They know they have to have it where their competitors abroad may not. May I add just one further fact that I think ought to be in the record?

The assumption of our friends on the high tariff side is always that you can determine what the relative costs of production are at home and abroad. Nothing has been said on that, but I think there ought to be something said on it. One of the more recent efforts to find this out is the report prepared for the electrical manufacturing industry by the National Industrial Conference Board in 1953, an organization which I think is generally respected in this area. It certainly made a report which has no political implications, no pressures from anybody. I don't think it was entirely satisfactory to the Westinghouse Co., because they employed Glenn Saxon of Yale, to make a commentary on it.

But on the question as to whether you can find out what comparative costs are, I want to give you just three quotations. On page 136 the study stated:

Internationally comparable labor-cost figures in the electrical-equipment industry are virtually nonexistent for the countries under study in the report.

On the same page, it said:

No information at all exists concerning two factors which have an important direct influence on labor costs. These are quality or style differences of certain products and mechanical equipment per production worker which is of primary importance in any competitive analysis of output per worker.

That is the end of that quote.

On page 40 is this conclusion:

Data are not available from regularly published sources that permit a comparison of the cost of production in the United States and abroad.

Now, this is nothing new. Mr. Robert O'Brien, of the Tariff Commission, said this many times to Congress. What the conference board study did attempt to do was to meet this problem, one by an indirect method of measurement which was by the extrapolation over almost a 10-year period, I think, of costs in order to try to get comparable years, and in the second case by individual case studies which were based on only six cases which themselves showed on conclusive results, and, finally, by reliance on an engineering opinion by general effectiveness of production which was not sufficiently described to permit any clear judgment to be made.

Senator FLANDERS. Mr. Chairman, I wonder whether the real test does not come in the price delivered at the American customshouse?

Mr. STRACKBEIN. Mr. Flanders, that is exactly what I was going to say.

Costs abroad are not the thing that counts. It is the price at which the goods are laid down at the customshouse in the United States. And that is not a mystery. That is what it shows in the invoice.

Mr. TAFT. If I may comment on that, the difficulty with that test is that it does not take account of volume. If they supply one-half percent of our domestic market, their price may be one figure, but if it is to be 10 percent of the market they usually cannot arrive at the same price.

Mr. THORP. I assume Senator Flanders will continue to contemplate this problem.

Senator FLANDERS. I will.

Mr. THORP. I merely wanted to suggest that in the contemplation you keep in mind what I know you are thoroughly familiar with, that is, the balancing process of payments, so that whatever may develop in trade with temporary inequalities will tend to balance out.

Therefore, what does happen over time in the adjustments of trade should be that we will send to other areas the goods which we can, relatively speaking, produce most efficiently and buy those from them which they can produce, relatively speaking, most efficiently, and which come in most cheaply to us.

Senator FLANDERS. And would you want to add there, and no more? That isn't exactly what I mean. There are things that we need, and will have to buy.

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Mr. THORP. Which we need and will have to buy because we cannot produce them ourselves efficiently.

Senator FLANDERS. Yes; and for those we must export enough to bring those things in.

Go on with your statement. I might agree with you.

Mr. THORP. All I am saying is that there are other things which one wouldn't say we must buy, because we can produce them ourselves, but we produce them relatively speaking so inefficiently that it is cheaper for us to make the things which we can make more efficiently, send them abroad, exchange them for others, and this is the basis on which it seems to me trade will develop when there are not arbitrary restrictions.

Now, I don't understand why you would admit that there would be great benefits within these three areas, and yet generalizing beyond them to a world basis somehow does not produce still further benefit.

Senator FLANDERS. The one thing of the mass market that we have is something that others ought to have in order to raise the standard of living. That is the basis of it.

Mr. THORP. But it becomes a still greater market——

Senator FLANDERS. If they can get into ours.

Mr. THORP. And we can get into theirs. This is a two-way operation, and I am not thinking of a flow of imports which is not equated with a flow of exports.

Senator FLANDERS. That comes back to the question of the relative advantage on which I am still hazy.

Mr. STRACKBEIN. Mr. Flanders, may I make a comment on that?

Let Brazil grow coffee, there is no question there. Now, we come up to where they have a comparative advantage in producing something else. But, finally, we come to an area where what they want to ship us we produce very well ourselves. We don't have to buy that. That is where the great conflict—where the great difficulty comes in, where there is no particular advantage in buying their goods.

Senator FLANDERS. I think perhaps the case is clearer for Japan and China. It is your case, but I think it is clearer for Japan and China.

Mr. TAFT. May I suggest, Senator, that what you are proposing, however, involves the substitution of judgment of somebody in the Government, or in the Legislature, for the judgment of the market place.

Senator FLANDERS. The judgment of the market is that we should get our textiles in Japan.

Mr. TAFT. I don't agree. Let me give you the figures on cotton textiles. They say, themselves, they are the most efficient producers in the world of the great middle range, and the imports of cotton textiles are one-half of 1 percent of the total American production, and yet it is that that they are screaming about. Exports of cotton textiles are 6 percent of domestic production.

Senator FLANDERS. I do not know what the duty is on that.

Mr. TAFT. Not much.

Mr. STRACKBEIN. I would like to interject this: So long as the competitive advantage of imports rests on the fact that lower wages are paid in other countries, then we say we are entitled to protection because we have in this country minimum wage laws, obligatory collective bargaining; we have price supports for agriculture, we have social security, and a lot of interferences with the free market, and in fact we have created more and more of those in the past 20 years.

Now, on the foreign-trade side, we are moving toward laissez-faire. It doesn't add up.

To say that the consumer is entitled to low prices, or to cheap products regardless of the source of cheapness, is the same as saying that if we can get goods produced by slave labor then the consumer should be all the more happy. We cannot accept this concept. Our producers are burdened with cost-raising obligations imposed by law.

If we could be assured of what is roughly compensatory protection, we would feel better about it. There are burdens upon us which as producers we cannot shift. We have placed those burdens there by law. On the seaward side, on the other hand, we have taken away the protection and exposed our producers to a kind of competition that is not burdened by those same costs.

Mr. TAFT. Mr. Chairman, I would only remark that the total social-security payments in Europe relative to the base wage is higher than in the United States.

Mr. VINER. I think there is one thing that needs to be said as to the criterion of when is an American industry efficient. I think occasionally the standards of efficiency applied by the apostles of high protection have been the Chinese or Japanese ones; not the American one.

Senator FLANDERS. No, no.

Mr. VINER. The American standard of efficiency requires that the industry be required to produce an article at a cost no higher than the world price and to pay a wage no lower than the American standard. If any company can produce on that basis it will not have any difficulty with foreign competition.

Mr. STRACKBEIN. I am glad to have that definition.

Would you restate it for the record?

Mr. VINER. It is in the record. I would not care to try to restate it.

Senator FLANDERS. I think you have something we can all agree on.

Mr. VINER. If Mr. Strackbein agrees, the amount of print destroyed will be tremendous.

Mr. STRACKBEIN. I want to be sure of what you said. You said if the American producer cannot produce and sell at the world price, then he is inefficient.

Mr. VINER. I say that if he cannot sell at the world price, and—not "but"—pay the American standard wages, he has not attained the American standard of efficiency, and does not have valid claims to the direction of American productive resources. The only way he gets control over productive resources is to get a subsidy out of higher prices paid by the consumer. The consumer is in my picture. He is still a citizen of the United States.

Senator FLANDERS. I still want to know how many American industries there are who can do that and what is the end product of this process.

Mr. VINER. I fear that the amount of change that complete free trade would make in the American economy is not very large. I fear that the amount of gain the American economy can make out of free trade has fairly narrow limits. I "fear" it only in this sense: The amount of good we can do to the rest of the world through free trade is limited, and the amount of good we can get for ourselves from that avenue, as against the benefits we can get from other avenues of good government, is also limited.

The CHAIRMAN. I do not want to prolong the discussion, but Senator Flanders in recent months has had concern about the ultimate consequences of the free-trade movement, or low-tariff movement. I have been trying to understand the objections of the protectionists, and, as I see their objections, they center on a point which has always troubled me; namely, suppose you have in oriental countries western machinery and western techniques, but a very low standard of real wages due to a general condition of agriculture, so that the labor costs in money terms per unit of output are extremely low, even though the output of physical product in terms of labor is relatively high. Those goods undersell American goods and come in.

The former answer we had for this, and which I used to give, was that this would result in an inflow of imports and a balance of trade which would turn against us. And would result in a flow of gold out. This would raise the prices in these countries and a lowering of prices in our country, so you would get an adjustment of the relative advantages.

Senator FLANDERS. I am assuming that is out the window. I understand relative advantages on that basis, but I am assuming it is gone.

The CHAIRMAN. I had not thought that the gold movements had completely disappeared as a factor or that foreign exchange was unconnected with it, but if this analysis or anything like it is to hold it requires a very real fall in the price level of the country which is importing goods with low unit labor costs, and that is very severe medicine for a country to take.

Mr. VINER. Or a fall in its exchange rate so that the Japanese yen becomes more expensive to us in terms of dollars. The Japanese are not going to give the goods to us cheap merely because they can; they will get the best price for them they can, and if we buy unlimited quantities of manufactured products from them they will get the best American prices they can. They will acquire dollars which by assumption they have no use for, and the result is that they will mark down the dollars on their exchange market, and these Japanese products will become expensive to us in dollars and, therefore, will stop coming in.

Senator FLANDERS. Now, I can understand the doctrine of relative advantage provided this area you have just opened up still holds, but it is a rather dangerous foggy ground to advance into, and is something which is not presented to us in connection with these things we are doing.

The CHAIRMAN. I would like to ask the gentlemen here whether this ultimate balance of which they speak can be obtained purely by changes in exchange rates or will it also carry with it changes in general price levels?

Mr. Viner. Well, Mr. Chairman, as you know, a country in our days without the gold standard can, within limits, do what it likes with its currency, and if you mean does it require changes in yen prices, that is up to the Japanese monetary and credit system.

Does it mean changes in the dollar equivalent of their yen prices? I say yes, it does, and must, and will mean that, and you cannot think it out any other way. Either they are willing to accumulate dollars indefinitely with no prospect of using them, or they are willing to use them to buy American goods, or they mark down the dollars in their market in terms of yen, or they raise the yen prices of their export commodities, but one or more of those four things are the only possible things.

The CHAIRMAN. Would you say these price changes are confined to import and export commodities, or will they affect the general price level of all consumer products?

Mr. VINER. The yen becomes dear, and the dollar becomes cheap, and no change in price levels need occur in dollars. What happens to yen prices in Japan depends on Japanese monetary and credit policies. I would forget about comparison between yen prices and dollar prices except in relation to what happens to the exchange rate.

Mr. TAFT. One of the two smaller aluminum companies which has been in favor of an increase in the tariff up until fairly recently, is now satisfied that the Canadian costs of producing aluminum have moved up enough so they aren't in favor of an increase in the tariff any more.

Now, that assume that there has been some change in costs in Canada, presumably in wages, because they must be using the same kind of power and other costs in it, and I do not see that it has had any effect on the exchange rates.

Mr. VINER. Yes, it has. Not very much, but to the extent of two or thee percent, the United States dollar was been at a discount as compared with the Canadian dollar.

Mr. TAFT. And this is the reason why.

Mr. VINER. In any case, the American manufacturer now has 2 or 3 percent more protection against Canadian competition than he did when there was no exchange premium on the Canadian dollars as compared to the American dollar.

Mr. TAFT. I think this is relative to the problem you are raising. This has gradually straightened itself out between ourselves and Canada.

The CHAIRMAN. If you can assure us that these price changes will take place in changes in exchange rates without affecting the general price level appreciably, then you have removed, to my mind, what is the most solid argument for protection against low tariffs.

Mr. VINER. Mr. Chairman, I think we have it within our power to make our price level in general whatever we want it to be, regardless of our foreign-trade policy, and that power rests largely in your hands.

The CHAIRMAN. You would say stabilize the domestic-price level?

Mr. VINER. If that is your aim. To me it is a respectable aim. I might not be a hundred percent rigid on it.

Senator FLANDERS. You are not a hundred percent respectable.

Mr. VINER. Rigid, I said.

The CHAIRMAN. In other words, you would say let the exchange rates fluctuate and adopt your monetary policy on the basis of stable prices, or whatever you choose.

Mr. VINER. As a matter of fact, we cannot set an exchange rate with any other country except by treaty. It is a two-party proposition. We go on on a pattern here which lets the exchanges be what they may in terms of dollars. It is not the only possible pattern, but on that pattern the exchange rates will change. If they are managed abroad, the changes will be manipulated ones. If it is a free exchange market abroad, the exchange rates will move as the market determines. But they will change in either case.

The CHAIRMAN. It is now 5 o'clock.

Mr. STRACKBEIN. I would like to give my definition of an efficient industry, as contrary to Dr. Viner's.

Mr. VINER. I thought you accepted mine.

Mr. STRACKBEIN. I would say that an American industry is efficient, it is economic, it is entitled to remain in business if it can pay the prevailing wage, sell the product at a price that the consumer is willing and able to pay, have some reserve for research and development, and a reasonable profit. That industry, I say, is efficient regardless of the price in other countries where lower wages prevail, regardless of their ability to lay down the product at lower prices in this country. I say the criterion should be in this country to take account of the burdens borne by the domestic producers and not ask these producers to compete in a world market or on a world-price basis, because the other producers in other countries are not bearing the same burdens. They are not producing under the same conditions. It isn't fair.

Now if our producers could disregard the minimum-wage laws, and when they got in a difficult situation could say to their employees, "I am sorry, we are going to reduce our wages by 10 or 15 percent," then they would be in a competitive market or a free situation, but we do not have that. If they could say we have a shortage of labor, we will have unrestricted immigration so we can have a more adequate labor supply, then again they would be operating in a free market, but that is not the way they are operating.

Senator FLANDERS. Mr. Chairman, I would like to ask that Mr. Taft's statement before the House committee be put into the record, and I also wish we might get into the record in some way perhaps a staff statement on the present state of the balance of trade, the overall imports, exports, visible, invisible, and where we are at the present time.

I would like that summarized.

(Mr. Taft's statement appears at p. 976.)

(The following was subsequently supplied for the record by the committee staff:)

Balance of payments of the United States, annual and by quarters, 1953 and 1st 3 quarters, 1954

[Millions of dollars]

Item	1953					1954		
	Year	Quarters				Quarters		
		I	II	III	IV	I	II	III
Exports of goods and services, total	21,265	5,387	5,732	4,916	5,230	4,767	5,691	4,807
Military transfers under aid programs, net, total	4,281	1,280	1,383	815	803	826	996	700
Supplies	4,096	1,231	1,322	780	763	784	940	650
Services, including freight	185	49	61	35	40	42	56	50
Other goods and services, total	16,984	4,107	4,349	4,101	4,427	3,941	4.695	4,107
Merchandise, adjusted	12,383	3,029	3,197	2,948	3,209	2,849	3,516	2,933
Transportation	1,232	299	314	318	301	290	310	295
Travel	527	106	145	167	109	107	148	171
Miscellaneous services:								
Private	712	176	176	174	186	185	204	198
Government	199	57	61	44	37	46	38	37
Income on investments:								
Private	1,679	407	426	382	464	417	442	400
Government	252	33	30	68	121	47	37	73

Balance of payments of the United States, annual and by quarters, 1953 and 1st 3 quarters, 1954—Continued

Item	1953 Year	1953 Quarters I	II	III	IV	1954 Quarters I	II	III
Imports of goods and services, total	16,424	3,996	4,250	4,239	3,939	3,717	4,198	4,004
Merchandise, adjusted (excluding military expenditures)	10,954	2,797	2,882	2,679	2,596	2,514	2,752	2,455
Transportation	1,058	243	287	290	238	224	274	250
Travel	895	140	238	362	155	149	261	393
Miscellaneous services:								
Private	303	79	74	74	76	80	84	83
Government (excluding military expenditures)	267	71	63	81	52	52	57	81
Military expenditures	2,496	564	600	653	679	592	662	647
Income on investments:								
Private	365	82	86	77	120	83	94	81
Government	86	20	20	23	23	23	14	14
Balance on goods and services	4,841	1,391	1,482	677	1,291	1,050	1,493	803
Unilateral transfers, net [outflow of funds (−)], total	−6,707	−1,917	−2,063	−1,352	−1,375	−1,356	−1,479	−1,214
Private remittances	−473	−118	−118	−120	−117	−106	−111	−110
Government:								
Military supplies and services	−4,281	−1,280	−1,383	−815	−803	−826	−996	−700
Other grants	−1,813	−483	−521	−384	−425	−392	−341	−374
Pensions and other transfers	−140	−36	−41	−33	−30	−32	−31	−30
United States capital, net [outflow of funds (−)], total	−597	−209	35	−210	−213	−206	−408	−287
Private, net, total	−377	−224	70	−31	−192	−328	−390	−301
Direct investments	−722	−204	−216	−201	−101	−130	−276	−12
Portfolio	178	−35	196	111	−94	−239	24	28
Short-term	167	15	90	59	3	41	−138	−204
Government, net, total	−220	15	−35	−179	−21	122	−18	14
Long-term, capital outflow	−716	−65	−196	−286	−169	−54	−61	−64
Repayments	485	93	139	103	150	151	110	123
Short-term (net)	11	−13	22	4	−2	25	−67	−45
Foreign, capital, net [outflow of funds (−)], total	1,106	128	298	448	232	449	239	439
Long-term investments:								
Direct and portfolio (excluding U. S. Government securities)	207	82	10	82	33	10	69	85
Transactions in U. S. Government securities	−82	26	18	−118	−8	16	56	63
Short-term liabilities to foreign banks and official institutions	1,021	31	333	449	208	364	145	244
Other short-term liabilities	−40	−11	−63	35	−1	53	−31	47
Gold sales [purchases (−)]	1,163	603	128	302	130	56	8	164
Foreign capital and gold, total	2,269	731	426	750	362	499	247	603
Transfer of funds between foreign areas [receipts by foreign areas (−)] and errors and omissions	194	4	120	135	−65	13	147	95

Source: U. S. Department of Commerce Survey of Current Business, July, September, and December, 1954.

The CHAIRMAN. I want to thank you gentlemen very much for coming.

(The prepared statements of the panel are as follows:)

STATEMENT OF O. R. STRACKBEIN, CHAIRMAN, THE NATIONWIDE COMMITTEE OF INDUSTRY, AGRICULTURE, AND LABOR ON IMPORT-EXPORT POLICY

The President in his special message to Congress on January 10, 1955, stated:

"The Nation's enlightened self-interest annd sense of responsibility as a leader among the free nations require a foreign economic program that will stimulate economic growth in the free world through enlarging opportunities for the fuller operation of the forces of free enterprise and competitive markets."

He added that "our own self-interest requires such a program because (1) economic strength among our allies is essential to our security; (2) economic growth in underdeveloped areas is necessary to lessen international instability growing out of the vulnerability of such areas to Communist penetration and subversion; and (3) an increasing volume of world production and trade will help assure our own economic growth and a rising standard of living among our own people."

Thereafter the message contained, among other things, specific legislative recommendations that had 5 days earlier made their appearance in H. R. 1 or the trade agreements extension bill of 1955, introduced by Mr. Jere Cooper, Democrat of Tennessee, chairman of the House Committee on Ways and Means.

The statements above quoted, taken from the President's message, are acceptable as generalities, but the extent to which the attainment of the stated goals or objectives rests upon the provisions of H. R. 1; it is based upon certain false assumptions and erroneous deductions from past achievements and failures. The message, to repeat a part of it, says:

"An increasing volume of world production and trade will help assure our own economic growth and a rising standard of living among our own people."

Of course, it would not necessarily do anything of the kind. "Increasing world production and trade" could just as easily take place at our expense and to our detriment.

The sublime or naive faith in foreign trade as the great cure-all for the world's economic ills or as a sure road to the peace of the world, reflected in the message, is a curse and an affliction. It has prevented a clearheaded assessment of the facts for too many years and has reached the ridiculous stage. It is like a spell or a hypnosis under which the victim merely repeats uncritically what the hypnotist says. Or, differently stated, it ranks as a nostrum with the notion that if one spoonful of medicine is good, two spoonfuls are twice as good.

Trade is not and never was a good thing in and of itself. It can be evil and harmful, as the trade in opium. It may be thoroughly immoral as is prostitution. The slave trade was lucrative, but does that mean it was good? The trade in ivory created exchange and added to the income of the people who engaged in it, but was it in the "national interest" of the African tribes where it was carried on?

The halo must be torn from international trade before we can reason soberly about it.

Am I then saying that the President is naive or that those who participated in shaping the part of the message relating to trade are naive or unthinking?

The fact is a whole people can be blind, and a whole national leadership can be led along by a false idea until it explodes in their face. We do not have to strain our memories for examples.

One notion held not so many years ago was that Russia would quickly crumble under the Hitler onslaught. The fallacy of that judgment was amply demonstrated by events. Another notion was that the German people would throw up their arms and surrender once the war went against them. That also was a false estimate, but very widely accepted. There are enough of such false notions and fads floating around us in other fields, such as medicine, diet, child psychology, etc., to give us pause. Ordinarily, it is necessary only to wait a few years for the upset or for knowledge to catch up. In the field of trade we cling to a used-up idea because we do not seem to know how, when, or where to stop.

It is understandable why certain export interests wish to perpetuate the idea that increased trade, meaning, of course, increased exports, is an unmixed blessing. On the other hand, the support of this idea by economists and private organizations of voters who cut across the economic spectrum merely suggests a bankruptcy of ideas. This in turn may be the result of immersion in a constant flow of inspired comment that in itself has taken on the dangerous aspect of unreflecting acceptances of what is fed to it.

After 20 years of tariff reductions, carried out in 29 bilateral agreements; followed by 3 multilateral agreements; after a reduction of 75 percent in the protection afforded by our tariff and after witnessing the great number of nontariff restrictions on trade imposed by other countries, it is about time that we turned away from this broken-down vehicle to carry us to the promised land. Many of these nontariff restrictions were justified and justifiable and were symptomatic of the economic disruption of war; but that does not change the fact of their existence or obliterate their cause.

We would do far better to study the great shifts that have taken place in the basic foundations of trade in the past 15 years; the distortions in the world economy caused by the great upheavals of World War II and the effects of the political and military realinements of the world. We should ponder the meaning of a policy that would subordinate the strongest economy in the world to the vicissitudes of a necessarily shifting diplomacy in an unsettled world.

We have in the past 10 years contributed heavily to the righting of the war-upset world. We have greatly liberalized our trade. We have greatly increased our imports. They are more than half again as high per capita in physical volume as in 1938–39.

Our diplomacy has been profoundly at fault in not saying these things to the world about our trade. On the contrary, our diplomats and various officials traveling about overseas have aided and abetted the idea that it was our stiff-necked policy about tariffs and trade that caused and sustained the dollar gap. They converted the protests of other countries thus incited into instruments of political pressure on the home front in behalf of more tariff cuts. Only very recently has there been some evidence of a change.

We have actually reached the point in our tariff reductions where a halt is urgent. We have cut to the quick and in some instances well into the living nerves of many of our producers. However, no great reversal is involved; no general rise in tariff rates.

Our producers who are asked to absorb the foreign competition uncovered by 20 years of tariff cutting are entitled to a remedy against errors of judgment committed in the wholesale approach to tariffs cuts or against adverse changes in competitive conditions. There is no demand for undoing such good as may have come from the liberalized trade policy; only for a means of rooting out the evils. This remedy is not in hand. An escape clause that is more responsive to the needs of the case than the present one is called for.

All the minimizing of the losses caused or threatened by lower tariffs, so eagerly practiced by those interested in import profits or export markets or in upholding an intellectual position cannot overcome the very widespread and legitimate concern of the exposed industries and their workers. Final success in this campaign of belittlement would in any case succeed in depriving the very propagators of any real reason for advocating their own program.

In a nutshell, the trade-agreements program has run out of magic. Its constant elevation to the position of arbiter of world economic questions is not justified. As a measure that may be looked to for the attainment and maintenance of full domestic employment, the further general lowering of tariffs would bring us greater liabilities than assests. There is much more employment at stake, directly and indirectly, in the industries and agricultural pursuits that are vulnerable to import competition than exists in manufacturing or producing for export.

The fact that some of these producers are already highly protected by import quotas, such as wheat, wheat flour, and cotton, does not remove them from the list of exposed producers or from the list of beneficiaries of protection. That these groups themselves cotton, wheat, and wheat flour heavily support freer trade for others is only a measure of the high degree of inconsistency of which man is capable.

As for investment in foreign countries as a means of developing and strengthening them, the idea has some merit: but again it is not foreign investment as such that is important. The kind of investment and the conditions under which it is made are more important. Investment in economically unsound projects will not only not accomplish what is sought, but will go sour. The same may be said of investment where expropriation, nationalization, or refusal to allow profit transfers may sooner or later confront the investors.

Inasmuch as tax incentives would tend to overcome the prudence and caution that should be exercised in such investments, their long-term value may be questioned. Also as inducements to industry to seek low-wage areas for location of new plants, tax incentives on foreign investments might do more harm than good. If our capital cannot find foreign outlets that are sound enough or free enough from State control or confiscation to make them attractive without special tax incentives, it certainly is not clear that the granting of such incentives would remove their obstacles to investment; but they might cause the taking of unjustifiable risk.

From present trends of world population it does not appear that our point 4 and similar elements of assistance will accomplish much more than to demonstrate the continuing validity of the Malthusian theory of population.

STATEMENT BY CHARLES P. TAFT, PRESIDENT, COMMITTEE FOR A NATIONAL TRADE POLICY, INC., BEFORE THE HOUSE COMMITTEE ON WAYS AND MEANS

There has been a simple pattern in the testimony on H. R. 1 over the past 10 days. Those who have testified in support of H. R. 1 have included spokesmen for practically every large organization whose primary concern is with the national interest. The bill has also been supported by many individuals representing many industries or groups of industries. On the other hand, almost all of the testimony in opposition to the bill has come from groups which were worried about some particular product or some particular segment of their industry.

There have been allegations of specific injury calling for protection. There have also been broader-based attacks on the bill. Take the question of defense. The people in one fragment of the chemical industry, part of the watch industry, some segments of the petroleum industry, and some of the electrical industry have told you that more tariff reductions will hurt our defense production facilities. But Secretary Dulles and Secretary Wilson, who worry about our defenses on a full-time basis, have said that we need H. R. 1 to keep our defenses strong.

Consider the question of employment. The glass workers, pottery workers, fishermen, mine workers, and hat workers, have told you in effect that they are afraid some of them may lose their jobs if this bill is passed. But the national organizations of the CIO and the A. F. of L. and the railway clerks say that this bill will help American labor and will increase job opportunities. And the Secretary of Labor agrees with them.

Very much the same pattern has held in the testimony of business and other groups. Representatives from a score or so of different industries have testified that H. R. 1 is bad for their business. But broadly based business groups, like the United States Chamber of Commerce, the CED, and the Committee for a National Trade Policy and the groups that represent just people, like the League of Women Voters, say that this bill is good for the national economy.

This distinction occasions no surprise to anybody. It is the same distinction that existed 10 years ago, in 1945, when the only previous debate on increased authority for the reciprocal trade-agreements program took place. Then, as now, the pottery industry, the glass industry, the organic chemical group, the glove industry, the hatters, and others told you that the trade-agreements program would destroy them. Then, as now, the administration and the broad national groups representing labor, industry, and the consumer, denied it, and opposed the position of these industries. Then, as now, I stood here before this committee and urged the continuation and expansion of the reciprocal trade-agreements program. Many of you gentlemen behind the bench today were present then to hear both sides of the issue.

The plain fact is that few industries which have to face foreign competition like the idea. Except for the once rare but now more numerous business statesmen like John Coleman, Charles H. Percy, and Clarence Randall, not many are ready to agree that the foreign competition they face in this market may be good for them. Yet when they get off to one side, away from the worries and strains of their own particular businesses, and think of themselves as part of the whole American economy, most of them are driven to this only possible answer—that more foreign trade is good for this Nation, good for its foreign policy, good for its defense, good for its jobs, and good for its consumers.

This is one basic fact we should not lose sight of. Most Americans, including most businessmen, are for the continued gradual reduction of our tariffs. There have been Gallup polls, polls by the League of Women Voters, polls by Congressmen of their constituents, and other straw votes. The Gallup polls, like the others, show more Republicans for reducing the tariff than for raising it. I think it is fair to say that of those Americans who express an opinion there are twice as many for the continuation of the program as are against it. In the Congressional Record for August 4, 1953, Senator, then Congressman, George Bender of Ohio reported on a poll made of every elected Republican precinct committee man and woman in Ohio. In response to the question "Do you approve of the reciprocal trade-agreements program?" 3,330 said "yes" and only 1,970 said "no." The most extraordinary poll, because it came last year in New England, which used to be the stronghold of protectionism, was the poll by the New England Council. The poll showed that 63.5 percent of the 800 businessmen polled were in favor of lower tariffs.

Though the leaders on both sides of this issue have not changed much since 1945, except perhaps for a little graying at the temples, the world in which we live has changed a great deal. Time has proved that we who spoke on our side of the debate in 1945 were better prophets than those who opposed us. Although our imports of goods, so greatly feared then as now, have increased from $3.9 billions in 1944 to $10.9 billions in 1953, our gross national product has in the same period increased from $211 billions to $364.8 billions and our employment to record figures. Our exports have risen again well above the wartime lend-lease levels to $15.6 billions in 1953 and contributed substantially to our high employment and prosperity. If the reciprocal trade-agreements program has hurt us, it has been a hurt very well concealed.

THE OPPOSITION RECORD

I don't for a moment want to leave the impression that some of the industries that have spread their complaints before you over the past 10 days don't have problems. Of course they have problems. In some cases the problems may not be quite as serious as they would have you believe. For sick industries, some of them have displayed an enormous amount of vitality, tenacity, and financial resources, in attempting to defeat H. R. 1.

To be sure. some of these industries, like the chemical, electrical, and cotton textile goods producers, may be confusing sickness with growing pains. The spectacle of these enormous, vital industries threatened by a trickle of foreign imports is a picture which defies belief.

They are still as much prophets of gloom today when they talk about tariff and the effects of its possible reduction, as they were in 1945.

In 1945 Mr. Rose of the American Tariff League described the bill for new authority, a possible 50-percent cut from then existing tariff levels as involving "the possible breakdown of the American market, American price structure, American wage level, and American living standards by opening the gates of this country to widespread competition with the products of other countries 'with the things we grow or make in this country.' "

On November 5, 1953, in a statement to the Business Advisory Council, Edgar Queeny of Monsanto wrote just what he and his associates have told you here: "Should not the United States freeze present duties until their full effect in a surplus economy can be observed? For, even at their present level, our adverse balance during the first 6 months of 1953 indicates that before too long we may again see apple selling by the unemployed during this Republican administration, too."

This is the official position of the opponents of H. R. 1 in 1955 as it was in 1953 and 1945. On January 26 Mr. Anthony of the American Tariff League said here that the President's program includes the ingredients of general economic distress which could help set off a downward trend in the national level of prosperity.

These people, for all their extraordinary business record since 1945 and their optimism in their annual statements to stockholders, are professional pessimists when they talk to Congress about tariffs.

Mr. Calvin Campbell of Dow, about the same time as Mr. Queeny's statement of 1953, said in a speech to the American Tariff League: "We know that in *isolated* instances we excel in technology or other advantages to a degree sufficient to offset the wage differential." [My italic.]

THE CHEMICALS INDUSTRY

Now really! Would you believe that with such a poor opinion of the strength of our economy and of their own industry the chemical industry would put into new plant in 1954 $1.2 billion and project $1.5 billion for 1955? But they did, and it is better evidence of their real judgment than what they feel and say here about the tariff and its effects. They produce annually $20 billion of goods and chemical exports, for the first 9 months of 1954 were running at the annual rate of $894 million excluding special military items, against only $242 million of imports. They have grown 10 percent a year for 25 years, and developed more than 7,500 new products in that period.

Mr. Campbell and Mr. Queeny and Mr. Lehner are more concerned about synthetic organics. Very well. The total production in this category was about $4 billion, of which $300 million was exported in 1953 against only $50 million imported. Mr. Lehner admitted to you that in the "coal-tar chemical" category of synthetic organics, where, incidentally, exports still exceed imports, no more than $10 million in 1953 was "competitive" under Tariff Commission determination. A recent check of Tariff Commission data shows that the accurate figure for "competitive" coal-tar chemical imports was only $5.8 million in that year.

This is a price question, not one of taking away business. Here is what a purchasing agent of one of the smaller chemical companies told his own industry a few weeks ago:

"The howls against chemical imports are even more ridiculous than those of the sick coal industry against imported crude oil. Imported oil is a tiny fraction of the problem, but it makes the best headlines. What the coal industry really wants is a return to steam locomotives, no gas pipelines, lower wages, and subsidized exports. It has done a notoriously poor job of uniting to find new uses for coal and it seems determined not to face the future problem of atomic energy. The healthy chemical industry should devote less energy to fighting a few imports and more toward new production techniques or superior competitive products where imports are a threat. And, to give due credit, ultimately American manufacturers do meet the threat by lowering their prices, revealing their excessive profit margins and claiming that they were about to do so anyway. (Just between us purchasing agents most of us know why the prices come down.)

"Incidentally, some of those who rail against imports of chemicals have been remarkably avid in importing new chemical ideas from abroad, to the certain detriment of less alert competitors. Synthetic detergents came out of Germany two decades ago. Thorazine originated in France. Versatile polyurethane is a powerful newcomer from Germany which promises to make deep inroads into the foam-rubber business. My own company has felt the competition of Reserpine, an importation from India. Instead of yelling to Congress about how our business has been hurt by this 'foreigner' we are rushing development of new specialties of our own which we believe will be even more effective. Like the rest of our industry we are constantly searching around the world for new ideas to relieve the ills of mankind. That's competition and that's progress and the beneficiary is the American citizen's comfort and his pocketbook.

"It is to your own self-interest on three counts to keep international competition active. First, as purchasing agent for your own company, your job should be to lower your company's costs in any legitimate way you can while insisting on the triple standard of quality, service, and price. If you haven't the courage to combat the arguments of the 'one standard all American price' boys, you will do your management a favor by resigning and letting your secretary copy prices from vendors' catalogs and the Oil, Paint and Drug Reporter. Your self-interest also requires that you keep American competition alive as protection against foreign monopoly, and most experienced purchasing agents don't need to be told how to distribute your purchases to keep them all bidding."

THE ELECTRICAL INDUSTRY

I don't need to add much about the electrical industry. Its production reached $17 billion in 1953 and it exported $800 million in that year. Imports were a little over $50 million or one-third of 1 percent.

As to electrical equipment for powerplants, the domestic industry still retains considerably over 98 percent of the American market. Phil Reed told this committee last week he was particularly concerned about sales of foreign equipment to the United States Government, and pointed out the very great difficulty the American industry had in competing with foreign producers.

It seems to me there is one extremely significant aspect of this situation which has not been emphasized. That is the matter of economy to the United States Government which merely having foreign bidders in the picture appears to afford. In the case of the 8 large generators for the Dalles Dam the General Electric bid was over $1½ million below that of the nearest foreign bidder—English Electric. In the case of generators for Chief Joseph Dam, after the first bids were thrown out, Westinghouse secured the contract with a reduction of $716,000 from its original bid price, or a reduction of about 14 percent.

One is forced to wonder whether it is not the pressure on profits which causes leaders of the heavy electrical equipment industry to testify against foreign competition rather than pressure on costs. These two cases make one believe that United States industry can in fact compete on this kind of equipment if it is forced to. In any case, as was admitted by Messrs. Reed and Price, this is not a tariff problem. Tariffs on heavy electrical equipment are only 15 percent ad valorem and H. R. 1 would, at the maximum, bring a reduction in duty of 2.25 percentage points in 3 years.

FREE ENTERPRISE AND COMPETITION

Do these men really understand what free enterprise means as an American institution? It means competition. It certainly does not mean a domestic monopoly of the American market. Of course we believe in policing our domestic competition here, but since when have we ceased to compete domestically in standards of pay? Wages are low elsewhere because they can't produce as efficiently or at as low costs. We stay ahead on know-how and ingenuity with high wages. Do you remember your Kipling? Hear the skipper of the *Mary Gloster:*

> "They copied all they could follow,
> But they couldn't copy my mind,
> And I left 'em sweating and stealing
> A year and a half behind."

Americans worry about foreign cartels. Cartels are not progressive. The cartel mind tries to eliminate risk taking, which is an essential part of the free-enterprise system. Is there not perhaps a little of the cartel psychology involved in an unwillingness to meet competitive pricing?

Free enterprise depends on free choices and flexibility and mobility not on fixing the pattern forever. Robert Calkins, president of the Brookings Institution, put it right 2 weeks ago. "No settling down to established practice is in sight. Instead wave after wave of technological innovation is in prospect." The president of the Methods Engineering Council of Pittsburgh said the same thing 2 days later and applied it to the tariff. While conceding that tariff protection is sometimes necessary on a temporary basis, he maintained that "a tariff which permits a company to do business without the necessity for improving its methods is a dangerous expedient."

Free enterprise depends on integrity, too. That is not promoted by phony statistics to prove that Great Britain, for instance, is a high tariff country. The United Kingdom imposes its tobacco and gasoline taxes at the time of import of the raw materials or finished product. This is not a protective device or trade restriction at all, but a revenue-producing measure, such as the United States taxes tobacco and gasoline for revenue. If you take these taxes out, the United Kingdom tariff average, even on the American Tariff League basis, is 4.6 percent lower than ours at 5.6 percent.

HOW HIGH IS OUR TARIFF?

Calling our tariffs "low" depends upon ignoring what is kept out by the tariff. Below there is a table showing the rates on some important chemicals with their 1952 import figures in dollars, which indicate how prohibitive rates keep out imports.

TABLE I

Tariff par.	Tariff schedule and commodity (commodity description abbreviated)	Value of United States imports, 1952	Rate in effect on Jan. 1, 1953, or ad valorem equivalent thereof
	SCHEDULE 1. CHEMICALS, OILS, AND PAINTS	*Thousands of dollars*	*Percent*
24	Chemical compounds, n. e. s.:		
	20 percent or less alcohol	2	67.0
	20 to 50 percent alcohol	(1)	103.7
	Ethers and esters, 20 to 50 percent alcohol	(1)	100.6
	Medicinal preparations, etc., over 50 percent alcohol	5	83.9
	Flavoring extracts, etc., except from Cuba:		
	20 percent or less alcohol	3	50.3
	20 to 50 percent alcohol	12	50.4
	Over 50 percent alcohol	(1)	73.3
26	Diethylbarbituric acid, salts, etc	(1)	250.0
28 (a)	Benzyl acetate, etc., and other synthetic odoriferous or aromatic chemicals, n. e. s.[2]	104	55.8
	Synthetic tanning materials [2]	6	68.9
	Coal-tar medicinals: 2-benzyl-4, etc., except from Cuba [2]	81	45.1
	Photographic chemicals (coal-tar) [2]	3	50.8
	Ink powders [2]	2	51.4
	Alizarin, natural; indigo, natural, etc., color acids, n. e. s.[2]	15	49.3
	All other finished coal-tar products, n. e. s.[2]	6	51.1
31 (a)	Cellulose acetate waste	(1)	163.6
49	Magnesium oxide	(1)	67.3
75	Spirit varnishes, less than 5 percent methyl alcohol	1	50.4
81	Sodium nitrite	1	87.6

[1] Indicates imports of less than $500.
[2] Values and equivalent ad valorem rates are in terms of American selling price or United States value.

Calling us low in relation to Canada is shown up in another chemical table where in all but one case entry to Canada is free while our tariff is the equivalent of 40 percent ad valorem.

TABLE II

Product	Manufacturing investment in Canada [1]	Duty	
		Canada	United States
Ethylene glycol (antifreeze)	[2] $25,000,000	Free	(3 cents per pound plus 15 percent ad valorem) about 40 percent ad valorem.
Polyethylene (resin)	13,000,000	do	(4 cents per pound plus 30 percent ad valorem) about 40 percent ad valorem.
Magnesium metal	10,000,000	20 percent	(20 cents per pound) about 73 percent ad valorem.
Phthalic anhydride	6,000,000	Free	(3½ cents plus 20 percent ad valorem) about 40 percent ad valorem.

[1] Exclusive of converters.
[2] Estimated.

PROBLEM AREAS

Many industries do have problems. I don't know that hand-blown glass should be put down so much as an industry. Is it not rather an art? As such it competes not on price but on prestige and taste. The tariff can't help it much; it would take an embargo. Are we going to embargo prestige and taste and art that belongs to foreigners?

Nobody could deny that the hat industry has been plagued by the insistence of American men and women on going bareheaded. Do we therefore put an excise tax on bare heads?

COAL

The coal problem, like that of the wool-textile business, is the problem of a sick industry. Let us by all means do all we can to help each cure itself. But let us have all the facts, not the selected ones which coal spokesmen and their auxiliaries bring to this committee.

Let me give you a few basic ones.

Nineteen hundred and forty-seven was the all-time peak production year for bituminous coal. Since 1947, through 1953, bituminous coal demand has decreased by 155 million tons.

What was the composition of this decline in demand? Bituminous lost: (1) 82 million tons in railroads, largely to diesel oils, which are domestically refined; (2) 38 million tons in space heating to natural gas and light fuels; (3) 35 million tons in exports, kept out by currency restrictions, not tariffs; and (4) 29 million tons to other industries.

Coal consumption in public utilities increased 26 million tons. There have also been minor gains in other categories. Compared to this coal loss of 155 million tons in 6 years, heavy residual fuel oil consumption increased by only 11 million tons equivalent over the same period. Six million tons of this was in public utilities where coal consumpton increased by 26 million tons.

Residual oil is not "dumped." Over a period of 7 or 8 years, except for 20 months total, the barge-delivered price of heavy fuel oil in New York harbor area was higher on an equivalent basis than barge-delivered coal. The prices fluctuated independently. The coal people have never made any request to the Government under the Antidumping Act.

There is no evidence that shutting out residual oil helps coal. In the first 10 months of 1954, use of residual oil by public utilities reporting to the Federal Power Commission dropped 21.4 percent from the prior year, coal increased 1 percent (more than accounted for by new facilities), and natural gas increased 13.6 percent.

Shutting out residual oil definitely hurts American manufacturers in 30 States employing 30,000 people in manufacturing for export to Venezuela. They send $170 million of goods paid for by the 80 percent of Venezuela residual oil imports that would be excluded by the proposed 5-percent quota.

So far as national defense is concerned, existing mines by going to a full week without overtime could add 150 to 200 million tons of coal a year. With all the shifts that have taken place to oil and gas, even with our present industrial capacity, 400 million tons of bituminous in 1954 plus 70 million tons is ample for war needs. According to the latest Bureau of Mines data, current capacity in the bituminous industry actually is 670 million tons.

The real employment problem in coal mining is the turn to strip mining, which accounts for fully 25 percent of total bituminous production. This is a technological change opposed as vigorously by the United Mine Workers as is the importation of residual oil, but with less publicity. This is because strip mining employs many fewer people, and has no place for most of the skills of deep miners. In fact, of the 142,000 out of work since 1947, the loss of 85,000 can be attributed to improvements in technology and productivity. How much of this is better machinery in deep mines and how much strip mining, is a question the coal people had better answer to this committee. At least it is not imports of residual oil.

In addition I found out last week that the mines in southern Kentucky and Tennessee, on the Southern Railroad at least, had no competition from residual oil since the last reduction in freight rates down there.

TEXTILES

The other industry that is often called sick is textiles. This is another case where we need to look at the facts. There is not one textile industry but many, and only a few are sick. Woolens and worsteds and carpets have been sick. Cottons and synthetics have not. We export 6 percent of our production of cotton textiles and import the equivalent of one-half of 1 percent. In cottons, the great middle area has no important competition. Only in very high-grade specialties and in the very cheap lines has there been any particular effects from imports.

For support of this last statement I quote Matthew J. Cuffe, president of the Textile Export Association, in a speech to the American Cotton Manufacturers Institute at New Orleans on April 23, 1954. In the so-called middle ground, he said, United States cotton textiles cannot be surpassed in price or quality.

"There are no mills in the world which can produce denim, percales, chambrays, vat-dyed twills and drills, corduroys, sheets, towels, and other items at prices equal to ours when quality factors are taken into consideration."

The best labor union economist in the business told me the same thing a year ago. Our cotton-textile industry is the most efficient and most innovating in the world. Any temporary advantage in wages abroad will not upset the industry.

The synthetic textiles are even better off.

As to most countries trying to send staple textiles here, their textile industries have been built up as part of a colonial system and they are not efficient. The number of European textile workers has shrunk greatly and is still shrinking. A United Nations report published in Geneva on Monday a week ago confirmed this. The director of the study also confirmed my main point to this committee that the capacity of economic systems to change is one of the main determinants of their capacity to grow. Protecting the status quo by using tariffs is stagnation and death, not American growth and success.

Wool textiles are in a different status. They have been badly organized. They were many old inefficient mills which had to be reorganized. Synthetics hit them hard. From 1947 to 1953 there was a decline in sales of men's woolen suits of 7 million units. High protected wool prices, fluctuating widely, aggravated a bad situation. The rash of mergers in the last year has helped; the last and one of the most important of these was announced last Friday. The conclusion from all this is that the manufacture of woolen textiles must be done in integrated companies which can adjust flexibly to consumer tastes and demand. They are now moving fast in that direction and the prospects are good.

I would agree that reductions in these tariffs should be approached cautiously, but the approach should favor efficient operations. This is exactly what H. R. 1 would do.

HIGH PRODUCTIVITY VERSUS LOW WAGES

Since they cannot demonstrate actual injury, the opponents of the bill shift to arguments about the threat of injury in the future. At the center of their position is the age-old slave-wage argument. You all know that one too well for me to add anything. But let me say a word, anyhow.

There are a few cases in which foreign industry, operating with cheaper labor costs, has managed to overcome all of its other obstacles and has undersold its American competitors in this country. In the few cases in which this has happened it has represented a real triumph of man over his environment. For the European competitor of the American manufacturer starts with close to three strikes against him. In many European industries cheap labor is not cheap at all, once the manufacturer calculates his costs on a unit basis; it costs very little by the hour, but often costs a great deal by the piece. In every industry, the European pays 2 or 3 times more for his capital than his American competitor. In every industry, his power costs are higher; in most industries, his raw-material costs are higher, too. Almost universally, he does business on a scale so small that he cannot begin to equal the economies of his American competitor. And, finally, he often operates in an environment saddled with the restrictions of cartels, where the incentive to cut costs is weak and diffused. His wage costs are multiplied by fringe benefits, too. With these handicaps, the European who can match our prices in our market is a man to be admired.

In any case, for every case in which a European industry can match our price here, there are a dozen which run the other way. Scores of American industries, big and little, have been able to outsell Europeans in their own home territory and in third-country markets. Our export figures already referred to are a conclusive demonstration of the position of American industry abroad. The fact that foreign countries have had to ration the dollars which their citizens use to buy our goods only emphasizes how much our goods are demanded and bought.

THE CONCEPT OF RECIPROCITY

Ten years ago and again in 1948, when I appeared before this same committee, there was a great deal of discussion as to whether this reciprocal-trade program was really reciprocal. There is even more discussion of that point today.

As far as I am concerned, I think that the record of the last 10 years bears out the most optimistic expectations as to the response of other countries to a reciprocal-trade program. Look at the facts.

Ever since 1945, there has been what amounts to a universal tariff truce throughout the world; there have been none of the outbursts of tariff wars that sporadically used to rock the world's trade between the two great wars. More than that: well over 50,000 items in the tariff laws in more than 40 countries have been reduced or prevented from increasing under this program.

It has become fashionable to say that other countries' tariffs don't really matter; that quantitative restrictions and exchange controls have taken their place. This is a substantial overstatement of the case, of course, since some of our biggest customers, such as Canada and Cuba, do not use quantitative restrictions and others, such as Switzerland, use them sparingly.

But let us have a close look at the picture on quantitative restrictions. In 1946, practically every nation on the globe except the United States was maintaining extremely tight quantitative restrictions on its imports. Most of them had no choice; they had to use their scarce dollars to buy American cotton, wheat, oil, and machinery, even if it meant denying their citizens other American products they also wanted.

Since 1946, there has been an extraordinary change in this picture; the change has come about by little unspectacular steps, by slow and cautious measures, but its total impact has been little less than revolutionary. Whereas close to 100 percent of our exports in 1946 were subject to quotas and import-licensing restrictions, I would judge that half our exports—perhaps even more—are now free of such restrictions.

The trend began with Canada. In 1948, the Canadians dropped the quantitative restrictions they had been using to ration their scarce dollars and invited United States goods to come in without license.

The next major step took place in 1951 and 1952, when Belgium first began to relax its import restrictions against dollar goods on a broad scale; today the Belgians have just about wiped out the extensive system of restrictions they had 4 years ago.

In 1952, the dismantling process moved a great deal faster. The United Kingdom paced the process when in the fall of 1953 it authorized unlimited imports of wood, wheat and grains, then followed up by freeing copper, lead, zinc, and many chemicals from import restrictions. In 1954, the United Kingdom went so much further in the process that by the end of the year 50 percent of its trade with the United States was free of restrictions.

In Germany, Holland, Italy, Greece, and other Western European countries, very much the same process has been taking place.

Now, I am not sure how one goes about measuring reciprocity precisely in the trade-agreements program. But this much is clear: other countries have made substantial reductions in their tariffs in return for the tariff reductions we have made. More recently, they have taken major steps in scrapping the system of quota restrictions which existed at the time we entered into our agreements with them. On our side, to the contrary, the trend has been the other way; we have more quota restrictions on imports in effect today than at any time since the end of World War II. If these trends continue, the case of unreciprocated concessions may more frequently be made by other nations than by us.

DEFENSE ARGUMENT FOR PROTECTION

Although our committee fully supports the necessity for such protection of defense industries as may be really required, I have not said much so far about the relation of this problem to the trade-agreements program. A few additional words do need to be said. First, the Symington amendment to the present act remains in force, stipulating that no duty should be reduced if the President finds that such reduction would threaten domestic production needed for projected national defense requirements. That places the responsibility for taking into account national security considerations exactly where it belongs—with the President, his National Security Council, and his Department of Defense, which are primarily and directly concerned with these matters.

But beyond that, nobody is really sure what the right defense-mobilization base may be for an era of thermonuclear warfare. It is not clear to me, and I do not apologize for my ignorance, whether we are better off relying on plants concentrated in the industrial areas of the United States, or on plants scattered throughout the free world to supply the needs of ourselves and our allies if we are to meet this strange new type of warfare. I am not even sure whether a mobilization base will be a meaningful concept any more in such a war, or whether we shall simply have to make do with the materials at hand after one great initial strike.

However, if we can afford to think of a mobilization base in conventional terms, then the question is whether the trade-agreements program helps or hinders the development of such a base. On that score, this committee has heard a succession of claims from sections of one industry or another that its particular plant and its particular set of skills are crucial to the conduct of warfare and that foreign competition is squeezing out its plant and its skills.

The one major mistake this Nation could make in mobilizing itself for modern warfare—conventional or otherwise—is to compartmentalize its skills. If another war should ever occur, even the most optimistic of us will have to assume that our plants and industries will be cruelly bombed. Crucial plants may be razed; transportation facilities disrupted.

The experience of Germany in World War II, as disclosed by the strategic bombing survey, taught us one major lesson in the conduct of that kind of warfare. Nations can get on with next to nothing in resources, provided they have versatility and flexibility in their industry; they can substitute and make do so long as the general level of their industrial skills and engineering and executive abilities is high.

This is the antithesis of the pattern into which we would be pushed if we were to succumb to the pressure of protecting every little pocket of specialized industry, every little branch of specialized skills. The one thing we cannot afford to do is to allow the extraordinary talent in our chemical industry, our electrical industry, and our machine-tool industry to grow soft under easy competition. On the contrary, every American skill should be constantly exposed to the best competition the world can bring to bear against it. Every stimulus should be encouraged to find new ways in American industry of making better products at lower costs. I am confident that American industry, by and large, will meet most of the challenges thrown in its way by foreign competition. Whether it meets the challenge or not in each individual test, America's knowledge and strength will be enhanced in the process of trying. If we insulate ourselves from the impact of foreign competition, the smugness and dry rot of protected industry will sap our strength without our even being aware of the process.

While I am on the subject of America's defense, let me say a word about Japan. I cannot for the life of me understand the callousness with which some of us approach the problems of trading with Japan. A few days ago, the American Congress gave the President the power to go to war if necessary in order to protect our outposts in Formosa. We look on the maintenance of this island—rightly, I think—as so important to our future that we are willing to risk our national life to retain it.

But there are more ways than one of losing an island. If Japan goes over to the other side—or if Japan decides that she has to play economic ball with both sides of the Iron Curtain in order to live—we will have lost an outpost more important than Formosa. Yet there are those who urge that this risk ought to be taken in order to preserve America's knit-glove industry and the handkerchief lines in our textile mills. I do not think that our knit-glove industry or our handkerchief lines will disappear in the face of Japanese competition, but, even if they did disappear, the plain fact is that it would be far better to lose them than to lose Japan.

Statement by Willard L. Thorp, Director of the Merrill Center for Economics, and Former Assistant Secretary of State for Economic Affairs

The Economic Report states flatly that "the foreign economic policies of the United States can be a powerful instrument for strengthening the security of our Nation and the free world." It emphasizes their relationship to overall foreign policy in saying that "our trade and investment policies affect our ability to increase the solidarity of the free world." It recognizes their economic significance when it says, "Such actions will not only help to increase world production and trade; they also will help to assure a rising standard of living for our own people."

With this evaluation of the importance of "strengthening our economic ties with other countries" I am in complete agreement. Unfortunately, the specific program laid out falls far short of the challenge of these statements of high purpose. Although the Council and the President are pointing this "powerful instrument" in the right direction, they propose to touch the accelerator ever so gently, and always to keep one foot poised over the brake.

First are the proposals dealing with trade barriers. Authority would be given to negotiate further trade agreements on a reciprocal basis, reducing present rates on individual commodities by not more than 5 percent per year in each of 3 years. Disregarding the fact that the machinery can hardly be put in motion to use the first of the 5 percents, a 15-percent reduction from present levels is little indeed, from 50 to 42½ percent or from 20 to 17 percent. The authority to bring rates above 50 percent down to that level is fine but it will leave so much protection that I doubt if this will have much significance except to those who calculate unweighted averages of rates, and the same goes for the cases of negligible imports. I fear that the proposals will mean relatively little effective reduction in tariff rates.

Other difficulties which handicap the importer are also given little relief. I heartily applaud the suggested changes in customs procedures, for these have been a large but little appreciated obstacle to imports. However, we are still to operate under the escape clause, which is a continual threat to any importer who endeavors to expand his market in the United States. Since this procedure was intended to prevent or correct mistakes made by our trade-agreement negotiators, I would suggest that there be some time-limit set, so that if a lowered rate has not caused injury for, let us say, 3 years, it can no longer be challenged. Under its present form, the escape clause stands as a permanent threat to the development of new trade channels.

One other type of uncertainty is that once again it is proposed to set our trade policy for only 3 years ahead. Why must we keep on this business of going over and over the same ground every year or 2 or 3? Since 1934, the Trade Agreements Act has been renewed again and again. The same witnesses have presented the same arguments again and again. The Congress can always enact amendments to permanent legislation, so why must the world be led to believe that we cannot determine the outlines of commercial policy for more than 1 to 3 years ahead?

The basic economic problem in the area of trade is still that of bringing the relationship between the dollar area and the rest of the world into balance on an economic basis. We still are providing substantial foreign aid in the form of grants and extraordinary expenditures abroad; foreign countries are still trying to hold down their purchases of American goods by quota restrictions; and the lack of general currency convertibility still interferes with the most efficient distribution of economic goods. I am a believer in growth and expansion. I should like to see our program for "freeing the channels of trade" one which would move much more vigorously toward breaking down these barriers to economic progress.

I have the same feeling that the proposals for fostering foreign investment do not match up to the scale and urgency of the problem. I have done my part in the past to try to improve the climate for private investment abroad, and I am convinced that the greatest obstacle today is the basic tension in international affairs. We already have the proposed tax incentive in operation in the Western Hemisphere, and I doubt if the wider geographical extension will have much impact on private investment in Africa or Asia, except as it enriches all those who have already made investments there. Perhaps more help will come from the International Finance Corporation. But all these proposals are of limited effectiveness in the face of the requirements of economic development. I hope that still other steps are implied in the sentence in the report: "The program of technical and other assistance to economically underdeveloped countries should be strengthened." Economic development is a slow and difficult process, requiring assistance in various forms. I should like to feel that the United States was prepared to give strong support in practical ways to countries which could present reasonable programs for their development. We must keep in mind that many developmental steps may have to be taken before private investment can play its full part.

Foreign economic policies can be a powerful instrument, but they must take the form of actions. If we talk of individual enterprise, competition, and open markets, or if we urge other countries to bring their trade into balance by increasing exports, we can hardly be convincing if we ourselves act by closing markets and increasing protection. I am happy that the Economic Report is liberal in its approach. It faces in the right direction, but I regret that the motion which it promises is only at a snail's pace.

STATEMENT OF ARTHUR R. UPGREN, DEAN, AMOS TUCK SCHOOL OF BUSINESS ADMINISTRATION, DARTMOUTH COLLEGE, HANOVER, N. H.

INTRODUCTORY NOTE

This statement has been prepared to cover two quite unrelated aspects of the foreign economic policies of the United States. It deals (1) with the place of foreign trade policy and tariff reduction as a part of total foreign economic policy, and (2) with the interest of United States agriculture in our foreign trade. This statement does not completely express my views with respect to the total foreign aid program. Rather it emphasizes that part of our foreign policy which is of more importance in achieving the international economic objectives of the United States than can be achieved by the recent overemphasis upon tariff reduction alone.

The second part of this statement gives a picture of the true interests of United States agriculture with respect to policies of tariff reduction and import restriction as a part of the price-support program.

PART I

THE CHOICES IN INTERNATIONAL ECONOMIC POLICIES AVAILABLE TO THE UNITED STATES

The choices the people of the United States and their representatives in Congress have in selecting appropriate foreign economic policies to further the international objectives of the United States, can in very large part be seen by a quick review of the policies which have been used since the end of the war. A recent report from the Department of Commerce said that the total amount of economic aid granted since the end of the war had now passed $50 billion.

Obviously what has been or what could hypothetically have been accomplished by tariff reduction is extremely small in comparison with the effect of such a large total amount of foreign aid. The other policies employed by the United States to achieve its international objectives have been of much greater importance than tariff reduction. This statement does not mean that tariff reduction is not important. It is, as evidenced by the extraordinarily heavy emphasis that has been placed upon it. And yet had that policy been employed to the full in the past 8 years, it could probably have had no more than average effectiveness, in comparison with 4 or 5 other policies we have also used in assisting the rest of the world in this period of reconstruction and development.

It is always fitting to emphasize that the most important form of international assistance the United States can render is to keep a strong, highly efficient, and high-producing, domestic economy within the United States. Thus great strength in the domestic economy at home is the greatest factor in giving an economic outlet to the rest of the world. The people of the United States want to keep busy with high productive employment. Doing that is the most important single way in which we can likewise give to the rest of the world with which we freely trade that assistance it too wants in achieving high, productive employment.

A major share of the total imports of the United States come to us quite free of duty. Since there are no duties, obviously the tariff does not obstruct the importation of such goods. The amount wanted here depends upon the levels of purchasing power and industrial production we have at home. If the industrial sector of the economy is operating at high levels, then that sector "chews up" very large amounts of imported raw materials and semifinished products of all kinds. In fact, this assistance is so important as to have led to the observation that through a high producing economy in the United States we have an automatic means of sharing the fruits of our productivity with other countries, particularly the raw material and crude food producing areas of the world. What happens is that as our economy operates at a higher domestic level, incomes are enlarged and all goods, whether produced at home or whether imported, meet a greatly enlarged demand. Since most imported raw materials, crude foodstuffs, and even semifinished materials (refined copper, newsprint, etc.) are produced under conditions of very inelastic supply, an enlarged demand within the United States increases the price of such commodities more than in proportion to the enlargement of purchasing power. Thus by improvement in price, the rest of the world gains very greatly. One need only mention the enormous gain in dollar funds which has flowed in this way to the producers of coffee in Latin America and to newsprint in Canada in recent years.

In contrast, the major share of the exports of the United States are finished manufactures. These are produced under conditions of extremely elastic supply. Consequently as the world gains a greater benefit in dollars by the methods indicated, that flow of dollars now possessed by the rest of the world purchases increasingly larger quantities of goods from the total output of the United States.

Thus not only does a high-level domestic economy render the greatest possible amount of assistance to the rest of the world, but it also provides an automatic mechanism for an increasing flow outward of dollars in payment for the larger values attached to the goods which we import to sustain the domestic economy, to the extent so far as it is sustained by such imports of raw materials, crude foodstuffs and semifinished goods.

The second way in which we have assisted the rest of the world in the past 15 or 18 years is through the improved terms of trade (relative) we offer to the rest of the world. In other words, we are selling much more in goods than the world sell us and we are charging, relatively, much lower (less increased) prices as well.

We can calculate the magnitude of this American contribution to the world from the following short table giving our terms of trade in the base years of 1936–38 and in 1954:

	Indexes of price levels	Indexes of quantities
Exports:		
1936–38 average	100	100
1954	202	252
Imports:		
1936–38 average	100	100
1954	283	148

Here we observe that the prices we paid in 1954 for our imports rose 81 percentage points more than the prices we charged for our exports; the index of import prices rose to 283 while the index of our export prices rose only to 202. Thus the world gained a substantial price advantage in its trade with us between 1938 and 1954.

Turning to the "quantity indexes" in the second column, we observe that the index of goods we exported rose to 252 percent of the base years, 1936–38, whereas the amount of goods we imported rose only to 148 percent of the base years. Translated into dollars, the 1954 terms of trade gained other countries from $2½ billion to $4 billion a year more for their exports than in 1936–38. However, since American industry is unusually productive, other industrialized countries do not share proportionately in the benefits of improved terms of trade unless there is effective "triangular trade." In other words, since we tend to import principally raw materials, European countries capture their share of dollars largely by selling their goods to the raw-material nations to which is flowing the larger amount of dollars we are supplying.

Next we can point out that the grants-in-aid and various forms of assistance granted in dollars have amounted to roundly an annual average of $5 billion since the end of the war. Here reference is made to the first forms of postwar aid including the establishment of the International Monetary Fund, the International Bank for Reconstruction and Developmet, loans to Britain, France, China, etc., and more recently aid extended under the Marshall plan, the Mutual Security Administration, and the Foreign Operations Administration.

The fourth method of extending aid has been, of course, lowered tariffs. It is difficult to estimate the assistance given to the rest of the world as the result of our lowered tariffs. It is certain, however, that the amount of such assistance probably would not put tariff reduction in a better place than fourth place as a "policy means" of economic assistance to the rest of the world.

In fact, we have the very well-known recent estimates by Dr. Howard S. Piquet that complete elimination of tariffs by the United States might in 3 to 5 years increase our imports by amounts placed between $1,300 million and $2,600 million. I think his estimates are unduly large because the greatest factor which would prevent any substantial large inflow of imports as a result of complete elimination of our tariffs is the monumental $160 billion investment of American industry in new plant, equipment, and other production facilities since the end of the war. The fact that this large investment is dedicated to new and more efficient production, combined with the fact that most industry is operating at a profit, precludes in any short run a substantial enlargement of imports. American industry can and will face the competition.

I first learned this lesson 20 years ago during a year of work with the Trade Agreements Division of the State Department. It was then the position of many representatives of industry that their concern with lowering tariffs was not a resulting large inflow of imports. In fact, their concern was far greater with the "price effect" which would ensue from reduced tariffs. At that time the price effects might even have destroyed profitability and it might injure profitability today. It might also adversely affect rates of new business investment.

The reasoning here follows: If a tariff is reduced, an American manufacturing industry which is thereby affected, does not resign the domestic markets to foreign producers. Far from that. Rather the domestic industry is faced, in its determination to retain the major share of domestic markets, with the necessity of lowering prices to meet the new price situation created by tariff reduction. Since American industry today is generally and widely profitable, it can make such reductions without being thrust into a position of suffering deficits in income statements, though profitability may be reduced. Further, inasmuch as the domestic industry has a substantial new, greatly enlarged investment in plant, it can afford to continue to operate so long as some recovery is made on this investment over and above all out-of-pocket costs. Only very slowly at best would foreigners win a larger portion of the market, and domestic producers might lose some of their profitability.

It is sometimes said that lowered tariffs would mostly benefit the handicraft industries of the countries of western Europe. But this will hardly prove that there will be a greatly increased volume of imports subsequent to our reduction of tariffs upon such goods. The point is that the goods are produced by "handicraft" industries. Europe has such completely full employment today, that there are no more "hands" left (supplies of labor) to increase the output of such handicraft industries. To be sure, there would be a general gain from some increase in the purchase of goods of these types imported from abroad but it would not be large, nor would it be desirable from the point of view of the European countries themselves. Somehow, someway, what is needed there is a broad integration of their present smaller markets so that new modern, known, improved techniques of production can be employed widely in, not handicraft, but in machine industries. The encouragement of handicraft industries may assist somewhat in winning a larger dollar supply out of our markets, but it will not greatly assist in winning a higher standard of living for the countries of Western Europe. Higher standards of living are not won by great expansion of handicraft industries. Rather such an expansion would subtract from the kind of economic development which is wanted in Western Europe for the greatest improvement of Western Europe's own standard of living.

A final, or at least fifth way, in which we have assisted the rest of the world is through private foreign investment. Unfortunately, because of widespread feelings of political insecurity in many parts of the world, American capital has not been prepared to flow into investment in other countries in large amount. Here we may think of $1 billion as probably representing the maximum which has been used to assist in foreign countries in recent years in this way.

Now a rough summary of the ways in which we have actually assisted the rest of the world may be helpful:

1. The greatest method of assistance has been the high productive levels of the domestic economy of the United States. Here the amount of aid we have given is perhaps not measurable but it can be pointed out that import levels of $2,050 million in 1935 and of $2,300 million in 1939 (depression years) have grown to more than $10 billion in each of the past 2 years of high domestic prosperity.

2. The gain to the rest of the world from financial assistance of all kinds has in the postwar period averaged roundly $5 billion annually. It has totaled $50 billion.

3. The third means whereby the world has greatly benefited from the United States has been as the result of the fact that we have sold larger quantities of goods than the rest of the world has sold to us and we have charged for these exports of ours a very substantially smaller increase in prices than the rest of the world has charged us for imports we have received from them. In fact, the gain in "terms of trade" has been more than enough to equal the total level of our imports in any pre-World War II years back to 1929.

4. We have assisted the world by steady reduction in tariffs. On all goods subject to tariffs, our latest effective dutiable level recently has been about 12.4

percent compared to a level of 48 percent in 1930 after the passage of the Smoot-Hawley Tariff Act. We have steadily lowered tariffs and the reduction in our "effective tariffs" has gone beyond "formal" tariff reductions. This has been the result of the fact that for all "specific" duties, the "effective" rate of tariff declines as there is a price advance for the goods which are subject to such specific duties. Suppose, for example, a duty of 50 cents is charged on a pound of cotton fabric of some type which at the time that specific (not ad valorem) tariff is levied, sells at $1 a pound. The ad valorem "equivalent" of such a specific tariff is 50 percent. If, however, the price of such a quantity of cotton textiles rises to $2 a pound, the duty is reduced from a 50 percent ad valorem equivalent to a 25 percent ad valorem equivalent, even though there was no change in the rate of the specific duty being levied.

A total amount of estimated annual gain to the rest of the world in trade with us which would come from a complete abandonment of our tariffs may be expected to be below a $2 billion figure. Such estimated gain would not be achieved at once but only over a considerable period of time. Thus, the slogan of "trade, not aid" is one that, if it can be won at all in its full meaning, can only be won after time. It could not have achieved the objectives its leading proponents claimed for it in recent years, especially early in 1953.

All available foreign economic policies must be considered and various choices made if we are to achieve our important and substantial foreign economic purposes. Maximum attention has been given to the subject of lowered tariffs. Adequate analysis has not been given to show the limitations of this policy to assist the rest of the world in the immediate future. These limitations are very great indeed. Certainly people should not be under the impression that we could have provided by tariff reduction anything but a small proportion of the assistance we have wanted to give to the rest of the world. A tariff reduction policy is desirable over future years, because it will promote greater efficiency in United States industry or the abandonment of domestic markets by our least efficient producers to goods which can be more efficiently produced abroad.

For Europe to win the larger amount of dollars which would give adequate supplies of dollars to the countries of Western Europe, requires even more that trade restrictions in Western Europe be greatly reduced and that techniques of production be greatly advanced in accordance with available knowledge of improved and more efficient means to produce. Thus it is mostly for Europe to solve Europe's own demands for increased economic welfare. Only a very minor proportion can be solved by tariff policy on the part of the United States.

PART II

THE INTEREST OF AMERICAN FARMERS IN AMERICAN TARIFF POLICY

American farmers have hugely increased their efficiency, productivity, per-man output, and per-man-hour output in recent years. Since the end of the Second World War there are 25 million more of us in the United States. Despite that large increase in our numbers, we are all fed 13 percent better than only 10 years ago. This represents a remarkable increase in total production and in efficiency of American farmers.

The Department of Agriculture estimates that total output of American farms has increased 75 percent in the past 4 decades with 5 million fewer workers in agriculture. In the same 40-year period agricultural output per man has increased 175 percent. In the last 15 years per-man-hour has increased 91 percent. No important industry of such size has had an increase in productivity and output of so great a magnitude.

American farmers should ask that industry secure like efficiency in order that this large increased volume of farm output may continue to be profitably marketed.

What are the interests of American farmers in American industry and through that, in American tariff policy which can affect American industry?

Substantially more than half of our total agricultural or farm output consists of livestock and all its products. The share of these products in total farm production is probably about 60 percent today. In the Corn Belt States, the share of total farm output represented by livestock and its products is in excess of 70 percent. In Minnesota it is 74 percent, possibly higher in Iowa.

The interests of farmers, therefore, in industry can be simply defined: American agriculture is interested that industry shall produce most efficiently, paying the highest possible wages in order that farmers may have profitable outlets for the products of the farm.

As American agriculture has shifted from a preponderance of cereal production to a preponderance of production of livestock and its products, American farmers can be said, briefly, to be interested that American industry shall pay sufficiently high wages to make meat-eaters of the workers who produce our industrial output. Meat eating, or in more general terms, the consumption of all forms of livestock products, requires that industry must be productive and pay high wages and that there be an efficient agriculture. These requirements are generally met in the United States but American farmers should in their own proper interest be more insistent that American industry as a whole improve materially upon its present performance. Cereal consumption in a substantial degree is a feature of low-wage countries with inefficient agricultures.

Consequently, American agriculture has the primary interest that industry shall be efficient and produce high wages. What has American tariff policy to do with all this?

In the United States, without making invidious comparisons, we have high-wage industries and low-wage industries. Out of the high-wage industries come the wage payments which sustain families in a high-quantity, high-quality, food consumption, mainly of meat or livestock products. Out of low-wage workers' families comes a low-purchasing-power ability for these more desirable and of course, more expensive farm products.

Consequently American agriculture has the interest that it should support all economic policies which would increase the total efficiency of industry. One way in which this could be done is by reduced tariffs.

But can a guide be furnished for the way in which tariffs should be reduced? The guide would be to make an array schedule of the wages paid by the different industries in the United States. The rank order would be from those paying the highest wages, namely all the building trades and the coal-mining industry, for example, when the latter enjoys full employment. Next perhaps would be the automobile industry, for example, in which the weekly wages last year were in excess of $92. The average weekly wage for workers in all durable industries in December 1954, was $80.15. In the nondurable goods industries, the average weekly gross earnings were $66.47. The average weekly wage for all workers engaged in manufacturing was midway between these 2 figures—$74.12. With wages for coal miners averaging more than $80 a week; with building construction workers averaging more than $95 a week; with wages of railroad workers averaging $78 a week, there naturally must be as many groups whose workers earn substantially less than average earnings ($74 for all factory workers in 1954).

Many studies in the past show the high and very increased consumption of meat, milk, dairy products, cheese, butter, and other poultry, dairy, and livestock products which prevails in families where the breadwinner (a misnomer today) receives a high weekly wage. In contrast, the consumption of these products is necessarily low for those families whose breadwinner is earning low wages as the result of employment in those industries which, unavoidably and despite their best efforts, have a lower productivity and therefore can only pay lower wages.

Clearly the interest of agriculture is to maximize the number of workers in industries of average or better-than-average wages. A persistent lowering of tariffs upon the imported goods so that they may slowly displace the goods of our lower wage industries will gradually mean that our future industrial expansion will come from the higher wage industries. New workers will be attracted to the employment opportunities available in such industries and will be dissuaded from entering the fields which will be slowly declining as a result of the exercise of this type of tariff-reducing policy.

To the extent that our total imports can be enlarged our total exports will be enlarged. Our exports are preponderantly the products of industries which are the high-wage industries. Thus there is the double gain by this method of tariff reduction that we expand employment in the more profitable industries and the higher wage industries and we discourage new employment in the less profitable, declining, and lower wage industries.

The key to the level of wages is not easily found. One extremely important factor, however, is the total investment per worker.

Such investment ranges from roundly $50,000 per worker in the utility industry, down through from $35,000 to $25,000 per worker in the petroleum industry, on through $20,000 to $15,000 in the chemical industry, to the national average of perhaps $10,000 investment per worker in all manufacturing industries. Other industries are to be found where the investment is perhaps unavoidably smaller than in the industries we have named. In consequence wages are lower too.

A third great advantage in the creation of high-wage, high-meat-consuming families is to be gained by a policy which encourages industries which have a high capital investment. That high capital investment naturally if the industry is expanded, will be further enlarged. Thus the construction trades and machine-making trades will increase their numbers of high-wage-earning workers.

It is extremely interesting to observe that American agriculture itself is an industry of very high investment per worker. For all American agriculture the total gross investment today is more than $22,500 per worker. Taking the farms which produce the major share of the total supply of farm products marketed commercially, there is a per-farm investment which will range very substantially upward from $25,000 per worker through $50,000 per worker and on up. This standard of investment per worker in farming compares favorably with the extremely higher investment level industries. Thus agriculture is already practising the policy it would preach for others.

In turn, other countries which are somewhat long on labor supplies and, somewhat short on capital supplies could, as a result, specialize in the industries in which they have for these reasons a greater advantage. We in turn in the United States could continue our specialization in the industries in which we have the greater advantage.

Such a policy would in no way discourage growth industries, or the growth in all more efficient industries. These growth industries and growing industries are needed for the very substantially increased volume of employment which will be wanted soon as the very greatly increased numbers of young since 1940 move forward to the thresholds of their future employment. Industries which are growth industries or which are growing rapidly are almost certain to be large-capital-using industries. It is their capital investment which makes not only an important contribution to total production in the United States but which makes a most important contribution to the number of workers in the high-wage-earning categories which further supply the high demand for farm production of today.

American farmers could secure a great gain from this guide to trade policy which calls for reducing tariffs upon the products of those industries unable, because of an inherent inability to use large amounts of capital per worker, to pay the high wages which create the demand to absorb the livestock products which make up the major share of farm output in the United States today.

Statement of Jacob Viner, Professor of Economics, Princeton University

I support heartily the general principles stated by the President with respect to the economic foreign policy of the United States in his Economic Report, and in his message to Congress of January 10. I in general support also most of his specific recommendations. I would have preferred, however, a closer match between the vigorously expressed and highly persuasive exposition of the general policy and the meager, hesitant, and partial program proposed for carrying out this general policy.

It is in the interest of the prosperity and the security of the United States that the economies of our allies, friends, and potential friends abroad shall experience steady and significant growth from year to year. More liberal access to the American market for their commodities and services can be a major factor in promoting this result.

American prosperity would be promoted by a more liberal commercial policy on our part. It is in our own economic interest that we shall move steadily toward the objective that we obtain from abroad in exchange for exports of our own commodities and services such desirable commodities and services as cannot be produced here, under normal conditions and in normal years, at as low or nearly as low a cost as the cost to us of buying such or equivalent commodities abroad.

In the past 20 years, there have been substantial reductions in our tariff rates and, because of inflation, there has been also a substantial reduction of the ad valorem equivalents of the specific duties of our tariff. The cuts that have been made in our tariff, however, have been in large part those that could be made without appreciably reducing the control of our protected industries over the domestic market. To a large extent the reductions in our tariff which would really lower the effective margin of tariff protection remain to be made. The percentage of imports of dutiable goods to total domestic production of such goods in the United States is probably less today than it was in 1934, when the process of tariff reduction began. This decline in the relative importance of imports is due to many factors, of which failure to make genuine and important reductions in the effective level of our tariff protection is only one. This decline serves, nevertheless, to support the verdict that much of the tariff liberalization of the past two decades was make-believe.

Even deep cuts in tariff rates may have only token effects on the volume of trade if the foreign producers and the American importers of the commodities in question cannot be reasonably confident that these cuts are made with serious intent to encourage imports and will not be withdrawn as soon as it becomes evident that they are having their supposedly intended effect. In many cases successful entrance into the American market requires redesign of products, adjustment, and expansion of production facilities, establishment in the United States of warehousing and distribution facilities, expensive sales effort to win market acceptance for the products. Sober, foreign businessmen will often rightly conclude that the risk that the tariff will be raised on their products as soon as it becames clear that there is an American market for them is too great to justify the investment necessary to find out whether they can sell their products here.

In the light of these considerations, the proposed limitation to 3 years as the period of authorization of reductions of duty by executive action, the limitation, with respect to most dutiable items, of reductions not to exceed 5 percent per annum, the continued subjection of the reduced duties to the hazard of cancellation of the reductions under the escape clause, these make the program as a whole a very insubstantial and timid contribution to the goal of a more liberal commercial policy for the United States.

Whatever may be said in favor of tariffs on imports, there is nothing which can be said in support of import restrictions being given the form of making the importing process unnecessarily costly in legal and clerical expenses, in deliberately manufactured risks for the importers, uncertainties and delays, through archaic administrative procedures which burden the American Government, the foreign exporters, the American importers, and the American consumer. The delay in instituting a thoroughgoing reform of our customs administration which has already occurred is inexcusable. What has recently been accomplished in this direction is good as far as it goes, but goes only a small distance toward removing abuses whose nature has been evident for many years. There has been more than ample time for exploration and for resolution of the technical questions to which revision gives rise. The time for real remedial action is long overdue.

Our treatment of agricultural imports is entangled with the special measures which we have taken to promote the prosperity of our domestic agriculture. It would admittedly be inconsistent and impracticable to allow foreign agricultural products to enter freely into the American market while domestic agricultural products are supported at higher than world-market prices. But whatever our policy should be with respect to the income levels of the persons and resources engaged in agriculture, we should carry it out by measures which retain in American agriculture only those amounts of human and other productive resources which, without subsidy, can earn in free competition the economic equivalent of what corresponding American productive resources earn in American industry at large.

It is our restrictions on agricultural imports which press most severely on the underdeveloped countries and on our neighbors to the north. It is our agricultural program, with its quotas on imports, its subsidies to exports, and its governmental trading, which conflicts most obviously and most importantly with our declared objectives of free private enterprise operating in free competitive markets and of the confinement of restrictions on foreign trade to nondiscriminatory and moderate import duties. When agricultural policy comes to be considered and, I hope, to be reformed, it is urgent that one of the major objectives shall be such a revision of that policy as to make it consistent, in its foreign economic policy aspects, with all the principles of liberalized foreign trade to which we so repeatedly declare our adherence.

STATEMENT OF THORSTEN V. KALIJARVI, DEPUTY ASSISTANT SECRETARY FOR ECONOMIC AFFAIRS, DEPARTMENT OF STATE

The basic aim of our foreign policy is to improve the security and well-being of the United States. This objective is generally accepted and understood. What is less widely understood is the fact that our international economic policies are a major instrument for achieving this objective.

The President clearly outlined the objectives of his foreign economic policy in his message to Congress on the program. He stated:

"The Nation's enlightened self-interest and sense of responsibility as a leader among the free nations require a foreign economic program that will stimulate economic growth in the free world through enlarging opportunities for the fuller operation of the forces of free enterprise and competitive markets. Our own self-interest requires such a program because (1) economic strength among our allies is essential to our security; (2) economic growth in underdeveloped areas is necessary to lessen international instability growing out of the vulnerability of such areas to Communist penetration and subversion; and (3) an increasing volume of world production and trade will help assure our own economic growth and a rising standard of living among our own people."

As these objecitves are attained they will aid and expand the economy of the United States as well as those of other countries. Thus the objectives of the Full Employment Act will be served, for the program is designed to "promote maximum employment, production, and purchasing power * * * in a manner calculated to promote and foster free competitive enterprise."

The principal trade measures in the President's program are the 3-year extension of the Trade Agreements Act, the revision of the General Agreement on Tariffs and Trade with submission to the Congress of the organizational provisions of the new agreement, multilateral trade negotiations with Japan, customs simplification, clarification of customs evaluation, increased tourism, support for trade fairs, and a liberalization of the administration of the Buy American Act. Chief measures pertaining to investments are the so-called 14 points tax advantage on investments abroad, the deferral of tax on income of foreign branches until such income is withdrawn from the country in which it is earned, tax treaties, the International Finance Corporation, the encouragement of measures by other countries to attract private United States capital, and increased Export-Import Bank loans. Other parts of the program include foreign economic aid, technical assistance, and the use of agricultural surpluses to expand consumption abroad and to promote economic development.

The President has referred to this program as "moderate" and "minimum." In his letter of transmittal of the report here under consideration, he says:

"Measures by ourselves and other nations to reduce existing barriers to international trade, payments, and investment will make the free world stronger and aid our own economic growth."

This seems axiomatic to most of those who deal with foreign economic policies. Unfortunately it is not always so clear to those not so occupied. There is a ready acceptance of the need for the many political and military arrangements that we have with other countries, such as NATO. But the reasons why the Schuman plan, for example, should have active United States support are not as widely recognized. And when it comes to trade liberalization and the free flow of capital the connection with our broad foreign policy objectives seems remote indeed to some. But alliances of the free world either reflect a mutuality of interests shared by the peoples of the countries involved or they are doomed to a destiny of frustration. Specifically, when fears, doubts, and disputes over economic matters develop between countries, they undermine intergovernmental confidence creating an atmosphere inimical to political and ideological loyalties among peoples. Thus if the United States is to exercise political leadership in the world, it cannot escape the companion role of economic leadership. That means that it must pursue economic foreign policies that will produce the results it seeks, namely growth, stability, trust, and cofidence among the nations of the free world.

Wise and constructive policies today are more imperative than ever. Not only are they calculated to create confidence among our allies in the cold war and to make new ones for us. But, they are of direct immediate benefit to us in the sense of the Full Employment Act. Let us note for a moment what is involved from the standpoint of our own economy.

In 1953 when the gross national product was $365 billion, exports including military aid came to $21 billion, or almost 6 percent of the GNP. This compared with gross receipts from farming of 8.5 percent; nonform residential construction of a little over 3 percent; business expenditures for capital equipment of a little over 6.5 percent; and consumer purchases of durable goods of a little over 8 percent. About 4⅓ million jobs are attributable to work generated by our exports and handling of imports. About 10 percent of our agricultural income is derived from exports. In recent years the production of 30 to 50 million acres of our cropland has been devoted to foreign consumers. In the most recent market year, 1953–54, wheat, cotton, and tobacco farmers shipped from 19 to 26 percent of their production overseas, while rice growers exported almost one-half their harvest.

We are programing a disposal of $453 million worth of surplus agricultural commodities abroad in fiscal 1955. In recent years, manufacturers of tractors, construction and mining equipment, oilfield machinery, textile machinery, and lubricating oil made 20 percent or more of their sales in export markets. Last year 10 percent or more of the output of machine tools, tinplate, steel rails, refrigerators, motortrucks were sold abroad. These are only a few statistics. The short-run effect of United States economic aid is to increase United States exports, e. g., every Export-Import Bank loan and guaranty promotes the export of a United States commodity. The long-run purpose of technical and economic aid is to raise the productivity and purchasing power of foreign recipients. The result over time is (*a*) to enlarge markets for our exports, and (*b*) to promote the expanded output of basic materials we need to procure from abroad.

The short-run effect of private foreign investment is to increase the export of United States commodities, since United States direct investment is generally tied to United States goods. The long-run effect of private foreign investment is to increase production and income abroad, with the result of expanding markets for United States goods and increasing the output of scarce basic materials on which United States economic growth depends.

When we look abroad, the significance of the President's program is equally forcefully borne in upon us. The United States occupies a position of economic leadership regardless of its wishes. The question is whether it uses this position for good or for harm—that is, to build or to undermine the strength and cohesiveness of the free world. It hardly seems possible that United States economic policies could operate merely as a neutral force.

The predominance of the United States in the world economy is well known. Accordingly, the course of economic conditions in the United States and the policies we pursue in the international economic field assume tremendous importance in terms of our relations with our allies.

In 1949 we had a slight recession here—a drop in our national income of 3.4 percent. During this mild adjustment Western Europe's exports to the United States dropped almost 22 percent. Chile's sales to us dropped 36 percent, and Australia's 34 percent, partly as a result of the United States economic situation.

In 1953–54 a slight economic adjustment in the United States brought about a drop of $1 billion in the amount of goods we imported. This adjustment in the United States did not, however, have an appreciable effect on Western Europe, proving that that area had recovered its economic strength sufficiently not to "catch pneumonia when the United States catches a cold." In fact, European imports from the United States were sustained throughout this period, and there is evidence to indicate that this was a factor toward stabilizing the growth in world trade and production.

This dependence is dramatic in the case of many underdeveloped countries whose foreign exchange earnings are highly concentrated in a few primary materials. For example, 60 percent of Brazil's income from exports is derived from coffee; in Chile, 51 percent is derived from copper; Colombia, 78 percent from coffee; Cuba, 82 percent from sugar; Venezuela, 97 percent from petroleum; Egypt, 89 percent from cotton; Indonesia, 95 percent from tin and rubber; Ceylon, 78 percent from tea and rubber; Iraq, 80 percent from petroleum; Pakistan, 87 percent from cotton and jute.

Access to foreign markets is also far more vital for some highly developed countries than it is for the United States. Though large in absolute terms, United States exports constitute only about 6 percent of the national income. The United Kingdom's exports amount to 21 percent of the national income; Canada's, 26 percent; Denmark's, 27 percent; the Netherlands', 46 percent; New Zealand's, 37 percent; Australia's, 21 percent.

Since most of these countries are tied to us by way of defense arrangements, we cannot be indifferent to their economic interests and problems. Therefore, the President's program takes them into account.

But the interests of the United States are even broader. The United States has an affirmative interest in the economic well-being of the free world and the President's program asserts it as something good in itself. Even if there were no Communist threat, it is in our interests to promote economic development in the underdeveloped areas and to raise the level of production and trade in the world. In this way we improve our own well-being.

Our conception of the proper role of Government in economic affairs is much more narrow than that of most other countries. In peacetime we tend to think primarily in terms of private action rather than in terms of governmental capabilities. For us the major normal function of Government in the economic sphere is to provide an environment in which private enterprise can flourish free from artificial restraints. This basic creed we carry over into our economic relations with other countries. Our principal specific objectives relate to the removal of artificial restraints on the movement of goods, services, and capital, whether publicly or privately imposed. We seek to reduce tariffs, eliminate quotas, get rid of cartels, do away with exchange restrictions, and remove restraints on foreign investment. We feel that the Government should interfere as little as possible with the free market but should act as the promoter and guardian of conditions under which the market can operate most effectively.

Additional Statement by Thorsten V. Kalijarvi

RELAXATION OF RESTRICTIONS AGAINST DOLLAR IMPORTS

The purpose of this paper is to indicate the progress that has been made in eliminating restrictions against dollar imports by those countries with which the United States has trade agreements. The paper is divided into 2 parts, 1 a listing of the overall liberalization that has taken place and the second section dealing with specific cases of restrictions which have been rectified through utilization of trade-agreement mechanisms.

1. Restrictions on imports for balance-of-payments reasons

During the post-World War II period many countries have had to take severe measures to help pull their economies out of the difficulties created by the war. Faced with limited supplies of dollars with which to pay for the goods they wished to buy from the United States, they have had to ration their funds through the use of import restrictions on dollar goods. The United States, recognizing the difficult economic situation created by the war, has attempted to minimize the damage to its commerce which has unavoidably resulted from these rationing measures. It has tried to insure that the restrictions would be relaxed as soon as improvement in the financial positions of the importing countries permitted. Consultations have been held with many countries in the General Agreement on Tariffs and Trade, the International Monetary Fund, the Organization for European Economic Cooperation, and in bilateral talks concerning dollar import restrictions.

The results of these efforts by the United States has led to progressive elimination of restrictions against dollar goods. The 1954 Annual Report of the International Monetary Fund states: "There was a general trend toward the removal of barriers on trade and payments, and restrictive practices have been considerably reduced and modified."

A quantitative estimate of the extent of liberalization throughout the world is extremely difficult to develop. However, for Western Europe there has been a significant relaxation of restrictions on dollar imports since the beginning of 1953. In that year only three countries in Western Europe—Belgium, Switzerland, and the United Kingdom—had any degree of freedom with respect to goods imported from the dollar area without any limitation by licensing authorities. By the beginning of 1955, 7 additional countries had liberalized imports from the dollar area, with the overall percentage of liberalization for these 10 countries amounting to almost 60 percent based on statistics for imports on private account in 1953. The attached chart shows the extent of progress in freeing dollar imports from restrictions by these 10 OEEC countries. It should also be noted that the extent that restrictions against dollar imports have been relaxed would reflect even greater progress if account were taken of the more liberal treatment that is being afforded such imports by licensing authorities.

The following brief summary reflects the actions taken by the major trading countries of the free world to liberalize imports from the dollar area. These countries which are not included have not relaxed their restrictions during the past year.

I. WESTERN EUROPE[1]

Belgium, Netherlands, and Luxembourg.—A common free list for imports from the dollar area generally similar to that for the OEEC countries was made effective on June 1, 1954. Licenses for the items on this free list are automatically granted. Included among the freed products are such agricultural commodities as wheat, barley, corn. flour, fats, raw tallow, tobacco, raw cotton, figs, almonds, nuts, apricots and phosphate fertilizer; such raw materials as many chemicals, copper, and petroleum oils; and such manufactured products as iron and steel sections, engines of various types, calculating machines, generators and electric motors, certain parts and components for motor vehicles and tractors, aircraft, locomotives, passenger coaches, motorcycles, dolls, and toys. The liberalization percentage totals 86 percent.

Denmark.—The first major step in freeing dollar imports was taken in December 1954. Import licenses will be issued automatically for such goods on the dollar free list as raw tobacco, cotton, asphalt, lumber, paper, many chemicals, medicinal articles, optical glassware, various tools and instruments, sewing machines, agricultural machinery, textiles, printing, packing and other machines, machine tools, and telephone and telegraph equipment. By this action, a liberalization percentage of 38 percent was achieved. The Danish Government has indicated that the dollar free list will be expanded as soon as conditions permit but, in the interim, a liberal policy will be followed in granting licenses for dollar goods.

Germany.—The issuance of a dollar free list covering 2,000 items in February 1954 was followed in November 1954 by the addition to this list of about 1,800 more items. Items on the dollar free list are automatically issued import licenses. Items included in the first line were mainly raw materials such as cotton, wool, nonferrous ores, ferro-alloys, crude oil, and a number of chemical raw materials. In addition there were such categories of semifinished and finished goods as machine tools, machinery, electro-technical goods, precision instruments, and glass and ceramics. The second list included petroleum lubricating oil, paper, washing machines, some types of refrigerators, electrical sound equipment, certain types of leather, and vulcanized fibers. As in the original list, however, there were no food or agricultural items in this second list. The restrictive policy towards imports of United States coal was relaxed in December 1954 when it was announced that licenses would be issued for the importation of DM40 million of United States coal provided payment was in a nonconvertible currency. The liberalization percentage amounts to about 70 percent.

Greece.—Except for a limited number of specified goods, there are no quantitative restrictions on imports. The liberalization percentage totals 90 percent.

Iceland.—Iceland has a free list for which import licenses are not required. Included among the items on the free list are cereals, flours, raw coffee, fruit juices, certain oils, raw cotton, hemp, certain metallurgy products, non-ferrous metals, refined petroleum, aviation gas, certain lubricants, certain textiles and miscellaneous manufactured goods. The liberalization percentage totals 33 percent.

Italy.—Extended its free list on goods from the dollar area which do not require import licenses on August 10, 1954, so as to raise the liberalization percentage from 10 percent to 24 percent. Included in this new list of liberalized products are such items as vegetable waxes, coal, crude petroleum oils for refining, certain minerals, rags, waste, synthetic and artificial rubber, wood pulp, cast iron, iron and nonferrous ores, iron, steel and cast iron scrap, crude copper and copper alloys and scrap, carbon black, and certain other chemicals and pharmaceuticals.

Norway.—While requiring import licenses for all goods from the dollar area, the Government adopted a new policy in March 1954 of granting licenses for imports of "essential" goods without regard to the previous requirement that there be at least a 10 percent price advantage over non-dollar goods. "Essential" commodities include petroleum, raw tobacco and cotton, soybeans, semifabricated iron and steel, certain chemicals, and agricultural and other machinery.

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[1] As used in this section the phrase "liberalization percentage" reflects the percentage of private imports from the United States and Canada in the base period of 1953 of the commodities that can be imported without obtaining the prior approval of the licensing authorities.

Sweden.—On October 1, 1954, Sweden established a dollar free list which released a wide range of commodities of dollar area origin from import license requirements. At the same time, the Government announced that licenses for the importation of other goods from the dollar area which were on the OEEC free list would be granted in greater quantities. The dollar free list includes a great majority of the commodities on which Sweden granted tariff concessions to the United States under the GATT. The list covers such items as manufactures of iron and metal, almost all chemical products, hides and skins, rubber products, wood goods, all paper other than newsprint, textile raw materials, yarn, cord fabrics, shoes, hats, stone, clay and glass products, iron and steel products, machines, apparatus and instruments except cameras, projectors and musical instruments, equipment for railways, streetcars, motorcycles and bicycles, dried fruits and raisins, rice, canned fish, canned fruits and juices, handbags, fishing tackle, tobacco pipes, fountain pens, and many other consumer goods. The liberalization percentage totals 40 percent.

Switzerland.—There is no discrimination against imports from the dollar area. Import licenses are not required except for a small list of items. The liberalization percentage amounts to 98 percent.

United Kingdom.—In the past 2 years the Government has taken extensive steps in returning to private trade the importation of many commodities. For the most part this action was followed by the establishment of international commodity markets and the freeing of imports from the dollar area. Included were such commodities as nickel, copper, lead, zinc, raw cotton, and wheat. In June 1954 imports of oil seeds, oils, and fats were allowed freely from the dollar area under open individual licenses and restrictions were eased on the importation of dollar machinery. Further relaxation of restrictions occurred in December 1954 when the quota for imports of passenger automobiles from the United States was increased from approximately 240 cars annually to 500 and the quota for hardwood imports was raised. The liberalization percentage amounts to almost 50 percent.

II. AFRICA

Union of South Africa.—Since January 1, 1954, the import control system has been nondiscriminatory in character insofar as source of imports is concerned. In October 1954 the Government announced that it was proceeding with the gradual relaxation of import controls and hoped to remove the controls entirely in the not too distant future, depending upon the rate of improvement in the balance of payments. In 1955 the Government announced that the requirements of the manufacturing industries for raw materials would be almost fully met; the importation of industrial machinery would be on an even more liberal basis than in 1954; quotas for agricultural machinery and implements would be increased; consumer goods imports would be increased and the list of totally prohibited items would be decreased. Further, import permits would no longer be required for textile piece goods, tea, coffee, raw cotton, raw wool, and certain types of stationery.

Ethiopia.—As of the end of 1953, imports from the dollar area were placed on the same basis as imports from other currency areas, thereby abolishing the discrimination which existed against dollar imports. Further, during the past year, exchange was freely granted for the import of all goods from any source.

Federation of Rhodesia and Nyasaland.—On July 1, 1954, restrictions on imports from the dollar area were eased. Many items previously subject to quota limitations were added to the unrestricted list, i. e., the list of items not under currency quotas but still requiring import licenses which are issued subject only to scrutiny. Such items include animal feeding stuffs, condensed milk, dried milk, edible nuts excluding groundnuts, hand tools, outboard motors over 20 horsepower, filter plants and filters for the purification and softening of water, lifts, hydraulic or electric, and gates, air conditioning machinery, insecticides, medicinal drugs and chemicals, disinfectants, veneers and sensitized paper. Further, there were significant dollar allocations for such goods as wheat, agricultural, mining, and industrial machinery, steel, electrical goods and spares, commercial vehicles, special tires and tubes, plywood, and office equipment.

Libya.—In November 1954, the Government announced the relaxation of restrictions on dollar imports considered necessary to the Libyan economy. Such goods include agricultural and industrial equipment and seeds, essential foodstuffs such as wheat and barley, secondhand clothes, medicines and drugs, essential household appliances such as refrigerators and sewing machines, commercial vehicles and spare parts for automobiles, and other machines, construction equipment, newspapers, magazines, and periodicals.

III. THE FAR EAST

India.—Restrictions, which had held dollar purchases to the barest minimum for the past several years, have been reduced for 1955. Liberalization has taken the form of increased quotas and the possibility of importers utilizing a portion of their soft-currency licenses for dollar imports.

Pakistan.—A new import policy for the first half of 1955 was announced which would maintain import licensing requirements but would be for the most part nondiscriminatory with respect to imports from the dollar area. Further, the list of importable items was increased from less than 200 items to over 300 and includes essential consumer goods. In addition, there was an increase in the established quotas for dollar-area imports.

New Zealand.—The restrictions on dollar imports have recently been relaxed by providing for substantial increases in the list of goods which can be imported freely from all sources. In addition, exchange allocations for dollar imports have been increased.

Thailand.—Practically all imports now require licenses, but this action was taken to discourage speculative imports. However, there is no discrimination as to source of supply. Licenses are automatically granted for "essential" goods and imports of "semiessential" goods are permitted up to the highest value of imports during any of the 5 preceding years. While some "luxury" goods are prohibited, licenses are issued for others.

IV. WESTERN HEMISPHERE

Canada, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Peru, and Venezuela have only nominal restrictions, if any, on dollar imports.

2. *Specific cases where the United States has succeeded in having restrictions against dollar goods eliminated*

(*a*) *Token imports*.—The United States has been pressing foreign governments which are maintaining balance-of-payments import restrictions to permit the entry of limited quantities of American products in order to permit American traders and their products to retain a foothold in markets established before financial difficulties necessitated rationing of dollars. The United States has been able to make representations on this subject to the major trading countries of the world because of the provisions contained in the General Agreement on Tariffs and Trade which require countries imposing balance-of-payments restrictions "not to apply restrictions so as to prevent unreasonably the importation of any description of goods in minimum commercial quantities, the exclusion of which would impair regular channels of trade, or restrictions which would prevent the importation of commercial samples or prevent compliance with patent, trade mark, copyright or similar procedures * * *."

Token import arrangements have been in effect in the United Kingdom for some years. Other contracting parties have different arrangements which give effect to this requirement. Discussions have been held with Australia, Pakistan, Sweden, New Zealand, and Chile for the establishment of similar arrangements.

(*b*) *United Kingdom purchase of apples*.—The United Kingdom in 1951 was making arrangements for the purchase of apples in a manner which would have discriminated in favor of Canada and against the United States. The United States, in consultations with Canada and the United Kingdom, argued, on the basis of the general agreement, that the British could not apply import restrictions in a way which would discriminate between two hard-currency countries. The resulting arrangement provided for equal treatment of the two countries.

(*c*) *Discriminatory Haitian price regulations affecting United States cigarettes*.—A government tobacco monopoly in Haiti increased the retail price at which imported American cigarettes could be sold but did not increase the retail price at which domestically manufactured cigarettes could be sold, which resulted in discrimination against American cigarettes that might have decreased considerably the market for imported American cigarettes in that country. This Government through the American Embassy called attention to paragraphs 1 and 4 of article III of GATT. The discrimination has since been ended.

(*d*) *Cuban lumber tax*.—Cuba levied a 9 percent sales tax on imports of lumber and exempted domestic lumber from the tax. Attention was called by this

Government through our Embassy to the first two paragraphs of article III, and as a result the tax was made nondiscriminatory by applying it also to domestic lumber.

(*e*) *Cuban import tax.*—Cuba proposed to levy an 8-percent tax on imported food products, with no tax on domestic products. Attention was called by this Government through our Embassy to the first two paragraphs of article III of GATT, and the proposal was never put into effect.

(*f*) *Cuban periodicals tax.*—Cuba levied a 9-percent sales tax on imported newspapers and magazines, exempting domestic newspapers and magazines from the tax. Attention was called by this Government through our Embassy to article III of GATT, and as a result imported newspapers and magazines were also exempted from the tax.

(*g*) *Haitian import surtax.*—Haiti increased the 3-percent customs import surtax to rates varying from 3½ to 4½ percent on a relatively long list of products. This Government, through the Embassy, pointed out that any such increase on products listed in the Haitian schedule of GATT would be in contravention of the provision in article II. The foreign government took immediate steps to end the contravention by making sure that the increase did not apply to scheduled products.

(*h*) *Cuban import quotas.*—Cuba refused to allow two large shipments of potatoes from the United States to enter the country. This Government, through the American Embassy, called attention to the provision of article XI of GATT, which states that no prohibitions shall be instituted or maintained by any contracting party on the importation of any products of any other contracting party, except as specified. The two shipments, which might have spoiled, with considerable loss to the exporter, were as a result of this protest later allowed to enter.

(*i*) *Cuban textile embargo.*—Cuba placed in effect import restrictions on textiles that amounted to a virtual embargo. Hundreds of thousands of dollars worth of shipments of textiles and related producted from the United States were held on the docks or in customs warehouses in Cuba. When the government in question failed to remove the restrictions, the United States Government brought the matter before the contracting parties to GATT, which were then in regular session at Geneva, claiming that the restrictions were in violation of article XI of GATT and invoking article XXIII of GATT to the effect that the restrictions nullified substantial concessions which Cuba had granted the United States in schedule IX and other provisions of the general agreement. The contracting parties discussed the matter, and the Cuban Government promptly took steps to relieve the situation.

(*j*) *Dominican import restrictions.*—The Dominican Republic banned the importation of ice-cream mix, which came principally from the United States. The American Embassy at the request of this Government discussed the matter with officials of that government, pointing out that such a restriction was in contravention of article II of GATT. The restriction was promptly removed.

(*k*) *Dominican auto import restrictions.*—The Dominican Republic published a resolution prohibiting the importation of automobiles valued at more than $1,250, except under special permit, which was at first not being granted. The American Embassy at the request of this Government called the attention of that Government to the provisions of article XI and later reported to the Department of State that the importation of cars valued at more than the figure mentioned was being regulary permitted.

(*l*) *United Kingdom tobacco-mixing requirement.*—In 1950–51, the United States was successful in securing modification of a British requirement that to the amount of 5 percent of the total Oriental tobacco bemixed wih Virginia tobacco. On the basis of the obligation in article III of the general agreement, the British agreed to permit again the manufacture of pure Virginia cigarettes, as desired by the United States tobacco industry.

(*m*) *Brazilian coffee-export restrictions.*—The United States Embassy in Rio de Janeiro made representations to the Government of Brazil in 1951 concerning the appications of monthly export quotas on coffee. The United States protest held that the Brazilian action was in violation of article XI of the general agreement. The system of export quotas was subsequently altered and the basis for the complaint removed.

(*n*) *Discrimination against American petroleum interests.*—Denmark in late 1953 tried to pressure American petroleum companies in that country to purchase some of their petroleum requirements from Soviet bloc sources. The United States Embassy intervened to protest against this discrimination. In doing so it refuted an attempted balance-of-payments justification presented by the Danish Government. The Embassy based its arguments on the principle embodied in article XII of the general agreement, that is, that Denmark's financial position, as measured by the criteria of article XII, did not permit such onerous restrictions. Denmark dropped its request of the American oil companies.

(*o*) *French export quotas on raw Angora wool.*—The United States protested in February 1954 to the French against the application by France of export quotas on raw Angora wool. The complaint held that the quotas were inconsistent with article XI of the general agreement. This case is presently under consideration.

(*p*) *Brazilian marking requirements.*—In July 1952 the United States protested to Brazil that a relaxation with respect to imports from Chile of a requirement that bags be marked in indelible ink should be extended to imports from the United States. The basis for the United States protest was article IX of the general agreement which requires most-favored-nation treatment with respect to marking requirements. The Brazilian Government then instructed its customs officers to extend to the United States on a most-favored-nation basis the treatment which applied to Chile.

(*q*) *Peruvian discrimination against United States cosmetics.*—The United States protested in 1951 and 1952 against the imposition by Peru of internal taxes which discriminated against imports of cosmetic goods from the United States. The United States based its protest on article III of the general agreement, which prevents internal taxes from being imposed on imports in a more burdensome manner than on like domestic products. Subsequently, Peru took steps toward removing the discrimination.

(*r*) *United Kingdom purchase tax.*—The United Kingdom imposed a purchase tax on imported goods which were comparable in price and quality to domestically produced goods which were generally exempt from the tax. The issue was raised at a session of the contracting parties as a violation of article III. At the seventh session (in late 1952), the United Kingdom announced the removal of the discrimination between imported and domestic goods.

(*s*) *French 0.4 percent tax.*—The United States at the session held in the fall of 1953 challenged as inconsistent with the general agreement a tax imposed by France on all imports and exports amounting to four-tenths of 1 percent by value. The United States held that the tax nullified or impaired tariff concessions made by France under the agreement. France agreed that the tax did infringe the provisions of the agreement and expected that it would not be continued in the new budget. This tax has now been abolished.

(*t*) *Peruvian automobile import tax.*—At the time Peru was negotiating for accession to GATT, it developed that Peru contemplated imposition of a charge on imports of certain classes of automobiles which the United States regarded would have violated the general agreement. On the basis of our explanation of the problem to Peru, it was decided to convert the import charge into an internal tax which would apply to any domestically produced automobiles as well as to imported cars.

(*u*) *French West African preferences.*—In 1951, France announced its intention of increasing most-favored-nation duties on some 40 items when imported into French West Africa from foreign countries, while leaving imports from France free of duty. France recognized that such action would require compensation, but on the basis of United States protests, based in part on France's obligation not to increase preference margins over the preference in a base period, France withdrew the request late in 1952. At the time, it was stated that the request might be renewed later, but to date the question has not been brought up again. A considerable amount of United States trade (amounting to $3.5 million in 1 year) thus still enjoys lower rates when imported into French West Africa than would otherwise be the case.

(*v*) *Restrictions and discriminations against American motion pictures.*—i. Austrian import restrictions: In 1953 the United States protested, on the basis of article XI (which contains a general prohibition against import restrictions), import restrictions against American motion pictures. Discussions have not been concluded in this case.

ii. Belgian restrictions: In 1951, when Belgium made known that it was imposing restrictions for balance-of-payments reasons and was giving motion-picture distributors 3 days to make counterproposals, the American Embassy in Brussels interceded on behalf of the American movie industry. It brought to the attention of the Belgians the obligation in the general agreement for consultations in regard to the imposition of balance-of-payments restrictions. The result was that these restrictions were postponed, and much milder restrictions were later imposed after consultation with the industry.

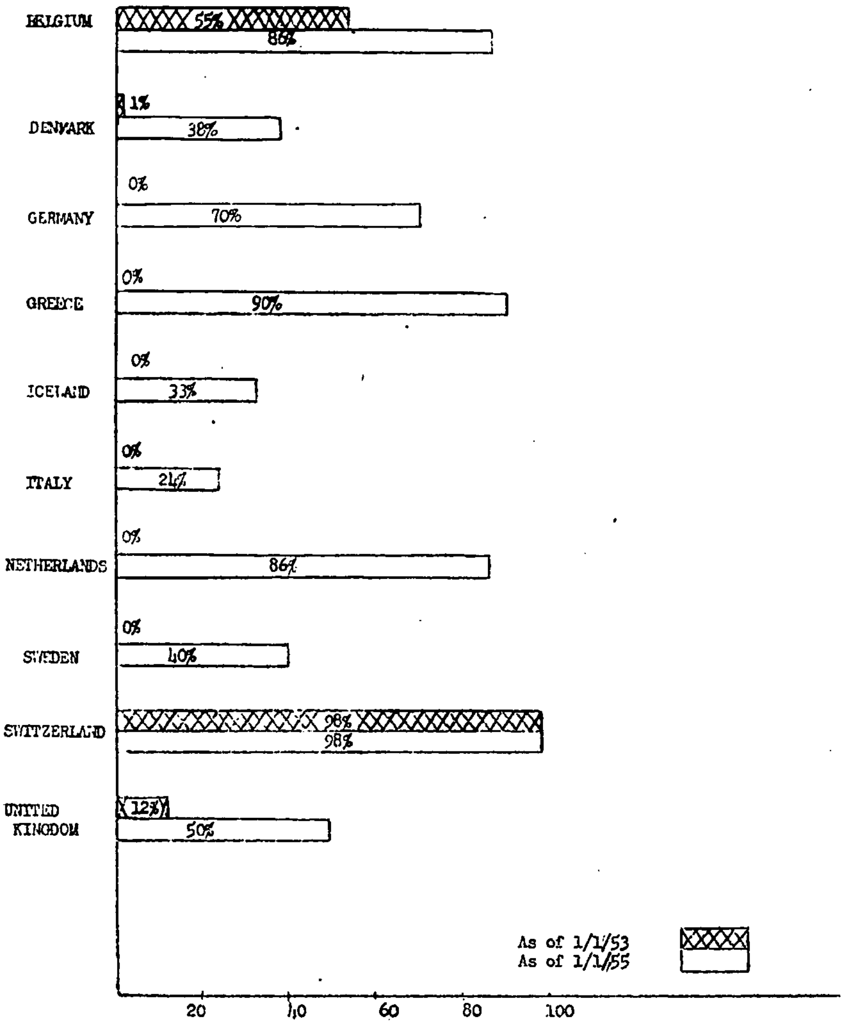
The American Embassy in Brussels in 1951 had the occasion to notify the Belgian Government that the general agreement required Belgium to give public notification of restrictions without regard to whether they were temporary, a reason the Belgians advanced for not giving publicity to the measure. Following United States representations in this case the imposition of the restrictions was postponed, and more satisfactory arrangements were worked out following discussions.

iii. Brazilian regulations: In January 1952, the United States invoked article II, paragraphs 1, 2, and 4, of the general agreement against a new decree and a draft bill which were judged to have a more burdensome effect on American motion pictures than measures in effect on the date of the general agreement (October 1947). The measures required importers to acquire domestic newsreels and shorts to the extent of 10 percent of the footage imported in a previous year. The draft bill was supplanted by another which did not contain the objectionable provision. The decree was later nullified by the Ministry of Justice on the grounds that it was a violation of the general agreement.

The American Embassy in Rio de Janeiro has been instructed to bring to the attention of the Brazilian Government the fact that a draft bill submitted to the Brazilian Congress would violate article III, paragraph 2 (by imposing a discriminatory internal tax), would violate article VII, paragraph 1 (by imposing a fee in excess of the cost of services rendered in connection with the importation), and would impair tariff concessions granted on motion pictures. No further progress has been reported on the draft bill.

In November 1952 the United States invoked article XI, paragraph 1 of the general agreement in protest against a Brazilian decree which called for an import limitation of one print per film. The application of the decree was postponed, and, while the question has not been finally disposed of, restrictions provided by the decree have not been made effective.

(*iv*) *Norwegian internal taxes.*—The United States invoked article III on April 28, 1950, against a 1949 regulation exempting from taxation the revenue derived by theaters from exhibition of Norwegian newsreels but not foreign newsreels. On August 1, 1950, foreign newsreels were also exempted from the admission tax and placed on the same footing as Norwegian newsreels in response to the Embassy's representation.



STATEMENT OF NATHANIEL KNOWLES, JR., ACTING DEPUTY DIRECTOR, BUREAU OF FOREIGN COMMERCE, DEPARTMENT OF COMMERCE

In presenting his foreign-economic program to the Congress the President stated: "For every country in the free world, economic strength is dependent upon high levels of economic activity internally and high levels of international trade. No nation can be economically self-sufficient. Nations must buy from other nations, and in order to pay for what they buy they must sell. It is essential for the security of the United States and the rest of the free world that the United States take the leadership in promoting the achievement of those high levels of trade that will bring to all the economic strength upon which the freedom and security of all depends."

Stated in its broadest terms the objective of the President's proposals is to increase our foreign trade and foreign investments. Each part of the program is designed either to remove or reduce a barrier to the flow of goods, services, and capital, or to provide some positive incentive to increasing that flow. The program recognizes the need for a gradual and moderate approach to the problem. The necessity to protect American labor and industry from unfair foreign competition and undue hardship is of paramount importance. The use of the peril-point and the escape-clause provisions will be fully utilized to assure adequate protection.

As a representative of the Commerce Department, I can perhaps make some contribution to today's discussion by indicating the present and past relationships of United States foreign trade to various elements of our national economy. We Americans are blessed with a wealth of resources and with large and expanding domestic markets. Our growing economy presents ever-increasing opportunities for investment at home. For these reasons, we often forget our important stake in the development of foreign sources of supply, particularly for raw materials, foreign markets for our products, and opportunities for overseas investment.

One way to measure the importance of foreign trade to our economy is to express it as a percentage of our gross national product and to compare that percentage with the similar percentage for other important components.

In the year just past our merchandise exports were about 4.2 percent of the estimated total gross national product of $357 billion. This figure, which includes military-aid exports, compares with 5 percent in 1929 when there was no military program. Excluding the military program, the 1954 estimated figure of 3.5 percent was slightly higher than in 1953 and moved upward contrary to most other trends in the national economy. Our merchandise imports in 1954 declined slightly from 1953 and were about 2.9 percent of the gross national product.

These figures may not appear impressive when compared with similar relationships in some of the important trading countries of Europe whose exports reach 25 percent or more of their gross national product. Such a comparison, however, ignores a very important difference between our economy and those of European countries. No one factor makes an overwhelming contribution to our total economic picture. The strength of our economy results from its diversity. Even cash receipts from farming were only 8.5 percent of the gross national product in 1954. Thus, this important component which has commanded so much attention of the Government of the United States made only about twice as much a contribution to our economy as did the exports of merchandise.

Another very important component of the gross national product which is frequently consulted to determine whether our economy is functioning properly is residential nonfarm construction. This housing component was about 3.8 percent of the gross national product in 1954. Even in 1954 when housing construction moved upward contrary to most business trends, it was lower than the exports of goods and services. Other new construction representing about 4 percent of the gross national product in 1954 was also exceeded by merchandise exports.

The foreign-trade contributions to our total economy also compared favorably with such investment components of our gross national product as business purchases of capital equipment which represented 6.2 percent of the gross national product in 1954 and consumer purchases of durable goods which were about 8.1 percent.

For your convenience, I am leaving a table entitled "Selected Elements—Percentage of Gross National Product" which gives additional details.

The significance of exports and imports is reinforced by a consideration of their relationships to some of our most important and progressive industries.

During the 3 years 1949–51 nearly one-half of our exports came from industries which sold more than 10 percent of their production abroad. One-third of our exports were accounted for by products which rely upon foreign markets for more than 25 percent of their sales.

Export markets are of central importance for some of our major agricultural products such as cotton, wheat, rice, and tobacco. In the crop year 1952–53, we exported 24 percent of our wheat and 20 percent of our cotton despite the fact that this was a year of comparatively low exports. In the preceding 5 years, we exported, on the average, about one-third of these crops. In 1953, we also exported 56 percent of our rice, 22 percent of our tobacco, 61 percent of our inedible tallow, and 18 percent of our lard.

The critical importance to our economy of the imports of many raw materials and foodstuffs which we do not produce at all or where our production does not come even close to meeting our needs has been well known for many years.

About 58 percent of our commodity imports are essential for consumption or for the operation of our economy, given the present industrial and technological pattern of production. Of these, one-third or 20 percent of total imports, cannot be produced at all in the United States. Another one-third are not available domestically in sufficient quantity.

The remainging one-third, of which coffee, tea, and cocoa are typical examples, have become an accepted part of our daily consumption and we are anxious to obtain them in exchange for our produce.

The other 42 percent of the total are imported even though they could be produced here because foreign countries are able to deliver at lower costs, or because they are sufficiently different from domestic products to stimulate demand.

The level of our imports governs the level of our exports since they provide the dollar exchange for the purchase of exports. As our grant aid to the rest of the world is reduced and ultimately eliminated, we must increase our imports unless we are willing to see our exports decrease.

American investments abroad tend to create markets for our finished product as well as raw-material sources of supply.

It is almost a truism that our best customers are the more highly developed countries. The import demands of countries with low standards of living while frequently large in relation to their domestic production are small in absolute terms. As our investments abroad contribute to the economic development of other countries and increase the standards of living in those countries, new demands are created some of which will be translated into increased exports from the United States. This is in addition to the capital goods requirements necessary to translate the money investment into plant and equipment.

Moreover, a very large part of our investments abroad has gone into the development of raw materials which we must increasingly import from abroad as our economy expands and our known domestic sources of supply prove inadequate.

I want to emphasize the role of both exports and imports in generating employment, wages, and profits in the United States.

Let me just underscore it by pointing out that some 70 percent of our exports consist of manufactured goods shipped in substantially the forms in which they are finally utilized abroad. The great bulk of the end-use value of these goods is thus contributed by American labor, capital, and management.

Our imports, in contrast to our exports, consist preponderantly of raw materials and crude foodstuffs requiring extensive further processing before entering into consumption channels here. For at least 80 percent of the goods we import, a very large part of their end-use value is added by American industry after they are purchased from abroad. The activities contributing to this added value represent jobs and profits for United States workers and employers, just as surely as do those involved in the production of our exports. Less than one-fifth of our imports enter the country as substantially finished products, and even these contribute significantly to employment and earnings in our distributive and service industries.

Selected elements—Percentage of gross national product

	1929	1933	1937	1947	1950	1953	1954[1]
Merchandise exports:							
Including military aid	----	----	----	----	3.6	4.3	4.2
Excluding military aid	5.0	3.0	3.6	6.6	3.5	3.4	3.5
Total of exports of goods and services:							
Including military aid	----	----	----	----	5.1	5.8	5.7
Excluding military aid	6.7	4.3	5.1	8.5	4.9	4.7	4.9
Merchandise imports	4.2	2.7	3.4	2.5	3.1	3.0	2.9
Total imports of goods and services	5.7	3.7	4.7	3.5	4.2	4.5	4.5
Residential nonfarm construction	3.4	.9	2.1	2.7	4.4	3.3	3.8
Other construction	4.9	1.8	2.8	3.3	3.5	3.7	4.0
Business purchases of capital equipment	5.7	2.9	5.6	7.2	7.4	6.7	6.2
Federal purchases of goods and services for national security	1.2	3.6	5.1	5.7	6.5	14.3	12.2
Other Federal purchases of goods and services				1.6	1.4	2.3	1.9
State and local government purchases of goods and services	6.9	10.7	7.9	5.5	7.0	6.9	7.7
Consumer purchases of durable goods	8.8	6.2	7.6	8.9	10.0	8.1	8.1
Consumer purchases of apparel	9.0	8.2	7.5	8.1	6.5	5.4	5.5
Cash receipts from farming	10.8	9.6	10.1	12.9	10.0	8.6	8.5

[1] Preliminary estimates.

(The following was subsequently received for the record:)

STATEMENT OF HON. AUGUSTINE B. KELLEY REGARDING TESTIMONY OF CHARLES P. TAFT

When Mr. Charles P. Taft, president of the Committee for a National Trade Policy, testified before this committee, he took it upon himself to act as the champion for the entire foreign trade program, and in doing so belittled the effects which the importation of goods in competition with domestic industry and labor was having upon our national economy.

Mr. Taft, in his appearance before the committee as president of the Committee for a National Trade Policy, although he did not mention it, was not entirely unselfish in his presentation. Mr. Taft, if he is not now, has been in the past, registered as the agent for a foreign government representing the Government of Venezuela and the Venezuelan Chamber of Commerce. Therefore, when, in Mr. Taft's statement, he devotes some very specific, pointed remarks to the efforts of the coal industry to obtain relief from the damaging imports of foreign oil which have greatly reduced coal's market on the east coast, he joins in a very well organized and highly financed campaign being conducted by some of the richest and most powerful oil companies, to destroy vital segments of our industry.

Mr. Taft, as well as other spokesmen for the major oil companies, seven of whom control the entire world petroleum market, attempt to belittle, discredit and destroy an industry that supplies the Nation's biggest source of energy that keeps the electric power and steel industries operating, and which is the keystone of the prosperity of the railroad, chemical, and other related industries.

The coal industry, in an appearance before the House Ways and Means Committee which is now considering proposed extension of the Reciprocal Trade Agreements Act, and before this Joint Committee on the Economic Report, testified that the coal industry must have a quota limitation on residual fuel oil imports if it is to remain competitive in the large east coast energy market. The coal industry has not asked for absolute elimination of the imports of foreign oil. The request has been modest and only asks that the House committee write into the trade-agreements bill, and that Congress vote it, an amendment limiting foreign oil imports, including residual oil imports, to 10 percent of the domestic demand for petroleum products in the corresponding quarter of the previous year. Such a formula would mean only that the level of imports that would be permitted would be the same as the level of imports which prevailed during the postwar period from 1946 to 1951.

I support that request as reasonable, so do a growing number of my colleagues.

The reaction of the oil industry spokesmen, including Mr. Taft, has been one of hysterical denunciation of the coal industry. In addition, the oil industry spokesmen and Mr. Taft have made statements and quoted figures, in attempts to disparage the coal industry's contention, which are deliberately misleading.

In his statement before this committee, Mr. Taft asked for all the facts, "not the selected ones which coal spokesmen and their auxiliaries bring to this committee." Then Mr. Taft cited "facts" of his own which add up to half-truths and untruths.

Mr. Taft asks for facts. Well, let us have the facts about the amount of coal displaced by oil imports. Coal producers and coal shippers, shipping to industries and public utilities on the east coast, know the reason for the discontinuance of these shipments to their East customers. As an example, a coal producer or shipper has an order with an industry for a certain tonnage of coal. He is notified that shipments must be discontinued. He is given the reason; if not, he requests it. Now, by simple addition, the total number of tons of coal displaced, added up, totals approximately 47 million tons per year. It is just as simple as that, and it is accurate.

The coal industry does not need the juggling of figures as to railroads and natural gas and light fuels, and the tonnage lost to other industries. (I don't know what "other industries" mean, nor do I know what he means by "light fuels.") But the facts are as I have stated above about the loss of tonnage.

Does Mr. Taft think for one moment the amount of residual oil being shipped to the United States is not displacing coal at all? What is being done with it? What is the purpose of shipping it then?

He said that heavy residual fuel oil consumption increased by only 11 million tons coal equivalent in the United States between 1947 and 1953. Actually, the increase of foreign residual fuel oil (including that refined from foreign crudes) increased from 17 million tons coal equivalent in 1946 to 47 million tons coal equivalent in 1954, or an increase of 30 million tons.

The fact is that foreign fuel oil represents a type of competition without end or limit, with the capacity—through dump pricing and shifting the cost to other oil products—to drive coal completely off the east coast. Foreign oil has taken over approximately 50 percent of the coal competitive energy market on the east coast.

Mr. Taft said shutting out residual oil would definitely hurt American manufacturers in 30 States employing 30,000 people in manufacturing for export to Venezuela. But the damage already done to the coal industry has contributed to a decline of employment in American coal mining from 400,000 men in 1950 to 214,000 in 1954, has cost the coal miners $81 million in wages or the equivalent of 25,000 jobs for 1 year, and cost railroad labor $44 million in wages. Approximately 75,000 miners went off the payrolls in 1954 alone.

Mr. Taft said that the real employment problem in coal mining is the turn to strip mining which he said accounts for fully 25 percent of total bituminous production. Actually, strip-mining production in 1953 (the latest year for which statistics are available) represent only 23.1 percent of the total national production of bituminous coal. In 1947, strip-mine production represented 22.1 percent of the total national production—an increase of only 1 percent in 6 years. These facts are certainly far different from those presented by Mr. Taft in support of his misinformation that "the real employment problem in coal mining is the turn to strip mining."

The number of strip mines has declined from 1,750 in 1947 to 1,554 in 1953; production has declined from 139,395,000 tons in 1947 to 105,448,000 tons in 1953 and the number of men employed in strip mines has fallen from 43,338 in 1947 to 31,088 in 1953.

Mr. Taft says, "This is a technological change opposed as vigorously by the United Mine Workers as is the importation of residual oil, but with less publicity.

The United Mine Workers do not oppose, never have, technological changes. Their vigorous opposition of strip mining has been against the nonunion strip miners. Historically the United Mine Workers have encouraged technological improvements in coal mining. It is exemplified by the fact in the United States the average production of coal per man per day is 8 tons. In England and on the continent where these changes were opposed by the union, the average is 1½ tons per man per day.

At the mine the cost is lower than it is abroad.

Mr. Taft in his statement, implied that with a bituminous coal production of 400 million tons in 1954, the addition of only 70 million tons would be ample for this country's war needs. The actual facts do not support Mr. Taft's statement. In the first year of World War II, the requirements for coal rose 130 million tons and coal supplied 82 percent of the grand total added energy needs in this first year of the war. Likewise, Mr. Taft failed to mention that in World War II the supplies of foreign oil on the east coast received by tanker, dropped 93 percent as a result of submarine sinkings.

Seemingly, Mr. Taft attempts to present himself as a technical expert in coal production when he says "existing mines by going to a full week without overtime, could add 150 to 200 million tons a year." Mr. Taft assumes that the current production capacity of the bituminous coal industry is 670 million tons annually. That figure is for 1953 and it ignores completely the current availability of manpower and the condition of the necessary machinery and equipment to produce coal. Between October 1953 and October 1954, according to the Bureau of Mines, there was a reduction of 74,000 miners. The Bureau of Mines figure of capacity is directly related to days worked and number of employees. With the indicated reduction of employees by 27 percent, the potential capacity is cut proportionately. On that basis mine capacity as of October 1954 would have been more nearly at less than 500 million tons.

As a matter of fact, as of now the anticipated coal mine production for 1955 is much less than 500 million tons, more nearly 400 million tons.

Mr. Taft makes the categorical statement "that there is no evidence that shutting out residual oil helps coal," and then he continues with a personal observation that he personally found "that the mines in southern Kentucky and Tennessee on the Southern Railroad at least, had no competition from residual oil since the last reduction in freight rates down there." These statements are wholly untrue. In the first place, foreign oil today potentially displaces 47 million tons of coal equivalent, principally in the east coast energy markets. In fact, through operation of various price understandings and market agreements within the oil cartel, bituminous coal is now virtually wiped out of the east coast energy market, and if the flood of imported oil continues, it will be wholly eliminated. The present coal displacement by foreign oil represents approximately 25 percent of the total production of coal in the principal coal-mining States of West Virginia and Pennsylvania, and such a tonnage reduction sponsors a chain reaction which affects the entire coal-producing areas.

Mr. Taft's statement regarding the mines in southern Kentucky and Tennessee is contradicted by the president of the Southern Appalachian Coal Operators Association, which is made up of the coal mineowners in southern Kentucky and Tennessee, who in a telegram to the chairman of the House Ways and Means Committee, say:

"Regarding Mr. Taft's testimony that coal mines southern Appalachian area particularly those located on Southern Railway have been materially helped in competition with residual oil by reduction in freight rates. Reduced freight rates have helped a few cases in competition with natural gas but cannot find in any instance of help in competition with residual oil sufficient to regain or hold coal in these seaboard markets."

The record shows that residual fuel oil imports are being dumped primarily in one geographic area, namely the east coast, the heart of our industrial arsenal. This foreign residual oil originates in the main from Venezuela, which today is living on a level of prosperity unequaled by any section of the United States, principally because the majority of the income in Venezuela is derived from taxes amounting to 50 percent of the value of the petroleum products which it exports, 90 percent to the United States.

It is time for the Congress to end the folly of destroying a major portion of our domestic industry, namely coal mining and domestic oil production, with unreasonable and excessive importations of foreign oils. Further, it is time for the oil industry spokesmen, including Mr. Taft, to temper presentations, such as that made before this committee, with some factual research and reasonableness so that the consideration of their own selfish interests might be leavened somewhat by a respect for American businessmen and workers, who today are being seriously and vitally affected economically by trade advantages granted to foreign nations.

(Whereupon, at 5 p. m., Tuesday, February 8, 1955, the committee adjourned to reconvene at 10 a. m., Wednesday, February 9, 1955.)

JANUARY 1955 ECONOMIC REPORT OF THE PRESIDENT

WEDNESDAY, FEBRUARY 9, 1955

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

The joint committee met at 10 a. m., Representative Richard Bolling presiding.

Present: Senators Douglas, Sparkman, and Goldwater, Representatives Bolling (presiding), Kelley and Talle.

Representative BOLLING (presiding). The committee will come to order. Senator Douglas has to be at a meeting of the Rules Committee and will be delayed for a time.

During yesterday's hearing Senator Douglas asked that the following remarks and materials from his discussion be inserted at the beginning of today's hearing:

> The Department of Commerce has issued a report on the labor force as of this morning, and I would like to read some of the salient figures from that report.
>
> It shows a decline in the number of employed of 538,000 as of the week of January 2 to 8, 1955, as compared to the week of December 5 to 11, 1954. The unemployment figures jibe fairly well with the employment figures. There is an increase in the numbers unemployed from 2,838,000 to 3,447,000 or 509,000. I would like to point out that unemployment is 260,000 greater than it was last year, January 1954, despite the fact that we have had a year in which we had population growth among the working population of close to three-quarters of a million. Nevertheless, in spite of this the number of unemployed has arisen by 265,000. It is true that there is normally a seasonal decline in employment between December and January, but I would like to make the point that this tremendous upsurge to which the President's economic advisers point in their report has not been sufficient to offset to any appreciable degree the usual seasonal decline.

Representative BOLLING. This morning the panel will discuss economic statistics and their role in helping public and private agencies carry out the objectives of the Employment Act of 1946.

A year ago the Joint Economic Committee created a Subcommittee on Economic Statistics. That subcommittee was composed of Representative Henry O. Talle, chairman, Senator Frank Carlson, and myself.

In July 1954, the subcommittee held hearings on the adequacy of economic statistics, and filed a report with the full committee, which in turn submitted the report to the Congress. The report was published as House Report No. 2628 and will be inserted in this record at the conclusion of today's hearing (see p. 1095). Recommendations 6 and 7 of that report read as follows:

> 6. *A section on economic statistics should be included in the President's annual budget and more consideration given to an adequate economic statistics program in the President's Economic Report.*—The various statistical programs of the executive agencies and their costs should be brought together and discussed. Proposed changes in these programs and their relation to the overall Federal statistical system should be pointed out.

The program presented next January should be prepared after careful appraisal of suggestions received by this subcommittee and incorporated in the published hearings. The subcommittee hopes that the various statistical advisory committees to Federal agencies will be asked to review these hearings and that the President's program submitted next January will represent a big step forward in the development of a realistic and adequate economic statistical system.

7. *The subcommittee recommends that the full committee devote one panel session to economic statistics at its hearing next year, premilinary to submitting its own report to the Congress on March 1.*—This would provide opportunity for review of the statistical program submitted in the President's budget and economic report. It would equip this committee and subcommittee to be an effective voice in congressional consideration of programs in the next session of the Congress.

It is to carry out these recommendations that we have arranged for this session today.

Our first witness will be Dr. Donald R. Belcher, Assistant Director, Bureau of the Budget. Following Mr. Belcher's testimony and questioning by the committee, we will call upon a panel of distinguished users of economic statistics for their views with respect to the program for improving statistics set forth in the President's budget and the Economic Report.

Mr. Talle.

Representative TALLE. Mr. Chairman, this seems to be the appropriate time for inserting in the public hearings of some materials that would serve, I believe, as a good preface to our work today. I refer to the report the chairman just mentioned, House Report No. 2628, 83d Congress, 2d session, and specifically to page 6 of that report, and to recommendation No. 9 of our subcommittee.

The recommendation is as follows, and I quote:

9. *The Federal Reserve System might well expand its statistical checks and analysis programs where it has special interest and competence.*—The subcommittee is requesting the Federal Reserve to explore, in cooperation with executive agencies, the adequacy of present statistics in three basic areas: (1) Inventories; (2) savings; (3) consumer and business expectations.

This request includes a thorough review of and basic research into concepts, existing data, sources and procedure for improving these statistics.

It is a genuine pleasure to report that this recommendation was acted on favorably by the Federal Reserve, and I should like, Mr. Chairman, to have inserted in the public hearings an exchange of correspondence between the Chairman of the Board of Governors of the Federal Reserve, Mr. Martin, and myself, as chairman of the subcommittee, so that the record may be complete and may show that the Federal Reserve proceeded to name five task forces to carry out this work. I am confident that anyone who examines the personnel of these five task forces will be impressed by their competence to serve. These five task forces will be ready to report by June 30 of this year. I ask unanimous consent, Mr. Chairman, that the staff be permitted to arrange these materials in satisfactory order for inclusion in the printed hearings.

Representative BOLLING, Without objection, it is so ordered.

(The information referred to is as follows:)

CONGRESS OF THE UNITED STATES

JOINT COMMITTEE ON THE ECONOMIC REPORT

Representative Henry O. Talle, chairman of the Subcommittee on Economic Statistics of the Joint Committee on the Economic Report, released today correspondence with William McC. Martin, Jr., Chairman of the Board of Governors of the Federal Reserve System, describing five task groups composed of independent experts drawn primarily from business and academic circles who have been asked to evaluate current statistical information in the fields of savings, business inventories, and business and consumer expectations.

The work is being undertaken in response to a request from the subcommittee made in a report prepared after its hearings this past summer. At that time the subcommittee asked that the Federal Reserve in exploring the adequacy of present statistics with the cooperation of other executive agencies, include a thorough review of and basic research into concepts, existing data, sources and procedure for improving statistics in these important areas.

After careful consideration of the subcommittee's request, the Board of Governors of the Federal Reserve System determined that the most useful way of proceeding with these studies would be to organize expert task groups, each headed by a consultant nationally recognized for his work in the statistical area to be examined. Dr. Raymond Goldsmith of the National Bureau of Economic Research will head the committee to evaluate savings statistics, Dr. J. Frederic Dewhurst, executive director of the Twentieth Century Fund will be chairman of the committee on inventory statistics, Prof. Arthur Smithies, chairman of the department of economics of Harvard University has undertaken the chairmanship of the committee on consumer expectations, Dr. Martin Gainsbrugh, executive director of the National Industrial Conference Board has agreed to be chairman of a committee on general business expectations, and Dr. George Terborgh, director of Research of the Machinery and Allied Products Institute will be chairman of a committee on plant and equipment expenditure expectations.

The special significance of each of the individual studies is spelled out in the attached letters from Chairman Martin to the individual task force chairmen. In the case of savings, for example, the letter emphasizes the highly strategic position which savings occupy in the functioning of the general economy, and particularly with respect to developments in money and credit markets, cyclical fluctuations in business activity, and long-run growth in capital, productivity, and living standards.

The study of the movements of inventories is cited as of key importance to economic and financial analysts concerned with the problems of changes in the business cycle. In writing to the task group studying inventories, Chairman Martin also pointed out that only in recent decades has any appreciable volume of information concerning inventory fluctuations been available and hence of necessity much of the work in collecting and analyzing inventory data has been experimental in nature.

Surveys of consumer expectations, attitudes, buying plans and related information are also a relatively recent development in economic analysis although the consumer plays an extremely important role in determining short-term business fluctuations as well as in long-run economic growth. Because of different methodological techniques and the range of problems involved, the subcommittee's original request for an evaluation of statistics on business expectations has been divided into two categories: a study and appraisal of existing statistics in the field of general business expectations and a study and appraisal of statistics relating to fixed capital outlays and expectations.

Chairman Martin emphasized that each task group is given ample latitude for inquiry, leaving the question of priority of interest to the group's discretion. Final reports have been requested for June 30, 1955, but it is suggested that postponements may be necessary in some instances in order to fulfill the requirements of accuracy and completeness. A list of the 33 experts participating in these studies is included with the attached correspondence between Congressman Talle and Chairman Martin.

DECEMBER 15, 1954.

Mr. WILLIAM McC. MARTIN, Jr.
Chairman, Board of Governors,
Federal Reserve System, Washington, D. C.

DEAR CHAIRMAN MARTIN: I am highly gratified by your letter of December 14 setting forth in detail the splendid plans of the Board for carrying out, in response to the request of the Subcommittee on Economic Statistics, the evaluation of available statistical information and ways for improving our programs in the fields of savings, business inventories, and business and consumer expectations. I am sure that Senator Frank Carlson and Congressman Richard Bolling, the other members of the subcommittee, join me in congratulating the Borad on enlisting the services of such outstanding experts.

We shall look forward to receiving the final reports of the task groups next June and will want to keep in touch with their work as it progresses. To this end I am asking the staff of the Joint Economic Committee to keep a close liaison with you and the task groups. Thank you again for your thoughtful and wholehearted cooperation.

Sincerely,

HENRY O. TALLE,
Chairman, Subcommittee on Economic Statistics.

DECEMBER 14, 1954.

Hon. HENRY O. TALLE,
Chairman, Subcommittee on Economic Statistics,
House of Representatives, Washington 25, D. C.

MY DEAR MR. TALLE: This is in reference to Governor Szymczak's letter of August 11 in which he indicated to you that the Board would explore possibilities of providing your Subcommittee on Economic Statistics with an evaluation of available statistical information in the fields of savings, business inventories and business and consumer expectations. After considerable study of the matter and several conferences with members of the staff of the Joint Committee and the interested executive agencies, the Board determined that it could make the most valuable response to your subcommittee's request by organizing five task groups, composed of independent experts drawn primarily from business and academic circles, who would be asked to prepare evaluations of the adequacy of available statistical information in their special areas of assignment.

I am happy to be able to report to you at this time that a very distinguished group of professors and businessmen have agreed to serve on these committees. Dr. Raymond Goldsmith of the National Bureau of Economic Research will head the committee to evaluate savings statistics, Dr. J. Frederic Dewhurst of the 20th Century Fund will be chairman of the committee on inventory statistics, Prof. Arthur Smithies of Harvard University has undertaken the chairmanship of the committee on consumer expectations, Dr. Martin Gainsbrugh of the National Industrial Conference Board has agreed to be chairman of a committee on general business expectations, and Dr. George Terborgh of the Machinery and Allied Products Institute will be chairman of a committee on plant and equipment expenditure expectations. It seemed highly desirable to us to break this analysis of the available information on business expectations into these two categories since they involve different methodological techniques and present somewhat different problems. A complete list of the task forces is attached for your information.

In each case we have indicated to the members that we hope to have final reports by June 30, 1955. So far as we can ascertain now it will be possible for all the committees to meet this deadline. I should add, however, that in dealing with experts of the intellectual caliber and integrity that have been assembled here, both the Board and your subcommittee must recognize the possibility that the individuals concerned will be reluctant to release a report until they are completely satisfied as to its accuracy and completeness. Therefore, in order to get the very best results, we must be prepared to yield to postponements if necessary.

For the further information of your subcommittee I am also attaching copies of letters I have sent to each of the chairmen, which set forth in some detail the suggested scope of each study. As is evident from the tone of the letters, we have endeavored to give each task group ample latitude for inquiry, leaving the question of priority of interest to their discretion.

The Board is very hopeful that this approach will produce a group of reports which will represent a real contribution to knowledge and understanding of the problems of data collection and interpretation and that the reports will serve as a basis for improvement of both public and private statistical programs in these areas over the years ahead.

Sincerely yours,

WM. McC. MARTIN, Jr.

COMMITTEE ON SAVINGS STATISTICS

Raymond Goldsmith, chairman, National Bureau of Economic Research
Solomin Barkin,[1] Textile Workers Union of America
Simon Kuznets, Johns Hopkins University and National Bureau of Economic Research

[1] Committee members added subsequent to the issuance of the December 21, 1954, press release.

James J. O'Leary, Life Insurance Association of America
Roy L. Reierson, Bankers Trust Co.
Edward Shaw, Brookings Institution and Stanford University
Dorothy S. Projector, secretary, Federal Reserve Board

COMMITTEE ON CONSUMER EXPECTATIONS

Arthur Smithies, chairman, Harvard University
Guy H. Orcutt, Harvard University
Samuel Stouffer, Harvard University
James Tobin, Yale University and Social Science Research Council
Hazel Kyrk (retired), University of Chicago
Harold C. Passer, Eastman Kodak Co.
Bert Seidman,[1] American Federation of Labor
Vernon G. Lippitt, secretary, Harvard University

COMMITTEE ON INVENTORY STATISTICS

J. Frederic Dewhurst, chairman, The 20th Century Fund
Lester, Kellogg, John Deere & Co.
Moses Abramovitz, Stanford University and National Bureau of Economic Research
Joseph K. Heyman, The Trust Co. of Georgia
Mrs. Ruth Mack, National Bureau of Economic Research
William Shaw, E. I. duPont de Nemours
Arthur L. Broida, secretary, Federal Reserve Board.

COMMITTEE ON GENERAL BUSINESS EXPECTATIONS

Martin Gainsbrugh, chairman, National Industrial Conference Board
Orin E. Burley, University of Pennsylvania
Sanford Parker, Fortune Magazine
Ashely Wright, Standard Oil Co. of New Jersey
Elmer Bratt, Lehigh University
Albert Hart, Columbia University
Millard Hastay, secretary, National Bureau of Economic Research

COMMITTEE ON PLANT AND EQUIPMENT EXPENDITURE EXPECTATIONS

George Terborgh, chairman, Machinery and Allied Products Institute
Walter Hoadley, Armstrong Cork Co.
Irwin Friend, University of Pennsylvania
Miles L. Colean, consulting economist, Washington, D. C.
William Butler, Chase National Bank
Paul Simpson, secretary, Federal Reserve Board

LETTERS TO COMMITTEE CHAIRMEN FROM CHAIRMAN MARTIN

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,
OFFICE OF THE CHAIRMAN,
November 22, 1954.

Mr. RAYMOND W. GOLDSMITH,
R. W. Goldsmith Associates, Inc.,
Washington, D. C.

DEAR MR. GOLDSMITH: I am most pleased to learn of your willingness to serve as a consultant to the Board in the capacity of chairman of a small committee of distinguished economists and statisticians to undertake a study and appraisal of existing statistics in the field of savings.

The study your committee is undertaking is one of several being made by the Board, in cooperation with other Federal agencies and private organizations, in response to a request addressed to the Board by the Subcommittee on Economic Statistics of the Joint Committee on the Economic Report of the 83d Congress, 2d session. The subcommittee's request is stated as follows in the progress report of August 5, 1954:

"The subcommittee is requesting the Federal Reserve to explore, in cooperation with executive agencies, the adequacy of present statistics in three basic areas: (1) Inventories, (2) savings, and (3) consumer and business expectations.

[1] Committee members added subsequent to the issuance of the December 21, 1954, press release.

This request includes a thorough review of, and basic research into, concepts, existing data, sources, and procedure for improving these statistics."

The language of the request indicates a desire on the part of the subcommittee for a comprehensive review and appraisal of the present status of our knowledge in the field of savings and for a set of broad, but also as specific as possible, recommendations for improvements in existing concepts, methods, and statistics, and for the development of new concepts and statistical data if these are deemed necessary. This clearly calls for consideration of the purposes for which savings data are now being or could be used. The committee, however, is not being asked to make any recommendations as to which governmental agencies, or private organizations, should be responsible for providing data in the savings field. The target date for completion of committee reports is June 30, 1955.

Saving occupies a highly strategic position in the functioning of the economy generally and particularly so with respect to developments in money and credit markets, cyclical fluctuations in business activity, and long-run growth in capital, productivity, and living standards. Construction of adequate, pertinent, and prompt measures of savings has been a major task of economists and statisticians for many years and a number of concepts and measures are now available.

Your committee has an unusual opportunity to further progress in this area by providing at this time a broad, objective, and expert examination of the field taking into account the place of savings in our financial structure, the analytic uses being made of savings data, and the present and prospective needs for such information by those concerned with determination of governmental policy, by private business and financial analysts, and by students of the economy in general.

The focus of interest of the study is in the improvement of statistics relating to all phases of saving in our economy. This would include the amounts and forms of savings of various groups—consumers, noncorporate businesses, corporate businesses, and (mainly to fill out the picture) government. The distribution of savings by income classes and other significant groups, as well as the other bodies of savings data, is appropriate for evaluation by your committee. Presumably, some part of the committee's time will need to be devoted to problems of collection and processing of data, including appraisal of sampling procedures as these relate both to present series and to possible new series.

Mr. Ralph A. Young, Director of the Division of Research and Statistics, will serve as the Board's liaison with the committees and he will be in touch with you from time to time as the work of your committee progresses. Mr. Young and members of the research staff are prepared to provide your committee whatever assistance they can and the cooperation of other agencies is assured.

I wish to express to you and your colleagues on the savings committee my great appreciation for your willingness to undertake this important task.

Very truly yours,

WM. McC. MARTIN, Jr.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,
OFFICE OF THE CHAIRMAN,
Washington, D. C., November 22, 1954.

Mr. J. FREDERIC DEWHURST,
Twentieth Century Fund, New York, N. Y.

DEAR MR. DEWHURST: I am most pleased to learn of your willingness to serve as a consultant to the Board in the capacity of chairman of a small committee of distinguished economists and statisticians to undertake a study and appraisal of existing statistics in the field of inventories.

The study your committee is undertaking is one of several being made by the Board, in cooperation with other Federal agencies and private organizations, in response to a request addressed to the Board by the Subcommittee on Economic Statistics of the Joint Committee on the Economic Report of the 83d Congress, 2d session. The subcommittee's request is stated as follows in the progress report of August 5, 1954:

"The subcommittee is requesting the Federal Reserve to explore, in cooperation with executive agencies, the adequacy of present statistics in three basic areas: (1) Inventories, (2) savings, and (3) consumer and business expectations. This request includes a thorough review of, and basic research into, concepts, existing data, sources, and procedure for improving these statistics."

The language of this request clearly indicates a desire for a comprehensive appraisal of existing inventory data and of means for improving them. Such an appraisal patently calls for consideration of the purposes for which inventory statistics are being or should be used. It also implies consideration of the relations between inventory statistics and other data, such as those for prices and for sales, output, and new orders. In some fields, output figures for successive stages may provide the most useful clues available as to changing inventory positions.

The field of inventory study is one of the most important in the whole area of economic and financial analysis, particularly with reference to problems of cyclical fluctuation. Private business policies often depend on inventory changes in particular fields and in the economy as a whole. Government economic and monetary policies of a broad nature are often affected by inventory developments and so also are some other more specialized Government programs, notably those for defense stockpiling and farm price supports.

Only in recent decades has anv appreciable volume of information concerning inventory fluctuations been available and of necessity much of the work in collecting and analyzing inventory data has been experimental in nature. Further major progress in this field may be feasible in the years ahead. Your committee has an unusual opportunity to contribute to such further advance by analyzing actual and potential uses of data concerning inventories, appraising the progress which has been made so far in developing inventory information adequate for analysis, and making recommendations concerning the further development of statistical information in this field.

In view of the basic nature of the inquiry, attention may well be given to long-term as well as short-term objectives. Also, due consideration will need to be given to the effects which recent improvements in techniques of data collection, processing, and analysis may have in making possible an improved inventory statistics program. The committee, however, is not being asked to make any recommendations as to what agencies should be responsible for providing inventory data.

The target date set for completion of committee reports is June 30, 1955.

Mr. Ralph A. Young, Director of the Division of Research and Statistics, will service as the Board's liaison with the committees and he will be in touch with you from time to time as the work of your committee progresses. Mr. Young and members of the research staff are prepared to provide your committee whatever assistance they can and the cooperation of other agencies is assured.

I wish to express to you and your colleagues on the Committee on Inventory Statistics my great appreciation for your willingness to undertake this important task.

Very truly yours,

WM. McC. MARTIN, Jr.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,
OFFICE OF THE CHAIRMAN,
November 30, 1954.

Mr. ARTHUR SMITHIES,
Department of Economics, Harvard University,
Cambridge, Mass.

DEAR MR. SMITHIES: I am most pleased to learn of your willingness to serve as a consultant to the Board in the capacity of chairman of a small committee of distinguished social scientists to undertake a study and appraisal of existing statistics in the field of consumer expectations.

The study your committee is undertaking is one of several being made by the Board, in cooperation with other Federal agencies and private organizations, in response to a request addressed to the Board by the Subcommittee on Economic Statistics of the Joint Committee on the Economic Report of the 83d Congress, 2d session. The subcommittee's request is stated as follows in the progress report of August 5, 1954:

"The subcommittee is requesting the Federal Reserve to explore, in cooperation with executive agencies, the adequacy of present statistics in three basic areas: (1) Inventories, (2) savings, and (3) consumer and business expectations. This request includes a thorough review of, and basic research into, concepts, existing data, sources, and procedure for improving these statistics."

The language of the request indicates a desire on the part of the subcommittee for a comprehensive review and appraisal of the present status of our knowledge in the field of consumer-survey information and for a set of broad, but also as specific as possible, recommendations for improvements in existing concepts, methods, and statistics, and for the development of new concepts and statistical data if these are deemed necessary. This clearly calls for consideration of the purposes for which consumer survey data are now being or could be used. It also requires consideration of these data in relation to other statistics concerning consumer behavior.

Surveys of consumer expectations, attitudes, buying plans, and related information are a relatively recent development in economic analysis. They have received the serious attention of a relatively limited number of scholars. Of necessity, much of the work has been and still is experimental in terms of their psychological underpinnings, the statistical techniques utilized, and the economic usefulness of the findings either for explaining the past or predicting the future. Your committee has an unusual opportunity to provide thoughtful evaluation and direction to this promising area of investigation.

The consumer—his current income and financial position, his debts and assets, his plans and expectations, and his attitudes about his economic situation and prospects—play an extremely important role in short-term business fluctuations as well as in long-run growth. Statistical data about consumer financial positions and economic behavior are potentially of great significance for policymakers. In approaching an evaluation of this field of statistics, it would be appropriate to include some analysis of the uses now being made of consumer expectations and related data and possible future needs for statistics in this field by persons concerned with governmental policy, by private business, labor, and financial analysts, and by students of the economy in general.

In view of the basic nature of the inquiry, the study should be undertaken on a broad basis with an eye to long-run as well as short-run objectives. Presumably some part of the committee's time will need to be devoted to problems of collection and processing of data, including appraisal of interviewing techniques, questionnaire construction, and sampling procedures, as these relate both to present surveys and to possible new sources of information.

The request of the subcommittee is directed toward the whole field of consumer survey statistics, including the Board's survey of consumer finances as one among several surveys. It is not envisaged that your report, or those of the other committees, should make any recommendations as to the agency or agencies, public or private, who should have responsibility for particular statistical series. You should feel perfectly free, of course, to criticize, if you like, any of the work presently being carried out in the field. The target date for the completion of the committees' reports is June 30, 1955.

Mr. Ralph A. Young, Director of the Division of Research and Statistics, will serve as the Board's liaison with the committees and he will be in touch with you from time to time as the work of your committee progresses. Mr. Young and members of the research staff are prepared to provide your committee whatever assistance they can and the cooperation of other agencies is assured.

I wish to express to you and your colleagues on the Committee on Consumer Expectations my great appreciation for your willingness to undertake this important task.

Very truly yours,

Wm. McC. Martin, Jr.

Board of Governors of the Federal Reserve System,
Office of the Chairman,
December 6, 1954.

Mr. Martin R. Gainsbrugh,
National Industrial Conference Board,
New York, N. Y.

Dear Mr. Gainsbrugh: I am most pleased to learn of your willingness to serve as a consultant to the Board in the capacity of chairman of a small committee of distinguished economists and statisticians to undertake a study and appraisal of existing statistics in the field of general business expectations.

The study your committee is undertaking is one of several being made by the Board, in cooperation with other Federal agencies and private organizations, in response to a request addressed to the Board by the Subcommittee on Economic Statistics of the Joint Committee on the Economic Report of the 83d Congress, 2d session. The subcommittee's request is stated as follows in the progress report of August 5, 1954:

"The subcommittee is requesting the Federal Reserve to explore, in cooperation with executive agencies, the adequacy of present statistics in three basic areas: (1) Inventories, (2) savings, and (3) consumer and business expectations. This request includes a thorough review of, and basic research into, concepts, existing data, sources, and procedure for improving these statistics."

The language of the request indicates a desire on the part of the subcommittee for a comprehensive review and appraisal of the present status of our knowledge in the field of general business expectation statistics and for a set of broad, but also as specific as possible, recommendations for improvements in existing concepts, methods, and statistics, including proposals for development of new statistical data if these are deemed desirable. This would also call for consideration of the purposes for which data are now being or could be used.

Surveys of general business expectations and related information are a relatively recent development in broad economic analysis, although, of course, they have been used for many years for planning by individual companies in some areas. Of necessity, much of the work has been and still is experimental in terms of the statistical techniques utilized and the economic usefulness of the findings either for explaining the past or predicting the future. Your committee has an unusual opportunity to provide thoughtful evaluation and direction to this promising area of investigation.

In view of the basic nature of the inquiry, the study should be undertaken on a broad basis with an eye to long-run as well as short-run objectives. Presumably part of the committee's time will need to be devoted to problems of collection and processing of data, including appraisal of interviewing techniques, questionnaire construction, and sampling procedures. as these relate both to present surveys and to possible new sources of information.

As you know, another committee under the chairmanship of George Terborgh is making a study of expectations with respect to plant and equipment outlays. Your committee, therefore. will need to focus mainly on general business expectation statistics and surveys.

The request of the subcommittee is directed toward the general field of business expectation statistics, including privately sponsored as well as governmental series; in fact, most of the presently available statistics are collected and issued by private organizations. It is not envisaged that your report, or those of the other committees, should make any recommendations as to the agency or agencies, public or private, who should have responsibility for particular statistical series. You should feel perfectly free, of course, to criticize, if you like, any of the work presently being carried out in the field. The target date for the completion of the committees' reports is June 30, 1955.

Mr. Ralph A. Young, Director of the Division of Research and Statistics, will serve as the Board's liaison with the committees and he will be in touch with you from time to time as the work of your committee progresses. Mr. Young and members of the research staff are prepared to provide your committee whatever assistance they can and the cooperation of other agencies is assured.

I wish to express to you and your colleagues on the Committee on General Business Expectations my great appreciation for your willingness to undertake this important task.

Very truly yours,

WM. McC. MARTIN, Jr.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE STSTEM,
OFFICE OF THE CHAIRMAN,
November 30, 1954.

Mr. GEORGE TERBORGH,
Machinery and Allied Products Institute,
Ring Building, Washington, D. C.

DEAR MR. TERBORGH: I am most pleased to learn of your willingness to serve as a consultant to the Board in the capacity of chairman of a small committee of distinguished economists to undertake a study and appraisal of the adequacy of existing statistics relating to fixed capital outlays and expectations. The study your committee is undertaking is one of several being made by the Board, in cooperation with other Federal agencies and private organizations, in response to a request to the Board by the Subcommittee on Economic Statistics of the Joint Committee on the Economic Report of the 83d Congress, 2d session. The subcommittee's request is stated as follows in recommendation No. 9 in the progress report of August 5, 1954:

"The subcommittee is requesting the Federal Reserve to explore, in cooperation with executive agencies, the adequacy of present statistics in three basic areas: (1) Inventories, (2) savings, and (3) consumer and business expectations. This request includes a thorough review of, and basic research into, concepts, existing data, sources, and procedure for improving these statistics."

Fixed capital outlays, although a relatively small part of gross national product, occupy a highly strategic position in the economy generally, particularly so with respect to developments in capital markets, cyclical fluctuations in output and employment, and long-run growth in output and living standards. The task your committee is undertaking is to appraise the adequacy of present data and concepts and to prepare a set of recommendations for improving such information in the field of plans and expectations with respect to plant and equipment expenditures. The committee, however, is not being asked to make any recommendations as to what governmental agencies, or private organizations, should be responsible for providing data in these fields. The target date for completion of the committee's report is June 30, 1955.

Comprehensive data relating to prospective plant and equipment outlays and plans for expenditures are relatively recent and in many respects they are still experimental. Your committee has an unusual opportunity to contribute to further progress in this area by examining basic concepts and statistical methods in the light of the current uses and prospective needs for such information by students of the economy, business, and financial analysts, and those concerned with governmental policy.

In view of the breadth of the subcommittee's request it would appear appropriate, if your committee so desired, to include as part of its study an appraisal of capital outlays and plans for State and local governments and nonprofit organizations as well as those of farmers and private businesses. The committee may also wish to consider, among other things, the relation of capital outlays to economic growth, technological change, and financing patterns. Presumably an important part of the committee's time will need to be devoted to problems of collection and processing of data, including appraisal of sampling procedures, and to exploring the needs and possibilities for developing new series in important fields.

Mr. Ralph A. Young, Director of the Division of Research and Statistics, will serve as the Board's liaison with the committees and he will be in touch with you from time to time as the work of your committee progresses. Mr. Young and members of the research staff are prepared to provide your committee whatever assistance they can and the cooperation of other agencies is assured.

I understand that you are already exploring these and other problems with members of the Board's research staff. May I express again my appreciation of your acceptance of this assignment.

Very truly yours,

WM. McC. MARTIN, Jr.

Representative BOLLING. Senator Goldwater, did you have some material you wished to put in?

Senator GOLDWATER. Not at this time.

Representative BOLLING. Mr. Belcher, will you proceed?

OPENING STATEMENT OF DONALD R. BELCHER, ASSISTANT DIRECTOR, BUREAU OF THE BUDGET

Mr. BELCHER. Mr. Chairman and members of the committee, responding to the request of this committee, I am happy to present the following statement in regard to provisions made in the 1956 budget for the improvement of economic statistics by various agencies of the Federal Government.

A sound and balanced statistical system is a primary requirement for sound administrative policies. This is true as regards the decisions and actions of the Federal Government itself, both legislative and executive. It is equally true in the fields of private enterprise—agriculture, business, and labor. The needs for accurate and prompt knowledge of the ebbs and flows in all major areas of our economic life require improvement and strengthening of our basic system of statistical intelligence.

Such a system of statistical intelligence may be viewed as consisting of two or more or less distinguishable categories. The first may be called the overall analysis of the economic situation, and is typified by national product and income accounts, indexes of production, trends of employment and unemployment, earnings of all manufacturing corporations, and the volume of business investment. The second category, or "specialized analysis," is comprised of such data as production of individual crops, production by selected manufacturing industries, price movements of individual commodities, and employment and unemployment by specific industries and localities. To appraise the overall movements of the economy it is necessary to study the several parts, but the parts themselves cannot be competently interpreted without reference to the general framework of the economy as a whole.

As agencies of the Federal Government undertake to respond to legitimate demands for more and better economic statistics, it is of primary importance that proper balance be preserved, not only between the general and the specific, but also within each of these broad categories. It has long been and is now the objective of the Bureau of the Budget, in formulating appropriation recommendations to the President each year for inclusion in his annual budget, to do all in its power to strengthen the statistical system and at the same time to maintain that proper balance.

As I said to your subcommittee last July, the Office of Statistical Standards within the Budget Bureau draws on all available sources in formulating its judgment as to what the statistical program of the Government should be. In preparing the 1956 budget, we have been greatly influenced by the testimony given last July by experts both within and outside the Federal Government, as well as by recommendations contained in the progress report of the subcommittee under date of July 30, 1954. The 1956 budget contains provision for a major expansion in many statistical programs.

This year, for the first time and in response to the request of your subcommittee, the budget document contains, on pages 1203–1204, a special analysis of "Federal Economic Statistical Programs." It shows that, for the major current statistical programs, the President has recommended the amount of $32.2 million for fiscal 1956, as compared with estimated expenditures of $27.4 million in the current year, or an increase of $4.8 million.

I believe it desirable that this special analysis be incorporated in the record before this committee, and accordingly I shall not undertake to repeat all of the detail therein contained. Provision for a number of periodic census programs (namely, the censuses of agriculture, business, manufactures, and mineral industries) was made, in large part, by appropriations of $24.4 million in fiscal 1955. The 1956 budget includes the $10.7 million required for their completion, plus $500,000 for an intercensal housing survey. With regard to the current statistical programs, however, it may be helpful if I comment on some of them in fairly broad terms.

Representative TALLE. Mr. Chairman, I ask unanimous consent that the special analysis referred to by the witness be incorporated in the record.

Representative BOLLING. Without objection, that will be done.

(The information referred to is as follows:)

SPECIAL ANALYSIS I. FEDERAL ECONOMIC STATISTICAL PROGRAMS[1]

This analysis presents the current and recommended levels of the major economic statistical programs of the Federal Government. It is intended to facilitate evaluation of the overall system of Government statistics by specific subject-matter areas and to show the proposed changes in the budget recommendations for the fiscal year 1956 for statistics of employment and unemployment, construction and housing, and other important areas of economic conditions or activities.

A sound and balanced statistical system is a necessary basis for sound administrative policies. The needs of business, agriculture, labor, and Government for accurate and prompt knowledge of the ebbs and flows in all major areas of our economic life require improvement and strengthening of our basic system of statistical intelligence.

CURRENT PROGRAMS

For a number of years the current programs of the statistical agencies have operated at a nearly fixed level, despite increases in operating costs. There have been no major expansions in these programs to keep pace with the demands for improved measures of changing economic conditions, although the major economic censuses, which are essential as benchmarks, were initaited in the fiscal year 1955. To meet the demands for better current measures, for the fiscal year 1956 the budget provides increases amounting to $4.8 million, as shown in the following summary:

Direct obligations for major current statistical programs, by broad subject areas

[In millions]

Program	1954 actual	1955 estimate	1956 estimate
Employment and unemployment, wages, industrial injuries	$4.9	$4.9	$6.8
Prices and price indexes	1.6	1.7	2.0
Construction and housing	4.5	.5	1.5
Production and distribution	14.5	15.7	16.6
Population and vital statistics	1.5	1.5	1.6
National income and analysis of business trends: State and local governments	3.2	3.1	3.5
Electronic equipment development			.2
Total, major current programs	26.2	27.4	32.2

This table does not include all the current statistical programs of the Government. Many of the Government's statistical activities, including some which contribute to our overall system of economic information, are closely tied to and frequently part of administrative operations—for example, reporting activities which arise from the unemployment insurance operations of the Bureau of Employment Security. The agencies whose programs are included, in whole or in part, in this subject-matter summary are shown in the table at the end of this special analysis.

Employment and unemployment, wages, industrial injuries: The number of persons employed, their hours of work and wages, and the number of those looking for work are of concern to the Government in formulating policy and to businessmen, labor groups, and the general public as a guide in making many day-to-day economic decisions. Information on labor turnover (industrial hires, layoffs, and quits) throws additional light on the current economic situation.

One of the problems of most concern in recent months has been the nature of the impact of unemployment during the period of adjustment from an unusually high level of defense spending. The need for greater detail on the labor force, further improvement of statistics on the extent and incidence of unemployment, and more information on the employment situation and outlook in specific areas has been made apparent during the transition period. Increases are recommended for the fiscal year 1956 to enable the Bureau of the Census and the Bureau of Labor Statistics to strengthen their respective programs in this vital area.

Provision is also made for some extension in the fiscal year 1956 of the industry and community wage surveys conducted by the Bureau of Labor Statistics, and for expansion of the BLS statistics on industrial accidents to increase their usefulness in promoting safety.

[1] From the budget of the United States, for the fiscal year ending June 30, 1956, p. 1203.

Prices and price indexes: The collection of price data and the computation of indexes of prices and the cost of living are a basic element in our system of economic intelligence. The statistical series currently maintained in this area by the Bureau of Labor Statistics and the Department of Agriculture are of strategic importance in many different connections—notably, for example, use of the BLS consumer price index as a factor in setting wage rates for millions of workers, and use of agricultural price indexes in determining parity ratios.

Postwar revisions have been completed of the BLS consumer price index and wholesale price index. For the fiscal year 1956 the budget includes a major survey by the Agricultural Marketing Service to obtain the present pattern of farmers' expenditures to determine if there is need for revising or reweighting the index of prices paid by farmers. This survey will also supply information needed, for analysis of many farm problems.

Construction and housing: Construction is a major economic activity, carried on by thousands of small builders scattered throughout the Nation. Because of its sensitivity to economic conditions and the dependence placed upon it by so many related activities, adequate information on construciton is of key significance in appraising economic trends. Estimates now available are limited to the number of new nonfarm dwelling units started and the dollar volume of all new construction activity. The latter series is based on scattered data and can be relied on to reflect only long-term trends or substantial changes in the acitvity.

For the fiscal year 1956 the budget includes a major increase for the construction statistics program of the Business and Defense Services Administration, to improve the soundness and reliability of the new-construction activity series and to permit compilation of data on expenditures for alterations and repairs and on residential vacancies. Provision is also made for the Bureau of Labor Statistics to obtain statistics on characteristics of new housing being built and on the organization and structure of the home-building industry, and to initiate studies of materials and labor requirements for construction.

In addition the increase for this area included under current programs, the budget for the fiscal year 1956 provides for an intercensal housing survey, as noted below under periodic census programs.

Production and distribution: The broad area of production and distribution includes work of the Department of Agriculture on farm economics, market research, crop and livestock estimates, and related subjects, and work of other agencies—primarily the Bureau of the Census—on current business and industrial statistics, foregin trade and shipping, and related matters.

Farm production costs and farming metnods have drastically changed under the impact of new technology, and the survey of present patterns of farmers' expenditures proposed for 1956 will aid in analysis of farm income and farm practices. Provision is also made in the Agricultural Marketing Service for further market research and improvements in the accuracy of the estimates and forecasts of crop and livestock production. In the Agricultural Research Service, the budget provides for further work in the fiscal year 1956 on the economics of production, designed to develop information to help improve farm practices.

The 1956 budget also provides for annual sample surveys of retail trade and manufacturing activity by the Bureau of the Census.

Population and vital statistics: The only increase provided in this area for the fiscal year 1956 is recommended to enable the National Office of Vital Statistics to reduce the timelag in publishing reports of vital statistics. The increase in the number of certificates of births and other vital events to be processed and tabulated has resulted in excessive timelags in the publication of these reports.

National income and analysis of business trends; State and local governments: The Office of Business Economics in the Department of Commerce is responsible for making estimates of the national income and gross national product and other national accounts. A small increase is included in the budget for the fiscal year 1956 for the work of this office on analysis of national economic trends, primarily to provide for use in the national income-product accounts of the results of the business censuses being taken this year.

The quarterly financial reports program, which collects income statements and balance sheets from manufacturing corporations, is one of the important analytic tools for determining present and prospective levels of economic activity. This program is conducted jointly by the Federal Trade Commission and the Securities and Exchange Commission. For the fiscal year 1956 the budget provides for increasing the usefulness of this program by enlarging its scope to include mining and trade corporations.

Tabulations of income-tax returns by the Internal Revenue Service are used as benchmarks for most current series on the financial condition of business and for major components of the national income and product accounts.

State and local governments in toto represent an important segment of the national economy, spending over $30 billion a year. For the fiscal year 1956 the budget provides for filling a gap in our information in this area by including funds for the Bureau of the Census to develop annual State-by-State estimates of expenditures, receipts, and changes in debt of State and local governments.

Electronic equipment development: Efforts in the fiscal year 1956 directed toward developing specialized electronic equipment for use in the censuses of business, manufactures, and mineral industries scheduled for 1958 and the censuses of population, housing, and agriculture scheduled for 1960 will result in significant reductions in the costs of these censuses and in the time required between enumeration and publication of many of the basic tabulations. Funds for development of this equipment are included in the regular 1956 budget for the Bureau of the Census.

PERIODIC CENSUS PROGRAMS

Censuses of agriculture, business (wholesale and retail trade and the service trades), manufactures, and mineral industries are scheduled at 5-year intervals. These periodic canvasses of all establishments and farms are important to business and agriculture and serve as benchmarks by means of which the accuracy of many Government and private statistical series is maintained, and the trends shown by current series are evaluated. The major costs of the present censuses, which cover the calendar year 1954, were provided for in the appropriations enacted for the fiscal year 1955. The budget for the fiscal year 1956 includes funds for the completion of these censuses.

An intercensal housing survey to be made by the Bureau of the Census is also included in the budget for the fiscal year 1956. This survey will obtain needed information on the number and characteristics of the Nation's housing units and on changes in the amount of housing since the 1950 decennial census of housing.

Direct obligations for major economic statistical programs, by agency

[In millions]

Agency	1954 actual	1955 estimate	1956 estimate
CURRENT PROGRAMS			
Department of Agriculture:			
Agricultural Marketing Service: Marketing research and agricultural estimates	$8.4	$10.2	$11.0
Agricultural Research Service: Economics of production, included under farm and land management research	1.3	1.4	1.5
Department of Commerce:			
Bureau of the Census	6.8	6.2	7.4
Business and Defense Services Administration:			
Construction statistics, included under industry divisions	.1	.1	.9
Office of Business Economics	.9	.9	1.0
Department of Health, Education, and Welfare: Public Health Service: National Office of Vital Statistics	1.3	1.3	1.4
Department of Labor: Bureau of Labor Statistics	5.5	5.4	6.8
Department of the Treasury: Internal Revenue Service: Statistical reporting	1.6	1.7	1.7
Federal Trade Commission: Financial reports, included under economic and financial reports	.1	.1	.3
Securities and Exchange Commission: Preparation of operational and business statistics	.2	.1	.2
Total, current programs	26.2	27.4	32.2
PERIODIC CENSUS PROGRAMS			
Department of Commerce:			
Bureau of the Census:			
Census of agriculture		16.0	6.0
Censuses of business, manufactures, and mineral industries		8.4	4.7
Intercensal housing survey			.5
Spot checks of business, manufactures, and agriculture	1.5		
Total, periodic census programs	1.5	24.4	11.2
Total, major economic statistical programs	27.7	51.8	43.4

Mr. BELCHER. Manpower: An appreciable strengthening of statistics in the field of manpower seems called for, both to improve our overall understanding of the economic situation as it affects employment and also to support the Secretary of Labor in developing his programs.

We have been particularly impressed that, in the area of employment and unemployment statistics where we have some of our most detailed statistics, there is a need for still more detail, precision, and sensitivity to short-run changes in the economy. We are, therefore, recommending a doubling of the Current Population Survey sample to provide better and more detailed information on the labor force, employment and unemployment. Some funds for research and improvement of these series are also included.

The monthly indicator of the number of the unemployed needs to be supplemented by additional information on the characteristics of those who are presently without jobs—who are they, where are they, how long have they been without work, and whether their joblessness is due to seasonal or cyclical factors. To provide this information we have endorsed the request of the Secretary of Labor for funds to study the present problems of chronic area and industry unemployment, frictional unemployment, characteristics of the jobless, and the structural changes in the labor force lying beyind these current patterns. It is desirable also to survey the employment and unemployment of the labor force in selected industrial areas each year, using the same techniques now used for the national estimates of unemployment, with the Secretary of Labor choosing the areas in response to the needs of the current situation.

To round out the national and area picture, figures are needed in more detail and with greater accuracy regarding factory labor turnover rates—accessions, quits, discharges, layoffs, and the like; as well as greater detail and more accurate information on employment trends in that growing segment of our economy, the service trades. We propose to add also to the detail we now have on employment, hours and earnings by industries by cooperating with the States in the preparation of such series in some 14 additional metropolitan areas.

For many years the Occupational Outlook Handbook of the Department of Labor has been one of the most important tools available to schools, employment offices, and others interested in vocational guidance from the point of view of labor market opportunities. The last edition is now seriously out of date. To keep this valuable handbook in tune with the times, we are recommending that a regular program of revision be begun in 1956.

We are also providing for some extension of the industry and community wage surveys and for expansion of statistics on industrial accidents to increase their usefulness in promoting safety.

Prices: There have been major revisions of the Wholesale Price Index and the Consumers Price Index since 1950. We feel, and your panel of last summer seemed to share this feeling, that these economic series meet fairly well the usual needs. However, there is now a modest provision in the Bureau of Labor Statistics appropriation for continued research to which we can look for continual review.

Weights for the Index of Prices Paid by Farmers are based on data relating to farm daily expenditures in 1937–41. A survey of farmers' expenditures is provided in the Department of Agriculture budget for 1956. This survey will collect data on the current pattern of expenditures and supply the information needed in reviewing the weights for this index. In addition to this use, the survey will also provide much better information for computing net farm income—a significant figure for appraising the condition of agriculture and, of course, an important component in other national aggregates.

Financial, national income and governments: In the area of current business statistics, provision is made for expanding the financial reports program, conducted jointly by the Federal Trade Commission and the Securities snd Exchange Commission, to include mining and wholesale and retail trade corporations, and to provide preliminary estimates of the quarterly net income of the corporations covered. Increases are requested also to improve the savings estimates, to permit a special study of plant and equipment expenditure estimates to determine what factors are responsible for differences between anticipated expenditures and actual expenditures for the same period, and for a study of the problems related to the collection of current financial statistics covering unincorporated business.

Improvements in the accuracy of our national income and product estimates will be facilitated by the projects included in this year's budget request. In particular, provision is made for incorporating in those estimates the reliable comprehensive data which will become available in the census of business and manufactures for 1954, and statistical tabulations by the Internal Revenue Service for the same year. Through integration with the FTC–SEC financial reporting program noted above, the national income work will utilize data from that program without the expense and burden of special collection. Planning for improvements in our inventory and manufactures sales estimates is also provided in the budget increases.

Provision is being made in the Bureau of the Census budget to expand the present sample survey of State and local government finances so that estimates of revenues, expenditures, and debt can be obtained on a State-by-State basis. Such information is needed in dealing with the problems of intergovernmental relations and will also facilitate the taking of the 1957 census of governments.

Production and distribution: The importance of accurate current information on production and distribution of both agricultural and industrial products cannot be overemphasized. The development of a research program to improve crop and livestock estimating methods was initiated in fiscal 1954 and a start on its gradual expansion to cover an increased number of crops and additional sections of the country is provided for in this budget. In addition, provision is made for expansion of marketing research directed toward improved product quality and improved efficiency in the marketing of agricultural products. Such research serves as a basis for more intelligent decisions regarding assembly, storage, processing, and distribution of farm products. Increased attention will also be given to research designed to provide data on changes in farming called for in different farming areas in view of prospective prices, costs, and other conditions.

Continuation of annual sample surveys of manufacturing and retail trade during the years between the quinquennial censuses of manufactures and trade was recommended by the Secretary of Commerce's Intensive Review Committee. While such a survey covering 1954 was not needed in view of the major censuses covering these areas, the 1956 budget provides for a resumption.

Construction and housing: Statistics on construction and housing are generally regarded as critically inadequate. The Bureau of Labor Statistics series on the number of new nonfarm dwelling units started was revised last year and is as firm as it can be made with the techniques and data available from present resources. However, it does not include farmhouses and its coverage of nonfarmhouses in rural areas is weak.

The series on expenditures for new construction of all types, for which BLS in the Department of Labor and BDSA in the Department of Commerce are jointly responsible, is seriously deficient. The BDSA budget contains funds for a program which will make substantial improvements in these data next year. As a byproduct of the surveys planned to collect data on nonresidential construction, the deficiencies in the housing starts series for rural areas which I just mentioned will be largely corrected.

One phase of construction activity on which we have had no reliable data has to do with the volume of expenditures for alterations, repair, and modernization. Last year the Bureau of the Census made a small survey which tended to show that such expenditures by homeowners alone were much higher than was previously believed, approaching in fact the expenditures for new homes. Census and BDSA are now doing similar preliminary work on commercial properties. The BDSA budget contains funds for the regular and continuing collection of data on the volume of such activity on all types of properties.

The last housing census was taken in the spring of 1950. Additions to the housing supply through new construction are being made at an unprecedented level since 1949—well over a million units a year. However, lacking current measures of such quantitative factors as demolition and conversions and such qualitative factors as "fix-up" and modernization, the census budget contemplates an intercensal housing inventory, to be taken in 1956 on a sample basis. This will provide much needed information on the effect of all of these forces on the amount and quality of the Nation's housing supply. Data on resisential vacancies will be provided periodically by a program supported by funds in the BDSA budget.

The three programs I have just mentioned—new construction, alterations and repairs, and the housing and vacancy surveys—account dollarwise for 85 percent of the improvement in the statistical program for this area. The rest of the program provides for surveys and studies by BDSA and BLS of building materials and labor requirements for construction, and characteristics of new houses being built, and the organization and structure of the home-building industry.

All of the programs in this area are recurring and should be continued annually, except the census housing survey which would be repeated during the period between decennial censuses only as conditions warrant. I should mention also that the studies of materials and labor requirements would cover selected types of construction on a rotating basis so that these requirements for all types of construction would be covered about every 5 years.

Population and vital statistics: During the past few years the processing of certificates of births and other vital events and publication of the annual compendium of final data have lagged far behind desirable goals. An increase in funds for the fiscal year 1956 will enable the National Office of Vital Statistics to recapture lost ground in approximating an optimum schedule for the publication of vital statistics of the United States.

Conclusion: In its report of last July, your subcommittee put great emphasis on the needs of private economic interests and of Government policymakers for increasing quantity and improved quality of economic statistics, and pointed out the essential and unique role which the Federal Government must take in helping to satisfy that need.

I believe that viewpoint has widespread acceptance in our Government. Despite budgetary limitations, our statistical agencies have long been in the forefront of new statistical methods and their output over the years has shown great overall improvement, both in coverage and in quality.

For fiscal 1956, the President has recommended appropriations to the several agencies which, in addition to completing the special censuses already underway, will provide for expansion of $4.8 million, or about one-sixth, in present levels, for the current statistical programs. This contemplates not only general strengthening throughout the statistical system but, in particular, marked increases in the fields of manpower and construction statistics where the need for more and better economic information is most generally recognized. The increases are all directed at known weaknesses or gaps in existing statistics and will measurably improve our economic intelligence. In the two fields of major increases, I am convinced that the expanded programs will raise the entire level of accuracy and detail, and correct major deficiencies disclosed during the postwar period.

I want to thank you for your attention and again express appreciation for the opportunity of appearing before this committee.

Representative BOLLING. Thank you, Mr. Belcher.

Mr. Talle, do you have some questions?

Representative TALLE. Yes, Mr. Chairman.

Mr. Belcher, in the Joint Economic Report of last February, House Report 1256, 83d Cong., 2d sess., the committee recommended that the various executive agencies comply with the committees' staffs' suggestions for improving labor force employment and unemployment statistics, pages 49 and 50 in that report.

Would you outline the steps which have been taken to comply with those recommendations or suggestions?

Mr. BELCHER. Well, specifically as to that area, in that area we have the largest single item of increase in the recommended budget for 1956. That is an increase from estimated expenditures of $4.9 million in 1955 to a budget figure of $6.8 million in 1956, or an increase of $1.9 million in that manpower area. So we have given very serious consideration to that recommendation.

Representative TALLE. I want to say, again, that the cooperation of the executive agencies with our committee has certainly been excellent, and I foresee that it will continue to be so.

Mr. BELCHER. Thank you, sir. I am very happy to hear that.

Representative BOLLING. Senator Douglas.

Senator DOUGLAS. Mr. Belcher, are you the representative of the Bureau of the Budget in charge of statistics or generally supervising governmental statistics?

Mr. BELCHER. I am Assistant Director of the Bureau and assigned various responsibilities, and I have been giving special attention to the area of statistics in the absence of an Assistant Director in charge of the Office of Statistical Standards.

Senator DOUGLAS. Some years ago I used to use the statistical series of the Government quite fully, although in the last 15 years it has been impossible for me to do so. Up until 1921, the Government collected statistics on the amount of fixed and working capital in manufacturing, and then I am sorry to say, on the recommendation of an advisory committee of statisticians, this series was discontinued.

Now I have not had a chance to study the various censuses since then. Do you know whether we now have amounts of capital invested and total amounts of capital used in the various industries?

Mr. BELCHER. I would suppose we would have in connection with the census of manufactures. May I ask Mr. Stapp, who is Assistant Chief of the Office, about that fact?

Mr. STAPP. There has been a certain amount of decreasing emphasis on the amount of capital——

Senator DOUGLAS. Do you have the amount of capital for increases?

Mr. STAPP. They get the amount invested and the amount increased.

Senator DOUGLAS. Do you have figures of total capital or just the annual increments?

Mr. STAPP. Senator Douglas, there are a number of sources for such data and I cannot recall the exact status.

Senator DOUGLAS. Would you be good enough to prepare a memorandum on this question? I know it is difficult to translate these figures into money terms because you have the problem of original cost as compared with current valuation. This, however, has always seemed to me a highly important series, and the British dominions have very detailed periodic figures on this. Of course, their censuses of manufactures are very poor but it did seem to me a great mistake to discontinue our series on this subject. At an appropriate time I would like to urge an expansion in this direction because it has great theoretical and great practical importance, too.

Mr. BELCHER. May we submit a statement as to the current situation on that?

Senator DOUGLAS. Yes, I would appreciate it very much.

(The material requested is as follows:)

INFORMATION AVAILABLE FROM FEDERAL STATISTICAL AGENCIES ON CAPITAL INVESTED IN MANUFACTURING

(1) Quarterly data on working capital, assets, liabilities and other financial items appear in the quarterly financial report, a joint release of the Federal Trade Commission and the Securities and Exchange Commission. This release gives data on a company basis on individual asset items (such as property, plant, and equipment) as well as liability, income, and surplus items. The data are available for all manufacturing corporations, and for 23 individual industry groups (such as food, tobacco, machinery, etc.) in manufacturing.

(2) Annual data, in still greater detail, are published in the Internal Revenue Service's Statistics of Income, Part 2, Corporations (table 4).

(3) Quarterly data are also available on the amount of investment made in the current quarter. These figures on plant and equipment expenditures by manu-

facturing corporations appear regularly in the survey of current business and are based on the joint surveys of the Office of Business Economics and the Securities and Exchange Commission. The survey also publishes estimates of anticipated capital expenditures. These estimates (which are based upon anticipations of business firms) are made quarterly for two quarters in advance and once a year for a full calendar year.

The above data relate only to manufacturing corporations. However, corporations account for over 90 percent of net income and sales in all manufacturing. Consequently the data can be taken as generally indicative of manufacturing business as a whole, though some industry segments, such as petroleum, encompass appreciable amounts of nonmanufacturing facilities.

(4) Annual data for plant and equipment expenditures and for inventories by establishments is provided in detailed industry groups beginning with 1949 in the Census Bureau's annual sample survey of manufactures. In addition, expenditures for manufacturing establishments under construction and not yet in operation at the end of the year are also collected. Information on plant and equipment expenditures and inventories for all manufacturing establishments was collected in the census of manufactures for 1939, 1947, and currently for 1954. The Census Bureau did not collect data on capital expenditures between the years 1921–37. Data on total capital invested by manufacturing establishments consisting of plant and equipment, inventories and other assets were last collected for 1919.

Representative BOLLING. Senator Goldwater.

Senator GOLDWATER. I have no questions.

Representative BOLLING. Senator Sparkman.

Senator SPARKMAN. I have no questions.

Representative BOLLING. Thank you very much, Mr. Belcher.

Mr. BELCHER. It was a great pleasure to be here.

(Mr. Belcher's prepared statement appears at p. 1099.)

Senator GOLDWATER. It is going to be necessary for me to leave. This is the particular time of year when Republicans go forth to extoll the virtues of Lincoln, and I have to depart for that purpose today, but I am sure you understand the necessity of that.

Representative BOLLING. Certainly.

Senator GOLDWATER. Before I go, though, I would like to comment that I have had many, many letters from constituents in Arizona and business friends in other parts of the Nation complaining about the present business census that has gone out. It is out. There is nothing we can do about it.

Pointing this up was an article in Business Week on the 5th of February, entitled "Where the Census Goes Wrong." I have had that article copied, because it points up very pointedly the type of remarks that I have been receiving on the census.

Mentioned in this article is the improvement of census of manufactured articles statistics, which is a report of the Advisory Council on Federal Reports.

Mr. Chairman, I would like to ask unanimous consent that this article from Business Week, together with a copy of this report, be incorporated in the record at this time.

Representative BOLLING. Without objection, that will be done.

(The information referred to above is as follows:)

[Business Week, February 5, 1955]

WHERE THE CENSUS GOES WRONG

AN INDUSTRY ADVISORY GROUP SAYS MANY OF THE CENSUS OF MANUFACTURERS CLASSIFICATIONS ARE MISLEADING

Sometime within the next 2 weeks, every manufacturing plant in the United States is supposed to tell the Census Bureau how much business it did last year, what its chief products were, and how many people it employed. But census officials have been warned that the results, when they are tabulated and published later in the year, will be far from an accurate picture of what United States industry really is, or how it operates.

The warning was made by a committee of top economists and statisticians in a report for the Advisory Council on Federal Reports. The Council, which works closely with the Statistical Standards Division of the Bureau of the Budget, is composed of private industry representatives. The census study was made by a special subcommittee of the Council.

Objections.—In general, the committee, in an 11-to-1 majority report, accuses the Census Bureau of clinging to outmoded ideas of what constitutes an "industry," and of failing to adjust its data to reflect modern practices.

In particular, the committee says census data fails to allow for the trend toward diversification of products, and for the amount of output for in-plant use only.

The result—in the opinion of committee members—is needless trouble for business on a number of fronts:

Businessmen trying to use census data to measure potential markets are hampered by lack of complete coverage.

Antimonopoly legislators and the Federal Trade Commission are given a false picture of the degree to which output is concentrated in a few plants.

The real productivity of labor is obscured by unreliable information on total output within individual plants. And labor productivity is becoming more and more a big factor in union negotiations.

Too late?—It's too late to change the forms, or to obtain additional information from manufacturers, in time for this year's census. But the committee hopes Census will still change some of its processing of the raw data to conform to its recommendations. It also recommends that Census raise warning signs over some of its data that the committee feels will be particularly misleading.

To see what's involved, think of the information supplied by businessmen as falling into two broad categories: (1) Facts about products, and (2) facts about the establishment as a whole. These break down further into the subdivisions that cause much of the confusion in the business census.

I. What are products?

Plants are asked to report on the dollar value of final products that are shipped, sometimes on the number of units produced, too. The committee has praise for these figures—as far as they go. The trouble is they stop short of really listing what most plants make and often fall far short of measuring actual output. Here's why:

"Final products shipped"—the key to census data on products—fails to pick up information about goods produced for internal use. If the product is not shipped as a separate unit, it is not counted. That means millions of dollars' worth of such items as containers, casting, stampings, forgings, and machined products simply disappear as far as the census of manufacturers is concerned.

Misleading.—This flaw in census data can lead to serious errors in measuring the size of an industry. The committee cites the case of cutting tools, jigs, dies, and fixtures. This is classified as a separate industry under census rules.

Suppose you're a supplier to this industry and want to check on the size of your market. The last census of manufacturers—taken for 1947—reports a grand total of 74,522 workers in this industry. But General Motors Corp. alone employs 18,000 skilled tool, die, jig, and fixture makers—of whom only 500 are included in the census figures. That's because the other 17,500 turn out products that are used in the same plant where they are made, instead of being shipped.

Thousands of additional workers are turning out these products for other manufacturers. So the census figures ludicrously understate the size of the industry.

Wrong impression.—That's a serious enough flaw when a market analyst is trying to judge a sales potential. It becomes even more serious when Government officials wade cheerfully into the same statistics and make deductions about how output is divided among plants.

In a study published last year, FTC used census data to report on trends in concentration of output for the "cutting tools, jigs, fixtures, etc.," industry among others.

FTC showed that in 1935 the four leading producers accounted for more than one-fifth of sales; by 1947 their share had dropped to only one-fourteenth. To the industry advisory committee, such figures are utterly meaningless as long as they disregard output for internal use.

More paperwork.—The committee notes progress in reporting on products for internal use in some textile, chemical, and primary metal lines. It wants this reporting extended to other types of plants. If applied to everything, this would throw a terriffic new load of paperwork on company officials, so the committee recommends that Census obtain the additional data only where there is a clear public interest, or where the companies involved volunteer to take on the extra labor. Where output for internal use is not reported, the committee asks Census to clearly label its published data as incomplete, even on this year's results.

II. What is an industry?

Manufacturers are asked to supply information for each plant as a whole, covering such points as number employed, payrolls, man-hours, and value of materials used. For some purposes—such as reporting general industrial activity in a State or region—the result is accurate, the committee believes. But when Census parcels out the returns into industry classes, confusion sets in.

Census recognizes 453 "industries," largely defined on the basis of products shipped. However, many plants produce goods that can be classified in more than 1 industry.

Nail industry.—The committee picks nails and spikes as an example of what happens to census data.

The 1947 census showed that this particular industry consisted of 68 establishments, which employed 3,805 workers and shipped $30 million worth of products. That's not an accurate picture of nail and spike production, because:

First, the 68 establishments shipped only $23.5 million worth of nails and spikes—not $30 million worth. The balance of output consisted of items that belong to some other industry classification. They are not named in census data.

Second—and more confusing to the market analyst, economist, or the public official seeking guidance—the $23.5 million worth of product made by the "industry," was less than one-fifth of actual shipments of nails and spikes. Nearly $100 million worth was shipped by establishments that are classified in other industries, mostly steel.

"It is evident," the committee says, "that neither the employment * * * nor any of the other general establishment statistics represent either clear or complete statistics of economic activity in the production of nails and spikes."

The committee believes that half the other 452 census industries suffer from the same lack of clear data, including automobiles, steel, metal processing, textiles, chemicals, and rubber.

III. The productivity tangle

Consider, too, what happens to productivity, if computed from census industry data. Productivity is computed for a given class of industry by dividing the value of the product shipped by the number of man-hours. Simple enough. But here's what happens to the figures when some plants are chiefly assemblers and others are integrated.

The error.—Manufacturer A is an assembler of rear axles for the automobile industry. He is classified with the motor vehicles and parts industry. But he buys forged axle shafts from the iron and steel forgings industry, he buys castings to house the differentials from the grey iron foundries industry, his stampings come from the metal-stamping industry, he buys machined parts from the machine shops industry. He merely assembles these components—bought from four separate industries—so his 1,000 employees can turn out 50,000 axle assemblies at a high rate per man-hour.

Manufacturer B is also classified in the motor vehicles and parts industry and also makes rear-axle assemblies. But he has an integrated operation—does his own forging, casting, stamping, and so on. Obviously, if he also produces 50,000 axle assemblies in the same period as manufacturer A, he has to employ many more workers and pile up many more man-hours per axle assembly. The productivity of his workers would thus appear to be much lower than A's.

Under census procedures, A and B are dumped into the same industry class, and a figure on productivity obtained for the industry as a whole. Applied either to A or to B, this figure is meaningless because it fails to differentiate between the assembler and the integrated producer.

The same flaw applies to many other industries. An auto maker who buys many components—such as Kaiser—will appear to have higher productivity than Ford, whose plants are integrated.

IMPROVEMENT OF CENSUS OF MANUFACTURES INDUSTRY STATISTICS—REPORT OF THE SUBCOMMITTEE ON THE CENSUS OF MANUFACTURES TO THE COMMITTEE ON THE CENSUS OF MANUFACTURES, ADVISORY COUNCIL ON FEDERAL REPORTS

ADVISORY COUNCIL ON FEDERAL REPORTS,
Washington, D. C., December 9, 1954.

Mr. T. E. VELTFORT,
Chairman, Committee on the Census of Manufactures,
Advisory Council on Federal Reports,
Washington, D. C.

DEAR MR. CHAIRMAN: Earlier in 1954, the Intensive Review Committee submitted its report on the programs of the Bureau of the Census to the Secretary of Commerce. Among its 51 recommendations, 7 dealt with the census of manufactures, and 1 of them (recommendation No. 16) forms the basis for the work of this Subcommittee on the Census of Manufactures Recommendation No. 16 of the Intensive Review Committee reads as follows:

"That the Bureau, in collaboration with other Federal statistical agencies and the Office of Statistical Standards, actively seek to provide expanded data on processes employed and materials used and to provide where practicable for the presentation of general census statistics in terms of product classes with a view to making published data for the industries concerned more meaningful."

Accordingly, the Subcommittee on the Census of Manufactures was created by action of your Committee on the Census of Manufactures of the Advisory Council on Federal Reports on June 9, 1954. The subcommittee was instructed "to study the problems related to the task of making census of manufactures data more effective to users, and to present a joint report for submission to the Bureau of the Budget through the parent Committee on the Census of Manufactures of the Advisory Council."[1]

The census of manufactures is one of the most important sources of statistical information. In fact, it is the only source of many data describing the manufacturing segment of our economy and its operation. Moreover, census of manufactures data form the primary basis for numerous current statistical series of national importance issued regularly by the Federal Reserve Board, the Department of Commerce, the Department of Labor, the Federal Trade Commission, and other Government agencies and private organizations. In addition, a great deal of economic as well as statistical analysis is built directly or indirectly upon census data, and forms the basis for legislative, governmental, and business actions of often far-reaching importance. Under these circumstances it is evident that systematic errors in the census of manufactures would be of immense public as well as private significance.

The subcommittee has found that the census statistics of so-called industries are seriously deficient on several important counts. Nevertheless, because they are in so many cases the only data available for what they purport to portray, Census statistics are used widely and indiscriminately in spite of their many weaknesses. Teachers as well as practicing statisticians and economists, both in and out of Government, are no more protected from hidden inaccuracies of these statistics than are laymen whose use of census data is only occasional. Most users take census industry statistics at face value, although some of their shortcomings can be ascertained by diligent and protracted study of general explanations, industry definitions, appendixes and other "fine print material" appearing in the "big" census volumes. However, these notations can hardly be called adequate when the Department of Commerce, itself, has computed and published concentration ratios for hundreds of separate "industries" on the basis of census statistics of shipments, even though as much as 99 percent of the shipments of an industry's products had been excluded from these data.[2]

Aside from the widespread use of census statistics in this manner, it is obvious that industry concepts have proven to be susceptible to varying interpretations. An industry often means different things to different people, having certain dimensions in one case, while possessing different characteristics in others. Perhaps the principal cause of the confusion as to what a given industry really is lies in the acceleration of industrial development that has taken place over the past 20 or 30 years. Industrial establishments have multiplied their functions, they have developed new products, processes, and techniques, and they have thereby rendered

[1] Minutes of the meeting of the Committee on the Census of Manufactures, June 9, 1954, p. 6.
[2] "* * * I do not believe that the Census Bureau can be held responsible for the misuse of data by persons who are too lazy to read, or by persons with axes to grind, or by charlatans."

obsolete the historical and traditional concepts of many industries with which they had been identified. With the growth of old industries, the building up of new ones, and the overlapping of products and processes, there has come a proportional complication of the task of applying meaningful statistical measurements to industrial activities.

It is evident that in the manufacturing area, technological development has left the development of adequate statistics far behind. With this view in mind, the subcommittee has set for itself a twofold task: First, to bring out some of the inadequacies of current census industry statistics from the standpoint of both concepts and use; secondly, to suggest certain standards of purity which should be applied in the compilation and publication of such data.

These standards of statistical purity are submitted by the subcommittee as goals to be achieved in the interest of making census industry statistics portray modern industry in an accurate manner. However, it is recognized that their application will involve difficulties of interpretation, classification, and reporting. Yet, because the attainment of meaningful statistics depends to a large extent upon their successful solution, these practical problems need to be given exhaustive and continuing study.

Whie the subcommittee requests to be discharged at this time, its members entertain the hope that their report is but the first of a series of steps which will ultimately lead to high quality in census industry statistics. In fact, the members of this subcommittee would hardly have devoted an inordinately large amount of time and effort to the preparation of this report, had it not been for their belief that they were evolving statistical goals to the attainment of which the cooperative efforts of Government and industry will be directed in the future.

(Senator Goldwater has approved the deletion of the names of the Subcommittee on the Census of Manufactures in accordance with the request made in Mr. Veltfort's letter of February 16, 1954, to Chairman Douglas. See p. 1054.)

SUMMARY OF RECOMMENDATIONS

The Subcommittee on the Census of Manufactures has concerned itself exclusively with the product statistics and with the so-called industry statistics of the census of manufactures, which latter are breakdowns of general establishment data by industry classifications. The subcommittee's recommendations are summarized as follows:

I. In order to make products statistics more comprehensive, the subcommittee recommends that the Bureau of the Census include therein more data on production for internal use. However, since this would unavoidably add some additional reporting burdens upon respondents, the recommendation is qualified by public necessity or demand on the part of respondents concerned. (See p. 14.)

II. Mainly due to the fact that industrial establishments are frequently engaged in the production of articles "belonging to" more than one industry, there is at present a considerable amount of statistical overlapping between the census industries. This introduces inaccuracies of varying degrees in the industry statistics of the census of manufactures. The subcommittee believes that users of industry statistics published by the Bureau of the Census are entitled to expect that the data describing industrial operations conform to a common standard of reliability. Since 100 percent homogeneity and 100 percent industry coverage [3] will rarely be attainable, the subcommittee recommends that the Census Bureau, and other Government agencies involved, strive to set up a system of industrial classification under which the general establishment statistics for each industry classification would be at least 90 percent pure with respect to both of these criteria. These tests should be based upon a comprehensive measure of industrial activity, but because it is too late to change the design of the current census schedules, the subcommittee suggests that for purposes of the 1954 census of manufactures the tests of homogeneity and industry coverage may be based upon values of shipments of end products only.

III. The second major defect in the industry statistics of the census of manufactures has been found by the subcommittee to arise from the inexact and incomplete definition of industries. Accordingly, the subcommittee recommends that henceforth each industry definition based upon products made should contain an accurate list of the products and/or component parts which are included in that industry, or an equally accurate listing of parts classified elsewhere, and the industries to which they have been assigned.

[3] For the purpose of measuring "homogeneity" of industry statistics, the primary products of an industry are expressed as a percent of that industry's total production; for measuring "industry coverage," the primary products of an industry are expressed as a percent of the total output of these products by all industries.

IV. In addition, the subcommittee has come to the conclusion that a meaningful and precise definition of an industry requires also a definition of the scope of the term "manufacturing" in each case. The subcommittee therefore recommends that each industry definition based on products must include a clear description of what processing is comprehended by the term "manufacture" for that industry. (See p. 35.)

V. The method of measuring statistical purity on the basis of value of shipments, suggested for the 1954 census of manufactures, is not acceptable as a permanent solution. Therefore, the subcommittee recommends that the Census Bureau, and other Government agencies concerned, strive to set up for all subsequent annual surveys and for all complete censuses after the 1954 census of manufactures a system of homogeneity and industry coverage tests based upon comprehensive measures that encompass and evaluate all intermediate processes and products, whether shipped, transferred, or used internally, which are recognized as separate industries by the Bureau of the Census. (See p. 36.)

VI. Furthermore, the subcommittee recommends that, beginning with the 1954 census of manufactures, all industry breakdowns of establishment statistics, wherever published, display prominently the applicable measures of homogeneity and industry coverage. (See pp. 24 and 37.)

CENSUS OF MANUFACTURES STATISTICS

Census of manufactures industry statistics are of two general kinds, product statistics and establishment statistics.

The basic reporting unit in the census of manufactures is an "establishment," which usually means a plant, although different types of industrial operations conducted at the same location may be broken down into two or more establishments for census purposes. Each establishment reports:

1. The dollar value (and sometimes number of units) of its shipments broken down by product (product statistics).
2. Total employment, man-hours, payrolls, value of materials used, etc., for the entire establishment (establishment statistics).

Hereafter in this report whenever the terms "product statistics" and "establishment statistics" are used, they are used in accordance with the above definitions.

The Census Bureau recognizes some 6,000 separate manufactured products. Establishments, as far as practical, report separate dollar values and quantities for their shipments of each of these different products. Each establishment reports the "establishment" total for employment, man-hours, payrolls, etc., and there is no effort to divide these statistics between products. The Census Bureau combines product shipment information, regardless of establishments, into product shipment totals for each product. The establishment data, on the other hand, are combined, usually according to the standard industrial classification, into so-called industry statistics.

PRODUCT DATA

Because each establishment is required to break down its shipments by products, the Census Bureau can compile reasonably accurate and useful totals of the shipments of individual products or groups of products. The subcommittee calls specific attention to the fact that the totals of product data in the census are complete precisely because in the compilation and reporting of product data the industrial classifications of the producing establishments are disregarded.

A problem arises, however, whenever a plant produces a product for incorporation into some other product prior to shipment. In many such cases, the shipments of that component will not be reported as such separately, so that the census reports on the shipments of that product are necessarily an incomplete measure of output.

For example, the census measures only the dollar value of containers shipped as such, and has no record of the very large quantity of containers produced by establishments to package their product.

The errors introduced into economic analyses as a result of this deficiency in the census of manufactures are illustrated by the report of the Federal Trade Commission on Changes in Concentration in Manufacturing, 1935 to 1947 and 1950, published in 1954. On page 41, reference is made to changes in concentration in various tools and machinery industries. One of the 135 industries (out of the 453 recognized in the 1947 census of manufactures) included in the analysis as being comparable with its counterpart in 1935 is the cutting tools, jigs, fixtures, etc., industry (No. 3543). The report states "In 1935 the four leading producers of cutting tools, jigs, and fixtures accounted for more than a fifth of the sales of that important industry. By 1947 their share had dropped to only one-fourteenth."

It is known that the largest automobile producer employs over 18,000 skilled tool, die, jig, and fixture builders and similar skilled mechanics, of which less than 500 work in the only one of its plants classified in the cutting tools, jigs, fixtures, etc., industry (No. 3543). The other plants employing the balance of over 17,500 such skilled workers, are classified by the census in other industries.

The last census of manufactures, however, reports a grand total of only 74,522 production and related workers in the cutting tools, jigs, fixtures, etc., industry, which figure includes not only the skilled mechanics but also all unskilled workers and trainees directly engaged in production, as well as all maintenance, repair, warehousing, shipping, and packing workers, and many others. Thus, as measured by employment, the census figures for this industry are understated by about 20 percent due to the omission of some of the intermediate production of one company, alone. Similar conditions may be expected to prevail with respect to other companies and other industries.

It is quite evident from the foregoing that statistics on the establishments classified by the Bureau of the Census in the cutting tools, jigs, fixtures, and so forth industry fall far short of measuring the economic activity involved throughout the economy in the production of the very items which are supposed to define this industry. Hence, the concentration ratios computed by the Federal Trade Commission are in this case of no significance whatsoever. This same condition obtains in varying degree in all other industries for which the census figures fail to include production for internal use.

The discrepancy between actual production and the census data on shipments of a product is especially important in the case of "process" and "service" type products such as castings, stampings, forgings, machinings, galvanizing, and so forth. The product data on stampings, for example, includes only the output of establishments which shipped their product without further processing or fabrication, and it excludes all stampings produced by establishments which shipped their stampings as assemblies or as components of other products.

In a number of industrial operations, notably certain textile, chemical, and primary metal production, the Bureau of the Census, in cooperation with the respondents, has evolved reports of product statistics which include data on internal consumption. This has done much to improve the quality and meaning of the product statistics concerned, but they do not cover all operations where substantial internal consumption occurs, nor have they been applied to those products or processes which are common to less closely related industrial operations.

Recommendation I

When, for adequate public reasons, it is necessary to obtain accurate totals of the production of a product or use of a process, including production for internal use, throughout all industry, rather than only on shipments and interplant transfers, the Census Bureau should broaden its inquiry to obtain data on such production for internal use. However, whenever it is impractical to obtain such information because of the pervasive extent of the products or processes throughout manufacturing, or because it is not vital for public purposes, the product data published for establishments producing and shipping such product as an end product should carry a clear designation of their limited character.

This, of course, will require that the Bureau of the Census establish some criteria of what constitutes "adequate public reasons" for the purpose of such inquiries, since obviously the additions of any items to the schedules are necessarily the cause of additional expense and burden to respondents. There are other cases in which requests arise for data for industry uses which will have no necessary public purpose. For these, it is recommended that the criteria provide that when the respondents who will be subjected to the inquiry join in on the request and are willing to support it, the additional information be gathered and that the tabulations of such special requests be at the expense of those requesting the information.

To illustrate the former situation, it is hardly conceivable that there is any public need for measures of output of "metal stampings" as such. Furthermore, it would be virtually impossible within any practicable limits of reporting for every establishment in the United States which makes stampings in some form for further fabrication in their own plants to report such production. Therefore, if the census continues to provide statistics on the value of "metal stampings" produced or shipped by plants primarily so engaged, attention should be called to the fact that the data do not include any information regarding the output of stampings by other establishments engaged in producing them for internal use or further fabrication within their own plants.

ESTABLISHMENT STATISTICS BY INDUSTRY

When establishment statistics are grouped by geographic areas alone, without further breakdown by industry, both accuracy and comprehensive coverage are obtained—at least conceptually. Designed to measure total manufacturing activities in specific areas, the finished statistics represent data for every manufacturing establishment within the confines of the area's geographic boundaries, and cover all of the reported activities of each of those establishments.

To illustrate, the 1947 census of manufactures reports that in the State of Ohio there were some 12,303 manufacturing establishments with 1,194,603 employees receiving $3,560,075,000 in salaries and wages. The census further reports that these establishments accounted for $6,359,006,000 in value added and made expenditures for new plants and equipment aggregating $498,254,000.

Geographic totals of establishment data not subdivided by industry are of high quality only because both the object of the classification (plant or establishment) and the boundaries of the class (the geographic area) are clearly defined.

The second principal classification of establishment data is by industry. According to the census there are 453 industries, largely defined on the basis of products shipped.

However, many establishments are engaged in manufacturing operations classifiable in more than one "industry." They ship not only those products which define the industry to which they have been assigned—called primary products—but also so-called secondary products, that is, products "belonging to" other industries. As a result, many statistics tabulated by industry include establishment data associated with the output of secondary products belonging to other industries. At the same time, they exclude establishment data associated with the output of their primary products by establishments classified in other industries. This introduces serious deficiencies in the industry statistics of the Bureau of the Census whenever total establishment data—employment, payrolls, man-hours, value of product, value of materials purchased, value added by manufacturing, and so forth—are related to the products which define the industry.

Requirements of statistical purity

Some of the statistical effects of classifying establishments by industry on the basis of their principal products may be illustrated by the example of the nails and spikes industry (Standard Industrial Classification No. 3481).

According to the 1947 census of manufactures, this industry consisted of 68 establishments employing 3,805 employees who were paid a total of $9,876,000 in salaries and wages, and shipping some $30,038,000 worth of products. To the unwary user of these statistics, it would seem reasonable to expect that substantially all of the $30 million of shipments of this industry consisted of nails, brads, and spikes; that this represented substantially all of the nails, brads, and spikes shipped by American manufacturing establishments; and that the 3,805 employees reported for the industry were in their various ways responsible for turning out the national output of nails, brads, and spikes.

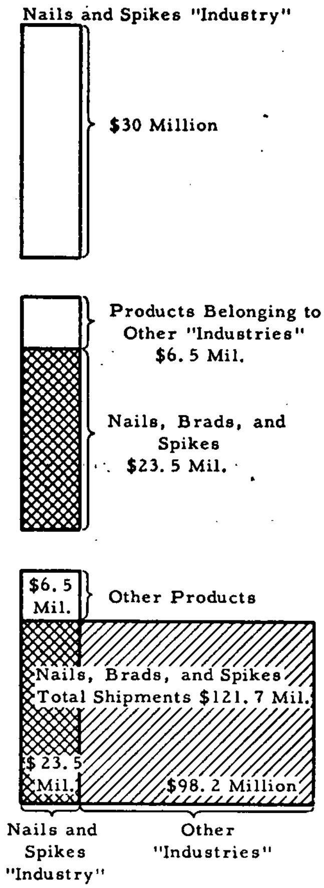
The facts, however, are that these expectations of reasonable statistical comprehensiveness are not realistic. As chart I illustrates, the expectation that substantially all of the output of these establishments consisted of nails, brads, and spikes is erroneous, because actually more than one-fifth of the products shipped by the 68 establishments making up the nails and spikes industry as defined by the census were neither nails, nor brads, nor spikes, but some undefined "secondary products."

Even more serious is the fact that the nails and spikes industry's shipments accounted for less than one-fifth of the total shipments of nails, brads, and spikes by all producers. Nearly $100 million worth of nails, brads, and spikes were shipped by establishements classified in other industries, while less than $24 million were shipped by the so-called nails and spikes industry. (Moreover, an unknown quantity of brads were produced by establishments for their own use and not reported as such, but included as a part of other products.)

It is evident that neither the employment (number of employees, production workers, man-hours, payrolls) nor any of the other general establishment statistics, such as expenditure on plant and equipment, cost of materials, etc., value of inventories, value added, represented either clean or complete statistics of economic activity in the production of nails and spikes.

CHART I

EXAMPLE OF AN "INDUSTRY" THAT IS NOT AN INDUSTRY



1. The total value of shipments of the 68 establishments which were classified as the NAILS AND SPIKES "INDUSTRY" in 1947 was

2. Less than 80% of this consisted of PRODUCTS WHICH DEFINE THIS "INDUSTRY" (Nails, brads, and spikes)

3. OTHER "INDUSTRIES", however, produced and shipped more than FOUR TIMES AS MANY NAILS, BRADS, AND SPIKES

4. So that the NAILS AND SPIKES "INDUSTRY" accounted for ONLY 19% OF THE PRODUCTS WHICH DEFINE IT, and 21% OF ITS SHIPMENTS CONSISTED OF PRODUCTS OF OTHER "INDUSTRIES". In addition many more nails and spikes were made in establishments for their own use.

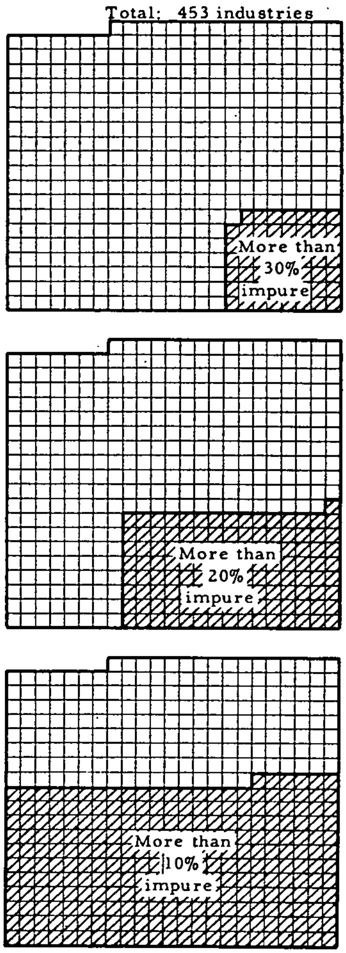
Source: Census of Manufactures: 1947 - Vol. II, p. 624.

The example of the nails and spikes industry is exceptional only in that the 1947 census of manufactures permits us to ascertain in what "alien" industries the bulk of the shipments belonging to the nails and spikes industry are actually made. If the other 452 industries for which establishment data were compiled in the 1947 census are analyzed with respect to such overlapping production between industries, it will be found that the majority of them do not conform to a reasonable standard of purity, even if the criteria developed by the Bureau of the Census, itself, are used for such analysis.

The Bureau of the Census measures the extent of overlapping of production between industries, that is, the purity or coverage of the industry statistics, by two separate ratios. In the Bureau's homogeneity ratio, an industry's shipments of primary products are expressed as a percent of its shipments of all

CHART II

FAR MORE THAN ONE-HALF OF ALL "INDUSTRIES" IN THE
1947 CENSUS OF MANUFACTURES
DID NOT MEET THE SIMPLE 90% "PURITY TESTS"



1. According to the Bureau of the Census, the statistical data of 55 industries were less than 70% pure, as measured by the simple "homogeneity" ratio, the "industry coverage" ratio, or both.

2. 121 industries were less than 80% pure.

3. While the data of 259 industries (57% of the total) were less than 90% pure.

Source: Bureau of the Census, special tabulation from 1947 Census of Manufactures

products; in the Bureau's industry-coverage ratio, an industry's shipments of primary products are expressed as a percent of the shipments of these products by all industries. Both of these Census Bureau ratios are based merely upon shipments of end products. To distinguish them from the comprehensive measures of statistical purity recommended later in this report by this subcommittee, these Census Bureau measures will be referred to henceforth as the simple homogeneity or the simple industry-coverage ratios, tests, or criteria.

In the last census—1947—the simple homogeneity ratios of the various industries ranged from a low of 59 percent (beauty and barber shop equipment) to 100 percent—the simple industry-coverage ratios from a low of four-tenths of 1 percent (yarn mills-silk system) to 100 percent. In all, as chart II shows, 55 industries, among the total of 453 industries, were less than 70 percent pure with respect to homogeneity, industry coverage, or both; 121 industries were less than 80 percent pure by these tests; 259 industries, considerably more than one-half of the total, were less than 90 percent pure; and only 10 of the 453 were 100 percent pure.

This wide range in the purity of the census industry statistics makes them practically useless for many purposes. For example, Department of Commerce [4] and the Federal Trade Commission [5] have attempted to use the census industry data to measure the concentration of output by the largest firms in each industry. The BLS has attempted to use the data to measure productivity by industry.[6] In each case, low homogeneity and low coverage in so many industries has raised grave issues.

The subcommittee believes that the data describing industrial operations should conform to a common standard of reliability both as to industry coverage and homogeneity, and be clearly labeled as to their statistical purity. The subcommittee therefore recommends:

Recommendation II

(*a*) That the Census Bureau, and other Government agencies involved, strive to set up a system of industrial classification such that the establishments representing any industry would account for at least 90 percent of the total shipments of products defined as belonging in that industry, and that at least 90 percent of their total shipments would represent such products. Furthermore, where any industry falls short of these standards, serious consideration should be given to the question of whether any separate information should be published for that industry, or whether its establishments should appear only in higher order aggregates.

(*b*) That statistics of the census of manufactures display prominently for each industry breakdown, wherever published, the applicable measures of homogeneity and industry coverage.

The subcommittee is aware that shipments are not always an adequate basis for measuring homogeneity and industry coverage, as will be demonstrated later. Nevertheless, no better measure is available to the Bureau of the Census for the 1954 census of manufactures.

Definition of industry

The second major defect in the industry statistics of the census of manufactures arises from the inexact and incomplete definitions of industries. In general, an industry is now defined by the Bureau of the Census to include:

1. All establishments primarily engaged in the manufacture or assembly of certain products; plus, in many cases—

2. All establishments primarily engaged in the manufacture of some of the component parts of those products.

In numerous cases, this definition fails to define adequately what products are included in a particular industry.

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[4] See Letter of December 1, 1949, and report from Secretary of Commerce Sawyer to the chairman of the House Subcommittee on Study of Monopoly Power. In contrast to the Federal Trade Commission, the Secretary of Commerce completely ignored the serious limitations of his Department's own Census Bureau data for the purposes of measuring concentration. Furthermore, the Commerce Department discarded none of the census industry statistics for failure to meet any minimum standard of homogeneity or coverage. As a result, the concentration ratios of the majority of the industries are overstated, in many cases to a very substantial extent. For example, while the Secretary of Commerce claimed that the four largest companies in the so-called yarn mills-silk system industry accounted for 61.4 percent of the shipment of products defining this industry, the true figure is less than 0.3 percent (three-tenths of 1 percent).

[5] See Report of the Federal Trade Commission on Changes in Concentration in Manufacturing, 1935–47 and 1950 (Washington, 1954). Ch. I of this report is devoted exclusively to a description of the limitations of the census data for the purposes of measuring concentration. Two-thirds of the census "industries" had to be discarded because they were not comparable between the census years. Forty-nine were discarded because they failed to meet the Federal Trade Commission's minimum standard of purity with respect to homogeneity and coverage of 67 percent. The Commission added: "A measure of doubt on this score (homogeneity and coverage) still attaches to the interpretation of concentration measures for some industries in which the coverage of primary products (coverage ratio) or the importance of primary products among all products (homogeneity ratio) was not much more than 67 percent in 1947."

[6] See technical note on the measurement of trends in output per man-hour (Division of Productivity and Technological Developments, U. S. Department of Labor, Bureau of Labor Statistics, Washington, April 15, 1954). This report states: "The Bureau of the Census of the U. S. Department of Commerce is the most important source of product statistics for the manufacturing industries." "The man-hour data to be used in constructing the indexes for manufacturing are drawn almost entirely from the Bureau of the Census for the years 1947–52." On the basis of the preceding discussion, serious reservations arise whether any of the existing census industry statistics are sufficiently reliable as to homogeneity and coverage for such calculations.

For example, the hard-surface floor coverings industry (No. 2274 is defined to include:

"Establishments primarily engaged in manufacturing linoleum, cork carpets, asphalted-felt-base, and other hard-surface floor coverings, not elsewhere classified. Establishments primarily engaged in manufacturing rubber floor coverings are classified in industry 3099, and asphalt floor tile, in industry 3292."

While this definition specifically excludes some of the most popular hard-surface floor coverings, if fails to mention many others such as ceramic, plastic, and wood-floor coverings. Consequently, the designation "hard-surface floor coverings" is inadequate.

The industry definitions also fail to provide precise information as to when establishments manufacturing the component parts of a product are to be included in the same industry as establishments manufacturing the complete product. For example, the definition of the computing and related machines industry (No. 3571) makes no mention of the status of establishments engaged in the manufacturing of component parts of computing and related machines.

In other cases, the industry definitions specifically include some of the component parts of a product and exclude others, but fail to mention the status of many remaining parts. For example, the so-called motor vehicles and parts industry (No. 3717) is defined to include, in addition to the manufacture of complete vehicles, certain parts, such as bodies, engines and parts, brakes and parts, clutches, axles, transmissions, etc., and certain accessories. Specifically excluded are tires and tubes, glass, hardware, headlamp, ignition systems, and batteries. Nothing is said, however, about a long list of other parts, such as shock absorbers, exhaust mufflers, bumpers, fenders, hoods, heaters, steering mechanism, etc. Thus, it cannot be ascertained from the industry definition offered by the Bureau of the Census which establishments primarily engaged in the manufacture of such component parts are included in the motor vehicles and parts industry and which in some other industry.

Accordingly, the subcommittee recommends as follows:

Recommendation III

Each industry definition based upon products made should contain an accurate list of the products and/or component parts which are included in that industry, or an equally accurate listing of parts classified elsewhere, and the industries to which they have been assigned.

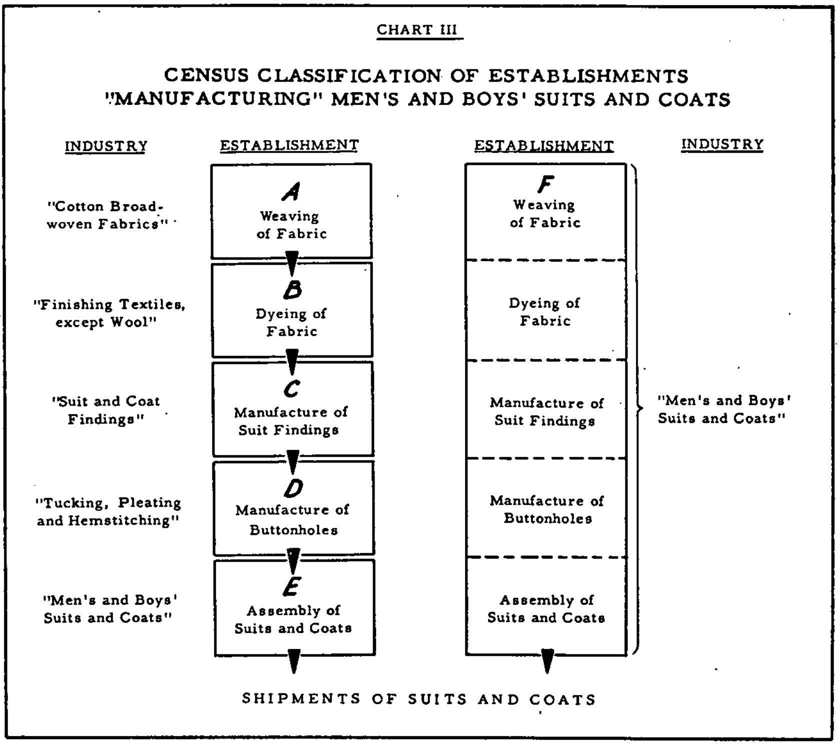
All of the foregoing recommendations can and should be adopted in the compilation and publication of the 1954 census. The subsequent analysis and recommendations will require changes in census procedures which cannot be made at this time for the 1954 census, but should be adopted for all subsequent censuses and annual surveys.

Definition of "Manufacturing"

While the adoption of the foregoing recommendation would dispel doubt and uncertainty as to exclusion or inclusion of certain establishments from a specific industry, this would not be sufficient to achieve a meaningful and precise definition of an industry in all cases.

The typical census-industry definition includes "establishments primarily engaged in manufacturing" a particular product or group of products. However, the term "manufacturing," itself, and the scope of manufacturing activities that applies to any particular industry, are not adequately defined. Most manufactured products are not the result of a single operation, but go through a series of distinct and sometimes technologically unrelated processes which are often performed in separate establishments. Thus, it is frequently impossible to determine from the Census publications or instructions which processes or operations are carried on by the establishments included in an industry.

For example, assume that there are six separate establishments involved in the manufacture of men's and boys' suits and coats (see chart III). Establishment A weaves the fabric and transfers or sells it to establishment B, which dyes the fabric. Establishment C manufactures the findings. Establishment D may make the buttonholes, and in establishment E all the materials are assembled into the final product and shipped. In this hypothetical case, the Census would conclude that only establishment E is primarily engaged in the manufacturing of men's and boys' suits and coats (Industry No. 2311). Establishment A would appear in one of the textile fabrics industries (group 22); B in the appropriate finishing industry (No. 2261); C in the suit and coat findings industry (No. 2312); and D in the tucking, pleating and hemstitching industry (No. 2395).



If establishment F performed all of these operations and produced all of these intermediate products, the entire establishment, including all of its operations and all of its intermediate products, would be included in the men's and boys' suits and coats industry.

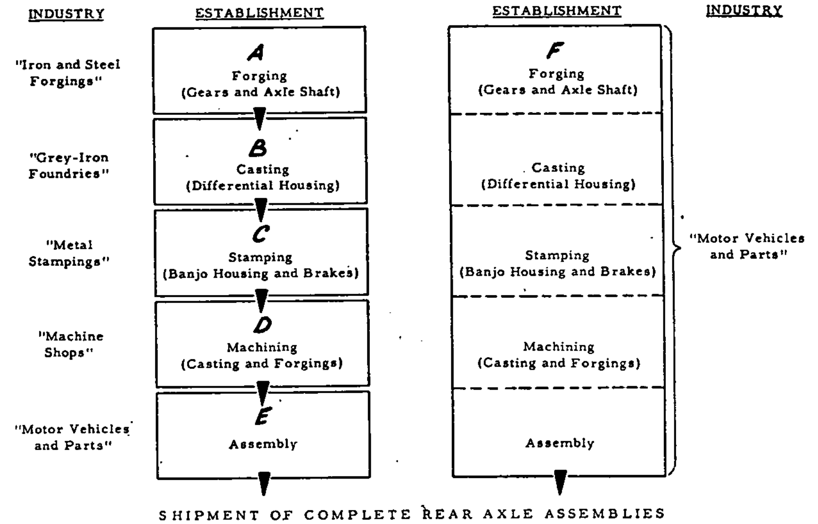
Thus, the term "manufacturing" as used by the Census is a very elastic one. It may include all of the operations and all of the intermediate products necessary to produce a particular product, or it may include only the final assembly operation. Furthermore, establishments performing the same operation and producing the same products can end up in entirely different industries. Establishments A and F both weave fabrics destined to become men's and boys' suits and coats, but the 2 establishments and their products appear in 2 entirely different industries. The same is true of establishments B, C, and D as compared with F. So in this example only establishments E and F, which have very little in common, are in the same industry according to the Census.

The problem is identical in many other industries. The manufacture of a metal product, for instance, may involve any number of a whole host of processes such as rolling, drawing, forging, casting, annealing, heat-treating, stamping, enameling, lacquering, galvanizing, engraving, plating, polishing, machining, etc. It may also involve the production of a variety of intermediate products such as nuts, bolts, wire, springs, containers, motors, bearings, etc.

For example, as shown in chart IV, the manufacture of a rear-axle assembly for a motor vehicle involves five principal processes, namely, forging, casting, stamping, machining, and assembly. Each of these operations, when performed in separate establishments is classified in a separate industry, according to the Census. An establishment (A) which did only the forging of the axle shaft would be classified in the iron and steel forging industry (No. 3391). Establishment B, which casts the differential housings, would be in the gray-iron foundries industry (No. 3321). Establishment C, which performed the stampings on the banjo housing and brake parts, would belong to the metal stampings industry (No. 3463). Establishment D, which machined the castings and forgings, would be in the machine shops industry (No. 3599). Establishment E, which assembled all of these parts, would be in the motor vehicles and parts industry (No. 3717). Also in this latter industry would be any establishment (F) that performed all of these operations, or any combination of them culminating in final assembly. Similarly, any other pattern of operations would always land the integrated establishment in its entirety in the category reflecting the most advanced step of operations. Thus, the establishments manufacturing this particular product may be classified in any one of five different industries, depending upon the stage of fabrication.

CHART IV

CENSUS CLASSIFICATION OF ESTABLISHMENTS "MANUFACTURING" MOTOR VEHICLE REAR AXLE ASSEMBLIES



The induscriminate adding of data for establishments which, although shipping the same end products, are not comparable in terms of integration of their operations, results unavoidably in statistics that cannot possibly portray the true economic characteristics of an industry. What is the significance of a value added total for an industry consisting of establishment E, involved only in assembly, added to that of establishment F, which performs the whole series of processes leading to the final product? The only way by which such statistics could be made meaningful would be to include the value added by all of the processors, A through D, who produced the material assembled by E.

The same criticism applies to all other industry totals—employment, payrolls, materials purchased, and investment. In such situations, ratios of any of these components to the total value of products shipped, even though this latter figure be perfectly accurate, necessarily have in them an error of indeterminate magnitude. Under these circumstances, how can it be maintained that the census statistics for any of these industries are comprehensive or meaningful?

Accordingly a precise definition of an industry requres a clear statement not only as to the products included therein, but also as to the range of manufacturing processes which are involved.

Recommendation IV

Each industry definition based on products made must include a clear description of what processing is comprehended by the term "manufacture" for that industry.

METHODS OF MEASURING STATISTICAL PURITY

When industries are thus properly defined, it will than be possible to develop and apply more satisfactory measures of purity or accuracy than the Bureau's present simply homogeneity and coverage ratios, the use of which was recommended earlier for purposes of the 1954 census only. Accordingly the following recommendation is made on the basis of recommendations III and IV for all subsequent annual surveys and for all complete censuses after the 1954 census of manufactures:

Recommendation V

(*a*) The Census Bureau, and other Government agencies involved, should strive to set up a system of industrial classification such that the establishments representing any industry would account for at least 90 percent of the manufacturing activities defined as belonging in that industry, and that at least 90 percent of their total activities would respresent such activities. Furthermore, where any industry falls short of these standards, serious consideration should be given to the question of whether any separate information should be published for that industry, or whether its establishments should appear only in higher-order aggregates.

The above tests should be based upon comprehensive and nonduplicating measures of the activities of enterprises constituting an industry. To be comprehensive the measures must encompass and evaluate all intermediate processes and products, whether shipped, transferred, or used internally, which are recognized as separate industries by the Bureau of the Census. If applied only to the value of shipments of end products, the tests would not be in harmony with the proposed method of defining industries.

(*b*) The subcommittee also recommends that the Bureau of the Census display prominently for each industry breakdown of establishment statistics, wherever published, the applicable measures of homogeneity and industry coverage.

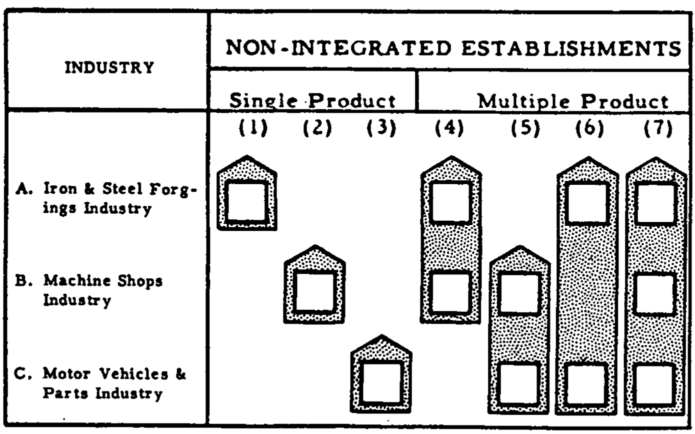
Such tests can be illustrated by a series of examples involving various types of establishments whose activities are in 1 or more of 3 different industries, as defined by the Bureau of the Census.

In all, 17 different establishments are used in these examples, each designed to represent a different but representative type. However, not all different types could be accorded recognition. For instance, establishments operating in more than three different SIC industries were not included, but their treatment under the accuracy tests is apparent from that of some of the other establishments shown in these examples.

The first chart (chart V) deals with so-called nonintegrated establishments. This term is used here to mean establishments which do not engage in intermediate

CHART V

TYPES OF NON-INTEGRATED ESTABLISHMENTS



production between industries. That is to say, none of their products are used within the same establishment in the manufacture of other products belonging to other industries, nor do they engage in manufacturing processes which constitute separate and different industries, by themselves.

Nonintegrated establishments may be either of the single-product or the multiple-product type. In the former case, they are assumed to produce and ship only 1 single product, or a group of products belonging to only 1 industry. That is, their output and shipments consist only of the primary products of the respective industry. When nonintegrated establishments are of the multiple-product type, they are assumed to produce and ship not only primary products but also so-called secondary products, which are products belonging to other industries.

Chart V shows 7 such nonintegrated establishments, of which the first 3 are assumed to produce only a single product, or a group of products belonging to only 1 industry.

For example, if the three industries were to represent the iron and steel forgings, machine shops, and motor vehicles and parts industries, respectively, establishment 1 might be engaged in producing steel forgings; establishment 2 might perform machining operations on steel forgings and other products; and establishment 3 might produce automotive parts by assembling the machined forgings and other components.

Under these conditions each establishment would be homogeneous, as all of the activities are carried on within the confines of each industry.

The next 4 establishments (establishments 4, 5, 6, and 7) are also nonintegrated establishments, but each of them is assumed to produce products which belong to 2 or more industries. for example, establishment 4 may produce both forgings and machine-shop products, selling or shipping all of its output of both products to other establishments; establishment 5 may carry on both machining and assembly operations, but it would sell or ship all of its machine-shop products, using only component parts purchased elsewhere in its assembly operations. In similar fashion, establishment 6 might produce forgings and assemble finished automotive parts, while establishment 7 might carry on all three types of operations.

Present census industry classification practices raise no difficulty with the single product establishments, since all of the activities of each of them fall wholly within one industry. With respect to the nonintegrated multiple-product establishments, the industry classification of each is determined by the principal products shipped. Establishment 4 would be in either the iron and steel forgings or the machine-shops industry, depending on the value of shipments of products belonging to each industry. The classification of establishments 5, 6, and 7 would be determined by the same criterion.

If the 3 industries consisted only of these 7 establishments and their shipments values were as indicated in chart VI,[7] industry A, the iron and steel forgings industry (comprising establishments 1 and 4), would have a simple homogeneity ratio of 80 percent (160:200), since $40 of establishment 4's shipments consisted of industry B products. However, the simple industry coverage ratio of industry A would be 89 percent (160:180), since only $20 worth of forgings were shipped by establishments 6 and 7, which belong to other industries.

The simple homogeneity ratio of industry B (consisting only of establishment 2) would be 100 percent (100:100), but its simple industry coverage ratio would be only 67 percent (100:150).

In the case of industry C, consisting of establishments 3, 5, 6, and 7, the simple homogeneity ratio would be 93 percent (370:400), but its simple industry coverage ratio would be 100 percent (370:370).

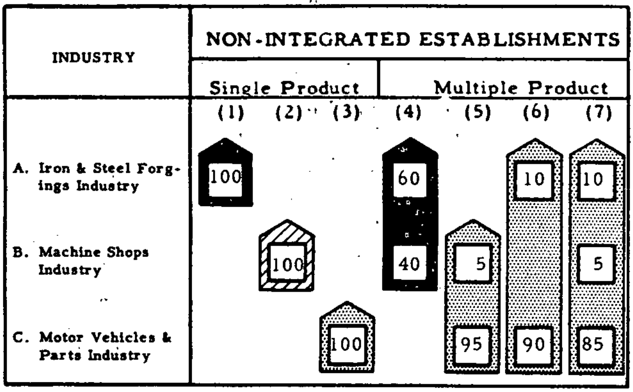
However, nearly all modern industrial establishments carry on integrated manufacturing operations. As this term is used here, they engage in intermediate production in industries other than those in which they are classified on the basis of their principal product shipments. That is to say, some of their products are used within the same establishment in the manufacture of other products (end products belonging to other industries). Or, in turning out their end products they engage in manufacturing processes which, by themselves, constitute separate census industries. Chart VII shows 10 different integrated establishments, of which the first 4 (establishments 8 through 11) are of the single-product type and the remaining 6 (establishments 12 through 17) of the multiple-product type. In

[7] For purposes of simplicity it has been assumed for these charts that all establishments are of equal size, in terms of the measures used.

CHART VI

INDUSTRY CLASSIFICATION OF NON-INTEGRATED ESTABLISHMENTS

Census Method



NOTE: Figures indicate dollar values of shipments

chart VII and all subsequent charts, intermediate products or processes are shown by round symbols, whereas end products (products shipped or transferred) are represented by square symbols.

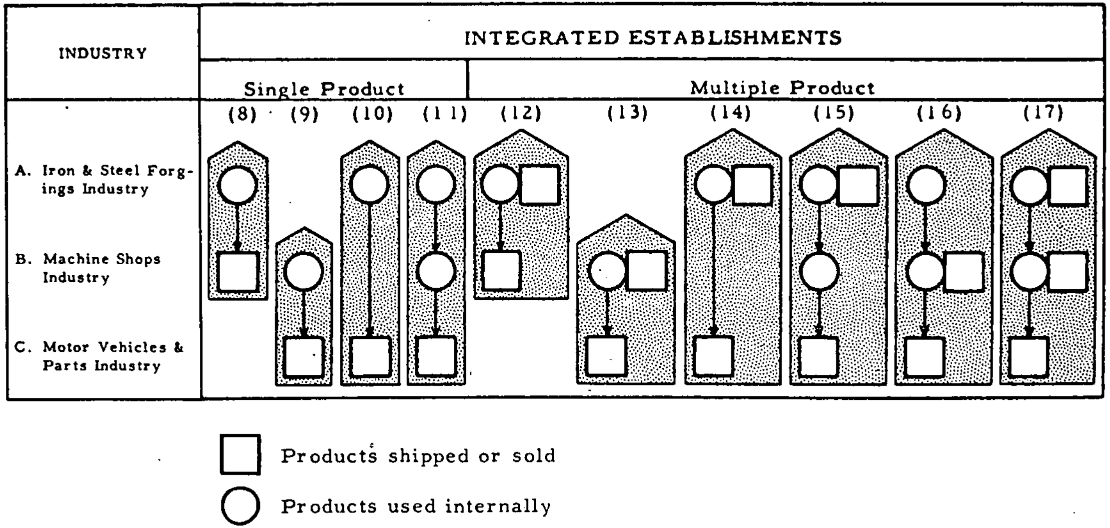
It should be pointed out that the difference between intermediate products and secondary products is only one of use. For the purposes of these examples, intermediate products are those, belonging to other industries, which are produced and used internally by an establishment in the fabrication of its end products. On the other hand, secondary products are products of an establishment which belong to an industry different from the one in which the establishment is classified and which are sold by that establishment or transferred to other establishments, rather than used internally. Thus, the same product can be both an intermediate product and a secondary product. For example, an establishment making electric fans, classified as belonging to the electrical appliances industry, might make fractional horsepower motors, which belong to (are primary products of) the electric motors and generators industry. The motors used in its production of electric fans are intermediate products, but the same types of motors sold or transferred to other establishments are secondary products.

As in the case of nonintegrated establishments, a distinction is being made in these charts among integrated establishments between those of the single product and those of the multiple-product type, the term "product" relating solely to end products and not including intermediate products.

As shown on chart VII, the integrated single product establishment 8 might be engaged in turning out (shipping) only machine-shop products (industry B). However, it also operates a forging shop, which is classifiable in industry A, but all of its forgings are machined further in its own machine shop, and none of them are sold or shipped as forgings. Establishment 9 may ship finished automotive parts (industry C) exclusively. In addition to its assembly operations, however, it also operates a machine shop, but all of its machine-shop products are used in the assembly of finished automotive parts, and none of them are shipped or sold as machine-shop products. Other patterns of integration exist in establishments 10 and 11.

CHART VII

TYPES OF INTEGRATED ESTABLISHMENTS



Integrated establishments of the multiple-product type differ from those of the single-product type in that they ship or sell not only the end products of their integrated activities, but also products belonging to other industries (secondary products). In the case of establishments 12 through 17, it has been uniformly assumed for purposes of these illustrations that the shipments of secondary products corresponded to some or all of their intermediate products, but this assumption is merely one of convenience.

The next chart (chart VIII) is designed to show how the homogeneity and industry coverage tests presently used by the Bureau of the Census operate in the case of the 10 integrated establishments introduced in chart VII. For this purpose, hypothetical shipment values have been inserted for the end products of these establishments, both primary and secondary. However, since the census method completely disregards integrated activities and intermediate products belonging to other industries, no values have been assigned to these operations or products.

It will be seen from this chart that under the present census method of deriving homogeneity and industry coverage measures, only two establishments 8 and 12) are deemed to belong to industry B. Establishment 8 is considered to be 100 percent homogeneous since all of its shipments consist of industry B products. Establishment 12 is considered to be only 90 percent homogeneous, since 10 percent of its shipments consist of industry A products. As a whole, therefore, under present census practices, this industry is considered to be 95 percent homogeneous (190:200).

As to the industry-coverage ratio, the Census Bureau would recognize only establishments 13, 16, and 17, all of which belong to industry C, to be engaged in turning out industry B products. Moreover, it would limit recognition to industry B products shipped or sold, disregarding all of the products of the same type which were used by these establishments in further production. On this basis, the Census Bureau would conclude that the statistics for industry B were 88 percent pure (190:215) as to industry coverage.

On the fasis of the methods recommended by the subcommittee, however, these tests would give entirely different results. It will be recalled that these methods require not only a strict definition of industry in terms of end products shipped, but also in terms of intermediate products and processes. Under the assumption that industry B is defined to include only establishments primarily engaged in turning out industry B products and carrying on only those manufacturing processes which are ordinarily associated with, and peculiar to, that industry, chart IX shows a breakdown of the operations of the same 10 integrated establishments in each industrial activity on the fasis of a common measure, namely, man-hours (any other suitable common measure of activities, such as payrolls or physical output, would serve as well). For example, while the Census Bureau (see chart VIII) disregards the intermediate production of establishment 8 belonging to industry A, assigning the value of all of its operations to industry B, the subcommittee's method recognizes the true importance of each of them. Hence, chart IX distinguishes on the basis of a convenient common measure (man-hours) between the establishment's forging activities (industry A) and its maching activities (industry B). Similar differentiations are made in all other establishments.

Since the Census Bureau's method of classifying establishments as to industry on the basis of principal products shipped is not altered by the recommendations of the subcommittee, establishments (8) and (12) remain the only ones "belonging" to industry B. However, their activities in both industry B and in other industries, when measured by the subcommittee's comprehensive purity test, indicate a true "purity" of only 40 percent (80:200), instead of the spurious "purity" of 95 percent under the census method.

Similarly, as to industry coverage, the recommendations of the subcommittee call for recognition of the intermediate industry B products or processes of establishments belonging to other industries, as well as of secondary product shipments. As a result, the comprehensive industry coverage test for industry B now shows only 24 percent purity (80:340), compared with a spurious purity of 88 percent under the census method.

The preceding illustrations not only compare the operation of the census and subcommittee tests of homogeneity and industry coverage, but they also show clearly why the census tests are necessarily inaccurate and misleading in the case of all industry statistics which encompass integrated establishments to any appreciable extent.

Since the application of the subcommittee's tests to the hypothetical industry B statistics would show that they do not conform to a reasonable standard of purity, a question arises as to alternative statistical presentations which might meet the

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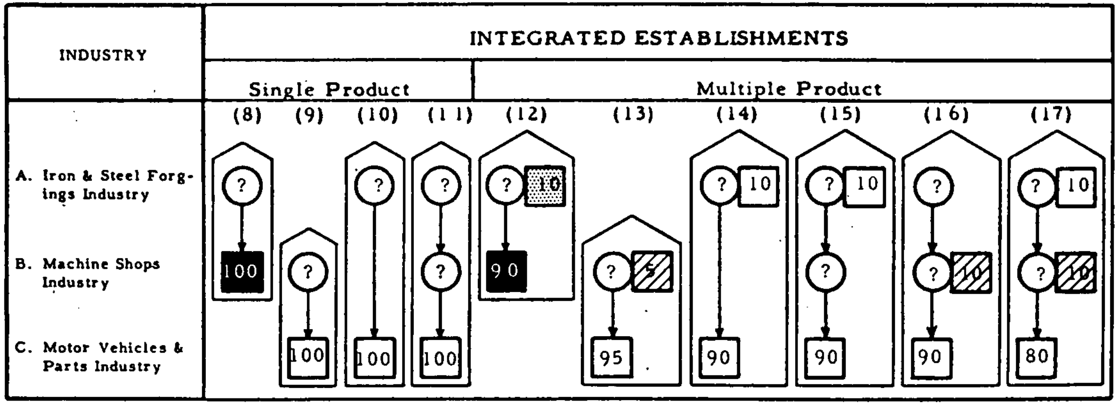
CHART VIII

SIMPLE HOMOGENEITY AND INDUSTRY COVERAGE TESTS
FOR THE MACHINE SHOPS INDUSTRY

Census Method



NOTE: Figures indicate dollar values of shipments

Products shipped or sold

Products used internally

Sum of (dotted) = 10

Sum of (solid) = 190

Sum of (hatched) = 25

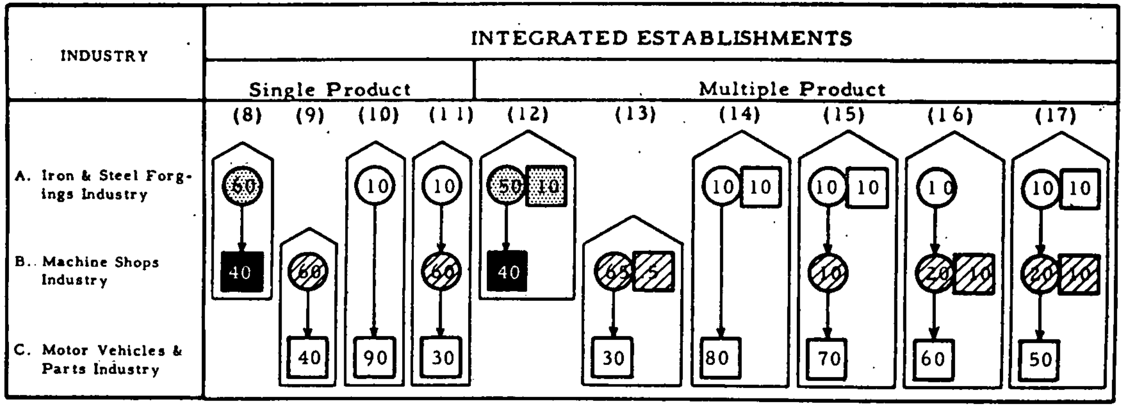
Simple Homogeneity Ratio = $\frac{190}{190+10}$ = 95%

Simple Industry Coverage Ratio = $\frac{190}{190+25}$ = 88%

CHART IX

COMPREHENSIVE HOMOGENEITY AND INDUSTRY COVERAGE TESTS FOR THE MACHINE SHOPS INDUSTRY

Subcommittee Method



NOTE: Figures indicate manhours

☐ Products shipped or sold

○ Products used internally

Sum of (dotted) = 120
Sum of (black) = 80
Sum of (hatched) = 260

Comprehensive Homogeneity Ratio: $\frac{80}{80+120} = 40\%$

Comprehensive Industry Coverage Ratio: $\frac{80}{80+260} = 24\%$

new tests. This is illustrated in the remaining charts which contain all of the 17 establishments discussed previously.

These charts will deal with the same three industries, the iron and steel forgings, the machine shops, and the motor vehicles and parts industries, and the 17 integrated and nonintegrated establishments are assumed to operate within them according to the patterns previously assumed. The first step, illustrated in chart X, would be to test the motor vehicles and parts industry under the assumption that it is defined to comprise only assembly operations. As can be seen from the chart, this industry tests 100 percent (820:820) for industry coverage, but only 68 percent (820:1,200) for homogeneity. Thus, under this narrow definition, the statistics of the motor vehicles and parts industry would not conform to the required standards of purity.

Since it is obvious that a relatively large number of establishments classified in the motor vehicles and parts industry carry on operations belonging to the machine shops industry, on both a nonintegrated and integrated basis, the next attempt to produce statistics of acceptable purity for the motor vehicles and parts industry involves widening of the definition of that industry to include also the machining of automotive parts, an activity which hitherto was classified in the machine shops industry. The results of this are shown in chart XI. With a widened definition, the homogeneity ratio has been raised from 68 percent to 85 percent (1,270:1,500), while the industry coverage ratio has been lowered slightly from 100 percent to 97 percent (1,270:1,310).

Assuming that the standard of purity is 90 percent for both tests, the statistics of the motor vehicles and parts industry defined to comprise both the assembling and machining of automotive parts would still not be of sufficient purity. The next step, therefore, would be to expand the definition of the motor vehicles and parts industry still further. This has been done in chart XII by including not only the machining and the assembling of automotive parts but also the forging. As the chart is constructed, this would result in 100 percent purity both as to homogeneity and industry coverage. In practice, however, 100 percent purity will seldom be attained, since it is always likely that at least one integrated establishment classified in some other industry carries on operations, however small, within the confines of the particular industry that is being tested.

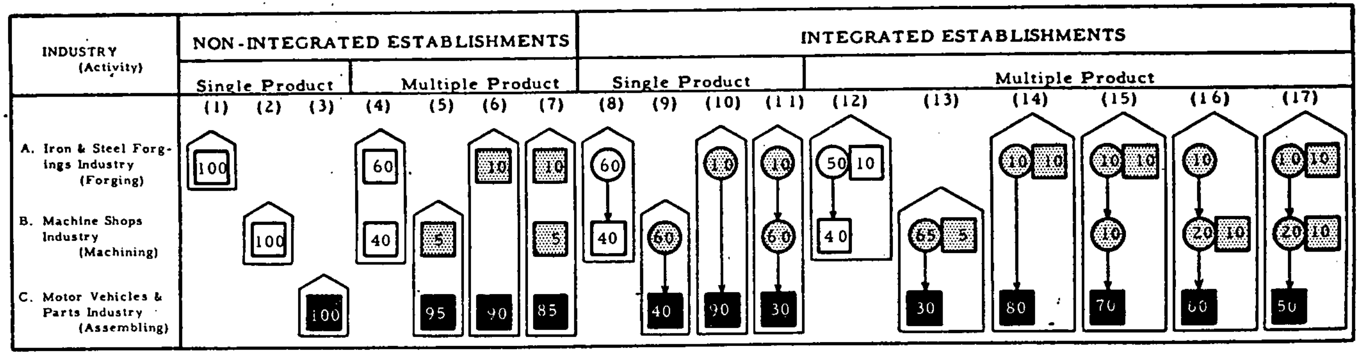
Basically, the recommendations of the subcommittee for standards of statistical purity are independent of any particular system of classification. Measuring only end results, they are applicable to any industrial classification system.

It should be pointed out that the recommendations for a revised standard industrial classification that have been prepared by the Advisory Council's SIC industry panels may have a definite bearing upon the tests of statistical purity which have been recommended by this subcommittee. These panels of the Advisory Council started out with the knowledge that many of the fine breakdowns of the present standard industrial classification do not permit logical segregation of plants, and therefore cause difficult problems of classification and a good deal of misleading statistical information. The changes which have been recommended by these panels may by themselves result in statistics of higher homogeneity and industry coverage.

In recommending improved industry definitions and improved homogeneity and industry coverage tests, and the adoption of a reasonable (90 percent) standard of purity based upon these tests, the subcommittee has established a goal to be achieved in future census industry statistics as well as in the industrial breakdowns of future annual surveys.

CHART X

COMPREHENSIVE HOMOGENEITY AND INDUSTRY COVERAGE TESTS
FOR THE MOTOR VEHICLES AND PARTS INDUSTRY
DEFINED TO COMPRISE ONLY ASSEMBLING OPERATIONS



Products shipped or sold

Products used internally

NOTE: Figures indicate manhours

Sum of (stippled) = 380

Sum of (black) = 820

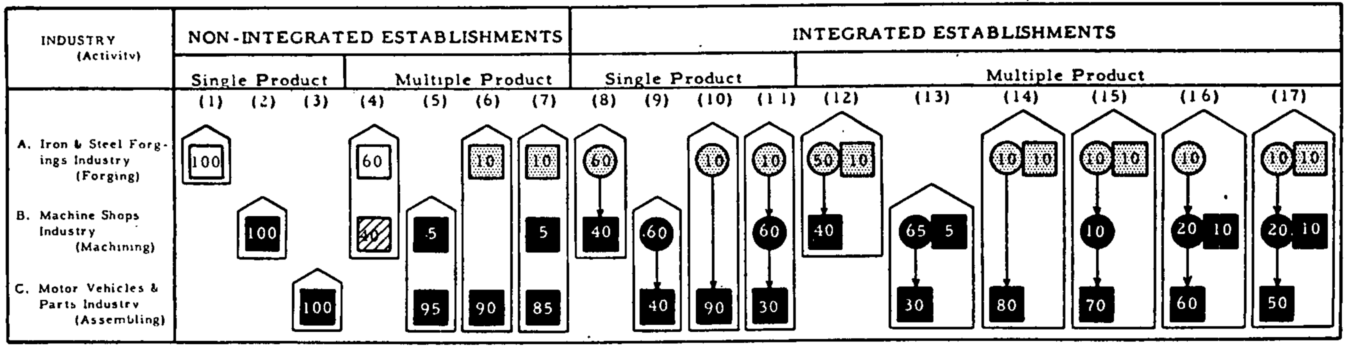
Sum of (hatched) = 0

Comprehensive Homogeneity Ratio: $\frac{820}{820+380} = 68\%$

Comprehensive Industry Coverage Ratio: $\frac{820}{820+0} = 100\%$

CHART XI

COMPREHENSIVE HOMOGENEITY AND INDUSTRY COVERAGE TESTS
FOR THE MOTOR VEHICLES AND PARTS INDUSTRY
DEFINED TO COMPRISE MACHINING AND ASSEMBLING OPERATIONS



Products shipped or sold

Products used internally

NOTE: Figures indicate manhours

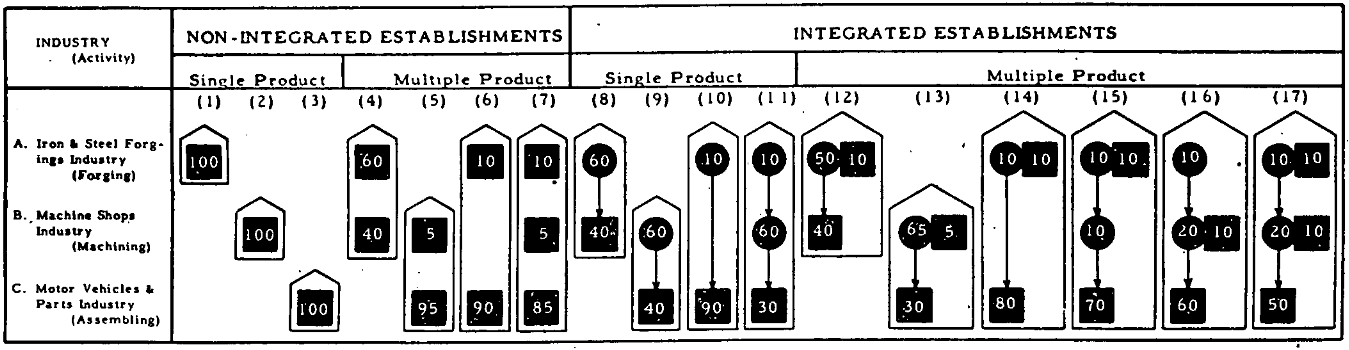
Sum of (stippled) = 230
Sum of (black) = 1270
Sum of (hatched) = 40

Comprehensive Homogeneity Ratio: $\frac{1270}{1270+230} = 85\%$

Comprehensive Industry Coverage Ratio: $\frac{1270}{1270+40} = 97\%$

CHART XII

COMPREHENSIVE HOMOGENEITY AND INDUSTRY COVERAGE TESTS
FOR THE MOTOR VEHICLES AND PARTS INDUSTRY
DEFINED TO COMPRISE FORGING, MACHINING, AND ASSEMBLING OPERATIONS



□ Products shipped or sold

○ Products used internally

Sum of (dotted) = 0

Sum of (solid) = 1700

Sum of (hatched) = 0

Comprehensive Homogeneity Ratio: $\frac{1700}{1700+0} = 100\%$

Comprehensive Industry Coverage Ratio: $\frac{1700}{1700+0} = 100\%$

NOTE: Figures indicate manhours

APPENDIX

RESERVATIONS BY——

RECOMMENDATION II, 1954 CENSUS

Coverage ratio

Recommendation II of the subcommittee report states "that the establishments representing any industry in the 1954 census must account for at least 90 percent of the total shipments of products defined as belonging in that industry * * *."

Under this coverage ratio 46 percent, or about 208, of the 452 industries separately reported in the 1947 census could no longer be published as separate industries. The establishment data associated with each of these 208 industries would henceforth be included with the establishment data of a more broadly defined industry.

However, the identity of each of the 208 industries, with respect to separate establishment data, would be permanently lost. It is doubtful whether any improvement in the census is accomplished, for instance, by no longer identifying the fact that there are 68 establishments which are primarily engaged (to the extent of 80 percent of their total value of shipments) in the production of nails, spikes, and brads.

These 68 establishments, which in 1947 employed 3,278 production workers and accounted for $15,721,000 of value added by manufacture, would be buried in probably the two digit industry "primary metal industries," which in 1947 consisted of 5,363 establishments, 1,010,055 production workers and $5.8 billion of value added.

I do not believe that we should recommend any particular coverage ratio, and certainly not a 90 percent ratio. It is my position that the Bureau of the Census, in conjunction with the Budget Bureau, is in a much better position than our subcommittee to judge the demand by industry and the public for establishment statistics for groups of establishments defined as industries by the Standard Industrial Classification Code. So long as the limited nature of the establishment statistics associated with the industry are adequately defined, I believe that the decision to publish such data should rest upon the demonstrated demand of the respondents concerned, or upon adequate proof of public need.

Homogeneity ratio

The report of the subcommittee recommends that the homogeneity ratio should be set at a minimum of 90 percent for the 1954 census. Although a 90 percent ratio is a desirable goal, I doubt whether we should impose such a high limitation in the 1954 census.

Naturally, a 90 percent ratio could be applied for 1954, but it may cause more disruption than the resulting increase in statistical purity is worth. To the extent that multiproduct establishments are able and willing to report in the future separate establishment data for their main products, the homogeneity ratio should improve as a natural result of such separate reporting.

Also, it should be kept in mind that in 1954, and for some years in the future, defense production may influence industry product mixes to a great extent. Large concerns may keep and report separate establishment data for their defense business; but I doubt whether smaller concerns are doing this.

In view of these facts, I believe that the subcommittee should suggest an 80 percent, instead of a 90 percent, homogeneity ratio for the 1954 census, and recommend that this ratio be increased gradually to a minimum of 90 percent.

RECOMMENDATION V, FUTURE CENSUSES AND ANNUAL SURVEYS

The subcommittee has said (recommendation IV) that industries should be defined in such a manner as to include not only the end products shipped but the extent to which the industry includes certain processes and intermediate production. Furthermore, in recommendation V, part (a), the subcommittee states that groups of establishments so defined must meet a 90 percent coverage ratio in order to finally qualify them for publication as an industry.

In my opinion recommendation V, part (a) is not desirable. Some of my reasons for so believing are as follows:

Under recommendation IV and V, part (a), all nonintegrated establishments which engage in activities similar to those in integrated establishments could not normally be grouped into a separate industry. Data for all these nonintegrated, establishments would be included with data relating to integrated establishments at whatever level of integration is decided upon as defining the new concept of an industry.

As I see it the only way to avoid this is by taking one of two possible courses of action:

1. Count establishments more than once.
2. Require that multiple product and process establishments report separately establishment data for each product or process.

I believe that the first proposal is certainly unwise, and I am sure that neither the Bureau of the Census nor the subcommittee would endorse such a procedure.

As to the second proposal, the Bureau of the Census has suggested that it should be carried out to a limited extent. In my opinion, this proposal has merit, and should be adopted wherever it is practical, and would not place undue burdens upon respondents. Obviously this division of integrated establishments for reporting purposes could never be accomplished to the extent necessary to satisfy recommendation V.

Recommendations IV and V, part (a), treated together, create additional conceptual burdens in defining an industry. Even if these burdens are satisfactorily overcome, the question arises as to whether the concepts could be successfully applied to the taking and reporting of the census.

ADVISORY COUNCIL ON FEDERAL REPORTS,
Washington 6, D. C., February 16, 1955.

Senator PAUL DOUGLAS,
Chairman, Joint Committee on the Economic Report,
Congress of the United States, Washington 25, D. C.

DEAR SENATOR DOUGLAS: This letter refers to action by the Joint Committee on the Economic Report to incorporate in the record of the February 9 public hearings a document submitted by Senator Barry Goldwater entitled, "Improvement of Census of Manufacturers Industry Statistics." As you may recall, Senator Goldwater stated that the document was a report of the Advisory Council on Federal Reports.

We have examined the document in the possession of the joint committee and wish to advise that it is not a copy of the final report submitted, which was a confidential report under the same title submitted to the Office of Statistical Standards, Bureau of the Budget. The document examined is an early and tentative draft which lacks subsequent changes, and an important qualifying amendment which was insisted upon by the council's 40-man committee on the census of manufactures of which I am chairman. This committee would not permit the report to be submitted to the Bureau of the Budget until these modifications had been made.

Since the document possessed by the joint committee is unofficial but is to be made public, I feel an obligation to indicate that it has no status, a fact which should be pointed out in the published record.

Also, may I ask you to delete the names that appear following the table of contents? These persons served with the understanding that, in keeping with a 12-year council tradition, any report prepared would be confidential, and not for publication. They have emphasized that as a result of an article in Business Week, February 5, they do not subscribe to the interpretation being placed upon the report and would object to being connected with it publicly and by name without considerable qualification and reservation. This article, also made a part of the joint committee record at the request of Senator Goldwater, did not name the subcommittee.

Therefore, in deference to the wishes of these men and to protect relations between them and their companies, I respectfully ask that their names not be published in the record of the February 9 public hearings of the Joint Committee on the Economic Report.

Sincerely yours,

T. E. VELTFORT,
Chairman, Committee on the Census of Manufactures.

Senator SPARKMAN. Mr. Chairman, before you get started, as I have told you previously, I must go to a meeting of the Foreign Relations Committee. I have hurriedly gone through the statements you gentlemen have presented. I want to apologize to them for not being able to stay and participate in the panel discussion. I think it is most helpful, and I think this committee is greatly indebted to the subcommittee headed by Mr. Talle last year which made this study on the need for better statistics.

I wish I could stay for the meeting.

Representative TALLE. On behalf of the other members of the subcommittee and myself, may I say I am grateful to my colleague for his comments.

Representative BOLLING. Mr. Eggert, will you proceed?

OPENING STATEMENT OF ROBERT J. EGGERT FOR THE CHAMBER OF COMMERCE OF THE UNITED STATES

Mr. EGGERT. Mr. Chairman, my name is Robert J. Eggert. I am marketing research manager, Ford Division, Ford Motor Co., and a member of the committee on business statistics, Chamber of Commerce of the United States.

The chamber is gratified that the joint committee is devoting this panel to economic statistics. The various statistical programs, lodged in some dozen agencies, can thus be compared and evaluated. We also appreciate the special analysis of economic statistics in the 1956 budget. The analysis greatly facilitates evaluation of the Government's statistical program.

We hope that panel discussions such as these, and the special budget analysis, both recommended in the July 30, 1954, progress report of the Subcommittee on Economic Statistics, will be repeated each year. They should aid materially in improving Government statistics.

Business needs prompt and accurate statistics for day-to-day and long-range planning, and I would like to introduce in the record here my own personal views. I want to strongly endorse the request for funds to strengthen our statistical programs. We use many of these statistics daily in our production-planning activities. Not only we, but our employees, suppliers, dealers, as well as our customers, have a real stake in their accuracy.

Money spent in obtaining more comprehensive facts that aid Government management decisions will result in adding more value both to the manufacturing and marketing areas of our economy.

The Government also needs these statistics for the same reasons.

In most cases, poor statistics are worse than no statistics. Poor or inadequate statistics can be highly misleading and even dangerous.

The average businessman makes decisions on the basis of these statistics. He counts on them being accurate, and often if he didn't have them available he would spend more time deliberating the pros and cons of the decision. He counts on the figures being reliable and he uses them. Poor statistics can be dangerous.

So the Government should make every effort to improve the quality and adequacy of its statistical reporting. While there is great demand for new statistics and new statistical programs, any new series should not be launched at the expense of essential existing series.

We have seen instances where private statistical reports differ from Government reports, although covering the same statistical ground. We have seen how several Government bureaus reporting on the same, or closely similar economic activities, have reported conflicting and divergent trends.

For this reason, we hope this joint committee will make every effort to encourage the qualitative improvement of the Government's statistical work.

Real progress has been made and we encourage further improvement.

At the same time, in our dynamic economy there are bound to be needs for statistical pioneering, and we welcome the work of the joint committee in this respect.

We endorse President Eisenhower's budget message statement:

> We do not have all the statistical information required in our dynamic economy. I am therefore recommending a Governmentwide effort to improve statistics in those areas where our work has been most handicapped by incomplete information.

The chamber, believing that Government spending today means a tax burden approaching the highest level in our history, has repeatedly urged that all Government activities not strictly essential be treated as luxuries and reduced accordingly.

Recognizing the vital importance of our whole national economy of accurate, prompt, and usable statistics, however, the chamber has supported not only the regular censuses, but has also recognized that the censuses should be supplemented by the collection of current statistics as needed, with the national interest being the criterion of need.

Total estimated Federal expenditures for statistical programs drop from $51.8 million in fiscal 1955 to $43.4 million in fiscal 1956.

Senator DOUGLAS. Mr. Eggert, that is due entirely, is it not, to the census of agriculture and the census of business and manufacturing are tapering off, so it does not represent any real economies. It simply represents the fact that we have passed the periodic census.

Mr. EGGERT. The major census, yes, I agree that is correct. I believe this covers that point.

The periodic census programs, which the chamber supported vigorously last year, are estimated to cost $24.4 million in fiscal 1955, but the budget request drops to $11.2 million in fiscal 1956—reflecting the relatively small amount of work remaining to complete these censuses.

Current statistical programs, including those related to employment, unemployment, wages, prices, construction, housing, population, national income, and other subjects are estimated to cost $27.4 million in fiscal 1955. Several of these programs would be improved under the 1956 budget, with the total amounts requested rising to $32.2 million.

I now would like to mention some of the most needed improvements in Government statistics.

Unemployment and employment data: One of the most important Government statistics is the number of unemployed. It is sometimes termed "a statistical trigger." When unemployment rises, demands are made for the Government to initiate recovery programs.

The Bureau of the Census now makes a monthly estimate of unemployment, broken down by sex, age, color, and duration of unemployment.

This helps characterize the total number of unemployed, but does not tell where the unemployed are located, and their usual or previous occupations. The Bureau of Employment Security collects weekly information regarding the recipients of unemployment compensation, yet these 2 series are not collated into 1 unemployment figure.

Senator DOUGLAS. Mr. Eggert, do you think the size of the sample should be increased?

As I understand it, it is now 25,000 families.

Mr. EGGERT. That would help.

Senator DOUGLAS. Have you made estimates as to how many additional families should be included?

Mr. EGGERT. I have not, Senator, but based solely upon my personal views, the sample could well be doubled for more accurate reporting in this area. I think there is always a need for coordinating.

Senator DOUGLAS. I wonder, Mr. Chairman, if we could have a poll of the members of the panel on this point, as to whether they feel there is a need for a larger sample.

Representative BOLLING. Mr. Hoadley.

Mr. HOADLEY. I would agree that the sample should be increased.

Senator DOUGLAS. By how much?

Mr. HOADLEY. At least doubled, but the precise amount of increase of course would depend upon how much detailed information is to be required.

Representative BOLLING. Mr. Reed.

Mr. REED. My field is population and vital statistics. I haven't any feeling on this point.

Representative BOLLING. Mr. Ruml.

Mr. RUML. It should certainly be increased to the point where the conclusions are not changed by any further increase.

Representative BOLLING. Mr. Teper.

Mr. TEPER. There is no question that the sample should be increased. The Special Committee on Employment Statistics, appointed last year by the Secretary of Commerce, made that recommendation.

We did not at that time suggest by how much the sample should be increased, because of possibility that even the doubling size of the sample may not yield proper results.

Senator DOUGLAS. If you doubled the sample and found approximately the same results you have now, it would be an indication that you would not have to double again.

Mr. TEPER. I would be very much surprised, after the future revision of the sample takes place if we would not find some differences in results from those shown by the present samples.

Representative BOLLING. Mr. Veltfort.

Mr. VELTFORT. I have no particular opinion on it. I would concur in general with what Mr. Ruml said, that the samples should be increased up to the point where increasing it further showed no difference.

Representative BOLLING. Mr. Watkins.

Mr. WATKINS. I would agree, Mr. Chairman, that the sample should be increased. I am not in a position to say by how much. I can tell you this: the rule of thumb that I have followed in my company in sampling problems of this sort is first to find out from technicians what is the minimum sample required and then double it.

Mr. HOADLEY. I would like to add that the size of the proper sample hinges upon the amount of breakdown information needed. This is a very important consideration.

Mr. EGGERT. The Bureau of Labor Statistics publishes monthly the extremely valuable series of nonagricultural employment classified by industry and by State.

We are gratified that the 1956 budget includes increased funds to improve the data for trade, finance, services, State and local governments—and other industries—and also improve the employment data on a State basis.

We also endorse the increase in expenditures from $4.9 million in fiscal 1955 to $6.8 million in fiscal 1956 for employment, unemployment, wages, industrial injuries, and related statistics.

I might add here, personally I feel some consideration should be given to the fringe benefits.

Construction statistics: Construction is a major sector of our economy, yet construction statistics are extremely deficient.

We support the recommended increase from $0.5 million in fiscal 1955 to $1.5 million in fiscal 1956 for this purpose, an increase which should greatly improve data in this important field.

Dr. Walter E. Hoadley, a member of this panel, is chairman of the chamber's subcommittee on construction statistics, and more familiar with this problem. He probably will discuss it in greater detail.

I have a table here on construction statistics which I would like to have incorporated in the record but which I will not read in the interests of saving time.

Representative BOLLING. Your prepared statement will be incorporated in the record.

Mr. EGGERT. Financial statistics of State and local governments: The Bureau of the Census reports on State and local government fiscal operations are of significant use by business and all levels of government. We are gratified the 1956 budget includes increased funds to improve these statistics, particularly since a comprehensive census in this field is not due for several years.

Electronic equipment: Electronic equipment has substantially speeded up and improved the accuracy of labor force, foreign trade, and other census statistical series. Reports from the censuses of business, manufactures, and minerals will be available considerably sooner due to use of electronic equipment.

We support the increased use of electronic equipment in the periodic censuses scheduled for 1958 and 1960.

Lack of timeliness is perhaps the most common complaint about Government statistics, and increased use of electronic equipment should help reduce the timelag in processing statistical data.

Value added by distribution: A notable gap in the Federal statistical program is information on the value added by distribution.

We all know goods retail for more than the manufacturer's selling price. For many years the Bureau of the Census has published figures showing the value added by manufacturing industries.

But there is no corresponding series on the value added by wholesale trade, retail trade, and other aspects of distribution. The accompanying chart summarizes the flow of goods in our economy from producers of raw materials in agriculture and mining.

Most of the goods pass through manufacturing, wholesale trade, and retail trade to final consumers. A smaller amount of goods flow from various stages of processing to the capital account of business and to government.

Other goods flow directly from manufacturers to personal consumers, bypassing wholesale and retail outlets.

This chart is greatly simplified. There is some flow from wholesale firms to consumers, some from agriculture directly to consumers and some goods flowing up the chart instead of down.

For purposes of simplification, these other flows were not marked.

The fact that products acquire added value as they move from field, forest, or mine through a processing plant or factory has long been reflected in the Bureau of the Census data showing value added by manufacturing.

The concept that manufactured products continue to acquire additional value as they move through the channels of trade to the point of ultimate sales or use, however, has not received equal acceptance.

Now is the time to do spade work developing the concepts and techniques necessary for computing value added by distribution. And I want to make it clear that we are not recommending that immediate information be collected here. This is a matter of developing proper concepts and proper techniques so this can be done correctly and accurately.

This is the important step at this stage rather than rushing out with schedules and trying to collect this information.

A good illustration of the constant need for upgrading statistical work and reporting is indicated by a special subcommittee on the census of manufactures which made a report to the Advisory Council on Federal Reports.

The nature of the problem is fully discussed in Business Week, February 5, 1955, pages 114 to 117, and alluded to in the Chattanooga Times for January 22, 1955.

I also have copies of these two items attached to my testimony.

When our economy was simpler and less interdependent, there was less need for statistics.

But in today's highly dynamic economy, with its steady population growth, a constant shifting of population, new raw materials continually being developed, new products reaching the market daily, and indeed whole new industries, both the Government and business executive are in constant need of up-to-date, high-grade statistical information.

The 1956 budget recommendations for economic statistics are supported by the chamber because these expenditures are needed to provide business with data vitally needed in today's expanding economy.

I again want to repeat that we appreciate very much the interest of the committee in this area and we think real progress is being made and will continue to be made.

(Mr. Eggert's prepared statement appears at p. 1104.)

Representative BOLLING. Thank you, Mr. Eggert.

Mr. Hoadley.

OPENING STATEMENT OF WALTER E. HOADLEY, JR., TREASURER, ARMSTRONG CORK CO., LANCASTER, PA.

Mr. HOADLEY. Thank you, Mr. Chairman.

One of the most significant developments affecting both private and public decision-making in recent years has been the growing use of economic statistics.

Moreover, at the present time there is noticeable interest in business in still more adequate economic information. This interest arises, first because of concern over the adequacy of many present Federal economic statistics now being used as a basis for important public-policy decisions, and second, because of the recognized need for more satisfactory economic data to help guide future business planning, which has obvious implications for the entire economy.

The interest of this committee in economic statistics, as evidenced in the hearing today as well as in several previous activities, plus the new feature in the budget message drawing specific attention for the first time to the Federal program in economic statistics are commendable developments. It is encouraging to know that at long last important Federal economic statistics which now influence critical policy decisions by leaders in Government, business, labor, and agriculture have achieved sufficient official recognition to be considered worthy of separate study and analysis.

The Economic Report states "Economic statistics are now closely scrutinized and widely commented upon by men and women in different walks of life" (p. 65). Such a statement would have been far less true 5 years ago and certainly would have had considerably less meaning 25 years ago. Nevertheless, the words "closely scrutinized" just quoted certainly must be intended to mean "read" or "scanned" rather than carefully appraised. Detailed analysis of many economic statistics provided by Government would disclose to almost anyone major deficiencies which are neither widely known nor understood. There has been a definite advance in economic literacy but Government figures, all too often, are being accepted as "official" and hence seemingly almost by definition "precisely accurate." Government, therefore, has increasing responsibility for greater accuracy and reliability of its economic statistics as their use continues to grow.

Just as more extensive and precise measurement devices have become a necessary part of increasingly complex industrial machinery, there is increased need for more comprehensive and accurate measures of what the Economic Report has termed "our complex and industrialized society" (p. 2).

I wholeheartedly endorse the basic economic tenets or guides to policy outlined in the Economic Report (p. 2), and particularly the first proposition that "competitive markets, rather than Government directives, are as a rule the most efficient instruments for organizing production and consumption."

The important—at times dominant—role of Government in current and future economic life, however, can never be minimized, and particularly by the management of any business enterprise.

Forecasting what policies government will adopt and pursue, frankly, has become one of the most critical aspects of business planning.

Is it any wonder that business managements have become vitally concerned about the quality and availability of economic statistics provided and used by government in making and administering public policies?

In my opinion, one of the greatest risks facing business organizations today is to be found in possible unsound public policies—both as to scope and timing—simply because those in authority may not have adequate or trustworthy information available upon which to base their judgments. Let me illustrate this point with regard to homebuilding activity.

As everyone here today knows, the postwar building boom continues with renewed vigor, despite many earlier and some current fears of an imminent collapse.

Because of favorable congressional action 2 years ago, it is now possible to know with considerable reliability from reports of the Bureau of Labor Statistics how many new nonfarm homes are being started each month.

But what information is now available to indicate the extent to which housing needs and demands are being met?

What significance is to be attached to current reports by the Bureau of Labor Statistics that nonfarm housing starts are at an annual rate of over 1,400,000 while new households, as estimated by the Bureau of the Census, are now less than 800,000 per year.

Senator DOUGLAS. Mr. Hoadley, is that a net increase or is that gross amount of new households? That is, is this the new households minus the deaths?

Mr. HOADLEY. This presumably is a net figure, but unfortunately official household data are still highly tentative and fragmentary. Census Bureau releases within recent weeks caution against their use even in indicating year-to-year changes.

Senator DOUGLAS. But this takes account of the breaking up of households through death?

Mr. HOADLEY. Within the limits of techniques and funds available, I believe efforts are made to allow for such factors in making estimates of net new households, Senator.

Is the new home building industry and hence the Nation facing serious trouble? Is credit too easy? In many respects, the key to future new homebuilding lies in the vacancy rate and in the trend of value of older homes. Yet, almost no trustworthy information on either subject is now available. This should be a matter of grave concern for government which has a great influence upon, as well as stake in, housing.

How present housing laws and credit policies can be properly administered in the face of these statistical deficiencies is at least a very open question to me.

The highly fragmentary and until very recently almost complete absence of information on the important and quite evidently expanding home fixup—i. e., repair and modernization—market unquestionably causes undue emphasis on new homes in public policies pertaining to residential construction.

Until the size and characteristics of the fixup market become known, it is hardly reasonable to expect that any well-conceived program to develop this market will emerge. Yet, expanded fixup work probably offers the greatest single opportunity to stabilize the vast but always vulnerable new-home-building industry.

Anyone who investigates the quality of the information now being released by Government on nonresidential construction activity knows the deplorable inadequacy of many current estimates. When it is recognized that these deficiencies are transmitted directly into the national product statistics, there is serious reason to question whether the latter figures—widely used for public and private policy purposes—in any real sense are accurately measuring the course of general business.

These observations on the inadequacy of many Federal construction statistics, of course, should not be interpreted to mean that all Government construction data are bad or that the statisticians preparing them are incompetent.

The plain fact is that the current statistical program simply cannot meet the policy requirements of the dynamic and far-flung construction field in 1955 and 1956.

Senator DOUGLAS. Mr. Hoadley, as I remember it, there were two private indexes of construction: F. W. Dodge and the Engineering News-Record.

Mr. HOADLEY. Yes, sir.

Senator DOUGLAS. You have been discussing Government statistics in the field of construction. What would you say about these two private indexes?

Mr. HOADLEY. Senator, in many respects we would have to make the same type of indictment against them. The figures which are available from these private sources do serve many very valuable purposes, but they are not compiled specifically for public policy use.

Senator DOUGLAS. Well, as I remember it, and I followed these for quite a time rather closely, they showed exactly opposite conclusions, Engineering News-Record showing great declines last year and F. W. Dodge showing appreciable increases. I must say I was puzzled and bewildered by these contradictions. I wonder, therefore, if you would not recommend to these companies that they improve their statistics as well.

Mr. HOADLEY. Senator, I know that the questions you have raised have been discussed with the managements of these private construction reporting organizations. I think we can say a good deal of new thought is being given currently to the collection of private construction data.

Senator DOUGLAS. I wanted to point out that it wasn't merely Government statisticians who got into these difficulties and misled the public, because I think those two series constitute the most extraordinary contradiction I know of.

Mr. HOADLEY. Your observations merely illustrate the plight of anyone trying to determine precisely what is going on in construction today.

Senator DOUGLAS. I am glad this is not an indictment of the Government bureaucrat, then.

Mr. HOADLEY. The expanded statistics program proposed in the President's budget message,[1] if adopted, will eliminate some of the most serious statistical gaps and deficiencies in construction mentioned here by providing additional funds for the Business and Defense Services Administration, the Bureau of Labor Statistics, and the Bureau of the Census. The new program also will provide badly needed benchmark information as well as up-to-date facts on labor and material requirements in construction and make available an answer to many heated questions concerning whether large or small builders are making the most progress and what types of homes are in greatest demand.

One other phase of Federal economic statistics, namely, industrial classification, merits at least passing attention.

[1] Special Analysis I, Federal Economic Statistical Programs, Budget of the U. S. Government for the fiscal year ending June 30, 1956, pp. 1203–1204.

This problem is highly important to the extent that the United States census of manufactures uses inexact or incomplete definitions of industries. Scrambled or overlapping industry data, moreover, often used by Government and others to measure productivity or so-called concentration ratios—i. e., the percentage one or a few firms have of total industry investment, and so forth—obviousl yare misleading when applied to any specific industry or industry group.

It would seem highly essential that tabulation procedures for the 1954 Census of Manufactures take full cognizance of this industrial classification problem.

Moreover, before any future census of manufactures is undertaken, further careful consideration should be given to the report of the Watkins Intensive Review Committee which studied the entire census program last year as well as to the recommendations of a subsequently appointed subcommittee of the Advisory Council on Federal Reports.

In a brief opening statement covering such a broad field as economic statistics, it is natural to stress areas requiring attention and improvement. The forward strides of Federal Government statistics in recent years, however, certainly must not be overlooked. A number of gains in coverage, timeliness, and statistical accuracy have been achieved despite many sharp cutbacks in appropriations. Nevertheless, the current general economic statistics program of the Federal Government has many serious shortcomings for policymaking as well as other purposes.

Business needs for economic statistics clearly are mounting in order to help insure future stability and growth of individual enterprises and hence the country as a whole. Many—perhaps most—business organizations with which I am familiar accept the responsibility to provide their own detailed, market-type statistics, but they properly look to Government for broad statistical information essential to sound public policies and necessary as benchmarks for private business planning.

In conclusion, let me again stress the importance of the Federal Government's current and proposed economics-statistics program for both public and private policymaking purposes.

I have only cited two illustrations of areas requiring prompt statistical improvement in the public interest. Others have been mentioned in earlier hearings before this committee and no doubt will receive attention today.

Major corrections in Government economic statistics can be achieved provided the program summarized in the budget message receives favorable action by the Congress. In my opinion, the program warrants very serious consideration and approval.

Thank you very much, gentlemen.

Representative BOLLING. Thank you, Mr. Hoadley.

(Mr. Hoadley's prepared statement appears at p. 1102.)

Representative BOLLING. Mr. Reed.

OPENING STATEMENT OF LOWELL REED, PRESIDENT, JOHNS HOPKINS UNIVERSITY, AND PAST PRESIDENT, AMERICAN STATISTICAL ASSOCIATION

Mr. REED. I am Dr. Reed, president of Johns Hopkins. My field of interest in statistics has been that of population and vital statistics and I have devoted my life to that. I shall confine my remarks to those two fields. I would like to say I appreciate very much the opportunity of speaking and I want to express my opinion of the importance of these hearings. I would like to start first by stressing the importance of population and vital statistics as a part of economic statistics because our economy is fundamentally dependent on the people that we have, and we need to have the best knowledge that we can as to our population; the various breakdowns of the population into the normal classes that you recollect, the occupational unemployment statistics with regard to them and all of those facts with regard to population. So what I would call population statistics and vital statistics are an extremely important part of commission figures. I have just two points I would like to stress with regard to the field of population and vital statistics. The first one Mr. Belcher mentioned, manpower statistics. I think there is no doubt but what we will need more and better manpower statistics in the future.

We are coming to the point where the programs of the country are dependent on the people to carry them out rather than material things and we need to know how many people we have. By manpower statistics I would like to emphasize the fact that I do not mean just employment or occupational statistics.

When we came to stress manpower in connection with Selective Service, we noticed that the occupational statistics did not furnish the information we needed. What we needed to know was the people and their capacities, not just what they were doing.

Senator DOUGLAS. How could you measure that, Dr. Reed?

Mr. REED. Well, we have measured that in various ways, in terms of the roster of scientific personnel. That was an attempt to do that and certainly that has proved to be extremely valuable. We have within that limited field statistical material that is of assistance. That needs to be extended to a great many other technical skills. We probably do not need to do it in the detail as was done by the scientific people but we do need to do it. The recent report of the Manpower Commission which emphasizes education in the field of manpower has several areas that could not properly be carried out unless one could get an evaluation of the skills that people now have and the skills you would wish to train them for.

Within the working life of our people the skills and the things we demand of our people change. What we are asking of our people 30 years ago is not the same as it is now. We educate people for certain occupations. We need to look ahead and see that we are not caught short on engineers in various fields. That is what I would mean by manpower statistics. There are fragments of statistics scattered through the Government that have bearing on manpower in my opinion beyond occupation and employment statistics. I would recommend that the Office of Statistical Standards do a study in that regard and do some planning in regard to what manpower statistics might be. Certainly we are not in a position to go into the collection of those statistics at the present time for the very reason you bring out, but I want to stress the importance of having knowledge of that type in the future. The other area I would like to speak of is vital statistics and health statistics. I know provision is made in the budget for bringing those statistics up to date. They are so far behind they are not as useful as they might be, but the point I want to emphasize is the need we have for health statistics and by that I mean statistics which tell us something about illness and disability within our population. Again, when we have come to periods of stress, disabilities have shown up in our Selective Service statistics, the importance of not knowing that——

Senator DOUGLAS. I wonder if it would not be important to get the distribution of cases of illness by duration and by cost.

Mr. REED. Senator, it would be extremely important. I was going on to say that the health programs that have been under consideration by the Government and will be, all of them are going to demand statistics of that type. We are not collecting those statistics except in very fragmentary form.

Senator DOUGLAS. I have had the feeling, sort of what I would call a commonsense observation, that the differences in the field of cost of medical care do not lie in the field of ordinary sicknesses but what I once termed "catastrophic sicknesses," and that is where the problem comes, sicknesses of long duration or requiring expensive surgery. Do you have any judgment on that?

Mr. REED. Yes. It is perfectly correct that the most difficult and the most important problem in health insurance is in the field of those long or catastrophic illnesses. And they are the ones which lend themselves to insurance because the ordinarily recurring illnesses can be anticipated, foreseen, and provided for out of current income; isn't that true? And it is with that idea in mind that I emphasize the importance of having health statistics. I would like to go on and say that it is not merely for the insurance point of view that we need these health statistics. There are many other reasons why we need to know the health status and particularly the disability status of our population. We have heard a lot about rehabilitation but at the present time the areas that should be stepped into with regard to rehabilitation are not well known, and so I want to stress the fact that I think the Government should investigate the problem of health statistics and go into that. There is a report on health statistics at the present time prepared by the National Advisory Committee on Vital Statistics. I am Chairman of that. But that report is in the hands of the Public Health Service and in the hands of the Office of Statistical Standards. I think that report should be brought up, should be given consideration, and the Government should decide what it is to do.

Senator DOUGLAS. When was that report prepared, Doctor?

Mr. REED. The report was prepared a year ago or a little more.

Senator DOUGLAS. Has any action been taken on it as far as you know?

Mr. REED. It has received consideration. But I feel it should be picked up and attention given to it.

Senator DOUGLAS. Progress has not been striking.

Representative TALLE. In connection with manpower statistics, Mr. Reed. I would like to ask you about technicians. There must be a considerable shortage of qualified technicians. Especially in connection with veterans' hospitals, it is said often, "We can't staff them properly, we don't have technicians. We may have the doctors, but we don't have the people to assist them."

Mr. REED. Well, I had technicians in mind when I was speaking of the subprofessional personnel. But it is not merely technicians in the field of medicine and in our hospitals, it is also technicians in handling our scientific equipment. When we go into this atomic age we need not merely scientists, but we need technicians, too, and we do not know how many people of that type we have, how many we should train and we need a body of knowledge with regard to manpower that embraces technicians in the medical field and in all fields.

Representative TALLE. That would be true in any field in which the application of science and invention has been rapid, would it not?

Mr. REED. That is right.

Senator DOUGLAS. Dr. Reed, I do not want to throw a brick through a plate glass window, but isn't it true that one reason for this difficulty of getting technicians in the field of public health is the fact that the organized medical profession does not want semiskilled attendants, nor do the nurses; they want skilled people to perform unskilled work; isn't that true?

Representative BOLLING. Senator Douglas, would you say I should rescue Dr. Reed by saying this is not statistics?

Senator DOUGLAS. Since Dr. Reed is the head of one of the first-rate medical schools in the country, I suppose he should not be asked to comment on that.

Mr. REED. Well, the whole problem of medical care that I have worked with intensively has many features of that sort mixed in with it, Senator Douglas, as you know. On the other hand, those are not the points that I was discussing today. What we need is basic knowledge in order to meet some of those questions.

Senator DOUGLAS. I think, in addition to basic knowledge, you have some obstacles which would have to be overcome in the professional organizations, both of nurses and doctors.

Representative BOLLING. Mr. Reed.

Mr. REED. That completes everything that I have. I hope that my report, which I have paraphrased, will be included.

Representative BOLLING. That will be done, without objection.

(Mr. Reed's prepared statement appears at p. 1116.)

Representative BOLLING. Mr. Ruml.

OPENING STATEMENT OF BEARDSLEY RUML, OF NEW YORK, N. Y.

Mr. RUML. Mr. Chairman, may I file certain data in the interests of time?

Representative BOLLING. That will be done.

Mr. RUML. My name is Beardsley Ruml. I am chairman of the business committee of the National Planning Association and a member of the research and policy committee of the Committee for Economic Development. It is my purpose to discuss the role of statistics in the making of public and private policy decisions and to urge continued and accelerated progress in the development of the stactical series now available.

Today we are overwhelmed by recent scientific and technological advances which have occurred in the fields of physics, chemistry, biology and medicine. It is not surprising that the less spectacular and less certain new insights in economics and finance are not so widely known. The full import of these advances I am confident are not yet understood, but we do know enough to know that some things that may competent people thought were true are either false or true in a different way that was believed. Let me give three examples.

In 1937 an eminent economist advised the Treasury that unless the budget was soon balanced, the interest rate would go to 6 percent or even 8 percent, the way it had in France. And yet during the war, the national debt rose from $45 billion to $275 billion on a declining rate of interest.

In 1941 we were told that we would have to choose between guns and butter, that to arm for war in two hemispheres we would have to cut our standard of living sharply. And yet in 1944 the general overall standard of living was at least as high as in 1941, and in addition we produced some $80 billion worth of armament. The miracle of production came out of productivity that had been growing unnoticed beneath the surface of a low actual output for a period of more than 10 years.

To take a third example, during the 1930's most people believed that a deficit in the Federal budget was inflationary. Today we can see that a nation that has millions of unemployed who want to work and ample idle plant and raw materials is much like a factory or a company that has a sizable amount of unused capacity. Under such circumstances, an increase of demand tends to reduce unit costs, and therefore under competition tends to reduce prices rather than to increase them. For the same reasons, Federal deficits prudently incurred in times of excessive unemployment, since they also tend to reduce costs, tend to be deflationary rather than inflationary as far as the purchasing power of the dollar is concerned.

These and other discoveries and insights in economics and finance are of the greatest importance in the determination of policy, and they rest on research made possible by objective statistical reporting. To select one contribution of conspicuous value, consider the work on the measurement of national income under the leadership of Wesley C. Mitchell and Edwin F. Gay in the National Bureau of Economic Research beginning in 1921. It is difficult for us today to realize that only 30 years ago not only did we not have the statistics to work with, but many concepts such as gross national product, which grew out of the statistics, did not even exist.

Senator DOUGLAS. Do you think this introduction of gross national product is an unmixed blessing?

Mr. RUML. No. Like all things human, there are both weaknesses and strengths.

Senator DOUGLAS. I think it has led to an exaggeration of the real national income because it includes transfer payments and provisions for depreciation and obsolescence. I have viewed with some alarm the way in which the net income figures tend to be pushed to the back and gross national product figures pushed to the fore. I think this was a disease characteristic of the bureaucrats of my own party, but I now find that it is adopted with equal alacrity by the bureaucrats of the present dominant political party.

Representative BOLLING. Senator, maybe it would be a good idea if we got the views of the other members of the panel on GNP.

Senator DOUGLAS. Yes, certainly.

Representative BOLLING. Mr. Teper, would you care to comment on that point that has just been raised?

Mr. TEPER. I think Senator Douglas is right. The figures of both net national income and GNP must be used with caution. We actually do not know what the degree of error is in either of these figures. There is plenty of room for additional studies in this area.

Representative BOLLING. Mr. Veltfort, would you care to comment on that?

Mr. VELTFORT. I think the transfer payments are washed out in the gross national product figure. (See table D–5, Economic Report of the President.)

Senator DOUGLAS. Well, As I recall, it includes benefit payments to veterans, interest on the public debt, but I would not say, since the public debt has been primarily incurred because of war, I would not say that such payments were in addition to consumable income.

Mr. VELTFORT. My overall comment would be, as I will point out when I talk, that all of those statistics must be used with an understanding of how they are made up, and there must be constant improvement in their makeup.

Senator DOUGLAS. Well, I would like to suggest to the members of our staff, that we put a little more pressure on the Council of Economic Advisers to play up national income as well as gross national product, and bring that to the fore more.

Mr. WATKINS. Mr. Chairman, I would like to enter a dissent. We are talking about two different concepts. One is gross national product, which by definition is the estimated sum total of the value of all of the goods and services produced by the economy. I think that is an exceedingly useful concept. There are difficulties in preparing the estimates and room for improvement, but I think it is a useful series.

Now we have also estimates of the national income. Both of these series serve useful purposes, and I am convinced myself that GNP is more usable. Naturally, we have to produce enough to take care of depreciation, and that is a part of our total output.

Representative TALLE. Mr. Chairman.

Representative BOLLING. Mr. Talle.

Representative TALLE. In reply to the Senator's comment about the Republicans doing the same thing that the Democrats do——

Senator DOUGLAS. Only more so.

Representative TALLE. I would like to recite the sage remark of Uncle Dooley, who said, "A body is always doin' what everybody else is doin', though there mayn't be no sense in it."

Representative BOLLING. Mr. Eggert, do you want to comment?

Mr. EGGERT. Speaking from my personal point of view, I would like to voice a modest dissent. We find the personal income and disposable income very useful, and to this extent I would agree with Senator Douglas.

However, we also feel that gross national product is a useful tool as a measure of the physical growth, and we use it. I personally think it is an understatement of our increase in our output. It does not measure, as I understand it, the tremendous amount of do-it-yourself type of activity, the fact that a lot of people are working on Saturdays on their own.

I do not believe that gets into the gross national product concept. Because of that, if we had a true measure of our total output of goods and services, it might actually be higher and might reach more, Senator Douglas.

Senator DOUGLAS. I am not proposing that we discontinue the series for gross national product, but I viewed with some concern the fact that the figures on net national income fade out in the discussion of national prosperity. The one figure which is quoted tends to be a gross national product figure, which includes provisions for simply keeping the stock of capital equipment going without any net additions.

Representative BOLLING. I think it is a very interesting question. I think perhaps its greatest importance lies out of the purely statistical field in the interpretation that the people generally put on the significance of the figure.

Mr. HOADLEY. I would merely add that the Senator is certainly right, gross national product is becoming the more popular measure. I would add also that both concepts, gross and net, are essential and obviously have to be used with discretion, but I think Mr. Ruml's point was some years ago we had no overall measure of what was going on in the country, and that we tended to use indirect means in judging what was happening through pig iron production or selected measures and barometers, rather than attempting to measure the entire economic activity in dollars for the country as a whole.

I think it is a very forward step, but again I would say we have to use these new measures with caution.

Representative BOLLING. Mr. Reed.

Mr. REED. I have no comment on that.

Representative BOLLING. Mr. Ruml, I would like to assure you, we are not going to take all of this time out of your time.

Mr. RUML. Valuable as our present statistical series are, there is much room for improvement in coverage, accuracy and speed of reporting. Let me mention 2 specific examples of statistical inadequacy at 2 most crucial points.

First, consider our inadequate knowledge of increase in productivity per man-hour from year to year. Is it 2 percent, or 3 percent, or even more? Does it increase arithmetically or geometrically? Has increase been exhausted in some lines and hardly begun in others? Today we are using overall figures based on historical general experience modified by the shrewd insight of particular students. But the consequences of these estimates for policy cannot be exaggerated, and the choice of 2 percent or 3 percent in productivity increase per man-hour per year means the choice of 20 percent or 30 percent in the increase of gross national productivity 10 years from now, a difference of some $35 billion. Clearly our statistics on productivity must be as accurate and as meaningful as it is humanly possible to make them.

The second area which I will mention as needing improved statistical reporting is the field of savings. Here I mean not only the figures on savings banks, but knowledge with respect to the current withdrawals from consumption and their distribution by classification.

In the United States no longer is last week's income a reliable guide to this week's spending; no longer does this week's spending tell an adequate story on next week's consuming.

Today as never before the ordinary individual can get along without current purchasing for his day-to-day requirements. If he decides to change or to restrict his habitual consumption, he can do so without doing violence to his health or well-being.

So also today as never before the ordinary individual has cash, or its equivalent, that he can use to buy the things he wants or the things he thinks he may some day want. Thus, consumer spending is not necessarily consumption.

The consumer in the United States is not absolutely free—sooner or later he must buy some things to satisfy his minimum requirements. However, in the aggregate, the consumer is free as never before—free to postpone, free to reduce, free to anticipate, free to switch from one unnecessity to another. Economic determinism no longer contains him.

Accordingly we need as never before comprehensive, accurate, meaningful and prompt statistics on the savings and spending behavior of American citizens. Without such knowledge the making of policy and the implementation of policy can be based only on an experience which is largely personal, imperfect and obsolete.

The responsibility for improving the statistical series in these and other important areas lies upon the agencies who have these assignments and upon the appropriating bodies from whom the necessary funds are derived. Clearly the sums that can be efficiently applied are immeasurably smaller than the financial consequences of the decisions for which the statistical series will be used.

Here I wish to emphasize a suggestion which has already been made. A special responsibility must be assigned to the Federal Reserve System, not only because its earnings provide abundant resources for statistical research and reporting, but also because the vital Open Market Committee, in its determinations to act or not to act, needs to have before it for its own use, a very large proportion of the statistical requirements for all public and private policy decisions.

If the Federal Reserve System would only see to it that the statistics it needs for its own operations are available to the public and to it, the back of the problem of statistical reporting would have been broken.

I am not suggesting that the Federal Reserve System should take over the collection of all the statistics it needs, or even that it should be a coordinator of existing public and private statistical bureaus. What I am suggesting is that the Federal Reserve System should assume a residual responsibility to make certain that it gets promptly from whatever source the statistics that it itself needs, and that it supports the researches requires to keep the quality of the various statistical series at a high level and to improve their comprehensiveness, meaning and availability.

To be sure, a statistic is only the shadow of a fact. But it is after the reading of these shadows that decisions are made. And the decisions affect the well-being of us all.

Representative BOLLING. Mr. Ruml, it is a matter of profound regret to me that our colleague, Congressman Patman, was not here to hear the latter part of your testimony. I am quite confident that he would have been very much interested. His interest in the Federal Reserve System is very well known.

Senator DOUGLAS. Well, are you going to let Mr. Ruml off as easily as this?

Representative BOLLING. I thought I would leave the harder work to you.

Senator DOUGLAS. Mr. Ruml, do I understand your recommendation to be that you think it is easier to get appropriations for the Board of Governors of the Federal Reserve System than it is from Congress, since the Board of Governors will appropriate money which is not their own and which otherwise they would have to turn into the General Treasury.

Mr. RUML. Well, I would call the funds coming from the Federal Reserve Board allocations, rather than appropriations, in order to make a distinction between the methods.

Senator DOUGLAS. In other words, that the Board of Governors would not watch the allocations as closely as we would watch appropriations.

Mr. RUML. No, I think they would watch them in a different way. For example, in the appropriations, the question of what rate is paid as compensation to an individual is very important, and in the other case the quality of the individual becomes very important. I think both have their values as tests of efficiencies.

Senator DOUGLAS. Well, it is a very canny answer.

In other words, you think the Federal Reserve has earnings which could be tapped for statistical purposes to a greater degree than the tax revenues of the Government?

Mr. RUML. Well, I think there are earnings, I do think there is some flexibility that makes it possible to do on a qualitative basis sometimes things that can not be done in a regular Government bureau, and that is all I meant by my remarks.

Representative BOLLING. I am not quite clear on this. Are you suggesting that it is absolutely impossible to convince the Congress to do what is necessary in the statistical field?

Mr. RUML. Oh, no; I think it is quite possible, but it may take a long time.

Representative BOLLING. So this is an expediency to substitute the Federal Reserve. I am not being entirely facetious, but it is in effect a practical expediency?

Mr. RUML. I think it would give at certain points a qualitative and a time impact that would be very desirable, but, as I say in my testimony, I am not suggesting the substitution of one for the other, but only that the Federal Reserve should take what I call a residual responsibility, thereby not interfering in any way with what the Congress does appropriate to the standard agencies of the statistical bureau.

Representative BOLLING. But you would agree, I assume, that, ideally, much of this work should not be thus segregated in the hands of the Federal Reserve, because the Federal Reserve does have a unique position with regard to the Government policy. It would be preferable, I take it, if certain statistical information were decided to be essential to a wise policy political decision, that it would be made available through the more ordinary channels, rather than in an agency which is purposely somewhat insulated?

Mr. RUML. Let me give an example in the savings field. I think it would probably take two or three hundred thousand to do the initial experimental and intellectual work to get the kind of reporting that then would be standard reporting.

Now that could be done any time by the Federal Reserve. Then Congress can decide whether it should be there or in Commerce, or somewhere else when it comes to the operation.

Representative BOLLING. I do not want to give the idea that I am hostile to the plan. I just want to be sure I have it in proper perspective for myself.

(Mr. Ruml's prepared statement appears at p. 1117.)

Representative BOLLING. Mr. Teper.

OPENING STATEMENT OF LAZARE TEPER, RESEARCH DIRECTOR, INTERNATIONAL LADIES' GARMENT WORKERS UNION, NEW YORK, N. Y.

Mr. TEPER. I appreciate the opportunity of meeting with you for the discussion of the recommendations on economic statistics made in the President's annual budget and Economic Report. The annual budget of the President does offer a useful overview of the proposed Federal statistical programs, though in a skeletonized form. However, the President's Economic Report, aside from some scattered comments on individual statistical series and contrary to your last year's recommendations, gives no consideration to a program of adequate economic statistics.

In the interest of brevity, I will limit my remarks to a review of only a few of the issues, leaving the rest of my comments to the statement which I would like to offer now for the record.

Representative BOLLING. That will be done.

Mr. TEPER. The decline in employment which started in mid-1953 naturally spurred on the interest in adequate employment and unemployment statistics and the annual budget reflects this concern. The need for strengthening unemployment statistics, you will recall, has been dramatically brought to the fore through the issuance of revised unemployment estimates for January 1954 which exceeded the older estimates by 728,000.

The investigation of this discrepancy, conducted by a special committee chaired by Frederick F. Stephan, of Princeton University, with Lester R. Frankel, of Alfred Politz Research, Inc., and myself as members, revealed that, at least in part, this discrepancy, brought about by operational difficulties during the transition from the 68- to 230-area sampling, was caused by lack of sufficient funds.

However, it also appeared that, despite the basic soundness of the census approach, the current sample was probably not large enough to insure the maximum of accuracy for the future and to provide the needed detail. We also felt that although the new estimating procedure, now in use, did raise the accuracy of some of the labor force breakdowns, it failed to do so in the case of the unemployment estimates and that, therefore, the new estimating technique should be, at best, viewed as experimental.

Much still remains to be done to improve the measurement of the labor force and of its characteristics. Some of the problems bear on the problem of concepts and the use of the term "employed" to cover not only those who work as little as 1 hour in the course of the enumeration week but also many of those who worked not at all.

Senator DOUGLAS. How would they include as employed people who did not work?

Mr. TEPER. The term "employed," as used by the census, includes people who have a job but who were not at work during the particular enumeration week.

Senator DOUGLAS. You mean the layoffs?

Mr. TEPER. Yes. This group includes short-term layoffs of less than 30 days.

Senator DOUGLAS. I always believed those should be included and I believe now those figures are published and transmitted to us in the Economic Indicators.

Mr. TEPER. That is correct. These figures are shown separately in the Economic Indicators. They have been shown separately, at least for sometime, in the back part of the Monthly Report on the Labor Force. However, the term "employed" has been much too frequently used, both by responsible officials and by people outside of the Government, as synonymous with "at work." This confusion is undesirable. In the case of persons laid off for less than 30 days, the issue is relatively clear—they are out of work for economic reasons. How about those who were unemployed during the particular survey week but who got a job which is to start within the next 30 days? They are also treated by the census as though they were employed during the particular survey week. However, by no means of imagination were they employed at that time. Persons who did not work in the same week because of bad weather are also treated as employed, although bad weather, as one of those acts of God, is just as much of an economic fact which affects the levels of employment.

Senator DOUGLAS. Take the building trade. If we had a severe winter the volume of building construction would go down. Suppose you have snowstorms or cold weather, and the man does not work at his trade—he is counted as employed.

Mr. TEPER. If during the survey week it is reported that a man's inability to work was caused by bad weather, he is counted among the employed. However, he will also be separately tabulated as among those with a job but not at work. This group is deemed to be part of the employed.

Now then, there is another group, shown in the miscellaneous category of those with a job but not at work. While no published breakdowns are available on who is included in this group, the little that I have seen in the course of our investigation suggests that quite a number of individuals should be more properly classified among the unemployed. This category does, of course, include a number of borderline cases. It is a difficult area to classify properly.

Senator DOUGLAS. Would you give an illustration of this?

Mr. TEPER. Some people in this group may be improperly classified because they work on an irregular schedule or because they are enumerated in their off season. Others may be between jobs or may otherwise be erroneously classified. Of course, some improper classifications are unavoidable, and I want to make it very clear that the Census Bureau has not been deficient in handling that particular group. However, this group does exceed, at times, a half million persons. This is not an insubstantial number and more work needs to be done in this area to improve classification.

Senator DOUGLAS. Now these errors you think are not compensating but cumulating, they operate to minimize the amount of unemployment and to maximize the amount of employment?

Mr. TEPER. That is correct. Nor is the situation improved, because theoretically one can sit down, analyze the different breakdowns, and recombine them to provide more meaningful categories within certain limits—one cannot really do it in all cases. Nonetheless, this is not helpful for the public in general or for the responsible officials who tend to use data as published, in terms of three groups: Employed, unemployed, and out of the labor force. Significantly, the out-of-the-labor-force category also includes a number of people more properly classed as unemployed. They may not be looking for a job solely because the jobs are not available in their communities.

Senator DOUGLAS. That is the subject you are going to treat in your next sentence.

Mr. TEPER. Yes. I want to draw your attention to the fact that some six studies conducted by the Census Bureau in the past, though inconclusive, have shown the size of the group classified out of the labor force, but available for jobs if jobs were available, has ranged, at the time of those surveys, from 11 to 73 percent of the number counted as unemployed.

There is a distinct need to review the current definitions of unemployment as used by the Census and to eliminate the source of confusion which arises when the term "employed" is misused as synonymous with "at work."

Senator DOUGLAS. I confess to some confusion on this point. It used to be said, in the great depression of the thirties, that the number seeking work increased because, with income shrinking, wives and parents and young people would seek work who ordinarily would not be in work, and that, therefore, unemployment was cumulative.

The modern interpretation is that you rule out from seeking employment people who have no prospect of getting a job. I am a little confused on this point.

Do I make my question clear?

Mr. TEPER. Yes. First, I would like to comment on the last part of your statement. There is undoubtedly some discrepancy between those who can be called unemployed, however defined, and their number obtained as a result of a physical count. This is due to the fact that the information is secured on the basis of specific questions, from persons other than the person concerned, not the unemployed person, but the housewife, or someone else. In this way some imperfections unavoidably creep into the enumeration, simply because the respondents do not have complete information or because of misunderstandings. That may be responsible for some discrepancies. As to the first part of your question, there is no doubt that there are 2 separate movements or 2 distinct kinds of tendencies which occur at the time unemployment deepens. They are well illustrated in the Pennsylvania coal mine regions, where, with the mines shut down, the miner may be deemed as not available for work, because technically there are no jobs in his line, because he intends to stick to mining. Because he knows such jobs are not available, he may not even look for work.

Of course, if the mine were to reopen, he would be the first one to go back. In the meantime, the people who enter the labor force, seek work and get jobs, are the women of the family, the daughters and the wives. They may work in the garment shops, for example. Thus we find that a number of new people were drawn into the labor force at the time when others are counted out of it.

The wage earners who normally would have been part of the labor force would resume work as soon as work is available in their line. They do look at apparel work, for some reason, as the women's work. Therefore, they do not seek work in the apparel shops. It is possible, therefore, that in the course of enumeration, if asked the question: "Are you looking for work?" the man may shrug his shoulders or the woman may say that he isn't looking for work.

Well, there is no acceptable work for him to look for. And as a result, he may be considered by the Census Bureau as out of the labor force.

Senator DOUGLAS. So you think that this factor has also operated to reduce the published figure of unemployment?

Mr. TEPER. It may very well have done so; yes, sir.

Senator DOUGLAS. Many people have been counted as not seeking work and hence not unemployed?

Mr. TEPER. Yes. This would occur when the members of their household would report them as not seeking work, without volunteering an additional statement at the same time explaining that they are not seeking work because there is no work available in their town.

Now the Census will count a person as unemployed if such an additional explanation is volunteered by the respondent. However, many people are not very articulate. As a result, any enumeration which relies on the ability of the respondent to provide additional elaborations and clarifications, not directly called for by the questions asked, will definitely result in an undercount, just because many people answer only the specific question asked and say no more.

Representative KELLEY. Mr. Chairman, do you think there are many who would report that they were not looking for work?

He may feel himself helpless in the face of the economic situation in the area he is in, that work is not available to him. However, I can't imagine there are very many in the category who would say that they are not looking for work.

In my experience I haven't found that to be true in very many instances.

Mr. TEPER. Well, sir, if I could give you the exact figure we would not need to make the surveys of the labor force. Such figure could only be produced by additional studies. That is one of the reasons why I cited the findings of the six prior studies made by the Bureau of the Census. They were made between 1946 and 1949. They concerned themselves specifically with the out of the labor force group, trying to discover whether it is a pure group or whether it also included a number of cases of people who may not have been properly classified as out of the labor force and who may not have been looking for work because they thought job opportunities were not available.

Now, each of the six surveys showed that this group represented a different percentage in relation to the total number counted as unemployed. The range was very wide.

Senator DOUGLAS. Mr. Teper, do you have a tabulation of the range of these variations?

Mr. TEPER. Yes.

Senator DOUGLAS. I wonder if that could be made a part of the record.

Mr. TEPER. There are six figures. They are 73, 11, 22, 20, 18, and 16 percent; these figures have been calculated by Mr. A. J. Jaffe, one of your former students, and Mr. Charles D. Stewart of the Bureau of Labor Statistics, and are found in their book, Manpower Resources and Utilization, page 460.

Representative KELLEY. Is that included in your comprehensive statement for the record?

Mr. TEPER. I did not refer to all these figures but I did give their range.

Representative KELLEY. I might interject this, Mr. Chairman.

There are many men who are out of work and probably feel helpless in getting positions because if they are over 40 or 45 years of age, the door is closed in most instances to those men seeking work in other industries. There is quite a group in that category.

Do you find that in your experience?

Mr. TEPER. Well, I have been looking at a study of labor mobility in the New England States, which was just released. It deals with the textile industry. It shows that after the textile mill shutdowns in New England, the older textile workers encountered much more unemployment in their ranks than the younger workers. There was a definite correlation between unemployment and age. The study has also shown that, by and large, the unemployed were relatively immobile.

People were looking for work in their own neighborhood areas. They were not too well informed about available job opportunities.

This is one of the reasons why some unemployed feel frustrated. They just do not know what the employment opportunities are.

Representative KELLEY. Well, the employment opportunities are severely restricted anywhere if they are over the age of 45.

Mr. TEPER. That is right.

Representative KELLEY. That is quite a large group. I have that impression. There are no statistics to show just how many would be in that group. That applies even to the professions, even in engineering today.

With all of the advertisements you see in the newspapers for engineers, yet if an engineer finds himself unemployed in an industry that he has worked in he finds difficulty in getting positions anywhere, even in spite of the fact they are looking for engineers, and the difficulty is that he is over 45.

Mr. TEPER. That is right. You will find the monthly reports on the labor force do show how many unemployed as defined by the Census Bureau, there are by age brackets. From these figures, despite their limitations, one can evaluate the situation with regard to those over 45.

However, there is no information on the duration of unemployment in the different age groups. Yet such knowledge is very important because the duration of unemployment may be much more serious among the oldsters than in the younger groups.

Representative KELLEY. The striking thing is that we are concerned about the shortage of technicians and engineers and yet we have them, experienced ones who are in an age bracket where it is difficult for them to find jobs, in spite of the shortage.

Mr. TEPER. To continue, there is also a need for enlarging the present sample size, for information on the gross changes in the labor force, and for improvements in quality checks on interviewing.

Parenthetically, the undesirable practice, introduced last year, of making the employment of field enumerators a subject of political patronage should be abandoned.

Senator DOUGLAS. Mr. Teper, may I ask a question on that?

I have always felt there was a role for political patronage in appointing enumerators, and it has always been the policy of my party as well as the other, to hire the census enumerators through political channels. And I think on the whole they have done a good job. Generally there is no tendency toward bias in the collection of population figures, although occasionally you get overambitious local boosters who want to send up the population figure for a community, but do you think there is a possibility of an internal bias if you recruit enumerators for collecting figures on unemployment?

Mr. TEPER. Well, I remember an old study made by Stuart Rice in the twenties. He was studying the bias of interviewers engaged in the study of homeless men. There were two enumerators. One was a Socialist, I believe, and the other was a Prohibitionist. The Socialist found that the causes of homelessness were economic and the Prohibitionist found that it was all due to drink.

Now, it is pretty difficult to assess to what extent the interviewer bias affects the end results of enumerations. There is no doubt that when a political party, whichever it may be, attempts to impress the public that things are pretty good and that unemployment is low, that those who adhere to that particular party may accept the statements of their leaders on faith, and, as a result, may neglect doing the kind of probing that is necessary in the course of the enumeration in order to get accuracy. However, political hiring of enumerators for the monthly surveys seems to cause more serious problems on other grounds.

For example, I found in talking to people in the field that the number of local political leaders would tell the census people informally that they had no candidates who were interested in work for $1.25 an hour for 1 week in a month. Furthermore, some felt that any party worker who would take such jobs would come under the Hatch Act and that, as a result, they would no longer be able to continue their political activities. Even when local political leaders had no one to recommend, they did not want to put it in writing because of fears that the higher political echelons would take it as lack of interest in patronage. Thus, when there were vacancies and needs for replacements, frequently, no recommendations were forthcoming. This caused bad operational delays, which did not help the proper conduct of enumeration.

Senator DOUGLAS. Is it not true that almost any administration whatever its political complexion will try to minimize the amount of unemployment?

Mr. TEPER. That is right.

Senator DOUGLAS. And therefore if you have people selected for this type of census by the patronage method, whatever the party, you will get a tendency to reduce the number of unemployed by saying some people are not seeking work or that others have jobs even though they do not work.

Mr. TEPER. That is likely.

Senator DOUGLAS. Don't you think that is inevitable?

Mr. TEPER. Let me say that rechecks of the census enumerations did show discrepancies of response, yet I cannot say that they were due to the bias of the enumerator. It is reasonable, however, to assume that the politically selected enumerators will introduce bias.

I have no proof of it.

Representative TALLE. Mr. Chairman.

Representative BOLLING. Mr. Talle.

Representative TALLE. May I agree with Senator Douglas that the census taking has been satisfactory. That is what you said, was it not, Senator?

Senator DOUGLAS. In the main, satisfactory.

Representative TALLE. My only firsthand contact with that was last year when the agricultural census was taken, and I think the Census Bureau deserves credit for being very helpful. I made it a point to stay out of it in every way I could because I don't enjoy patronage problems. The Census Bureau was very helpful in selecting a supervisor and an assistant for the district, in selecting crew leaders for the various counties in my district and in giving examinations in order to get qualified people for the actual enumeration. The supervisor in my district was also the supervisor of an adjoining district. The central office was at Cedar Rapids, Iowa.

I thought very good work was done and I don't think anybody ever raised any question about partisan political maneuvering.

Senator DOUGLAS. Well, you didn't give up making recommendations as to who should serve as enumerators, did you?

Representative TALLE. I didn't say a word about it.

Senator DOUGLAS. Well, I think you are almost unique among Congressmen.

Representative TALLE. I left that to the organization back home that worked with the Census Bureau.

Senator DOUGLAS. Which organization?

You left that to the county chairman? That gave you political enumerators probably of a lower quality than if you had selected them yourself.

Representative TALLE. I didn't even say that. I was just saying how it was done.

Senator DOUGLAS. In other words, it was done by the county chairman. I think that has been the common practice and it is certainly not unique among Republicans. We did it, and I don't think it resulted in any real error, but the point I am trying to make out is that there isn't as much of a dispute as to how many people you have except the conflict between truth and local boosterism, but that in the case of unemployment whatever party is in power wants to get as low a figure as possible in order to minimize the adverse political effect of a high figure, and therefore I think it is much more dangerous to get politically selected enumerators in the field of unemployment, Dr. Reed, than in the field of vital statistics.

Mr. TEPER. I would like to draw your attention, sir, that unemployment data are also gathered at the time the decennial enumerations of population take place.

Representative BOLLING. Do you have something to say about it, Mr. Watkins?

Mr. WATKINS. Mr. Chairman, I don't want to take the time of the committee unduly, but I would like to ask to have inserted in the record at this point the recommendations of the Intensive Review

Committee to the Secretary of Commerce on this question of political selection of enumerators.

It is page 25 in Appraisal of Census Programs, a summary paragraph on page 3, and recommendation No. 5 on pages 4 and 5. (See below.)

Very briefly, the committee felt that political nomination was not the most efficient way to select enumerators.

Senator DOUGLAS. All kinds of enumerators.

Mr. WATKINS. Quite. We made a strong recommendation and we stated also that we felt the Members of Congress when apprised of the situation would be willing to forego this patronage privilege in return for the opportunity of selection of enumerators solely on the basis of qualification.

Representative TALLE. Mr. Chairman.

Representative BOLLING. Mr. Talle.

Representative TALLE. I think I should probably add something to what was said, because Senator Douglas put some words in my mouth.

I wanted to emphasize the helpfulness of the Census Bureau in doing that job and I was very glad the Bureau did it, because it certainly relieved me of a great many questions that I might have been asked. While I have not inquired into it, I have been told that enumerators were not Republicans only, that some other people were found to be qualified to do the work, too.

Senator DOUGLAS. We have 5,000 enumerators and I felt the Republicans should have some, so we appointed 50 Republicans. I dare say that the percentage of Democrats whom you appointed would not be in excess of that, and I am not making any complaint about this point. I would like to sometime debate with these gentlemen about the whole problem of running a democracy, running political parties which cannot be done entirely with voluntary help. This is a matter that scientists have not considered quite scientifically, but I will say that where you get a bias from the use of such enumerators then I think there is a serious question as to whether they should be political appointees.

Mr. WATKINS. May I point out that we are merely assuming political bias. I know of no evidence that would bear out that assumption.

Senator DOUGLAS. Where there is an incentive there is generally a result, because the will precedes the act always.

Representative BOLLING. Perhaps at this point I could take care of a technical matter or two.

Without objection the request of Mr. Watkins will be complied with and the material inserted. I would also like to have the permission of the committee to have inserted a letter of December 21, signed by the staff director and addressed to the Bureau of the Census on the same subject.

Without objection that will be done.

(The material and letter referred to follows:)

EXCERPTS FROM THE REPORT OF THE INTENSIVE REVIEW COMMITTEE, APPRAISAL OF CENSUS PROGRAMS

Political recommendation has traditionally played a part in the selection of supervisors and enumerators for the decennial census. The effect has been, in some areas at least, to adulterate the influence of the Bureau's careful planning and to produce defective results. Present needs require, and present State employment service and other recruiting and training services and methods facilitate, the selection of personnel on the sole basis of qualifications:

That appropriate steps be taken to assure the recruiting and training of qualified field supervisors and enumerators for the 1960 census through substituting for political nomination the sole test of qualification.

SELECTION OF ENUMERATORS

Another problem is that traditionally imposed on the Bureau by the procedures involved in the selection of supervisors and enumerators for the conduct of the decennial census (including the census of agriculture). At best the task of selecting competent and reliable persons for this temporary employment for a few weeks once in 10 years is a difficult one; and it is understandable that in the past political nomination by the majority party at the time of the census would have been resorted to. Today, however—and speaking more precisely of the next census, for 1960—it must be said that these political procedures are a legacy of an outmoded past. With the creation and development of the State employment services and the United States Employment Service, and the development of methods and techniques for recruiting and training, there can no longer be any justification for resort to those outmoded procedures.

Under those procedures, the careful planning of the Bureau for the decennial censuses has tended in some if not many areas to lose much of its effect through employment of supervisors and enumerators unqualified for their work. The results of the decennial census are of such importance to our economy and to our society generally that the same careful planning should go also into the selection of field supervisors and enumerators. Qualification should be the sole criterion for employment.

It is the belief of this committee that the Members of Congress would willingly forego this small patronage. Through long resort to that practice (with the exception of the census of 1880), it has been accepted as an unquestioned tradition; but this committee believes that the leaders of the Congress, both majority and minority, need only to have the problem brought to their attention to deal with it in a manner appropriate to the conditions of the present age. The stakes are large in terms of the indispensable decennial census results, and the patronage sacrifice would be slight.

DECEMBER 21, 1954.

Dr. ROBERT W. BURGESS,
Director, Bureau of the Census, Department of Commerce,
Washington 15, D. C.

DEAR DR. BURGESS: Several members of the Joint Economic Committee have asked the committee staff about the possible effect on the Bureau's current employment statistics of hiring only enumerators obtained through recommendations of local political leaders, for the collection of these statistics. As you know, the Special Advisory Committee on Employment Statistics appointed by the Secretary of Commerce in the appendix to its August 1 report on The Measurement of Employment and Unemployment by the Bureau of the Census in its Current Population Survey also expressed concern with such a recruitment procedure, particularly from the standpoint of delays that it may cause in making vitally needed replacements.

It would be helpful in answering queries from Committee members if we could be brought up-to-date on the Census Bureau's latest thinking on this matter. This, of course, is in accordance also with the Committee's desire, as expressed in its 1953 annual report (H. R. 1256), to see that all steps possible are taken to insure the adequacy and accuracy of such data. We would deeply appreciate having your comments on the exact nature of the problems which arise in employing enumerators for the current population surveys and your evaluation of the need or lack of need for a change in the present procedure.

Sincerely yours,

GROVER W. ENSLEY, *Staff Director.*

(For Mr. Burgess' reply see p. 1264.)

Representative BOLLING. Mr. Talle, do you have something further?

Representative TALLE. Yes. I should like to emphasize that my constituency has high standards which leads me to say that our panelist, Mr. Beardsley Ruml, is a gentleman on whom I have some claim because his father is an eminent practicing physician in my district, in the city of Cedar Rapids, Iowa. We are very proud of the Ruml family.

Representative BOLLING. Thank you, Mr. Talle.

Mr. Teper?

Mr. TEPER. The need for greater detail on the labor force is, as I have already pointed out, recognized by the annual budget. We really know too little about the impact of the recent recession on the different strata of our working population. More information is needed on the characteristics of the unemployed, including their occupations and last industry attachments, and about the character of unemployment and its duration.

Much of these data must be local in character.

Today we have to rely on unemployment compensation claims for such data. These fail to reveal, however, the full extent of unemployment, partly because of statutory differences and also on account of the underenumeration of the unemployed because of exhaustion of benefit rights, late filings, insufficient wage credits for eligibility, or disqualifications such as in the case of voluntary quits. The activities proposed by the annual budget should go a long way in narrowing the informational gap.

There is a distinct need to provide local benchmarks for the determination of the characteristics of the labor force. Such a program, encompassing 15 to 20 labor market areas, is proposed by the Bureau of Labor Statistics. It plans to have this work carried out by the Census Bureau since it now collects related information for the country as a whole.

Improvements are also planned for the Bureau of Labor Statistics statistics of nonagricultural employment and payrolls, through provision of more data for local labor markets, by bettering its data for trade, service, and financial establishments, and by developing a much more adequate system of labor turnover statistics.

These plans need to be supplemented by the additional developments of employment data for several industries for which it is not presently available, as well as by data on employment in the smaller establishments. There is also, by the way, an important need to improve farm employment statistics presently gathered by the Department of Agriculture.

A need also exists for additional current information on the unemployment insurance beneficiaries, including data on their occupational and industrial characteristics and the number of benefit right exhaustions.

Studies of the labor conditions would not, however, be complete without additional statistical information, some of which the Bureau of Labor Statistics is planning to undertake subject to the will of the Congress. Data need to be provided on occupational trends and outlook and on the extent of the potential demand for labor under a variety of conditions, such as national emergency or the long-range public works program.

More information also is called for on occupational wage rates in the different industries. These statistics are inadequate at the present time, both in coverage and frequency of collections. There is also a need for studies of collective bargaining patterns, of the nature and extent of the different fringe benefits, for statistics on the incidence, severity, and causes of industrial accidents, and for development of studies of workmen's compensation operations in the different States.

Additional work is also required on the levels of living of our population. The President's budget recommends the conduct of a survey of farmers' expenditures, to provide data on their patterns of living and to obtain information for the revision of indexes of prices paid by farmers. Similar investigations are needed for the urban population.

Such studies have last been made in 1951; the changes in incomes and consumer habits since that time render them obsolete.

Senator DOUGLAS. Do you have to make surveys of this as often as every 5 years?

Mr. TEPER. I think that in the case of the consumer expenditure surveys, a 5-year schedule is about right, sir. There is also a need to appraise the conceptual differences between the Consumers' Price Index and the index of prices paid by farmers in order to determine their effect on the movements of these indexes.

In the field of housing, it seems desirable to supplement the proposed statistical program by data showing to what extent new construction meets the economic needs of American families—at what prices is new housing sold or rented, the characteristics of buyers and tenants of new housing, and the degree of replenishment of housing inventories.

The President's Economic Report omits to provide Congress with projections of the needed levels of employment, production, and purchasing power to assure useful employment opportunities. The same situation occurred last year and was, in effect, criticized by your committee. There can be no doubt that something more than is contained in the Economic Report is called for in the way of an analysis of the prospects of the economy.

The text of the Economic Report also draws attention to omission of important data on which some of the conclusions are based. For example, the report contends that a 90-cent minimum wage level is the highest possible which can now be economically justified. No supporting statistical or other data is offered for these conclusions and, at least as of the early part of this week, none were released.

The need for improving the statistical work of the Federal Government definitely exists and increased appropriations for this purpose are a necessity.

Your committee, I am sure, will make it clear to Congress.

Representative BOLLING. Thank you, Mr. Teper.

(Mr. Teper's prepared statement appears at p. 1119.)

OPENING STATEMENT OF THEODORE E. VELTFORT, MANAGER, COPPER AND BRASS RESEARCH ASSOCIATION, NEW YORK, N. Y.

Representative BOLLING. Mr. Veltfort?

Mr. VELTFORT. I should make it clear to begin with that I am making this statement not in my official capacity, but on the basis of the experience I have gained as member of many advisory committees and groups which have considered various aspects of the economic statistics here under discussion.

Thus, I should point out for many years I have been a member of the Advisory Council on Federal Reports and I have also been a member of the Business Research Advisory Committee of the Bureau of Labor Statistics.

In the Economic Report of the President there were but few direct recommendations relating to economic statistics. Implicit throughout the report, however, is the reliance which Government administrators must place on a wide range of nationwide economic statistics in order to arrive at sound conclusions. These statistics must present the essential facts of the multifarious sectors of our ever-expanding economy, with all the complexities inherent in that economy. There is implicit, also, the need for effective keys to better understanding of the interrelationships of these many measures of our economic activity as well as of the interdependence of the activities on the National and on the State and local levels.

It is unquestionably in recognition of this basic situation that certain recommendations have been made with respect to the Federal economic statistical programs, in the budget for the fiscal year ending June 30, 1956. While I have, of course, no way of judging the adequacy or inadequacy of the estimates presented, there is little doubt that our Federal statistical programs must steadily grow with the increase in the extent and complexity of our economy. Even more important, provision must be made for the constant improvement in these statistical measures which will permit better informed administrative policies and this, of course, will require reasonable appropriations for its implementation. That much along these lines needs to be done is amply demonstrated by the testimony given at the hearings before the Subcommittee on Economic Statistics last year. In view of this overall situation the projected statistical program appears quite reasonable.

Coming now to the more specific question of what additional improvements should be made, there should be, first of all, continued and vigorous coordination and rationalization of Federal statistical activities as envisioned in the Federal Reports Act of 1942 and further implemented by the Budget and Accounting Procedures Act of 1950. Every encouragement and assistance should be given to those charged with the responsibility of effectuating these acts.

It would be obvious to any reasonable person working with the various governmental agencies which deal with statistics that their personnel are characteristically conscientious, devoted to their tasks and quite openminded to advice from informed sources. A tribute to the effectiveness of their work is the growing confidence with which many series of Federal statistics are being utilized. But it would be unrealistic not to recognize certain important areas of improvement. One of the most obvious needs is the periodic availability of overall statistical measures which can be used to check interim series based on samples and data blown up from partial surveys. Such benchmarks are afforded by the various Federal censuses. These censuses should be scrupulously provided for at regular intervals and adequate provision made for their constant improvement in content and coverage and for their comprehensive analysis. These regular periodic complete censuses should be supplemented by intermediate intercensal surveys in areas where frequent check is necessary on a national scale, such as, for instance employment and housing.

I most definitely urge, also, the expanded use of advisory committees and groups representing both those who have to supply the statistical information as well as those who use the data compiled. This is essential in order to keep the statistical programs sound and assure that the statistical activities will be limited to those which produce reliable end results. Here it is important to realize that reasonably depend-able overall results may be obtained from the accumulation of subsidiary data which by themselves cannot safely be used due to weaknesses of classification. Advisory committees and groups also help to extend the understanding among the various segments of the public which they represent, of what the Government agencies are attempting to do statistically and what the resultant data really signify. Such knowledge, I believe, is already being extended to an encouraging degree through the experience which representatives of management and labor in the many areas of our economy are now receiving through their participation in existing advisory committees. Such advisory groups, too, can help to coordinate public with private statical activities and obviate duplication of effort and expense. They can help to reduce the reporting burden, improve the promptness of returns where that is essential, and help to eliminate misinterpretation.

Not the least contribution which such advisory groups can make is practical assistance in the important continual reevaluation of the various statistical series and in their prompt modification where necessary. At this point it seems desirable to warn against the deferring of such reviews and modifications until violent changes which impair or destroy comparability, become necessary. Such development of the Federal statistical programs need not necessarily increase either overall expense or reporting burden as substantial savings may readily result from the elimination of meaningless detail and from improved methods of collection.

To function effectively our Federal assemblage of statistics must be augmented as occasion requires by new series which will accurately reflect important aspects of our economic development. Some of these are, of course, already receiving current attention as incidental to the regular statistical activities of the various agencies and some are specifically provided for in the 1956 budget but it should be possible to provide further, a reasonable appropriation for statistical exploration for statistical exploration of certain facets of our economy which are not completely understood. To mention a few of these, there is first, the problem of the growth in pensions. This was alluded to in the President's report. Not only may the growth in the funds required to meet pension obligations and their investment have a profound effect on our capital structure, but much needs to be known as to the extent to which our increased productivity will support this unproductive offset. Also, I might add, we should study the effect that pension plans have on emplyment opportunties for older persons.

Speaking of pensions, they are also one of the elements of supplementary compensation, commonly referred to as fringe benefits, among others being vacation allowances, insurance, hospitalization, and the various obligatory contributions which have to be made by large classes of employers. It is now quite inaccurate to compare wage rates in various industries and localities without taking into consideration these supplementary items of compensation, and certainly any comparison of wage rates to those of the past must also reflect this relatively new aspect in this field.

Study is currently being made of measuring so-called labor productivity, or as better termed, output per man-hour. It seems to me that such a series might be of questionable value without a comparable series of the units of capital required for the increase in productivity and a series to reflect the contribution of management, including particularly technicians. Also, it appears to me quite important that when we talk about the increase in our gross national product we know not only what that means in the way of labor requirements or employment, but also know what will be needed in the way of capital investment and in managers and technicians. So, obviously much remains to be done in this entire field of productivity.

We need to have more information on the interrelationship of the various segments of the economy. Thus, we need to know what effect an increase or decrease in construction, for instance, has on dependent businesses or what effect in different areas of business changes in the activity of, let us say, the automotive industry will have. This study of such interrelationships presents exceedingly complex problems, although considerable groundwork has been done. I might add that because of the fact that the basic data for such information must be national in scope, it seems obvious that the original collections and analyses of such data must be done by Government agencies.

Finally, I think we will all quickly admit that our tax structure has a profound effect on the health of our economy. I believe that due to the absence of appropriate statistical information we are inclined to draw too broad conclusions as to where and how a tax should be imposed to produce a given revenue. But what data have we now to permit reliable conclusions as to the final impact of taxes? Who ultimately pays them and what is the end result on prices, wages, disposable income, savings, and business incentives? In conclusion, let me pay my sincere respect to the overall effectiveness of the statistical work of our Federal agencies who have been dealing with these problems, the fine spirit of public service which is evidenced by such exploratory sessions as this and the constructive cooperation of the many hundreds of individuals from all walks of life who have assisted in this work.

Certainly, all available means should be used to gain the confidence of those among the public who are the source of Federal statistics and those who utilize the resultant data directly or indirectly, and to eliminate all needless burden and expense in the gathering of these statistics.

Once a broad realization can be secured of how basic to sound government administration an adequate aggregation of reliable statistical information is, the constant backing and filling with respect to appropriations to make this essential administrative tool a good one, should no longer be the problem it has been.

Mr. Chairman, may I add a few words with respect to the items that appeared in the press with respect to the report which the Advisory Council on Federal Reports made to the Bureau of the Budget on the Census of Manufactures, particularly in view of the fact that the article which appeared on this subject in Business Week on February 5 entitled "Where the Census Goes Wrong," has been incorporated in the record of these hearings. I happen to be chairman of the council's committee on the census of manufactures, and I believe that a few words of explanation are necessary in fairness to that committee.

In the first place, the publicity given to the council's report is completely unofficial and not authorized by either the committee or the council. In that respect it suffers from a lack of a full statement of all the different conditions which had to receive consideration in the rather extended discussion which occurred between the committee and representatives of the Government agencies concerned preceding the issuance of the report. There were, of course, many differences of opinion among the committee members as to how specific improvements in the census could best be made, and even when the report was drafted a number of the members submitted reservations and qualifications. In order to simplify the presentation of the report, the members of the committee were generally willing to omit these reservations and qualifications in view of the discussions which had already been had with the Government agencies and the understanding that the report was being submitted in the usual confidential and advisory manner.

I feel sure that I am speaking for the members of the committee when I say that if they had thought for a moment that this report would receive publicity they would have insisted individually on adding qualifying comments and reservations. I am pointing out this situation so that it may be given adequate consideration when the report and the attendant publicity is being given your attention.

Representative BOLLING. Thank you very much.

Mr. Watkins?

STATEMENT OF RALPH J. WATKINS, DIRECTOR OF RESEARCH, DUN & BRADSTREET, INC., AND PRESIDENT OF THE AMERICAN STATISTICAL ASSOCIATION

Mr. WATKINS. Mr. Chairman, every citizen of our country has a vital interest in the statistical programs now being reviewed by the Joint Committee on the Economic Report and other committees of the Congress. For what is at stake can be stated very simply as the continued growth and stability of the American economy. The economic growth we attain and the economic stability we achieve over the years ahead will be the resultants of the innumerable decisions being made every day by the millions of units that make up our enterprise system and by the thousands of public agencies that make up essential elements of the framework of that system. Those decisions must be based on information, and if they are to further the twin goals of growth and stability, that information must be accurate and timely. In short, good management requires that we have good statistical records on the condition and trends of the economy, and that we have them promptly.

It is a source of satisfaction to the statisticians and economists of the country that the Joint Committee on the Economic Report has assumed a leadership role in this field of economic statistics. The pioneering work done in 1954 by the joint committee's Subcommittee on Economic Statistics represented a contribution to public understanding of the place that statistical programs occupy in our economy. The subcommittee's hearings and reports have helped bring about, I believe, a more intelligent understanding, in the Nation generally as well as within the Congress and the executive branch of the Government, of why we must have these statistical measures.

It is entirely fitting that the joint committee has assumed this role of leadership, for measurement of the economy supplies the indispensable foundation for the Economic Report of the President. Indeed, the economic programs advanced in the report could neither be conceived and formulated by the President nor appraised by the joint committee without recourse to the great mass of statistical measures of change in our economy.

It is my earnest hope that the joint committee will continue to exercise this function of leadership. It is a very much needed role.

It is similarly heartening to note that the budget of the United States Government for fiscal year 1956 carries a special analysis and recapitulation of the Federal statistical programs, in line with the recommendations of the joint committee's Subcommittee on Economic Statistics.

The programs there outlined are, I believe, sound and merit support. I have only two qualifications. I have some doubts as to whether the inter censal housing survey is adequate. I am not in a position to express any final judgment, but my recollection is that the intensive review committee contemplated a larger sample for that important survey. As a second item that is related to the budget, I note that there is still no statutory authority for the annual sample survey of manufactures. That survey has been on an ad hoc basis from year to year. I believe it should be made a regular part of the statutory census program, in line with the recommendations of the intensive review committee.

The transformations that have taken place in the American economy over the past quarter century and the profound shifts in our thinking that have occurred constitute, in my judgment, a great peaceful revolution of historic proportions. It is now taken for granted that we are committed as a people and as a government to whatever public and private actions may be required to further our progress toward the twin goals of economic growth and economic stability.

Since the end of World War II we have experienced two recessions, in 1948–49 and in 1953–54, and our institutions successfully met the test of preventing those recessions from developing into vicious spirals of credit liquidation and major depression. That success was no accident and affords renewed proof of the depth of the transformations we have achieved in our economy and in our thinking about the economy. The gain to our society represented by these transformations is of tremendous significance and is reflected in a pervasive spirit of confidence in our future. I cite just two bits of evidence: First, the great upsurge in population growth that has added 32 million people to our population since the census of 1940, that brought a baby crop of more than 4 million in 1954, and that promises to push our population above 200 million by around 1970; and second, the phenomenal record of new plant and equipment expenditures by American industry since the end of World War II of more than $200 billions. These are indeed eloquent evidences of widespread faith in the future.

The principal point I wish to stress, however, is that these transformations in our economy and in our thinking could not have occurred if we had not had a great body of statistical measures of the condition of the economy and skilled technicians to analyse those measures. The sound management of the American economy is dependent on good statistical records and on good analysis; and this dependence extends throughout our society, in private business management as well as in the administration of government.

In stressing the dependence of good management on statistical records, it is well at the same time that we seek to enter a caveat on the limitations of our statistical measurements. In the nature of the case, our measurements of the condition of the economy can only be approximations. Our economy is too massive and too complex to afford any basis for claims to perfection or certainty in our economic measures. The estimates and indexes that are carefully prepared to measure the state of the economy in terms of gross national product, national income, industrial production, employment and unemployment, and so forth, represent at any given time the best approximations the technicians can arrive at, on the basis of the information available to them at the time and on the basis of the extent of the analysis that time and funds permitted. It would be unfortunate if our widespread dependence on statistical records should lead us to accept them as representing perfection or certainty. Rather, we must recognize that these measures are not perfect, they cannot represent certainty; and the best we can claim is that these measures are reasonable approximations at the time and under the given circumstances. A corollary is that our statistical measurements of the state of the economy are subject to revision from time to time in the light of better information and on the basis of improved analysis.

I am led at this point to draw this generalization: In the dynamic American economy, there is more economic growth and more economic activity going on at any one time than can be measured at that time. Almost invariably our measurements of growth and economic activity in the country turn out to be underestimates. The reasons are fairly clear in this complex, continental economy of ours. It is an economy of unprecedented change and mobility; and since World War II it has been characterized particularly by a degree of technological change that clearly merits the term "technological revolution." The impact of rapidly developing science and technology has meant the birth of many new industries, the development of many new products, the transformation of old industries, and the stepping up of development in newer industrial areas. It is not difficult to understand, then, why it is so difficult at any one time to secure adequate measurements or estimates of all the economic activity in the country.

As an example of what I am talking about, it may be noted that for about 4 years after the end of the 1948–49 business recession, our best available measurements led us to believe that gross national product declined in that recession from peak to trough by around 5 percent and that industrial production declined from peak to trough by 18 percent. About 4 years later, when more complete information had become available and after more adequate analysis could be made, we learned the gross national product had declined only about 3 percent; that industrial production had not declined 18 percent but only about 10 percent. It is hazardous to make predictions, but my own guess would be that several years hence, when we undertake further revisions of our indexes and estimates, we will conclude that the 1953–54 recession was even a milder recession than our present measures make it out to have been.

For several reasons I feel a special interest in the statistical programs being reviewed by the Joint Committee. In a sense, these reasons add up to the perspective of a long memory. In the first place, the company that I am connected with has a tradition of more than a century—

extending back to 1841—of vital interest in facts and figures on the condition of the economy. Its basic objective has been the promotion and protection of trade through the supplying of accurate, unbiased, and timely information. Toward this same aim, the company has pioneered over the years in developing and supplying publicly statistical measures of the condition of the economy, including price indexes, vital statistics on business, births, and deaths, the record of new incorporations, statistics of business failures, and surveys of businessmen's expectations. The last-named series was initiated in response to a specific request from the Joint Committee on the Economic Report in the spring of 1947; and others of these series go back many decades.

Secondly, it was my privilege in the fall of 1953 to be named by Secretary of Commerce Weeks as chairman of the Intensive Review Committee, a group of nine men from outside the Federal Government given the task of appraising the programs of the Bureau of the Census. That experience was a great education to all who participated in it and revealed strikingly both the widespread interest in and dependence on those basic statistical programs throughout the country on the one hand; and on the other hand the fact that these programs were being neglected and that the ultimate cost of that neglect would be very seriously measured in terms of lessened economic growth and heightened economic instability. And here I want to seize the opportunity of expressing the deep appreciation of all of us who served on the committee for the splendid reception given our recommendations by both the administration and the Congress.

I come now to the third phase of the "long memory" with which I approach your tasks here. It relates to the work of the American Statistical Association, of which I am honored to be president during 1955. This association is one of the oldest of our national professional and scientific groups, having been organized in 1839 and incorporated in 1841. Its objects are—

* * * to foster in the broadest manner statistics and its applications, to promote unity and effectiveness of effort among all concerned with statistical problems, and to increase the contribution of statistics to human welfare.

Under this purpose, the association has long interested itself in the statistical programs of the Federal Government and has been called on to play significant roles under many administrations. As an example, I may cite the Committee on Government Statistics and Information Services, set up in June 1933, jointly by the association and the Social Science Research Council. That committee undertook a comprehensive review of the Government's statistical programs and made numerous recommendations for improving the standards of such work and for its better organization. Specifically, the work of this committee led to the establishment by Executive order of the Central Statistical Board in 1933 and its statutory enactment in 1935. That Board continued in existence until 1939 when by Reorganization Plan No. 1 its functions were placed in the Bureau of the Budget as the Division of Statistical Standards (later changed to Office of Statistical Standards). Over the years the Office of Statistical Standards and its predecessors have been concerned with the never-ending task of raising statistical standards, resolving differences between Federal agencies, eliminating duplication among agencies, exercising control over questionnaires and seeking to hold to a reasonable minimum the burden on respondents, and performing leadership functions in the field of statistics.

For many years the American Statistical Association has had a standing committee advisory to the Bureau of the Census. That committee has been a very active one, meeting generally 3 or 4 times a year in a 2-day session with the Director of the Census and his senior staff.

Similarly, the association has had for a number of years a standing committee advisory to the Office of Statistical Standards, meeting generally 3 or 4 times a year with the head of the Office of Statistical Standards and members of his staff.

Enough has been said to make clear the close interest of the association in the programs now before the joint committee and other committees of the Congress. There is, however, one further matter that merits some comment. This relates to the leadership role of the Office of Statistical Standards of the Bureau of the Budget, a subject on which grave concern is felt by many observers.

As noted earlier in my remarks, the precursor of this Office was set up originally as an independent agency, the Central Statistical Board. That Board functioned for about 6 years, and I believe it is fair to say that it was recognized as an outstanding Federal agency of distinctive contributions in the field of statistical coordination and leadership. For reasons that were doubtless considered good and sufficient, that Board was abolished under Executive Order No. 1 and its functions transferred to the Bureau of the Budget. In 1948 the Commission on Organization of the Executive Branch of the Government, popularly known as the first Hoover Commission, named a task force to report on Federal statistical agencies. The task force report was prepared by the National Bureau of Economic Research under the specific direction of Drs. Frederick C. Mills and Clarence D. Long. The task force reviewed the work of the statistical agencies, including what was then known as the Division of Statistical Standards of the Bureau of the Budget, as the coordinating body in the Federal statistical system. Among other recommendations the Hoover Commission task force report recommended:

> That there be maintained in the Executive Office of the President an Office of Statistical Standards and Services having general responsibility for the development and maintenance of a system of statistical intelligence and for its economical management. It should have powers necessary to the full coordination of the elements of that system, and for the enforcement of desired procedures and appropriate standards. This Office should discharge the present duties of the Division of Statistical Standards, but should have scope for greater initiative and authority appropriate to a broader role. It will seek to insure the accuracy, representativeness, timeliness of publication, and comparability with other data of all statistical series serving public purposes. The work of this Office should be largely confined to supervisory and staff functions, with a minimum of routine duties. Its personnel should include men of the highest administrative and technical competence. The head of the Office shall be appointed by the President.

The task force outlined in considerable detail and with forward-looking imagination the significant functions that would be performed by the recommended Office of Statistical Standards and Services, "subject to the direction of the President." Its status would thus have been that of an arm of the Executive Office of the President, coordinate with the Council of Economic Advisers. Among other functions recommended was that of annually summarizing and coordinating the operating expenses and appropriation requests of statistical agencies and appraising them for the benefit of the Bureau of the Budget, the President, and the Congress. Similarly, it was recommended that the Committees on Appropriations of the House and Senate and other congressional committees should request representatives of the Office of Statistical Standards and Services to testify before them concerning appropriations for statistical purposes and legislation involving statistical functions.

The Hoover Commission itself recommended that the coordinating function be continued within the Bureau of the Budget but that the Division of Statistical Standards be strengthened. Chairman Hoover and Commissioner Flemming had reservations, noting that statistical activities were "not distinctly related to the all-important purposes of the Office of the Budget," and recommending that the function be placed in the Office of General Services, under a responsible director who could be held accountable to the Executive, the Congress, and the public. In general, the Commission in its report accepted and endorsed the recommendations of its Task Force on Statistical Agencies, subject only to the stated differences of opinion with respect to the location of the coordinating function.

In summary, it may be said that both the executive and legislative branches of the Government were supplied with an exceptionally competent and comprehensive review of Federal statistical activities, and of the coordinating function in particular, by men of high standing. As the Commission noted in its report, Prof. Frederick C. Mills of Columbia University, research director for the Commission's review of statistical services, was former president of both the American Statistical Association and the American Economic Association. The associate director, Dr. Clarence D. Long, was professor of economics at Johns Hopkins University. The project had also the benefit of the counsel of an advisory committee composed of five men of national distinction. So much for the record of what was recommended to be done.

Now, how have the recommendations of the Hoover Commission and its Task Force on Statistical Agencies fared? By and large, I think we may say that those recommendations have been ignored and forgotten. Moreover, I believe the record will make clear that the coordinating and leadership function for Federal statistical programs has been neglected and starved and permitted to decline very seriously in content and prestige. Let me hasten to add that I do not intend that statement to be taken as reflecting any criticism whatever on those who have been responsible for the work of the Office of Statistical Standards of the Bureau of the Budget. They are my friends, and I have great respect for them. The difficulties are, I believe, too deep seated to justify any criticism of individuals. I do contend that the stature of this very important function of coordinating Federal statistical programs and of exercising leadership in that field has shown a marked decline; and in particular that the provision for that function in the Federal Government today is little more than a faint shadow of the structure envisioned by the Hoover Commission and its Task Force on Statistical Agencies.

Very able and conscientious men have labored to make a success of this statistical coordinating function, but despite their labors it is the widespread conviction that the function has deteriorated and that the outlook is not bright. We must therefore ask ourselves the question as to the causes of this deterioration. It is my personal view that the basic cause lies in the location of this statistical coordinating function as a subordinate unit of the Bureau of the Budget. As Chairman Hoover and Commissioner Flemming noted in the Hoover Commission report, statistical activities are "not distinctly related" to the main purposes of the Bureau of the Budget.

I would go still further and say that both on a priori grounds and on the record of the past decade and a half, there is a fundamental lack of compatibility and congeniality between the normal functions of the Bureau of the Budget and those of the Office of Statistical Standards. I would contend that the significant leadership functions outlined by the Hoover Commission task force report do not belong in the Bureau of the Budget and will never have any promise of being performed adequately so long as the statistical coordinating function remains in the Bureau of the Budget. Again, let me hasten to say that these remarks are not intended as being critical of the present officials of the Bureau of the Budget or of their predecessors. They are and have been exceptionally able and conscientious officials. It is the incompatibility and uncongeniality of functions to which I am directing these words.

I happen to know that the Director of the Bureau of the Budget in 1939 was strongly opposed to having the statistical coordinating function placed within the Bureau of the Budget, and I think for the same reasons of incompatibility and uncongeniality of function that I have referred to. Over the past decade and a half we have had a succession of very able men in the post of Director of the Budget. I have known practically all of them, and I have great respect for every one of them. At the same time, I would say that not one of them has had the basis for appreciation and sponsorship of the statistical coordinating and leadership functions, as those functions were spelled out in the Hoover Commission documents. Moreover, I believe it is unfair to expect a man who has the necessary qualifications for the directorship of the Budget Bureau to have also the basis for appreciation of and sponsoring these statistical programs. It would be equally unfair to expect the Director of the Bureau of the Budget to function also as the Chairman of the President's Council of Economic Advisers.

It is sometimes said that it would be very dangerous to remove the statistical coordinating function from the Bureau of the Budget because of the belief that the function could not survive the vicissitudes of changes in the administration and of changes in the Congress. This argument does not impress me, for I can see no merit in the mere survival of a function, particularly in a context of attenuation of the function with the threat of decline to little more than routine matters. Perhaps this statistical coordinating and leadership function cannot be carried out in a manner that will impress itself on the executive and legislative branches of the Government as a highly important function? Or perhaps the leadership within the executive and legislative branches of the Government is unable to comprehend the importance of the function, say, as outlined in the Hoover Commission documents and in the related report on the statistical agencies of the Federal Government by the National Bureau of Economic Research? If so, then it may be better to let the function die or remain in suspension until new leadership arises, or until we learn through painful experience that the function of statistical coordination and leadership is one of very serious concern to the Federal Government and to all groups in our citizenship.

If I may close with a final recommendation, it would be that the joint committee undertake a careful review of the Hoover Commission documents referred to and bring its judgment to bear on the question of the conditions under which vitality and full flowering of the statistical coordinating and leadership function might be expected to develop.

Representative BOLLING. Thank you, Mr. Watkins.

Are there questions from members of the committee to any member of the panel?

Mr. Talle.

Representative TALLE. Mr. Chairman, may I address myself for a moment to Mr. Eggert? I think you emphasized in your paper the need for recognition of the value added by distribution. There was a study made of that last year, as I remember it. Are you familiar with that study?

Mr. EGGERT. I am not familiar with the full detail. I reported on the Boston Conference for Distribution. Four or five of us joined in that. Perhaps that is the study you are referring to. At that time we still felt that this information was needed rather than it being available, and to my knowledge there is no study that I recall that really gives us the kind of information that this important field needs.

Representative TALLE. I suppose it is a matter of the full understanding of the concept of utility. The textbooks on economics say that an economic good is not fully produced until it is in the form in which it is wanted, in the place where it is wanted, at the time when it is wanted. Manufacturing, of course, illustrates form utility. It is a time utility and place utility which you contend should be properly recognized.

Mr. EGGERT. The time and place you have mentioned are primarily in this area of distribution and they do contribute tremendously to the final value of our goods. On the other hand, when you read the statistics in this area, there is just a strong emphasis upon the cost of marketing or the cost of distribution and there is constant reference to this being the cost element, and it is true that it does cost, while here in processing and production we have this value-added concept, which tends to emphasize the value side of that function, and the point I am really trying to make is that these both contribute to value added, eventual value added, as you have put it so well to the place utility.

Representative TALLE. This raises a question that has a long history. In the early days as the history of economics reveals, the merchant did not occupy a high place in society, as you know, and the Physiocrats back in 1752 put the full emphasis on agriculture as being the creative occupation.

Adam Smith took a more enlightened view. I wish to ask Mr. Veltfort about wage scales. We discussed this matter of the effect of wage rates in another panel the day Professor Harris of Harvard was here. I think the question was raised why do industries move from New England to the South, and what effect do the wage scales have on this shift. If I remember Professor Harris correctly, he contended that the wage scales had quite a little to do with it. I will have to check that, however, but the point was made that if the statistics indicate only the outright payment per hour, or payment per piece, it is not enough, because, as Mr. Veltfort pointed out, the fringe benefits may be the deciding factor.

Mr. VELTFORT. In our own industry we have made some analyses of that. It is interesting to note the opposite variation of direct wages as against supplementary compensation.

A high wage industry may not have as high supplementary compensation, and vice versa. The two may balance combined, where there might be quite a bit of unbalance in either of those two categories.

Mr. TEPER. Sir, I would like to make a comment on this point. There is no question that we need studies of fringe benefits. I would like to draw attention, however, that it is very difficult to measure the current worth of some fringe benefits; pensions are one of those.

As textbooks on actuarial aspects of pensions indicate, there are many different ways of funding a given pension, each resulting in substantially different current costs. There is no uniformity in this field. There is no uniformity of formulas used by actuaries in computing such cost. It is definitely an area to be studied, but the figures now available, such as the figures produced by the United States Chamber of Commerce on the fringe benefits, must be taken with a great deal of salt.

Representative TALLE. I was thinking of Adam Smith when you mentioned how people beyond 45 do not like to leave the place where they are living. I think he puts it this way. "Human beings are, of all baggage, the most difficult to transport." Henry Ford and some other people have modified that. Mobility of labor is certainly very much increased, but nevertheless inertia does settle down on people more heavily after middle age begins. They do not like to leave their happy homes.

Finally, I want to thank all of you for your contributions. This has been a splendid discussion and I am delighted to find so much interest in the subject, including the interest shown by the audience.

A multiplication table is not highly romantic, and neither are statistics. To find so many people present for this hearing is certainly very encouraging. It is most worth while for the Government, Congress and the executive agencies of Government, and representatives of business and labor, and highly specialized students come together to discuss and cooperate in improving something so important as statistics. There is no substitute for this kind of knowledge.

Representative BOLLING. Thank you, Mr. Talle.

Mr. Kelley.

Representative KELLEY. I have nothing except one remark, and that is that I hope and wish that the Congress could provide adequate funds, especially for the Bureau of Labor Statistics which has been crippled in the past, therefore information it provides I feel is quite inadequate. It is not sufficient. There is a great need for that. That is all.

Representative BOLLING. Does any member of the panel wish to make any further comment?

Mr. Eggert.

Mr. EGGERT. Mr. Chairman, I realize the hour is very late, but I thought perhaps the members of the committee would be interested in some charts which illustrate the use of statistics on the part of the

Ford Motor Co. and the way that we use them, and I believe at this late date all I request is that they be inserted in the record, if agreeable.

Representative BOLLING. Without objection, that will be done.

(The charts referred to appear at p. —.)

I have one question that I would like to ask each member of the panel to comment on. You are all familiar with the level of statistical appropriations recommended in the President's budget. I believe the figure is $43.4 million. I would like to get a statement from each member of the panel as to whether he individually supports at least that level of expenditure in the appropriation for fiscal year 1956.

Mr. EGGERT. For the Chamber of Commerce, I would say we support at least that figure.

Mr. HOADLEY. I would concur.

Mr. REED. I would, too.

Mr. RUML. Yes.

Mr. TEPER. I believe so, too.

Mr. VELTFORT. Yes.

Mr. WATKINS. Yes.

Representative BOLLING. Without objection, I would like permission to insert at the conclusion of today's record miscellaneous material which has accumulated over the period of the hearings.

On behalf of the committee and on behalf of the subcommittee in particular, I would like to express our appreciation for your participating in what we all consider a very interesting panel.

The committee is adjourned.

(The supplementary material referred to and the extended statements of the panel follow:)

[H. Rept. 2628, 83d Cong., 2d sess.]

REPORT OF THE JOINT COMMITTEE ON THE ECONOMIC REPORT

The following progress report to the Joint Committee on the Economic Report was prepared by the Subcommittee on Economic Statistics, composed of Representative Henry O. Talle, chairman, Senator Frank Carlson, and Representative Richard Bolling. The unanimous report from the subcommittee was submitted on July 30, 1954, and approved for transmittal to the Congress by the full committee on August 5, 1954. The report, and additional findings by the subcommittee, will be given further consideration by the full committee in connection with its report on the 1955 Economic Report of the President.

PROGRESS REPORT OF THE SUBCOMMITTEE ON ECONOMIC STATISTICS, JULY 30, 1954

The Subcommittee on Economic Statistics of the Joint Economic Committee, appointed April 16, 1954, pursuant to the recommendation contained in the committee's report of last February (H. Rept. 1256), has completed exploratory hearings and presents the following progress report.

In its exploratory hearings and deliberations the subcommittee had a twofold objective: It wished to obtain a representative picture of the needs for economic statistics, both within the Government and among its citizens, and it sought suggestions for improvements in the Nation's statistics. Inasmuch as the subcommittee is concerned with Federal economic statistics as a whole, it hopes to find means for improvement not only in particular statistical activities and series but even more in the relationships among them.

Exploratory hearings by the subcommittee July 12 and 13

Great care was exerted in planning the hearings held by the subcommittee July 12 and 13. The subcommittee and staff contacted many organizations and individuals in preparing the agenda and selecting the witnesses. The subcommittee wanted a factual statement outlining present programs and recommendations of the appropriate executive Government agencies. It also wanted the views of the users of Federal economic statistics. In all cases the witnesses were asked to submit written statements in advance. The printed hearings are now available to those interested. The 360 pages of testimony provide a storehouse of information on present statistical programs and the statistical needs of our economy.

The subcommittee first heard from the Assistant Director of the Bureau of the Budget, who submitted a detailed statement on the statistical resources of the Federal Government. The statement lists the Federal agencies that produce economic statistics, the major series provided, and information on the Federal funds devoted to statistical work. An important section of the Bureau's statement outlines the steps needed, in its judgment, to improve the statistical services of the Federal Government. The statement discusses certain basic needs which exist in connection with many statistical series and makes recommendations for improvement of statistics in individual subject fields.

Included as appendixes to the Bureau's statement are memorandums prepared by staff members of the Bureau's Office of Statistical Standards which give additional information on the major needs for improvement of statistics within the individual staff member's field of assignment and review. The principal data-collecting and data-analyzing agencies of the Federal Government also submitted opinions which were included in the appendix to the Bureau's statement.

The chairman of the Council of Economic Advisers appeared before the subcommittee to present a statement on the statistical needs of the Council in assisting the President to appraise economic trends and formulate economic policies in the executive branch. The Council's statement emphasizes the need for (1) more prompt and frequent reporting; (2) improvements in existing data; (3) improvements in presentation; and (4) filling gaps in existing information.

The second day of hearings was devoted to a panel discussion with 12 distinguished users of economic statistics representative of or covering the following fields: industry, labor, finance, food and agriculture, consumer finances, State and local government, foreign economics, construction, savings and investment, and retail trade. Each expert presented his observations with respect to (1) the statements of the Bureau of the Budget and the Council of Economic Advisers (these statements were supplied to the panel members several days in advance of the hearings); (2) the general concept of an overall system of economic statistics; (3) significant weaknesses in major existing statistical series as to concepts, accuracy, timing, collections, procedures, and the like; (4) gaps in the Nation's economic statistics and suggestions for closing those gaps; and (5) the kind of statistics and other economic information specifically needed in analyzing the economic plans and expectations of consumers, government and business.

In addition to the non-Government panel, representatives of the major statistics-producing and coordinating agencies of the Federal Government participated in the roundtable discussions which followed.

Other individuals and organizations submitted written statements or observations which were incorporated in the printed hearings.

Preliminary findings and recommendations of the subcommittee

Perhaps the greatest single need for improvement is the further integration of Federal statistical activities into a more closely knit and hence more useful statistical system. The Nation is entitled to an intermeshed and smoothly working statistical mechanism which is completely objective, impartial, and staffed by technical personnel of the highest competence.

The subcommittee has received many suggestions for significant statistical improvements. In this short time it has not been possible to evaluate all of this testimony and to prepare a complete list of needed improvements. We wish to summarize, however, major findings and recommendations which have resulted from the work so far, and to indicate plans of the subcommittee for the balance of this year:

1. *Private economic interests and Government policymakers require an increasing quantity and improved quality of economic statistics.*—In its hearings the subcommittee was informed of the statistical needs of some of the important users of Federal data. It hopes to extend its knowledge in this field. A major impediment to statistical development has been the general lack of a clear understanding particularly by the Congress, of the ways in which statistics are used in Government and in private affairs. The subcommittee is considering the preparation of a factual statement, as comprehensive and precise as possible, of the uses made of statistics and setting forth needs of Government and private enterprise—business, agriculture and labor—for additional statistical data. Statistics are used not only for administrative and operating purposes, but also as necessary aids in

promoting high-level employment, economic stability and growth. The proposed statement would include interpretation of the data needs of those engaged in research on business fluctuations and on the development of economic science.

It is clear that intelligent economic judgments can only be made on the basis of adequate factual information. The private enterprise system rightly looks to Government for such facts. Only the Federal Government can assemble and publish the array of economic statistics needed. The Congress, State and local legislative bodies, and public administrators in all levels of government must have improved economic statistics. Programs for national security, taxation, agriculture, housing, schools, highways and virtually every activity of government depend, in both formulation and execution, on the knowledge and use of economic statistics. In today's complex world hundreds of millions of dollars may be involved in the trend of a single statistical series. Wage rates and agricultural support payments are but two examples. Statistics are also needed in the everyday activities of the small, or average, consumer, farmer, businessman, laborer and researcher, some of whom may not even be aware of the uses they make of statistics or the needs they have for them.

The subcommittee notes particularly the needs of the Joint Committee on the Economic Report for improved information on the economic outlook. Knowledge of and the relations between and among the plans, programs, and expectations of consumers, businesses, and governments are necessary in appraising the overall outlook and in considering appropriate economic policy measures. Constant attention and study should be given to statistics which may be particularly useful in indicating changing economic trends, although our dynamic economy does not permit reliance on such statistics alone for predicting future economic conditions.

Speed in gathering and disseminating economic information is another important need, not only of this committee but of policymakers generally.

2. *The principal stumbling block to providing an adequate economic statistical program is the lack of financial support.*—The primary responsibility for this support rests with the Congress, but the executive branch has the responsibility for providing strong leadership. The subcommittee realizes the importance of economy in Government, and it appreciates the need for carefully screening requests for statistical improvements, and for efficiently planning statistical programs to avoid duplication of effort, harassment of suppliers of data, as well as waste and extravagance generally. At the same time in the light of the need for adequate statistics, past economies have gone too far. Increases are necessary, well justified, and will pay dividends to the economy—and in so doing to the Federal Treasury.

3. *Administrative agencies which produce statistics as a byproduct should be sncouraged to recognize their obligations to the statistical system.*—A major part of the available economic statistics results from the administration of such governmental functions as tax collection, the regulation of railroads and banks, and the processing of claims for unemployment insurance. These "administrative statistics" cost relatively little because their production is incidental. The wide dependence upon them is one of the principal reasons for the extreme decentralization that characterizes Federal statistical organization. The subcommittee is gratified that such administrative agencies as the Internal Revenue Service and the Bureau of Old-Age and Survivors Insurance are now providing "benchmarks" for statistical series produced in other agencies, thus hastening the creation of an integrated statistical system in which figures from many separate sources may be fitted together. There is need, however, for more rapid processing and releasing of the data.

4. *Greater emphasis on the development of an overall program of economic statistics by the executive branch of the Government is needed.*—To fit together the economic statistics produced by different Federal agencies so that their aggregate constitutes an integrated system requires a strong and aggressive coordinating unit. The Federal Reports Act of 1942, together with the Budget and Accounting Procedures Act of 1950, provide the necessary legislative authority for this purpose. In particular the second of these acts places the major responsibility for formulating a coordinated statistical program in the President, acting through the Director of the Bureau of the Budget. It is essential for users of statistics, such as the Council of Economic Advisers, to make known their needs. It is especially important for the Council of Economic Advisers to give adequate and appropriate support within the executive family, and in relations with the Congress, to meeting those needs. This support should also take the form of setting forth specifications and providing technical assistance in the development of programs. The heads of major Federal statistical-producing agencies have much to contribute in designing and executing an integrated statistical system. AdministrateiA machinery should insure that these talents are fully utilized.

However, the final responsibility for assessing the relative importance of many different uses, and for developing an orderly and well-rounded system, and for deciding where in that system the statistical implementation can most effectively and efficiently be carried out, is fixed in the Office of Statistical Standards in the Bureau of the Budget to which this authority is delegated. The progress made in the last 20 years in developing an integrated set of economic statistics under the leadership of the Central Statistical Board and its successor, the Office of Statistical Standards, has been substantial and is to be commended. Nevertheless, it is clear the need to achieve and maintain statistical integration in an adequate and complete system still exists. This is a responsibility of the executive branch of the Government.

5. *More attention should be given by Federal agencies to studying concepts and methods of operation, and to setting forth the limitations of the data appearing in their published reports.*—Complete precision in statistics is probably unattainable and the subcommittee is well aware that there is always a margin of uncertainty attached to statistical results. Its only concern is that adequate steps be taken to measure this lack of precision and to acquaint the user of data with its nature and extent. Relatively greater expenditure of effort and funds needs to be directed by a majority of Federal statistical agencies to an examination and analysis of the built-in limitations upon their findings and the degree of reliability that can be placed upon them.

6. *A section on economic statistics should be included in the President's annual budget and more consideration given to an adequate economic statistics program in the President's Economic Report.*—The various statistical programs of the executive agencies and their costs should be brought together and discussed. Proposed changes in these programs and their relation to the overall Federal statistical system should be pointed out.

The program presented next January should be prepared after careful appraisal of suggestions received by this subcommittee and incorporated in the published hearings. The subcommittee hopes that the various statistical advisory committees to Federal agencies will be asked to review these hearings and that the President's program submitted next January will represent a big step forward in the development of a realistic and adequate economic statistical system.

7. *The subcommittee recommends that the full committee devote one panel session to economic statistics at its hearings next year, preliminary to submitting its own report to the Congress on March 1.*—This would provide opportunity for review of the statistical program submitted in the President's budget and Economic Report. It would equip this committee and subcommittee to be an effective voice in congressional consideration of programs in the next session of the Congress.

8. *Adequate and timely benchmark data from regular censuses of agriculture, business, manufactures, minerals, and State and local government are desperately needed.*—The census data are the foundation of an adequate program of economic statistics. Economists and statisticians recognize that current economic data based on samples and spot studies must be corrected periodically by the use of censuses if they are to maintain their accuracy. Thus, these benchmark statistics have much more significance than just their contribution to historical research. All necessary steps should be taken by the executive branch and the Congress to carry out the census programs as scheduled. We emphasize to administrative agencies the need for speeding up the availability of such data.

9. *The Federal Reserve System might well expand its statistical collection and analysis programs where it has special interest and competence.*—The subcommittee is requesting the Federal Reserve to explore, in cooperation with executive agencies, the adequacy of present statistics in three basic areas: (1) Inventories, (2) savings, and (3) consumer and business expectations. This request includes a thorough review of, and basic research into, concepts, existing data, sources and procedure for improving these statistics.

10. *The staff is directed to proceed with the revision of economic indicators.*—The suggestions submitted by some 50 subscribers (incorporated in the printed hearings) will be reviewed for possible adoption but complying with the generally expressed desire to maintain the present basic format and contents.

11. *The committee staff is directed to keep the subcommittee informed of progress on revisions and improvements underway or proposed.*—The subcommittee is particularly interested in the implementation given the recommendations for improvement in labor force, employment and unemployment statistics contained in the committee's February report (H. Rept. 1256) and in construction statistics.

Representative HENRY O. TALLE, Iowa, *Chairman*,
Representative RICHARD BOLLING, Missouri,
Senator FRANK CARLSON, Kansas,
Subcommittee on Economic Statistics.

[Press release of Wednesday, February 9, 1955]

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington 25, D. C.

STATEMENT OF DONALD R. BELCHER, ASSISTANT DIRECTOR, BUREAU OF THE BUDGET

Mr. Chairman and members of the committee, responding to the request of this committee, I am happy to present the following statement in regard to provisions made in the 1956 budget for the improvement of economic statistics by various agencies of the Federal Government.

A sound and balanced statistical system is a primary requirement for sound administrative policies. This is true as regards the decisions and actions of the Federal Government itself, both legislative and executive. It is equally true in the fields of private enterprise—agriculture, business, and labor. The needs for accurate and prompt knowledge of the ebbs and flows in all major areas of our economic life require improvement and strengthening of our basic system of statistical intelligence.

Such a system of statistical intelligence may be viewed as consisting of two more or less distinguishable categories. The first may be called the overall analysis of the economic situation, and is typified by national product and income accounts, indexes of production, trends of employment and unemployment, earnings of all manufacturing corporations, and the volume of business investment. The second category, or specialized analysis, is comprised of such data as production of individual crops, production by selected manufacturing industries, price movements of individual commodities, and employment and unemployment by specific industries and localities. To appraise the overall movements of the economy it is necessary to study the several parts, but the parts themselves cannot be competently interpreted without reference to the general framework of the economy as a whole.

As agencies of the Federal Government undertake to respond to legitimate demands for more and better economic statistics, it is of primary importance that proper balance be preserved, not only between the general and the specific, but also within each of these broad categories. It has long been and is now the objective of the Bureau of the Budget, in formulating appropriation recommendations to the President each year for inclusion in his annual budget, to do all in its power to strengthen the statistical system and at the same time to maintain that proper balance.

As I said to your subcommittee last July, the Office of Statistical Standards within the Budget Bureau draws on all available sources in formulating its judgment as to what the statistical program of the Government should be. In preparing the 1956 budget, we have been greatly influenced by the testimony given last July by experts both within and outside the Federal Government, as well as by recommendations contained in the progress report of the subcommittee under date of July 30, 1954. The 1956 budget contains provision for a major expansion in many statistical programs.

This year, for the first time and in response to the request of your subcommittee, the budget document contains on pages 1203–1204 a special analysis of Federal economic statistical programs. It shows that, for the major current statistical programs, the President has recommended the amount of $32.2 million for fiscal 1956, as compared with estimated expenditures of $27.4 million in the current year, or an increase of $4.8 million.

I believe it desirable that this special analysis be incorporated in the record before this committee, and accordingly I shall not undertake to repeat all of the detail therein contained. Provision for a number of periodic census programs (namely, the censuses of agriculture, business, manufactures, and mineral industries) was made, in large part, by appropriations of $24.4 million in fiscal 1955. The 1956 budget includes the $10.7 million required for their completion, plus $500,000 for an intercensal housing survey. With regard to the current statistical programs, however, it may be helpful if I comment on some of them in fairly broad terms.

MANPOWER

An appreciable strengthening of statistics in the field of manpower seems called for, both to improve our overall understanding of the economic situation as it affects employment and also to support the Secretary of Labor in developing his programs.

We have been particularly impressed that, in the area of employment and unemployment statistics where we have some of our most detailed statistics, there is a need for still more detail, precision, and sensitivity to short-run changes in the economy. We are, therefore, recommending a doubling of the current population survey sample to provide better and more detailed information on the labor force, employment, and unemployment. Some funds for reseaech and improvement of these series are also included.

The monthly indicator of the number of the unemployed needs to be supplemented by additional information on the characteristics of those who are presently without jobs—who are they, where are they, how long have they been without work, and whether their joblessness is due to seasonal or cyclical factors. To provide this information we have indorsed the request of the Secretary of Labor for funds to study the present problems of chronic area and industry unemployment, frictional unemployment, characteristics of the jobless, and the structural changes in the labor force lying behind these current patterns. It is desirable also to survey the employment and unemployment of the labor force in selected industrial areas each year, using the same techniques now used for the national estimates of unemployment, with the Secretary of Labor choosing the areas in response to the needs of the current situation.

To round out the national and area picture, figures are needed in more detail and with greater accuracy regarding factory labor turnover rates—accessions, quits, discharges, layoffs, and the like; as well as greater detail and more accurate information on employment trends in that growing segment of our economy, the service trades. We propose to add also to the detail we now have on employment, hours, and earnings by industries by cooperating with the States in the preparation of such series in some 14 additional metropolitan areas.

For many years the Occupational Outlook Handbook of the Department of Labor has been one of the most important tools available to schools, employment offices, and others interested in vocational guidance from the point of view of labor market opportunities. The last edition is now seriously out of date. To keep this valuable handbook in tune with the times, we are recommending that a regular program of revision be begun in 1956.

We are also providing for some extension of the industry and community wage surveys and for expansion of statistics on industrial accidents to increase their usefulness in promoting safety.

PRICES

There have been major revisions of the Wholesale Price Index and the Consumers' Price Index since 1950. We feel, and your panel of last summer seemed to share this feeling, that these economic series meet fairly well the usual needs. However, there is now a modest provision in the Bureau of Labor Statistics appropriation for continued research to which we can look for continual review.

Weights for the index of prices paid by farmers are based on data relating to farm family expenditures in 1937–41. A survey of farmers' expenditures is provided in the Department of Agriculture budget for 1956. This survey will collect data on the current pattern of expenditures and supply the information needed in reviewing the weights for this index. In addition to this use, the survey will also provide much better information for computing net farm income—a significant figure for appraising the condition of agriculture and, of course, an important component in other national aggregates.

FINANCIAL, NATIONAL INCOME AND GOVERNMENTS

In the area of current business statistics, provision is made for expanding the financial reports program, conducted jointly by the Federal Trade Commission and the Securities and Exchange Commission, to include mining and wholesale and retail trade corporations, and to provide preliminary estimates of the quarterly net income of the corporations covered. Increases are requested also to improve the savings estimates, to permit a special study of plant and equipment expenditure estimates to determine what factors are responsible for differences between anticipated expenditures and actual expenditures for the same period, and for a study of the problems related to the collection of current financial statistics covering unincorporated business.

Improvements in the accuracy of our national income and product estimates will be facilitated by the projects included in this year's budget request. In particular, provision is made for incorporating in those estimates the reliable comprehensive data which will become available in the Census of Business and

Manufactures for 1954, and statistical tabulations by the Internal Revenue Service for the same year. Through integration with the FTC-SEC financial reporting program noted above, the national income work will utilize data from that program without the expense and burden of special collection. Planning for improvements in our inventory and manufactures sales estimates is also provided in the budget increases.

Provision is being made in the Bureau of Census budget to expand the present sample survey of State and local government finances so that estimates of revenues, expenditures, and debt can be obtained on a State-by-State basis. Such information is needed in dealing with the problems of intergovernmental relations and will also facilitate the taking of the 1957 Census of Governments.

PRODUCTION AND DISTRIBUTION

The importance of accurate current information on production and distribution of both agricultural and industrial products cannot be overemphasized. The development of a research program to improve crop and livestock estimating methods was initiated in fiscal 1954 and a start on its gradual expansion to cover an increased number of crops and additional sections of the country is provided for in this budget. In addition, provision is made for expansion of marketing research directed toward improved product quality and improved efficiency in the marketing of agricultural products. Such research serves as a basis for more intelligent decisions regarding assembly, storage, processing, and distribution of farm products. Increased attention will also be given to research designed to provide data on changes in farming called for in different farming areas in view of prospective prices, costs, and other conditions.

Continuation of annual sample surveys of manufacturing and retail trade during the years between the quinquennial Censuses of Manufactures and Trade was recommended by the Secretary of Commerce's Intensive Review Committee. While such a survey covering 1954 was not needed in view of the major censuses covering these areas, the 1956 budget provides for a resumption.

CONSTRUCTION AND HOUSING

Statistics on construction and housing are generally regarded as critically inadequate. The Bureau of Labor Statistics series on the number of new nonfarm dwelling units started was revised last year and is now as firm as it can be made with the techniques and data available from present resources. However, it does not include farmhouses and its coverage of nonfarm houses in rural areas is weak.

The series on expenditures for new construction of all types, for which BLS in the Department of Labor and BDSA in the Department of Commerce are jointly responsible, is seriously deficient. The BDSA budget contains funds for a program which will make substantial improvements in these data next year. As a byproduct of the surveys planned to collect data on nonresidential construction, the deficiencies in the housing starts series for rural areas which I just mentioned will be largely corrected.

One phase of construction activity on which we have had no reliable data has to do with the volume of expenditures for alterations, repair, and modernization. Last year the Bureau of the Census made a small survey which tended to show that such expenditures by homeowners alone were much higher than was previously believed, approaching in fact the expenditures for new homes. Census and BDSA are now doing similar preliminary work on commercial properties. The BDSA budget contains funds for the regular and continuing collection of data on the volume of such activity on all types of properties.

The last housing census was taken in the spring of 1950. Additions to the housing supply through new construction are being made at an unprecedented level since 1949—well over a million units a year. However, lacking current measures of such quantitative factors as demolition and conversions and such qualitative factors as fixup and modernization, the Census budget contemplates an intercensal housing inventory, to be taken in 1956 on a sample basis. This will provide much needed information on the effect of all of these forces on the amount and quality of the Nation's housing supply. Data on residential vacancies will be provided periodically by a program supported by funds in the BDSA budget.

The three programs I have just mentioned—new construction, alterations and repairs, and the housing and vacancy surveys—account dollarwise for 85 percent of the improvement in the statistical program for this area. The rest of the program provides for surveys and studies by BDSA and BLS of building materials and labor requirements for construction, and characteristics of new houses being built, and the organization and structure of the homebuilding industry.

All of the programs in this area are recurring and should be continued annually, except the Census housing survey which would be repeated during the period between decennial censuses only as conditions warrant. I should mention also that the studies of materials and labor requirements would cover selected types of construction on a rotating basis so that these requirements for all types of construction would be covered about every 5 years.

POPULATION AND VITAL STATISTICS

During the past few years the processing of certificates of births and other vital events and publication of the annual compendium of final data have lagged far behind desirable goals. An increase in funds for the fiscal year 1956 will enable the National Office of Vital Statistics to recapture lost ground in approximating an optimum schedule for the publication of vital statistics of the United States.

CONCLUSION

In its report of last July, your subcommittee put great emphasis on the needs of private economic interests and of Government policymakers for increasing quantity and improved quality of economic statistics, and pointed out the essential and unique role which the Federal Government must take in helping to satisfy that need.

I believe that viewpoint has widespread acceptance in our Government. Despite budgetary limitations, our statistical agencies have long been in the forefront of new statistical methods and their output over the years has shown great overall improvement, both in coverage and in quality.

For fiscal 1956, the President has recommended appropriations to the several agencies which, in addition to completing the special censuses already underway, will provide for expansion of $4.8 million, or about one-sixth, in present levels for the current statistical programs. This contemplates, not only general strengthening throughout the statistical system but, in particular, marked increases in the fields of manpower and construction statistics where the need for more and better economic information is most generally recognized. The increases are all directed at known weaknesses or gaps in existing statistics and will measurably improve our economic intelligence. In the two fields of major increases, I am convinced that the expanded programs will raise the entire level of accuracy and detail, and correct major deficiencies disclosed during the postwar period.

I want to thank you for your attention and again express appreciation for the opportunity of appearing before this committee.

Statement of Walter E. Hoadley, Jr., Treasurer, Armstrong Cork Co., Lancaster, Pa., on Economic Statistics

One of the most significant developments affecting both private and public decision making in recent years has been the growing use of economic statistics. Moreover, at the present time there is noticeable interest in business in still more adequate economic information. This interest arises, first because of concern over the adequacy of many present Federal economic statistics now being used as a basis for important public-policy decisions, and second, because of the recognized need for more satisfactory economic data to help guide future business planning, which has obvious implications for the entire economy.

The interest of this committee in economic statistics, as evidenced in the hearing today as well as in several previous activities, plus the new feature in the budget message drawing specific attention for the first time to the Federal program in economic statistics are commendable developments. It is encouraging to know that at long last important Federal economic statistics which now influence critical policy decisions by leaders in government, business, labor, and agriculture have achieved sufficient official recognition to be considered worthy of separate study and analysis.

The Economic Report states "Economic statistics are now closely scrutinized and widely commented upon by men and women in different walks of life" (p. 65). Such a statement would have been far less true 5 years ago and certainly would have had considerably less meaning 25 years ago. Nevertheless, the words "closely scrutinized" just quoted certainly must be intended to mean "read" or "scanned" rather than carefully appraised. Detailed analysis of many economic statistics provided by Government would disclose to almost anyone major deficiencies which are neither widely known nor understood. There has been a definite advance in economic literacy but Government figures, all too often, are being accepted as "official" and hence seemingly almost by definition "precisely accurate." Government, therefore, has increasing responsibility for greater accuracy and reliability of its economic statistics as their use continues to grow.

Just as more extensive and precise measurement devices have become a necessary part of increasingly complex industrial machinery, there is increased need for more comprehensive and accurate measures of what the Economic Report has termed "our complex and industrialized society." I wholeheartedly endorse the "basic economic tenets" or guides to policy outlined in the Economic Report, and particularly the first proposition that "competitive markets, rather than Government directives, are as a rule the most efficient instruments for organizing production and consumption." The important—at times dominant—role of Government in current and future economic life, however, can never be minimized, and particularly by the management of any business enterprise. Forecasting what policies Government will adopt and pursue, frankly, has become one of the most critical aspects of business planning. Is it any wonder that business managements have become vitally concerned about the quality and availability of economic statistics provided and used by Government in making and administering public policies?

In my opinion, one of the greatest risks facing business organizations today is to be found in possible unsound public policies—both as to scope and timing—simply because those in authority may not have adequate or trustworthy information available upon which to base their judgments. Let me illustrate this point with regard to home-building activity.

As everyone here today knows, the postwar building boom continues with renewed vigor, despite many earlier and some current fears of an imminent collapse. Because of favorable congressional action 2 years ago, it is now possible to know with considerably reliability from reports of the Bureau of Labor Statistics how many new nonfarm homes are being started each month. But what information is now available to indicate the extent to which housing needs and demands are being met?

What significance is to be attached to current reports by the Bureau of Labor Statistics that nonfarm housing starts are at an annual rate of over 1,400,000 while new households, as estimated by the Bureau of the Census, are now less than 800,000 per year? Is the new home-building industry and hence the Nation facing serious trouble? Is credit too easy? In many respects, the key to future new home building lies in the vacancy rate and in the trend of value of older homes. Yet, almost no trustworthy information on either subject is now available. This should be a matter of grave concern for Government which has a great influence upon, as well as stake in, housing. How present housing laws and credit policies can be properly administered in the face of these statistical deficiencies is at least a very open question to me.

The highly fragmentary and until very recently almost complete absence of information on the important and quite evidently expanding home fix-up (i. e., repair and modernization) market unquestionably causes undue emphasis on new homes in public policies pertaining to residential construction. Until the size and characteristics of the fix-up market become known, it is hardly reasonable to expect that any well-conceived program to develop this market will emerge. Yet, expanded fix-up work probably offers the greatest single opportunity to stabilize the vast but always vulnerable new home-building industry.

Anyone who investigates the quality of the information now being released by Government on nonresidential construction activity knows the deplorable inadequacy of many current estimates. When it is recognized that these deficiencies are transmitted directly into the national product statistics, there is serious reason to question whether the latter figures—widely used for public and private policy purposes—in any real sense are accurately measuring the course of general business.

These observations on the inadequacy of many Federal construction statistics, of course, should not be interpreted to mean that all Government construction data are bad or that the statisticians preparing them are incompetent. The plain fact is that the current statistical program simply cannot meet the policy requirements of the dynamic and farflung construction field in 1955 and 1956.

The expanded statistics program proposed in the President's budget message,[1] if adopted, will eliminate some of the most serious statistical gaps and deficiencies in construction mentioned here by providing additional funds for the Business and Defense Services Administration, the Bureau of Labor Statistics, and the Bureau of the Census. The new program also will provide badly needed benchmark information as well as up-to-date facts on labor and material requirements in construction and make available an answer to many heated questions concerning whether large or small builders are making the most progress and what types of homes are in greatest demand.

One other phase of Federal economic statistics, namely, industrial classification, merits at least passing attention. This problem is highly important to the extent that the United States census of manufactures uses inexact or incomplete definitions of industries. Scrambled or overlapping industry data, moreover, often used by Government and others to measure productivity or so-called concentration ratios obviously are misleading when applied to any specific industry or industry group.

It would seem highly essential that tabulation procedures for the 1954 census of manufactures take full cognizance of this industrial classification problem. Moreover, before any future census of manufactures is undertaken, further careful consideration should be given to the report of the Watkins "Intensive Review" Committee which studies the entire census program last year as well as to the recommendations of a subsequently appointed subcommittee of the Advisory Council on Federal Reports.

Business needs for economic statistics clearly are mounting in order to help insure future stability and growth of individual enterprises and hence the country as a whole. Many—perhaps most—business organizations with which I am familiar accept the responsibility to provide their own detailed, market-type statistics, but they properly look to Government for broad statistical information essential to sound policies and necessary as benchmarks for private business planning.

In conclusion, let me again stress the importance of the Federal Government's current and proposed economics statistics program for both public and private policymaking purposes. I have only cited two illustrations of areas requiring prompt statistical improvement in the public interest. Others have been mentioned in earlier hearings before this committee and no doubt will receive attention today. Major corrections in Government economic statistics can be achieved provided the program summarized in the budget message receives favorable action by the Congress. In my opinion, the program warrants very serious consideration and approval.

Statement of Robert J. Eggert for the Chamber of Commerce of the United States with Respect to Economic Statistics

My name is Robert J. Eggert. I am marketing research manager, Ford division, Ford Motor Co., and a member of the committee on business statistics, Chamber of Commerce of the United States.

The chamber is gratified that the joint committee is devoting this panel to economic statistics. The various statistical programs, lodged in some dozen agencies, can thus be compared and evaluated. We also appreciate the special analysis of economic statistics in the 1956 budget. The analysis greatly facilitates evaluation of the government's statistical program.

We hope that panel discussions such as these, and the special budget analysis, both recommended in the July 30, 1954, Progress Report of the Subcommittee on Economic Statistics, will be repeated each year. They should aid materially in improving Government statistics.

Business needs prompt and accurate statistics for day-to-day and long-range planning. Government also needs these statistics for the same reasons.

In most cases, poor statistics are worse than no statistics. Poor or inadequate statistics can be highly misleading and even dangerous. So the Government should make every effort to improve the quality and adequacy of its statistical reporting. While there is great demand for new statistics and new statistical programs, any new series should not be launched at the expense of essential existing series.

We have seen instances where private statistical reports differ from Government reports, although covering the same statistical ground. We have seen how

[1] Special Analysis I—Federal Economic Statistical Programs—Budget of the United States Government for the Fiscal Year Ending June 30, 1956 (pp. 1203–1204).

several Government bureaus reporting on the same, or closely similar economic activities, have reported conflicting and divergent trends.

For this reason, we hope this joint committee will make every effort to encourage the qualitative improvement of the Government's statistical work.

At the same time, in our dynamic economy there are bound to be needs for statistical pioneering, and we welcome the work of the joint committee in this respect.

We endorse President Eisenhower's budget message statement: "We do not have all the statistical information required in our dynamic economy. I am therefore recommending a governmentwide effort to improve statistics in those areas where our work has been most handicapped by incomplete information."

The chamber, believing that Government spending today means a tax burden approaching the highest level in our history, has repeatedly urged that all Government activities not strictly essential be treated as luxuries and reduced accordingly.

Recognizing the vital importance to our whole national economy of accurate, prompt, and usable statistics, however, the chamber has supported not only the regular censuses, but has also recognized that the censuses should be supplemented by the collection of current statistics as needed, with the national interest being the criterion of need.

Total estimated Federal expenditures for statistical programs drop from $51.8 million in fiscal 1955 to $43.4 million in fiscal 1956.

The periodic census programs, which the chamber supported vigorously last year, are estimated to cost $24.4 million in fiscal 1955, but the budget request drops to $11.2 million in fiscal 1956—reflecting the relatively small amount of work remaining to complete these censuses.

Current statistical programs, including those related to employment, unemployment, wages, prices, construction, housing, population, national income, and other subjects are estimated to cost $27.4 million in fiscal 1955. Several of these programs would be improved under the 1956 budget, with the total amounts requested rising to $32.2 million.

I now would like to mention some of the most needed improvements in Government statistics.

Unemployment and employment data.—One of the most important Government statistics is the number of unemployed. It is sometimes termed a "statistical trigger." When unemployment rises, demands are made for the Government to initiate recover programs.

The Bureau of the Census now makes a monthly estimate of unemployment, broken down by sex, age, color, and duration of unemployment. This helps characterize the total number of unemployed, but does not tell where the unemployed are located, and their usual or previous occupations. The Bureau of Employment Security collects weekly information regarding the recipients of unemployment compensation, yet these two series are not collated into one unemployment figure.

The Bureau of Labor Statistics publishes monthly the extremely valuable series of nonagricultural employment classified by industry and by State. We are gratified the 1956 budget includes increased funds to improve the data for trade, finance, services, State and local governments, and other industries, and also improve the employment data on a State basis.

We also endorse the increase in expenditures from $4.9 million in fiscal 1955 to $6.8 million in fiscal 1956 for employment, unemployment, wages, industrial injuries and related statistics.

Construction statistics.—Construction is a major sector of our economy, yet construction statistics are extremely deficient. We support the recommended increase from $0.5 million in fiscal 1955 to $1.5 million in fiscal 1956 for this purpose—an increase which should greatly improve data in this important field.

Dr. Walter E. Hoadley, a member of this panel, is chairman of the chamber's subcommittee on construction statistics, and more familiar with this problem. He probably will discuss it in greater detail.

Financial statistics of State and local governments.—The Bureau of the Census reports on state and local government fiscal operations are of significant use by business and all levels of government. We are gratified the 1956 budget includes increased funds to improve these statistics, particularly since a comprehensive census in this field is not due for several years.

Electronic equipment.—Electronic equipment has substantially speeded up and improved the accuracy of labor force, foreign trade and other census statistical series. Reports from the censuses of business, manufactures, and minerals will be available considerably sooner due to use of electronic equipment. We support the increased use of electronic equipment in the periodic censuses scheduled for 1958 and 1960. Lack of timeliness is perhaps the most common complaint about Government statistics, and increased use of electronic equipment should help reduce the time lag in processing statistical data.

Value added by distribution.—A notable gap in the Federal statistical program is information on the value added by distribution. We all know goods retail for more than the manufacturer's selling price. For many years the Bureau of the Census has published figures showing the value added by manufacturing industries. But there is no corresponding series on the value added by wholesale trade, retail trade and other aspects of distribution. The accompanying chart summarizes the flow of goods in our economy from producers of raw materials in agriculture and mining. Most of the goods pass through manufacturing, wholesale trade, and retail trade to final consumers. A smaller amount of goods flow from various stages of processing to the capital account of business and to government. Other goods flow directly from manufacturers to personal consumers, bypassing wholesale and retail outlets. This chart is greatly simplified. There is some flow from wholesale firms to consumers, some from agriculture directly to consumers and some goods flowing up the chart instead of down. For purposes of simplification, these other flows were not marked.

The fact that products acquire added value as they move from field, forest, or mine through a processing plant or factory has long been reflected in the Bureau of the Census data showing value added by manufacturing. The concept that manufactured products continue to acquire additional value as they move through the channels of trade to the point of ultimate sales or use, however, has not received equal acceptance. Now is the time to do spadework developing the concepts and techniques necessary for computing value added by distribution.

A good illustration of the constant need for upgrading statistical work and reporting is indicated by a special subcommittee on the census of manufactures which made a report to the Advisory Council on Federal Reports. The nature of the problem is fully discussed in Business Week, February 5, 1955, pages 114 to 117 and alluded to in the Chattanooga Times for January 22, 1955.

When our economy was simpler and less interdependent, there was less need for statistics. But in today's highly dynamic economy, with its steady population growth, a constant shifting of population, new raw materials continually being developed, new products reaching the market daily, and indeed whole new industries, both the government and business executive are in constant need of up-to-date, high-grade statistical information.

The 1956 budget recommendations for economic statistics are supported by the chamber because these expenditures are needed to provide business with data vitally needed in today's expanding economy.

[From the Chattanooga (Tenn.) Times, Jan. 22, 1955]

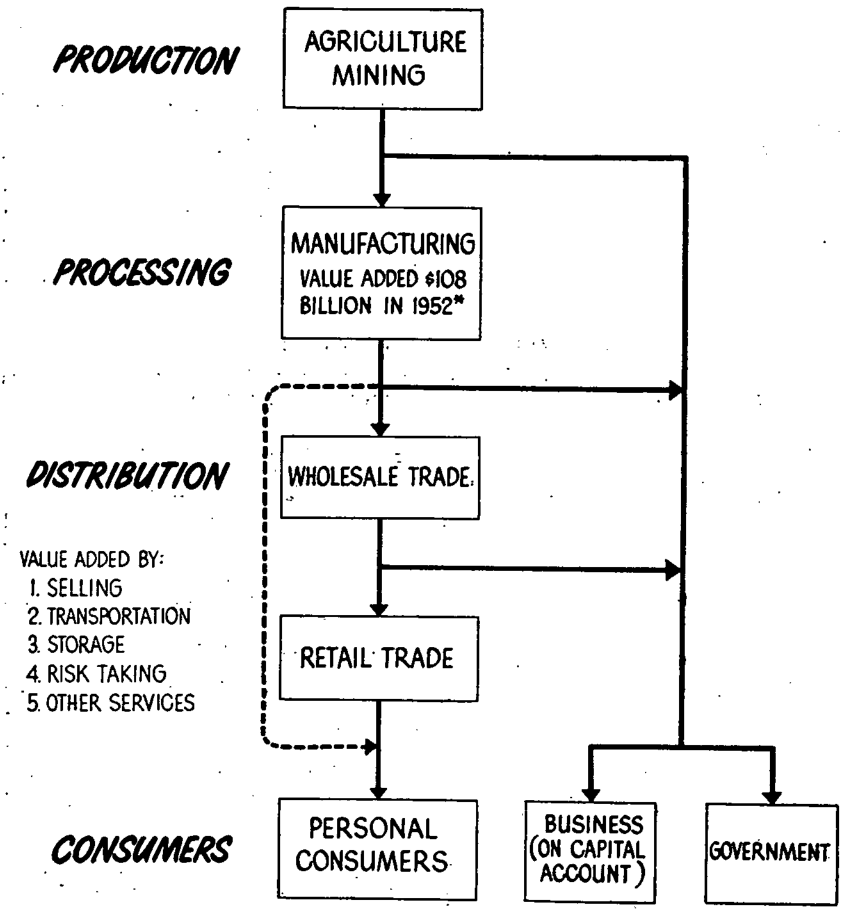
Industry Census Draws Criticism—Advisory Council Charges Misleading Picture of Business in United States

Washington, January 21.—Industry representatives of the Advisory Council on Federal Reports have notified the Bureau of the Budget in a special report that the census of manufactures, of which a 1954 version is now in preparation, is "seriously deficient on several important counts" and gives a misleading picture of the concentration of production in various industries.

The report, drafted by a council subcommittee headed by Stephen M. DuBrul, chairman of the business research staff of General Motors Corp., observes: "Because they are in so many cases the only data available for what they purport to portray, census industry statistics are used widely and indiscriminately in spite of their many weaknesses. Teachers, as well as practicing statisticians and economists, both in and out of Government, are no more protected from hidden inaccuracies of these statistics than are laymen whose use of census data is only occasional."

The report ascribes existing confusion in the census figures to the acceleration of industrial development that has taken place over the past 20 or 30 years. "Industrial establishments have multiplied their functions, they have developed new products, processes and techniques, and they have thereby rendered obsolete the historical and traditional concepts of many industries with which they have been identified," it states. "With the growth of new ones, and the overlapping of products and processes, there has come a proportional complication of the task of applying meaningful statistical measurements to industrial activities."

FLOW OF GOODS



*SOURCE: Annual Survey of Manufacturers

FINANCED BY INDUSTRY

The report of the council, a body whose financing derives from seven industrial groups including the National Association of Manufacturers and the United States Chamber of Commerce and whose members are appointed by the director of the Bureau of the Budget, was aimed at improving the method of tabulating the 1954 census, which will be the first conducted since 1947, although surveys of a lesser scope are made every year. Although some of the subcommittee members have favored publicizing the report, and although some 200 copies have been distributed in and out of Government, the Budget Bureau has insisted that the recommendations be kept secret while the officials of the Census Bureau have a chance to study them. The council has not received any response to the study from the Census Bureau, which received it on last December 9.

A major target of criticism in the report were the census industry figures, which are used to measure the concentration of output by the largest firms in each industry and are therefore the basis for the monopoly charges made frequently against big business.

SECONDARY PRODUCTS

The report maintains that the breakdown of manufacturing into 453 industries fails to recognize the secondary products of many of the individual manufacturers and that it therefore gives a misleading picture of the concentration. The report on the nails and spikes industry in the 1947 census is cited as an example. A total of 68 establishments are represented by the census as shipping some $30,038,-000 worth of products. The report notes that the "unwary user of these statistics" might deduce that the shipments consisted completely of nails and spikes and that this represented all of the nails and spikes shipped by American manufacturers. Actually, it relates, more than one-fifth of the shipments by these concerns were of totally different secondary products. In addition the nails and spikes shipped by them accounted for less than 20 percent of the total United States shipments of nails and spikes because nearly $100 million worth were produced as secondary products by other producers, chiefly in steel mills.

The subcommittee further urges the Census Bureau to be extremely specific in labeling industries and qualifying its statistics to avoid misinterpretation.

[From Business Week, Feb. 5, 1955]

WHERE THE CENSUS GOES WRONG—AN INDUSTRY ADVISORY GROUP SAYS MANY OF THE CENSUS OF MANUFACTURES CLASSIFICATIONS ARE MISLEADING

Sometime within the next 2 weeks, every manufacturing plant in the United States is supposed to tell the Census Bureau how much business it did last year, what its chief products were, and how many people it employed. But census officials have been warned that the results, when they are tabulated and published later in the year, will be far from an accurate picture of what United States industry really is, or how it operates.

The warning was made by a committee of top economists and statisticians in a report for the Advisory Council on Federal Reports. The council, which works closely with the Statistical Standards Division of the Bureau of the Budget, is composed of private industry representatives. The census study was made by a special subcommittee of the council.

Objections.—In general, the committee, in an 11 to 1 majority report, accuses the Census Bureau of clinging to outmoded ideas of what constitutes an "industry," and of failing to adjust its data to reflect modern practices.

In particular, the committee says census data fails to allow for the trend toward diversification of products, and for the amount of output for in-plant use only.

The result—in the opinion of committee members—is needless trouble for business on a number of fronts:

Businessmen trying to use census data to measure potential markets are hampered by lack of complete coverage.

Antimonopoly legislators and the Federal Trade Commission are given a false picture of the degree to which output is concentrated in a few plants.

The real productivity of labor is obscured by unreliable information on total output within individual plants. And labor productivity is becoming more and more a big factor in union negotiations.

Too late?—It's too late to change the forms, or to obtain additional information from manufacturers, in time for this year's census. But the committee hopes Census will still change some of its processing of the raw data to conform to its recommendations. It also recommends that Census raise warning signs over some of its data that the committee feels will be particularly misleading.

To see what's involved, think of the information supplied by businessmen as falling into two broad categories: (1) facts about products and (2) facts about the establishment as a whole. These break down further into the subdivisions that cause much of the confusion in the business census.

I. WHAT ARE PRODUCTS?

Plants are asked to report on the dollar value of final products that are shipped, sometimes on the number of units produced, too. The committee has praise for these figures—as far as they go. The trouble is they stop short of really listing what most plants make and often fall far short of measuring actual output. Here's why:

"Final products shipped"—the key to census data on products—fails to pick up information about goods produced for internal use. If the product is not shipped as a separate unit, it is not counted. That means millions of dollars' worth of such items as containers, castings, stampings, forgings, and machined products simply disappear as far as the census of manufactures is concerned.

Misleading.—This flaw in census data can lead to serious errors in measuring the size of an industry. The committee cites the case of cutting tools, jigs, dies, and fixtures. This is classified as a separate industry under census rules.

Suppose you're a supplier to this industry and want to check on the size of your market. The last census of manufactures—taken for 1947—reports a grand total of 74,522 workers in this industry. But General Motors Corp. alone employs 18,000 skilled tool, die, jig, and fixture makers—of whom only 500 are included in the census figures. That's because the other 17,500 turn out products that are used in the same plant where they are made, instead of being shipped.

Thousands of additional workers are turning out these products for other manufacturers. So the census figures ludicrously understate the size of the industry.

Wrong impression.—That's a serious enough flaw when a market analyst is trying to judge a sales potential. It becomes even more serious when Government officials wade cheerfully into the same statistics and make deductions about how output is divided among plants.

In a study published last year, FTC used census data to report on trends in concentration of output for the "cutting tools, jigs, fixtures, etc." industry, among others.

FTC showed that in 1935 the four leading producers accounted for more than one-fifth of sales; by 1947 their share had dropped to only one-fourteenth. To the industry advisory committee, such figures are utterly meaningless as long as they disregard output for internal use.

More paperwork.—The committee notes progress in reporting on products for internal use in some textile, chemical, and primary metal lines. It wants this reporting extended to other types of plants. If applied to everything, this would throw a terrific new load of paperwork on company officials, so the committee recommends that census obtain the additional data only where there is a clear public interest, or where the companies involved volunteer to take on the extra labor. Where output for internal use is not reported, the committee asks census to clearly label its published data as incomplete, even on this year's results.

II. WHAT IS AN INDUSTRY?

Manufacturers are asked to supply information for each plant as a whole, covering such points as number employed, payrolls, man-hours, and value of materials used. For some purposes—such as reporting general industrial activity in a State or region—the result is accurate, the committee believes. But when census parcels out the returns into industry classes, confusion sets in.

Census recognizes 453 "industries," largely defined on the basis of products shipped. However, many plants produce goods that can be classified in more than one industry.

Nail industry.—The committee picks nails and spikes as an example of what happens to census data.

The 1947 census showed that this particular industry consisted of 68 establishments, which employed 3,805 workers and shipped $30-million worth of products. That's not an accurate picture of nails and spike production, because:

First, the 68 establishments shipped only $23.5-million worth of nails and spikes—not $30-million worth. The balance of output consisted of items that belong to some other industry classification. They are not named in census data.

Second—and more confusing to the market analyst, economist, or the public official seeking guidance—the $23.5-million worth of product made by the "industry," was less than one-fifth of actual shipments of nails and spikes. Nearly $100-million worth was shipped by establishments that are classified in other industries—mostly steel.

"It is evident," the committee says, "that neither the employment * * * nor any of the other general establishment statistics represent either clear or complete statistics of economic activity in the production of nails and spikes."

The committee believes that half the other 452 census industries suffer from the same lack of clear data—including automobiles, steel, metal processing, textiles, chemicals, and rubber.

III. THE PRODUCTIVITY TANGLE

Consider, too, what happens to productivity, if computed from census industry data. Productivity is computed for a given class of industry by dividing the value of the product shipped by the number of man-hours. Simple enough. But here's what happens to the figures when some plants are chiefly assemblers and others are integrated.

The error.—Manufacturer A is an assembler of rear axles for the automobile industry. He is classified with the "motor vehicles and parts" industry. But he buys forged axle shafts from the "iron and steel forgings" industry, he buys castings to house the differentials from the "grey iron foundries" industry, his stampings come from the "metal-stamping industry," he buys machined parts from the "machine shops" industry. He merely assembles these components—bought from 4 separate "industries"—so his 1,000 employees can turn out 50,000 axle assemblies at a high rate per man-hour.

Manufacturer B is also classified in the "motor vehicles and parts" industry and also makes rear axle assemblies. But he has an integrated operation—does his own forging, casting, stamping, and so on. Obviously, if he also produces 50,000 axle assemblies in the same period as manufacturer A, he has to employ many more workers and pile up many more man-hours per axle assembly. The productivity of his workers would thus appear to be much lower than A's.

Under census procedures, A and B are dumped into the same industry class, and a figure on productivity obtained for the industry as a whole. Applied either to A or to B, this figure is meaningless because it fails to differentiate between the assembler and the integrated producer.

The same flaw applied to many other industries. An auto maker who buys many components—such as Kaiser—will appear to have higher productivity than Ford, whose plants are integrated.

USE OF GOVERNMENT BUSINESS STATISTICS

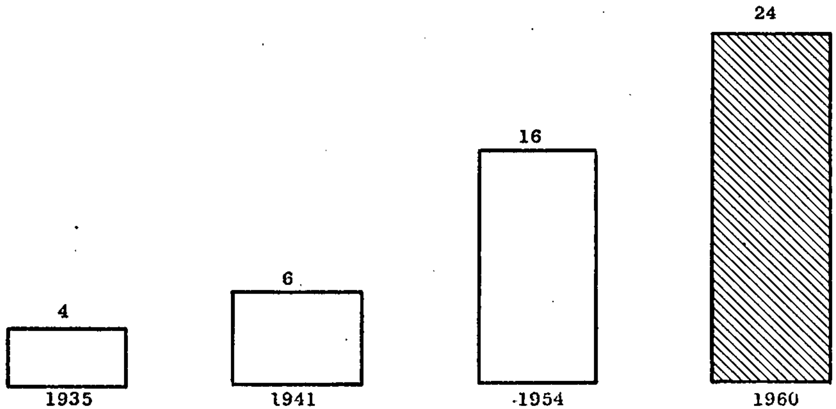
Illustrative charts supplementing testimony for the Chamber of Commerce of the United States

(By R. J. Eggert, marketing research manager, Ford Division, Ford Motor Co. Dearborn, Mich.)

58422—55——71

50% More Families To Have Incomes Of $5,000 & Over

Millions of Families With Incomes of $5,000 & Over in 1954 Dollars

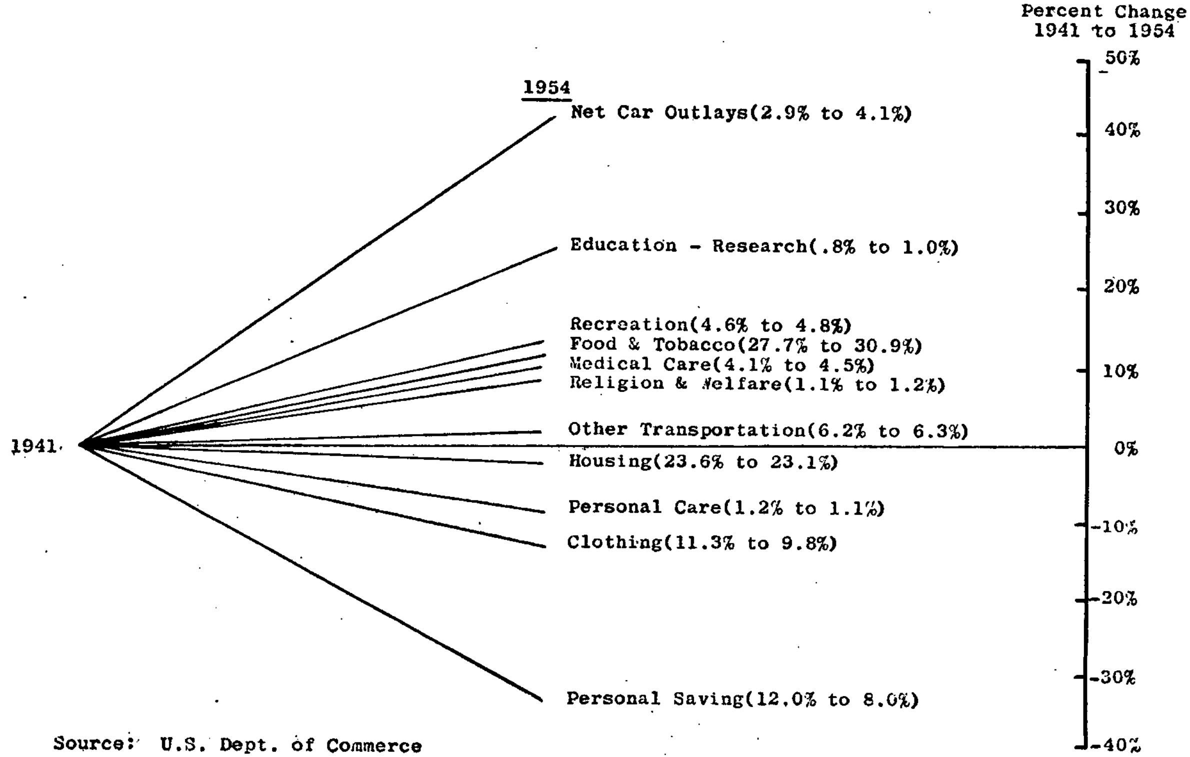


Source: B.L.S., Survey Research Center, Projections by Economic Studies Dept.

Ford Division
Merchandising & Product Planning Office

Marketing Research
Economic Studies Dept.

Cars Getting Larger Share Of Consumer Dollar



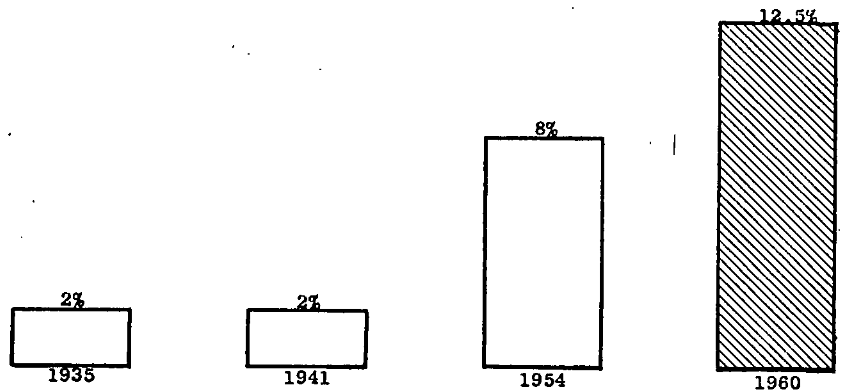
Source: U.S. Dept. of Commerce

Ford Division
Merchandising & Product Planning Office

Marketing Research
Economic Studies Dept.

More Families To Own Two Cars

Percent of Families Owning Two Cars



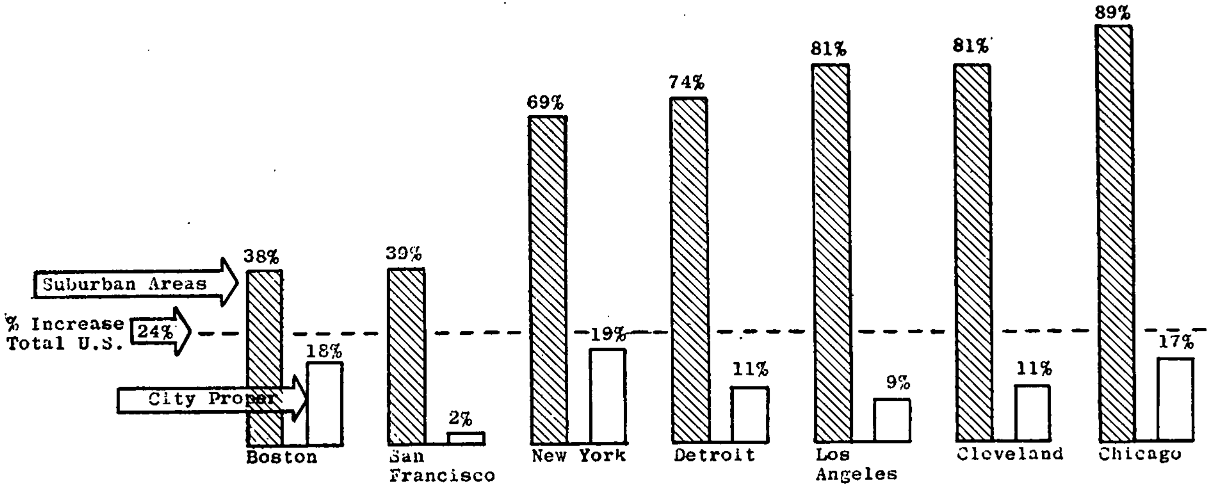
Source: R. L. Polk, Survey Research Center, Projections by Economic Studies Dept.

Ford Division
Merchandising & Product Planning Office

Marketing Research
Economic Studies

Suburbs Account For Large Part Of Car Population Increase

Percent Increase 1950 - 1954

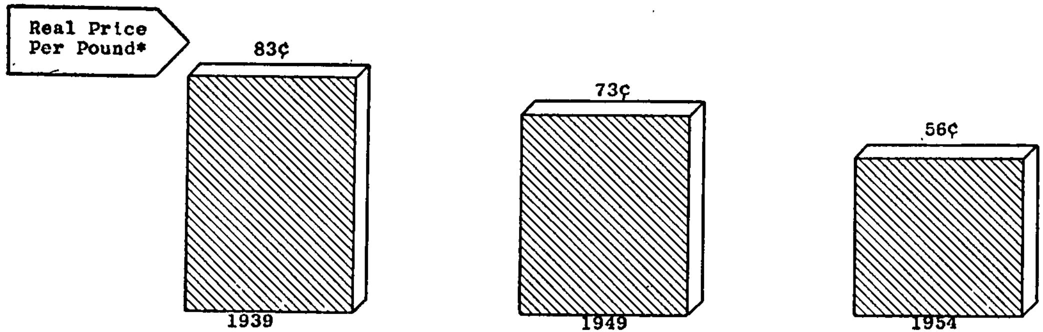


Source: R. L. Polk

Ford Division
Merchandising & Product Planning Office

Marketing Research
Economic Studies Dept.

REAL PRICE PER POUND FOR A CAR HAS DROPPED 1/3 SINCE 1939



*Average delivered price to customer adjusted for changes in hourly wage rates of factory workers divided by weight of car (1954 Wage = 100%)

Source of Basic Data: Bureau of Labor Statistics and Ford Division Records

Ford Division
Merchandising & Product Planning Office

Marketing Research
Economic Studies Dept.

Statement Prepared for the Panel Discussion With the Joint Economic Committee by Lowell J. Reed

We all recognize that sound and well-integrated statistical information is necessary for the planning and evaluation of governmental programs at the local and national level and also for the use in the programs and operations of business and industry. It is, therefore, gratifying to those of us who work in the field of statistics to have the Joint Economic Committee devote a portion of its hearings to this topic.

Since my working career within the university and as a consultant to government and industry has been in the field of population and vital statistics, I shall confine my remarks to these two subjects. Together they constitute a single item in the classification of the statistical program of the Government as presented for the year ending June 30, 1956. This item accounts for 1.5 millions of dollars out of 26.2 millions in the 1954 actual and for 1.6 millions out of 32.2 millions in the 1956 estimate.

It is important to realize population and vital statistics are very properly a part of economic statistics. In a very fundamental sense the economy of the country is dependent on the number of people that we have and their status as to age, sex, education, etc., and it is from our population statistics that we get this information. Through the vital statistics we get indexes of the health and working strength of the people, and these indexes also are of importance in evaluating the economy of the country. It is necessary that we continually review these areas of statistics to determine whether or not there are important gaps in our information. I shall devote my remarks this morning to discussion of two special forms of population and vital statistics that in my opinion need strengthening.

The first is that of manpower statistics. It must be clearly recognized that by manpower statistics we do not mean employment or occupational statistics alone. What is needed is a body of statistical knowledge that gives us a measure of the potentialities and capacities of our people as related to the productive activities in our society.

We have had 1 or 2 short-term solutions to this problem taken under the stress of the major wars of recent years and also under serious depression conditions. We have never, however, attempted to develop manpower statistics in this country in a continuous sense, and as a result have had to scratch them together as an emergency arose. With the conditions in the world what they are today and with every likelihood that we will need to make the most effective use of our manpower in the years to come, it seems that we should start without delay in building up this body of information. The increasing complexity of our industrial skill, with its demand for people trained in an ever-wider variety of skills, also indicates a growing need for statistics in this field. Since manpower statistics to be of use must concentrate on the number of people classified according to their skills and capacities, it is obvious that the statistics will have to go into greater detail with regard to the occupations for the satisfactory pursuit of which a higher degree of training is required. The present attempts to evaluate our scientific manpower represent an illustration of one phase of this problem. This activity, however, leaves untouched a wide variety of technical skills for which we will have increasing need in the future.

A number of departments of the Government are now collecting figures that in one way or another have bearing on this problem. We have pertinent material in such statistical series as those on employment, occupation, production, prices, national income, scientific manpower, etc. Before any attempt is made to compile manpower statistics as such, a study should be made of the contribution to this problem of the work in such fields as those just mentioned. From such a study a sound program for obtaining statistical information pertinent to the manpower problem could be developed.

The second statistical need to which I should like to call your attention is that of health statistics. Our earlier public health programs were planned for the most part on statistics relating to births and deaths. We have, however, progressed far beyond this stage. We need better health statistics if we are to implement our present health and medical programs, our rehabilitation programs, our private insurance systems in the field of health, and such health programs as were presented by President Eisenhower in his recently outlined program on health legislation. Planning for such programs as that embraced in the Hill-Burton bill call for better knowledge of health conditions as they would be presented by a well-organized statistical program in this field.

We have taken several health surveys in this country and we have some fragmentary series of health statistics. What is needed is a continuing body of figures relating to health so that a knowledge of present status and trends of the health of the people can be determined and action planned that will lead to a continuing improvement in the state of health of our people.

These two areas are the primary gaps as I see them in the general field of population and health statistics. In emphasizing these I do not wish, however, to detract from the importance of the statistical programs in this field that are now being carried on.

I wish to thank you for the opportunity of presenting this statement to you.

Statement of Beardsley Ruml for the Joint Committee on the Economic Report

My name is Beardsley Ruml. I am chairman of the business committee of the National Planning Association and a member of the research and policy committee of the Committee for Economic Development. It is my purpose to discuss the role of statistics in the making of public and private policy decisions and to urge continued and accelerated progress in the development of the statistical series now available.

Today we are overwhelmed by recent scientific and technological advances which have occurred in the fields of physics, chemistry, biology, and medicine. It is not surprising that the less spectacular and less certain new insights in economics and finance are not so widely known. The full import of these advances I am confident are not yet understood, but we do know enough to know that some things that many competent people thought were true are either false or true in a different way than was believed. Let me give three examples.

In 1937, an eminent economist advised the Treasury that unless the budget was soon balanced, the interest rate would go to 6 percent or even 8 percent the way it had in France. And yet during the war, the national debt rose from $45 billion to $275 billion on a declining rate of interest.

In 1941 we were told that we would have to choose between guns and butter, that to arm for war in two hemispheres we would have to cut our standard of living sharply. And yet in 1944 the general overall standard of living was at least as high as in 1941, and in addition we produced some $80 billion worth of armament. The miracle of production came out of productivity that had been growing unnoticed beneath the surface of a low actual output for a period of more than 10 years.

To take a third example, during the 1930's most people believed that a deficit in the Federal budget was inflationary. Today we can see that a nation that has millions of unemployed who want to work and ample idle plant and raw materials is much like a factory or a company that has a sizable amount of unused capacity. Under such circumstances, an increase of demand tends to reduce unit costs, and therefore under competition tends to reduce prices rather than to increase them. For the same reasons, Federal deficits prudently incurred in times of excessive unemployment, since they also tend to reduce costs, tend to be deflationary rather than inflationary as far as the purchasing power of the dollar is concerned.

These and other discoveries and insights in economics and finance are of the greatest importance in the determination of policy and they rest on research made possible by objective statistical reporting. To select one contribution of conspicuous value, consider the work on the measurement of national income under the leadership of Wesley C. Mitchell and Edwin F. Gay in the National Bureau of Economic Research beginning in 1921. It is difficult for us today to realize that only 30 years ago not only did we not have the statistics to work with, but many concepts such as gross national product which grew out of the statistics did not even exist.

Valuable as our present statistical series are, there is much room for improvement in coverage, accuracy, and speed of reporting. Let me mention 2 specific examples of statistical inadequacy at 2 most crucial points.

First, consider our inadequate knowledge of increase in productivity per man-hour from year to year. Is it 2 or 3 percent, or even more? Does it increase arithmetically or geometrically? Has increase been exhausted in some lines and hardly begun in others? Today we are using overall figures based on historical general experience modified by the shrewd insight of particular students. But the consequences of these estimates for policy cannot be exaggerated, and the choice of 2 or 3 percent in productivity increase per man-hour per year means the choice of 20 or 30 percent in the increase of gross national productivity 10 years from now, a difference of some $35 billion. Clearly our statistics on productivity must be as accurate and as meaningful as it is humanly possible to make them.

The second area which I will mention as needing improved statistical reporting is the field of savings. Here I mean not only the figures on savings banks, but knowledge with respect to the current withdrawals from consumption and their distribution by classification.

In the United States no longer is last week's income a reliable guide to this week's spending; no longer does this week's spending tell an adequate story on next week's consuming.

Today as never before the ordinary individual can get along without current purchasing for his day-to-day requirements. If he decides to change or to restrict his habitual consumption, he can do so without doing violence to his health or well-being.

So also today as never before the ordinary individual has cash, or its equivalent, that he can use to buy the things he wants or the things he thinks he may some day want. Thus, consumer spending is not necessarily consumption.

The consumer in the United States is not absolutely free; sooner or later he must buy some things to satisfy his minimum requirements. However, in the aggregate, the consumer is free as never before—free to postpone, free to reduce, free to anticipate, free to switch from one unnecessity to another. Economic determinism no longer contains him.

Accordingly we need as never before comprehensive, accurate, meaningful, and prompt statistics on the savings and spending behavior of American citizens. Without such knowledge the making of policy and the implementation of policy can be based only on an experience which is largely personal, imperfect, and obsolete.

The responsibility for improving the statistical series in these and other important areas lies upon the agencies who have these assignments and upon the appropriating bodies from whom the necessary funds are derived. Clearly the sums that can be efficiently applied are immeasurably smaller than the financial consequences of the decisions for which the statistical series will be used.

A special responsibility must be assigned to the Federal Reserve System, not only because its earnings provide abundant resources for statistical research and reporting, but also because the vital Open Market Committee, in its determinations to act or not to act, needs to have before it for its own use a very large proportion of the statistical requirements for all public and private policy decisions. If the Federal Feserve System would only see to it that the statistics it needs for its own operations are available to the public and to it, the back of the problem of statistical reporting would have been broken.

I am not suggesting that the Federal Reserve System should take over the collection of all the statictics it needs, or even that it should be a coordinator of existing public and private statistical bureaus. What I am suggesting is that the Federal Reserve System should assume a residual responsiblity to make certain that it gets promptly from whatever source the statistics that it itself needs, and that it supports the researches required to keep the qualtiy of the various statistical series at a high level and to improve their comprehensiveness, meaning, and availability.

To be sure, a statistic is only the shadow of a fact. But it is after the reading of these shadows that decisions are made. And the decisions affect the well-being of us all.

Supplement to Testimony of Beardsley Ruml

With reference to the earnings of the Federal Reserve System and amounts spent for research of all kinds, including statistical, the figures are as follows:

[In thousands]

	Earnings	Research expenditures		
		Total	Board	Banks
1953	$298,000	$4,794	$1,751	$3,043
1954	341,000	5,009	1,741	3,268
1955 (estimated)	250,000	5,241	1,750	3,491

It is possible that some statistical reporting by the system is not classified as research expenditure.

The earnings of the System are turned back to the Treasury, where they are classified as miscellaneous receipts. The total item "miscellaneous receipts" compares with System earnings as follows:

[In millions]

	Miscellaneous receipts	FRS earnings
1953	$2,311	$298
1954	2,302	341
1955 (estimated)	2,486	250

STATEMENT SUBMITTED TO THE JOINT COMMITTEE ON THE ECONOMIC REPORT BY LAZARE TEPER, DIRECTOR OF RESEARCH, INTERNATIONAL LADIES' GARMENT WORKERS' UNION (AFL)

The Economic Report of the President, by the massive use of economic statistics in its analyses, aptly demonstrates the all-pervasive importance of statistical intelligence in the conduct of the affairs of the Government. The use of quantitative data is not limited to the Government but is just as valuable in private policy formulation and decision making. The Government is, however, the major producer of economic statistics. The maintenance and development of a sound and balanced statistical program within the executive branch is, therefore, a matter of great public concern. This fact has, of course, been long recognized by your committee and your interest in the development of adequate and accurate economic data for public and private policy making has contributed materially to the enhancement of the Federal statistical programs. In this your committee deserves full commendation. By setting up a Subcommittee on Economic Statistics and by recommending that a section on economic statistics be included in the President's annual budget and that more consideration be given to an adequate economic statistics program in the President's Economic Report you have performed a valuable public service.

The recommendations made by your committee to the President, however, have been met only in part. The two page summary of the current and recommended levels of the major economic statistical programs has been included in the annual budget and it does provide a useful, though unduly skeletonized, overview of the proposed Federal activities in the field of economic statistics. Aside from scattered comments on individual statistical series, the President's Economic Report does not give consideration to an adequate economic statistics program as called for by you.

The slowdown in business activity which the country experienced beginning with the middle of 1953, and the growth of unemployment which paralleled it, unavoidably raised the question about the adequacy of the existing statistical data on employment and unemployment. Your Joint Economic Report noted, for example, last year that "the extent of involuntary unemployment may not be fully reflected in current statistics" and that "available information upon the degree of involuntary short workweek and of short-term layoffs, as well as of reasons for apparent withdrawal from the work force, fall short of expressing fully and promptly decreases in employment arising from such forms of underemployment" (p. 4 f.). The special analysis of the statistical programs in the President's annual budget also recognized the desirability for more adequate data on employment and unemployment, both nationally and locally. This is, of course, sound.

The need for strengthening the existing labor force statistics has been dramatically brought out a year ago when the Census Bureau released its estimates of unemployment for the preceding January on the basis of the new 230-area sample and when these figures exceeded by 728,000 the earlier estimates based on the old 68-area sample. The investigation of this discrepancy by a special committee on employment statistics, under the chairmanship of Prof. Frederick F. Stephan of Princeton University, with Lester R. Frankel of Alfred Politz Research, Inc., and myself as members, brought out that this discrepancy appeared to have been due primarily to several operating difficulties brought about by the transition and that it was brought about, at least in part, by a lack of sufficient funds. It also focused attention on the serious weaknesses in the labor force survey due to the inherent difficulties of classifying the population, the nature of the extended field operations and the problems of interviewing, the limitations of funds and of personnel, and the several unresolved technical problems calling for additional research work. Accordingly, the special committee urged that additional appropriations be made by Congress in order to insure the maximum accuracy of the survey, to further enlarge the sample size to make the estimates more sensitive to pockets of unemployment which may develop in local areas, and to strengthen field work and other operating aspects of the survey. It also drew attention to the fact that while the composite estimating procedure, introduced in connection with the new sample, had considerable merit and was apt to improve the accuracy of measurement for a number of labor force breakdowns, it was not likely to improve the estimates of unemployment. It was urged, therefore, that this estimating technique be deemed experimental, subject to a continued scrutiny, and that alternative estimating procedures be investigated.

The special committee also drew attention to the undesirable practice, introduced last year, of employing field enumerators only on recommendation of local Republican Party organizations. Aside from the fact that this procedure made staff replacements more difficult when local party officials were found to be unwilling to go on record that they had no suitable candidates, for many additional reasons this does not appear to be the most desirable system of recruiting and should be abandoned.

The Bureau of the Census has contributed much, in the last decade, to developing measurement of the labor force and to the evolution of interviewing, classification and sampling techniques and to the solution of many complex technical problems encountered in the course of the survey. Given adequate funds and personnel, the Bureau can expand its contribution in the future as successfully as it has done in the past. And, of course, there are still many problems to be solved.

One of these relates to the existing classification used in describing the status of individuals in relation to their gainful activity. At the present time, an individual is deemed "employed" even when he works but 1 hour in the course of the enumeration week and, in some cases, even if he works not at all. In the latter group fall those who were laid off for periods of less than 30 days with an expectation of recall, persons who expect to start on new jobs in the next 30 days, people who were prevented from working during the particular week by bad weather. Similarly, those on vacations or sick are also counted among the employed, as are some others whose unemployment status may be confused by prior job attachment.

Similarly, some persons who would have been available for employment, if job opportunities existed, tend to be classified with those out of the labor force. It is, of course, likely that the size of this group changes with the swings of the business cycle, with the changing patterns of chronic unemployment and with changes in personnel policies of business. Six special Census Bureau studies made between 1946 and 1949, though inconclusive, show that the size of this group expressed as a percentage of the number of persons classified as unemployed was significant, ranging from 11 to 73 percent in the different enumerations.

The current definition of the unemployed, as used by the Bureau of the Census, is unduly limited and fails to answer all operationally meaningful questions. There is also no doubt that for different purposes one may wish to classify population differently. The problem could be solved through the introduction of a more detailed, multipurpose classification which would then permit the combination of the different groups in the population into more meaningful categories needed for economic or other types of analyses.

At the same time, the abandonment of the present broad classification of individuals into "employed," "unemployed," and "out of the labor force" may help to eliminate some of the undesirable misunderstandings which constantly arise when the technical meaning given to the term "employed" in the labor force surveys is improperly taken as synonymous with those actually at work. Canada recognized this problem several years back. To eliminate confusion, the Canadian population is now classified into four groups: "persons at work," "persons with jobs not at work," "persons without jobs and seeking work," and "persons not in the labor force," with additional breakdowns under each of these headings.

The work on the revision of the labor force concepts is carried on by an intergovernmental committee in the Bureau of the Budget. Over the years, this group, under the chairmanship of Dr. Gladys Palmer of the University of Pennsylvania, performed most valuable service and did much to improve all phases of the labor-force investigations. The special committee on employment felt, however, that the work of this group could be further enhanced by the establishment of a more broadly representative group of substantial stature and composed of individuals both inside and outside the Government to conduct a program of studies and conferences to review the many remaining major problems in the field of labor force measurement. By bringing together experts and users of this data both from the governmental as well as from private circles, it was hoped that speedier progress could be made in this difficult field.

The need for greater detail on the labor force is properly recognized in the President's annual budget. Similarly, it is recognized that more information is called for on the extent and incidence of unemployment in the various sections of the country and on employment outlook.

There can be no doubt that the lack of sufficient data handicaps analyses and decisions with regard to unemployment. It is impossible, at the present, to fully analyze the impact of the recent recession on the laboring masses of our Nation. We do not know what were the shifts in and out of the labor force, or in and out of employment. We do not know the occupations or the last industry attachments of the unemployed. Our information on distribution of unemployment as between the different major labor markets is far from complete and has to be derived as a byproduct of the unemployment compensation administration. Statistics of unemployment derived from these administrative records fail to reveal its full extent even for those covered by the system. This is due to the differences between the unemployment compensation laws, to underrepresentation caused by delays in filing of claims or exhaustion of benefit rights, to lack of sufficient wage credits for eligibility or to disqualifications of claimants such as in the case of voluntary leaving of employment. The President's Economic Report courts understatement when it notes, on page 89, that "the statistics of insured unemployment *probably understate somewhat* the amount of unemployment among workers covered by the insurance program." [Italics supplied.]

Current information on the number of persons exhausting unemployment insurance claims, not now available, would materially enhance the value of these administrative statistics, as would information on the occupations and most recent industry attachments of the unemployment insurance recipients. Even then, however, such data will not provide accurate information on the severity and level of unemployment. This can only be provided by means of household surveys of the labor force. Greater detail, including that on gross changes in the labor force, will go a long way in supplying the desired data.

One of the best sources on the state of employment in the country is provided by the monthly data gathered, in cooperation with the various State agencies, by the Bureau of Labor Statistics. These figures measure monthly changes in the number of employees on the payrolls in the nonagricultural industries in the several industries, States, and major labor-market areas. In addition to the number of employees on the payrolls, information is secured on the number of man-hours paid for and on the amount disbursed in payrolls. This, in turn, permits the calculation of average weekly and hourly earnings and of average hours of work. Although individuals working for more than one employer in the course of the enumeration week may be counted twice since the data is based on establishment reports, the President's Economic Report is not necessarily justified when it suggests, on page 86, that the decline in the number of persons employed in nonagricultural establishments in the 13 months ending August 1954 "may well be somewhat overstated." As a matter of fact, we do not know very much about the extent of dual job holding and whether dual job holdings tend to decline when employment drops, or conversely, whether they tend to rise because employees reduced to part time due to unavailability of full-time employment take on supplementary jobs. This is one area which deserves future study which your committee may wish to recommend.

There is, however, room for important improvements in the employment statistics gathered by the Bureau of Labor Statistics. Employment data are not available, for example, for a number of industrial subdivisions (i. e., those coded on a four-digit basis). There is a need for extending coverage to smaller firms. Employment statistics for trade, service, and financial establishments are weak, and their reliability should be improved, particularly in view of the growing importance of this sector of our economy. Collection of local data, which has been curtailed in recent years as a result of budgetary stringencies, ought to be restored to its prior magnitude in order to provide data on the interregional shifts in employment.

Local data on employment, payrolls, and man-hours also need to be supplemented by information on the extent of unemployment and labor turnover in such areas. Periodic surveys of the labor force in the major labor market areas would provide important benchmark data for the classification of areas into labor surplus or labor shortage categories and thus materially enhance the estimates made by the Bureau of Employment Security which now have to be based on unemployment insurance claims, employment statistics, and whatever other miscellaneous information there may be. At the same time, these local surveys would yield many details, not now available, on the characteristics of local labor force, and the nature and extent of local unemployment. A much better base would thus be provided for governmental decisions designed to cope with unemployment problems. These local periodic surveys, based on a sampling of households, need not be, of course, carried throughout the Nation all at once. Rather, they could be done gradually, by analyzing a number of labor market areas each year on a rotating basis. At the present time, the Bureau of Labor Statistics hopes to be able to contract for this work with the Bureau of the Census which could couple this activity with the monthly surveys of the labor force. The program deserves a favorable congressional consideration.

Data on the state of local labor market conditions needs to be supplemented by information on labor turnover. The present statistics on hirings, layoffs, and quits unfortunately are inadequate and do not cover all the major industries. Nor do they provide data by State or local labor markets. Yet there is a decided need for more data on labor turnover. This can be secured by strengthening the existing national sample, by collecting data for a more comprehensive body of industries and by providing local area information. Such statistics will be invaluable in highlighting the changing patterns of economic stability or instability throughout the country.

A word about farm employment statistics gathered by the Agricultural Marketing Service of the Department of Agriculture. These data are gathered by means of a mail questionnaire and are notoriously weak. Serious attention must, therefore, be given to the improvement of data for this important sector of our economy.

Collection of data on employment, unemployment, and labor turnover, which I have discussed, is but one step in the development of a comprehensive picture of labor conditions throughout the Nation. Studies of past and current employment developments need to be supplemented by inquiries into occupational prospects. Estimates must be developed showing the potential demand for labor under a variety of conditions, including that generated by mobilization or by public works programs. Determination of job prospects in different lines of activity and occupations is also invaluable in providing basic materials for vocational guidance and counseling of our youth. Similarly, studies of employment problems of special groups in our population, such as women or oldsters, should contribute much in developing employment opportunities for them.

There is also a need to strengthen the collection of wage rate information by industry and occupation. This program has suffered considerably during the recent period, partly for budgetary reasons and in part because of the diversion of activity to the collection of wage rate information on a community basis. At the present time, occupational wage rate data are collected for too few industries and much too infrequently. And yet this information is essential for appraisal of wage relationship within the same industry in the different sections of the country as well as for many other purposes.

Wage information must, of course, be supplemented by other data bearing on industrial problems. These include studies of collective bargaining agreement patterns, of the nature and extent of fringe benefits, of statistics on incidence, severity, and causes of industrial accidents, as well as of the administration and experience under workmen's compensation in the various States. The latter statistics, gathered by the States, are particularly defective. The only hope for their improvement is through a Federal investigation into the nature and character of the available data. It will thus become possible to develop the minimum standards for an adequate reporting and analytical system in this field.

There is also much need for studies into the levels of living of the various segments of our population. For the fiscal year 1956, the President's annual budget proposes that a survey of the farmers' expenditures be made. It would furnish data on the patterns of their living and provide data for the possible revision of the indexes of prices paid by farmers. There is a need for a similar investigation of consumer expenditures and family budgets for urban dwellers. Such studies were last conducted in 1951. Despite the tremendous importance of this material, not only for the Government but for labor and market research as well, much of this information was not even tabulated for lack of appropriations.

Much of this information is now, however, out of date because of changes in the levels of incomes and the patterns of consumption. There exists, therefore, a need for another look. Such investigation will be useful not only for rechecking the Consumers' Price Index but also for the measurement of intercity differences in living costs. Conceptual differences between the Consumers' Price Index, which is used generally to reflect the prices paid by urban employees, and the index of prices paid by farmers also need looking into. Inasmuch as these 2 sets of figures are used in making adjustments in the incomes of these 2 important groups, it is important to establish the extent to which their conceptual differences influence the behavior of the 2 indexes.

Incidentally, the President's Economic Report suggests on pages 95 and 97 that for "technical reasons" the Consumers' Price Index might have failed to reveal fully the downward adjustment in the terms of purchase of durable goods which has taken place since mid-1953. These fears are not altogether justified. While admittedly no price index is a perfect instrument, yet it is doubtful whether the vagaries in the prices of consumer durables during the recent past influenced the Bureau of Labor Statistics index to any significant degree. Not all such goods were sold at a hidden discount during this period. Furthermore, purchasers at discount frequently were called upon to pay extra for many services available to other consumers without charge, such as for delivery, installation, and the like. These extra charges materially cut down differentials if some did in fact exist. Furthermore, because durable goods are not purchased frequently and play but a minor role in the everyday life of the consumer, the end effect on the overall index at best was insignificant during this period, and well within the normal degree of accuracy.

An important factor affecting the living standards of the Nation is housing. Information on this and other construction activity presently available is unnecessarily scant and the President's annual budget recognizes this fact. Funds are, therefore, requested to enable the Business and Defense Services Administration and the Bureau of Labor Statistics to increase their activity in this area. Aside from the information on the physical characteristics of new housing, it is highly desirable to develop data to show how well new construction meets the economic needs of American families at different levels of income and in different sections of the country. It is important to know at what prices housing is sold or rented, the characteristics of the buyers and tenants of new housing, and the extent to which the existing housing inventories are replenished. The Federal Government has a direct interest in such information, both on account of its large-scale program of guaranteeing housing mortgages and loans and because construction of wrong type of housing may lead to a rise in foreclosures and a fall in real estate values.

The various economic censuses for 1954 should help materially in providing the much-needed benchmark information for many current statistics. Adequate funds will, of course, be needed to insure the tabulation and publication of much of this material. New census data will help to improve the estimates of national income and of the gross national product. This is another area where much additional work needs to be done. As pointed out in the President's Economic Report, pages 84 and 85, the alternative methods of estimating gross national product result in statistical discrepancies which make it impossible to ascertain the precise nature of comparative changes in the economy.

In connection with the development of the current business statistics, work also needs to be done in the inventory field. These figures leave much to be desired. In view of their importance in the evaluation of the national economic trends, this work should command high priority.

The Employment Act of 1946 directs the President to set forth in his economic report the levels of employment, production, and purchasing power obtaining in the United States and such levels needed to assure useful employment opportunities for those willing, able, and seeking to work, in accordance with the act's declaration of policy. The President is also directed to set forth the current foreseeable trends in the levels of employment, production, and purchasing power. In his first economic report, transmitted last year, the President failed to provide a detailed quantitative projection of the Nation's economic budget. This omission was duly noted by your committee's Joint Economic Report (H. Rept. 1256, 83d Cong., 2d sess., p. 2), which pointed out: "As the Federal Government curtails its defense purchases it seems especially desirable that our economic thinking be as precise as possible in indicating the nature and magnitude of the adjustments called for to permit our economy to continue stable and to expand." The gap left by the President had to be filled by your committee.

This year, however, the President again failed to take heed of the statutory injunction and your committee's reminder regarding the need for detailed quantitative projections. There is little doubt, however, that in the formulation of the Chief Executive's plans with respect to the Federal economic programs, appropriate projections had to be made by the executive departments inlcuding the Council of Economic Advisors. It is to be regretted that the results of this work were not made available to Congress and through it to the general public at large. The need for such information on all levels of public and private policy formulation is great. A disservice is thus rendered to the Nation in withholding the material available to the executive branch from public gaze.

The nonpublication of detailed statistical data which led the President to certain conclusions and recommendations in his report also handicaps Congress, as well as the general public, in their evaluation of the particular judgments. A case in point is offered, for example, by the recommendation made on page 58 of the Economic Report that the minimum wage be raised to 90 cents an hour. Congress is told that "such action would increase the wages of about 1.3 million workers by an average of about 9 cents an hour" and that "90 cents an hour is the highest minimum wage that can be economically justified in present circumstances." Although it is generally known that appropriate data have been compiled by the Department of Labor, such information as well as any other analyses which led the President to his conclusions have not been made public—at least, as of the early part of this week. Your committee is thus deprived of important information needed by you in the performance of your statutory duties.

Another type of shortcoming brought about by the unavailability to Congress and the public of the needed statistical data is illustrated by the brief reference made on page 4 of the Economic Report regarding the importance of productivity increases as the core of economic expansion. Although a chart is given in the report (p. 5) on the output per man-hour in major industries for the 1909–53 period, nowhere in the report is there any supporting data for these graphs. The credit for the charts is given to the Council of Economic Advisers which presumably derived the data from various Government and private sources. For some time, the Bureau of Labor Statistics has been working on the preparation of such indexes. To date, none were released. Yet the importance of these figures is undeniable; the compilation of productivity information by the Council of Economic Advisers and its use in the Economic Report underlines this fact.

It may not be amiss, therefore, to note that the Chairman of the Council of Economic Advisers, Dr. Arthur Burns, in his communication to your Subcommittee on Economic Statistics dated July 6, 1954, expressed a hope that "all agencies will press forward to the fuller explanation of their statistical data and their limitations" (Economic Statistics: Hearings before the Subcommittee on Economic Statistics of the Joint Committee on the Economic Report, July 12, and 13, 1954, p. 167). This sound precept undoubtedly should apply with equal force to vital data produced by the Council, particularly when these are used in as important a context as that of the President's Economic Report. I hope that your committee will call for these important statistics and for the description of the methods used in their compilation. You may also wish to spur on the prompt completion and release of productivity data now worked on by the Bureau of Labor Statistics.

Another comment needs to be made in connection with the statistical data contained in the President's Economic Report. Increasingly the analyses in the report tend to rely on the seasonally adjusted data. There is no question but that the technique of "correcting" the raw figures through the elimination of the effect of seasonality is a very useful one, provided the end results are used with caution and in conjunction with the raw data. Over the years, seasonal patterns do not remain static. And yet, whatever changes occur in seasonal patterns they cannot be detected until the passage of several years. As a result, the adjustments tend to lag behind the times. While the effects of such a lag may be relatively small when long-range movements are under consideration, they are apt to seriously distort short-term perspectives when seasonal patterns change. Thus, for example, when the automobile industry modified its seasonal pattern in the latter part of last year by introducing new car models at an earlier date, the seasonally adjusted employment series, attuned to the patterns of earlier years, showed an undue increase; yet it merely reflected a change in the pattern of seasonality rather than an actual gain. A proper caution must therefore be exercised in relying on such figures.

The proposals for increased budgetary appropriations for the statistical work in the executive branch of the Federal Government is a step in the right direction.

For several years, the appropriations for statistical activities have lagged behind the need and permitted attrition of much useful work. To assure a sound development of the statistical programs in the future, it is desirable to strengthen the Office of Statistical Standards in the Bureau of the Budget by increasing its personnel and by giving it independent status and thus permitting it to take a more active role in the development of the Federal statistical programs.

Your committee, I am sure, is fully cognizant of the existing statistical gaps. Your interest in the matter will be a major contribution in inducing Congress to make adequate provisions for an improved Federal statistical system.

COMMENTS SUBMITTED BY THE BUREAU OF THE CENSUS AND DIRECTOR ROBERT W. BURGESS CONCERNING STATEMENTS AND TESTIMONY AT JULY 1954 HEARINGS ON STATISTICS

DEPARTMENT OF COMMERCE,
BUREAU OF THE CENSUS,
Washington 25, February 7, 1955.

Mr. GROVER W. ENSLEY
Staff Director, Joint Committee on the Economic Report,
Washington, D. C.

DEAR MR. ENSLEY: In accordance with conversations between you and Mr. Eckler, we are submitting comments concerning the statements and testimony of various witnesses in the course of the hearings last summer before the Subcommittee on Economic Statistics. It is my understanding that these comments are still in order, even though some months have passed since the hearings. As you know, during much of the intervening period our staff has been very heavily involved in connection with the four major censuses—agriculture, business, manufactures, and mineral industries, which were referred to by a number of the witnesses. We have, however, undertaken to make a review of all the prepared statements and discussions, in order to locate any points which in our opinion require correction, explanation, or other modification.

Our comments, which are submitted as an attachment to this letter, are grouped according to the subjects for which the statistics are compiled—agriculture, business (retail, wholesale, and service trades), foreign trade, governments, housing and construction, industry, and population—with a final section on other statistical programs. We have also included statements on our work on seasonal adjustments, on interagency operations, and on sampling.

In addition, I have appended some comments of my own on the relation of efficiency to the size of an organization primarily concerned with collecting statistics from the public. These comments relate to a point made by Mr. Belcher in his discussion of a central statistical agency, and are submitted on a personal basis as a matter of administrative propriety.

In the future work of the subcommittee, some members may wish to look at the materials which we prepared for our Intensive Review Committee and which they published in the exhibits to their report, part II, pages 805–934. In those materials, copies of which were sent to the committee some time ago, we discussed content of the census programs, sampling, and other matters of interest to the subcommittee. The members may also wish to examine the report of our Special Advisory Committee on Employment Statistics. If you do not have a copy of the latter report, we shall be glad to send one to you.

It is my judgment that the hearings before the Subcommittee on Economic Statistics accomplished a very important task, providing a clear picture of many of the uses made of Government statistics, of the way different parts of the program fit together, and of the need for certain improvements. I believe there is no doubt that the numerous expressions of support for the statistical programs of many Government agencies, including in particular support for the 1954 censuses in a number of important fields, have paved the way for a much greater acceptance of this important part of the Government's activities. I am glad to note, therefore, that the full committee is planning to devote a panel session on February 9 to economic statistics.

If clarification or expansion of any of our comments seems to be required, please let us know.

Sincerely yours,

ROBERT W. BURGESS,
Director, Bureau of the Census.

RELATION OF EFFICIENCY TO SIZE OF STATISTICAL ORGANIZATION—SUBMITTED BY ROBERT W. BURGESS, DIRECTOR, BUREAU OF THE CENSUS

With reference to Mr. Belcher's statements in regard to the organization of agencies handling economic statistics, my experience in the past 2 years as Director of the Bureau of the Census, the largest general-purpose statistical organization in the United States Government, suggests some comments designed to contribute to a fuller analysis of the problem of the relation of size of organization to efficiency.

1. As indicated by Mr. Belcher, any agency that has a regulatory and/or enforcement function to carry out should collect the statistical returns that are necessary tools for its administrative operations. Such an agency often can and does secure some of the information it needs from a general purpose agency, such as the Bureau of the Census, and in turn often facilitates the work of the general purpose agency by drawing off addresses, summaries, or other useful material from its records. The main job of an administrative agency, however, is different in nature and purpose, and calls for concentrated attention without an injurious degree of diversion of effort to collaboration with other agencies. The main bulk of administrative statistics, therefore, cannot advantageously be centralized.

2. It is important to give separate attention to the function of collecting economic statistics from the public. The function of interpreting, as distinguished from explaining, the statistical results is analytical and calls for different points of view, and in large measure, for different professional experts.

In many cases interpretation can be performed most effectively by a different organization than the one that actually collects the data. At times, to be sure, it seems best to group the unit that collects the data closely with the unit or individual that interprets. In most cases, however, it is advantageous to divide responsibility clearly between those who collect and those who interpret the statistics.

Supplementing the above remarks on separation of the function of collecting and interpreting, and referring to the discussion between Mr. Talle and Dr. Burns on page 176 of the hearings, I feel it is important to emphasize the principle that the planning of any statistical survey should be done jointly by those who will use or interpret the resulting statistics, those who will collect the data, and if possible, representatives of those individuals and businessmen who will furnish the basic information. Users of the results would often like information that experts in collecting know cannot be collected accurately or even at all.

3. Mr. Belcher's judgment that the size of a centralized operation for United States Government statistics would be almost staggeringly big (cf. last 2 paragraphs, p. 149 of hearings) does not, in my opinion, give full weight to the 2 limitations noted in points 1 and 2; that is to say, the special treatment of administrative statistics and the separation of interpretation from collection and explanation. It would be my tentative estimate that centralized operations limited as indicated would not be more than 100 percent larger, as measured by full-time permanent personnel, than the present Census Bureau.

I believe such a larger organization, if it followed the principles of division of responsibility exemplified by the present Census organization, might well be more efficient than the present fragmented Federal statistical organization. The contrary point of view is like saying that a regiment of infantry can be an efficient fighting organization but that a brigade of two regiments cannot be efficient because of the difficulties of organization. It is recognized in the field of military organization that the relations between higher officers are somewhat different than the relations of captains and lieutenants to the men under them, but satisfactory patterns of leadership at the higher level have been developed.

4. The preceding comments are not intended to present complete arguments for or against the establishing of a centralized data collecting agency. This issue, as noted by Mr. Belcher, has many aspects and the purpose of these comments is merely to present some supplementary views as to the necessary effect of size on the effectiveness of a statistical organization

COMMENTS ON THE JULY 1954 HEARINGS BEFORE THE SUBCOMMITTEE ON ECONOMIC STATISTICS, SUBMITTED BY THE BUREAU OF THE CENSUS

These comments relate to the following subjects: Agricultural statistics, business statistics (retail, wholesale, and service trades), foreign-trade statistics, governments statistics, housing and construction statistics, industry statistics, population statistics, other statistical programs, seasonal adjustment of monthly series, interagency operations, and sampling.

AGRICULTURAL STATISTICS

The Department of Agriculture expressed a need for more agricultural information—especially information on tractors and other machines, fertilizer and lime, etc. (p. 97). The 1954 census of agriculture will provide figures on the number of tractors and other important types of machines on farms in each county and State. It will also provide measures of expenditures for such items as labor, feed, gasoline and oil, fertilizer and lime. The extent to which fertilizer and lime are used on the 4 or 5 most important crops in each State will be shown.

The 1954 census of agriculture, taken in the final quarter of 1954, will provide comprehensive up-to-date statistics on farms; farm acreage; farm products; livestock numbers; inventory of the important machines on farms; a count of farms with selected facilities; the employment, hours of work, and rates of pay of persons working on farms; the principal farm expenditures, including cash rent; the number of farms mortgaged; and the value of farm land and buildings.

The principal results from the census will start to become available, by counties, in early 1955, and will be available for all counties in the United States by the beginning of 1956. Final summaries and analyses will be published by the end of 1956.

Agricultural statistics were omitted from the list of principal economic statistics produced by the Bureau of the Census (p. 33). The following entries should be inserted:

Agriculture: Semimonthly during harvesting season, report of cotton ginned; quinquennial census of agriculture; decennial censuses of drainage and irrigation.

BUSINESS (RETAIL, WHOLESALE, AND SERVICE TRADES) STATISTICS

A. Sampling

The Budget Bureau's comments on limitations of sales and inventory series are substantially correct (p. 23), but the initial sentence, "Current statistics on inventories and sales are inadequate" might well be qualified in view of recent improvements in the samples for these surveys. (Gaps in data mentioned by the Budget Bureau are discussed below.) In retail trade, a new probability sample has been selected which produces a sound statistical sales series. The wholesale trade survey has, for the first time, been put on a probability sample base; as a result, wholesale statistics with a measurable sampling variability will be issued this fiscal year. Greater accuracy in industry detail in both the wholesale inventory and sales series and the retail sales series is dependent on increasing the size of the sample. This would necessitate an increase in the budget for these surveys.

A Budget Bureau staff memorandum indicates that "Because these samples [for annual surveys of retail and wholesale trade] deteriorate after a few years as a result of changes in the business population which cannot be kept account of adequately, sample surveys should not be expected to be an adequate substitute for full censuses for long periods of time" (p. 49). This reference to deterioration may be misleading. At present, both the retail and wholesale trade surveys are conducted in such a manner as to reflect business births and deaths. It is true, however, that a complete census provides a means of periodically checking size and other changes and thus improving sample survey efficiency.

The same memorandum contains the following statement: "Technical problems associated with the introduction of a new sample of retail establishments in 1953 have affected the reliability of the estimates for some purposes, especially year-to-year comparisons" (p. 51). Discrepancies introduced by basic revisions in sample design are believed to be an unavoidable part of the price paid for improvement.

Mr. Kellogg questioned the adequacy of the retail trade sample for making estimates of farm machinery sales because the sample is largely urban (p. 314). Analysis of the sample does not indicate that there is any special degree of unreliability because of any inadequacies of representation of rural areas. Retail sales figures are not currently published for farm machinery. The retail sample is designed to provide estimates of total retail sales most efficiently. Data for individual kinds of business are a byproduct of this operation and can be provided only for the largest ones. The sample is designed to represent all types of communities, rural as well as urban, by the size of the sample is not adequate to produce estimates of satisfactory precision for kinds of business such those that are important only in rural and small urban communities. Either an increase in the size of the total sample or special supplementation in rural areas would be necessary to provide satisfactory estimates of sales of farm machinery dealers.

Differences between the advance estimates (issued 10 days after the close ot the month) and the final estimates (issued 35 to 40 days after the close of the month) have occasioned some concern (see pp. 51 and 87). Thus far, month-to-month changes in total retail trade as shown in the two reports have been similar. Infrequently, however, changes in a specific kind of business, as shown in the two reports, have been different in degree but similar in direction. In rare cases, where the final figures showed virtually no change, these small changes have been different in direction. It should be noted that since the 10-day series is only 1 year old, there is not enough experience as yet for thorough analysis of its behavior. At any rate, improved techniques now being tested and improvements in the basic sample for both series should reduce the differences.

Mr. Roos stated, "There is constant revision of sales data until 4 months after sales actually occurred" (p. 341). Revision of retail sales data by the Bureau of the Census has been virtually eliminated by improvements in timing of collection and in tabulation procedures. Final estimates are now issued 35 to 40 days after the close of the month. (Previously, preliminary figures were issued at that time, and final figures appeared a month later.) Under the new technique, revisions of final estimates are rarely required. Of course, the Office of Business Economics, which adjusts these data for seasonal factors, may make changes as a result of revision of its seasonal adjustment factors.

Mr. Roos pointed out that jewelry store sales data were discontinued as a separate item in 1953 although they were continued as a part of total durable goods sales (p. 341). These figures were discontinued because of their high sampling error. It does not follow, however, that the durable goods data are inadequate. In fact, the sampling error for the durable goods group is relatively low despite the high sampling error in some of its components.

B. Gaps in the statistics

Need for data on retail inventories was mentioned by the Budget Bureau (p. 23), the Office of Business Economics (p. 108), and the Council of Economic Advisers (p. 167). The Bureau conducted exploratory surveys on retail inventories during fiscal 1954. The results of these surveys indicated a strong likelihood that a direct measure of dollar inventories of retail establishments could be developed. Work in this field is continuing in fiscal 1955.

The Council of Economic Advisers noted the need for data on sales and inventories of consumer durable goods at successive stages of the distributive process (p. 169). The Bureau has conducted a small-scale test of some aspects of this problem and is continuing a minimum-testing program. Any substantial achievement, however, requires the additional funds needed for a larger scale operation.

The Budget Bureau (p. 51), the Office of Business Economics (p. 107), Miss Kyrk (p. 246), Mr. Rosenbaum (pp. 296–298), and Mr. Roos (p. 341) pointed to the value of data on individual commodities. The budget for the 1954 census of business ($9 million for that census compared with $13.4 million for the 1948 census) is not sufficient to permit collection of merchanise-line statistics for retail trade. In connection with the 1954 census, exploratory work will be undertaken to improve the techniques for collecting merchandise-line statistics.

Mr. Rosenbaum criticized the conceptual approach in the monthly retail-trade series and felt that sales by type of merchandise are more meaningful that sales by type of retail store (pp. 296–298). Without any deprecation of the importance of sales by type of merchandise, it may be noted that the national estimates of the volume and trends of retail trade provided by the Bureau indicate the functioning of groups of economic enterpirses. Businessmen and their trade associations make direct use of sales by kind of business, because the store is the business unit and the trade association is made up of businessmen engaged in similar activities. Decisions on taxes, bank credit, consumer credit, construction programs, Government outlays, and other Government actions which directly affect business activity also can be aided by this type of information.

Sales estimates by type of merchandise or by commodity would meet a need the importance of which is not questioned. The Bureau of the Census has discussed with the Budget Bureau and other interested Government agencies the possibility of obtaining national estimates of sales and inventories of some of the major household appliances; and the Bureau of the Census tested a procedure for getting these data. It concluded that it could probably provide monthly estimates for a number of major consumer items if it were so directed. However, complete monthly estimates on a commodity or merchandise-line basis do not appear feasible at present because retailers cannot provide this information from their records. Even in a complete census of business, such data are very difficult to collect and the reliability of the results is at least uncertain even if collected.

The Budget Bureau pointed to the need for annual data on retail credit sales (pp. 51 and 71) indicating that "a more accurate analysis of consumer credit would be possible if a breakdown of retail sales by type of transaction * * * were provided in the annual retail-trade surveys." The statement is correct with reference to the lack of such figures. However, a breakdown of accounts receivable by type of transaction has been provided in the last two annual retail trade surveys and presumably will be continued in future annual surveys. The Federal Reserve Board, which furnishes part of the funds for conducting the annual retail trade survey has regarded the accounts-receivable information as considerably more important than the credit sales by type breakdown. The inclusion of the latter in the annual survey would add appreciably to cost and to respondent burden.

Budget Bureau staff memorandum No. 3 makes a series of recommendations on plant and equipment expenditures data (pp. 47–48). The Bureau plans to test the collection of capital expenditures data in connection with the 1954 census of business.

The Budget Bureau indicated that current statistics on personal service trades receipts are inadequate (p. 23). It would be relatively simple, within the framework of its current program sample design, for the Bureau of the Census to provide monthly service trade statistics. No funds, however, have been made available for this purpose.

Miss Kyrk pointed to the need of extending the scope of the census of business to service trades previously not covered (p. 246). This possibility should be explored in preparing for the 1958 census of business. Limitations in the enumerator type of canvass have prevented the Bureau from including those trades; but with present techniques for identifying business establishments (e. g., use of the administrative records of the Internal Revenue Service and the Bureau of Old-Age and Survivors Insurance), extension of the census scope may be feasible.

Mr. Rosenbaum suggested annual reports of retail sales for cities with populations of 100,000 or more (p. 303). Such data could be provided if the retail survey sample were expanded, but funds for doing this have not been available.

The Office of Business Economics recommended that information on distribution of manufacturers' sales and sales to Government by manufacturers and wholesalers be obtained in the census of business (p. 107). Business establishments generally seem to have considerable difficulty reporting the desired data in these fields. The reasons for the difficulty include lack of knowledge by the manufacturer of the class in which the customer falls, and even when this is known, failure to attach a usable record of such facts to the sales record. In the 1954 censuses, the Bureau is collecting information on distribution of manufacturers' sales from those manufacturing fields where, after consulting industry advisory groups, it concluded that such collection was feasible. The Bureau is also exploring new collection methods during the census period.

Wholesalers' direct sales to the Federal Government are being obtained in the 1954 census on a very large proportion of the wholesale forms; however, the recommendations in industry conferences indicated that it was not feasible to collect data for sales to other governmental bodies.

The Department of Agriculture noted that the census data were of limited use for certain studies because no data were collected on cost of goods sold (p. 94). While the analytical needs for such data have been well established, there has been a long-standing reluctance on the part of some business groups to have such data collected, because of fear that the results would be used to criticize, and perhaps even to control, profits.

An electrical machinery company in the survey taken by the National Industrial Conference Board indicated that it "never felt sure of the stock-sales ratio given in the wholesale trade report" (p. 214). The figures would be more useful to them if they were reported in terms of inventory turnover, that is to say, based on inventory at estimated sales value.

Before the wholesale sample was revised, the Bureau described the ratios as representing the experience only of the respondents in the survey. The ratios derived from the revised sample, however, will not have this limitation. The revised sample is a probability sample and is designed to reflect the conditions in the trades reported. The results should therefore be more useful.

The stock-sales ratios in the wholesale trade report are a byproduct of the data on sales and on inventories at cost, which are collected in the wholesale survey.

To provide inventory turnover measures (defined as ratios of sales to inventories at sales value) would require either collecting inventories at sales value or continuing to collect inventories at cost value and adjusting them to sales value with appropriate markup factors.

C. Duplication in collection

Mr. Rosenbaum stated that both the Bureau of the Census and the Federal Reserve Board collect information on sales and stocks from department stores and furniture stores, and information on sales from household-appliance stores, auto dealers, and other stores (pp. 295–296). This statement, while previously correct, no longer holds as a general description of method. For more than 10 years, the 2 agencies have had a cooperative arrangement for the collection of department-store information. This arrangement has served substantially to eliminate duplicate contacts with these firms to collect the same information. It also generally extends to other types of retail stores, such as furniture stores, apparel stores, household-appliance stores, and lumber yards. As a result, there is little duplication in collection.

D. Delays in getting information.

The Council of Economic Advisers stated that it has been handicapped by the lag of information on inventories (p. 165). Earlier timing of data on wholesalers' inventories would require an operation comparable to the advance reporting in the retail 10-day sales series. This could be considered as soon as the new wholesale panel operation is stabilized—provided, of course, that funds are available for that purpose. In retail inventories, the first job is to establish a reliable series.

Mr. Rosenbaum referred to the delay in release of monthly retail sales estimates, to the neglect of seasonally adjusted data, and to the announcement of figures in the newspapers several days before the report arrives by mail (p. 296).

The description of the release of monthly retail sales estimates as delayed does not seem justified. Since October 1953, the Bureau has published an advance report on retail trade 10 days after the end of the month to which the data refer. This release provides sales estimates for the 10 major kind-of-business groups in retail trade and for grocery stores and department stores. The final estimates are published 4 weeks later in the Monthly Retail Trade Report and provide detail for an additional 25 kinds of business.

The Office of Business Economics adjusts the advance estimates of total sales for seasonal factors, and the adjusted percentage comparisons with previous month and previous year appear in the advance report. OBE also adjusts the final estimates of sales by kinds of business and publishes them in the Survey of Current Business. The detailed Monthly Retail Trade Report, however, has not carried the adjusted figures, and the possibility of including them is being explored.

Inevitably, figures are announced in the newspapers before the report reaches all subscribers. At the time a report is released, the Department of Commerce places on its press table a press release summarizing the contents of the report. Newspapermen and representatives of the news services may take the release and wire the information to newspapers in all parts of the country. The Department is scheduled to mail the reports to subscribers within 1 day after the release date. This has seemed to be a reasonable procedure, which could be improved only at considerable cost.

E. Budget problems

Mr. Rosenbaum suggested a budget geared to the known peaks and valleys in the work so that failure to make a specific appropriation would not eliminate a regular project, such as the census of business (pp. 323–325). As was pointed out at the hearings, it was impossible to take a $9 million census of business without a specific appropriation, because the appropriation for the regular current activities was only about $6 million. The real need, we believe, is for the Congress to recognize as reasonable a budget program which follows a regular census cycle although it may fluctuate from year to year.

The problem of financing intermittent operations like the censuses was explored by the Hoover Commission. Drs. Frederick C. Mills and Clarence D. Long made the following comments in the Task Force Report on Statistical Agencies:

"Advance planning and advance commitment of funds are necessary in a program of basic census work and in some other statistical activities. The system of annual appropriations, with recurrent periods of budgetary uncertainty and occasional sharp fluctuations in the scale of major recurrent statistical programs, has at times made planning and programing difficult and has induced instability in statistical operations. Unexpected changes sometimes result in the loss of funds previously expended on preliminary work."

The Intensive Review Committee in its report, Appraisal of Census Programs, referred to those comments and noted:

"That problem remains unsolved and in fact has been aggravated by the severe budgetary uncertainties that have developed since the Hoover Commission task force report was written."

F. List of Bureau activities

In the list of principal economic statistics produced by the Bureau of the Census (p. 33), the following items should be added:

Monthly: Secondary inventories of principal petroleum products by PAD districts, and quarterly measures of storage capacity.

Current (5 dates in marketing season): Canned food report, distributors' stocks of important canned food items (fruits, vegetables, and juices).

The item "Monthly: Retail trade reports * * *" should be amended to include the word "regional," after the word "national."

FOREIGN TRADE STATISTICS

"The concluding paragraph of the Department of Agriculture statement (p. 100) may be misleading. It reads:

"Beginning January 1, 1954, similar sampling, in this case of 5 percent, is taken of imports with a value of $200 or less. The Department of Agriculture is frequently interested in the origin of these small-value imports and recommends the resumption of tabulation and publication of full details."

The figure should be "$250" instead of "$200." More important, however, we believe that the information desired could not be obtained if the 5-percent sampling were superseded by full compilation. For imports, the limiting factor is lack of sufficient detail on informal entries valued under $250. Since these informal entries constitute the bulk of the total of imports under $250, the statistics would not provide the information desired, even if all entries under $250 were tabulated. Important policy problems would be raised if substantially more detailed reporting on the informal entry forms were required. It is perhaps true, however, that full compilation of those under $250 entries which provide sufficient detail and an increase from 5 to 10 or 20 percent in the size of the sample for the informal entries would somewhat increase the usable detail, but would probably meet only a relatively small part of the Department of Agriculture needs.

The Bureau of Labor Statistics made the following statement (p. 124):

"Foreign-trade statistics are tabulated to show imports and exports in relation to tariff schedules. On rare occasions, funds have been supplied to the Bureau of the Census to enable them to retabulate these statistics by SIC groups."

The following statement is more accurate:

"Foreign-trade statistics are tabulated by commodity without regard to the industry in which they are produced; but funds have been made available on rare occasions so that the Bureau of the Census could retabulate the figures in such a way as to approximate the Standard Industrial Classification."

Mr. Burns made the following statement (page 164):

"(1) We have urged the various statistical agencies of the Federal Government to accelerate the reporting of economic information. Notable progress has been made in the reporting * * * of exports and imports * * *"

This statement gives undeserved credit to the Bureau of the Census, since the release dates for export and import data are now about the same as they were in April 1953. The improvement in release dates during the past year remedied the lateness in release dates which occurred in July 1953 during the period of large staff turnover. Thus, there has been no fundamental change in release date schedules. By using Univac, we anticipate that we can improve schedules, but we could not do this in any other way with present resources and workload.

The following are typographical errors:

Page 58, line 5, after section heading "Recommendations," "minimize" should be "maximize."

Page 59, second line after italicized heading, "(PT 985)" should be "(FT 985)".

GOVERNMENT STATISTICS

The Budget Bureau (in a staff memorandum on p. 74) and the Council of Economic Advisers (p. 169) suggested more frequent than annual reporting on State and local government finances. We believe a practicable approach to this problem would be to cover, monthly or quarterly, certain significant segments of financial operations rather than to attempt comprehensive coverage of revenue, expenditure, debt, and assets totals. Existing statistics on State and local government payrolls, for example, have been available in the past on a quarterly basis from Bureau of the Census surveys and will be available in the future (after January 1955) from Bureau of Labor Statistics data. (Responsibility for the conduct of quarterly surveys of State and local government employment and payrolls currently is being transferred from the Bureau of the Census to the Bureau of Labor Statistics.) Payroll expenditures account for $13 billion of the total of $33 billion spent annually by State and local governments. Addition of a monthly or quarterly survey of State and local government construction expenditure, as described by the Bureau of the Census on page 104, would add another $7 billion in expenditure coverage. Statistics on public assistance payments and unemployment compensation benefits are available on a monthly basis; these would provide perhaps another $3 billion of expenditure coverage. The total of these sources would cover roughly $23 billion out of $33 billion of total spending and would provide extremely significant information on intrayear trends in State and local expenditure.

As to revenue, an intrayear survey of tax collections, which is believed to be practicable, plus integration of existing data on other types of revenue might cover as much as $26 billion of the approximately $33 billion collected by State and local governments from their own sources and from Federal aid. More frequent than annual information might also be obtainable on debt and debt transactions.

We believe that substantially more value per dollar spent would be obtained from this combination approach to intrayear financial statistics than would be yielded by an attempted coverage of all types of revenue, all expenditures, debt, and assets.

In the list of principal economic statistics produced by the Bureau of the Census (p. 33), the "quarterly" entry for governments should read:

"Quarterly: National estimates of public employment and payroll based on reports from a sample of governmental units."

(After January 1955 responsibility for this activity transferred to Bureau of Labor Statistics.) The "annual" group should include the following:

Annual: State-by-State estimates of public employment and payroll based on reports from a sample of governmental units.

HOUSING AND CONSTRUCTION STATISTICS

The need for statistics on alteration and repair expenditures was mentioned several times during the hearings (pp. 23–24, 55, 88, 116–117, 166, 275, and 285). In our letter to the Budget Bureau, we indicated that we were investigating this problem (p. 102), and Mr. Colean also mentioned our activity (p. 287). The first results of our investigation are now available. On September 13, 1954, the Bureau of the Census issued a release showing total expenditures by homeowners for repairs and alterations during the first 5 months of 1954. A more detailed report (series H–101, No. 1) was issued on December 18.

Following the survey of expenditures on residential properties, the Census Bureau is doing some preliminary work in preparing for a similar survey on commercial properties. This work is being developed under the sponsorship and with the cooperation of the staff of the Business and Defense Services Administration. An initial exploration is being made by the Census staff on the problems involved in making a survey of retail business properties.

Statements on deficiencies and gaps in the housing field suggest and strengthen the Census Bureau's proposed program to conduct an intercensal housing survey. This was recommended by the Intensive Review Committee, and the Bureau has requested funds for this purpose for the fiscal year 1956.

The Budget Bureau (p. 56), the Department of Agriculture (pp. 98–99), Mr. Colean (p. 278), and Mr. Roos (p. 337) indicated that the increase in the number of dwelling units reported by the Bureau of the Census between 1940 and 1950 is greater than the number of housing starts reported by the Bureau of Labor Statistics for that period. They point out the problems involved. The data from the censuses of housing should be reconciled with the BLS data on housing starts, and we believe that there is considerable need for a measurement of the components reflected in the net change in the housing inventory—new construction, conversions, demolitions, etc.

In the list of principal economic statistics produced by the Bureau of the Census (p. 33), the "occasional" group for Population and Housing should include the following: Rent and income surveys for local housing authorities.

INDUSTRY STATISTICS

The Bureau of the Budget made the following statement on current statistics of industrial production (p. 25):

"Continuation of the present census program for current commodity series, and the annual survey of manufactures will adequately meet the informational needs for current data, with the possible exception of the coverage of building materials."

We believe that the Budget Bureau may have overlooked some inadequacies in the current program. The need to expand the current commodity series (Facts for Industry) was mentioned in their staff memorandum on the Federal Reserve index of industrial production and also by three other participants. The comments are as follows:

"The Board may recommend that the Bureau of the Census collect more monthly data on manufactured products to replace certain of the series on input of materials or labor now used in the index to represent the output of products and to serve as components in industries which are only skimpily represented by makeshift series. Specifically, if current data on the output of certain important products were available, for example, on flat glass, brass mill products, woven synthetic fabrics, and soap and other detergents, the index could be further strengthened. The Census Bureau may also be urged to collect more and better annual series on products to compute better annual industry and other detailed indexes with which to adjust the levels of the monthly indexes constructed from data on man-hours or the consumption of materials, and to replace certain of the deflated-value or other estimated annual series" (Bureau of Budget Staff Memorandum No. 7, p. 63).

"The Federal Reserve index of industrial production, which is developed from basic data compiled by other organizations, would be strengthened by the collection of physical output data for important products for which adequate current information is not now available. Some of these data, such as for glass, brass-mill products, and woven synthetic fabrics, for example, would be desirable on a monthly basis; others, such as data for various types of machinery, converted paper products, and manufactured cereal products, would be necessary only annually" (Federal Reserve Board, p. 86).

"More monthly series on production quantities would reduce the dependence of the monthly Federal Reserve indexes on man-hour data. Additional physical quantity data are also required to strengthen the annual Federal Reserve indexes for many areas" (Council of Economic Advisers, p. 166).

"One of the particularly useful series of reports providing specific information on the extent of the market for selected consumer goods in terms of physical units, as measured by manufacturer's inventories, is the Facts for Industry series of the Bureau of the Census. They have additional value because of their almost complete industry coverage and because of their frequency—monthly or quarterly. Only a few trade associations have been able to match the comprehensive coverage and accuracy of these reports. Consideration should be given to the supplementation of these series by reports on other consumer products of importance for which data are not now available" (Arthur Rosenbaum, Sears, Roebuck & Co., p. 303).

According to our information, the present coverage of metal fabricating industries is quite inadequate as far as output data are concerned. Annual data—and for certain areas more frequent data—are badly needed in the fields of pumps and compressors, special and general industrial machinery, and electrical equipment and supplies. Statistics are lacking for a number of chemical industries (such as drugs and medicines and insecticides) as well as for selected wood products and converted paper products.

In a number of consumer and producer-goods industries, the annual surveys mentioned above would serve as benchmarks for less complete Government and private monthly and quarterly surveys. They would measure changes in coverage and provide certain data not obtained in the current reports.

In addition to the need for limited expansion of the 65 current commodity series, there is a need for further attention in these surveys to coverage of new producers entering the field and to revisions of content to reflect technological changes and new products.

In the list of principal economic statistics produced by the Bureau of the Census (p. 33), the entry for Facts for Industry should read as follows:

"Facts for Industry series: Monthly, quarterly, and annual: shipments, production, stocks, and orders, 65 commodity surveys covering about 2,000 commodities."

POPULATION STATISTICS

Several witnesses from Government and private organizations commented on the Bureau's statistics on employment and unemployment, which are collected in the Current Population Survey. Some of their recommendations had been made also by the Bureau (see pp. 101–102) and some represent new demands.

We believe that modest efforts can be made to achieve some of the recommended improvements with existing personnel and funds, but that substantial amounts of new funds must be provided before work can be started on others. Work is already in process on the following projects: Seasonal adjustments, compilation of monthly data on part-time employment and unemployment of family heads, studies of the relationship of unemployment estimated by the Bureau of the Census to insured unemployment reported by the Bureau of Employment Security, review of labor force concepts, and the regular publication of data on gross changes in the labor force. A program of control and measurement of the quality of the labor force statistics has also been launched. Funds to strengthen and expand the national sample for the current survey have been requested for the fiscal year 1956.

Among the projects which would require sizable amounts of additional funds, the compilation of labor force data for individual cities or standard metropolitan areas was most frequently urged. The need for such data has been recognized in times of both labor shortage and labor surplus; however, funds were provided only for the fiscal year 1947. Other recommended projects in this category were a periodic survey of consumer incomes, expenditures, savings, debts, and other economic subjects by family characteristics (mentioned by the Budget Bureau, p. 17, Mr. Burns, p. 164, and Mr. Shishkin, p. 229); a comprehensive survey of low-income families (mentioned by Mr. Burns, pp. 168 and 171, and Mr. Lubin, p. 262); a quinquennial census of population and data on illness and impairments of the population (mentioned by Budget Bureau, p. 85).

Mr. Roos suggested that the Bureau of the Census "revise its sampling of household formation data so as to relate the error of estimate to the change in households rather than to the absolute number, the reason being that the change is the important factor in market analysis" (p. 337).

There are two thoughts implicit in this suggestion. One is to revise the sample design to provide better estimates of change in the number of households; the other is to publish errors of estimates relating to change rather than to the absolute number. On the first point, the Bureau has been aware of the problems involved ever since it began to tabulate results from the current population survey for the purpose of providing estimates of the number of households. It has undertaken extensive research projects, the largest being under a contract with the Housing and Home Finance Agency in 1949–52, to develop plans for a sample survey to measure change with an error of about 5 to 10 percent of the change. It has also done research to discover any other limitations of the present estimates in order to provide a basis for revisions of procedure which will reduce errors of estimate. On the second point, sampling errors have been published for those figures which the survey was designed to provide. The Bureau is always ready to make available, upon request, any other estimate of sampling error which a particular user would like to have.

The second paragraph of the criticism enclosed with Mr. Roos' letter (p. 337) reads as follows:

"As we have pointed out the Bureau of the Census did not reconcile the discrepancy in its 1950 figures on the number of households until April 1953. The number of households reported by the census of population has now been revised upward by about 1 million and the number reported by the same Bureau's survey of population by several hundred thousand."

The number of households obtained in the 1950 census has not, strictly speaking, been "revised." In the quotation above, Mr. Roos is referring to the differences between the 1950 census figure on number of households and the numbers of households shown by the postenumeration survey (a quality recheck of a sample of the 1950 census returns) and by the current population survey. The postenumeration survey showed a total number of households about a million above the number shown by the complete census, but it is incorrect to state that this fact constituted a revision of the census figure. The difference provides an estimate of the net effect of errors of underenumeration and overenumeration of persons as household heads. Some of the errors arose from missing some entire households in the census, others from misclassifying some enumerated persons as members of households maintained by other persons instead of as heads of households, etc.

The Current Population Survey is based on a scientifically selected sample of households and has provided annual figures on the number of households since the middle 1940's, in connection with data collected on employment and unemployment. The figure shown by this survey for March 1950 was about 600,000 above the April 1950 census figure for the number of households. At the time the survey figure for March 1950 was prepared, the estimating procedure in use involved the adjustment of figures collected in the field to independently determined distributions of population classified by age, sex and veteran status. These distributions then had to be based on data from the 1940 census brought forward by taking into account the numbers of births and deaths, the amount of net immigration, and the aging of the population since 1940. The necessary details from the 1950 census for preparing independent estimates based on the 1950 census were not available until 1953. A report issued in October 1953 indicated that the effect of using the revised materials was to show an estimated number of households for March 1950 that was 350,000 greater than on the former basis. This revision had no connection, therefore, with the results of the Post-Enumeration Survey mentioned above.

OTHER STATISTICAL PROGRAMS

Mr. McCracken mentioned the need to bring Historical Statistics of the United States, 1789–1945 up to date (p. 232). This publication was brought up to date at the end of 1952 with Continuation to 1952 of Historical Statistics of the United States, 1789–1945. Before and after this continuation was issued, the Bureau carried forward and revised the historical series in the Historical Appendix of the annual Statistical Abstract of the United States. A more thorough revision of Historical Statistics is now being planned.

In the list of principal economic statistics produced by the Bureau of the Census (p. 33), the "other" group should include: Annual: Statistical Abstract of the United States; occasional: Historical Statistics of the United States; county and city data book.

SEASONAL ADJUSTMENTS OF MONTHLY SERIES

Several participants at the hearings mentioned the need for seasonal adjustments of monthly series. Following, for example, is the statement of the Council of Economic Advisers (p. 167):

"In analyzing month-to-month changes in economic activity, difficulties of interpretation frequently arise because of doubt about the magnitude of seasonal factors. The need for seasonal adjustment is especially great in the areas of construction, employment, production, sales, inventories, and banking. Although a considerable number of important series are available in seasonally adjusted form, many are not. Furthermore, some of the seasonal adjustments now practiced seem obsolete or otherwise defective."

The Bureau of the Census is preparing to publish seasonally adjusted monthly data for many of its key series, including those showing industrial production, import and export of commodities, and the labor force and its components. The Bureau already publishes, jointly with the Office of Business Economics, seasonally adjusted retail sales statistics with the original unadjusted figures.

The Bureau uses its Univac electronic computer to make some of these computations. This machine makes seasonal index computations and seasonal adjustments at very high rates of speed and at low cost. The Bureau has programed a method which takes advantage of the capacities of the Univac and has utilized it for many series. This method is based on the most common technique for computing seasonal movements (ratio to 12-month moving average) but, in addition, it includes refinements, elaborations, and tests that have not previously been practicable for most agencies because of the large computational workload.

Because the Univac is so well suited to the seasonal computations and because a seasonal index computation program has already been prepared, the Bureau makes these computations on a cost basis for other Federal agencies. Approximately 500 series (including about 100 Bureau of Census series) have been completed.

INTERAGENCY OPERATIONS

In its statement, the Budget Bureau mentioned the importance of records of administrative agencies, referring to data collected by the Internal Revenue Service and the Bureau of Old-Age and Survivors Insurance in their administrative operations (pp. 17–18). The Budget Bureau indicated that the data for County Business Patterns (published jointly by the Bureau of the Census and the BOASI) were developed from the BOASI records, and that the Bureau of the Census is exploring the feasibility of using BOASI data to improve its intercensal population estimates. An additional use of administrative records—for the 1954 censuses of business, manufactures, and imneral industries—is worth noting. Also worth mentioning are the services provided by the Bureau of the Census to the administrative agencies.

Use of administrative records in the 1954 censuses

In the 1954 censuses of business, manufactures, and mineral industries, the Bureau makes important use of income tax returns and also employers' reports under the Federal Insurance Contributions Act (the basis for the BOASI current data). Practically all businesses file an income-tax return showing sales or receipts, kind of business, and geographic location. All employers in business, manufactures, and mineral industries (about two-thirds of all business concerns) file a return under the Federal Insurance Contributions Act. The Bureau uses the FICA return (collated with BOASI records) to develop a mailing list of employers; these employers are then asked to report in the censuses. The Bureau uses the income-tax return directly, without any additional canvass, to get basic data for nonemployers in the census of business. (Few nonemployers are within the scope of the censuses of manufactures or mineral industries.)

The Budget Bureau pointed out some of the limitations in administrative records (pp. 17–18, 28, and 43). Despite the problems involved in overcoming these limitations, we believe that use of administrative records in the 1954 censuses provides at least three advantages. (1) It reduces the cost of the census of business, probably without reducing its statistical quality. (Data for previous censuses have been collected in a door-to-door canvass of all business establishments, which is much more expensive than the new plan.) (2) It relieves the small businesses (non-employers) of the burden of making a report. (3) It provides the Bureau with an up-to-date mailing list of employers. This should improve the coverage of the censuses and increase the efficiency of the operation.

Services to other Federal agencies

The Bureau of the Census uses the resources it has acquired as a data-collecting agency to provide services at cost to other Federal agencies for their administrative needs. In general, these services are of four types: (1) tabulations on Bureau equipment of data collected by other agencies, (2) special tabulations of data collected by the Bureau, (3) collection and tabulation of data according to the specifications of another Federal agency, and (4) consultation with and advice to other agencies on statistical problems.

The computation of seasonal indexes (discussed above) illustrates the use of Bureau equipment for work on the data of other agencies as well as data produced in the Bureau.

Special tabulations are often made of data collected in the censuses and kept on punchcards or magnetic tape. An example of this is the occupation-by-industry data from the 1950 census of population which were tabulated for a number of metropolitan areas for the Bureau of Employment Security. That Bureau sent the machine-sheet tabulations to appropriate State employment security agencies to use in counseling, job promotion, and community employment programing.

The Bureau of the Census collects and tabulates data for other Federal agencies on subjects in which they are interested. For example, the Bureau will interview a sample of the population about their smoking habits to get information for the Department of Health, Education, and Welfare on the relationship between smoking and various diseases. Such a survey can be taken as a supplement to the regular monthly current population survey at exceedingly low cost. Some of the Bureau's facts for industry surveys have been modified to meet the administrative needs of the Business and Defense Services Administration. As another illustration, the Department of Agriculture has obtained from the Bureau special surveys on employment of farmworkers.

SAMPLING

Since Mr. Talle inquired (p. 159 of hearings) about the effectiveness and reliability of sampling and the Bureau conducts much of its work on the basis of sampling, it seems appropriate to add to this statement a brief discussion of sampling supplementary to Mr. Belcher's answer to Mr. Talle's question.

The first point about sampling to which attention should be called is that many kinds of statistical studies make some use of sampling, sometimes of a purely haphazard type. For example, the limited experience that one person has is often taken as a sample on which to base broad generalizations; the man of good judgment often shows it by informal allowance for the smallness of the area that he really knows.

A haphazard method of drawing a sample is to be sharply distinguished from a method that makes use of scientific principles derived largely from the mathematical theory of probability. These principles are aimed at determining, by application of established procedures, a sample which is a reasonably representative cross section of the aggregate. If the principles of sampling are properly applied to the design of the sample, and if a large enough sample is taken, it is possible to get results from the sample which approximate closely the results which would have been obtained by a complete enumeration. Also, with an appropriately designed sample, it is possible to derive from a knowledge of the design and from the sample results a good measure of the precision of the sample estimates. An important problem is to design the sample so that the results are as accurate as are needed, but also so that the total cost of developing the design, taking the sample, and deriving the results, is kept near the minimum consistant with the desired degree of precision. Sampling theory provides effective guidance in the solution of this problem.

In actual experience, the Census Bureau has found that sound use of sampling procedures is effective in many cases in reducing cost tremendously, both for the collection of data and for processing, and in making possible more timely reporting of results. Many surveys now carried out regularly would not have been feasible at all on a complete basis, with the available funds and within acceptable time limits.

Another point to note is that through sound sampling the quality of the survey results can sometimes be improved as compared with the results of a complete census. For example, in a relatively small sample survey, more attention can be devoted to the selection, training, and supervision of interviewers than would be feasible for a much larger operation. Consequently, more careful measurements can be made for each particular case in the sample by spending more time on it and by concentrating the attention of the more adequately trained staff that is available.

With reference to the limitations of sampling, it is important to note that a sample selected on sound principles to represent a small subgroup with a satisfactory degree of reliability proves to be relatively large and hence the savings in cost as compared to complete enumeration, are relatively small in such cases. It is, therefore, desirable to use complete censuses where results of high accuracy are needed for small areas or for very detailed classes of the population. Complete censuses brought up to date from time to time are also useful in providing the background for the design of efficient samples, e. g., such background items as the distribution of manufacturing establishments by industry, location, and number of employees, or the distribution of the population by small areas and by such characteristics as age, sex, race, residence, family status, and occupation or industry. The proper combination of complete censuses and sampling surveys provides the most satisfactory statistical background for understanding the characteristics of the population of the United States and its economic development.

Further explanation and elaboration of this subject of sampling can be found in statements entitled "Sample Surveys versus Censuses" and "Obtaining Results Sooner at Lower Cost" which are included in the exhibits to the report, Appraisal of Census Programs, of the Intensive Review Committee, pages 842–849.

Miscellaneous Comments and Statements Received for the Record

National Planning Association,
Washington, D. C., February 9, 1955.

Hon. Paul H. Douglas,
Senator from Illinois, United States Senate,
Washington 25, D. C.

Dear Senator Douglas: At this morning's hearings I heard you say that you thought that the gross national product (GNP) is not the best possible measurement of economic activity as a whole and, if I understood correctly, you expressed preference for the national income.

I do agree with your notion that there is an element of double counting in the GNP. The prices of all goods include an allowance for depreciation. In addition, the GNP measures the output of producers' goods used as replacements. To the extent, therefore, that depreciation allowances are used for financing the purchase of producers' goods for replacement we have double counting in the GNP estimates. On the other hand, I see an even more serious deficiency in the concept of national income as used by the Department of Commerce. National income not only excludes depreciation but also indirect business taxes, which amount to about $30 billion. This is apparently done on the assumption that indirect business taxes are shifted forward and thereby are reflected in the price level. For measuring the development of actual production we use deflators. Thereby, we eliminate a price rise which is caused by additional business taxes. To the extent that business taxes are shifted backward they are not reflected in incomes or prices. Therefore, the national income estimate does not reflect those Government activities which are financed by business taxes. (There is a controversy as to whether it is proper that certain Government purchases of goods and services enter the GNP. Some of the Government purchases are, so to speak, intermediate goods, the value of which is reflected in consumer and producers' goods.)

Whatever the merits of this argument are, there is no reason to disregard a part of Government activities equal to the amount of indirect business taxes. In the light of the great uncertainty as to which Government services should be regarded as intermediate and which as final goods, I would think that we would be making a lesser error if we included all taxes in our measurement of the total of all private and Government activities. The concept I would prefer is what the Department of Commerce has called the net national product. This is the GNP minus depreciation.

I have made this point repeatedly in my own writings on national economic accounting. However, in practical statistical work I have continued to use the GNP in spite of my knowledge that it has this element of double counting in it. The reason is simply that the GNP concept is now so generally used that I think it would create confusion if, for reasons of professional perfectionism, one individual uses a concept which is not generally known. And I do not think that we are reaching any wrong conclusions by the use of the GNP as a frame of reference for studying the rate of economic growth or for comparing total production among various countries or the economic structure of various countries. Nevertheless, I think it is important that the economists and statisticians do not forget that there is that element of impurity in the measurement they are using. That is the reason I welcomed very much your making this point at the hearings.

Very truly yours,

Gerhard
Gerhard Colm.

United Textile Workers of America,
Washington, D. C., January 27, 1955.

Hon. Paul Douglas,
Chairman, Joint Congressional Committee on the Economic Report,
Senate Office Building, Washington, D. C.

Dear Senator Douglas: In February 1954, we submitted a detailed comprehensive report on the textile industry to the members of the Joint Committee on the President's Economic Report. In that report, as per the enclosed copy, we opened with the statement that we could not tell your committee if our national economy was headed for a depression, but we did know that the textile industry was depressed.

Nothing has happened within the past year to change this situation. In fact, the chaos in the industry has been aggravated by mergers, migrations and monopolistic tendencies; about 150 textile firms, employing more than 50,000 workers, have been merged during the past 13 months. Among the largest mergers, consolidations, and absorptions in the textile industry during the last year were Burlington Mills' acquisition of Pacific Mills, Goodall-Sanford and Interstate Hosiery Mills; Textron's merging of interests with American Woolen and Robbins Mills; Lowenstein's purchase of Wamsutta; and United Merchants and Manufacturers' purchase of A. D. Juilliard & Co.

The bulk of this production has been transferred from union textile centers to nonunion areas of the South, and some of it to Puerto Rico; wages have been reduced, and the Walsh-Healey modest minimum wages determined by the Labor Department are still tied up in the courts with no prospects of any early decision.

The President has recommended a substandard minimum wage of 90 cents per hour, which has given encouragement to nonunion textile employers in the continuance of "cutthroat" competition. In addition, the textile industry is gravely concerned with a foreign trade policy which would increase unemployment.

With reference to general business conditions and prospects in textiles, I wish to quote herewith a current analysis, recently published by Standard and Poor's:

"PROBABLE PATTERN

"Despite a trend toward more efficient operations, overcapacity remains a problem in this industry, which has a comparatively well-defined cycle of roughly two years from trough to trough. Since trade statistics in this field are neither as current nor as complete as might be desirable and there are numerous small operators, the tendency is for improvement in demand, such as that witnessed recently, to be pyramided along the line. Hence, supplies mount in a relatively short time, leading to overaccumulation of inventories.

"It is our belief that the present upswing in the textile industry will be comparatively short-lived, with another decline starting perhaps in the third quarter of this year. The second quarter may be the best this year from a volume and profits standpoint."

In view of the conditions I have mentioned, and others not enumerated, I respectfully suggest that this industry, the most seriously affected by unemployment and other adverse circumstances, should be given special treatment by Congress. I have been authorized by our executive council to urge upon your committee the advisability of an investigation or a study of the textile industry.

We are dealing here with an industry employing around 1 million production workers; a prime essential and a strong arm of our defense program, with wages 46 cents lower than the gross hourly average—$1.36 for textiles and $1.82 for all factory workers.

Congress would render a necessary and distinct public service by taking a close look at the worst segment of our industrial economy.

I am sending copies of this communication to all members of the Joint Committee on the President's Economic Report, and we would appreciate a favorable response at your earliest convenience.

Very truly yours,

ANTHONY VALENTE,
International President.

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 2 regions employing almost two-thirds of the textile working force—the Southeast and New England; and with 2 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.

NEARLY ONE-HALF MILLION UNEMPLOYED OR UNDEREMPLOYED

Our reports from the field give us a breakdown of employed, unemployed, and underemployed. Our estimates do not agree with Government textile figures, which show a complete separation of approximately 100,000 workers in the year 1953. Our spotcheck 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 bread winner 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 workweek 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 4 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.

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 three in New England: Lawrence and Lowell, Mass.; and Providence, R. I.

This was our reply to the unfortunate attempt by Senator Maybank 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.

GOVERNMENT 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.
Harrin-Murphysboro-West Frankfort, Ill.
Kenosha, Wis.
Texarkana, Tex.-Ark.
Sunbury-Shamokin-Mt. Carmel, Pa.
Uniontown-Connellsville, 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.

Exhibit C

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.

RESOLUTION

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 respectfully request Senators Maybank and Johnston, 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 black list.

Sincerely yours,

——— ———.

EXHIBIT E

[From the Daily News Record (textile trade paper) Thursday, January 21, 1954]

THE PULSE OF THE MARKET

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."

EXHIBIT F

[From the Daily News Record (textile 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 PLANNING ASSOCIATION,
Washington 9, D. C., December 23, 1954.

Hon. JESSE P. WOLCOTT,
Chairman, Joint Committee on the Economic Report,
Congress of the United States, Washington 25, D. C.

DEAR REPRESENTATIVE WOLCOTT: On behalf of the board of trustees of the National Planning Association and its committee of New England, it is my pleasure to transmit herewith a report entitled "The Economic State of New England." This report grew out of the favorable national reaction to a special report (The Impact of Federal Policies on the Economy of the South) prepared under the auspices of the National Planning Association's committee of the South, which was issued in July 1949 as a joint committee print.

In December 1949 the joint committee asked the NPA to organize a committee of New England for the purpose of making an impartial report concerning the impact of Federal policies on the New England economy.

In accepting the request to set up a committee of New England to make the study, the NPA stressed that, in accordance with its established procedures, the committee members would be drawn from a cross section of leaders from all parts of the area, who would be broadly representative of the varied interests of New England. NPA emphasized that the success of such a study depended in large measure on the support and cooperation of the local people.

On November 13, 1950, following almost a year's preparatory work and consultation with public officials and private citizens of the region, NPA held an organizing meeting. The committee, headed by Dr. Leonard Carmichael, is composed of 95 leaders active in the region's agriculture, business, manufacturing, labor organizations, educational and financial institutions, Government agencies, and press and radio.

A research advisory committee of 35 distinguished social scientists headed by Dr. Sumner H. Slichter counseled the staff. At the initial meeting the committee decided to broaden its objective and conduct "an honest self-appraisal of New England's economic problems on which strong, effective action could be based."

The committee itself participated actively in the study through seven study panels. Each of the sections which make up The Economic State of New England has been approved for publication by the appropriate committee study panel. Thus, through the panels, the research staff was given the benefit of the experience and knowledge of the distinguished leaders on the committee. The first director of research was Arthur A. Bright, Jr., of the Federal Reserve Bank of Boston, who died in May 1953. The work he initiated was completed by George H. Ellis, Dr. Bright's successor at the bank.

The completion of this report provides the joint committee with a comprehensive survey considerably broader than indicated in the original request concerning Federal policies. Because of its impartial approach and the support it received from many different segments of the economy, it is believed that the study will be useful for some years to come for all who wish to understand the New England economy.

I attach a copy of a letter which Dr. Carmichael has received from Gov. John Lodge, chairman of the New England governors conference.

The relationships between the Federal Government and New England are many and varied; therefore, the committee considered it best to treat them in the context of its entire report on the economy of New England. On the other hand, the committee is mindful that the original interest of the joint committee was limited to an investigation of the impact of Federal policies in the region. Dr. Carmichael intends, therefore, to explore the possibility of obtaining from the committee a statement setting forth the principal matters of Federal policy and any recommendations that the committee may have concerning the relationships between the Federal Government and New England.

Meanwhile, we wish to point out that The Economic State of New England is divided into 20 sections. These include The Forests of New England; The Fisheries of New England; Agriculture in New England; Minerals and New England; Water, Fuel, and Energy in New England; New England's Vacation Business; the People of New England and Their Employment; Employment Fluctuations in New England; Wages in New England; Labor-Management Relations in New England; The Financial Resources of New England and Their Use; Freight Rates and New England's Competitive Position; The New England Transportation System and Its Use; New England's Industrial Management; Technical Research in New England; New England's Financial Relations With the Federal Government; State and Local Taxation and Expenditures in New England; Business and Economic Information in New England.

The remaining two sections are interpretive. They are Transitions in New England, which traces the economic history of the region, and Goals for New England, which makes recommendations for the future.

Sincerely yours,

H. Christian Sonne.

State of Connecticut, Executive Chambers,
Hartford, December 14, 1954.

Dr. Leonard Carmichael,
Secretary, Smithsonian Institution, Washington 25, D. C.

Dear Dr. Carmichael: The New England governors conference, meeting in Boston on November 18, last, received through Dr. George H. Ellis, a very interesting summary of The Economic State of New England. The thoroughness, competence, and usefulness of that report are evident, and the governors wish to extend this expression of their appreciation to you and to all the members and staff of the committee of New England of the National Planning Association.

We are deeply impressed by the contributions of research guidance, technical information, and financial support freely provided by the committee members and other participants in this study. The standards of technical accuracy and soundness of judgment achieved in this study provide a solid basis for evaluation of proposals for advancing New England's economic welfare.

On behalf of the governors of New England, I want to express through you to all concerned in this notable project the thanks of the people of New England.

Sincerely yours,

JOHN LODGE,
Chairman, New England Governors Conference.

JANUARY 20, 1955.

Hon. GEORGE M. HUMPHREY,
Secretary of the Treasury,
Washington 25, D. C.

DEAR MR. SECRETARY: The Joint Committee on the Economic Report begins its hearings on the President's Economic Report on Monday, January 24. An important element in the economic picture is the Federal budget. As you are aware, neither the President's budget message nor his Economic Report spells out the economic assumption which underlie the estimates of receipts which are included in the budget. Our committee, of course, needs this information in order to reach some judgment of the budget and its economic impact.

In the past, the information has been given in our committee hearings. For example, last year you appeared before the committee on Tuesday, February 2, accompanied by the Honorable Marion B. Folsom, the Under Secretary of the Treasury. At your request, he responded to a question of Chairman Wolcott as follows:

"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 * * * 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" (hearings before the Joint Committee on the Economic Report on the January 1954 Economic Report of the President, 83d Cong., 2d sess., pp. 55–56).

We would like to have by Tuesday, January 26, a similar statement as to the specific economic assumptions underlying the 1956 budget so that these may be entered into the record.

Sincerely yours,

PAUL H. DOUGLAS,
Chairman, Joint Committee on the Economic Report.

P. S.—A further question. The budget message of the President in January 1954 estimated budget receipts for fiscal 1955 at $62.7 billion and the deficit at $2.9 billion. The budget message this January shows an estimate of receipts of $59 billion and a deficit of $4.5 billion for the same period. How much of the reduction in the estimate of budget receipts and of the increase in the deficit for fiscal 1955 results from (1) tax reductions beyond those recommended by the President; (2) decline of personal income and corporate profits from the levels assumed last January; (3) changes in estimates of expenditures; and (4) other factors?

THE UNDER SECRETARY OF THE TREASURY,
Washington, January 25, 1955.

Hon. PAUL H. DOUGLAS,
Chairman, Committee on the Economic Report,
Room 10B, Senate Office Building,
Washington 25, D. C.

MY DEAR MR. CHAIRMAN: This is in reply to your letter of January 20 requesting information concerning the economic assumptions used in estimating net budget receipts for the President's budget message of January 17, 1955, as well as an explanation for the difference between the current estimate for the fiscal year 1955 and the estimate shown in the budget message of January 21, 1954.

As you know, the two most important basic assumptions used in our estimating procedure are personal income and corporate profits. Current estimates assume personal income, as defined by the Department of Commerce, of $286.5 billion and $298.5 billion in the calendar years 1954 and 1955, respectively. Corporate profits, as defined by the Department of Commerce, are assumed to be about $36 billion in calendar 1954 and $38.5 billion in calendar 1955.

The current estimate of net budget receipts for the fiscal year 1955 is $59 billion. This is a decrease of $3.6 billion from the estimate of $62.6 billion made in January 1954. The Excise Tax Reduction Act of 1954 accounts for $1 billion of this difference. Another $100 million is due to the fact that the general tax revision bill, as finally enacted, reduced the revenues by $1.4 billion as compared with an estimate of $1.3 billion used in January 1954.

A decrease of $1.9 billion in corporate tax receipts is due to a lower estimate of corporate profits for the calendar year 1954 than that originally assumed. As I indicated before your committee, the original assumption for corporate profits in 1954 was $43 billion based on a continuation of the profit levels then assumed to prevail at the end of 1953. In July 1954 the Department of Commerce corporate profits series was revised downwards for the entire period since the series was started in 1929. The reduction in the 1953 profits figure was $2.5 billion. This had the effect of reducing the $43 billion estimate to $40.5 billion on the new basis.

Furthermore, it became apparent as the year 1954 developed that corporate profits in 1954 would be appreciably lower than they had been in 1953. This was reflected in estimates made during the year by the Department of Commerce and the Council of Economic Advisers and also by the very substantial reduction in corporate profits in the fourth quarter of 1953, as compared to the first 9 months of 1953. The first estimates for the last quarter of 1953 were not made until after the budget had been prepared and submitted in January 1954.

By contrast to the change in the estimate of corporate profits, you will note that the current estimate of personal income of $286.5 billion is very near to the original assumption of $285 billion.

Another $200 million of the decrease in estimates of net budget receipts is attributable to changes in the estimate of miscellaneous or nontax receipts. The remaining difference of $400 million reflects adjustments, based upon the most recent experience, in the statistical relationship of tax receipts to various parts of the national income.

For the foregoing reasons, the estimate of net budget receipts for the 1955 fiscal year has now been revised downward by $3.6 billion to $59 billion. However, due to a cut in estimated spending from $65.6 billion to $63.5 billion, the estimated increase in the deficit is only $1.6 billion, or considerably less than the estimated decrease in receipts.

I hope this information will meet your needs.

Sincerely yours,

M. B. Folsom,
Under Secretary of the Treasury.

Congress of the United States,
House of Representatives,
Washington, D. C., February 10, 1955.

Mr. John W. Lehman,
Joint Committee on the Economic Report,
Senate Office Building,
Washington 25, D. C.

Dear Mr. Lehman: I am transmitting, herewith, a statement by Mr. Frank Lily, research statistician, Spokane, Wash., for consideration by the joint committee during the current hearings.

Kindest regards and best wishes.

Sincerely,

Walt Horan, *Member of Congress.*

Members of the Joint Committee on the Economic Report:

Gentlemen: This statement of Views on the Economic Report which I am submitting for the hearings for research groups is based on more than 40 years of research work in a variety of social, business and financial fields. For most of that time my primary interest has been metal mining and monetary statistics. Presently I am reserach statistician for the mines research bureau of Spokane and president of the American Constitutional (Hard Money) Association.

Disraeli is quoted as saying, "I hate definitions," and I think most people hate them because definitions limit their tendency to generalize and disregard semantics. Be that as it may, I propose at this juncture to define the two principal words in the subject of the hearings; namely, research and economics, thereby limiting myself to the definite meanings as given in the dictionary.

Research: re, again; kercher, to seek, examine anew. Examine, in turn: ex, out; agere, to weigh in the intellectual balance.

Economics; science of the production, distribution and consumption of wealth; economist: an expert in economics, one who expends money, time or labor judiciously and without waste.

There is no place in research or economics for prejudices, desires, attachments, hopes, fears or even ideals. Facts, good or bad, must be faced squarely and evaluated without bias.

It is a wholly fair assumption that both the President and his Council of Economic Advisers welcome the reweighing in an "intellectual balance" by Members of Congress, research and economic groups and the public.

Unavoidably perhaps in a public document, the Economic Report generalizes rather broadly in statements with regard to "A high and rising standard of living brings to more of our people the opportunity for continued intellectual and spiritual growth," which calls up the observation that while it brings more opportunity we actually have more crime in proportion to our population than countries having much lower (economic) standards of living. Evidence that "high and rising standards of living" do not of themselves provide economic stability is found in the history of the great civilizations of the past.

Greece, Rome and numerous other countries of the past enjoyed during their early and middle stages "free institutions". Their people were ambitious, skilled, enterprising and patriotic. Their populations also increased as ours is presently doing, their educational levels rose, their skills improved, et cetera, et cetera. These, however, were not enough to assure "continuation of economic growth" which the Economic Report boldly, and I hope accurately, predicts for this country.

No one will question that the role which the Government should play is "to create an atmosphere favorable to economic activity by encouraging private initiative" and to "widen opportunities for less fortunate citizens". But the facts are that initiative in private business is so limited by taxes that no young man of today can reasonably hope to establish a business and build it from the ground up without outside capital.

The statement that "Fiscal and monetary measures foster an expectation of improving economic conditions and encourage people to maintain a high rate of expenditure" puts the emphasis on spending, and that is, of course, exactly what the public is doing with the result that personal debts are being incurred with little or no regard to an "inevitable rainy day" and the waste in both money and morals involved in unpaid debts.

The various indirect references to the growth of our Nation's economy entirely omits any mention of the tremendous growth on the "tares" of personal, corporate, municipal and national debt that have been sown widespread throughout the land. Few people realize that our national debt exceeds the combined debt of the rest of the world.

The possibility that "our country can within a decade increase its production from the current annual level of about \$360 billion to \$500 billion" means little or nothing if the dollar continues to lose about 5 percent of its purchasing power each year as it has done each year since 1939. The fact that there is now approximately \$30 billion of currency in circulation as compared with \$7 billion in 1939 merely means that it now takes over 4 times as much currency to run our economy and does not mean that we are 4 times better off or even as well off. Our national debt in the meantime has risen from around \$40 billion to \$278 billion and is still to increase.

The real danger in the national debt picture is not so much in the amount or the annual interest which aggregates over \$6 billion, but in the fact that the larger part of our stock of money is monetized national debt. Evidence of this is found in the fact that although United States Treasury gold holdings are now less than they were at the end of 1939 our stock of currency has increased by approximately \$30 billion and exceeds our Treasury's gold holdings by over \$32 billion.

Incidentally, the economic report makes no reference to the fact disclosed by Deputy Secretary of the Treasury Burgess that, as of January 31, 1954, total Treasury gold holdings were for the first time since the boom-and-bust year of

1929 less than the amount required under the law as a reserve for Federal Reserve notes and to meet potential conversion of foreign short-term dollar balances which, by the way, are now substantially higher than last February.

Another matter in this connection that has not been mentioned is that foreigners are estimated to hold some $10 billion in United States currency or its equivalent in Government bonds; which they as foreigners could convert into gold although this privilege is denied to American citizens. This is a contingency that must be acknowledged as potentially dangerous to our economy. It is fundamental that (1) no country can be more sound than its economy, (2) no economy can be more sound than its country's money, (3) no money can be sound that is not as good as gold. And the only money good as gold is either gold coin or money that can be converted into gold coin. This, by the way, is the "honest" constitutional money promised by President Roosevelt and also in the Republican platform adopted in Chicago. No reference to either promise is made in the economic report.

This is neither the place nor the time to enter into a discussion of the merits and demerits of the gold standard. Suffice it to say that such a standard would not be a panacea for every economic ill, because it is not reasonable to expect it to do what no religion has ever done—protect mankind against greed and man's inhumanity to man.

In this connection, I quote from a statement made by economist W. Randolph Burgess when he was chairman of the executive committee of the National City Bank of New York:

"Historically one of the best protections of the value of money against the inroads of political spending was the gold standard—the redemption of money in gold in demand. This put a checkrein on the politician. For inflationary spending led to the loss of gold either by exports or by withdrawals by individuals who distrusted government policies. This was a kind of automatic limit on credit expansion. It limited the area of money management. The power to redeem money in gold also gave the people confidence in the soundness of their money.

"Of course the modern economic planners don't like the gold standard just because it does put a limit on their powers. They argue with some cogency that a gold drain may impose credit restrictions just at a time when the country is in depression and credit restriction is undesirable. There are two answers to this. One is that even under the gold standard there are large areas for money management, as was amply demonstrated in the United States in the twenties. The second point is that politically managed money is almost always too liberal and almost never puts the brakes on expansion early enough or firmly enough. It is so easy for the desire to finance the Treasury cheaply to interfere with tightening credit when the welfare of the people will be served by resisting inflation. These political and human considerations are the real reason why we need the gold standard.

"I have great confidence that the world will return to the gold standard in some form because the people in so many countries have learned that they need protection from the excesses of their political leaders."

There is, I believe, a general agreement among economists that inflation is still the No. 1 threat to our economy and American way of life but I find nowhere in the Economic Report any suggestion as to what can or should be done about this problem. On the other hand, the report recommends an increase in the national debt limit which, if we can judge by past experience, means further deflation of the dollar by inflation.

Historical researchers of the reasons for the fall of the great civilizations of the past agree that debt was the principal factor. Incidentally, the regimented and controlled economic policies enacted and used by Rome were remarkably similar in all essential respects to recent laws and controls in this country.

It is my understanding that this hearing is being conducted primarily for the purpose of examining the Economic Report and not for the purpose of receiving recommendations for legislation in connection with monetary reform and the halting inflation which is the responsibility of the President's Economic Advisers. I am, therefore, submitting this statement without suggestions or recommendations.

FRANK LILLY,
Research Statistician, Spokane, Wash.

(Whereupon, at 1 p. m., the committee adjourned to Thursday, February 10, 1955, at 10 a. m.)

JANUARY 1955 ECONOMIC REPORT OF THE PRESIDENT

THURSDAY, FEBRUARY 10, 1955

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

The joint committee met at 10 a. m., Senator Paul H. Douglas (chairman) presiding.

Present: Senators Douglas (presiding), O'Mahoney, Flanders, and Sparkman; Representatives Bolling, Kelley, and Talle.

The CHAIRMAN. Gentlemen, may we come to order, please.

We have invited representatives of the main national economic interest groups to testify on the President's Economic Report, representatives of management groups, employer groups, labor groups, and farm groups, and we have given them the alternative of testifying today on the 10th of February or next Wednesday, on the 16th of February. Three groups elected to testify this morning. We are very glad to have them here.

Mr. Kennedy, of the United Mine Workers, will testify on the 16th. Mr. Shuman, of the American Farm Bureau Federation, Mr. Newsom, of the National Grange, Mr. Schmidt, of the Chamber of Commerce of the United States of America, and Mr. Don Mahon, of the National Brotherhood of Packinghouse Workers, will also testify then.

We also invited Mr. Meany, of the American Federation of Labor, Mr. Kestnbaum, of the Committee for Economic Development, and Mr. Riter, of the National Association of Manufacturers, but they wrote us very kind letters saying they were unable to come on that date.

We have made an earnest effort to hear from all groups. This morning we will hear from Mr. Reuther, president of the Congress of Industrial Organizations, Mr. Harry See, national legislative representative of the Brotherhood of Railroad Trainmen, and Mr. Baker, of the National Farmers Union.

Mr. Reuther, we shall begin with you. We are very glad to have you.

OPENING STATEMENT OF WALTER REUTHER, PRESIDENT, CONGRESS OF INDUSTRIAL ORGANIZATIONS

Mr. REUTHER. Thank you, Senator Douglas, and members of the committee.

I should like first to express my appreciation for the opportunity of appearing here, and I should like to submit for the record my prepared statement and then elaborate on that orally, if I might.

The CHAIRMAN. Very well.

Mr. REUTHER. We of the CIO believe that the American people have a right to expect that the President's Economic Report to Congress would be an analysis of the economic situation based upon the economic facts of life, and in reading the President's Economic Report we are both disappointed and disturbed because we believe the report does not reflect that measure of vision or understanding or realism that the present situation requires. We are disturbed because we believe that the administration still is unable to differentiate between confidence and complacency, and we believe that where they talk about confidence in many aspects of the report, they are again reflecting the complacency which has characterized the administration's economic attitude for the past two years.

Now in reading the Employment Act of 1946, which created the basis for the report coming to Congress on the part of the President, we find in section 3 (a) that the President has certain basic obligations of responsibility under the act. In section 3 (a) of that act, the President is required to provide the estimates of production goals and the purchasing power that can be attained in terms of the goals of that Employment Act of 1946, and we would like to suggest, Mr. Chairman, that your committee ask the President of the United States to comply with the law and to carry out his obligations as they are stipulated in the law.

Specifically, we believe your committee ought to ask the President to present Congress with the estimated required goals of employment, production, and purchasing power for attaining maximum employment in 1955.

Secondly, that he should present Congress and the American people with a program for carrying out the declared policy under the law "to promote maximum employment, production, and purchasing power."

And, thirdly, he should explain what the Republican administration means by the term "maximum employment." We think that the President's Economic Report fails to carry out his obligations because he doesn't deal with these basic requirements of the law.

Now what bothers us about the President's report is that we believe it reflects a kind of banker mentality, and we believe that the people who are primarily the architects of the administration's economic and fiscal policies are operating as bankers instead of operating in terms of the basic needs of the American people and the American economy. We think that they are operating the American economy as though they were operating a countinghouse, instead of dealing with the fact that they are responsible for administering the most important economy in the free world at a time when freedom is being pressed by the forces of Communist tyranny.

Now, Mr. Humphrey, the Secretary of the Treasury, is undoubtedly the chief architect of the economic and fiscal policies of this administration, and we are disturbed by the fact that Mr. Humphrey would have us believe that the most important and compelling problem that we need to meet in America on the economic front is to fight the threat of inflation. There is no serious inflation in America, and yet all of the efforts being made would have us believe that the No. 1 problem is fighting inflation, when the No. 1 problem is finding an answer to the basic problem of how do we achieve and maintain full employment and full production in a peacetime economy.

This kind of banker mentality would have us believe that our problem is one of national solvency when everyone ought to realize that we are faced with the kind of problem where the question is one of national survival.

Now, Mr. Humphrey wrote an article very recently and I have a copy of it here. It appeared in Nation's Business, the January issue, in which he deals with this whole question of what he considers to be the No. 1 problem, the question of inflation, and this policy that Mr. Humphrey expresses in the article here, I think, runs through every important Government agency at the administrative level of our Government. When we get a slight improvement in the general economic picture, instead of encouraging further improvement and stimulating those kind of activities that will make for further improvement, the banker mentality reflected by Mr. Humphrey and his associates, move in and they begin to put the brakes on long before we have reached any recovery in proportions that would create inflationary threats.

Now, we've had a very small improvement. We recaptured only about 40 percent of the economic ground that we lost during the recession in the past 18 months.

Senator FLANDERS. Would you repeat that again?

Mr. REUTHER. We recaptured only about 40 percent of the ground that we lost. If you take the December 1954 index; that is, the industrial-production index it stood at 130, and when you compare the December 1952 index with 1954, you find in 1952, in December, it was 133. In other words, the recovery has not been sufficiently great to surpass the index points that we reached 2 years ago, and yet with that slight recovery, they immediately move in and begin to tighten up and recreate the hard-money policy.

You get the testimony of Mr. Martin, head of the Federal Reserve Board; you get the testimony of his assistant, and there you get a reflection of this same attitude, that the problem, the threat, is inflation.

Therefore, we have to tighten up. When Mr. Martin is asked what do you mean, how do you measure when we have an inflationary threat, he says the minute we get beyond any point that may approach economic growth of more than 3 percent a year, we put the brakes on, and because we may get near that point, they have withdrawn more than a billion dollars from the money supply.

This is obviously an effort to make money more valuable so that the bankers will get the benefit of money with greater value. I think this is a very dangerous point of view, and if permitted to continue unchecked, can create very serious problems.

Now, the trouble with Mr. Humphrey and this banker mentality is, that they are driving the American economy down the highway to the future, except that they are deciding where they are going by looking through the rearview mirror. They know where they have come from, but they do not know where we are going, and here is what Mr. Humphrey said in this article in Nation's Business in January. He said that—this is in order to show that things are going really well—he says that 1954 was six times better than 1900. I would hazard a guess than 1954 was 600 times better than 1700, but the way to judge where we are going in the future is not where we were in the past. We have to measure the future by the unlimited possibilities of economic growth that science and technology now make possible, and yet these men with little faith and little vision keep talking about where we have been, instead of talking about where we ought to be going in terms of the dynamic qualities of our free economy, and that bothers us.

It bothers us because what we do in America with the American economy, which is without question freedom's most important asset in a material sense, what we do in the way of mobilizing the productive power of the American economy and harnessing the unlimited creative genius of the free human spirit in America, will be a decisive factor in the struggle against the forces of Communist tyranny; and yet these people with the banker mentality keep talking about it as almost as good as last year, it is six times better than 1900, when we ought to be saying it is not good enough because we are not utilizing fully the productive potential that we have in this great country of ours.

Now, we believe that your committee ought to insist upon a definition of what we consider to be maximum employment. We in the CIO believe that in a free economy you have to have a normal float of workers who are seeking jobs. That is a part of the normal process of a free economy in a free society. We believe that the level of the amount of unemployment required to facilitate the movement and the healthy shift in job opportunities should not exceed 2 to 2½ percent of the civilian labor force, which means that 1½ million people in that category would be adequate to meet the mobility needs of our free economy. Yet in 1954 we had an average unemployment in excess of 3.2 million people, and when you add to that the people who were partially employed or partially unemployed, we think that that raised the average to around 5 million, which means that around 3½ million people were unemployed, about the normal levels required to meet the needs of a healthy free economy, and when you look at the job outlook in terms of the future, there are no facts to support the optimism reflected in the President's report. Production has gone up. There has been some improvement in the general overall economic picture, but while industrial production went up 3 percent in December of 1954, as compared with December 1953, for the same period nonfarm jobs decreased 765,000.

In other words, production went up 3 percent, but employment in the nonfarm categories went down 765,000. Even the chamber of commerce—and no one would accuse them of advocating a bold economic program—even they have admitted recently that while the Nation's production will increase, the amount of unemployment will also increase while production is going up modestly.

We need roughly 800,000 new jobs each year to take care of just the increase in our labor force, but when you add to those 800,000 new jobs that we need to take care of the new people coming into the labor force, the jobs that we need to take the place of those people displaced by technological progress, then we begin to get some appreciation of how many new jobs we need to create each year in order to maintain full employment and full production.

I believe that at the current rate of labor-force growth and technological progress, we need from 2½ to 3½ million new jobs a year, to take up the slack created by the ability of fewer people to create more economic wealth by the utilization of more advanced tools of production, and that means we are heading for trouble, because the rate of labor-force growth is getting faster each year, and technological progress makes the worker more productive each year. The combination of those two factors means that we are in trouble if we do not begin to find a way to expand and facilitate economic growth to take up the slack.

Now the St. Louis Post-Dispatch had an editorial some weeks back which I thought laid the problem down simply, and I would like to read it, if I may. This is from the January 10, 1955, St. Louis Post-Dispatch. It is entitled "The Deficit in Jobs."

Is the national economy sitting on a time-bomb?—

they ask.

We ask the question in all seriousness because the trend of employment statistics continues to be disturbing. We ask it in spite of the resolute cheerfulness of Secretary of Labor Mitchell and Secretary of Commerce Weeks. In the latest of their monthly reports, the two Cabinet members say that although total employment fell by more than a million jobs in December, the decline was largely seasonal, due to less activity in farming and construction, and the like.

In the summer the administration is cheerful about the rise in outdoor jobs and plays down any decline in factory employment. In the winter it hails the rise in factory jobs and dismisses the loss of outdoor jobs as largely seasonal. But is this really the wise way to approach the problem? Is it not better to face all of the facts all of the time, winter and summer? Is it not better to face facts now than to have them hit us like a blockbuster later on?

The overriding fact which Messrs. Mitchell and Weeks consistently overlook is that in spite of some encouraging gains, employment is not rising enough to match the growth of the Nation. Total employment in December, they reported, was 60,688,000 jobs. What they did not tell us is that this is the lowest December since 1950.

The editorial continues:

Is December, then, a bad month to look at, because of seasonal declines in outdoor jobs? Well, let us look at the month of highest total employment, August. In 1954, the peak employment was 62,276,000. That was the lowest peak month in any year since 1949. It is all very well to say that 62 million jobs are a lot of jobs. They are, but they are not enough for a growing country and an expanding economy—

and then they go on to develop the point further.

You see, if we break through this unfounded optimism and this dangerous economic wishful thinking, and if we look at the economic facts of life, we must conclude that we are in trouble because our economy is not growing at a rate sufficiently large to accommodate these two important economic factors: one, the growth of the labor force, and secondly, the fact that advancing science and technology makes it possible to create greater and greater economic wealth with fewer and fewer man-hours of labor.

Senator SPARKMAN. Mr. Chairman, may I ask a question at that point, or would Mr. Reuther rather continue?

Mr. REUTHER. No; any time at all, Senator Sparkman.

Senator SPARKMAN. I want to go back to that St. Louis Post-Dispatch editorial and see if I caught correctly the figures, which I think are most significant.

Will you read that total of employment in December 1954 again?

Mr. REUTHER. The total of employment. I will back up here where they start talking of December. Total employment in December, that is, of 1954, they report was 60,688,000 jobs.

Senator SPARKMAN. Your next statement was that 60,688,000 is the lowest for any December since 1950.

Mr. REUTHER. Yes.

Senator SPARKMAN. Even leaving out of consideration the growth of the labor force each year, at about an 800,000 figure?

Mr. REUTHER. That is right.

Senator SPARKMAN. If that is true, the December figure recognizes no increase in employment to take care of any increase in the labor force over a period of 4 years.

Mr. REUTHER. That is right.

Senator SPARKMAN. In other words, it seems to me that is quite a significant slump. Now, may we get the same comparison on the August 1954 figure?

Mr. REUTHER. All right. The December figure is the low point.

Senator SPARKMAN. I realize that. But I am really getting the comparison over a period of 4 years in the case of the December figures, 5 years in the case of the August figure.

Mr. REUTHER. In 1954, the peak for August employment was 62,276,000. That was the lowest peak of the month in any year since 1949.

Senator SPARKMAN. And, again, that does not take into consideration the growth of the requirement for jobs.

Mr. REUTHER. That is correct. It is at this point where an unfounded optimism and this dangerous kind of unwillingness to accept the realities of life frighten us, because it means trouble ahead.

The most single important economic factor in terms of a new development in America is the thing that we call automation.

It is the thing that is going to revolutionize the whole concept of mass production in America. It is revolutionizing how we keep books in our offices, how we keep payroll records, how we maintain inventory controls, and yet this technological development which marks the second phase of the industrial revolution is not even mentioned in the President's report. They do not even mention it, and yet it is an item that requires a great deal of attention on the part of the American people, American industry, American labor, American agriculture, and the American Government.

Now, what is this automation thing doing? Well, it is just revolutionizing production. In the auto industry we now are able to machine a full engine block without a single human hand touching it, and do it in 14.6 minutes, and yet that operation is already antiquated, based upon the more efficient methods coming off the drawing board. They are prepared now to assemble television sets by automation, without a single human hand touching the television set.

General Electric Co. now, I am told, has an electric brain, one of these Univac machines, that can control their total inventory for millions of end products, down to the finest little screw in some turbine or some television set. That machine can control the inventories, sends out instructions when they ought to produce items, how many they ought to produce in order to replenish their inventories and where to send them.

I am told an insurance company can put in one little corner of a modern office building, electronic and automated accounting machinery to keep the records of premiums and payments of benefits, and can do in that one corner of one office building what 3,000 clerical workers used to do. This is the record of automation and there is not one word of it in the report, just as though these people were living in a little dream world.

That frightens us.

Senator FLANDERS. May I make a comment at this point?

Mr. REUTHER. Yes, you may, Senator Flanders.

Senator FLANDERS. I have been familiar over many years with automation, as far as machine tools are concerned. I believe it began with the airplane-engine cylinder blocks during the war. No, it really began back in the Waltham Watch Co. in 1900, when they transferred parts from machine to machine, each one a simple machine, but that application never extended. The cylinder-block machine of high production in World War II was the real beginning of automation, except for the automobile-frame production.

What is the name of the company that developed it?

Mr. REUTHER. A. O. Smith.

Senator FLANDERS. It is true that very great gains are made by this process, but there are a lot of people engaged in servicing the automatic tools whom we do not see. There are the designers, there are the tool-shop sharpeners, there are the inspectors, and so forth. There is, nevertheless, a net gain in the reduction of labor, but we should not say that just because we see nobody on the line it means that there is nobody doing the work. Automation reduces the amount of labor materially, but by no means totally. It is the new factor in manufacturing.

The bookkeeping machines are marvelous things to watch. They go clickety, click, and a payroll comes out with all the immense number of deductions that are required by our Government activities, social security of various sorts, deductions for bonds, and everything else taken out of the individual's pay.

By the time the deductions are made there sometimes is a surprisingly small sum at the end, but these machines go clickety, clickety, and everything is lovely. The investigations I have made in the companies I am acquainted with leave the balance in favor of these automatic methods, but by no means overwhelmingly so, because there is a lot of background work to it; there is the rental of the machines, there is the price paid for the cards, and so forth.

Mr. REUTHER. I am aware of that.

Senator FLANDERS. It is not all a net gain. Yet, I agree with you, Mr. Reuther, in feeling that this is a major development in our industry, and should have the attention of all of us here, and of the administration.

I just wanted to make clear my belief that it was not as complete an abolition of labor as you would think, just standing and looking at it.

Mr. REUTHER. I am aware of that, Senator Flanders. I know that while automation displaces a great deal of direct labor, it does create greater opportunities in the production of machines, that unless there was an economic saving, automation would not come into being.

When Ford Motor Co. or General Motors does something like that, they take into account their economic savings, in relation to their direct and indirect labor costs, and obviously the saving justifies the machines. Now, even in the tool industry—and I know you are familiar with that, coming out of the tool industry as you have—at MIT they are even automating the tool machines, the machines that make the tool machinery.

Senator FLANDERS. Did you ever read a book called Player Piano, by a man named Voniger?

Mr. REUTHER. I do not believe I have.

Senator FLANDERS. This has to do with a company when it gets 100 percent cybernetic.

It is not anything of particular importance in this hearing, but I would advise you to get to that book and see the concept an engineer has of this country when it has gone a hundred percent automatic.

Mr. REUTHER. The point I am making here, Mr. Chairman, is that we are on the threshold of the second phase of the industrial revolution, with science and technology giving us the most wonderful tools with which to create ever greater economic abundance, and that our basic problem in America is the fact that we have made unprecedented progress in the physical sciences, in the art of working with machines and material, and we have failed to make comparable progress in the human and social sciences, and in relating this technical progress to human progress.

That is our basic problem, and we just cannot ignore the question of automation, because automation is going to bring a revolution into the lives of the people of America, and what we need to do is to have the good sense to gear the great abundance made possible by that technical revolution with the needs and hopes and aspirations of people.

That is what we are really talking about and that is what this committee is hearing testimony about. How can we as a free people utilize our economic resources, our productive power, to make a better life for people, so that people can find the answer to their economic and material needs, so that we can facilitate the growth of man as a spiritual, moral, and cultural being.

That is really what we are trying to do, and automation is one of the great tools that science has given us to build on, and here the President's report does not even mention it.

I believe that your committee ought to give very careful consideration to a thorough and comprehensive study of the impact of automation upon the future economy of America, its broad economic and social implications, and how we can begin to harness the great power of this revolution in the field of technology to meeting the needs of the people of our country. I would urge that your committee give very careful consideration to such a comprehensive study of the long-range economic and social impact of automation upon the American economy and upon the American people.

Now much of the optimism in the economic outlook that the President's report attempts to reflect is based upon the fact that the auto industry is booming. Now it is booming, and I say this is going to be the shortest boom that the industry has ever experienced, and I know a great deal about the economics of this industry.

The industry is building up and I think we are heading for trouble, because if you will take the figures that we are reflecting in our production schedules, they spell trouble down the road unless we change the overall economic picture for the better.

Now the auto industry obviously has a direct bearing upon many other basic industries.

When auto booms, steel booms, because we are the largest consumer of steel, rolled steel. The rubber industry booms, because we are the largest consumer of rubber. The glass industry booms, because we consume the largest portion of high-grade flat glass. We put millions of yards of textiles in automobiles. There are tens of thousands of miles of electrical wiring that go into the armatures for the generators and starters and all that. So the auto industry has a tremendous impact upon a large segment of the American economy. But what is happening in the auto industry?

Well, the most optimistic reports for 1955, and these are dreamed up by the sales divisions, and they have the rosiest of the rosy colored glasses, and they say that 1955 should give us anywhere from 5½ million cars to 5,800,000, and 1 fellow got up to almost 6 million. That is the very maximum, and reflects the most optimism, and yet in January we actually produced 660,000 cars, at the annual rate of 7,800,000. Wards Automotive Report, which is a very reliable agency in reporting projected production schedules because they get their sources directly from the corporations, they claim that the projection for March is 748,000 cars for the month, or an annual rate in excess of 9 million cars.

Now if we are producing at an annual rate of 9 million cars, and the most optimistic projections are that we will sell 6 million cars, what happens after we make the 6 million cars, at the rate of 9 million a year? The auto industry obviously will go into a nosedive, but the steel industry will go into a nosedive, before the auto industry, because they buy their steel from 30 to 60 days in advance and that is true of many of the other basic industries. Now I say to try to build the economic outlook and the optimism reflected in the President's report upon the auto industry is certainly unrealistic and dangerous.

The CHAIRMAN. Mr. Reuther, may I ask a question at this point? On page 6 of your prepared statement, in the second paragraph, you state that inventories are rising and that the industry is not able to sell at that rate of production.

I have seen certain statements which I do not have at hand at the moment, but I believe they have been published in the New York Times and Wall Street Journal, in which some of the heads of the automobile companies have said that their current sales were equal to current production and that there was no present accumulation of inventory.

Mr. REUTHER. I am familiar with those statements, and your statement is correct. They claim that they are just hardly able to keep up with demand.

This is part of the mumbo-jumbo by which they hypnotize themselves into believing that everything is going to be wonderful. Now the facts as reported by two business publications are as follows: Wards Automotive Report said that in January they had roughly 500,000 automobiles in inventories.

The CHAIRMAN. Those are new cars in the hands of new car dealers.

Mr. REUTHER. Business Week made that projection, 500,000 in January.

The CHAIRMAN. There has been some bootlegging of new cars into the used car market, hasn't there?

Mr. REUTHER. That is right, there has been some of that.

The CHAIRMAN. And those cars would not be included in the 500,000 figure.

Mr. REUTHER. That is right. These are new cars that people are trying to sell as new cars and not being bootlegged through the used car market.

Now Business Week says that in January there were 500,000 new cars in inventory and Ward's Automotive Report—again I think the most reliable source for this kind of economic data—they project that based upon the level of sales, and based upon the levels of production, that by the end of March there may be 661,000 cars in inventory.

Now this is the picture, and if you build the economic prosperity of America, and you try to say that this slight improvement will go further because the auto industry is booming, you are building the future on economic sand unless you change the overall economic picture, and that, of course, is exactly what we ought to be doing. There is no reason why the auto industry cannot continue to build automobiles. There is no reason why the steel industry cannot continue to expand its capacity and provide full employment, because there is plenty of work to do in America, but the trouble is we are not trying to facilitate the economic growth and the expansion essential to achieve full employment and full production, and that is essentially the weakness of the President's report.

Senator FLANDERS. Mr. Chairman, may I ask a question?

The CHAIRMAN. Certainly.

Senator FLANDERS. Mr. Reuther, is it not true that unfortunately the automotive industry has always been seasonal, so that this is not a new misfortune but an old one?

Mr. REUTHER. The auto industry historically has been seasonal, but during the past 6 or 8 years we have operated at fairly high capacity.

One of the reasons they used to say the industry had shut down was the seasonal peak and fall in demand and, secondly, they had big model changes, but we learned during the past 6 or 8 years that you can change models without losing much production. They continue to run the old model while they get the new model on the second line parallel to the first line.

The auto industry has been seasonal but it need not be seasonal. We can stabilize production in the auto industry because there are no natural economic factors over which we cannot finally get some measure of control, not perfect control, but enough to level out the peaks and fill in the deep valleys, and if we cannot do that, Senator Flanders, then we have got to admit that we haven't got the good sense that I think the American people have.

Senator FLANDERS. It is a question, it seems to me, of sales and psychology, rather than industrial planning.

Mr. REUTHER. Well, this idea that people have to be psychologized to buy something they need I don't believe. When people need something and they have the money to buy it, you do not have to sell them on the fact that they need it, but when they haven't got the money to buy the things they need, they are in trouble, and that is why we are in trouble in this country.

Senator FLANDERS. The question is, Will they buy in 1955 or wait for 1956?

Now I bought a 1954 when it was offered me, so I am personally contributing to stability.

Mr. REUTHER. I think that just reflects your general conservative economics.

Senator SPARKMAN. You do not mean by that that he had to pay a lower price for that car?

Mr. REUTHER. I think he did.

Senator SPARKMAN. That is New England frugality.

Senator FLANDERS. As a matter of fact, I bought a 1954 demonstrator car and got a still lower price. Now, Mr. Chairman, I am reminded of one of our hearings when we had a group of economists. I think it was I who raised the question as to whether there was not some value in figuring out what would be a normal and proper annual demand for automobiles and for housing. It is my recollection that the economists with one accord turned thumbs down on it. They would rather leave it to private initiative to go up and down and look out the rear window and see what happened.

Now I could agree with them as far as planning production is concerned, but it did seem to me then and it seems to me now that we ought to have some notion of what a high and proper normal is in housing and in automobiles, so that we might have something to compare our current production to.

I hope that point will be in the report, and if it is not, in the body of the report, I will take the opportunity of putting it in a footnote to the report.

Mr. REUTHER. I would like to say, Senator Flanders, I have unlimited faith in the future of the American free economy. I just think it is the best economic system in the world, and I believe if we have the good sense to gear its productive power to the needs of the people, that the future holds great promise for all of us.

Senator FLANDERS. You were a while back, Mr. Reuther, speaking mildly critically of the Secretary of the Treasury and the Chairman of the Board of Governors of the Federal Reserve System, yet the Chairman in an interview here entitled "Don't Be Afraid of Prosperity" seems to be a little bit inclined to be on your side.

Mr. REUTHER. Just a little bit, that is what bothers me. He ought to be a whole lot on the side of the whole concept of an expanding and growing economy.

Senator Flanders, you have got to recognize that Mr. Martin—I have not read that particular article, but I have read other testimony of his before congressional committees—believes that the normal and acceptable and desirable economic growth is somewhere around 3 percent. I think it is somewhere between 5 and 7 percent and I think that is conservative.

I believe that last year based upon the economic growth that actually was achieved between the years 1940 to 1953, that if we had had a reflection of that normal economic growth and utilized the increase in labor force and fully utilized the improvement in our technology, that we could have created last year in the year of 1954, $40 billion more wealth than we created. That means that every American family could have had $850 greater purchasing power.

Senator FLANDERS. What was that range?

Mr. REUTHER. I think from 5 to 7 and I think that is conservative.

Senator FLANDERS. Is that in arithmetical or geometrical progression?

Mr. REUTHER. Obviously it is a compounding.

Senator FLANDERS. I hope you know what geometric progression does to a small amount in a small number of years. It is terrific.

Mr. REUTHER. I also know what automation does.

The CHAIRMAN. When you use your figure of 5 to 7 percent that is for the economy as a whole?

Mr. REUTHER. That is correct.

The CHAIRMAN. Since the working force grows by 1.2 percent a year, that would mean an increase in output per man of, say, 3.8 to 5.8 per man, and then if there is a reduction in the number of hours, that would be another factor.

Mr. REUTHER. That is right.

The CHAIRMAN. So I think Mr. Martin may have been using an hourly figure which is naturally smaller than the total output figure.

Senator FLANDERS. Mr. Chairman, with regard to automation, I feel confident that I can predict that it is going to be a determining feature in our national output, but I think I can also predict that it is going to move into that position of a determining feature much more slowly than both those who hope for it and those who fear it think.

Mr. REUTHER. You see, I do not fear automation. I welcome automation. I welcome automation because I think automation will give our free people the tools with which to build a better life and that is what I am in favor of. I think we all are. I think, Senator Flanders, the thing that is basically wrong with our economy is that we have not achieved this dynamic and expanding balance between purchasing power and productive power. I think that is the key to the future, that as we are able to expand our ability to create greater and greater wealth, we must find a way to get purchasing power in the hands of people to consume that wealth.

Now we got in trouble in 1929, and I have an article here from Fortune, part of an article from Fortune. This is from the February issue of Fortune, "What Caused the Great Depression?" There is one short paragraph entitled "How the Pie Was Sliced," and I quote:

> Factory productivity as measured by output per manpower increased rapidly in the twenties but hourly wages did not keep pace in the second half of the decade. Although some of the fruits of rising productivity were passed on in lower industrial prices, these reductions were only partially reflected in consumer prices.

Then they illustrate this with a chart and it goes on to say:

> The lower chart shows what the upper suggests, a rising share of national income in the late 1920's went to upper income groups: interests, profits, rents, etc., rose 14 percent, between 1928 and 1929, while wages and salaries rose only 7 percent, and the farmers' income went down proportionately.

This is why we got into trouble in 1929 according to Fortune and that is why we are in trouble now.

Now I am not remotely suggesting that we are heading for a depression, because I think in the last 20 years there has been enough sense in Government to build into our economy some safeguards against that kind of catastrophe.

The CHAIRMAN. You mean this was during the 20 years of reason?

Mr. REUTHER. That is right, during the 20 years of reason, during which time we put some restraints in our free economy, essential to avoid these catastrophic economic breakdowns.

Senator FLANDERS. I might amend that by saying, during 20 years of war prosperity. It is a difficult thing to obtain in peacetime the same degree of production and employment that we have in war. We must recognize that it is not easy, but that we are trying to solve the problem. I can agree that we are not doing it as successfully as we should, but I think we should recognize the difficulty of the solution.

Mr. REUTHER. I think, Senator Flanders, we can all agree that solving these problems is not easy. It is not easy to preserve freedom in the world. It is not easy to preserve peace in the world. A lot of things are not easy, but we have to do the difficult as a matter of survival, and for the first time in the history of human civilization we have the tools with which to solve this problem. When Marx wrote his whole concept of the class struggle, what he calls dialectical materialism, he based that on the fact that society in all those years was divided between warring nations and warring economic groups, struggling to divide up economic scarcity. Marx could not understand what has happened in America, this great and wonderful miracle of the great creative genius of the free mind and free spirit.

We are not now engaged in the old historic battle of dividing up scarcity. We have the first opportunity to cooperate, free management, free labor, free Government cooperating to create and share abundance. That is what we are talking about, creating and sharing abundance, instead of dividing up economic scarcity. This is the new revolution. The Communists are just a bunch of reactionaries because they are living in the past.

This concept of abundance is the key to the future of freedom and peace in the world and when you say it is difficult, sure it is difficult, but I ask the simple question that a worker in Detroit has asked me many times. During the war when we were making the weapons of war and destruction, we not only had full employment for every able-bodied man and woman, but we got the grandfathers and grandmothers out of retirement and we had a simple employment policy in almost every factory in Detroit. The employment director was instructed, "When they ask for a job, don't ask for their qualifications, just feel them. If they are warm, put them on the payroll."

We ask ourselves, if we could have that situation during wartime, why can't we now have full employment making the good things of life for people in peacetime. It is difficult but it can be done.

Frankly, we better find a way, because if we don't then freedom will not win in the struggle against Communist tyranny.

Senator FLANDERS. Mr. Reuther, in the words of the judge who was examining Saint Paul, "Almost thou persuadest me to be a Christian."

Just to get down to a practical question, it seems, Mr. Chairman, that we do have to have some clear agreement on the way in which we determine and the means by which we provide the proper division between the returns from production as between consumption and investment. We cannot let the extremes of either of them become too small and it is a matter of mutual concern of management, labor, and government, to get clear in their minds, if clearness is possible, what is the proper division between investment and consumption.

Mr. REUTHER. I agree with you completely, Senator Flanders, and that is the key, the achievement of this dynamic expanding balance between these two factors. We had a full employment conference here in Washington some months back, and when we thought of asking someone from the administration to come over to express the administration's economic program and their general economic and fiscal policies, we asked Secretary Humphrey to come and he came and he made a speech. We got into a discussion of this thing and he got into the question you raised. We said at that time with a very high level of unemployment that what we needed to do was to broaden the purchasing power base of our economy so that people would have the money to create the demand for the goods that we know how to create based upon the capacity that we already have. Mr. Humphrey said: "I disagree with that. The only way you can get full employment is not to expand the purchasing power base, but to provide greater incentives on top of the economic structure so that people will get more money to create investment and create new factories and new jobs by that procedure." And we said: "Mr. Humphrey, we agree that if we were in a situation where the demand was greater than the capacity to meet that demand, then the emphasis should be shifted to try to provide increased capital to expand the basic productive capacity of our country." But we are now in a position where the emphasis must be shifted to the purchasing power factor in our economy because what we need is not greater steel capacity, because the month that the Secretary of the Treasury was before our conference, the steel industry was producing at 61 percent of capacity. We did not need more steel capacity, we needed more customers to buy the things made out of steel.

The auto industry right now—here is a clipping out of the Detroit Free Press—where the fellow who is supposed to be the authority on this sort of thing says that the capacity of the auto industry is between 11 and 12 million cars a year, so that if we make 6 million cars a year, that is only 50 percent of what our capacity is.

Now do we need more productive capacity or do we need more customers to buy the automobiles we already have the capacity to create?

Really, the secret of how a free economy has to operate, in our opinion, is to maintain this dynamic balance between productive capacity and purchasing power. At the point that purchasing power begins to crowd capacity, you shift the emphasis and you expand capacity, and when you have expanded capacity, which means that more tools for creating greater economic abundance have been realized, you then shift back the emphasis on greater purchasing power and achieve this dynamic balance; and we are now at the short end of the purchasing power part of our economy but the unfortunate part about it is that Mr. Humphrey and the administrative policy of this Government is directed towards creating greater incentives for people who invest when we ought to create greater purchasing power on the part of people who need to buy.

Senator FLANDERS. You would not want to put the emphasis, would you, Mr. Reuther, entirely on expansion of production. You would want also to put the emphasis of investment for new products, new means for production, the search for new markets?

There is much more to it than just simply saying increasing steel capacity.

There has got to be investment in many things besides simple expansion of existing type of plant.

Mr. REUTHER. Obviously. That is part of a healthy normal economic growth but at the present time there is a serious imbalance between productive power and purchasing power, and we have to correct that imbalance by increasing purchasing power to achieve a balance where we will have full employment.

We believe in incentives. We believe that individual initiative and incentives are a source of the very large portion of the motivating power that drives us forward for progress in America. But it is a peculiar thing, you know. You sit down across the bargaining table with corporation executives who get $600,000 a year and we always compute it on an hourly rate basis because we can understand it better—some of them three-hundred-and-some dollars per hour—and we do not object to that. But when they talk about incentives, they always talk as though it is a one-way street and they are driving and they are the only ones. If it is right for a fellow getting $500,000 to get $600,000, then why isn't it right for a fellow getting $4,000 a year to have the incentive to get $5,000 a year? I ask these fellows what kind of mental gymnastics they go through to make it morally right and economically sound to fight for $600,000 when they are getting $500,000, but economically and morally wrong to fight for $5,000 when you get $4,000. This is having 1 set of economic values for all of the people of America, instead of 2 sets of standards. Mr. Humphrey feels if you give more to the few people who have so much, it will somehow trickle down; and they haven't learned a thing since Andrew Mellon occupied that job in the Government.

The world has moved ahead, but the mentality in that kind of thinking has stood still, and that is why we are in trouble. Thirty-seven percent of the families in 1953 in America received less than $3,000 income, and I think it would be well for your committee to probe that. You talk about looking for new markets. That is the biggest potential market.

Senator FLANDERS. We have looked at that problem in a series of studies. We made a study of the low-income groups which revealed many things, and I hope, Mr. Chairman, that we will continue with that study this year, not merely to uncover the conditions but also to see what can be done in the way of positive remedies for it.

Mr. REUTHER. I would like to conclude by making several suggestions that I think ought to be carried forward by appropriate legislation. On the housing front, there is a tremendous job to be done in America. No one can be proud of American slums and no one can be proud of the fact that thousands of families in America's farming sections live in shacks, and no country has done as bad, compared with the resources we have, on housing as we have done. We need 2 million houses a year to take care of this problem.

There are tremendous and tragic deficits on the educational front. We need 375,000 new classrooms right now and by 1960 we will need 600,000 new classrooms. We have got to meet that problem.

There is a tremendous hospital need and health facility need. There is the road problem and flood control and many other problems of that description, which could provide great opportunities for employment.

We believe minimum-wage legislation is an area in which you can begin to raise some of these low-income families up to where they can begin to buy the things they need for healthy, decent living in our modern atomic age and we think the minimum-wage legislation ought to be raised to $1.25.

There is the question of the farmers. We are very disturbed about farm income in America. The CIO, representing roughly 6 million industrial workers, is worried about the fact that the income of American farmers continues to go down, because we believe that our prosperity in the cities is inseparably tied together with the economic conditions of people on the farms. They got in trouble first in the 1920's, and we got in trouble after they got in trouble. We think legislation ought to be adopted to give farmers full equity in terms of their economic contribution to our free economy. And we think that the emphasis ought to be placed on helping the farmers who farm the land, the family-sized farmers rather than the farmers who farm the farmers.

We think, also, obviously at the collective bargaining table we have to get higher wages because higher wages mean greater purchasing power to offset the increasing productivity of technological progress.

We are going after the guaranteed wage in our industry because we believe it to be economically sound, to be morally right and to be socially responsible in terms of the basic needs of our free society. We believe that unemployment compensation should be increased, so that workers who are laid off are not withdrawn from the market in terms of sustaining their purchasing power, so that we do not begin to compound the negative economic factors because nothing breeds unemployment like unemployment itself. We think that unemployment compensation benefits should be raised so that people's purchasing power can be protected.

On the tax front, we believe that the Government has an overriding responsibility to use its power to try to get into the economy an improvement of those economic factors that will make for greater economic activity, full employment, and full production. We disagreed with the tax laws of 1954. We think they gave tax relief to the people who did not need it and denied essential tax relief to those who did need it.

We said that about 95 percent of the tax relief was going to wealthy corporations and upper income families and only 5 percent of the relief went to families in the $5,000 bracket or under. We think that was wrong. We think it was bad economics and we think it was morally wrong because it raised the standard of luxury of the people who had more than they needed, when the basic economic need was to raise the standard of those who had too little.

Take the General Motors Corp.—and I cite these things because these are the facts of life that we have to deal with in America, if we are going to defend freedom and peace—General Motors Corp. last year made $1,640 million before taxes. They made $7 million for every operating day, and yet the tax law in 1954 gave the General Motors Corp. $219 million tax reduction. You can say that went to people, people own stock in General Motors. During the discussion on this point they attempted to make it look as though everybody in America owned a block of General Motors stock.

Senator FLANDERS. What was the specific element in the new tax law which relieved General Motors of taxation?

Mr. REUTHER. General Motors got $219 million reduction in taxes because of the laws passed last year.

Senator FLANDERS. What was the item in the law that made that possible?

Mr. REUTHER. Well, first of all you had the excess-profits tax eliminated.

Senator FLANDERS. That is true. That was it, was it?

Mr. REUTHER. Well, that was the biggest item.

Senator FLANDERS. I just wanted to make sure what it was.

Mr. REUTHER. That was the biggest item.

Senator FLANDERS. I voted for it and would vote for it again.

Mr. REUTHER. Now if you take this $219 million, where does it go? Well, there are a few big holders of General Motors stock and most of the $219 million goes to those people. We figured it out, that one family in General Motors that owns a big block of stock got $78,000 more take-home pay by that tax reduction in General Motors.

The CHAIRMAN. How much?

Mr. REUTHER. Seventy-eight thousand dollars that one family, one holder of stock—his equity in that $219 million.

Senator FLANDERS. How much of it went back to the Government?

Mr. REUTHER. Well, that was his take-home.

Senator FLANDERS. Yes; take-home but it didn't stay home.

Mr. REUTHER. Well, some of it gets passed back to the Government. We are aware of that. And when I bargain for GM workers we also bargain for the right to pay Uncle Sam a little more, if the GM workers get a wage increase big enough to get in the higher income bracket, we will with great cheerfulness pay that additional tax burden, so we want to share that privilege along with the family I am talking about that got the $78,000. But the real nub of the problem is what happens to the $78,000—the family that got that already had over a million dollars income, do they buy one more pair of shoes?

Senator FLANDERS. I will guarantee if I know who the family is they did not get more than 20 percent of it. I think our progressive income tax is a grand thing, but we have to remember whenever we use these figures what it does. There was no $78,000 for that family. There probably wasn't more than $15,000 for that family.

Mr. REUTHER. Well, I think you are wrong, and I will be glad to get you all of the detailed economic facts about it. But let's take your $15,000 figure and pursue my point. This family already has everything it needs, and when it got the additional $15,000, using your figure. it did not buy one more pair of shoes because it had all of the shoes it needed.

They did not buy one more quart of milk; they didn't buy one more suit of underwear; they didn't call the doctor one more time. But there are millions of families in America who did not have the purchasing power not to buy an extra pair of shoes when they didn't need it, but to buy the shoes they needed. Why are the dairy farmers in trouble, not because they produce too much milk but because millions of children of America are denied adequate milk for healthy normal growth and what we need to realize is that we have not got too much production in America. We just haven't found a way to gear this abundance to the basic needs of our people. And if you had done what we proposed and other groups proposed and raised the individual income tax exemptions from $600 to $800 last year instead of giving General Motors $219 million tax reduction, you would have put in the hands of middle and low-income families $4½billion of high-velocity purchasing power that would not have been put in salt brine. It would have shown up on the store counters of America, buying the necessities of life. That would have expanded demand, increased demand would have reflected itself in employment, employment in greater purchasing power, greater purchasing power in greater demand and the economy could have begun to reverse the negative economic factors and have begun to compound positive economic factors, and that is the key to where we are going.

We believe in the American free economy, but we believe that if we are going to make it work that we have got to find a way to achieve this dynamic balance between productive power and purchasing power.

We have got to find a way to gear it to the needs of people and the only way you can gear it to the needs of people is to provide the American people with the purchasing power to translate needs into demand, and demand into employment opportunities. That is what we are proposing, and we believe that the Government has an overriding responsibility in this matter. We believe in our free-enterprise system, with individual initiative and incentive doing as large a share of the total economic job as is possible, but when there is an economic deficit, which threatens the well-being and security of our Nation, then the Government, as the agency of all of the people, has the responsibility of overcoming that deficit. And I think that is the problem before your committee.

The CHAIRMAN. Mr. Baker has to leave at 11:45 in order to take an airplane, and I wondered if you would be willing to stop for the moment, and after he presents his statement then perhaps we could continue with questioning.

Mr. REUTHER. I would be most happy.

(Mr. Reuther's prepared statement appears at p. 1200).

The CHAIRMAN. John A. Baker, who is assistant to the president of the National Farmers Union; Mr. Baker.

OPENING STATEMENT OF JOHN A. BAKER, ASSISTANT TO JAMES G. PATTON, PRESIDENT, THE NATIONAL FARMERS' UNION

Mr. BAKER. Thank you, Mr. Chairman. As you know, Mr. Chairman, Jim Patton, national president of Farmers' Union, had planned to participate in this hearing, but owing to its being rescheduled he was unable to be here.

I shall read a brief summary of Mr. Patton's statement and submit for the record certain supplementary material.

As we figure it, Mr. Chairman, national farm gross income in 1955 will probably be more than $7 billion short of a full employment level and realized net income of farm operators will be about 3½ billion lower than is needed as the basis for an expanding full-employment economy. In 1955, America's farm families should be a $40 billion market for commodities and services instead of the $31.5 billions projected by the President's Economic Report.

Mr. Patton's statement continues: I submit this statement to you as one who helped shape the Employment Act of 1946, and who still believes that loyalty to its principles and success in its objectives are vital to America in these times of world crisis and domestic distress.

Lest you feel that my reference to domestic distress is overdrawn, I call your attention to two significant facts. First, the income of the average United States farm family has dropped from about $200 per month in 1952 to $150 per month in 1954 and under the Eisenhower sliding-scale farm program a further drop to only $100 per month would be allowed.

Second, unemployment is officially announced to have risen by 538,000 in January, bringing the total to 3,347,000. As has become customary, the Government press releases surround this further downturn with a rosy glow—they say it is "seasonal."

The small decrease in unemployment in the last quarter of last year was really seasonal, but the rosy press releases forgot about seasonal adjustments then—they asked us to cheer a big improvement.

An increase of more than half a million in unemployment in 1 month is not just seasonal; it is mighty serious. If we were in a great upsurge of business, it would overcome the seasonal factors and bring about a drop in pathologically high unemployment.

The President's 1955 Economic Report reaches a new low under the Employment Act. It highlights the wrong facts; it misconstrues the facts that it highlights; and it fails to carry through to logical conclusions as to policy or program even of the facts it does present.

The Economic Report does contain an impressive array of charts, graphs, and tables. So do other Government manuals. But this array is used to conceal, not to reveal, significant meaning for economic policy.

The Economic Report is supposed to be a great interpretive document—and the interpretation is lacking in the report you have under consideration.

Here are a few of the questions that the report makes no attempt to answer, or even really to raise.

Is employment too high or too low, and how much reemployment do we need for maximum employment?

Is production sufficient, and how much do we need for maximum production?

Is purchasing power sufficient, and is it well distributed, and how much adjustment do we need for different groups for maximum national production?

These are not merely random questions. They are the core of intelligent consideration of economic policy.

They are the central questions that the statute directs be answered in the Economic Report. The report does not even raise these questions. It abandons the field of sound economic analysis. It cuts the ground from under intelligent discussion of economic policy. And specifically it flouts not only the spirit but the very letter and explicit mandate of the Employment Act.

This breach occurs, I submit, because the Economic Report misses the whole heart and purpose of the Employment Act. The act does not call for an historical encyclopedia of cold data.

It does not call for mere forecasts.

It calls for a true and bold statement of our economic needs and capacities, and for a program based upon these needs and capabilities. This the 1955 report totally and distressingly lacks.

The Economic Report does not set any growth goals for this year.

Without established growth goals, how can we possibly determine where the deficiencies are or how to surmount them?

How fast is automation creating the need to find new jobs for displaced workers?

How far is consumption short of the requirements for a full economy?

What tax and spending policies, by the Government, would specifically address themselves to solving identified problems and overcoming stated weaknesses in the economy?

How have the policies of the Government, thus far used, worked to overcome these weaknesses, if at all?

Nowhere in the report can one find significant attention to these questions—in quantitative and meaningful terms. Platitudes and easy optimism are to be found in abundance. One can hardly disagree with its conclusions, because it selects no vital problems to reach conclusions about.

I cannot discuss the farm features of the report, because there are none.

The job of preparing the kind of Economic Report envisioned by the Employment Act of 1946 remains to be done.

I strongly urge that the committee write a report to the Congress which specifically sets forth the size of our needs to achieve maximum employment, production, and purchasing power, along with a program adjusted to these great purposes.

Since the Economic Report has not provided these materials for the committee to evaluate, I respectfully submit that the committee, prior to doing its own job, needs to do the job that the Economic Report should have done but did not do.

Mr. Chairman, I request that the remainder of Mr. Patton's statement, which consists of the rationale and statistical detail of our calculation of a 1955 full employment income and an illustrative documentation of the shortcomings of the 1955 Economic Report be inserted in the record of these hearings.

The CHAIRMAN. It will be done.

Mr. BAKER. Thank you very much.

(The information referred to appears at p. 1191.)

Representative BOLLING. Mr. Chairman, I have some questions.

The CHAIRMAN. Mr. Bolling.

Representative BOLLING. I have something that ties in with the statements of both Mr. Reuther and Mr. Baker. On the occasion of Dr. Burns' appearance before the committee in executive session, I obtained the permission of the committee to submit to him in writing certain questions. One of those questions is as follows: The Employment Act in section 3 (a) states that the Economic Report of the President shall set forth the levels of "employment, production, and purchasing power obtaining in the United States and such levels needed to carry out the policy declared in section 2." The President's Economic Report on page 24 states: "With economic activity continuing to expand, it is reasonable to expect that the Nation's output within the coming year will approximate the goals of maximum employment, production, and purchasing power, envisaged by the Employment Act."

I asked Dr. Burns, "What are these levels or goals for 1955 in terms of employment, unemployment, production, and purchasing power?

"What specific forces do you see operating in the economy that will raise the levels of demand sufficient to reach the goals of the Employment Act?"

The answer to this among other questions has just been received a few minutes ago. While I will not ask to read all of the answer because it is an extended argument, in apologia I would say, I would like to read a page or two of it and the remainder will be available in the record in the first day's hearings when the questions were asked. (See pp. 36–48.)

The answer given is that "Section 3 (a) of the Employment Act states that the '* * * the Economic Report of the President shall set forth the levels of production, employment, and purchasing power obtaining in the United States and *such levels needed to carry out the policy declared in section 2*' ".

The CHAIRMAN. And that is to promote maximum employment, production, and purchasing power.

Representative BOLLING. Right. The italics beginning with the word "such" have been added by Dr. Burns. "The act does not clarify the italicized phrase," the answer continues.

Its interpretation is left to the President and his Council of Economic Advisers. The phrase can be interpreted as calling for a numerical specification of economic goals or it can be interpreted as calling for a specific of objectives whether in terms of numbers or otherwise as can be made. In the former case one would assert that "to carry out the policy declared in section 2, employment must be X, production must be Y, and so on.

"In the latter case one might assert that to carry out the production goals in employment 2 must be higher or substantially higher. The drop in employment, if any, in the recent past, after allowing for an increment of growth, would suggest the general order of the magnitudes that are involved. For internal purposes the Council utilizes and makes all sorts of quantitative estimates. It seems unwise, however, to publish near-term estimates that rest heavily on assumptions and conjecture, and that is bound to be the case with numerical goals or targets.

'"The use of such estimates by the President in his Economic Report would not render a useful service to the Nation."

I stop there with a reemphasis that this does not include all of Dr. Burns' answer. I agree very strongly with Mr. Reuther and Mr. Baker that we should have some quantitative statement of the goals we should achieve in accordance with the Employment Act and the specifics as to what is to be done. This is not a new matter as the members of the committee will remember. This is a matter that was treated in the unanimous section of our report of last year, and I think it raises perhaps the most important question confronting not just the committee but the country. I felt, therefore, that it was appropriate without having the opportunity to digest all of the answer to get to make this information available to the panelists at this time, as well as to the members of the committee.

Representative KELLY. Mr. Chairman.

The CHAIRMAN. Mr. Kelly.

Representative KELLY. That brings up a point in my mind. I have contended that the authors of the Economic Report have exercised more than the normal amount of ingenuity in missing the point, and the point is this: there is a mandate in the full Employment Act to provide maximum employment, maximum production, and maximum purchasing. The report misses that pretty much, as I said. You cannot have maximum production power unless you have maximum purchasing power; that is true.

There is no use in having maximum production if you do not have maximum purchasing power. In many areas of the country today there is a great deal of unemployment, and I have said this for the record before and I am going to repeat it. It appears that those in authority in this Government are satisfied in order to balance the budget and to prevent inflation, to do so at the price of misery and distress in these areas, and that calls, I think, for some very dynamic action to be taken in order to aid those areas, and I might add this, too, that while we uphold this prosperity in the country generally, there is not a very great distribution of this prosperity. That is all.

The CHAIRMAN. Congressman Talle.

Representative TALLE. No questions.

The CHAIRMAN. Senator Sparkman..

Senator SPARKMAN. Nothing more.

The CHAIRMAN. Senator O'Mahoney..

Senator O'MAHONEY. I would like to wait for Mr. Reuther to continue.

Mr. REUTHER. Well, I was prepared to conclude. I would just like to point out in response to the last point that Senator Flanders made; he implied that when you give this great tax relief to the top of the economic pyramid by providing greater incentives for people to invest their money in plant expansion, that the expansion of industry then would be carried on. If you gave great tax relief, that would reflect itself in greater expansion of investment in new plant and equipment.

The record will show that the contrary is true, that we have had the greatest capital expansion during those periods when there was a great market, when there was a great deal of consumer purchasing power, because no one builds factories unless there is a demand to fill, by the productive capacity that factory will have.

If you take the period from the first quarter of 1953 through the first quarter of 1955 and you get the projection of business expenditures, you will find that during the very period when the Republican administration was giving the greatest incentives to the so-called investing group in America—during that period—capital expansion, investment in new plants and equipment, declined from the annual rate of 28.56 billion in the first quarter of 1953 to the first quarter of 1955 where the projection is 26.3 billion. So something quite contrary is happening.

If you could get an expansion of the purchasing power of millions of American low and middle income groups, and that purchasing power would reflect itself in demands for all of the good things of life that people need in such great quantities, that would do more to expand capital investment than anything else, because they would build the factories then to satisfy the growing demand. Businessmen do not carry on industrial expansion unrelated to the economic position of people.

I think one of the problems in America is that Mr. Humphrey, in his kind of economics, believes the essential problem is balancing the budget. Our problem essentially is balancing the American economy, and ultimately you can balance the Federal budget only by balancing the individual family budgets of the American people, and administration spokesmen like Mr. Humphrey do not understand that because their family budgets have always been more than balanced.

The CHAIRMAN. Mr. Reuther, may I call attention to table D-1 of the report of the Council on page 137. That has a figure on private domestic investment and in the third column it shows for 1953 a total figure of 51.4 billions for 1953, and of 46.1 billions for 1954, or a fall of about 5 billion or around one-tenth. Part of that was a decline in inventories, but if you take producers durable equipment which would be capital goods, that is a decline from 24.4 billions in 1953 to 22.4 billions in 1954, a fall of 2 billions or again by one-tenth, so that these figures seem to bear out your statement that despite the tax favors which were granted to stimulate investment in 1954, they did not have the effect of so doing. Of course, it could be argued that the investment would have been still less had it not been for the tax favors but it did not produce a net increase.

Mr. REUTHER. I think you are absolutely right, Senator Douglas, I would like to just make mention of a related point. The National City Bank reported that 457 corporations in America during the first half of 1954 turned out 7 percent less production but made 7 percent greater return. Now General Motors made 35 percent greater profit last year than they did in 1953, and yet their production went down.

The CHAIRMAN. Was that before taxes or after?

Mr. REUTHER. The 35 percent is after taxes. The General Motors Corp. made 35 percent more profit after taxes in 1954 than in 1953 although they had less production. When you get the stock-market boom in which you get inflation of stock prices out of less production, then you are dealing with, I think, dangerous economics. If the stock market went up because we were booming and we were creating greater economic wealth and the higher stock prices reflected the creation of greater economic wealth, you could say, "Well, that was a sound proposition." But when 457 corporations, on the average, made 7 percent more profit out of less production and that is a pretty good cross section of American industry, that is dangerous. Now if all of the working people and all of the farmers in America asked for more wages for less production, we could get in trouble real quick. We are asking for more wages because we are creating greater production with these wonderful tools that automation gives us.

Senator O'MAHONEY. Have you any figures showing a comparison of employment with these profit figures?

Mr. REUTHER. Yes. In the early part of my testimony I got into a comparison of what was happening in terms of employment and some of those figures are in my prepared statements, but I pointed out that while we had, say in December of 1954, an increase of 3 percent in production, by comparison with December of 1953, we nevertheless had I think 765,000 less nonfarm jobs, so production is going up, and employment is coming down.

Senator O'MAHONEY. Is it true that profits are going up and employment is going down?

Mr. REUTHER. That is correct; that is what is happening.

Senator O'MAHONEY. And have you made the specific comparison in this statement?

Mr. REUTHER. That is right. I thought there were some very dramatic figures contained in an editorial in the St. Louis Post-Dispatch which illustrated the relationship between 1954 at the low period and how far back you had to go to match that in terms of a low period for employment or a high period for unemployment and then we took the peak month which was August 1954 and compared that and you had to go back to 1949 before you got a comparable figure.

The CHAIRMAN. Mr. Bolling.

Representative BOLLING. I have some questions.

Mr. Reuther, in a statement that Senator McNamara of Michigan entered in the record yesterday, and which I would like to have included in the record of this hearing, he said that the fact that the automobile industry is today borrowing jobs from the future and the debt will probably be paid this fall, may be the basis for something approaching disaster in Michigan before the year is over.

(The information referred to above is as follows:)

THE SENATE MUST BE ALERT TO PREVENT UNEMPLOYMENT—EXTENSION OF REMARKS OF HON. PAT MCNAMARA OF MICHIGAN IN THE SENATE OF THE UNITED STATES, WEDNESDAY, FEBRUARY 9, 1955

Mr. President, I ask unanimous consent to have printed in the appendix of the Congressional Record some data taken from the January Economic Report of the President, some quotations from the Employment Act of 1946, and some conclusions drawn from these data and quotations.

The data given in the Economic Report of the President are as follows:

Year	Total employment [1]	Gross national production [2]	Production per employed worker [3]
	Millions	*Billions*	
1929	49.4	$104.4	$2,110
1948	62.9	257.3	4,090
1953	67.3	364.9	5,415

[1] Table D-16, p. 153.
[2] Table D-1, p. 137.
[3] The figure in this column is derived from the preceding columns.

Source: Economic Report of the President, January 1955.

The years shown above were prosperous years. Even 1953 was a good year before the Republican administration decided to slam on the brakes and almost threw us through the windshield.

The figures for these 3 prosperous years draw attention to the fact that, while the number of workers grew, their production grew even faster. The amount of money that had to be spent in order to keep each of these workers on the job grew with amazing speed. In 5 years, from 1948 to 1953, it jumped by $1,325 per worker.

This growth in production per worker continues. If we were to achieve full employment in 1955, the average worker's production would probably run approximately $5,860, nearly $450 greater than his production 2 years ago.

However, this increase in production would take place only if the buying power in the pockets of our people and investments by our business firms and spending by government kept up with this astonishing growth in production.

This is not likely to happen unless this Congress decides to make it happen. My understanding is that while spending by consumers is expected to increase a little, no one expects the increase to be enough to push total spending to the necessary level in view of the drop in investment by business and in government spending. However, I can only guess at this, because the Economic Report sent us by the President tells us nothing about this, perhaps the most crucial single fact in the economic picture.

The result may well be that there will not be full-time jobs for all those who are able, willing, and seeking work. Millions of American homes may again feel the blight of having the breadwinner laid off. Additional hundreds of small-business men may close their doors. Small farmers may continue to feel the pinch as their incomes fall. And the goods and services that ought to be forthcoming to raise living standards for American people are likely to be choked off at the source.

In Michigan, the memory of 1954 is kept alive by the fear of what lies ahead in 1955.

Even before the auto shutdowns in late 1954, approximately 215,000 people were out of work in Michigan, with 135,000 of them in Detroit alone. The fact that the automobile industry is today borrowing jobs from the future, and that the debt will probably be paid this fall, may be the basis for something approaching disaster in Michigan before the year is over.

We cannot blame this economic failure on nature or on any other force beyond our control. The blame lies with those people in high places who refuse to plan for full production, who may even prefer that we have something less than full employment and full production.

The laws of this country place the responsibility for this situation on the President of the United States. Public Law 304, the Employment Act of 1946, declares that "* * * it is the continuing policy and responsibility of the Federal Government to use "all practicable means * * * to coordinate and use all its plans, functions, and resources for the purpose of creating and maintaining * * * conditions under which there will be afforded useful employment opportunities, including self-employment for those able, willing, and seeking work, and to promote maximum employment, production, and purchasing power."

The act declares further, "The President shall transmit to the Congress * * * a program for carrying out this policy together with such recommendations for legislation as he may deem necessary or desirable."

If the Senate has yet received from the President the kind of program and recommendations which I believe were contemplated by this act, and which would give this body the material we need, to reach the goal of full employment, I have not been able to discover it.

As a matter of fact, his Economic Report is slient on some of the points where it ought to be most useful. It leaves out some of the most important information that this Congress ought to have to work with.

I am sure that the Joint Committee on the Economic Report, under the chairmanship of the able and distinguished Senator from Illinois, Senator Paul Douglas, will do whatever is possible to remedy the failure of the administration to do what the act requires and the country needs. I hope that when the committee makes its recommendations, this body will be alert to do what must be done, and do it quickly, if 1955 is not to be another year of inexcusable unemployment, underproduction, and hardship for many people.

Representative BOLLING. I gather from what you said earlier that you would agree that if you have a rate of production now that leads to almost a total layoff in late fall, that that would certainly be true of Michigan.

Mr. REUTHER. Unless there are some factors which bring about the needed and desired economic improvement in the overall situation, we will be in trouble in Michigan this fall.

Representative BOLLING. This would be a very serious situation in Michigan, but according to your testimony, I gather that because of the impact of the automobile industry, the impact would be felt not only in Michigan, but it would be felt in many, many areas of the country, those that produce steel, those that produce glass, and all of the items that go into the production of automobiles.

Mr. REUTHER. It would be felt disproportionately in Michigan, but the impact would be all through steel, glass, and all of these industries closely allied with automobile production.

Representative BOLLING. This is not only a local production, but a much broader problem.

Senator SPARKMAN. May I intervene at this point?

I call your attention to the fact that not only is it felt through other industries as a way of getting out to areas greater than Michigan, but we feel it in Alabama when you cut down employment in Michigan, because Mr. Wilson said, I believe, that they were expected to go back South anyhow when cold weather comes. That is not the reason they come back South. They come back down there when they are without jobs and simply swell the totals of local unemployment and swell the totals that go on relief and emergency rations. I assume that happens over a great area of the country.

Mr. REUTHER. I am sure it does, Senator Sparkman.

Representative BOLLING. I have one more question. In the Employment Act it says, "In exercising its powers, functions, and duties, the Council may constitute such advisory committees and may consult with such representatives of industry, agriculture, labor, consumer, State and local governments, and other groups as it deems advisable."

In the answers to the questions which I mentioned earlier, there was a question that bore on this, but I would like to have Mr. Reuther's comment on the amount of participation the groups he is associated with or knows of have had. What opportunity have they had for consultation, what advice has been solicited of these groups?

Mr. REUTHER. To begin with, I think the act provided this participation because I think every important economic group in the country has a contribution to make. Industry, agriculture, and labor ought to be consulted so the Government can try to get the benefit of any contribution any group might make.

In the past, in other administrations, we were consulted. The CIO and other labor groups had arrangements with the Council of Economic Advisers where periodically we would sit down and spend a considerable amount of time discussing many aspects of economic problems.

We would raise questions and they would say to us, we would like to have your point of view on this particular problem, how do you react to this situation, this is the way it is developing, and we had a flow of information two ways, and we learned a lot of things from them and I think they learned certain things from us.

During the past year we had an invitation only one time to meet with the Council of Economic Advisers. The invitation came directly after the November election and the meeting was held 1 or 2 days before Thanksgiving. I think we can say in all good conscience that as far as the present activities of the Council of Economic Advisers is concerned, we have not had the kind of opportunity to make our contribution to the work of that agency which I think is required by the law.

Representative BOLLING. Mr. See, would you mind answering the question just put to Mr. Reuther, although you have not had an opportunity to testify.

Mr. SEE. I do not know that our people have ever been called upon by the committee or by the board to consult with them. If they have, it is not to my knowledge.

Senator O'MAHONEY. You would know if your organization had been called upon.

Mr. SEE. I think I would.

Representative KELLEY. Mr. Chairman.

The CHAIRMAN. Mr. Kelley.

Representative KELLEY. I would like to direct this question to Mr. Reuther.

You mentioned the guaranteed annual wage. There is some misunderstanding about that. I would like to have you explain it. Would a guaranteed annual wage mean an indefinite period or would it have limitation?

Mr. REUTHER. The proposal that we intend to make to the auto industry has what we call limited commitments. It is for a period of 12 months, and at the end of that period the worker would exhaust his guaranty. And at the end of that period if he went back to work he would begin to build credit again. We do not think the guaranteed annual wage is a panacea that will cure all of our problems. However, we believe it is one of the unused democratic tools that our free society has to use, and what we have to do is to get further incentives in the industry so that we will create economic incentives for more rational planning of their production.

That is why, we believe, as I said earlier, that our demand is economically sound. We think it is feasible and we think at the bargaining table we can develop economic facts to support the economic soundness of our position. We think it is morally right. We believe that a worker who gives his time and skill and attention to an industry is entitled to an annual wage, because he has to live and eat for the year and support his family by the year.

Industry rewards all of its top executives by the year, it pays taxes by the year, it meets its outstanding financial obligations by the year. The only economic factor in production that is dealt with by the hour or by the piece is the human equation, and we think that, obviously, is the most important equation. We believe that if we provide economic incentives through the guaranteed annual wage, this auto industry which has been notorious for its chaotic and irrational and unsound production planning will begin to get that degree of stability into the industry, so that we are not booming for a few months and walking the streets for a few months and booming again for a few months.

If we can stabilize the auto industry, we will also contribute toward stability in the steel industry and other industries, and this thing can begin to spread in our whole economy. We believe that the auto industry is a logical place to start because the economic resources of that industry can carry the guaranteed annual wage without any difficulty.

When you think that the General Motors Corp. made $1,640 million profit in 1 year—that is before taxes—that is a comparable figure to try to compare costs to, and the other thing is that we are very worried about where we are going in America, in light of the tremendous technological progress that we are making.

There have been times in the history of the free labor movement when people fought against technological progress because they felt the advance of technology threatened their job security. We do not have that philosophy. We have always said we welcome technological progress. If they can find a way to do it easier with fewer people, fine.

We would like to encourage that, but we would like to get the benefit of it. We think technical progress should not mean greater human insecurity; it should mean shorter hours, and higher living standards, an opportunity to grow intellectually and spiritually and culturally.

Work is not an end, it is a means to an end, whereby we create the material needs to satisfy our basic needs, and having done that we can then do these other things. Now, creative work is something different, but when you are just tightening a bolt in an automobile factory, that is not creative work. That is the kind of thing you ought to have to do as little of as possible to earn your bread and butter, so you will have an opportunity to do real creative work.

We had an argument about 3 months ago in 1 of the factories where 8 men were doing a job as a team and those 8 men had about

8 different operations. One follow would tighten a bolt for a half hour, and then move over and tighten this bolt. An engineer came down with a stopwatch and said if we had those fellows just tightening the same bolt all of the time, we could turn out more cars with the same number of workers.

I said: "How would you like to come out of school to the point where you were gainfully occupied in industry and look forward to 45 years of tightening 1 nut in an automobile?"

That isn't why we organize a free society. That isn't what we are defending in the world. We are trying to defend and preserve and extend the idea that people as human beings can solve their economic problems by the organization of their resources and their productive power and their technology and their know-how, and to satisfy human needs so that people can become better human beings.

Frankly, if you ask me, whether we are going to lick the Communists by guns or by this approach, I will say by this approach, because we cannot win a war of negative values, but we can win a struggle of positive values. We get frightened at these little men of no faith when they look backward instead of ahead. The guaranteed annual wage, as I repeat, is not a panacea, but it is another one of the democratic tools we have to work with in trying to find a way to gear our expanding economy to the basic needs of people.

Representative KELLEY. Mr. Chairman, may I ask Mr. See what he thinks about the guaranteed annual wage?

Mr. SEE. Congressman Kelley, our brotherhood is working on such a plan now. We employed Mr. Latimer about a year ago and he is working on a plan for the Brotherhood of Railroad Trainmen and the Brotherhood of Locomotive Firemen. It is based, Mr. Chairman, on the Railroad Unemployment Insurance Act.

Mr. Latimer told me yesterday he had the plan about ready to present to our people now.

Representative KELLEY. Mr. Chairman, I have been asked this question by people who ask about a small industry which probably has not a great deal of capital; how can it guarantee an annual wage?

Mr. REUTHER. Well, I think that the future of small business in America generally is inseparably tied together with our achievement of a full employment, full production economy. When we get in trouble, small business goes down the economic drain. That is the trouble in the auto industry. The small independent producers cannot survive in a contracting market. They cannot survive when the economic pie that they are sharing gets smaller each year because their share of the smaller economic pie is not big enough to justify investment in automation and these other technological advances and the result is they go down the drain. What small business ought to do in America—it ought to join with farmers and labor groups and other progressive-minded people in the joint effort to achieve a full employment, full production, expanding economy, because they can survive only if they share abundance. They cannot survive trying to get a little piece of scarcity, and I think we have to tell the small-business people that their future lies down the road of abundance and full employment and full production, and if we do not get that, they are in trouble.

When the General Motors Corp. got more than 50 percent of the total production of the auto industry, last year, when 6 independent companies together got less than 5 percent, those independents are in trouble. And you cannot say, well, why don't we, the union, give them a break economically, because then what you do is you begin to compete in terms of who can lower the standards most, and that rat race will lead nowhere.

You have to raise standards and obviously you cannot get the little guys to pioneer, but once you get the big industries moving, they will create the stability which will then give the economic resources to the small guy. We had the same problem with pensions. When we talked about pensions they said, well, even if you make the big companies do it, the little companies will go down the drain, and yet we have made more progress on pensions with the little companies because they are nearer people, and sometimes, under the human equation, better. But the real answer to the future of small business is an expanding economy in which they share and participate in the great effort of creating greater and greater abundance. There is no other way out.

Senator O'MAHONEY. Is it true, Mr. Reuther, that these small companies in the motor industry exist by sufferance of General Motors, and 2 or 3 other big companies?

Mr. REUTHER. I believe in a period of contracting markets, in a period when the market does not enable small companies to get a share of the market sufficiently large to justify the expanding of their facilities, what you say is so.

They can only exist on their own economic feet in an expanding market and expanding economy.

Senator O'MAHONEY. What about the situation in previous years; what you have said now is based on automation. I am talking about the conditions which have brought us to this stage.

Mr. REUTHER. Well, I think you will find that during those periods of high economic activity, small business has always prospered, and during periods of reduced economic activity the smaller companies with limited resources are the ones that do not survive nearly as well as the big companies.

General Motors was the only automobile company that made profits during the worst years of the depression. They still made a profit, while thousands and thousands of small companies were going bankrupt and going out of business, and I think that the process of technological progress which is moving forward at an accelerated rate intensifies the economic position and makes more difficult the ability of small business to survive, because technology is related to volume.

You cannot put in a half-billion dollars' worth of machinery to build half that much production. It just does not pay. But if you are going to build, as General Motors does, billions of dollars' worth of automobiles, then you can afford to put in half a billion dollars of automation, because you get that much back, and more.

Volume is the key to unit cost, unit cost is the key to competitive position, and volume, therefore, really, I think, is the salvation of small business.

Senator O'MAHONEY. Well, does the future of automation indicate that unless there is something to counteract it, perhaps General Motors in another 2 years will have 75 percent of the output?

Mr. REUTHER. Well, I do not think they could get that much. I think General Motors can increase its percentage of the total market at the expense of some of its competitors in the next several years, but I do not think they could get that much.

They could take away everything the independents have, and that would only be 5 percent. Then they have to get into Ford's.

Senator O'MAHONEY. When you speak of the independents, whom do you mean?

Mr. REUTHER. The 2 companies that now make up American Motors, Hudson and Nash, and the 2 companies that now make up the Studebaker & Packard Corp., Studebaker and Packard, and the 2 companies that now make up the Kaiser-Willys combination, Kaiser and Willys; those 3 companies had less than 5 percent last year and General Motors had 50 percent.

Senator O'MAHONEY. Ford and Chrysler still have some staying power.

Mr. REUTHER. That is right. Chrysler lost a lot of ground last year, they lost nearly 50 percent of their market. They went from 22 percent down to 11 or 12 percent. They, I think, will make some comeback. It is a peculiar thing about the auto industry, and I suppose, on the one hand, you can admire the spirit of it, but you can certainly question the economic judgment that goes into that spirit.

When you talk to these people, they say that they are all going to beat the other guy, and they all say there is going to be a dip in production, but only the other guy will lose production. We are just going to keep going in high gear, and if you took a piece of paper and you added up how much each one was going to gain, it would be about 175 percent of total production.

The CHAIRMAN. There is an analogy in this. College graduates are supposed to know something about mathematics, but the alumni of every college expects their team to be a constant winner and everybody expects that they will exceed the average and not fall below. This a peculiarity of American optimism.

Mr. REUTHER. Except that we should not build our economic future on that kind of economics.

Senator O'MAHONEY. Mr. Reuther, you told us you were asked once by the Council of Economic Advisers for suggestions with respect to the Economic Report. Were you ever consulted by any of the automobile companies or any of the other corporations which produce the commodities members of the CIO work upon?

Mr. REUTHER. Well, I would say that the amount of consultation which corporations invite us to participate varies with their insecurity. When they have a problem, they want us to consult them night and day, and when they have not got a problem, they go their merry way, and do not ask for our advice. The smaller companies are a little better in that respect. That is because their problems are bigger.

Senator O'MAHONEY. Are you receiving enough consultation at the present time from Congress?

Mr. REUTHER. Well, I would give a most emphatic no to that. We are hoping this session of Congress will do better by the people than the last session.

Senator O'MAHONEY. Let me ask you, unless you have already testified about it, what fact you have discovered and what conclusion you have reached about the present level of production of our automobiles.

Mr. REUTHER. Well, I touched upon that. The figures indicate that auto production, based upon January, and as it is projected through March, that the industry will be operating somewhere between levels of 8½ to 9 million cars a year, but the most optimistic projection of sales is 6 million, so we are operating roughly at 3 million higher than the sales would justify.

Senator O'MAHONEY. An association of automobile dealers recently had a convention of some sort. Were you represented at that convention?

Mr. REUTHER. No, I was not. We do not participate in the meetings of such associations.

Senator O'MAHONEY. I did not think you would, but I thought you might follow up such meetings to see how the dealers react.

Mr. REUTHER. We are cautious about such things because inevitably when we do something in that area, the industry raises questions of managerial prerogatives, that we are interfering in management, and so forth.

Senator O'MAHONEY. I have no thought of your interfering in management. I am only thinking of your watchful eye.

Mr. REUTHER. Well, we watch these things very carefully.

Senator O'MAHONEY. What conclusion have you reached then with respect to whether or not the automobile dealers of the country are feeling satisfied about the situation?

Mr. REUTHER. I think they are very unhappy. I think that the auto dealers are unhappy because I think they are being compelled to take automobiles for which they have no customers. That is where bootlegging comes in. The fellow said I can't sell this as a new car but I will bootleg it somewhere and may make $5 on the transaction, but they always bootleg them in some district where the other fellow is trying to sell cars, and the other fellow bootlegs in other areas, and that creates a great deal of dissatisfaction among dealers at the present time.

Senator O'MAHONEY. You feel there is a compulsion for dealers to take more cars than they can sell?

Mr. REUTHER. Business Week says there are currently inventories of 550,000 cars, and Ward's Automotive Report says by the end of March there may be 661,000 cars in inventory. Obviously, when you build inventories that fast, you can only build them when the companies are pushing more cars in the hands of dealers than the dealers are able to dispose of.

The CHAIRMAN. You could not legally prove that the dealers are compelled to take these cars because the pressure is subtle and by word of mouth?

Mr. REUTHER. That is right.

The CHAIRMAN. And indirect and illusive, rather than brutal and forced; isn't that true?

Mr. REUTHER. I think its effects are brutal but I think the technique is not brutal.

Senator O'MAHONEY. How many dealers does General Motors have throughout the country, do you know?

Mr. REUTHER. I do not know. It is very sizable. They have, of course, one of the best dealer organizations.

Senator O'MAHONEY. Well, would it be possible for your staff of experts to determine it?

Mr. REUTHER. Oh, we know. I do not know offhand. We have those figures back in Detroit. I would be very happy to get them for you.

Senator O'MAHONEY. I wish you would, and put them in here, because we are talking now about the effect of this one corporation upon the economy of the whole country. When you have large corporations producing such a tremendous proportion of the particular commodities that go into trade all over the country, you have a center of economic stimulus and of economic depression, and any study of the economic effect must go into that aspect of it.

(The material supplied by Mr. Reuther is as follows:)

Passenger-car dealers in the United States in 1954

Company	United States passenger-car dealers [1]	United States franchised new-car dealers [2]
Chrysler	10,292	----------
Chrysler-Plymouth	3,349	3,491
DeSoto-Plymouth	2,883	2,954
Dodge-Plymouth	[3] 4,060	4,140
Ford Motor Co	8,407	----------
Ford	6,564	6,590
Lincoln-Mercury	1,104	1,774
Mercury	739	----------
General Motors	[4] 20,790	----------
Buick	3,509	3,414
Cadillac	1,743	1,610
Chevrolet	7,533	7,522
Oldmosbile	3,878	3,664

Company	United States passenger-car dealers [1]	United States franchised new-car dealers [2]
General Motors—Con.		
Pontiac	4,127	4,072
Hudson	1,766	2,017
Nash	1,531	1,623
Packard	1,520	1,433
Studebaker	2,491	2,749
Kaiser-Frazer	----------	2,127
Willys	----------	1,973
Kaiser-Willys	[5] 2,339	----------
Total United States franchises	49,136	47,184
Minus dual franchises	6,955	----------
Net number of United States dealerships	42,181	----------

[1] As of Jan. 1, 1954, as estimated by Automotive News Almanac for 1954.
[2] As of Mar. 1, 1954, as estimated by R. L. Polk & Co. and published in Automotive News Almanac for 1954.
[3] Total includes a few exclusive Dodge dealers.
[4] In a General Motors press release for Jan. 17, 1955, reference was made to 18,500 GM dealers and distributors.
[5] Kaiser-Willys recontracting program incomplete as of Jan. 1, 1955.

Mr. REUTHER. I would like to qualify, if I may, my statement that dealers are being crowded with more cars than they can sell. I will make one exception, Cadillac. Cadillac dealers have more customers than they have cars.

Senator O'MAHONEY. Well, would you regard that to be a result of last year's tax law?

Mr. REUTHER. I would think that that had a great deal to do with it. Unfortunately, America will have to ride the lower priced cars to prosperity. It would be fine if we could all ride in a Cadillac, but I am afraid we can't.

The CHAIRMAN. Mr. Talle.

Representative TALLE. No questions.

The CHAIRMAN. Thank you very much, Mr. Reuther.

Mr. REUTHER. Thank you for this opportunity.

The CHAIRMAN. Mr. See, of the Brotherhood of Railway Trainmen.

OPENING STATEMENT OF HARRY SEE, NATIONAL LEGISLATIVE REPRESENTATIVE OF THE BROTHERHOOD OF RAILROAD TRAINMEN

Mr. SEE. Mr. Chairman, I am appearing on behalf of Mr. Kennedy, the president of the brotherhood, who was invited by the committee to be here, and who found it impossible to do so.

My name is Harry See, and I am national legislative representative of the Brotherhood of Railroad Trainmen, with offices at 10 Independence Avenue SW., Washington 24, D. C. The headquarters of the brotherhood are located in the Standard Building, Cleveland, Ohio. We represent brakemen, yardmen, conductors, switchtenders, train baggagemen, and other classes of employees on railroads. The brotherhood has approximately 200,000 members employed in train service in the United States and Canada.

The President's Economic Report declares that "the Government is mindful of its great responsibility to help assure balanced economic growth." The report states also that the administration program for 1955 is directed to fostering longtime economic growth rather than imparting "an immediate upward thrust to general economic activity."

Since the President's report was issued the Federal Reserve Board has taken action to slow down what has been called "the strong recovery phase" of the American economy. The President of the New York Federal Reserve Bank described this as a change from a policy of actively encouraging lending by the commercial banks to one of "letting credit tighten up a bit." This seems to mean that the Eisenhower administration's interpretation of "balanced economic growth" and avoiding "an immediate upward thrust" requires a slower rate of expansion in business activity than prevails at the present time.

The experience of 1953 indicates that we cannot use tight credit to slow down economic expansion without the risk of reducing job opportunities. Therefore, I ask the question, Is this the time to slow down business expansion?

According to the Interstate Commerce Commission, employment on class I railroads has declined from 1,239,000 in July 1953 to 1,027,000 in December 1954, a reduction of 212,000 in 18 months. This is a 17 percent decline in employment over the period. . According to the President's report, average unemployment on a national basis rose from 2.5 percent of the labor force in 1953 to 5 percent or 3,230,000 in 1954. In December 1954, unemployment was 2,838,000. I include this in my statement because I believe it is necessary to points which I develop later.

I do not need to tell this committee that not only are 3 million wage earners out of work, but hundreds of thousands of jobseekers have withdrawn from the labor market because there is no prospect of finding work and still other workers are on part time. I understand there are estimates that unemployment may reach 4 million in 1955 and 5.5 million in 1956, even on the basis of currently anticipated increases in economic activity.

The present is no time to take any action that will run the risk of reducing employment opportunities.

Our national production is still short of the level necessary to provide maximum employment. Employment in the railroad industry has declined every month since July 1953. Railroad transportation is a service industry that cannot prosper unless and until industry generally prospers. Carloadings, although showing a tendency to increase in recent weeks are still below the levels reached in 1953.

Carloadings and railroad employment will not increase until there is an expansion of industrial output. We know that the growth in our economy in 1954 lagged behind 1953; that industrial production and carloadings were behind 1953. We get no satisfaction from comparing 1954 with earlier years and saying that it was our second best year. Railroad and other workers are still out of work and the prospect is for even greater unemployment unless business activity expands.

A major portion of the decrease in employment in the railroad industry is brought about by the continued drop in the production and hauling of coal. Production of bituminous coal was 630.6 million tons in 1947. In 1954, the output of bituminous coal had fallen to about 390 million tons, a decline of 38 percent over a 7-year period. Carloadings of bituminous coal were 9,088,000 in 1947 and 5,650,000 in 1954, a decline of 3,438,000 carloads, or about 38 percent over this period.

To illustrate one of the causes for this deterioration in the coal and railroad transportation industries, let me first state that in the year 1954 this country imported 128,327,160 barrels of residual fuel oil. This figure is equal to 30,557,500 tons of coal. Using the average figure of 60 tons of coal per carload, this would translate the 128,327,160 barrels of oil into 509,291 carloads of coal.

To realize how much of an effect this has on employment, we must first take a look at the decrease in the carloadings of coal in the three major coal regions.

In the eastern region, for the year 1952, there were 1,170,489 cars of coal loaded. In the year 1954 in this same region, only 903,222 cars were loaded, a decrease in the 2-year period of 267,267 cars.

In the Allegheny region, 1,657,472 cars of coal were loaded in 1952, while in 1954 carloadings totaled 1,367,062, a decrease of 290,410 cars.

In the Pocahontas region, in the year 1952, carloadings of coal totaled 1,831,106, while in 1954 they amounted to 1,485,409, a decrease of 345,697 cars. The combined decrease of carloadings of coal in these 3 regions for 1954 as compared with 1952 totals 903,374 cars.

So far we have discussed only the drop in total carloads of coal. To carry the translation further in terms of railroad manpower, the loss of 903,374 carloads would equal 1,130 trains, using 80 cars per train as an average number. This is still not the complete picture, however, for so far we have spoken only of carloads of coal lost.

As you well know, the other side of this movement is the bringing of empty cars to mines for the transportation of coal to consumers. To determine the total number of trains and crews displaced by this operation, the number of 1,130 trains must be doubled, since there would be a like number of movements of empty cars to the mines before there would be the same movement of loaded cars out of the mines.

Senator O'MAHONEY. Let me interrupt, Mr. See, to remark that if you had included the Rocky Mountain region in this computation, you would have found a similar story of reduced production and increasing unemployment in the coal-mining regions.

Mr. SEE. I think that is true, Senator. That would be true in every coal-mining region.

Senator O'MAHONEY. Well, I just hate to see Wyoming overlooked. That is all, Mr. See.

Mr. SEE. I understand that the coal situation isn't so good, and that residual oil does not have much to do with that. It is largely the dieselization of the railroads that owned the coal mines, in the first place.

Senator O'MAHONEY. That has some bearing.

Mr. SEE. I do have the coal-loading figures for some of the western railroads.

Senator O'MAHONEY. I think it would be well if you put them in the record.

Mr. SEE. I would be glad to do that.

(See p. 1215.)

Mr. SEE. We thereby see that actually 2,260 trains are affected. To continue, the average haul from mine to consumer is 300 miles. Crews are paid on a 100-mile-a-day basis. The number of trains affected then becomes three times the above figure, or 6,780. Since 5 men constitute a train crew, the astounding total of 33,900 man-days lost is realized.

This figure applies, you will recall, only to the three coal regions mentioned above, the Eastern, Allegheny and Pocahontas, and does not by any means indicate total loss in railroad employment as a result of the decline in coal production.

The above figure represents only road train and engine crews. It does not include the associated employment of yardmen or the large number of nonoperating employees used in connection with such traffic.

I do not wish to leave the impression that every one of the man-days lost in these three coal regions is attributed directly to the importation of residual fuel oil. But it is a tremendous factor on certain railroads with a large coal hauling business, such as the Pennsylvania, New York Central, Western Maryland, Virginian, Chesapeake & Ohio, Norfolk & Western, and the Clinchfield. We do not have the decrease in employment for this period for each separate railroad, but if the committee desires that kind of information, the Interstate Commerce Commission is in a position to furnish it.

On one railroad, the Norfolk & Western, as of January 28, 1955, approximately 2,000 employees have been furloughed. Only 20 percent of these employees have been able to find jobs in other industries. Total employment on this carrier at high-level employment is over 17,000.

I might add within the past couple of weeks I was in eastern Tennessee and was informed that employment on the Clinchfield Railroad was just about 50 percent what it was 2 years ago, and the Clinchfield is a large coal hauling railroad.

I stated these facts on the importation of residual fuel oil before the Ways and Means Committee on January 31. I urged that committee to place a quota limitation on the importation of residual fuel oil. I am restating these facts before this committee because I want it to understand the effects of these importations on the coal and railroad industries.

The President's economic report has supporting evidence of the effect of the decline of the coal industry. The map on page 90 of the report (chart B-3) shows a belt of the greatest unemployment among insured workers. Of the 9 States showing the greatest insured and unemployment, 4 are coal-producing States. Pennsylvania has unemployment of 7 percent of the total insured, West Virginia 10.9 percent, Kentucky 10.3 percent, and Tennessee 8.6 percent.

For the United States as a whole, insured unemployment in 1954 was 5.2 percent of covered employment.

A representative of our union, Mr. Van Parsons, general chairman on the Western Maryland Railway, described to this committee the unemployment among railroad workers in Cumberland, Md. At Altoona, Pa., there are 585 car-repair workers including carmen, machinists, carpenters, welders, and pipefitters out of work. And that statement comes from a sheet put out by the Railroad Retirement Board to their National Employment Service. Yet the national total of cars awaiting repair rose from 87,637 in 1954 to 116,200 in January 1955, while the number of locomotives awaiting repair over the same period rose from 1,919 to 2,513.

We take the position that if the Pennsylvania Railroad started repairing the equipment that needs repairing, they could put a lot of people out of work in Altoona back to work. That could be true in any town where there are railroad shops.

Railroad employment at Cumberland and Altoona will not increase until an improvement in general business conditions results in a greater coal output and a greater demand for railroad services.

The President says that the vigor of the recent recovery suggests that economic expansion will "probably" continue during the coming months and that it holds out the promise that we shall achieve a "high and satisfactory" level of production and employment in the current year. He says further that—

> it is reasonable to expect that the Nation's output within the coming year will approximate the goals of "maximum employment, production and purchasing power" envisaged by the Employment Act.

This statement does not commit the administration to work for a level of production that will reduce unemployment to a bare minimum. What is a "high and satisfactory" level of employment? Why are our sights set merely on approximating the goals of maximum employment, production, and purchasing power? The report fails to define the goals required by the act. Is the word "approximate" used to evade this responsibility?

Does the administration look back to the level of production and employment of 1953 as a satisfactory level of production and employment for 1955? A return to "the good old days" of 1953 will not meet the needs of 1955 and future years. We must look ahead to the necessity of increased production and employment. The labor force is growing because of the growth in population. The annual net increase in the number of people seeking employment is about 700,000, and I think Mr. Reuther raised that to 800,000. At least one forecast was made before this committee that average unemployment may increase by as much as 1 million to about 4 million in 1955.

One conservative investment publication, the Magazine of Wall Street, January 8, estimates an increase in unemployment to almost 4 million in 1955 and to 5.5 million in 1956 on the basis of the present level of business activity. Even this publication complains that "a prosperous America cannot afford the stigma of chronic rising unemployment."

From my own industry I can report that there has been displacement of workers by investment in diesel power, centralized traffic controls, pushbutton freight yards, and other modern equipment and methods. Dieselization, for example, means less man-hours in repair shops. It also means longer trains with lower requirements for operating labor and increased hazards in hauling the longer trains.

The trend to modernization increases output per worker in all industry, including the railroad industry, justifying higher wages. But increasing productivity per worker means less men to turn out the same work. We must adjust our national economic policies to provide employment for the workers displaced by the increasing use of automatic machinery and more efficient methods and equipment.

I need not remind this committee of the harsh impact of continued unemployment. I fear that the policy of permitting credit to tighten up may have damaging and far-reaching effects on American industrial activity. It may halt recovery entirely. "Letting credit tighten a bit" means turning our backs on the effects of unemployment. As a nation we must not show this indifference to the urgent needs of millions of unemployed and underprivileged American citizens.

We have given two reasons—growth in the labor force and increase in productivity—why a return even to the high output and employment of 1953 will fall short of the need of the American economy in the current and future years. We believe the administration is overly concerned about the threat of inflation and not sufficiently concerned about the necessity of a definite program of governmental expenditure on a National, State, and local basis that will assure full employment of the Nation's men and resources in the years ahead.

The problems associated with expansion such as labor shortages and a tendency for higher prices must be measured against the hardships to more millions of unemployed Americans which is likely to result from tightening credit at the present time. We must decide between the two as long as we have millions of unemployed. There can be no doubt where the decision will be once the choice is made clear. Our democratic society will not tolerate unemployment, but will demand a rising national output and a job for every man seeking work.

The following steps should be taken to give the needed boost to employment and national output:

The President's recommendation that we postpone the lowering of the corporate income tax scheduled for April 1, 1955, should be adopted. The revenue needs of the Government should be met from this source rather than from the excise taxes.

The excise taxes should be kept no longer than the date of April 1, 1955, when many of them are scheduled to be lowered. These taxes transfer purchasing power from consumers to the Government with the effect of curtailing spending for consumer's durable and other goods and in that way hold down employment. The removal of the excises would encourage business and help employment.

In the railroad and transportation industries generally, the wartime excises on the charges for the transportation of persons and property are adding to the burdens of the railroads and other common carriers, and encouraging the use of nontaxed means of transportation, both passenger and freight. The tax on passenger fares was enacted to discourage the use of commercial carriers during the war when their facilities were overloaded with travel, much of which was not essential to the war effort.

The tax on freight charges discriminates against distant shippers and pyramids until it is actually many times the original tax. These taxes are a Government-imposed burden on an industry that is losing ground to private untaxed carriers such as the private passenger automobile and the private motortruck, and should be removed to provide a needed stimulus to the public agencies of transportation.

The President's recommendation to increase the present national statutory debt limit should be adopted to enable the Treasury to borrow when necessary to meet the needs of a full-employment economy. Similarly, the States should act on the President's recommendation to remove and to relax the local tax rate-limiting and debt-limiting statutes as means of enabling these local jurisdictions to increase the scale of their public-works programs.

Individual income taxes should be reduced through the method of increasing personal individual income-tax exemptions. This would give substantial aid to lower income receivers and would add to mass purchasing power and thus help employment.

The national minimum wage should be raised to $1.25 per hour. The President's proposal to raise the wage to 90 cents per hour is wholly inadequate.

The President's recommendation that the Federal old-age and survivors insurance should be extended to Federal personnel should be adopted. However, I do not believe the President goes far enough in this change. There should be a substantial increase in retirement benefits to keep pace with the increase in living costs. I might say for the employees of the industry of which I am a member that railroad retirement benefits can, in my judgment, be increased without a tax increase and without jeopardizing the reserve fund.

I am not sure that the President recommends including under the unemployment-insurance system the employees of State and local governments, and employees who work for firms employing fewer than four persons. Presumably the President asked only for consideration of this change, because it is a State responsibility and because he wants, above all, for it to remain a State responsibility. I believe that this change should be adopted and that it should become a responsibility of the Federal Government.

Likewise, the President asked the States to consider revising unemployment-insurance benefits so that in all cases they equal at least one-half of the regular earnings. I believe this change should be adopted and that it should become a responsibility of the Federal Government.

There should be a minimum term of unemployment benefits of 26 weeks, but I believe that employees with longer records of contributions to the system should have a longer period of benefits. These changes should be effected through Federal legislation.

The recommended changes in the unemployment-compensation system should not be left to the States, but should be assumed by the Federal Government. The States have failed to take any action toward accomplishing these objectives. For example, President Eisenhower twice in 2 years has asked the States to consider raising the weekly benefits to equal one-half the worker's weekly wage. No State has yet adopted this standard. We need Federal legislation to incorporate these needed reforms into the social-security system, on a uniform, nationwide basis.

The recommendations of the President for expansion of the Federal program of aid for fellowships, research, teacher training, and other related educational activities should be acted upon without delay and upon a scale commensurate with the size of the problem.

There is no lack of authoritative statements of needs for the necessity of aid to the States and school districts in the construction of school buildings. It is unnecessary to await a report from the forthcoming President's conference on educational needs. The conference is not scheduled to meet until late this year. Its report and recommendations may not be available in time for legislation by the next session of Congress. We all know the urgent needs of our children, the crowded condition of the classrooms, the overburdened teachers. The need of the public-school system is immediate and growing. The present Congress should take action to remedy this shortage without waiting for any more surveys or reports.

The President's report places primary responsibility of any public works for schools, hospitals, hydroelectric development and other public investment on the States and local units of government and private enterprise. The report reads as if undertakings on conserving water resources, involving the development of hydroelectric power were small, local projects in which people of several States had no interest.

I need only read a partial list of such projects, such as the Tennessee Valley, Hells Canyon on the Snake River, Grand Coulee and Bonneville on the Columbia River, and the Great Central Valley of California to show that the power, irrigation, and flood control and conservation of resources far transcend the resources of any small locality and private capital and have a public interest to the people of a vast area which extends beyond State boundaries. It may be said to affect vital interests of the entire Nation.

In my own State of California private interests and local capital were never equal to doing the job of controlling the recurring floods of northern California and relieving the arid conditions of the Central Valley. The State attempted it and was never able to raise the huge amounts of capital required. Then Franklin Roosevelt and Harold Ickes gave us the Central Valley project prepared jointly by the United States Corps of Engineers and the Bureau of Reclamation.

The result is that today major floods are unknown in northern California and hundreds of thousands of acres of desert in the Sacramento and San Joaquin Valleys are under cultivation. This great Central Valley project, which has resulted in a vast increase in private enterprise in the area, could not have been accomplished without Federal funds and management.

The CHAIRMAN. Is it not true that the State of California now wants to get this back again for themselves?

Mr. SEE. Yes, I have heard something about that, Senator. I have not been around California much in the past few years, but I read it.

The CHAIRMAN. But without any limitation on the size of the land holdings.

Mr. SEE. I think that is right. They would do away with the 160-acre limit. I might say that 2 or 3 times we had the Water Power Act on the ballot in California for the voters to vote on, and we never were able to secure votes enough because of the immense amount of money, the financial burden it would place on the State.

Senator O'MAHONEY. Well, wasn't the bond issue authorized several years ago?

Mr. SEE. No, those measures failed during the times I was in the campaign. I think not, Senator.

Senator O'MAHONEY. It is my recollection that before the Central Valley project was undertaken by the Federal Government, the State of California had actually authorized a bond issue but no effort was made to proceed under that issue when the opportunity presented itself to get Federal money.

Mr. SEE. I would be glad to check on that, Senator, and let you know definitely. (See letter p. 1215.)

The administration's withdrawal from such great public undertakings means the nondevelopment of many of our resources and partial, even wasteful, development of many others. It means that private, monopolistic financial interests can dictate the terms of sale of such products as hydroelectric power. In many instances dependence on local units of Government and private enterprise will mean almost no conservation and irrigation whatsoever. The move by the Eisenhower administration to emphasize the responsibility of the localities and private capital is a large and significant step backward. It means a definite slowing down in the development in our resources, if not halting such development altogether.

On new schools, hospitals, water systems, the report simply says that they constitute the largest part of the demand for public works and are traditionally provided by the States and their governmental subdivisions. The report claims that in most cases the capacity of municipalities appears to be adequate for financing these needed improvements. The proposal to remove debt-limiting and tax-rate-limiting statutes, suggestions for broadening the market for bond issues of local governments and the coordination of public works planning is the extent to which the administration would go in giving Federal assistance to these subdivisions. Experience has shown that the States and municipalities have not met the problem of financing public works on the scope necessary to meet the needs of our present-day population.

I believe that direct Federal grants must be made available to the States and their subdivisions to insure that such projects be undertaken. That is the basis of the commonly accepted plan to aid our public schools, including the construction of buildings; it similarly should be the basis of a nationwide plan for the construction of hospitals, water systems, and other resource conservation projects.

There is no doubt that we need modernization of our highway system. But we do not need improvement in highways to enable people to get from one place to another more rapidly than before as much as we need certain other public construction such as schools and hospitals.

Moreover, I believe that before we undertake a vast program of modernization of public highways with the Federal Government contributing the lion's share of the cost, there should be some form of Federal highway user taxation. The commercial vehicles that are the major factor in highway deterioration should pay a charge commensurate with the benefits they derive from and the wear they cause on the highway roadbed.

Unless we make such a provision for financing the modernization of our highways, such improvements become an outright subsidy to one form of transportation at the expense of the American taxpayer.

The present program of underwriting home mortgages by the Government should be continued, and the increase on the insurance authorization requested by the President should be adopted. There should also be a huge expansion in the low rental housing program beyond the 35,000 per year requested by the administration. We cannot hope to provide equal opportunities for our citizens without providing decent dwellings for all.

If these steps are taken, I believe we will go far along the road to full employment and toward bringing prosperity to such industries as coal and railroads. I believe that the consummation of those steps will also accomplish some longstanding objectives for the improvement of living conditions of vast numbers of our underprivileged citizens.

I wish to thank the members of this committee for their time and attention.

The CHAIRMAN. Mr. Talle.

Representative TALLE. No questions, thank you.

The CHAIRMAN. Thank you very much, Mr. See.

(Mr. See's prepared statement and a supplemental letter appear at pp. 1210–1216.)

The CHAIRMAN. Next Wednesday we will continue the hearings of representatives of economic interest groups. At that time we will hear from Mr. Kennedy, the vice president of the United Mine Workers of America; Mr. Shuman, president of the American Farm Bureau Federation; Mr. Newsom, master, the National Grange; Mr. Schmidt, chief economist, Chamber of Commerce of the United States of America; and Don Mahon, president, National Brotherhood of Packinghouse Workers, and secretary of the National Independent Union Council.

(The prepared statements and supplemental material received from the panel are as follows:)

A FARMER'S PLEA FOR EXPANDING FULL EMPLOYMENT ECONOMY—STATEMENT OF JAMES G. PATTON, PRESIDENT, NATIONAL FARMERS' UNION

Mr. Chairman and members of the Joint Committee on the Economic Report, for the record, my name is John A. Baker. I am assistant to the president of National Farmers Union, for research and legislative service. As you know, Mr. Chairman, Jim Patton, national president of Farmers Union, had planned to participate in this hearing, but owing to its being rescheduled he was unable to be here.

I shall read a brief summary of Mr. Patton's statement and submit for the record certain supplementary material.

As we figure it, Mr. Chairman, national farm gross income in 1955 will probably be more than $7 billion short of a full employment level and realized net income of farm operators will be about $3½ billion lower than is needed as the basis for an expanding full employment economy. In 1955, America's farm families should be a $40 billion market for commodities and services instead of the $31.5 billions projected by the President's Economic Report.

Mr. Patton's statement continues: I submit this statement to you as one who helped shape the Employment Act of 1946, and who still believes that loyalty to its principles and success in its objectives are vital to America in these times of world crisis and domestic distress.

Lest you feel that my reference to domestic distress is overdrawn, I call your attention to two significant facts. First, the income of the average United States farm family has dropped from about $200 per month in 1952 to $150 per month in 1954 and under the Eisenhower sliding scale farm program a further drop to only $100 per month would be allowed. Second, unemployment is officially announced to have risen by 538,000 in January, bringing the total to 3,347,000. As has become customary, the Government press releases surround this further downturn with a rosy glow—they say it is seasonal. The small decrease in unemployment in the last quarter of last year was really seasonal, but the rosy press releases forgot about seasonal adjustments then—they asked us to cheer a big improvement. An increase of more than half a million in unemployment in 1 month is not just seasonal; it is mighty serious. If we were in a great upsurge of business, it would overcome the seasonal factors and bring about a drop in pathologically high unemployment.

The President's 1955 Economic Report reaches a new low under the Employment Act. It highlights the wrong facts; it misconstrues the facts that it highlights; and it fails to carry through to logical conclusions as to policy or program even of the facts it does present.

The Economic Report does contain an impressive array of charts, graphs, and tables. So do other Government manuals. But this array is used to conceal, not to reveal, significant meaning for economic policy. The Economic Report is supposed to be a great interpretive document—and the interpretation is lacking in the report you have under consideration.

Here are a few of the questions that the report makes no attempt to answer, or even really to raise.

Is employment too high or too low, and how much reemployment do we need for maximum employment?

Is production sufficient, and how much do we need for maximum production?

Is purchasing power sufficient, and is it well distributed, and how much adjustment do we need for different groups for maximum national production?

These are not merely random questions. They are the core of intelligent consideration of economic policy. They are the central questions that the statute directs be answered in the Economic Report. The report does not even raise these questions. It abandons the field of sound economic analysis. It cuts the ground from under intelligent discussion of economic policy. And specifically it flouts not only the spirit but the very letter and explicit mandate of the Employment Act.

This breach occurs, I submit, because the Economic Report misses the whole heart and purpose of the Employment Act. The act does not call for an historical encyclopedia of cold data. It does not call for mere forecasts. It calls for a true and bold statement of our economic needs and capacities, and for a program based upon these needs and capabilities. This the 1955 report totally and distressingly lacks.

The Economic Report does not set any growth goals for this year. Without established growth goals how can we possibly determine where the deficiencies are or how to surmount them?

How fast is automation creating the need to find new jobs for displaced workers?

How far is consumption short of the requirements for a full economy?

What tax and spending policies, by the Government, would specifically address themselves to solving identified problems and overcoming stated weaknesses in the economy?

How have the policies of the Government, thus far used, worked to overcome these weaknesses, if at all?

Nowhere in the report can one find significant attention to these questions—in quantitative and meaningful terms. Platitudes and easy optimism are to be found in abundance. One can hardly disagree with its conclusions, because it selects no vital problems to reach conclusions about.

I cannot discuss the farm features of the report, because there are none.

The job of preparing the kind of Economic Report envisioned by the Employment Act of 1946 remains to be done.

I strongly urge that the committee write a report to the Congress which specifically sets forth the size of our needs to achieve maximum employment, production, and purchasing power, along with a program adjusted to these great purposes. Since the Economic Report has not provided these materials for the committee to evaluate, I respectfully submit that the committee, prior to doing its own job, needs to do the job that the Economic Report should have done but did not do.

Mr. Chairman, I request that the remainder of Mr. Patton's statement, which consists of the rationale and statistical detail of our calculation of a 1955 full employment income and an illustrative documentation of the shortcomings of the 1955 Economic Report be inserted in the record of these hearings.

Lest my criticisms of the Economic Report seem too harsh, lest us take a look on page 24 of the report. On this page, it is stated that "the business recovery now under way is powerfully supported by underlying forces of economic growth." This sounds very encouraging indeed. But then the report says, on the same page, that Federal spending is going to decline further; that the prospects for plant and equipment expenditure are uncertain; and that further expansion of consumer spending may be expected. Assuming these forecasts to be correct, how much do they add up to? At best they add up to a very moderate increase in total output.

But we know that, to restore full employment and full production, we need a tremendous increase in total output. We need it to make up for the fact that we are now at least $30 billion below maximum output. We need it to make up for the fact that we must raise output about 8 percent above current levels, by the end of this year, to restore maximum employment. Measured against these needs, which the report does not even state, its own forecast turns into a very dismal picture.

But then the report goes on to say, still on the same page, that "with economic activity continuing to expand, it is reasonable to expect that the Nation's output within the coming year will approximate the goals of maximum employment, production, and purchasing power envisaged by the Employment Act."

This last statement has no real content whatsoever, because the Economic Report does not define maximum employment or production or purchasing power. But let us see where we come out, when we do define them.

Maximum employment would require, by the end of this year, that almost 3 million new jobs be created, to reduce unemployment to full employment levels and to absorb more than a million people entering the labor force and scheduled to return from the Armed Forces. Are we on our way toward this goal, when in January employment dropped by more than a half million and unemployment rose more than a half million?

Maximum production means that our output in the fourth quarter of this year must rise at least 8 percent above current levels, or about $30 billion. Are we on our way to this goal, when the much heralded business upturn of the last few months has lifted output by only about 1½ percent, and when almost everybody admits that this upward flurry was caused mainly by a level of automobile production, and accompanying steel production, enormously higher than anybody expects can be maintained for the balance of this year?

Maximum purchasing power means that we need to add about $18 billion to personal incomes between now and the fourth quarter of this year, to get sufficient expansion of consumer buying. Are we on our way to this goal, when personal incomes have risen by only $2½ billion during the past year and a half?

Maximum purchasing power also means that we need by the end of this year to raise farm personal income, as a share of total personal income, by $4 billion or more. Even if we did this, we would be far short of any kind of parity of income for agriculture.

Are we on our way to this goal when gross farm receipts, on an annual basis, have dropped $3 billion since 1951; when farm operators' net income, measured in uniform 1954 dollars, has dropped about $7 billion since 1947; and when farm personal income has dropped more than $4 billion since 1951, or a fall of 20 percent while total personal income increased 8 percent?

Are we on our way to this goal, when per capita farm income has dropped from $851 in 1946 to $649 in 1954? Per capita farm income is now about one-third as high as per capita nonfarm income, while it was almost half as high just after World War II. While real per capita nonfarm income is now slightly higher than just after World War II, real per capita farm income is almost 20 percent lower.

Are we on our way to this goal, when the farm parity ratio has recently fallen to the lowest levels in about 14 years?

And what goals are we on the way to, with respect to using our enormous productive power—more than 7 percent of which now lies idle—to meet the basic needs of our people?

National security is being cut billions of dollars below what the best informed experts advise.

International economic aid, a major fortification of the free world, is being slashed further and further.

With a current shortage of classrooms at primary and secondary levels of education of more than 350,000, and with a present backlog of school construction estimated at $10 billion, the portion of the Federal budget represented by outlays for education and general research is little more than half a cent for each dollar in the budget, and no real increases are being projected.

Under our old-age insurance system, the average monthly checks are between $50 and $60 per person, including benefits for dependents, which in many parts of the country is barely a quarter of the requirements for maintaining minimum standards of health and decency. What kind of shabby treatment is this of our older people.

Our national resources development programs are being slashed further and further. Soil conservation and reforestation, flood control and power, scientific experimentation and valley developments, are being neglected at a rate which is not only depriving our people of necessary services, but also corroding the base for the growth of industries and enterprise.

Measures to supplement the incomes and standard of living of almost 7 million American family units who have incomes of less than $1,000 a year are being pushed aside. The proposals to increase the minimum wage laws do not even keep up with the changes in the cost of living, since the original 40-cent law was adopted; in terms of current higher standards of living and higher productivity, the 90-cent proposal is as out of date as two-wheel brakes.

A tax policy is being maintained which has already displayed in practice the fallacy of watering the tree at the top and neglecting it at the roots. The tax concessions to corporations, dividend holders, and well-to-do individuals have not stimulated investment, in the face of the great deficiencies in consumer markets measured against the needs for an expanding economy. The kind of tax policies which would help lower income families, for example, through lifting the exemptions, have not been adopted.

In the face of millions of urban and rural slums, a rehousing program is being recommended by the Government which does not even rise to the dignity of a token program.

The Economic Report of the President makes no attempt to match its proposals and programs against the size of the needs to be met. Failing to do this, even its own programs are not supported by the economic analysis; although these programs are pitifully inadequate in all cases and misdirected in some cases.

Beyond all question, we are now facing a fantastic increase in productivity and technology, dramatized by automation. Although production in our great manufacturing industries is now somewhat higher than a year ago, employment is 5 percent lower. We are at the start of a new industrial revolution, which will plunge us into depression or carry us to new heights of prosperity and abundance, depending upon how soundly and how quickly leadership responds to this challenge. Yet, reading the Economic Report. one would hardly know that this problem of advancing technology—in some respects the greatest economic problem we face—even exists.

It was not toward the end of this kind of Economic Report that hundreds of public-spirited Americans worked and toiled to create the Employment Act of 1946. It was not to achieve this kind of Economic Report that the Congress, by a majority of both parties, passed this act. What could happen to our country, if men in high places, like the President and economic advisers basically responsible for the preparation of this report, are permitted without challenge to ignore the requirements of the act under which they serve, and to evade the responsibilities which the nature of their positions would impose upon them even if the Employment Act did not so clearly do so?

I believe in our American system of checks and balances. I feel that this committee should both check and balance these economic advisers and, even the President, where clear duty requires it. It should issue a report which tells them what the law requires them to do. It should balance their neglect, by itself writing a report which lives up to the promise of the Employment Act.

We are living under world conditions which require that we do our best. It is not enough to say that we are not in a serious depression. The vital issue is that we are wasting millions in manpower and billions in idle productive facilities which could be utilized to strengthen our country against external enemies and to strengthen it at home against poverty, injustice, economic insecurity, and glaring shortages in those educational and health facilities which are bearing upon the citizens of tomorrow.

The American people have the right to expect the best. Their leaders should provide them with the best. I am confident that this committee will do its part in providing that kind of leadership.

CALCULATION OF FULL EMPLOYMENT FARM INCOME

The farming segment of the national economy should be enabled to make its full contribution to the attainment and sustaining of an expanding full employment economy. To do so, it must be able to earn by sale of its products a sufficient national farm gross income to pay all farm production and capital depletion and replacement costs and leave a national farm net income that will give farm families a purchasing power equivalent to their numbers in an expanding full employment economy.

Admittedly, there is room for argument as to the amount of national gross farm income that is required to keep farmers from being a drag on national prosperity. Outlined in the paragraphs that follow is one logical method of arriving at such a figure.

To do their part to maintain an expanding full employment economy in future years, farm families should have at least the same relative per worker income as they had in high employment years of the immediate past. The most recent 5 individual years in which the number of unemployed averaged less than 3.5 percent of the civilian labor force were 1953, 1952, 1951, 1948, and 1945. (See table I.)

The average realized farm net income per unpaid family worker during those years was $1,914, as reported by the United States Department of Agriculture. In a real sense this figure can be considered as the farm workers' income that was consistent with a full employment economy in the immediate past.

For the national economy to grow at the rate required to maintain full employment, the incomes and purchasing power of consumers must keep pace with the increasing productivity per man-hour made possible by advancing technology. The nearest approach to this by any large group of consumers in the economy has been the workers in manufacturing establishments, although their wages have seriously lagged behind the required rate in past 2 years. Certainly, the family workers on America's farms should be enabled to keep pace with the retarded rate of increase in hourly wages of manufacturing workers. This is the minimum that an expanding full employment economy can allow, if depressive maladjustments are to be prevented.

Hourly wages of manufacturing workers averaged $1.48 during the 5 most recent maximum employment years. In December 1954, the figure was $1.83 or 24 percent greater. To keep pace, the average net farm income per family worker should in 1955 be at least $2,373.

The Department of Agriculture reports an estimated 6.5 million family workers on farms in 1954.

For each of these to be enabled to earn a full employment income of $2,373 would mean a national realized net income of farm operators of $15.4 billion.

Turning now to the production cost component of farm gross income, annual national farm operating costs, in the 5 full employment years of the past period, averaged $19.9 billion. During the same period, farm operating costs were 58 percent of the gross income. By 1954 farm operating costs took up 63 percent of gross farm income, owing largely to increased mechanization, higher land values and thus higher variable and overhead farm costs of production per unit of product. This was a further extension of a constant trend observed over the entire 45 years for which statistics are available to chart it.

Income available to cover farm operating costs and capital impairment and depreciation in 1954 had to be 9 percent higher than in the base period years.

Moreover, the per unit cost of production items (prices, wages, interest, and taxes) rose from the average of the base period years from an index of 259 (1910–14 equals 100) to 284 (1910–14 equals 100) or by 9 percent. Farmers in 1954 not only had to buy 9 percent more off-farm goods and services relative to output, but also had to pay 9 percent more per unit for what they bought.

If farm production is not to lag behind population increases, provision must be made to cover the increased cost of producing the increased supply required by a larger national and world population. Since the base period years, United States population increased by 7 percent meaning that food and fiber consumption and production and therefore income to cover production costs needed to be that much greater to maintain per person consumption rates. And, it should be noted that in none of the base period years did increases occur in so-called agricultural surpluses. It would be reasonable to suppose therefore, that a full employment economy in future years should be equally capable of using and paying the production cost of an equivalent supply of farm output as in the base period years. However, augmented foreign demands growing out of this was caused by heavy production in some of the base years; therefore farm production did not advance as rapidly as population increases. Total farm output in 1955 will probably be about 3 percent higher than in the base period years. (An index of 107 as compared with 104.)

Multiplying the $19.9 billion base period average farm production costs by the several adjustment percentages just discussed gives a 1955 full employment farm cost and production figure of $24.3 billion.

Adding national full employment farm net income of $15.3 billion to national full employment farm costs of production of $24.3 billion results in a 1955 full employment farm gross income total of $39.7 billion.

If farmers are to maintain the farm plant of the Nation and make their full contribution to production and purchasing power to an expanding full employment economy, national total farm gross income in 1955 should be close to $40 billion instead of the approximately $32½ or $33 billion now forecasted by the United States Department of Agriculture.

Interestingly enough, if prices received by farmers in 1955 were supported at 100 percent of parity instead of allowing them to drop to the current 86 percent of parity level, national farm gross income would be about $38.4 billion. This indicates that 100 percent of parity prices as now calculated are about 3 percent lower than a true level of farm prices that would be fully consistent with an expanding full employment economy.

Statistical Summary

Calculation of 1955 full employment farm gross and net income

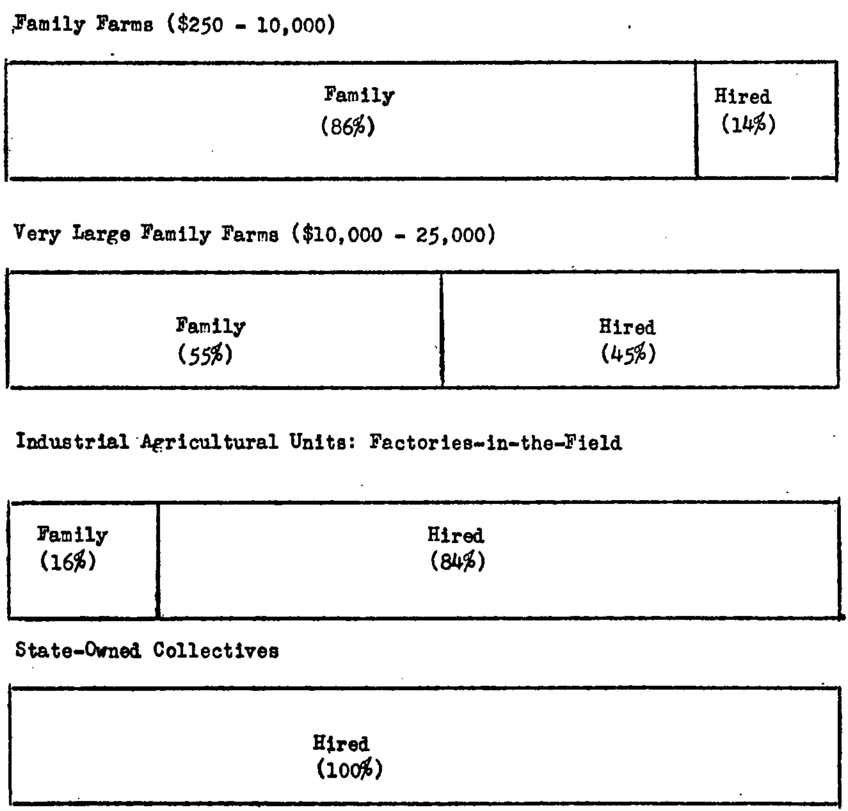
(a)	Acreage annual realized net income of farm operators (base period years)	$13, 900, 000, 000
(b)	Average number farm family workers (base period years)	7, 200, 000
(c)	Acreage net income per farm family worker	$1, 914
(d)	Wages per hour of manufacturing workers (base period years)	$1. 48
	January 1955	$1. 83
	Index for January 1955 (base period=100)	124
(e)	1955 full employment farm net income per family worker	$2, 373
(f)	Number of family workers on farms, 1954 average	6, 500, 000
(g)	Total 1955 full employment national realized net income of farm operators	$15, 400, 000, 000
(h)	Average annual farm operating costs (base period years)	$19, 900, 000, 000
(i)	Increase in ratio of operating costs to gross income (index)	109
(j)	Increase in farm output (index base period=100)	103
(k)	Farm cost of production index:	
	Base period	266
	January 1955	290
	Increase over base	109
(l)	Total 1955 full employment level farm cost of production	$24, 300, 000, 000
(m)	Total 1955 national full employment farm gross income	$39, 700, 000, 000

TABLE I.—*Economic indicators for 5 most recent years of full employment*

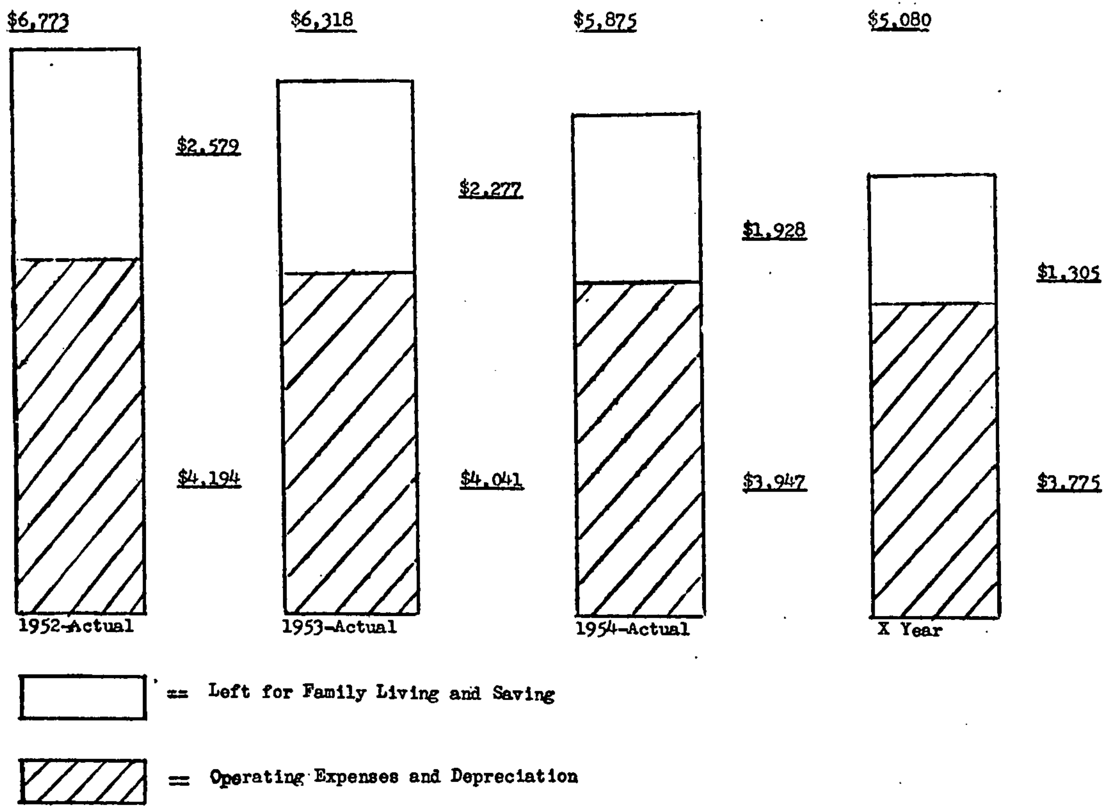
Year	Percent unemployed in civilian labor force	Realized net income of farm operators	Family workers	Manufacturing wages	Farm operating costs	Farm grain income	United States population	Cost of production index	Output index
	Percent	*Billions*	*Millions*	*Per hour*	*Billions*	*Billions*	*Million*		
1953	2.4	$13.3	6.6	$1.77	$22.2	$35.4	159.6	286	108
1952	2.7	13.6	6.7	1.67	23.2	36.8	157.0	298	107
1951	3.0	14.5	7.0	1.59	22.4	36.9	154.4	292	103
1948	3.4	15.6	8.0	1.35	18.9	34.5	146.6	266	104
1945	1.9	12.3	7.9	1.02	13.0	25.3	139.9	190	96
Total		69.3	36.2		99.7	168.9			
Average		13.9	7.2	1.48	19.9	33.8	151.5	266	104
January 1955			6.5	1.83			164.0	290	107

FAMILY ESSENCE OF FAMILY FARM

Proportion of Labor Performed by Family and by Hired Labor



DEPRESSION HITS FAMILY FARMS — IS WORSE YET TO COME?



Statement by Walter P. Reuther, President, Congress of Industrial Organizations

The CIO is pleased to have this opportunity to discuss the President's Economic Report and current economic trends before this committee today.

Let me say at the outset that we in CIO were disappointed by the President's Economic Report. We had expected more substance in the report, an analysis of our current situation, an examination of major trends with emphasis on labor force growth and productivity, a spelling out of guideposts for attaining full employment in 1955 and maintaining it in the years ahead.

The Employment Act of 1946 clearly states that "The President shall transmit to the Congress at the beginning of each regular session * * * an economic report" that shall include the presentation of "such levels (of economic activity) needed to carry out the policy" of promoting maximum employment, production, and purchasing power "current and foreseeable trends in the levels of employment, production, and purchasing power" and "a program for carrying out the policy" of promoting maximum employment, production, and purchasing power.

The Economic Report fails to fulfill the administration's obligation under the law. The report does not present the American people with production and consumption goals for attaining full employment. It utterly fails to deal with labor force growth and rising productivity—the two factors that make economic expansion both possible and necessary. It does not present a program for achieving maximum employment, production, and purchasing power in 1955 and in the years ahead.

I would suggest that this committee address a letter to the President, requesting him to fulfill the requirements of the Employment Act of 1946, by "setting forth * * * such levels (of economic activity) needed to carry out the policy of promoting maximum employment, production, and purchasing power."

In my opinion, the report, unfortunately, continues the administration's past policy of digging its head in the sand when confronted by economic problems.

One would think that the Economic Report would analyze and discuss the failure of nonfarm employment to grow in the past 5 months, despite increases in production. Yet the Economic Report fails to do so.

One would think that a report by the President of the United States on the economic state of the Union in January 1955 would discuss automation and its implications for economic expansion, production, consumption, and employment. Yet the Economic Report fails to do so.

One would think that the Economic Report would analyze and discuss the decline in farm income that continued through 1954. One would think, too, that the report would analyze the relatively deteriorating position of small business. Yet the Economic Report failed to discuss these problems.

It would be too time-consuming to detail the glaring gaps and omissions of the report. But these omissions apparently reflect the administration's lack of concern for important areas of our economy. This lack of concern troubles me and I am certain that it troubles many thinking Americans.

I am troubled, for example, by the administration's complacency concerning employment trends. The Economic Report speaks in optimistic tones, but in January 1955, the latest month for available information, nonfarm employment was lower than in the same month of 1953 and 1952. Are we to be optimistic about an economic situation in which employment is worse than in the 2 preceding years?

I am troubled by the administration's constant preoccupation with inflation some forty-odd months after the peak of the post-Korean inflation has passed, at a time when a realistic appraisal of the current situation would lead one to believe that present levels of production and employment may not be sustained beyond the next few months.

I am troubled when in December 1954, with unemployment approximately 4½ percent of the civilian labor force, the Secretary of the Treasury Humphrey heralds the defeat of inflation as a major achievement of the administration.

I am most troubled because I firmly believe that the administration is selling the American people short; that its pretty, half-hearted economic programs are based on an hypnotic preoccupation with statistical indexes of the long-run past rather than with the tremendous strides toward economic abundance that present American technology and ingenuity are making possible.

There was a time when the Nation's leadership had a buoyant faith in America and in the limitless possibilities for growth and improvement in a free society. I fail to find evidence of such faith in the President's Economic Report.

Instead. the administration seems to be complacent about a level of economic activity at which unemployment is 4½ to 5½ percent of the civilian labor force. The administration seems to be satisfied with some vague projections of a possible 3 percent rate of economic growth into the future, simply because that has been the expansion rate over the long-run past.

The productive ability of the American economy, however, is growing by leaps and bounds. The ingenuity of American technology is now making possible economic growth potentials beyond anything achieved over any past period of time.

Within the next few years the civilian labor force will be growing at an accelerating rate. This means that an increasing number of people will be available for work to produce additional wealth.

We are now at the start of what some scientists tell us is the second industrial revolution. Automation makes possible the automatic office, as well as the automatic factory, with the likelihood that entire plants, offices, or departments in much of industry and commerce will be operated by electronic-control mechanisms within the coming decade or two. And in the offing is the development of atomic power and the possible practical use of solar energy. Productivity increases in the period ahead may well be tremendous, making possible the creation of abundance in terms undreamed of before.

These growth potentials will make possible vast improvements in the living conditions of the American people. They can be a major asset in developing both national strength and the power and stability of the free world.

But what we get from the Economic Report, and from the administration generally, is an avoidance of any mention of this tremendous potential for rapid economic growth and improved living conditions. From the administration we have received no analysis of this potential, no guideposts for future economic growth, no discussion of the probable temporary dislocations airsing from automation, no preparation of the Congress and of the people to meet the new technology and to use it for the benefit of the Nation.

THE CURRENT ECONOMIC SITUATION

Within the past few months there has been an upturn in the general level of production. But there is little in the pickup to date to make me feel satisfied about the likelihood of sustaining "a high and satisfactory level of employment and production" in 1955, as the Economic Report confidently assures us.

Unemployment in January was higher than in any recent January since 1950, when the economy was moving out of the 1949 recession. Employment is still lagging behind the point reached a year and a half ago. And the pickup itself seems to be largely based on high levels of auto production that can be sustained through the year 1955 only by much greater auto sales than anyone in the industry expects.

An examination of employment trends would be sufficient to make any reasonable person lose his complacency about the state of the national economy. As far as employment goes, the picture is one of stagnation.

There is no indication that nonfarm employment is rising to give full-time jobs to those who are now unemployed or employed only part time, as well as to absorb the growth of the labor force in an increasingly efficient productive economy. Despite the moderate pickup in production in the last few months, the level of manufacturing employment has remained relatively stationary, and nonfarm employment as a whole has not risen much more than seasonally. Many employed workers are still on part-time jobs.

Despite the pickup in production, and in the face of a growing labor force, nonfarm employment in recent months has not been "the second best," as administration spokesmen usually refer to economic conditions in 1954, but worse than in the previous 2 years.

With the labor force growing and productivity rising, employment must increase substantially each year, if full employment is to be maintained. The planned reduction in the size of the Armed Forces this year is an additional factor to be considered as part of the employment picture as it shapes up for 1955.

If we examine available employment figures for January or any recent month, however, we find a clear picture of stagnation on the job front. In January 1955, the level of industrial production was almost 5 percent greater than in January 1954, but nonfarm employment was down 300,000 and manufacturing employment was down 500,000.

In addition, manufacturing employment in January was below the level reached in the Januarys of 1954, 1953, and 1952, and it was the same as in January 1951, 4 years ago. Nonfarm employment, as a whole, was below the previous two Januarys.

	Industrial production index	Unemployment	NonFarm employment	Manufacturing employment
		Million	*Million*	*Million*
January 1951	122	2.5	46.0	15.9
January 1952	121	2.1	47.1	16.0
January 1953	134	1.9	48.8	17.1
January 1954	125	3.1	48.1	16.4
January 1955	[1] 131	3.3	47.8	15.9

[1] Our estimate.

Source: Federal Reserve Board and U. S. Department of Labor.

Stagnation on the job front has particularly hurt the employment opportunities of Negroes, younger workers and older workers. In January, for example, 10.8 percent of the nonwhite male labor force was unemployed, compared with 4.8 percent in January 1953.

The failure of employment opportunities to expand has likewise brought special pressures on scores of communities throughout the Nation, where unemployment has remained for a year at 6 percent or more of those willing and able to work.

Employment will of necessity have to increase considerably above current levels if full-time job opportunities are to be provided for those now unemployed and on part-time work, in addition to absorbing the growing labor force in an economy whose productivity is rising rapidly. And that means rising sales, based on growing markets and increasing consumer spending.

But what is the picture as regards production and sales?

The recent pickup has been based upon (1) the start of production of 1955 model autos and its impact upon related industries; (2) the rebuilding of inventories in some industries after many months of inventory liquidation.

Last October, automobile assembly hit a low of 223,200 cars. In December, after the start of production on 1955 models, the total number of autos assembled jumped to 556,000. In January, about 660,000 passenger cars were assembled. Ward's, the industry journal, reports that passenger-car production is scheduled at 748,800 for March.

These high levels of auto production have had their effects upon production levels in other industries—such as steel, rubber, and glass. But how long can automobile production remain at first-quarter rate of 8¼ million cars a year?

Even the optimists in the industry do not predict that auto production in 1955 will be substantially above 1954, when about 5.5 million passenger cars were produced. Passenger car production, it is estimated, will be 5.8 million this year.

In almost any city in the country, you will find that the new models are already being sold below list price. Business Week reports that auto inventories are already above 500,000. Ward's predicts that a continuation of current production and sales trends will bring auto inventories close to the alltime peak of 661,000 by the end of March. Indeed, it is possible that the auto inventory peak may be reached as early as a month from now.

At the present rate of production, over 2 million passenger cars will be produced in the first quarter of this year. It is quite obvious that this production rate cannot be maintained throughout the year, unless sales should jump substantially over present and anticipated levels.

With inventories mounting, a continuation of present production and sales relationships means that auto production will inevitably fall within the next few months. Such a drop in auto production would be accompanied by layoffs and part-time work, especially among the independent auto producers, and by cuts in production and employment in related industries.

If auto and related production drops some 3 or 4 months from now, where are the economic forces to take up the slack and lift production and employment to higher levels in the last half of the year? I fail to find any evidence for confidence in the continuation of even the present pickup through 1955.

Steel production has turned up, reflecting in good part the high output of automobiles. But even after the upturn, the steel industry is still operating at about 85 percent of capacity.

Spokesmen for the steel corporations are optimistic about steel output in 1955, yet their optimism is merely in the range of 95 million tons (75.5 percent of capacity) to 100 million tons (79.5 percent of capacity). Even at a 100-million-ton level this year, average steel employment will be only slightly above 1954 but would still be about 50,000, or 9 percent, below 1953. The estimate of 95–100 million tons in 1955—by comparison with 88 million last year—can be achieved only by an increased sales volume, which means high levels of auto and agricultural implement production, new plant and equipment outlays, appliance production, and construction expenditures.

Business and Government economists have predicted that business investment in new plant and equipment will continue to slip this year. A significant turnaround in this sector of the economy will depend largely upon growing consumer markets and significant improvements in general economic conditions.

The rate of change in business inventories has already shifted in the fourth quarter of last year, much of it connected with auto and related production. The annual rate of inventory reduction dropped from $4.8 billion in the third quarter of 1954 to $1.5 billion in the fourth quarter. A turnaround to a general and sustained level of inventory building can be expected only if business sales rise substantially. It was the failure of consumption to keep pace with the production of goods that forced the inventory liquidation of the past 15 months.

Increased housing construction last year was one of the props under the economy. There have been predictions of a further increase this year. Many economists, however, have raised doubts as to whether housing construction will remain high through 1955, considering present income levels, income distribution, and current Government policies. Even the present rate of housing construction may decline sometime during the year, if the housing market is not bolstered by increased incomes among low- and middle-income families and by improvements in the Government's housing programs.

The decline in farm income has affected many industries, including agricultural implements, autos and steel. There is no indication that farm income will rise this year, under present expectations and Government programs; indeed, many observers anticipate further declines.

On balance, therefore, if one omits the possibility of a new irse in defense expenditures, there well may be a leveling off or deciine of economic activity during the latter part of 1955, unless sales rise substantially above the present. That would mean a decline from a level that is already considerably below full employment.

A small improvement in economic activity in 1955, as compared with 1954—a 2-percent increase for example—would utterly fail to bring the economy up to anything approaching full employment. It would likewise fail to bring economic activity back to where it was in 1953. Two years of population growth, labor-force increases, rising productivity, and increased productive capacity would not be met. It would mean rising unemployment and increasing hardships for millions of families and scores of communities throughout the Nation.

In 1954, unemployment was 3.2 million, or 5 percent of the civilian labor force. This year, if the economy expands no more than 2 to 3 percent, the growth of the labor force and rising productivity will result in an increase in unemployment by 1 to 1½ million over 1954.

The likelihood of a further rise in unemployment this year is not the exclusive prediction of the CIO. May I recall to this committee that not one of the economists in your opening day's panel expected unemployment by the end of this year to be less than in 1954; many anticipated significant increases in unemployment to accompany a slight upturn in general economic activity.

The administration, however, apparently sees no need for adopting policies and programs to stimulate the level of economic activities this year. Confronted by a failure of the economy to expand sufficiently to attain full employment, administration leaders continue to do battle with a phantom bugaboo of inflation.

Instead of acting to stimulate economic activity, the administration seems to have embarked on a deflationary policy of tightening the money supply. The new monetary policy is described as a shift from "active ease" to "plain ease." Whatever the description, the Federal Reserve Board has been tightening the money supply through its open-market operations, and the Treasury has announced a new 40-year bond issue at a 3 percent interest rate. As a result, interest rates on Government bonds have already moved up.

Unfortunately, I am compelled to draw the conclusion that the administration is satisfied with a state of economic activity in which some 5 percent or more of the civilian labor force is unemployed.

A DEFINITION OF FULL EMPLOYMENT

Too often people speak of full employment without defining what they mean. Indeed, it is likely that there are those in business and Government who would consider the present state of affairs—with over 5 percent of the civilian labor force unemployed—as full employment.

To me, full employment means a level of economic activity at which job opportunities are available for all persons willing and able to work.

In a free economy such as ours, people must be free to move from job to job and from one part of the country to another. Such persons would be temporarily unemployed. But such frictional and seasonal unemployment, resulting from job changes, geographical shifts of the population, and seasonal fluctuations, need not be more than 2¼ percent to 2½ percent of the civilian labor force in our industrialized economy.

In other words, to maintain full employment would require Government action when economic activity starts to decline and when unemployment rises above the 2¼ percent to 2½ percent level—about 1.5 to 1.7 million at present—for any period of successive months. A full-employment policy requires that the Government be prepared at all times with a series of programs to stimulate demand—ranging from stimulating consumer income through monetary, credit and tax policies to public-works programs. It likewise requires vigilance and flexibility—a willingness on the part of the Government to act positively and decisively on the economic front.

That is my understanding of full employment. It is also my understanding of the general scope of Government responsibility under the Employment Act of 1946.

The Economic Report and Government actions in the past 18 months clearly indicate that the administration has a different but publicly undefined definition of full employment. I repeat my suggestion that this committee request the President to spell out in clear and direct terms the administration's definition of full employment and its concept of Government responsibility under the Employment Act.

The continued lag of economic activities below full-employment levels is a waste of manpower and productive capacity. It is a loss of an opportunity to advance the living conditions of the American people and to strengthen the national economy in a world beset by international tension.

There has been a growing gap ever since mid-1953 between the actual rate of production and what is needed for sustaining full employment. Although the administration spends much time talking about budget deficits, it has utterly failed to mention the national economic deficit resulting from the downturn in economic activities.

As a result of the reduced levels of production in the past 18 months, some $35 billion of goods and services that should have been produced have been irretrievably lost.

These billions of dollars of lost production—food, clothing, homes, autos, household appliances, schools, hospitals, roads, and capital equipment—are lost forever, just as were the opportunities for improved living conditions during the depression of the 1930's.

ECONOMIC GROWTH

Economic growth has become as widespread and accepted a term as full employment. Most people agree that economic growth is essential for full employment, but what is meant by economic growth?

The administration apparently is satisfied with the possibility of an average yearly increase of something like 2 to 3 percent, even in 1955, when we must lift the economy out of the downturn of the past 18 months. As I said before, I think the administration is selling the American people short, that the President and his Council of Economic Advisers have failed to indicate how the Nation's tremendous potential for growth can be utilized to sustain full employment.

Economic expansion is both possible and necessary because of (1) the growing labor force; (2) rising productivity.

It is now estimated that the average yearly growth of the civilian labor force is some 700,000 to 800,000, and will continue to rise at an increasing annual rate within the coming decade.

This year the civilian labor force may increase by 900,000 to a million, if the size of the Armed Forces is reduced as planned.

In 2 or 3 years, the growth of the civilian labor force will be accelerating, as those who were born since 1939 start looking for jobs. The annual growth of the civilian labor force within the next 5 years will likely be about 800,000 to a million a year. Between 1960 and 1965 the average annual growth of the civilian labor force will probably be about a million to a million and a quarter.

This means that the civilian labor force, which has been growing at an average annual rate of about 1 percent in the recent past, will be expanding at an average rate of about 1.2 to 1.8 percent a year in the decade ahead. An increasing number of job opportunities will have to be created each year if full employment is to be attained.

Productivity, too, will probably be rising at an accelerating rate in the period ahead, at the very time when civilian labor force growth will also be accelerating. The rise in productivity means more output per man-hour. But it also means that if the Nation's total production of goods and services stands still, millions of workers will be displaced because their manpower will no longer be needed.

In the recent past, productivity has been rising at an average annual rate of close to 4 percent. Improvements in labor skills, in existing machines and work flow, when combined with the introduction of automation, could well bring average annual productivity increases to 5 to 6 percent, or more. A 5 to 6 percent average annual rate of productivity increases may well be a conservative estimate, when one considers the changes in technology that are now taking place.

For about 15 years scientists have been bringing forth a host of new developments in the fields of electronics and atomic energy. Many of the electronic devices developed during World War II in connection with military equipment have been applied since then to civilian uses. The most common term encompassing these developments of electronic machines and computers is automation, which has been heralded as introducing the second industrial revolution. The impact of this new technology on our economy and society will no doubt be tremendous in the years ahead.

Automation has been described as the automatic handling of parts between progressive production processes, the use of feed-back control devices which allow individual operations to be performed without the necessity for human control, the use of electronic computers capable of recording and storing information and performing complex mathematical operations on such information. Automation makes possible the automatic office, as well as the automatic factory. Technology experts tell us that within the coming decade or two a fair-sized proportion of American industry and commerce will be fully or partly automated.

No one can be certain, at present, about the degree of its effect upon productivity and the labor force. But the implications are clear from an examination of the facts on hand.

I will present only a few random examples of automation as it now operates:

John I. Snyder, Jr., president and chairman of the board of U. S. Industries, Inc., states: "At least in some industries automation * * * is already an earmark of one or more parts of the plant process, whether the end product is a cylinder block, a vitamin capsule, or a 155-millimeter shell.

"Thus, outside of the oil industry, there are relatively few completely automatic factories now in operation, but a number of companies have automatized sections of their plants. General Motors' radiator cap department, for example, is outfitted with machinery that puts together stampings, rivets, screws, gaskets, and springs into finished radiator caps capable of passing automatic inspection. General Electric produces a chassis with a stamped circuit upon which, without turnover, are assembled other circuit components feeding automatically from the top of the assembled machinery.

"Our own company, U. S. Industries, Inc., operates perhaps the only fully automatic factory now producing. It is a Government-owned 155-millimeter shell plant at Rockford, Ill."

A spokesman for Ford, which operates an automated engine plant in Cleveland, says: "Automation reduces labor tremendously. Our experience has shown that we can count on a reduction of 25 to 30 percent in what we call direct labor."

It has been estimated that 154 engine blocks run through the production line at that Ford plant in an hour, require 41 workers on the line. The same production base, under older production methods, required 117 men.

Business Week reports that Pontiac's new automation line is expected to boost production 25 percent, without any increase in manpower.

The use of automation at the Thompson Products plant cut labor costs on the automative valve line by 25 percent, according to the magazine Factory Management.

A recent article in the Scientific Monthly reports that Univac has taken over "a variety of accounting jobs at General Electric's Louisville plant, where General Electric is bringing together its electric appliance manufacturing units in one place. The Univac will undertake the preparation of payrolls, basing its computations on information stored in its memory concerning wage rates, overtime, and the various deductions that must be made. It will compile sales records and prepare bills. It is expected ultimately to be used to make sales analyses, denote regional shifts in the sale of various appliances, and to modify production accordingly."

The same article reports that an inventory-control computer is now in operation at the John Plain mail order house in Chicago; "it handles 90,000 tallies a day, keeping track of inventory on the 8,000 items in the catalog."

The New York Times reports: "Three major insurance companies have gone electronic or are arranging to do so imminently. To hired hands like Univac and IBM's 701 will be entrusted such jobs as billing you for your premiums, calculating agents' commissions, figuring out dividends, and, ultimately, working up all the company's actuarial data."

Automation holds out the promise of vast improvements in living conditions, leisure, and national strength. It likewise promises the elimination of routine, repetitive jobs. But the widespread introduction of automation within the coming decade or two will present us with serious economic and social problems involving dislocations of the labor force, geographical shifts of industry, labor displacement, the upgrading of labor, and the need for substantial yearly increases in consumer purchaser power for rapidly growing markets.

There are people who say that the economy will, in the long run, adjust itself to the labor displacement and disruption of the new technology. The long run, whatever that means, is not the consideration, for, as Lord Keynes once said, in the long run we are all dead. The question is whether our economy and society shall drift along aimlessly into dislocations and disruptions, mass unemployment, and catastrophic depression. In the world of 1955, the very suggestion of drifting along without foresighted policies is an indication of blindness to the realities of life which, unfortunately, include a cold war that could well turn into a hot one.

In a recent paper on automation before the Southern Economic Association, Profs. W. S. Buckingham and S. F. Dallas stated: "Those who disparage fears of technological unemployment often assume the existence of a self-adjusting labor market. However, there is a real danger that imperfections in the labor market will seriously delay absorption of the displaced workers."

A little thought given to the economic and social impact of automation will indicate that there is no automatically self-adjusting market and that automation's widespread introduction will bring in its wake serious problems for factory and office workers in scores of companies and communities.

We have also been told that automation will create jobs in an expanding electronics industry to absorb those who are displaced from their factory and office employment by automated machines and electronic computers. It is true that the electronic industry is expanding, but will it create enough jobs to absorb any large number of those who are displaced elsewhere in the economy? The facts do not give much hope on that score.

Productivity in the electronics industry is also expanding rapidly, with the introduction of laborsaving devices, new materials, and automation. A Department of Labor study states: "Electronics output in 1952 was 275 percent higher than in 1947 but was produced by only 40 percent more workers * * *.

"Output per man-hour (in the electronics industry) may rise even faster during the next few years, as a result of improvements in manufacturing techniques * * * These trends toward automation may result in the greatest reduction in unit manhours in the industry's history during the next few years."

Will automation create new secondary industries and new jobs?

Professors Buckingham and Dallas answer: "Automation does not promise to create as much secondary investment as did some of the earlier developments in technology. The introduction of the automobile and the resulting increase in primary investment in that industry stimulated a wave of investment in the oil, rubber, highway, and construction factors of the economy. In this respect, automation will not make the far-reaching investment impression on the economy that the introduction and later improvements in automobiles, railroads, and canals, for example, created."

There will probably not be a significant growth in secondary investment, arising as an immediate response to the widespread introduction of automation. In addition, it is well to recall that studies by the National Bureau of Economic Research, of which Chairman Burns of the Council of Economic Advisers was the Research Director, indicate that the productivity of capital (plant and equipment), as well as of labor, has been increasing. The output of a unit of capital now is greater than it was in the past. Automation will likely speed up that trend, with an effect on investment as well as on employment.

What can we do to minimize the economic and social dislocations that the new technology will bring in its wake? Certainly we can learn much more about automation and its social and economic impact than we know at present. Government and private groups can cooperate to enable us to pass through the transition period without permitting human suffering and the undermining of our national strength. It would be senseless and dangerous to permit anything like a repetition of the dislocations and suffering that accompanied the industrial revolution or the productive advances of the 1920's.

The potential impact of the new technology upon our social, economic, cultural, and political life must be carefully studied and examined. I would recommend, therefore, that this Joint Committee on the Economic Report undertake a full-scale study of automation and its social and economic implications. I am certain that such a factual study—and proposals for private and public policies—will be welcomed by industry, labor, and the American people as a whole, to help guide us through the transition to the world of abundance that the new technology is bringing forth.

MEETING THE CHALLENGE OF FULL EMPLOYMENT

There are real problems at present—with 3⅓ million persons unemployed and others employed only part-time—in returning the economy to a full-employment level.

From an annual rate of $369.9 billion in the second quarter of 1953, before the downturn started, the gross national product declined to $357.1 billion in 1954, instead of rising as it should to provide full employment. The production losses of the past 18 months are lost forever.

To return the economy to a full-employment level in 1955 and provide full-time job opportunities for the unemployed and those on part-time work schedules, the gross national product must rise approximately 10 percent this year, to $393 billion.

Even in a more normal year, the economy is compelled to expand at a rapid rate to sustain full employment. In such a year, with a civilian labor force of 64 to 65 millions, the economy is burdened with the responsibility of providing over 3 million new job opportunities, when productivity rises 4 percent and the labor force increases by 1 percent, to absorb the increase in the labor force, as well as the displacement effect of rising productivity. The answer to such responsibility is economic expansion, not by 2 to 3 percent rate, but by a 5 percent rate. It was substantial economic expansion of that approximate magnitude, achieved through growing markets and rising demand, that gave us high levels of employment in the recent past.

How much more serious will these problems be in the coming decade, even should automation be introduced relatively slowly, if the labor force growth is 1.5 percent a year and annual productivity increases come to 5 to 6 percent? Under such conditions the economy will be burdened with the responsibility of providing annually 4½ to 5 million new job opportunities. Economic growth in such a period would have to be at a yearly rate of some 6 to 7 percent to maintain full employment.

To meet the challenge of attaining full employment today, as well as to meet the challenge of the new technology, our sights must be raised, goals must be lifted, problems must be frankly faced and publicly discussed. To shut our eyes to the new technology, as the Economic Report does, is not going to help us over the hurdles in the coming years, when the new technology comes into its own.

We are having difficulties today trying to maintain even a 4 percent rate of annual growth. We have found it difficult to sustain rising levels of consumer demand sufficiently to match even our present productive capacity and efficiency. Can we feel complacent about the likelihood of requiring a much more rapid rate of economic expansion? Can we attain the sharper rises in consumer demand, needed for continued economic expansion, without public and private planning to meet the changes as they occur?

In discussing automation, Mr. Snyder, of United States Industries, states that a "reduction of labor costs is only a part of the point. Another highly desirable feature of automation, in relation to labor, is the fact that machines are easier to control than people * * *."

But if people do not have jobs, incomes and purchasing power, who is going to buy the flood of products flowing out of automated production? Certainly not the machines.

The present problem of trying to maintain a high and rapidly rising consumer demand will become even more pressing after the new technology proceeds to make available an increasing volume of goods and services. The widespread introduction of automation, too, will create labor displacement problems in thousands of plants and scores of communities; the national economy will probably be required to create some 4½ to 5 million new job opportunities annually to sustain full employment.

The challenge of sustaining full employment must be met. Private groups and Government must cooperate to provide continuing economic expansion for full employment. Government must take leadership in this effort to provide policies and programs for maintaining economic growth.

SUGGESTED POLICIES

A mass production economy requires mass consumption. Our major economic difficulty in the past 18 months has been an insufficiency of consumer purchasing power to sustain full employment. With the new technology increasing the efficiency of production, this problem will grow in importance.

Collective bargaining can help to build strength into the economy's mass consumption base. Substantial wage improvements will enable consumers to buy the increasing volume of goods made available by improved productive techniques.

My own union, the UAW–CIO, will soon be bargaining with the great auto corporations. As you know, the United Auto Workers is demanding a guaranteed annual employment plan from the industry, as well as wage increases and other improvements in working conditions.

We are confident that a guaranteed employment plan is feasible, that it would help to minimize wide seasonal fluctuations in auto production, such as occurred, for example, in 1953 and is being repeated at present. We believe that assured annual employment and incomes can give wage and salary earners an opportunity to plan ahead and to improve their living conditions on a continuing basis. A guaranteed annual employment plan could provide a more secure basis for mass consumption throughout the year. It would induce management to plan its widespread introduction of automation for periods of expanding demand and rising employment.

Assured annual incomes and increased buying power of wage and salary earners represent actions by private groups in the economy to achieve the necessary rising levels of consumer spending. But even such achievements—important as they are in helping to raise consumer income—are, in themselves, not sufficient at present to sustain full employment. Government action is also essential, if the required strength of the mass consumption base is to be strengthened sufficiently to assure that job opportunities will be available for all persons willing and able to work.

One area that needs revision is taxes. The Federal Government's tax policy should be geared toward strengthening consumer buying power and eliminating inequities from the tax structure. The CIO has advocated that the present $600 personal income-tax exemption should be raised immediately to $800, and eventually to $1,000.

Excise tax cuts scheduled for April 1 should be permitted to go into effect. The 52 percent corporate tax rate should be retained for at least another year.

Needed revenue can be made up by retaining the 52 percent corporate tax rate, as well as by closing last year's newly enacted "loopholes," such as reduced taxes on dividend income, and by closing the long-standing "loopholes"—such as the split-income provision and depletion allowances.

Special attention must be focused upon those millions of American families in the low-income groups—those who are earning less than $3,000 a year and constitute a vast potential market for goods and services. The low-income groups have thus far received the smallest share of the benefits of our present technology. Their inability to buy the goods produced in increasing volume will become even more serious as the new technology becomes more widespread.

The Joint Committee on the Economic Report should prepare a study of the problems of the lower-income families (with earnings below $3,000 a year), with a view toward devising public and private programs to improve their purchasing power and living conditions. It is of no constructive purpose to state the obvious, with incredible hesitation and caution, as the Economic Report does, when it says: "A small and shrinking, but still significant, number of American families have cash incomes under $1,000 per family. By current standards, most of them must be considered poverty stricken."

The Federal legal minimum wage should be raised to $1.25 an hour, and coverage under the law should be extended to millions of workers who now lack its protection. The Economic Report's half-hearted proposals of a 90-cent legal minimum and a vague "gradual approach" to extending coverage is not realistic or very helpful in the light of the present wage structure, living costs, and productivity. Legal minimum wages under State laws must be increased above present woefully inadequate levels.

The present inadequate unemployment compensation system must be modernized. Congress and State legislatures should substantially increase both the amount and duration of unemployment compensation payments.

A national health program should be adopted, including national health insurance, as part of an improved social-security system and with full reservation of free choice of doctors and patients, and Federal financial aid to medical education of all types, hospital construction, and consumer cooperatives in the field of medical care.

Two million new housing units a year should become the national goal, with Government policies set to achieve it.

Farm programs, such as price supports, marketing, storage, rural electrification and telephone service, low-cost credit and conservation, should be improved to strengthen the income position of the family farmers and to increase the consumption of agricultural production.

Low-interest loans, under liberal terms, are necessary to encourage small businesses, as well as to sustain high levels of residential construction.

A comprehensive public works program is essential. Such a program should not be viewed as a mere antirecession device, but rather as a continuing program to keep the structure of society strong; in periods of decline, public works programs should be accelerated without the necessity of delays. Our public services—such as schools, hospitals, roads, airports, parks, libraries and museums—are in need of continuing repair, improvement, and expansion. The Federal Government should start on a program of expanded Federal aid to education, health facilities, roads, and airports, through direct Federal programs, as well as grants and loans to the States and local governments.

A national full-employment program, designed to lift the national economy out of a state of stagnation, must be supplemented by a program of special assistance to chronically distressed areas, such as communities in the hard-coal regions of Pennsylvania and the old textile towns of New England. Federal Government agencies should assist State and local governments, as well as private groups, in attracting new industries, in the placement of Government contracts in such areas, and in developing programs of assistance—such as retraining and travel allowances, if necessary—to the working people of these chronically distressed communities.

The domestic economic policies of Government and private groups should be focused on the need to build increasing strength into the economy's mass consumption base. This is required immediately, to bring the national economy to a level of full employment. It is also needed for the long-run, to help adapt the national economy to the new technology—to the rising productivity of both labor and capital.

With man-hour output rising, we should soon be able to reduce the length of the workweek, if all-out war can be avoided. The 30 to 35 hour workweek in industry and commerce, the 2½- or 3-day weekend, and extended vacations—these may become accepted and widespread within the coming decade, as we adjust our economy and system to the new technology.

The rise in productivity in the past has made it possible for us to increase both leisure and the production of goods and services. Rising productivity now—and the more rapid rises that are in the offing—make possible further increases in leisure.

In aristocratic societies in the past, only the well-born few had an opportunity for higher education and leisure, for enjoying the riches of this earth. Here in America, we have been building a democratic society—based on an efficient system of production—where the opportunity for education, culture, and leisure should be available to all.

The reduction of the workweek to 40 hours and the prevalence of paid holidays and vacations—proud achievements of organized labor and the New Deal—brought a share of the benefits of rising productivity to working people in the form of increased leisure. Part of the response to this increased leisure has been the growing request for additional education services of all types and the rising importance of leisure-related industries, such as do-it-yourself, gardening tools, sports equipment, motels, and book publishing.

As the new technology increases our leisure still further in the years ahead, an increasing proportion of the Nation's total production of goods and services will probably be directed toward leisure-related activities, such as additional education, museums, libraries, parks, sports, and resort centers. The Federal Government, the States and local governments should plan now for the required long-run development of such community and national resources.

A share of our productive know-how should also be made available to the vast underdeveloped areas of the world, where over a billion people live in unbelievable poverty and slums. It is our national obligation to assist these peoples to achieve material progress, freedom, and national independence. This, too, requires Federal Government policies and programs to help the peoples of underdeveloped regions to help themselves and attain improved living conditions, as well as national dignity among the free nations of the world.

Our economy's productive ability has been a major source of strength in the past. It is now a beacon of hope to the free world in this period of international tension.

The job of sustaining economic strength and full employment rises above partisan politics. All Americans should be united in the effort to keep America economically strong.

STATEMENT OF HARRY SEE, NATIONAL LEGISLATIVE REPRESENTATIVE, BROTHERHOOD OF RAILROAD TRAINMEN

Mr. Chairman and members of the committee, my name is Harry See, and I am national legislative representative of the Brotherhood of Railroad Trainmen, with offices at 10 Independence Avenue SW., Washington 24, D. C. The headquarters of the brotherhood are located in the Standard Building, Cleveland, Ohio. We represent brakemen, yardmen, conductors, switchtenders, train baggagemen, and other classes of employees on railroads. The brotherhood has approximately 200,000 members employed in train service in the United States and Canada.

The President's economic report declares that "the Government is mindful of its great responsibility to help assure balanced economic growth." The report states also that the administration program for 1955 is directed to fostering long-time economic growth rather than imparting "an immediate upward thrust to general economic activity."

Since the President's report was issued the Federal Reserve Board has taken action to slow down what has been called "the strong recovery phase" of the American economy. The president of the New York Federal Reserve Bank described this as a change from a policy of actively encouraging lending by the commercial banks to one of "letting credit tighten up a bit." This seems to mean that the Eisenhower administration's interpretation of "balanced economic growth" and avoiding "an immediate upward thrust" requires a slower rate of expansion in business activity than prevails at the present time.

The experience of 1953 indicates that we cannot use tight credit to slow down economic expansion without the risk of reducing job opportunities. Therefore, I ask the question, Is this the time to slow down business expansion?

According to the Interstate Commerce Commission, employment on class I railroads has declined from 1,239,000 in July 1953 to 1,027,000 in December 1954, a reduction of 212,000 in 18 months. This is a 17-percent decline in employment over the period. According to the President's report, average unemployment on a national basis rose from 2.5 percent of the labor force in 1953 to 5 percent or 3,230,000 in 1954. In December 1954 unemployment was 2,838,000. I include this in my statement because I believe it is necessary to points which I develop later.

I do not need to tell this committee that not only are 3 million wage earners out of work, but hundreds of thousands of job seekers have withdrawn from the labor market because there is no prospect of finding work and still other workers are on part time. I understand there are estimates that unemployment may reach 4 million in 1955 and 5.5 million in 1956, even on the basis of currently anticipated increases in economic activity.

The present is no time to take any action that will run the risk of reducing employment opportunities.

Our national production is still short of the level necessary to provide maximum employment. Employment in the railroad industry has declined every month since July 1953. Railroad transportation is a service industry that cannot prosper unless and until industry generally prospers. Carloadings, although showing a tendency to increase in recent weeks are still below the levels reached in 1953.

Carloadings and railroad employment will not increase until there is an expansion of industrial output. We know that the growth in our economy in 1954 lagged behind 1953; that industrial production and carloadings were behind 1953. We get no satisfaction from comparing 1954 with earlier years and saying that it was our second best year. Railroad and other workers are still out of work and the prospects is for even greater unemployment unless business activities expands.

A major portion of the decrease in employment in the railroad industry is brought about by the continued drop in the production and hauling of coal. Production of bituminous coal was 630.6 million tons in 1947. In 1954 the output of bituminous coal had fallen to about 390 million tons, a decline of 38 percent over a 7-year period. Carloadings of bituminous coal were 9,088,000 in 1947 and 5,650,000 in 1954, a decline of 3,438,000 carloads or about 38 percent over this period.

To illustrate one of the causes for this deterioration in the coal and railroad transportation industries, let me first state that in the year 1954 this country imported 128,327,160 barrels of residual fuel oil. This figure is equal to 30,557,500 tons of coal. Using the average figure of 60 tons of coal per carload, this would translate the 128,327,160 barrels of oil into 509,291 carloads of coal.

To realize how much of an effect this has on employment, we must first take a look at the decrease in the carloadings of coal in the three major coal regions.

In the eastern region, for the year 1952 there were 1,170,489 cars of coal loaded. In the year 1954 in this same region only 903,222 cars were loaded, a decrease in the 2-year period of 267,267 cars.

In the Allegheny region, 1,657,472 cars of coal were loaded in 1952, while in 1954 carloadings totaled 1,367,062, a decrease of 290,410 cars.

In the Pocahontas region in the year 1952 carloadings of coal totaled 1,831,106, while in 1954 they amounted to 1,485,409. a decrease of 345,697 cars. The combined decrease of carloadings of coal in these 3 regions for 1954 as compared with 1952 totals 903,374 cars.

So far we have discussed only the drop in total carloads of coal. To carry the translation further in terms of railroad manpower, the loss of 903,374 carloads would equal 1,130 trains, using 80 cars per train as an average number. This is still not the complete picture, however, for so far we have spoken only of carloads of coal lost. As you well know, the other side of this movement is the bringing of empty cars to mines for the transportation of coal to consumers. To determine the total number of trains and crews displaced by this operation, the number of 1,130 trains must be doubled, since there would be a like number of movements of empty cars to the mines before there would be the same movement of loaded cars out of the mines.

We thereby see that actually 2,260 trains are affected. To continue, the average haul from mine to consumer is 300 miles. Crews are paid on a 100-mile-a-day basis. The number of trains affected then becomes 3 times the above figure, or 6,780. Since 5 men constitute a train crew, the astounding total of 33,900 man-days lost is realized. This figure applies, you will recall, only to the three coal regions mentioned above, the Eastern, Allegheny, and Pocahontas, and does not by any means indicate total loss in railroad employment as a result of the decline in coal production.

The above figure represents only road train and engine crews. It does not include the associated employment of yardmen or the large number of nonoperating employees used in connection with such traffic.

I do not wish to leave the impression that every one of the man-days lost in these three coal regions is attributed directly to the importation of residual fuel oil. But it is a tremendous factor on certain railroads with a large coal hauling business, such as the Pennsylvania, New York Central, Western Maryland, Virginian, Chesapeake & Ohio, Norfolk & Western, and the Clinchfield. We do not have the decrease in employment for this period for each separate railroad, but if the committee desires that kind of information, the Interstate Commerce Commission is in a position to furnish it. On one railroad, the Norfolk & Western, as of January 28, 1955, approximately 2,000 employees have been furloughed. Only 20 percent of these employees have been able to find jobs in other industries. Total employment on this carrier at high level employment is over 17,000.

I stated these facts on the importation of residual fuel oil before the Ways and Means Committee on January 31. I urged that committee to place a quota limitation on the importation of residual fuel oil. I am restating these facts before this committee because I want it to understand the effects of these importations on the coal and railroad industries.

The President's Economic Report has supporting evidence of the effect of the decline of the coal industry. The map on page 90 of the report (chart B–3) shows a belt of the greatest unemployment among insured workers. Of the 9 States showing the greatest insured unemployment 4 are coal-producing States. Pennsylvania has unemployment of 7 percent of the total insured, West Virginia 10.9 percent, Kentucky 10.3 percent, and Tennessee 8.6 percent. For the United States as a whole, insured unemployment in 1954 was 5.2 percent of covered employment.

A representative of our union, Mr. Van Parsons, general chairman on the Western Maryland Railway, described to this committee the unemployment among railroad workers in Cumberland, Md. At Altoona, Pa. there are 585 car-repair workers including carmen, machinists, carpenters, welders, and pipefitters out of work. Yet the national total of cars awaiting repair rose from 87,637 in 1954 to 116,200 in January 1955, while the number of locomotives awaiting repair over the same period rose from 1,919 to 2,513.

Railroad employment at Cumberland and Altoona will not increase until an improvement in general business conditions results in a greater coal output and a greater demand for railroad services.

The President says that the vigor of the recent recovery suggests that economic expansion will probably continue during the coming months and that it holds out the promise that we shall achieve a "high and satisfactory" level of production and employment in the current year. He says further that "it is reasonable to expect that the Nation's output within the coming year will approximate the goals of maximum employment, production and purchasing power envisaged by the Employment Act."

This statement does not commit the administration to work for a level of production that will reduce unemployment to a bare minimum. What is a "high and satisfactory" level of employment? Why are our sights set merely on approximating the goals of maximum employment, production and purchasing power? The report fails to define the goals required by the act. Is the word "approximate" used to evade this responsibility?

Does the administration look back to the level of production and employment of 1953 as a satisfactory level of production and employment for 1955? A return to "the good old days" of 1953 will not meet the needs of 1955 and future years. We must look ahead to the necessity of increased production and employment. The labor force is growing because of the growth in population. The annual net increase in the number of people seeking employment is about 700,000. At least 1 forecast was made before this committee that average unemployment may increase by as much as 1 million to about 4 million in 1955. One conservative investment publication (the Magazine of Wall Street, Jan. 8) estimates an increase in unemployment to almost 4 million in 1955 and to 5.5 million in 1956 on the basis of the present level of business activity. Even this publication complains that "a prosperous America cannot afford the stigma of chronic rising unemployment."

From my own industry I can report that there has been displacement of workers by investment in diesel power, centralized traffic controls, pushbutton freight yards, and other modern equipment and methods. Dieselization, for example, means less man-hours in repair shops. It also means longer trains with lower requirements for operating labor and increased hazards in hauling the longer trains.

The trend to modernization increases output per worker in all industry, including the railroad industry, justifying higher wages. But increasing productivity per worker means less men to turn out the same work. We must adjust our national economic policies to provide employment for the workers displaced by the increasing use of automatic machinery and more efficient methods and equipment. I need not remind this committee of the harsh impact of continued unemployment. I fear that the policy of permitting credit to tighten up may have damaging and far-reaching effects on American industrial activity. It may halt recovery entirely. "Letting credit tighten a bit" means turning our backs on the effects of unemployment. As a Nation we must not show this indifference to the urgent needs of millions of unemployed and underprivileged American citizens.

We have given two reasons—growth in the labor force and increase in productivity—why a return even to the high output and employment of 1953 will fall short of the need of the American economy in the current and future years. We believe the administration is overly concerned about the threat of inflation and not sufficiently concerned about the necessity of a definite program of governmental expenditure on a national, State, and local basis that will assure full employment of the Nation's men and resources in the years ahead.

The problems associated with expansion such as labor shortages and a tendency for higher prices must be measured against the hardships to more millions of unemployed Americans which is likely to result from tightening credit at the present time. We must decide between the two as long as we have millions of unemployed. There can be no doubt where the decision will be once the choice is made clear. Our democratic society will not tolerate unemployment, but will demand a rising national output and a job for every man seeking work.

The following steps should be taken to give the needed boost to employment and national output:

The President's recommendation that we postpone the lowering of the corporate income tax scheduled for April 1, 1955 should be adopted. The revenue needs of the Government should be met from this source rather than from the excise taxes.

The excise taxes should be kept no longer than the date of April 1, 1955 when many of them are scheduled to be lowered. These taxes transfer purchasing power from consumers to the Government with the effect of curtailing spending for consumer's durable and other goods and in that way hold down employment. The removal of the excises would encourage business and help employment.

In the railroad and transportation industries generally, the wartime excises on the charges for the transportation of persons and property are adding to the burdens of the railroads and other common carriers, and encouraging the use of nontaxed means of transportation, both passenger and freight. The tax on passenger fares was enacted to discourage the use of commercial carriers during the war when their facilities were overloaded with travel, much of which was not essential to the war effort. The tax on freight charges discriminates against distant shippers and pyramids until it is actually many times the original tax. These taxes are a Government-imposed burden on an industry that is losing ground to private untaxed carriers such as the private passenger automobile and the private motortruck, and should be removed to provide a needed stimulus to the public agencies of transportation.

The President's recommendation to increase the present national statutory debt limit should be adopted to enable the Treasury to borrow when necessary to meet the needs of a full-employment economy. Similarly, the States should act on the President's recommendation to remove and to relax the local tax rate-limiting and debt-limiting statutes as means of enabling these local jurisdictions to increase the scale of their public-works programs.

Individual income taxes should be reduced through the method of increasing personal individual income-tax exemptions. This would give substantial aid to lower income receivers and would add to mass purchasing power and thus help employment.

The national minimum wage should be raised to $1.25 per hour. The President's proposal to raise the wage to 90 cents per hour is wholly inadequate.

The President's recommendation that the Federal old-age and survivors insurance should be extended to Federal personnel should be adopted. However, I do not believe the President goes far enough in this change. There should be a substantial increase in retirement benefits to keep pace with the increase in living costs. I might say for the employees of the industry of which I am a member that railroad-retirement benefits can, in my judgment, be increased without a tax increase and without jeopardizing the reserve fund.

I am not sure that the President recommends including under the unemployment insurance system the employees of State and local governments, and employees who work for firms employing fewer than four persons. Presumably the President asked only for consideration of this change, because it is a State responsibility and because he wants, above all, for it to remain a State responsibility. I believe that this change should be adopted and that it should become a responsibility of the Federal Government.

Likewise the President asked the States to consider revising unemployment-insurance benefits so that in all cases they equal at least one-half of the regular earnings. I believe this change should be adopted and that it should become a responsibility of the Federal Government. There should be a minimum term of unemployment benefits of 26 weeks, but I believe that employees with longer records of contributions to the system should have a longer period of benefits. These changes should be effected through Federal legislation.

The recommended changes in the unemployment compensation system should not be left to the States, but should be assumed by the Federal Government. The States have failed to take any action toward accomplishing these objectives. For example, President Eisenhower twice in 2 years has asked the States to consider raising the weekly benefits to equal one-half the worker's weekly wage. No State has yet adopted this standard. We need Federal legislation to incorporate these needed reforms into the social-security system, on a uniform, nationwide basis.

The recommendations of the President for expansion of the Federal program of aid for fellowships, research, teacher training, and other related educational activities should be acted upon without delay and upon a scale commensurate with the size of the problem. There is no lack of authoritative statements of needs for the necessity of aid to the States and school districts in the construction of school buildings. It is unnecessary to await a report from the forthcoming President's conference on educational needs. The conference is not scheduled to meet until late this year. Its report and recommendations may not be available in time for legislation by the next session of Congress. We all know the urgent needs of our children, the crowded condition of the classrooms, the overburdened teachers. The need of the public-school system is immediate and growing. The present Congress should take action to remedy this shortage without waiting for any more surveys or reports.

The President's report places primary responsibility of any public works for schools, hospitals, hydroelectric development, and other public investment on the States and local units of government and private enterprise. The report reads as if undertakings on conserving water resources, involving the development of hydroelectric power were small, local projects in which people of several States had no interest. I need only read a partial list of such projects such as the Tennessee Valley, Hells Canyon on the Snake River, Grand Coulee and Bonneville on the Columbia River, and the Great Central Valley of California to show that the power, irrigation, and flood control and conservation of resources far transcend the resources of any small locality and private capital and have a public interest to the people of a vast area which extends beyond State boundaries. It may be said to affect vital interests of the entire Nation.

In my own State of California private interests and local capital were never equal to doing the job of controlling the recurring floods of northern California and relieving the arid conditions of the Central Valley. The State attempted it and was never able to raise the huge amounts of capital required. Then Franklin D. Roosevelt and Harold Ickes gave us the Central Valley project prepared jointly by the United States Corps of Engineers and the Bureau of Reclamation. The result is that today major floods are unknown in northern California and hundreds of thousands of acres of desert in the Sacramento and San Joaquin Valleys are under cultivation. This great Central Valley project, which has resulted in a vast increase in private enterprise in the area, could not have been accomplished without Federal funds and management.

The administration's withdrawal from such great public undertakings means the nondevelopment of many of our resources and partial, even wasteful, development of many others. It means that private, monopolistic financial interests can dictate the terms of sale of such products as hydroelectric power. In many instances dependence on local units of government and private enterprise will mean almost no conservation and irrigation whatsoever. The move by the Eisenhower administration to emphasize the responsibility of the localities and private capital is a large and significant step backward. It means a definite slowing down in the development in our resources, if not halting such development altogether.

On new schools, hospitals, water systems, the report simply says that they constitute the largest part of the demand for public works and are traditionally provided by the States and their governmental subdivisions. The report claims that in most cases the capacity of municipalities appears to be adequate for financing these needed improvements. The proposal to remove debt-limiting and tax rate-limiting statutes, suggestions for broadening the market for bond issues of local governments and the coordination of public-works planning is the extent to which the administration would go in giving Federal assistance to these subdivisions. Experience has shown that the States and municipalities have not met the problem of financing public works on the scope necessary to meet the needs of our present-day population.

I believe that direct Federal grants must be made available to the States and their subdivisions to insure that such projects be undertaken. That is the basis of the commonly accepted plan to aid our public schools, including the construction of buildings; it similarly should be the basis of a nationwide plan for the construction of hospitals, water systems and other resource conservation projects.

There is no doubt that we need modernization of our highway system. But we do not need improvement in highways to enable people to get from one place to another more rapidly than before as much as we need certain other public construction such as schools and hospitals.

Moreover, I believe that before we undertake a vast program of modernization of public highways with the Federal Government contributing the lion's share of the cost, there should be some form of Federal highway user taxation. The commercial vehicles that are the major factor in highway deterioration should pay a charge commensurate with the benefits they derive from and the wear they cause on the highway roadbed. Unless we make such a provision for financing the modernization of our highways, such improvements become an outright subsidy to one form of transportation at the expense of the American taxpayer.

The present program of underwriting home mortgages by the Government should be continued, and the increase on the insurance authorization requested by the President should be adopted. There should also be a huge expansion in the low rental housing program beyond the 35,000 per year requested by the administration. We cannot hope to provide equal opportunities for our citizens without providing decent dwellings for all.

If these steps are taken, I believe we will go far along the road to full employment and toward bringing prosperity to such industries as coal and railroads. I believe that the consummation of these steps will also accomplish some longstanding objectives for the improvement of living conditions of vast numbers of our underprivileged citizens.

I wish to thank the members of this committee for their time and attention.

BROTHERHOOD OF RAILROAD TRAINMEN,
Washington 24, D. C., February 17, 1955.

Hon. PAUL H. DOUGLAS,
Chairman, Joint Committee on the Economic Report,
Senate Office Building, Washington 25, D. C.

DEAR SENATOR DOUGLAS: During the time I was testifying before the Joint Committee on the Economic Report, February 10, Senator O'Mahoney requested me to furnish for the record information concerning the amount of coal produced and loaded in Wyoming for the past few years, which is in line with the figures given the committee for three of the coal-producing regions in the Eastern States.

Senator O'Mahoney also requested information on the Central Valley project in California.

I attach a memorandum concerning the Central Valley project, also one in connection with the coal production in the State of Wyoming. The information on the Central Valley project is from my own records and those of the Public Affairs Institute of Washington, D. C. The information on the coal production in Wyoming is from records of the National Coal Association.

My kind personal regards.

Respectfully,

HARRY SEE,
National Legislative Representative.

THE CENTRAL VALLEY PROJECT

Attempts have been made repeatedly to prevent costly floods, develop the hydroelectric energy going to waste from falling waters making their way to the sea, and enable farmers to utilize both electricity and water for their vast rich lands of the Central Valley in California. Several times inclusive programs were offered, but opposing interests prevented enactment of laws and the appropriation of moneys required.

There finally emerged a Central Valley project for which the people of California authorized the issuance of $170 million in bonds in December 1933. This was supposed to defray the beginning, under State auspices, of the great project. But the depression was on, and the bonds were not salable.

The Federal Works Administration was then being formed, and the State of California sought Federal aid for the Central Valley project. To obtain assistance from that agency, it was necessary to revise the Central Valley Act to comply with Federal requirements. The State of California vigorously applied itself to the task of obtaining Federal assistance all through 1934 and 1935. The Rivers and Harbors Act of 1935 made the first allocation of funds to launch the project, an initial $12 million to start Shasta Dam. After some delays, Congress made its first appropriation in June 1936. In 1937, the project was reauthorized in the Rivers and Harbors Act and assigned to the Bureau of Reclamation. Thereafter, repeated appropriations have been made.

By 1953, over half a billion dollars had been spent, 7 dams constructed, 665,000 kilowatts of electricity installed, 7,500,000 acre-feet of water impounded in reservoirs for flood control and irrigation purposes. Yet, according to the master plan, this is only a partially completed project.

The distance yet to go may equal that already traversed. The demand of an increasing population has already outstripped these facilities. Only the Federal Government's large resources can provide the funds needed for the yet vast development which is needed for the Nation's defense and economic growth.

Data on bituminous coal in Wyoming

Item	1939	1945	1950	1951	1952	1953	1954
Production (thousand tons)	5,373	9,847	6,348	6,430	6,088	5,245	[1] 2,705
Average number of days mines worked	207	316	186	199	209	197	(2)
Average number of men employed	3,757	4,551	3,930	3,317	2,842	2,606	(2)
Average output per man per day (net tons)	6.92	6.84	8.69	9.72	10.27	10.21	(2)

[1] Preliminary.
[2] Not available.

Coal production by carloads for central western region, which includes Wyoming and areas served by such railroads as the Santa Fe, C. B. & Q., Rock Island, Denver & Rio Grande, Union Pacific, and Utah Ry.

	Carloads		Carload
1950	297,166	1953	225,154
1951	273,257	1954	214,353
1952	236,880		

(Whereupon, at 12:35 p. m., the committee adjourned, to reconvene Wednesday, February 16, 1955, at 10 a. m.)

JANUARY 1955 ECONOMIC REPORT OF THE PRESIDENT

WEDNESDAY, FEBRUARY 16, 1955

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

The joint committee met at 10 a. m., Senator Paul H. Douglas (chairman) presiding.

Present: Senator Douglas (presiding), Representatives Patman (vice chairman), Bolling, and Kelley.

The CHAIRMAN. Mr. Shuman, we will ask you to lead off?

We are very proud to claim Mr. Shuman as a distinguished Illinoisan and former president of the Illinois Agricultural Association, now president of the American Farm Bureau Federation.

Mr. SHUMAN. Thank you, Mr. Chairman.

STATEMENT OF CHARLES B. SHUMAN, PRESIDENT, AMERICAN FARM BUREAU FEDERATION

Mr. SHUMAN. Mr. Chairman, and members of the committee, I appreciate the opportunity to discuss important aspects of the President's economic report with you. Although the current economic report says very little about agriculture, it deals with matters that are of fundamental importance to farmers.

We are in agreement with the general philosopsy expressed in the report, but in disagreement with a number of the specific recommendations for legislative action. Rather than to make a detailed analysis of the report, I desire to make some general comments, and then to call attention to various sections which can be used to illustrate the areas where we agree and the areas where we disagree.

Nothing is more fundamental than general prosperity to the welfare of agriculture. General prosperity does not automatically insure farm prosperity. It does, however, provide the base on which farm prosperity can be built. On the other hand, we can see no possibility of building an island of farm prosperity in a sea of general depression.

Agriculture currently is in the midst of some difficult adjustments, made necessary by overexpansion to meet abnormal demands that have now receded. The completion of these adjustments will be greatly facilitated by the maintenance of a prosperous and expanding general economy. Failure to achieve this objective inevitably would mean disaster for agriculture. A relatively small increase in the overall domestic consumption of farm products would absorb most of our present surpluses, but a decrease in domestic consumption of similar magnitude would compound the adjustments that need to be made.

While we have a domestic market that is really fabulous in comparison with that to be found in other countries, and while we have every confidence that this market could be expanded, we still have a very real need to expand our foreign markets. Agriculture has been going through a technological revolution. Production per man-hour has increased 78 percent since 1940. Total farm production has increased 52 percent despite a 30-percent decrease in farm population since 1935–39.

The CHAIRMAN. Mr. Shuman, you say that the increase in productivity per man since 1940 has been greater in agriculture than in industry itself?

Mr. SHUMAN. My opinion is that it has been greater than most of industry. There may be some exceptions.

The CHAIRMAN. Greater than the average?

Mr. SHUMAN. That is my conclusion, yes.

The CHAIRMAN. And, therefore, is your conclusion from this that the cost per unit for farm products has decreased relatively more in agriculture than in industry?

Mr. SHUMAN. Yes; I think our efficiency has increased relatively more than that of industry.

The CHAIRMAN. In terms of money cost. Anticipating some of your later remarks, is this one of the reasons why you favor flexible price supports over fixed-price supports?

Mr. SHUMAN. Well, I would not couple the two, particularly, except in this regard. The fixed-price supports have tended to preserve inefficiencies, in our opinion. I think that is the main connection.

There is no reason to believe that farmers will not continue to increase output at least as rapidly as our domestic market will grow in the next few years, if prices are favorable and production is not unduly restricted. Hence, we need larger foreign markets to absorb the surplus productive capacity that now exists in agriculture. We presently have the capacity to produce at least 15 percent more agricultural products than our domestic market will absorb at present prices. However, we have been exporting only about 10 percent of our farm production. This situation is complicated by the fact that some commodities, such as wheat, cotton, tobacco, and rice, are more dependent on exports than others are.

A decline in exports from the high levels which existed a few years ago contributed to the accumulation of cotton, wheat, and rice supplies, which in turn forced the application of marketing quotas to these crops. The acres being forced out of the production of quota crops are being used to increase the production of other commodities, many of which have no price support. At the same time, the price-support programs now in effect for these crops are encouraging producers to do everything possible to offset the effects of reduced acreage by increased use of other resources, such as labor and fertilizer. The change in direction of farm-price-support programs made possible by the Agricultural Act of 1954, will help to correct this situation in time, but the problem cannot be solved overnight. In the meantime, we need to make every legitimate effort to reduce the adjustment that is needed by expanding exports of the farm commodities which we can produce to the greatest comparative advantage.

We are in general accord with the President's recommendations for foreign-trade legislation, but have suggested a number of improvements to the House Ways and Means Committee. For example, we recommended that the Reciprocal Trade Agreements Act be extended for 4 years instead of 3, to give greater stability to our foreign-trade policy; that the authority of the President to reduce United States tariffs in exchange for reciprocal concessions from other countries be exercised with special emphasis on tariffs which exceed an ad valorem equivalent of 25 percent; that our Government insist that other nations live up to the spirit of their commitments under trade agreements if they are to receive concessions made by the United States; and that the President be authorized to negotiate for conditions in foreign countries which would create a more favorable climate for private investment.

The CHAIRMAN. Mr. Shuman, may I ask a question at this point?

Mr. SHUMAN. Yes.

The CHAIRMAN. Would you favor simplification of customs procedures in the direction of fewer classifications of commodities and as regards the fixation of a uniform price standard to be used in fixing ad valorem duties?

Mr. SHUMAN. Well, we are in favor of simplification of customs procedures, and I think that would certainly cover the matter of reducing the number of classifications.

Now, on the other matter I am not too well versed.

The CHAIRMAN. There are 5 or 6 different standards by which the value of a commodity can be judged, and sometimes a switch from one to the other——

Mr. SHUMAN. We certainly would be in favor of simplification in that regard.

The CHAIRMAN. What is your feeling about the escape clause?

Mr. SHUMAN. We are in favor of the escape clause.

The CHAIRMAN. You mean retention of the escape clause?

Mr. SHUMAN. Yes.

The CHAIRMAN. What about the peril points?

Mr. SHUMAN. We have given general support to the peril points. We believe there should be some limitation on tariff concessions, but that the peril points should be used with a good deal of discretion. They certainly could nullify all of the advantages of reciprocal trade if they were used indiscriminately.

The CHAIRMAN. So if we could lay down standards to follow in determining where the peril point would be, that would be helpful?

Mr. SHUMAN. Yes.

Our current policy resolutions state that:

> consideration should be given to the corporate tax rate on income from investments abroad and comparable treatment of individuals who invest abroad.

We are not prepared at the moment to take a position on the President's specific proposal that the tax rate on corporate income from foreign sources be reduced by 14 percentage points as our board of directors has not yet considered this proposal. We would like to point out, however, that the President's proposal does not provide the comparable treatment for income earned abroad by individual investors which our policy resolution recommends.

Farm Bureau policies long have emphasized the importance of measures to bring about a more stable general price level as a means of providing a favorable climate for economic growth and a rising standard of living. We have been particularly concerned with the problem of maintaining stability in recent years, because the record shows that inflations growing out of wars often have been followed by serious depressions.

The record which the Economic Repart presents with regard to Federal actions in the field of monetary and fiscal policy in 1953–54, and the effect which these actions apparently had in moderating the post-Korea adjustment, encourages us in our belief that monetary and fiscal policies can be used successfully to avoid wide swings in the general price level. The record that has been made thus far in checking the inflation which followed Korea, and in adjusting our economy to a lower level of defense spending and more normal conditions, is truly remarkable. It certainly justifies the continued use of monetary and fiscal tools to avoid both inflation and deflation.

The section of the report which describes the measures taken to stimulate the economy during 1954, does, however, mention one type of activity that seems to us to be undesirable. On page 20, the report says:

> The Government also attempted to assist localities suffering from unemployment by channeling contracts to them as far as feasible, by boosting the allowable rate of accelerated amortization on facilities needed for the mobilization base * * *.

We regard it as a very questionable procedure for the Government to (1) depart from the principle of placing defense contracts with the lowest responsible bidder, or (2) use its power to grant accelerated amortization to influence the location of defense plants for any reason other than defense considerations.

As a matter of fact, we feel that the power to grant accelerated amortization is so much subject to abuse under present conditions that it should be terminated.

Our policy resolution on this subject reads, as follows:

> The accelerated amortization program, under which the Government has allowed industry a rapid tax writeoff on part or all of the cost of new facilities, appears largely to have served its purpose encouraging a rapid expansion of our productive capacity for defense. We, therefore, urge that the program be terminated as soon as possible. As a long-time policy, any encouragement that may be found to be necessary to bring about the construction of new facilities should be provided through generally applicable provisions of law rather than by programs which require that the Government pass on individual projects.

Whatever justification there may have been during World War II or the Korean mobilization period for eccelerated amortization, we can see no such justification now, particularly in view of the liberalized and generally applicable depreciation provisions of the new tax code.

We have been disturbed by press reports that the Office of Defense Mobilization has undertaken to develop a standby program for the institution of rationing, price, and wage controls in a period of "stepped-up or all-out mobilization." We will oppose enactment of standby price and wage controls. Sound monetary and fiscal policies are the only effective means of dealing with an inflation threat.

The CHAIRMAN. Mr. Shuman, may I interrupt there?

Mr. SHUMAN. Yes.

The CHAIRMAN. Would that be true on the outbreak of a world war?

Mr. SHUMAN. Well, we think that it might be necessary, perhaps, to have rationing of some short materials, but the need in the outbreak of war would be for stepped-up production, and our experience with price and wage controls was that it throttled or reduced production, and we think the situation would be the same in war or peace.

If war should come suddenly, rationing might help us to make an equitable distribution of any commodities that happen to be in actual or potential short supply; however, our really urgent need in such circumstances would be to increase production. Price and wage controls cannot possibly prevent inflation because they deal with symptoms rather than fundamental causes. On the contrary, such controls contribute to inflation by hampering production and by providing a screen behind which inflation can gain headway before the people know what is happening. Our experience in the early months of Korea provides a good case history of how standby controls actually can aggravate an inflationary situation.

We are opposed to the President's recommendation that the minimum wage be raised to 90 cents per hour. Our reasons for opposing a higher minimum wage are well expressed in the following extracts from the Economic Report itself:

> Minimum wage laws do not deal with the fundamental causes of low incomes or poverty.
>
> * * * A higher minimum might well cause lower production and substantial unemployment in several industries, and—whether directly or indirectly—it would probably bring generally higher prices in its wake. Such effects would make the gains of covered workers illusory, and they would lower the standard of living of uncovered low-wage workers.

In the statement just quoted, the Economic Report, of course, was referring to a minimum higher than 90 cents per hour. Nevertheless, we think the same argument applies to the proposal for a 90-cent minimum. It certainly would be applicable if business activity were to decline appreciably from its present high level. For similar reasons, we oppose the suggestion that Congress and the States consider the question of bringing substantial numbers of additional workers under the coverage of minimum-wage laws.

Our current policy resolutions recognize that the Federal Government has, and should continue to have, a responsibility for the development of an integrated highway system. This can be accomplished without any increase in Federal appropriations. Our resolutions state that:

> In view of present conditions, we are opposed to any expansion of Federal participation in financing of highway construction.

Arguments in support of this position are:

1. In each of recent years total highway construction has reached a new peak. On the basis of the present program progress toward a better highway system is being made.

2. During the next few years the rate of highway construction under the present program will be accelerated. More Federal money will be available under the 1954 Federal Aid to Highway Act.

The CHAIRMAN. As a matter of fact, Mr. Shuman, that virtually doubled the amounts which had been previously appropriated, as I remember.

Mr. SHUMAN. I think that is correct.

Vice Chairman PATMAN. Do I understand you to say that you are for the toll roads?

Mr. SHUMAN. No, no. Up in the first point, in each of recent years total highway construction has reached a new peak. I may have slurred over the word "total," but we are not for toll roads.

Vice Chairman PATMAN. You are against toll roads?

Mr. SHUMAN. Well, we have no position on toll roads.

Vice Chairman PATMAN. Don't you think you should have?

Mr. SHUMAN. May I state for the record what our position is? I was under the wrong impression. We favor toll roads only where traffic congestion and other traffic problems justify the construction of an additional major highway which may be practically and economically operated on a toll basis. We favor self-amortization of toll road construction costs. Economic feasibility on a self-liquidating basis should be determined prior to the initiation of any project. We oppose the allocation of Federal or State highway funds for the construction of toll roads.

Vice Chairman PATMAN. May I make this suggestion: I hope you do not favor toll roads for the reason that the average toll road rate is about a cent a mile. Now, that is the equivalent of about 17½ cents additional tax on every gallon of gasoline.

Now, if you put just 2 cents a gallon tax on the gasoline, you would have enough money for good roads all over, and everybody could use them, and I see no reason why you should just pick out a few people or a few localities and make them pay at the rate of 17½ cents for each additional gallon of gas to ride on it.

Mr. SHUMAN. Our State farm bureaus, of course, have the problem of coping with various proposals.

Vice Chairman PATMAN. And it is an archaic deal, going way back. You never get rid of these things. Down in my section of the Southwest we had an old ferry there, across Red River. I will bet the cost of the two ferries didn't aggregate $500, just made out of old scrap lumber. But they made not several hundred dollars, but sometimes thousands of dollars a day putting automobiles across, and trucks, and they built a fine bridge there, and the night before it was to be started and dedicated the next morning, it was blown up. It was said the private enterprise fellows blew it up, that it was wrong to destroy that ferry, and you cannot get rid of these toll things once you get them started. It took us a couple of years to get the bridge built back but, of course, during that time private enterprise was making a lot of money and they seemed to think it was justified.

Representative KELLEY. Mr. Chairman, the success of the Pennsylvania Turnpike as a toll road has certainly been outstanding. It is a main artery of travel. Of course, the provision is that when it is paid for, the toll ceases; is that right, Mr. Kennedy?

Mr. KENNEDY. I think so.

Vice Chairman PATMAN. You see, these deducts get hold of it from the very beginning and you never overtake them. They have the advantage.

Mr. SHUMAN. As you noted from our position, Senator, essentially the American Farm Bureau believes the toll road is a State situation, and so we have just set up our viewpoint as to the limitations and safeguards which should be included.

Our third reason for opposing the President's suggestion on highways is that the proposed bond program is unsound financing. It is primarily a device to keep this expenditure out of the budget and to give the budget an appearance of being balanced—but in actual fact it would still be a spending program with borrowed money..

4. It would put the Federal Government in the highway business on a major scale. We cannot assume the Federal Government would step out of the highway construction business at the end of the 10-year period. On the contrary, there is every likelihood that a new program, involving more borrowed money, would be presented at the end of the 10-year period.

5. In the long run, the "man who pays the piper calls the tune." Already there is argument with respect to what should be required of State governments in connection with the program. This program would continue the trend by which State governments are becoming mere provinces of a superstate.

6.. The States are quite competent to build their own highway systems with enough Federal aid to insure integration. The financial position of the States is good compared with that of the Federal Government. At the end of fiscal 1953, the total indebtedness of the 48 State governments was $7.8 billion and total State revenues exceeded total State expenditures by $1.1 billion.

In lieu of increased Federal appropriations for highway construction, we recommend termination of the Federal motor-fuel taxes, as a means of providing increased opportunity for the States to raise funds for highway construction. If the Federal motor-fuel taxes are not repealed, we shall insist that provision we made for the exemption of motor-fuel used for nonhighway purposes.

The Economic Report contains other recommendations which are of interest to Farm Bureau people. However, I have covered the areas that seem to us to be most deserving of discussion here today.

The CHAIRMAN. Mr. Shuman, the amount of the Federal aid which is provided for highways is now approximately equal to the receipts, as I remember it, from the Federal gasoline tax. If you abolish the Federal gasoline tax, are you proposing to abolish Federal aid to highways at the same time?

Mr. SHUMAN. No, sir, we do not make that proposal.

The CHAIRMAN. That would increase the Federal deficit then.

Mr. SHUMAN. Yes, to that extent.

The CHAIRMAN. Well, close to $900 million a year.

Mr. SHUMAN. We are proposing that the Federal gasoline tax be abolished, presuming, of course, that most of the States would take it up.

The CHAIRMAN. But if you do not abolish Federal aid, the expenditures continue where this source of revenue is eliminated, and the deficit is increased.

Mr. SHUMAN. We would probably favor reduction in the Federal appropriations.

The CHAIRMAN. In other words, a smaller rate of increase in the Federal deficit.

Mr. SHUMAN. Yes. We are in favor of enough to assure integration of the highway systems. The economic report contains other recommendations which are of interest to Farm Bureau people; however, I have covered the areas that seem to us to be most deserving of discussion here today.

I would be glad to answer any questions.

Vice Chairman PATMAN. Have you said anything about interest rates in your statement?

Mr. SHUMAN. Not in this statement.

Vice Chairman PATMAN. I was disappointed in the Farm Bureau about a year ago, when there was a bill up to allow the President to increase interest rates, and that bill got through by unanimous consent in the House. I was watching it and I made a speech against it, and I thought it was convincing. An effort had been made to increase the interest rates on housing and it was defeated by an overwhelming vote in the House.

Since all of the others had been denied an increase, I did not think the farmers should be the only victims, and I was not there, and I do not mean to say that I was the watchdog for the entire Congress. It just happened that nobody objected to it and it went through, permitting the President to increase interest rates up to 1 percent.

Do you recall that bill?

Mr. SHUMAN. I do not recall that particular bill.

Vice Chairman PATMAN. I wonder if the rates have been increased under the bill. Do you recall that?

Mr. SHUMAN. I am not informed.

Vice Chairman PATMAN. Anyway, I was disappointed that the farmers were not on the job to make sure that we were not the only victims, but they were last year.

Mr. SHUMAN. Our position on that matter of Federal interest rates, as well as Federal fiscal and monetary policy, is that there should be enough flexibility and that it should be used as a means not only of checking inflation, but also of checking deflation, and if these Federal powers are used, there has to be some flexibility.

Vice Chairman PATMAN. But that flexibility should not be all against the farmer. That word "flexibility" seems to apply as to the moneylenders upward for them, and that is where this flexible business has not resulted in very much good for the farmer, as I see it. So that word does not sound good to me. It is a bad word for me. I just do not like it.

Mr. SHUMAN. I guess it is all in the point of view, our definition of flexibility.

Vice Chairman PATMAN. That is all.

The CHAIRMAN. Mr. Bolling.

Representative BOLLING. No.

The CHAIRMAN. Mr. Kelley.

Representative KELLEY. No.

The CHAIRMAN. Thank you very much, Mr. Shuman.

Mr. SHUMAN. Thank you.

The CHAIRMAN. Mr. Kennedy.

STATEMENT OF THOMAS KENNEDY, VICE PRESIDENT, UNITED MINE WORKERS OF AMERICA

Mr. KENNEDY. Mr. Chairman, my name is Thomas Kennedy, vice president of the United Mine Workers of America. I am not an economist, thank the Lord.

The CHAIRMAN. Is this a boast or a confession?

Mr. KENNEDY I think it is a confession. I have read the report. I do not have any prepared statement. I have read this report of the President's, and I would like to talk briefly with respect to one of our basic industries in the United States, the coal industry. It is in bad shape. I think last December, in my statement to the Ways and Means Committee of the House, we had about 165,000 people idle in the mining industry.

There are various reasons for that idleness, the competition of natural gas and fuel oil, the dumping of residual oil from Venezuela. We can compete, I think, with the fuel oil and natural gas, as such, but we cannot compete with the residual oil that is dumped on the eastern seaboard, and which is sold for as low as 2½ cents a gallon in some periods over the past number of years.

We are vitally affected also with respect to some of these reciprocal-trade arrangements that are contemplated in the President's message. For instance, on the exportation of coal from the United States to Europe and to Asia, there is no reason under God's sun why we could not export about 35 or 40 million tons of coal per year if we had any sense. The chief exporting country now in Europe is Poland. They produce about a hundred million tons a year, approximately so, and that Polish coal is going to France, Belgium, it is going, some of it, to England, it is going to the Scandinavian countries, and I do not know, but in my judgment it is subsidized by the Government of Poland or Russia, or wherever you please, in order to compete with the American coal.

You will find if you go into the situation with respect to, say, the Republic of Western Germany, we can put American coal into Hamburg in successful competition with the Ruhr coal or Western Germany coal, but you cannot get it in because the federal Government of Western Germany requires an import license, and they will not grant any import license, and I think one of the ironic situations is the fact that in a lot of these countries that get American aid, such as France and England, and other countries that buy Polish coal, they buy it with our money, I mean with our dollars.

That is the only way that Poland will sell coal, to get American dollars, and I even found during the war that they were exchanging Polish coal for iron ore in Sweden and they were taking that iron ore back to make weapons to kill our people in Korea, our soldiers. The whole situation doesn't make sense with respect to participation of the coal industry of the United States in the coal business in Europe and in Asia.

Getting back to the situation in England where they have nationalized the coal industry. I do not think there is any doubt about it, but that England is buying coal from Poland. She started to buy some from us this winter, and I think at the same time England is exporting coal, probably for trade-balance purposes, I don't know. They recently sent some coal, some anthracite up to Boston, and there is no question about it, the cost of producing British coal is much higher than the cost of producing American coal, so how they can manage to get that over here without subsidy and sell it in competition with our coal is beyond me.

For instance, on productivity, in the United States in the coal industry we produce 8 tons per day per man. In Great Britain they produce 1.24 tons per day per man.

On the Continent it is about 1.20. It is very hard to get the figures from Poland because it is a difficult proposition, but Poland has an advantage because during the war Russia was able to get mining machinery from the United States, and that mining machinery was diverted eventually to Poland and to Czechoslovakia, so they are able to have better mechanization in those mines than they have elsewhere in Europe.

One point that I have to make with reference to the American coal industry is this: If we had a war tomorrow, we would be on a coal economy overnight, and I happen to know because I was on the Advisory War Council of Solid Fuels during the war, and when World War II started we were on a coal-economy overnight.

If that happened again, it would take us from 8 months to a year to put our coal industry into shape to meet the needs of this Nation and to provide coal for our allies, and I think, Mr. Chairman, that somewhere along the line we should have a national-fuels policy enacted by the Congress of the United States so that we know where we are at, and so that this basic industry could be protected and so that it would be in a position to meet any emergency that might arise. It is not in that position today.

We produced during the war even under price controls referred to by the previous speaker, and I want to say in connection with price controls, price and wage controls, that I was on the War Labor Board during the war and we found that wage controls were rigidly enforced, but price controls were not, because I remember coming up here to the Senate with Senator Wayne Morse and a committee from the War Labor Board during the war asking Congress to do something with respect to price controls, that we were rigidly enforcing wage controls. Notwithstanding wage controls during the war, coal production was increased so that we produced in 1 year over 700 million tons of coal in the United States, and certainly the price controls did not affect production in that sense because production was substantially increased. But we find another situation with respect to these competitive fuels in the coal industry, natural gas and fuel oil.

As I said, we can compete with fuel oil and natural gas. But you are going to run out of it.

As a matter of fact, today a lot of these oil companies that control some of the natural gas outlets are trying to get permission to import gas from Canada and from Mexico and applications are now before the Federal Power Commission for that purpose so that in this picture as affecting the basic coal industry, we have many angles and I do not think it is adequately covered in this economic report of the President, although I understand that they are about to release or are now working on a report that brings into question the whole national fuel policy idea.

Vice Chairman PATMAN. Do the oil companies, the major oil companies, that are doing business in foreign countries get the 27½ percent depletion allowance on the gross earnings that they make in foreign countries?

Mr. KENNEDY. Congressman, I don't know. I couldn't answer that question. I really do not know.

Vice Chairman PATMAN. It would place you at a great disadvantage if that were true; would it not?

Mr. KENNEDY. That is right.

Vice Chairman PATMAN. I think if I were you, I would look into that. I think they are.

Mr. KENNEDY. Getting that depletion?

Vice Chairman PATMAN. Yes. If they do, of course it is in violation of every reason that was ever given for depletion allowance in this country.

Mr. KENNEDY. Well, I know that they get 27 percent here. The coal industry gets what, 15 or 10? I think it is 10 percent.

Representative KELLEY. Yes; 10 percent.

Vice Chairman PATMAN. You mean on coal?

Mr. KENNEDY. Yes.

Vice Chairman PATMAN. But I was talking about the oil.

Mr. KENNEDY. Well, oil gets 27, and coal gets 10.

Representative KELLEY. There are only 2 or 3 big oil companies that are dumping this residual oil on the eastern seaboard of the United States from Venezuela.

Mr. KENNEDY. Yes; the bulk of it is coming from Venezuela, and I was rather amused before the Ways and Means Committee the other day. Some minister from Venezuela sent a statement up to the committee to the effect that Venezuela was ready to meet any emergency occasioned by war or otherwise and that Venezuela believes in justice and liberty. Venezuela is a military dictatorship. There is absolutely no freedom in the country except such as is allowed by a general or somebody else, and yet we are "paying the piper" in the coal industry for that very situation.

The CHAIRMAN. Mr. Kennedy, who are the oil companies which have the concessions in Venezuela and are importing oil into the United States; do you know?

Mr. KENNEDY. I think practically all of the big ones, Senator, Standard especially, and practically all of the big ones.

The CHAIRMAN. But no independents; no small ones.

Mr. KENNEDY. I don't know of any independents.

Representative KELLEY. If I may answer that, there are 2 or 3 of the large oil companies of the United States that control the importation of residual oil into the United States. Standard of New Jersey is one. I cannot think of the other two, but they are the other major oil companies.

Mr. KENNEDY. Well, it displaces over 30 million tons of coal a year.

Representative KELLEY. Is that the effect?

Mr. KENNEDY. Yes, about 32 million tons.

Representative KELLEY. Mr. Chairman, if I may say this: I quoted those figures before this committee. Mr. Charles Taft was here and he disputed the figure with some compilation of figures which he had showing that the coal industry had not lost very much, maybe a million tons to residual oil. Well, it seems a rather simple matter to determine how much coal has been displaced by simply adding up by simple arithmetic what each coal company has lost.

Now that is reported regularly and they know why their coal orders have been discontinued, and it is not a complex matter at all to determine that.

Mr. KENNEDY. Not at all. It is over 30 million tons.

Representative KELLEY. Per year.

Mr. KENNEDY. That means about 3 weeks work in the bituminous mining.

Representative KELLEY. It means about 24,000 men, doesn't it?

Mr. KENNEDY. Yes.

Representative KELLEY. Of course I cannot understand all of this tonnage of residual oil that is being dumped on the eastern shores. If it does not displace coal, what does it do? They cannot put it down for people to eat. It is not good for lubrication. It is not good for anything except combustion.

Mr. KENNEDY. In heavy industries, utilities, and otherwise.

Representative KELLEY. So it must displace something, and it displaces coal of course.

Mr. KENNEDY. Well, I do not think I have anything else, Mr. Chairman.

The CHAIRMAN. Thank you very much, Mr. Kennedy.

Mr. Kelley?

Representative KELLEY. Yes, I have a couple of other questions. Mr. Charles Taft also made the statement here criticizing the United Mine Workers organization for interfering with the technical improvements in the coal industry, and he cited, for example, the stripping operations, that they have opposed that.

Now of course he overlooked the fact or he was misinformed that the objection of the United Mine Workers to stripping was that many of them were nonunion, that is the point.

Mr. KENNEDY. That is the only reason. Charlie Taft is nuts, and he is getting paid for that. We have always favored mechanization in the coal-mining industry, and went along with it and supported it because we realized that in order to improve your wage and conditions standards you have got to have new values and you have got to increase production, and that is not true in Europe. It is not true in England, but we have always favored mechanization.

Representative KELLEY. And your figures that you cited, 8 tons per man per day average, is due to the fact that there has been encouragement for mechanization in the industry.

Mr. KENNEDY. That is correct.

Representative KELLEY. All right. Would you know anything about the 10 million tons of coal that Mr. Stassen was going to buy, his organization was going to buy, to be shipped to the various European countries? I understand there hasn't been more than a million and a half tons of coal shipped there out of the total of 10 million that he advertised was to be done and that was last fall.

Mr. KENNEDY. Well, I think the answer to that, Congressman, is this: Evidently the top level administration here in Washington decided to buy and ship 10 million tons of coal to Europe just before the election, and when it got down to the lower branches of Government, they found out they did not have the money to buy it or to ship it, so they have been trying to rearrange their trade situation in Europe for them to take this coal, using money that has already been appropriated to these European countries for various activities, with the result that very little of that coal has been shipped. I do not think there has been a million tons shipped so far.

Representative KELLEY. Now another thing, Mr. Chester Potter of the press—he is quite a noted writer—yesterday or a few days ago pointed out the fact about coal going to Formosa, and that 800 men in the United States would be thrown out of work. Mr. Stassen is stopping the exportation of coal from the United States to Formosa, the coal to be bought over there, I suppose, with our money.

Mr. KENNEDY. Well, we could very easily take care of the coal requirements anywhere. We are shipping coal to Japan now as a matter of fact.

Representative KELLEY. Another question, on this question of idleness of the coal mines. You said that we would be in a coal economy overnight perhaps.

Mr. KENNEDY. We would.

Representative KELLEY. In the case of all-out effort for war. Well, the longer the mines are idle, the more difficult it is going to be to get on a coal economy, and for two reasons, as I see it. One of them is that there is attrition in the number of men leaving the industry, particularly younger men. You do not get them back. They have gone elsewhere, and the second one is if many mines are idle for a while, it takes some time to get them into production, due to geological conditions that affect various mines like the conditions of the coal seam itself and the strata above and very frequently below the coal seam.

In many cases there is the possibility that the cost of opening those mines would be prohibitive, and millions of tons of coal would be lost.

Mr. KENNEDY. That is correct.

Representative KELLEY. That has been true in the past; we have lost millions and millions of tons of good coal due to the ups and downs of the economy in the United States. I think that is somthing that we ought to be well aware of, that it is a basic industry and a natural resource very valuable to this country in times of peace and particularly in times of war.

That is all I have, Mr. Chairman.

Representative BOLLING. Thank you.

Mr. Mahon.

STATEMENT OF DON MAHON, PRESIDENT, NATIONAL BROTHERHOOD OF PACKINGHOUSE WORKERS; AND SECRETARY, NATIONAL INDEPENDENT UNION COUNCIL

Mr. MAHON. Mr. Chairman and members of the committee, my name is Don Mahon. I am president of the National Brotherhood of Packinghouse Workers and secretary of the National Independent Union Council.

The following facts will illustrate the seldom recognized size and importance of the independent union labor movement in the United States.

According to the Bureau of Labor Statistics of the United States Department of Labor, there were in excess of 50 million nonagricultural workers gainfully employed in this country. The combined membership claimed by the major federations is between 15 and 16 million. The remainder of the previously mentioned 50 million are in independent unions or are still unorganized.

There are both large and small independent unions.

There will still be some competition in the organization of workers.

Competition has proven to be one of the most dominant factors in the creation and development of our form of government. It accounts, to a large degree, for our leading position in the world today from the standpoint of economic and industrial might.

Competition has proved to be wholesome in all lines of endeavor. In politics, competition has created the two-party system.

The result has been the best form of government thus far devised by man. The "ins" and the "outs" compete constantly, so we are doubly protected. Competition in business has been a dominant factor in developing and making our country the industrial giant of the world. This same spirit of competition has also proved to be beneficial in most cases to the members when practiced in the field of organized labor. In our country, a man may belong to the church, the political party, or the union of his choice. He may also change whenever he so desires. This competition for the right and privilege to represent workers keeps the union constantly striving to better the wages and working conditions of its members.

The results are self-evident. The standard of living, of the American worker, is the best illustration of the advantages of our free and independent way of life. It is unequalled in all the world. The Communists and totalitarians advocate "one big union" and "one big company," both belonging to the state. There is no personal freedom. Competition, as we know it, would be rank treason. An American-type businessman or industrialist, as well as a union organizer, would soon be liquidated. A glimpse into the wages and working conditions of such countries reveals the fallacy of the totalitarian philosophy. We think American workers want no part of it. We petition your committee, and the administration, to give due consideration to this fact.

In accordance with the invitation we have received from your committee, we are here to offer our suggestions with respect to the "main recommendations" in the President's Economic Report. The President's Report refers to the obligation of the Federal Government under the Employment Act, "to promote maximum employment, production, and purchasing power." And with "other essential considerations of national policy."

To accomplish these things we believe primary consideration should go to the youth of America. In order to properly prepare the young men and women of today, who are coming steadily into the labor market in ever-increasing numbers, we propose that the Government make available, to all those who are high school graduates and capable of qualifying, an opportunity to attend college, or learn a higher-skilled trade, in order to better fit them for the complicated industrial and social problems facing our Nation now and in the future.

We would propose that this be accomplished by extending our free school system to include college. The Federal and State Governments could participate in this program in various ways, depending upon the requirements of particular areas.

A good example may be illustrated by a recent bill introduced in the Connecticut Legislature. Under its terms the State would grant tuition to medical students without obligation, providing they practiced in the State for a certain number of years following graduation. The same provision could qualify on a national basis. While it is true that insurance for medical and hospital expenses has greatly broadened during past years, at the same time the actual cost of such hospital and medical services has so far outdistanced the usual coverage that many working families are still grossly underserviced with respect to these important services and facilities. There is undoubtedly an ever-increasing need for additional medical, dental, and nursing personnel which cannot be fulfilled with the present system. It is certainly in the best interests of our Nation to encourage such training. The Federal Government should supplement such funds.

PAST ECONOMIC GROWTH

The trend toward modernization of factories, to produce greater efficiency, was brought about largely through the introduction of labor-saving machines, and devices that cut down on the demands for manpower.

This is considered to be progress. Anyone who raises his voice against it is immediately accused of standing in the way of the inevitable.

Unfortunately, our experience has been that many of the jobs, eliminated by machines, were those of the higher skills. There is a never-ending attempt, by management, to reduce the rates of pay, for those who perform the work that is left after the machines are introduced. This is in spite of the fact that a substantial number of workers are usually eliminated entirely by the machine itself. Management should not use the introduction of machines, as a method of reducing the rates of pay for skilled workers.

Actually, management receives great compensation, through greater production, and added efficiency. Every time it drives down the wages of the higher paid workers, management is guilty of reducing all workers to the same level. In reality they are practicing the theory that will eventually eliminate the individual incentive to earn more. This has always been the principal reason for workers striving to improve themselves, such improvements being, of course, in the form of a higher-paying job. When such jobs are eliminated, the greatest single factor resulting in the independent and aggressive nature of the American worker, will have been eliminated. We believe this phase of transition requires serious consideration too.

The growth potentials of our economy, in the long run, are largely dependent upon the skills and ability of our workers. To develop and operate the complicated and technical methods and devices is most necessary to successfully live and survive in a highly mechanized and explosive world.

Availability of trained workmen with the highest skills is most essential.

Therefore, our proposal for training at these higher levels, and accompanying apprenticeship programs sponsored by the Federal Government, is most essential. In this manner the role of the Federal Government in the progress of a glorious economic future may be ours as mentioned in the President's report.

We agree that it can be achieved only by wise men in our national household. The ever-increasing output per man-hour in major industries, from the period 1909 to 1953, is clearly indicative of the greater efficiency and additional mechanization of transportation, industry and all the related factors that comprise the industrial picture in the United States today.

To balance this very interesting chart, with the ever-increasing and expanding population of our Nation, it is essential that more people be given an opportunity to participate, not to have a smaller number engaged and a great backlog of unemployment. Unless hours of employment and production are fairly well balanced and fairly well counterbalanced, one or the other will swamp the ship of state and all of us along with it.

In building the floor of personal and family security, particular attention should be given to the case of the disabled worker. Under existing social security this unfortunate individual, and his family, receive no benefits until he has reached the age of 65. Obviously, very few workers who are totally and permanently disabled, so that they cannot perform their usual tasks, ever live to see the age of 65. This glaring loophole in the law must be closed. To correct this situation and related matter our organization has proposed a resolution, which, with your permission, we will submit for the record.

With respect to necessary improvements related to unemployment compensation, we have also adopted an appropriate resolution which we submit for your further consideration at the finish of this statement.

The President's report indicates that we have ended a year of transition, while our economy was undergoing contraction. At the same time, there is a continuing rise in the stock market. All other prices will be affected to a degree. These factors are especially alarming to many of our older citizens who must depend on an income that was established when prices were about half their present level. These facts cannot be ignored. The only practical method to assist these retired people is by increasing their benefits under the social-security and old-age survivors benefits.

We oppose the lowering of tariff barriers at the expense of American workmen. Our standard of living, undoubtedly the highest in the world, was brought about and maintaind by safeguarding American workers from sweatshop, low-cost, inferior, and foreign-made products. To do away with this time-honored and basically sound principle would be very unwise. Only by maintaining this high standard, which is an example for all the world, can we expect to maintain the superior working forces necessary to win in a world threatened by communism.

We endorse the President's recommendations with respect to expansion of our public assets. In the modernizing of the highway system, our union favors separate facilities for cars and trucks. We have adopted a resolution covering this subject and submit it for your consideration as part of the record.

In the interests of all sections of our society we feel that the individual and the small group should receive fair and equal consideration. For this purpose we recommend passage of House Resolution 25 to provide a committee for small unions in the same manner as now provided for small business. Comparable rules should be adopted in the Senate.

We endorse the plan to create an advisory committee in the Department of Labor providing it is representative of all labor and does not discriminate against minorities.

We recognize the highly complex nature of the undertaking of this joint committee. We know there is no simple solution that will solve these questions from now on. However, we have great faith in the ability of our Government to meet and master the problems herein enumerated.

Certainly our best insurance for the future is the proper preparation of our younger citizens so they are properly qualified to take their place in this picture. Our proposals would more properly prepare them for positions in which they can help to guide the destiny of this great Nation, as an example for all the world.

Representative BOLLING. Thank you, Mr. Mahon. Without objection, the various resolutions Mr. Mahon mentioned in the body of the statement will be included in the record of the hearings.

(The information referred to is as follows:)

SOCIAL SECURITY FOR DISABLED WORKERS

Whereas the present social-security law does not provide any protection for workers who become totally and permanently disabled before they reach the age of 65: Now, therefore, be it hereby

Resolved, That in cases of total and permanent disability of any worker, covered by social security, such worker shall be eligible for benefits immediately, regardless of age. (Disability to mean: To an extent that they cannot perform their usual work or trade); be it hereby further

Resolved, That because of the increasing size of the work force, that the age requirement on social-security benefits be lowered from age 65 to 60 years of age, for all those covered by the act, providing they choose to retire.

INCREASED UNEMPLOYMENT BENEFITS

Whereas the present unemployment compensation law does not provide a decent standard of living for unemployed workers in most States; and

Whereas the maximum now provided was predicated on living conditions and costs of several years ago and is hardly enough to keep body and soul together for those who are unfortunate enough to be unemployed; and

Whereas a breadwinner with a family is particularly hard hit by the present limitations: Now, therefore

We hereby petition the Members of Congress to enact legislation which would make funds available to raise the maximum payments in an amount sufficient to meet the requirements of unemployed workers in order to maintain a decent standard of living.

IMPROVED HIGHWAY FACILITIES

Whereas a program of Federal and State public work can be used to better our way of life: Now, therefore, be it hereby

Resolved, That a system of upper highways, with separate facilities for trucks, be started as an antidote to depression and for the elimination of unemployment, also as a method, more practical than all the slogans on earth, to relieve the fearful and needless highway death toll; be it further

Resolved, That such agencies also create parks and vacation facilities convenient to all workers and their families, who cannot always get to mountain or seashore facilities.

Representative BOLLING. Mr. Kelley, do you have any questions?

Representative KELLEY. No, Mr. Chairman.

Representative BOLLING. Mr. Schmidt.

OPENING STATEMENT OF EMERSON P. SCHMIDT FOR THE CHAMBER OF COMMERCE OF THE UNITED STATES

Mr. SCHMIDT. Mr. Chairman, my name is Emerson P. Schmidt, director of economic research of the Chamber of Commerce of the United States of America, a federation composed of 3,100 State and local chambers of commerce and trade associations with an underlying membership of more than 1.5.

I have filed a statement for the record, Mr. Chairman, but I will attempt to summarize it, if that is agreeable with you.

Representative BOLLING. That is agreeable.

Mr. SCHMIDT. We appreciate the opportunity to review the President's Economic Report. In terms of economic analysis, it is excellent. It constitutes a sharp, comprehensive survey of the national economic events of the past year. The economic philosophy and policy on the whole are admirable. The entire report is written in an excellent English style—a matter worthy of comment, relative to the generally poor writing found in most Government reports to the point where the intelligent layman cannot understand them.

While the economic analysis is excellent, question needs to be raised in regard to several of the recommendations for the future, summarized beginning on page 69, to which we will return later.

Whether some of these recommendations belong in an Economic Report may be questioned.

We wish to commend the President, his associates, and the Congress for their performance last year in terms of the Employment Act of 1946. A year ago there were both moderate and dire predictions of the impending downward trend of the economy. To some extent the Employment Act is based on the theory that economists or politicans can forecast the economic future. The 1955 Economic Report puts this matter into proper perspective.

While there are those so bold as to project in great detail the precise amount of gross national product, national income, employment, et cetera, necessary to obtain the goals of the Employment Act of 1946, others with a clear comprehension of the steady fluidity and dynamism of our economy are less sure on all of these points. When the employment bill was introduced in 1945, this idea of making detailed plans and detailed projections—models to which the economy should conform—was in the saddle, an American version of popular foreign 5-year plans.

The bill called for detailed annual national budget prejections, or targets which then would become the duty of the administration to attain, from year to year. The Congress did not write this requirement into the act.

We believe that the President is to be commended in avoiding this type of projection.

There are bound to be continuous surprises, and detailed projections can never be very accurate. For example, the labor force increased by nearly 1.9 million individuals from May to June 1953. But in 1954, from May to June, quite contrary to almost universal expectations, the labor force increased by only 1 million.

In the light of these uncertainties, who would dare determine what is a reasonable or a desirable goal for a year or 18 months ahead? Who knows what policies are needed in precise terms?

The administration and Congress took a number of steps to ease the transition from the Korean war boom. The dire projections through most of 1954 were based on the alleged inadequacy of these steps. The administration is to be commended for the shrewdness of its analysis and particularly for the fact that it was not stampeded into taking additional extensive steps to mitigate the contractions of 1954.

As the chairman of this committee, Senator Douglas, said in 1952:

> I submit as a rough judgment that probably we should not run a governmental deficit unless unemployment exceeds 8 percent, and, indeed, possibly slightly more than that. When unemployment is between 6 and 8 percent, the governmental budget should at least balance and therefore be neutral in its effects. When unemployment is over 8 percent, we should have a deficit; but when it is under 6 percent, there should be a surplus (Senator Paul H. Douglas, Economy in the National Government, 1952, p. 254).

A sound contracyclical policy must be flexible. As put by the Douglas subcommittee and reaffirmed by the Patman subcommittee:

> Timely flexibility toward easy credit at some times and credit restriction at other times is an essential characteristic of a monetary policy that will promote economic stability rather than instability.

We are now in a recovery phase. The economy has moved to a point above the halfway mark between the moderate decline of 1954 and the high inflationary peaks of the Korean war boom. In fact, disposable income is now at an alltime high, and was higher in every quarter of 1954 than ever before. For example, had the administration and the Congress followed the more dire predictions, we might have embarked upon a make-work public works program. This turned out to be not necessary. It also might have overboomed the construction industry, created scarcities, and driven costs out of line to the point where such a boom in the private sector would have been nipped in the bud and led to more unemployment rather than less.

The 1955 Economic Report, in spite of ventures into the sociological area, shows an excellent appreciation of the key role of entrepreneurship, innovation and new invention.

While the importance of purchasing power is recognized, the simple, naive view that depressions are caused by lack of "purchasing power" is given no credence in the report—a view of which we have heard much since mid-1953. This view could be summarized about like this:

But we are not using fully all the private plant and equipment which we already have. Why save and invest more? Why not raise buying power?

Without minimizing the importance of buying power, this is not the whole story for at least four reasons:

(1) Billions of private dollars of money savings are always being made, partly because even when incomes decline many individuals through habit, through savings plans or because of uncertainty, still want to save. These savings need to be currently invested in order to become income to others and thereby help sustain prosperity.

(2) Our existing plant, equipment and commercial facilities are deteriorating, becoming obsolete, and need steadily to be replaced, upgraded and improved. What company or business is as well located and as modernly equipped as it would like to be?

(3) Even at full employment, we never use all investment at capacity levels. The economy needs elbowroom and flexibility so that underutilization even on a fairly broad basis is no proof of the overall adequacy of investment.

(4) The only way in which we can pave the ground for a new forward upthrust in our struggle to raise our level of living is to put more and more dollars into new, well-managed, profitable investment.

There is some reason to believe that the rate of capital formation, which underlies saving, has been too low in the last several decades. The National Bureau of Economic Research, a group of outstanding economists and noted for their objectivity and freedom from the ideological battle, in reviewing the last eight decades, states:

> It is a challenging fact that most of the rise in tangible capital per person came in the period before the great depression. Between the 1870's and the 1920's, capital per person rose at a fairly consistent average annual rate of about 2.5 percent. Since the war capital per person has grown rapidly, but this recent acceleration has not yet done much more than offset the decline during the preceding 15 years; on net balance per capita real tangible reproducible capital today is only moderately above the predepression high (34th annual report, p. 6).

Indeed, the Bureau tells us that with the average family income of about $5,000 at present, if we maintain the last 80 years' rate of progress in the next 80 years, our grandchildren will have average family incomes of about $25,000 of 1953 purchasing power—a level now attained only by about 1 percent of the Nation's families. Obviously, this would require fabulous quantities of new investment. Under competition, its benefits trickle, flow and spread all around to benefit every factor or agent of production.

It is gratifying to note from the Economic Report that progress has been made in redrawing the line separating private and public enterprise, and that steps have been taken to dispose of numerous enterprises "for which public operation was inefficient or of doubtful advantage." The increase in the amount of Government contracting with private firms for necessary services and facilities, as an alternative to producing them itself, is also a move in the right direction. The limitation on National Government participation and maximizing local effort in the development of our natural resources is also to be commended.

We would like, however, to ask the joint committee to give consideration to two basic problem areas:

(1) Is it necessary or desirable for the National Government to move into additional fields, as recommended by the economic report? and

(2) Are the policies of our National Government adequate to preserve our Federal system of government, with strong, responsible States as part of that Federal system?

Since the economic report is looked to by many for thoroughly objective analysis, are all of the following subjects appropriate for inclusion in it?

The administration asked Congress to provide for 35,000 public (tax-financed) housing units in each of the next 2 years. How was this figure derived? Why not one-half that number, or twice as many, or 10 times as many?

Furthermore, when government enters a relief field, it has generally been assumed that all persons within the relief category should be equally eligible. But in the very nature of public housing, one public housing installation will be located here, another one there, etc., while vast numbers of other families in a similar financial category will receive no such subsidy, just because they happen to live in a village, town, city, or county where no public housing project happens to be launched. This is discrimination.

In the interest of nondiscrimination and equality before the law, it would seem that no Government relief program should ever be launched, unless all individuals or families in that relief category have equal access to the handout, or the subsidy.

Furthermore, these public housing projects are creating social problems.

The SBA, if continued, should be integrated in the Department of Commerce, so that small-business men, who constitute the bulk of our members, can get the benefit of all the work of the Department. In the Chamber's report, Small Business, published in 1954 (revised), we show the central importance of small business to our way of life and progress. Better management, we found, is the greatest need of small business. The heavy tax burden is a great handicap and the basic need is not Government loans.

Representative BOLLING. In what way is the small-business man denied these benefits?

Mr. SCHMIDT. It is just that he has two places to go, and it adds to the confusion, and we believe that a bureau should be ready at hand to indicate the available materials from the Department of Commerce as a whole.

Furthermore, we have found in our study which was very carefully reviewed that the crucial need of small business is not financing but better management and therefore a vast program of tax-supported loans does not answer the problem. While we have no proposal with respect to the International Finance Corporation, the same argument should be applied to it. If more foreign lending is desirable, private lenders may be expected to take advantage of production and profit opportunities. If it is felt that such projects are dubious and, therefore, unattractive to private investors, can we justify spending the taxpayer's money to foster these ventures? As foreign nations rediscover the essential conditions within their own countries to attract foreign capital, it is inconceivable that American investors will overlook profitable opportunities to make private investments, and thereby keep these matters in less frictional private hands.

The budget is unbalanced. The Economic Report states that taxes on individuals and business are still too high, but urges the postponement of the scheduled tax reductions. Yet all these proposals for new and expanded expanditures are found among the recommendations.

A number of proposals have been put forward to finance projects outside of the debt limit. Thus, there is discussion of an "independent authority" to raise the capital for one program. Other groups were quick to take their cue and are urging similar propositions for financing outside of the debt limit.

Incurring debt for capital expenditures in the case of individuals, business, and government may be justified at times, but we should avoid complicating our budget and debt statistics by making it appear that the debt is smaller than it actually is.

We hope that the joint committee also will examine the program for area development. It has been suggested that special tax-amortization benefits be provided for new defense facilities located in surplus labor areas. This, like other proposals, of course, has a strong humanitarian appeal, but it also could lead to the uneconomic location and allocation of resources. The same question must be raised in regard to placing Government contracts in labor surplus areas. Similarly, our stockpiling program seems to have taken on an aspect of subsidy or relief.

The Government's procurement and defense planning programs should have a sound economic base. The Government as buyer should act like any other prudent buyer, that is, obtain the best possible products at the lowest possible price, with due regard, of course, for national security issues.

A contrary approach tends to raise the cost of defense expenditures and makes it more difficult to balance the budget. Such contrary approach also may furnish a mere temporary prop which will lead only to greater and greater pressures for more and more artificial and uneconomic supports on an ever-widening front.

What the Economic Report has to say on lifting the minimum wage is significant. A year ago the administration expressed a preference for a higher minimum wage, but said then that the timing was bad. Now, owing to recovery, the timing is found appropriate. Does this mean that a new higher minimum is good only when it has little or no effect?

Why 90 cents an hour, why not 85 cents, or $1.05, or—as some have said—$1.25? Somehow the President has discerned—but just how, we are not told—that 90 cents is the safe maximum: that—

> A higher minimum might well cause lower production and substantial unemployment in several industries * * *. It would probably bring generally higher prices in its wake. Such effects would make the gains of covered workers illusory, and they would lower the standard of living of uncovered low-wage workers.

This, we feel, is an effective statement of the self-defeating characteristics of any minimum-wage legislation.

The expansion of coverage of the act to more occupations and industries may bar more workers from jobs, or force them to overcrowd the remaining uncovered jobs and depress wages there.

Again, minimum-wage legislation has a strong humanitarian appeal, but what moral right does the Government have to bar a worker from employment unless he can find an employer willing and able to pay him 90 cents an hour? Or $1, or $1.25 an hour? And why, incidentally, does our Government have different minimum-wage laws fixing highly different wages under at least three different programs: (1) the Fair Labor Standards Act, (2) the Walsh-Healey Act, and (3) the Davis-Bacon Act?

These laws are not self-enforcing. A substantial battery of unproductive Government workers must be employed to administer these laws: bureau chiefs, subchiefs, department heads, subdivision heads, lawyers, accountants, economists, public administrators, stenographers, typists, file clerks, charwomen, sweepers, janitors, and on and on in Washington and scattered throughout numerous field offices. The joint committee could perform a valuable service by taking a good solid look at this matter as it considers the minimum-wage recommendation.

The President's Economic Report contains a significant but short analysis of the financial position of State and local government. It makes a number of suggestions on updating State and local outmoded tax-rate and debt limits.

Today the gross debt of State and local governments stands at about $38 billion, as against $20 billion in 1939, and $17 billion in 1929. In 1929 and 1939, their debts were equal to 16.5 percent and 22 percent of our total gross national product, respectively. But today they represent only 11 percent of our gross national product.

At the same time the National Government debt, however, has greatly risen relative to the growth of our economy as shown by the accompanying tabulation.

	National debt	Gross national product	National debt as percent of gross national product
1929	$16.9	$103.8	16
1939	45.9	91.1	50
1954	278.9	356.0	78

In spite of this showing, however, the Economic Report recommends increased expenditures for many programs which traditionally have been handled at the State and local level and for many expenditures for many new such programs.

The National Government is asked to assume a great responsibility for local public education. And yet, the National Treasury must go right into these local communities to collect the revenue which it will pass back to them, minus the usual brokerage fee charged by Washington.

A further real danger, of course, rises in the possibility of ultimate control of the content of education. The Supreme Court said:

> It is hardly lack of due process for the Government to regulate that which it subsidizes.

(*Wickard* v. *Filburn* 1942.) Indeed, in this session one Member of the House introduced a resolution to create a Commission to write a textbook on communism for our schools (Congressional Record, January 31, p. A519).

To help obviate the foregoing danger, it is only fair to add, this Member of the House wants to give every citizen a chance to review and object to the content of the textbook and every Member of Congress is expected to review it before voting upon it (p. A521).

If this procedure were followed in every case, bureaucratic control of education might be minimized and most efforts at textbook writing by the National Government might die aborning.

Freedom depends on the dispersal of power and it is better to have 48 (or 1,000 times 48) local school administrations and educational experiments than to have education controlled from centralized Washington bureaus. To say that nothing of this kind is now contemplated is not enough.

While the President in his special message on school needs, February 8, 1955, discusses the foregoing point and is thoroughly aware of it, he nevertheless said:

> But too many teachers are underpaid and overworked and, in consequence, too few young men and women join their ranks. Here is a shortage, less obvious but ultimately more dangerous than the classroom shortage.

Now it won't be very difficult for individuals to latch on to that statement of the President and say we must now subsidize teachers' salaries, and as has been said by the Court, whatever the Government subsidizes, it has a power to regulate, and in this connection it must be recognized that in spite of the humanitarian appeal, there is a vast difference between nationwide problems, such as teachers' salaries, and juvenile delinquency, and national problems, such as national defense. Fire control and juvenile delinquency are nationwide problems but not national problems.

Furthermore, grant-in-aid programs can and often do warp State and local expenditures. The aided programs grow at the expense of the unaided.

A significant example of this trend is the field of individual health. While the present administration has gone quite far in recommending a flood of health programs, the New York Times, February 3, 1955, in a lead editorial, nevertheless enumerates a whole series of health features which it regrets that the President failed to mention in his health message of January 31—a message covering a broad range of expanded and new programs.

The Economic Report, while it does not urge congressional action in the field of unemployment compensation, attempts to tell the States what they should do, rather than permit a multitude of experiments at the State level. That is on pages 55–57.

Thus, the report recommends uniform duration of benefit payments for every eligible worker regardless of how long he has held a job.

Many States have assumed that there are some workers who perhaps are fairly well attached to the labor market but who, because of substantially less than standard qualifying wages, should, nevertheless, not be wholly excluded from getting assistance.

In Michigan, for example, an employee who has worked some, in at least 14 weeks, is entitled to some benefits, but the number of benefit weeks rises in a definite two-thirds ratio to the number of weeks of work up to the 26-week maximum. Should Michigan pay unemployment compensation for 6 months to employees who work only 3 months? Or, should only workers who are employed 52 weeks be eligible for the "uniform duration" or 26 weeks' benefits?

Again, the Economic Report recommends that the benefit should be equal to 50 percent of the unemployed worker's "regular weekly wages." When the combined social security and withholding tax was nonexistent or small, this formula seemed fairly appropriate. But today under this formula a 50 percent benefit of regular wages would be substantially more than 50 percent of regular take-home pay, and it must be remembered that the benefits are tax free, and the unemployed worker avoids numerous expenses such as transportation, outside lunch, work clothes, and so forth. This recommendation, furthermore, would favor the single worker and discriminate against the worker with family responsibility. Are not the States in better position to determine these matters?

The Economic Report states that the District of Columbia unemployment compensation laws should be drafted so as to be a model for the States. Just what there is about the economy of the District of Columbia, where our chief product is words, that would make a system of unemployment compensation adapted to its conditions, appropriate for North Dakota, or Michigan, or New Jersey, is not clear.

When Congress acts as the legislative body for the District of Columbit, it merely pretends to be setting a national pattern. If it were, then the citizens in the other States should be disfranchised as in the District of Columbia.

Every new program, every new bureau, and every new function adds to the burdens of overworked Members of the Congress. These Members serve, in a sense, as the Board of Directors of the National Government phases of our society.

These programs and functions have grown and grown to the point that probably only a handful of "members of the Board" could make a passing grade in an examination of the statutes, regulations, programs, organization, and operation of even 5 percent of the bureaus or programs for which they vote and to which they make appropriations from year to year.

Does this make for sound government? Why are Members of the Congress so persistently anxious to add to their overload of work and responsibility—a responsibility which, in all frankness, they would have to admit of being incapable of discharging in the sense in which we think of the responsibility of a board of directors in a private business, a church, or a charity?

Thus, in conclusion, as we see it, the Economic Report seems to be based on high-grade understanding of the power of monetary and fiscal policies in governing the stability and growth of our economy.

Extraneous matters appear to be included in the report, matters which are better handled elsewhere—if they must be made to be national issues.

While many fine things are said on the importance of State and local government, the report recommends many steps which, in fact, would reduce their responsibility and their financial capacity to meet their own needs in their own way.

Representative BOLLING. Thank you, Mr. Schmidt.

Are there questions, Mr. Kelley?

Representative KELLEY. Yes, Mr. Chairman.

Mr. Schmidt, on page 4 you say—

> had the administration and the Congress followed the more dire predictions, we might have embarked upon a make-work public works program.

And then you say in the next sentence:

> This turned out to be not necessary.

Are you sure it won't be necessary 6 months from now or even a year?

Mr. SCHMIDT. No, nobody can predict the future.

Representative KELLEY. At least there is a grave possibility or probability that that will be necessary?

Mr. SCHMIDT. And we would recommend planning and a shelf of blueprints for public works with priorities so that you could go into that kind of program for legitimate needed public facilities.

Representative KELLEY. In certain areas, particularly?

Mr. SCHMIDT. Well, it might be highways, it might be post offices. That would be a matter for determination.

Representative KELLEY. Then, of course, you have another side of the picture; that is, local communities could have their own blueprints prepared, and all that would be necessary, then, for the Federal Government in order that these municipalities could get the financial aid would be that the Federal Government would look over these blueprints of communities and satisfy themselves as to whether they were necessary or not or whether they were feasible. Now that is what I had in mind on a public-works program, that it should be handled by local communities; for instance, in building your city halls and improving streets and sewerage systems, and that sort of thing, which would be direct aid to communities where it is necessary and where they need the assistance.

Mr. SCHMIDT. But you would not have the Federal Government build us a city hall in Oakton, Va., where I live.

Representative KELLEY. No, only the point is that it is partially paid for by the local communities and the Federal assistance would be only a percentage of the cost, say a 45–55 basis or a 50–50 basis, something like that, very similar to the one we had administered by Mr. Ickes back in 1930.

It was pretty effective and I have never found any criticisms of that program.

Mr. SCHMIDT. Well, I read Mr. Ickes' diary and he had a lot of criticism on that.

Representative KELLEY. There was a lot of criticism on the WPA, but not on the PWA. Of course, he did not handle the WPA. Then you are opposed to a minimum wage in any sense, I take it?

Mr. SCHMIDT. Well, we are raising questions whether you really can accomplish anything for the benefit of the worker. Creating a minimum wage does not create wages. It may destroy jobs.

Representative KELLEY. Here is a point, though. If an industry or an employer cannot pay a living wage, has he any right to be in business? If you raise the minimum wage for all employers, then you naturally raise the price of the product, the cost of the product, but it puts a premium on good management.

Mr. SCHMIDT. It also puts a premium on eliminating any factor of production that is overpriced, and you might be overpricing labor and therefore minimizing the use of labor, the point that Mr. Mahon was pointing out; that is, every businessman is always thinking in terms of combining the factors of production, raw materials, machinery, equipment, labor, different kinds of labor, and it is his duty under the pressure of competition to minimize this cost. If you artificially raise any factor of production, whether it is power or containers or raw materials, competition will force economy of its use in production. We think, as the farm bureau so admirably pointed out, that the best thing you can do is to promote sound fiscal and monetary policies so we will have high-level employment, and then we think the wage situation will take care of itself. Incidentally, if I may, I would like to mention for the record that I think there was one error made here in statistics. It was said that during the war prices were relatively uncontrolled, while wages were controlled. I just made a quick calculation, which I would suggest Mr. Ensley correct, if it is not quite right.

Representative KELLEY. Mr. Kennedy made that statement.

Mr. SCHMIDT. Yes. The rough calculation I have made very quickly from the figures I have here, in manufacturing, average hourly wages jumped 61 percent from 1939 to 1945, the period he was talking about, and the consumer price index went up 29 percent, only half as fast, whereas he said exactly the opposite happened. But I would prefer to have Mr. Ensley check my arithmetic. I think I am substantially correct.

Mr. KENNEDY. Well, I happened to be on the hot seat at that time on the War Labor Board and I know what was going on.

Mr. SCHMIDT. Well, all we have are the Government's figures. The officials figures from the Bureau of Labor Statistics, for which we have great respect.

Representative BOLLING. Of course, there is this factor in it. You mentioned manufacturing wages alone. That can be checked very easily.

Mr. SCHMIDT. As a matter of fact, the unorganized wages went up about twice as fast as manufacturing; for instance, domestic servants, farm labor went up twice as fast in this period as the union wages or manufacturing wages as a whole.

Again, I am using very rough figures subject to correction, if I have under or over stated them. So we think that market forces are much more effective in doing good for the citizen, the worker, the family, than intervention by the Government.

Take a case like this toll road. I think we are all disgusted and almost shocked at the time we waste going to and from work, the money wasted by businessmen with trucks standing idle waiting for the light to change.

Representative KELLEY. Even Congressmen going back and forth meet interference.

Mr. SCHMIDT. There is only one reason why we have that congestion—because we do not have free-market determinations. When you have free-market determinations, you have no shortage, but we have been overproducing automobiles and trucks relative to the amount of money we have put into highways, and for that reason I am for toll roads, because under toll roads you have an automatic technique for increasing the supply of highway facilities relative to the growth and demand.

Now I can see there are some arguments against toll roads, but the minute you deviate from free-market forces, you create problems. All of our great power shortages in the past 5 or 6 years have been in areas where you have public power, and the reason for that is that public power is always underpriced because it does not carry its full share of the cost, such as taxes, and it has various other subsidies, so it is underpriced, and whenever you underprice anything, you tend to create shortages, but when you have market forces, this tends to bring about equilibrium.

Representative BOLLING. I would like to interject that we had a fine example of market forces at work in 1929.

Representative KELLEY. Let me go back to minimum wages for just a moment. I remember these examples. I am reminded that when the process of organizing the steel industry, let us say, and let us say the coal industry also, the argument against it strongly was it will raise the wages for coal operators and steel manufacturers will be put in a bad spot because they will have to increase their prices, and so on.

That has not been proven true at all, because we have even low costs in those industries today and the men are getting substantial wages, a living wage, and they have purchasing power.

If these industries cannot raise the wages themselves, to increase the standard of living of the workers, then the Government must do something about it. It is not that the Government wants to do it, they are compelled to do it because the responsible people won't do it.

Mr. SCHMIDT. I have agreement with your aims, but I think market forces are the way to do it. The Socialist is the one that believes in these interventions and I know you are not a Socialist. We made a study on steel wage rates and steel prices for a period of 10 or 12 years, and the correlation is almost perfect. Normally that is not true. Normally wages go up about twice as fast as prices.

Representative KELLEY. I doubt whether the wages in the steel industry were lower 10 or 15 years ago, whether there would be any more market for steel than there is right now. I think the only answer to that is that people have more money to buy the things which they want.

Mr. SCHMIDT. Absolutely. We have got to have a continuous flow of income. Everybody's income is a cost to everybody else, and all I argue is that artificial cost raising will damage people rather than help.

Representative KELLEY. We always pinpoint when we want to reduce costs we say the things we have to do is reduce wages, but there are other factors.

Mr. SCHMIDT. No; I do not know of any businessman that thinks that way. The businessman thinks in terms of increasing productivity, and that is why he wants more investment, and that is the theory of the new Internal Revenue Code, more rapid depreciation. The theory is, you will encourage new investment, raise the productivity, and thereby make the wage-paying capacity increase, and that is how we raise our standard of living.

Mr. MAHON. Mr. Chairman, Mr. Schmidt made reference to my statement. In our brief statement we did not have time to cover all of the points. Our union favors at least $1 or $1.25 minimum wage, and we know of no hardship created by the last advance in the minimum wage, and we think it is essential now in order to protect our people.

Representative BOLLING. Thank you.

Mr. Kennedy, do you have something to say?

Mr. KENNEDY. Yes. In response to Mr. Kelley's suggestion, I think in the last 15 years we have increased wages in the coal industry about $8 or $9 a day, and yet the cost of coal is lower today than it was 15 years ago.

Representative KELLEY. And you know why, Mr. Kennedy, because the wages were raised; therefore, the coal operators and coal producers had to do something about it. And what did they do? Mechanized.

Mr. KENNEDY. That is right.

Representative KELLEY. Machinery.

Mr. SCHMIDT. But you create unemployment, too. You have some hard choices to make.

Mr. KENNEDY. Certainly.

Representative KELLEY. Sure it did, but those working in the industry had a substantial living wage; that is the point.

Mr. SCHMIDT. Here again I would say let market forces try to solve these problems, and they will do it better than through bureaus.

Representative KELLEY. We have the argument of which comes first, the hen or the egg. You believe in production. I believe in purchasing power first.

Mr. SCHMIDT. I do not think economists would agree with you.

Representative BOLLING. Gentlemen, I think it might be well to return to this discussion after we have heard Mr. Newsom, who is now here. I know that I am going to have to leave very shortly before 12 o'clock, and I think it would be well if we heard Mr. Newsom and then returned to the discussion.

Would that meet with your approval?

Representative KELLEY. I do not know whether I can meet this afternoon.

Representative BOLLING. No, we cannot. I propose to finish this morning.

Representative KELLEY. I am sorry, I will have to leave here in a few minutes.

Representative BOLLING. Do you have further questions, Mr. Kelley?

Representative KELLEY. No. I do not like to leave you alone, Mr. Chairman.

Representative BOLLING. I will try to protect myself.

Representative KELLEY. I am sure you can.

(Mr. Schmidt's prepared statement appears at p. 1248.)

Representative BOLLING. Mr. Newsom.

STATEMENT OF HERSCHEL D. NEWSOM, MASTER, THE NATIONAL GRANGE

Mr. NEWSOM. Thank you, Mr. Chairman. I think perhaps, in addition to expressing appreciation for the privilege of making this statement here, I ought to apologize for my inability to be here on schedule this morning. We just simply were not ready, having returned yesterday from a meeting out in Spokane.

We have such a stake in this total economic policy that it does seem appropriate to file a statement, even though we have attempted to keep it very brief, and so we are very grateful for the privilege of pointing out, in our opinion and in our lay, rural point of view, it seems clearly evident from the behavior of our economy in the past year that we have demonstrated that present economic tools, when properly used, are quite effective. We have avoided a depression and are now again resuming our normal economic growth. For more Americans this will mean good jobs and a rising standard of living.

Unfortunately, farmers will not share in a rising national income in the year ahead. According to the figures on page 147 of the Economic Report of the President, farmers' net income has fallen from \$16.7 billion in 1948 to \$11.9 billion in 1954. During this same period wages in manufacturing industries have increased from \$1.35 an hour to \$1.81. Farm prices have fallen from a peak of 313 in February 1951 to 244 in January 1955, a decline of 22 percent. At the same time, farm costs have risen 2 percent. Farm prices were at only 86 percent of parity on January 15, 1955.

The income of farm people in 1954 was less than half of the income of city and town people, measured on a per capita basis. The income figure for farm people included all earnings from investments and off farm employment, as well as a cash value on produce consumed on the farm and imputed rental value of the dwellings.

Let's assume it is possible to reach a $500 billion gross national product during the next few years. My question is, Can we reach it if agriculture represents a dead weight in the other direction? In fact, our economy must expand on a gradual stable basis. Agriculture wants to be part of that expansion. We want to share in it and reap its benefits. In fact, we must do just exactly that, or agriculture will slip toward a "peasant type" of operation, and the full total economy will be roadblocked, stagnated, and otherwise prevented from attaining its greatest possible potential level of output, and the level of living of all people will suffer as a result.

Our American institutions have done a marvelous job of keeping our economy producing at near capacity and progressing. Unfortunately, we have not done so well keeping such productive balance that the benefits of greater production and greater income are spread equitably among the various groups in our economy according to productive output—at least insofar as agriculture is concerned.

The faster our economy grows, the greater becomes the problem of maintaining balance between enterprises, and between the products of each enterprise. This is as true in agriculture as anywhere else.

If the number of people and the amount of capital resources employed in each of our American enterprises are unable to adjust to the changes in demand and technology that will occur by 1965, we will find an ever-growing disparity of income between various economic segments of our economy. This will manifest itself by low income and by what we in agriculture call surpluses and by unemployment of workers in certain industries. Unless we keep in balance with the changes brought by economic progress, we may be able to attain our goal of a $500-billion output by 1965.

We must agree that some disparity of income serves an economic function of attracting labor and capital from declining to expanding segments of our economy, but we must recognize also that severe and persistent disparity of income may be the symptom of the growing inability of our economy to adjust the employment of labor and capital in the various enterprises to the differential effects of change in market demands and progress.

The difficulty which our economy has in adjusting resources to progress, which then causes disparity of income for some groups, or which causes unemployment, is a source of dissatisfaction with our free market, free-enterprise system. Persistent disparity is therefore a threat to our free-enterprise system, at least in the sense it invites all sorts of effort by Government to equalize income, often by interference in markets.

We believe intensive study of the problem of resource adjustment necessary to accommodate progress will provide many answers. The only sound solution to disparity of income lies in facilitating resource adjustment, and we believe our Government can do much to aid such adjustment within the framework of our free-enterprise thinking. To the extent we succeed in bringing about parity of income by this method, we will greatly reduce demands for Government interference in prices and markets and for other demands for Government redistribution of income.

Returning now to the farm problem, we do not believe that a return to free-market prices will cure it. Instead, the disparity would widen, displaying more fully the graver symptom of the inability of our economy to adjust its resources to changes in demand and technology. At one time, low prices or disparity of income might have generated the cure, but with the "institutionalized" economy of today, this adjustment does not happen fast enough to keep up with changes as reflected in a free market today.

We must be reluctant to reducing the overall productive capacity of agriculture to what the market will currently take at satisfactory prices. Instead, we favor an all-out effort to increase the demand for farm products to fit a high productive capacity of agriculture granting that we must proceed to balance our own productive output as between farm products. In the past, we have been remiss in this and much too dependent on direct Government price support. The National Grange has long been concerned with the loss of our normal and historical markets abroad for wheat, cotton, and rice that arises when our price supports are above world market prices as they frequently are. We see no reason for giving up our normal world markets or becoming a residual supplier simply because we must try to preserve a reasonable level of farm income. This is why we, for a number of years, have advocated a two-price plan so that farmers could sell a normal quantity abroad at competitive world prices.

Because we have given so much attention to maintaining aggregate expenditure and aggregate production, we have looked upon the income-disparity problem as a nuisance problem and have dealt with it by expediences such as applying monopolistic price and production policies or by subsidies. We must hereafter deal with it more fully as a resource-adjustment problem or by expanding markets. It is more than a matter of eliminating unjust income disparity, because our economy will not be able to accommodate progress unless resource adjustment takes place well enough that it can be reflected in fair income distribution.

Let me say that we should not reduce farm price supports below the levels now set. To reduce price supports would not only create a hardship for farm families, but would also risk dislocations in industries serving agriculture, with possible loss of national confidence and a chain reaction downward. Farmers are an important market for many businesses.

Reducing price supports below present levels would not solve the farm problem, but it would only give us a fuller indication of the exact location and extent of overcapacity, the unbalance within agriculture, and prove the inability of free prices to bring about corrections in pattern of production without serious consequences both to rural people and to our total economy—our economy is today too full of institutionalized factors.

As we seek ways of expanding farm markets and bringing our agricultural plant into balance, we must of course be sure that there is reasonable opportunity for price to help guide the needed shifts in people and resources. Total United States planning simply must, however, provide that farm income shall be safeguarded in this era of expanding economy or expansion will be limited, or even reversed.

Representative BOLLING. Thank you, Mr. Newsom.

On behalf of the committee, I would like to thank all of the members of the panel for their presence and participation.

Without objection, there will be included at the appropriate place in the record various material received by the committee and its staff.

This is the conclusion of the hearings this year on the President's Economic Report for 1955, and the committee will now adjourn to reconvene on the call of the Chair.

(The prepared statements of members of the panel and other materials are made a part of the record, as follows:)

Testimony of Dr. Emerson P. Schmidt for the Chamber of Commerce of the United States

My name is Emerson P. Schmidt, director of economic research of the Chamber of Commerce of the United States of America, a federation composed of 3,100 State and local chambers of commerce and trade associations with an underlying membership of more than 1.5 million.

We appreciate the opportunity to review the President's economic report. In terms of economic analysis, it is excellent. It constitutes a sharp, comprehensive survey of the national economic events of the past year. The economic philosophy and policy on the whole are admirable. The entire report is written in an excellent English style—a matter worthy of comment, relative to the generally poor writing found in most Government reports—to the point where the intelligent layman cannot understand them.

While the economic analysis is excellent, question needs to be raised in regard to several of the recommendations for the future, summarized beginning on page 69, to which we will return later. Whether some of these recommendations belong in an economic report may be questioned.

ECONOMIC ANALYSIS

We wish to commend the President, his associates, and the Congress for their performance last year in terms of the Employment Act of 1946. A year ago, there were both moderate and dire predictions of the impeding downward trend of the economy. To some extent the Employment Act is based on the theory that economists or politicians can forecast the economic future. The 1955 economic report puts this matter into proper perspective. The hazards of prediction were shown in the chamber's reported entitled "Business and Economic Forecasting." Your staff director thought enough of this to supply a copy to each member of the joint committee.

While there are those so bold as to project in great detail the precise amount of gross national product, national income, employment, etc., necessary to obtain the goals of the Employment Act of 1946, others with a clear comprehension of the steady fluidity and dynamism, of our economy are less sure on all of these points. When the employment bill was introduced in 1945, this idea of making detailed plans and detailed projections—models to which the economy should conform—was in the saddle, an American version of popular foreign 5-year plans. The bill called for detailed annual national budget projections, or targets which then would become the duty of the administration to attain, from year to year. The Congress did not write this requirement into the act. We believe that the President is to be commended in avoiding this type of projections.

There are bound to be continuous surprises, and detailed projections can never be very accurate. For example, the labor force increased by nearly 1.9 million individuals from May to June 1953. But in 1954, from May to June, quite contrary to almost universal expectations, the labor force increased by only 1 million.

In the light of these uncertainties, who would dare determine what is a reasonable or a desirable goal for a year or 18 months ahead? Who knows what policies are needed in precise terms?

Members of the permanent civil service in the National Government generally adhere rigorously to facts and reasonable projections. The United States Treasury, the Bureau of the Budget, and many other Government agencies, just like the business executive, must make estimates of revenue, expenditure, demands for goods and services, shifts in prices and costs.

Spokesmen for the party in power at any time must keep on talking optimistically, regardless of current developments. The ardent politician of the opposition party may not be able to keep a note of triumph out of his gloomy predictions.

TRANSITION

The administration and Congress took a number of steps to ease the transition from the Korean war boom. The dire projections through most of 1954 were based on the alleged inadequacy of these steps. The administration is to be commended for the shrewdness of its analysis and particularly for the fact that it was not stampeded into taking additional extensive steps to mitigate the contractions of 1954. As the chairman of this committee, Senator Douglas, said in 1952:

"I submit as a rough judgment that probably we should not run a governmental deficit unless unemployment exceeds 8 percent and, indeed, possibly slightly more than that. When unemployment is between 6 and 8 percent, the governmental budget should at least balance and therefore be neutral in its effects. When unemployment is over 8 percent, we should have a deficit; but when it is under 6 percent, there should be a surplus" (Senator Paul H. Douglas, Economy in the National Government, 1952, p. 254).

A sound contracyclical policy must be flexible. As put by the Douglas subcommittee and reaffirmed by the Patman subcommittee:

"Timely flexibility toward easy credit at some times and credit restriction at other times is an essential characteristic of a monetary policy that will promote economic stability rather than instability."

We are now in a recovery phase. The economy has moved to a point above the halfway mark between the moderate decline of 1954 and the high-inflationary peaks of the Korean war boom. In fact, disposable income is now at an all-time high, and was higher in every quarter of 1954 than ever before. For example, had the administration and the Congress followed the more dire predictions, we might have embarked upon a make-work public works program. This turned out to be not necessary. It also might have overboomed the construction industry, created scarcities, and driven costs out of line to the point where such a boom in the private sector would have been nipped in the bud and lead to more unemployment rather than less.

The 1955 Economic Report, in spite of ventures into the sociological arena, shows an excellent appreciation of the key role of entrepeneurship, innovation, and new investment. While the importance of purchasing power is recognized, the simple, naive view that depressions are caused by lack of purchasing power is given no credence in the report—a view of which we have heard much since mid-1953. This view could be summarized about like this: But we are not using fully all the private plant and equipment which we already have. Why save and invest more? Why not raise buying power?

Without minimizing the importance of buying power, this is not the whole story for at least four reasons:

(1) Billions of private dollars of money savings are always being made, partly because even when incomes decline many individuals through habit, through savings plans or because of uncertainty, still want to save. These savings need to be currently invested in order to become income to others and thereby help sustain prosperity.

(2) Our existing plant, equipment, and commercial facilities are deteriorating, becoming obsolete, and need steadily to be replaced, upgraded, and improved. What company or business is as well located and as modernly equipped as it would like to be?

(3) Even at full employment, we never use all investment at capacity levels. The economy needs elbowroom and flexibility so that underutilization even on a fairly broad basis is no proof of the overall adequacy of investment.

(4) The only way in which we can pave the ground for a new forward upthrust in our struggle to raise our level of living is to put more and more dollars into new, well-managed, profitable investment. Human wants are limitless. Whole new industries are being born. Others are on the threshold. Just because existing facilities in established lines may be used for a time at less than 100 percent of capacity, that gives us no clue to the need for new capacity, in new lines. The new potentials are all around, waiting to be researched, analyzed, and exploited.

There is some reason to believe that the rate of capital formation, which underlies saving, has been too low in the last several decades. The National Bureau of Economic Research, a group of outstanding economists and noted for their objectivity and freedom from the ideological battle, in reviewing the last eight decades, states:

"It is a challenging fact that most of the rise in tangible capital per person came in the period before the great depression. Between the 1870's and the

1920's, capital per person rose at a fairly consistent average annual rate of about 2.5 percent. Since the war capital per person has grown rapidly, but this recent acceleration has not yet done much more than offset the decline during the preceding 15 years; on net balance, per capital real tangible reproducible capital today is only moderately above the predepression high" (34th Annual Report, p. 6).

Indeed, the bureau tells us that with the average family income of about $5,000 at present, if we maintain the last 80 years' rate of progress in the next 80 years, our grandchildren or great-grandchildren will have average family incomes of about $25,000 of 1953 purchasing power—a level now attained only by about 1 percent of the Nation's families. Obviously, this would require fabulous quantities of new investment. Under competition, its benefits trickle, flow, and spread all around to benefit every factor or agent of production.

That we can maintain prosperity and progress without new investment is doubted by all economists. Prof. David M. Wright in his noted book Capitalism states:

"But investment is the basic problem. Measures to stabilize consumption (public works, unbalanced budgets, etc.) may indeed keep the slump from getting worse. But they are after all mere first aid, that is, if we are not just trying to smuggle socialism in by the back door. Until growth once more gets underway and with it new investment, there cannot be a spontaneous recovery of the private economy."

This multiplier or trickle-down philosophy is not likely to be very popular or have many defenders. The Economist (London) has frequently pointed out that there are very few votes for saving and capital formation in Western democracies. But new sustained investment is important. It needs wider understanding and support. The analysis of the Economic Report should help and is to be commended for its balanced approach.

It is gratifying to note from the Economic Report that progress has been made in redrawing the line separating private and public enterprise, and that steps have been taken to dispose of numerous enterprises "for which public operation was inefficient or of doubtful advantage." The increase in the amount of Government contracting with private firms for necessary services and facilities, as an alternative to producing them itself, is also a move in the right direction. The limitation on National Government participation and maximizing local effort in the development of our natural resources is also to be commended.

Similarly we endorse the emphasis on competition in our private economy and recognize the key role which the Government plays in this sphere.

SOME QUESTIONS

We would like, however, to ask the joint committee to give consideration to two basic problem areas:

(1) Is it necessary or desirable for the National Government to move into additional fields, as recommended by the Economic Report, and

(2) Are the policies of our National Government adequate to preserve our Federal system of government with strong responsible States, as part of that Federal system?

Since the Economic Report is looked to by many for thoroughly objective analysis, are all of the following subjects appropriate for inclusion in it?

PUBLIC HOUSING

The administration asked Congress to provide for 35,000 public (tax-financed) housing units in each of the next 2 years. How was this figure derived? Why not one-half that number, or twice as many, or 10 times as many?

The number of public-housing units which will be built is not the only issue. Any precise figure does not answer the fundamental question: In what sense is it the responsibility of the National Government (the taxpayer) to provide housing for certain citizens? Every million dollars of tax money taken from the people for public housing must make it a little harder for some lower-moderate-income people to build their own homes. If the concept of public housing grows and grows, it may become an accepted way of life. It could induce more and more people to look to the Government for all or part of the cost of their housing. It inevitably will reduce the incentive for some of our citizens to try to build their own homes. Throughout history, the effort to escape poverty has been the great incentive which has helped raise our production and our incomes.

Why taxpayers generally should subsidize the building of new homes for certain families, when often such taxpayers cannot afford to build new homes of similar quality, for themselves, should be questioned.

Furthermore, when Government enters a relief field, it has generally been assumed that all persons within the relief category should be equally eligible. But in the very nature of public housing, one public housing installation will be located here, another one there, etc., while vast numbers of other families in a similar financial category will receive no such subsidy, just because they happen to live in a village, town, city, or county where no public-housing project happens to be launched. This is discrimination.

In the interest of nondiscrimination and equality before the law, it would seem that no Government relief program should ever be launched, unless all individuals or families in that relief category have equal access to the handout, or the subsidy.

Furthermore, these public-housing projects are creating social problems. Children in the same general neighborhood are made to fall into two classes. One group comes from self-supporting families, and the other group gets taxpayer subsidized housing. This establishes community conflicts, class distinction, and can lead to endless friction.

Finally, such public-housing expenditures, like all other unessential or less essential expenditures, make it that much harder to balance the annual budget.

SMALL BUSINESS ADMINISTRATION

A question also should be raised as to the continuation and particularly the proposed expansion of the Small Business Administration, especially its banking business. If a business proposition is a good one, some private lender or private lending institution generally is ready to help finance the project. If the proposition is doubtful, the promoters are likely to have difficulty in raising funds, and this leads to a call on Government for assistance. Why should the general taxpayer become financially involved in risky enterprises? The SBA, if continued, should be integrated in the Department of Commerce, so that small-business men, who constitute the bulk of our members, can get the benefit of all the work of the Department. In the chamber's report, Small Business, published in 1954 (revised), we show the central importance of small business to our way of life and progress. Better management, we found, is the greatest need of small business. The heavy tax burden is a great handicap and the basic needs is not Government loans.

INTERNATIONAL FINANCE CORPORATION

The same argument should be applied to the proposed International Finance Corporation. If more foreign lending is desirable, private lenders may be expected to take advantage of production and profit opportunities. If it is felt that such projects are dubious and therefore unattractive to private investors, can we justify spending the taxpayer's money to foster these ventures? As foreign nations rediscover the essential conditions within their own countries to attract foreign capital, it is inconceivable that American investors will overlook profitable opportunties to make private investments, and thereby keep these matters in less-frictional private hands.

The budget is unbalanced. The economic report states that taxes on individuals and business are still too high and urges the postponement of the scheduled tax reductions. Yet all these proposals for new and expanded expenditures are found among the recommendations.

A number of proposals have been put forward to finance projects outside of the debt limit. Thus, there is discussion of an "independent authority" to raise the capital for one program. Other groups were quick to take their cue and are urging similar propositions for financing outside of the debt limit.

Incurring debt for capital expenditures in the case of individuals, business, and government may be justified at times, but we should avoid complicating our budget and debt statistics by making it appear that the debt is smaller than it actually is.

AREA DEVELOPMENT

We hope that the joint committee also will examine the program for area development. It has been suggested that special tax amortization benefits be provided for new defense facilities located in surplus labor areas. This, like other proposals, of course, has a strong humanitarian appeal, but it also could lead to the uneconomic location and allocation of resources. The same question must be raised in regard to placing Government contracts in labor surplus areas. Similarly, our stockpiling program seems to have taken on an aspect of subsidy or relief.

The Government's procurement and defense planning programs should have a sound economic base. The Government as buyer should act like any other prudent buyer, that is, obtain the best possible products at the lowest possible price, with due regard, of course, for national security issues.

A contrary approach tends to raise the cost of defense expenditures and makes it more difficult to balance the budget. Such contrary approach also may furnish a mere temporary prop which will lead only to greater and greater pressures for more and more artificial and uneconomic supports on an ever-widening front. Our economy may be able to absorb these uneconomic steps already taken, but we must be on guard lest this become an accepted way of life—particularly in a world of tensions and cold war, in which we must make our human and other resources go as far as possible.

For these reasons we strongly recommend that the joint committee provide us with straightforward economic analysis of these problems.

MINIMUM WAGE

What the economic report has to say on lifting the minimum wage is significant. A year ago the administration expressed a preference for a higher minimum wage, but said then that the timing was bad. Now, owing to recovery, the timing is found appropriate (p. 58). Does this mean that a new higher minimum is good only when it has little or no effect?

Why 90 cents an hour? Why not 85 cents or $1.05—as some have said—$1.25? Somehow the President has discerned (but just how, we are not told) that 90 cents is the safe maximum; that "a higher minimum might well cause lower production and substantial unemployment in several industries. * * * It would probably bring generally higher prices in its wake. Such effects would make the gains of covered workers illusory, and they would lower the standard of living of uncovered low-wage workers." This, we feel, is an effective statement of the self-defeating characteristics of any minimum wage legislation. The expansion of coverage of the act to more occupations and industries may bar more workers from jobs or force them to overcrowd the remaining uncovered jobs and depress wages there.

Again, minimum-wage legislation has a strong humanitarian appeal, but what moral right does the Government have to bar a worker from employment unless he can find an employer willing and able to pay him 90 cents an hour, or $1, or $1.25 an hour? And why, incidentally, does our Government have different minimum-wage laws fixing highly different wages under at least three different programs: (1) the Fair Labor Standards Act, (2) the Walsh-Healey Act, and (3) the Davis-Bacon Act?

These laws are not self-enforcing. A substantial battery of unproductive Government workers must be employed to administer these laws: Bureau chiefs, subchiefs, department heads, division heads, subdivision heads, lawyers, accountants, economists, public administrators, stenographers, typists, file clerks, charwomen, sweepers, janitors, and on and on in Washington and scattered throughout numerous field offices. The joint committee could perform a valuable service by taking a good solid look at this matter as it considers the minimum wage recommendation.

STRENGTHENING OUR FEDERAL SYSTEM OF GOVERNMENT

The President's Economic Report contains a significant but short analysis of the financial position of State and local government. It makes a number of suggestions on updating State and local "outmoded tax-rate and debt limits."

Today the gross debt of State and local governments stands at about $38 billion, as against $20 billion in 1939, and $17 billion in 1929. In 1929 and 1939 their debts were equal to 16.5 percent and 22 percent of our total gross national product, respectively. But today they represent only 11 percent of our gross national product.

At the same time the National Government debt, however, has greatly risen relative to the growth of our economy as shown by the accompanying tabulation (pp. 63 and 115).

	National debt	Gross national product	National debt as percent of gross national product
	Billions	*Billions*	
1929	$16.9	$103.8	16
1939	45.9	91.1	50
1954	278.9	356.0	78

In spite of this showing, however, the Economic Report recommends increased expenditures for many programs which traditionally have been handled at the State and local level and for many expenditures for many new such programs. The National Government is asked to assume a great responsibility for local public education. Once the National Government embarks on a subsidy or grant-in-aid program in this field powerful pressure will be generated for continuous expansion. Local communities may shy away from assuming their responsibility, hoping and expecting that the National Government will take over. The mere fact that such a program is under discussion, probably will slow down local efforts all over the country. And yet the National Treasury must go right into these local communities to collect the revenue which it will pass back to them, minus the usual brokerage fee "charged" by Washington.

A further real danger, of course, rises in the possibility of ultimate control of the content of education. The Supreme Court said, "It is hardly lack of due process for the Government to regulate that which it subsidizes" (*Wickard* v. *Filburn*, 1942). Even though such a program starts only with "construction" aids, the distinction between construction, teaching aids and teachers' salaries will be ambiguous and nebulous. The National Government has already written a number of textbooks widely used in the public schools. It does not take much imagination to see the day ahead when, in the rush to complete the work of a congressional session, a rider or a proviso will be attached to a public education appropriation bill requiring that certain courses be taught, or certain views be expounded or that certain textbooks be utilized. Indeed, in this session one Member of the House introduced a resolution to create a commission to write a textbook on communism for our schools (Congression Record, Jan. 31, p. A519). To help obviate the foregoing danger, it is only foir to add, this Member of the House wants to give every citizen a chance to review and object to the content of the textbook and every Member of Congress is expected to review it before voting upon it (p. A521). If this procedure were followed in every case, bureaucratic control of education might be minimized and most efforts at textbook writing by the National Government might die aborning.

Freedom depends on the dispersal of power and it is better to have 48 (or 1,000 times 48) local school administrations and educational experiments than to have education controlled from centralized Washington bureaus. To say that nothing of this kind is now contemplated is not enough.

While the President in his special message on school needs (February 8, 1955) discusses the foregoing point and is thoroughly aware of it, he neverthless said:

"But too many teachers are underpaid and overworked and, in consequence, too few young men and women join their ranks. Here is a shortage, less obvious but *ultimately more dangerous*, than the classroom shortage." [Italic added.]

It will not be difficult for either those who want more United States Treasury money or for those who want to shape and influence the curriculum of our local community schools to latch on to the foregoing statement and demand United States Treasury financing of teachers' salaries. It is the duty of a statesman to know what he is doing and to look ahead.

One of the unique features and great sources of strength in the American economy has been the innumerable sources of initiative. Our Federal system of government with its separate governmental units, National, State, and local, its checks and balances, has been part of this strength. However great the need for more funds for education may be demonstrated to be, we must always recognize that we have other long-range considerations that must also be kept in focus.

DELINQUENCY OF JUVENILES

In early years it was assumed that parents were responsible for the behavior of their offspring. The church has also endeavored to help build integrity, honesty, and moral fiber. Yet, here in 1955 we find that it is proposed that appropriations by taxpayers be made via the United States Treasury to make grants to the States to help them to control juvenile delinquency.

If the National Government assumes responsibility for the delinquency of juveniles, it must, of course, have the power and authority to execute its responsibility. That power and authority must go with responsibility is an elementary proposition—almost a truism. This is shown most clearly in the case of the National Government's responsibility for national security. To carry out this responsibility the Government commandeers the lives of our young men, and every young man is liable without his consent to compulsory military service.

No doubt at the head of the juvenile delinquency bureau sitting in Washington we would have a super saint, with antidelinquent blood in his veins, exuding virtue in every breath and with every heartbeat. Just why juvenile delinquency in St. Paul, or St. Mary, or St. Joseph, or St. Peter is a problem for our National Government is not made clear, although all of us are most certainly against juveniles who are delinquents. There is a vast difference between nationwide problems and national problems. Defense, international relations, etc., are obviously national problems. Fire control and juvenile delinquency are nationwide problems, but scarcely national problems.

Most of the welfare programs begin in a modest way. Frequently they are started by appropriations to a congressional committee or bureau merely for research on the problem. Enthusiasts and zealots are hired to do the research. Staff documents may be published, even without review of a congressional committee. But in the public mind "the Government report" is identified with the congressional committee under which the staff was recruited, and by which it may or may not have been directed.

The problem grows and grows in publicity and it is easy for the bureau to find a politician before too long to introduce a bill for an initial "modest" grant-in-aid program or a program directed by some national bureau.

Furthermore, grant-in-aid programs can and often do warp State and local expenditures. The "aided" programs grow at the expense of the unaided.

A significant example of this trend is the field of individual health. While the present administration has gone quite far in recommending a flood of health programs, the New York Times (February 3, 1955) in a lead editorial nevertheless, enumerates a whole series of health features which it regrets that the President failed to mention in his health message of January 31—a message covering a broad range of expanded and new programs.

UNEMPLOYMENT INSURANCE

After the adoption of our so-called Federal-State systems of unemployment insurance, frequent attempts were made to nationalize the entire program. When this failed, attempts were made to establish "Federal standards" for the State laws.

The Economic Report, while it does not urge congressional action in this area, attempts to tell the States what they should do, rather than permit a multitude of experiments at the State level (pp. 55–57).

Thus, the report recommends uniform duration of benefit payments for every eligible worker regardless of how long he has held a job.

Many States have assumed that there are some workers who perhaps are fairly well attached to the labor market but who, because of substantially less than standard qualifying wages, should, nevertheless, not be wholly excluded from getting assistance.

In Michigan, for example, an employee who has worked some, in at least 14 weeks, is entitled to some benefits, but the number of benefit weeks rises in a definite 2 to 3 ratio to the number of weeks of work up to the 26-week maximum. Should Michigan pay unemployment compensation for 6 months to employees who work only 3 months? Or, should only workers who are employed 52 weeks be eligible for the "uniform duration" of 26 weeks' benefits?

Again, the Economic Report recommends that the benefit should be equal to 50 percent of the unemployed worker's "regular weekly wages." When the combined social security and withholding tax was nonexistent or small, this formula seemed fairly appropriate. But today under this formula a 50-percent benefit of regular wages would be substantially more than 50 percent of regular take-home pay, and it must be remembered that the benefits are tax free, and the unemployed worker avoids numerous expenses such as transportation, outside lunch, work clothes, etc. This recommendation, furthermore, would favor the single worker and discriminate against the worker with family responsibility. Are not the States in better position to determine these matters?

The Economic Report states that the District of Columbia unemployment compensation laws should be drafted so as to be "a model" for the States. Just what there is about the economy of the District of Columbia where our chief product is words, that would make a system of unemployment compensation adapted to its conditions, appropriate for North Dakota, or Michigan, or New Jersey, is not clear. When Congress acts as the legislative body for the District of Columbia, it rarely pretends to be setting a national pattern. If it were, then the citizens in the other States should be disfranchised as in the District of Columbia.

CONCLUSIONS

Every new program, every new bureau and every new function adds to the burdens of overworked Members of the Congress. These members serve in a sense as the board of directors of the national governmental phases of our society.

These programs and functions have grown and grown to the point that probably only a handful of "members of the board" could make a passing grade in an examination of the statutes, regulations, programs, organization and operation of even 5 percent of the bureaus or programs for which they vote and to which they make appropriations from year to year.

Does this make for sound government? Why are Members of the Congress so persistently anxious to add to their overload of work and responsibility—a responsibility which in all frankness they would have to admit of being incapable of discharging in the sense in which we think of the responsibility of a board of directors in a private business, a church or a charity?

Thus, in conclusion as we see it, the Economic Report seems to be based on high-grade understanding of the power of monetary and fiscal policies in governing the stability and growth of our economy.

Extraneous matters appear to be included in the report, matters which are better handled elsewhere—if they must be made to be national issues.

While many fine things are said on the importance of State and local government, the report recommends many steps which, in fact, would reduce their responsibility and their financial capacity to meet their own needs in their own way.

OXFORD, ENGLAND, *February 10, 1955.*

GROVER W. ENSLEY,
Staff Director, Congress of the United States,
Washington, D. C.

DEAR SIR: Thank you for your letter of January 31 and I am looking forward to receiving the complete report you mention.

Meanwhile, I enclose a copy of text which is the post mortem you ask for.

Yours sincerely,

COLIN CLARK.

In two articles in the Manchester Guardian of November 19 and 26, 1953, followed up by an address to a meeting of businessmen in New York, called by the National Industrial Conference Board of January 21, 1954, I made some predictions about an American recession, which have been the subject of a good deal of discussion. I think it will be seen, on examining the evidence, that my predictions, while by no means infallible came a good deal nearer to the truth than most of the rival forecasts current a year ago, and particularly those of the opposition speaker at the National Industrial Conference Board meeting, Professor Woytinsky.

The following were the essential passages in the two addresses. (I have not altered the text at all, except to correct some grammatical defects in my own spoken word, the amendments being indicated by brackets.)

Professor Woytinsky said: "The volume of economic activities by the end of 1954 may be close to the trend line, as indicated by its growth in 1951–52. This would bring the gross national product to \$380–\$385 at an annual rate, personal income close to \$300 billion, industrial production index to approximately 250 (as compared with the present level of close to 230), and the index of manufacturing production to approximately 260 (as compared with its current value of 240–245).

This is my tentative answer to the question—"1954: Depression, Recession, Recovery?"

Quoting the production index numbers on the old base, he anticipated production now to be well above the closing months of 1953. Gross national product stood at 355½ billion in the third quarter of 1954, and personal income at 286 billion.

My statement was: "The worst months, in my opinion, will come more likely in August and September, rather than the second quarter. * * *

"If Congress cuts expenditure, forces up tax rates, refuses tax remissions, the situation at the latter part of the year may get out of control; whereas really prompt action may put it, within a few months, within control. [If Congress follows] the intermediate course of letting tax revenue melt away and the deficits build up [and you then] ask me to predict as closely as I can what will happen, that will probably cause things to run down fairly rapidly until the third quarter of the year, and then start a slow upturn. * * * Any long period depression is out of the question. If you are taking a view 2 or 3 years ahead, as General Motors are, then I think you can be very optimistic. What I do see is quite a short, sharp depression and recovery, which, if wisely handled, may be as rapid as the depression which caused it."

I think that this has been more nearly correct.

I had predicted in the earlier statement that the fall would be similar to the 1949 recession. On that occasion, gross national product (seasonally adjusted at annual rate) fell from a maximum of 267 billion in the fourth quarter of 1948 to a minimum of 255½ billion in the fourth quarter of 1949. On this occasion the fall has been from a maximum of 369.9 billion in the second quarter 1953 to a minimum (so far) of 355.5 billion, third quarter of 1954.

The fall in gross national product, and the rise in budget deficit, have been rather less than I thought they would be. I anticipated that the budget deficit, calculated on a basis of accruing tax revenue, for the worst quarter, might be at a rate as high as 20 billion per annum. Though it will not be as high as this, it will be well above the previous year; we do not yet have the accruing tax liability figures for the third quarter, to complete the calculation. * * *

CONNECTICUT GENERAL LIFE INSURANCE CO.,
Hartford, Conn., February 14, 1955.

Hon. PAUL H. DOUGLAS,
United States Senate, Washington, D. C.

DEAR SENATOR DOUGLAS: The enclosed statement is submitted to the Joint Committee on the Economic Report in response to your invitation addressed to Mr. Meyer Kestnbaum, chairman of the Committee for Economic Development.

It is a source of regret to us that no qualified officer of CED is able to appear in person before the joint committee at this time. We have a keen interest in the work of the joint commitee, partly because its area of study so closely parallels that of CED's research and policy committee. Members of CED have appeared before the joint committee on many occasions, all of them pleasant and, we believe, constructive.

I hope that the brief statement enclosed will be helpful in the current deliberations of the joint committee. This statement largely concerns itself with CED's conclusions. There are certain observations and editorial comment which are the personal views of the writer and do not necessarily reflect the views of CED.

Sincerely yours,

FRAZAR B. WILDE,
Chairman, Research and Policy Committee,
Committee for Economic Development.

STATEMENT OF FRAZAR B WILDE, CHAIRMAN, RESEARCH AND POLICY COMMITTEE, CED, AND PRESIDENT, CONNECTICUT GENERAL LIFE INSURANCE CO.

To a large extent the propositions of this very lucid economic report are in accord with Committee for Economic Development policies.[1] We share the economic report's enthusiasm for the success of the policies that guided the economy through 1953 and 1954.

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[1] The Committee for Economic Development is a private, nonpolitical organization of businessmen and educators formed to study and report on the problems of achieving and maintaining a high level of employment and production within a free economy. Its research and policy committee issues from time to time statements on national policy containing recommendations for action which, in the committee's judgment, will contribute to maintaining productive employment and a rising standard of living. A list of members of the CED research and policy committee is attached.

A year ago in testimony before this committee, our diagnosis of the economy led us to caution equally against drift and against precipitate action. We placed our reliance on a flexible monetary policy and on moderate tax reduction with emphasis on increasing incentives as a means of supplementing automatic stabilizers in the job of keeping the economy stable. As the President's report fully appreciates, these measures were no substitute for sustained confidence on the part of the public and the business community. But the fact that the administration was not indifferent and yet was not stampeded into the use of more drastic measures tended to strengthen confidence, particularly in the business community; and the confidence of business and businessmen makes for confidence on the part of the employees and the public generally.

While there is much reason for satisfaction in view of this record it would be reckless to draw the conclusion that the business cycle has been tamed. Happily, while accenting the progress that has been made, the report stops short of this conclusion.

There are at least three reasons for not being too complacent about our accomplishment:

First, it is questionable whether the economy in 1953–54 was subjected to really strong forces making for depression. The President's report identifies inventory adjustments in the wake of the Korean war as the primary brake on economic activity. This brake was supplemented by a fairly sharp drop in Government buying for defense. As a result of these downward forces our stabilizing machinery was set in motion. The machinery performed very well, but it did not have to cope with strong downward movements in plant and equipment outlays or in residential construction which were relatively stable or increasing. The year 1954 probably did not provide a serious enough test to warrant giving our present stabilizing machinery an unlimited guaranty for the future.

Second, no two economic adjustments are exactly the same. Because the decisions taken this time turned out to be right does not mean that the same decisions will be right next time. The country must always have ready stabilizing measures appropriate to the occasion. Each situation we face will prove in some way unique. Therefore, success in maintaining stability will in large measure depend on the versatility of stabilizing machinery.

Finally, of course, we must be ready to act in time. The success of the past 2 years clearly shows that timing is all important in maintaining stability. The record on this score in 1954 was very good.

It is important to realize that successful timing depends less on ability to forecast the future than it does on being ready, willing, and able to set stabilizing machinery in motion when the economic indicators clearly call for it. If we could rely on economic forecasting to tell accurately what is in store in the months ahead, there would be no trouble in knowing when to act and the degree of action needed. But forecasting is, at best, an uncertain servant. We are faced with the necessity of being ready to act promptly in situations that have not been foreseen.

Forecasting does have a part to play in the quest for stability, but it should never be master of our actions. We run great risks in tying policy closely to forecasts, and the President rightfully sounds many notes of caution in his report about the uncertainties and pitfalls of prognostication. The emphasis is better put on strengthening the automatic stabilizers in our economy. This provides insurance of two kinds: insurance against the dangers inherent in misreading the economic future, and insurance against an administration that might not be quite so ready, willing, and able to act as this one has been.

None of this is to deny the heartening progress that has been made. We have made progress along the road to stability. We cannot, however, take economic stability for granted. Neither can we take economic growth for granted. At different times it may be appropriate to place more emphasis on one than on the other. But we cannot call either problem "solved." We haven't licked the business cycle yet. We haven't achieved pushbutton economic growth.

Turning from the past to the present, the report recognizes—and properly so—that in times like these, the Government must be prepared to throw its weight against too much inflation as against too much deflation. The report rightly warns that economic recovery must not be jeopardized by too much speculation. It is equally prudent to say, as the report does, that Government must remain ready to deal with any setback that may develop.

The underlying strength of the current recovery certainly makes sensible the Government's refusal now "to impart an immediate upward thrust to general economic activity." While too much and too early is as dangerous as too little too late, the retreat from "active ease" to an easy money policy and the recent offer in exchange of a long-term Government security seem appropriate and consistent actions at this time.

The 33 specific recommendations in the report cannot be discussed in detail here. Many of these recommendations, however, are in line with positions CED has taken in the past. Others, such as the Government's plans for improving the Nation's highway system—an important subject for economic and military reasons and for the continued development of the mode of living in this country—are currently under study in CED. Without doubt, a comprehensive, long-range program for the improvement of the highway system will be a very valuable contribution to our economy. Still others we have not yet had a chance to explore.

Of particular interest to us are the numerous suggestions the report makes for strengthening the automatic stabilizers in our economy and otherwise increasing our insulation against depression. CED presented a comprehensive program to this same end last year in its policy statement, "Defense Against Recession."

The report's recommendations for extending unemployment insurance to State and local government employees and to firms employing fewer than four persons have our agreement. So do the recommendations for revising upward the duration and amount of unemployment insurance benefits. In some cases, however, unjustified drains upon the funds could be reduced by better administration and by reconsideration of eligibility rules. These benefits are, of course, paid for nonproduction. Every inducement should be made for the individual to seek work. Conserving the funds in these ways will offset, at least in part, the increased costs resulting from higher benefits and longer benefit periods. An extension of Federal old-age and survivors insurance to Federal personnel would also be consistent with CED's program.

We believe with the report that State ad local tax-rate and debt-limiting statutes should be reviewed, with an eye to relaxing unnecessary barriers to local investment when circumstances clearly call for action. Similarly the Federal debt limit should not be allowed to prevent the Government from pursuing an orderly debt-management program or from carrying out an effective antirecession policy. Governments need flexibility to meet the changes in our economy.

An up-to-date reserve of plans for Federal public-works projects, as well as the establishment of a revolving fund to aid States and municipalities in planning a backlog of construction projects is clearly desirable.

Finally, the report's request for great latitude for the President in the exercise of his power to vary, in the light of economic conditions, the terms on which home mortgages are underwritten by the Federal Government is prudent counsel. This authority should be promptly granted.

The fact that the Government is making these recommendations at a time when the economic outlook is buoyant is encouraging. The very existence of ready reseves against recession is an added source of confidence that serious recession will be avoided in the future.

The report's recommendation to postpone the lowering of the corporate income tax and of excises, scheduled for April 1, is currently being studied by a CED committee. We plan to have a statement on the subject ready before April 1. The report's recommendations involving changes in the tax rates imposed on corporation income from foreign sources are generally consistent with our position that the tax system should encourage foreign investment, although the CED took no position on the specific proposals contained in the report.

The CED, last fall, recommended a gradual and selective reduction in tariffs along the general lines proposed by the President and reviewed in this report. We are also on record as favoring equitable standards for the valuation of imported goods for customs purposes.

Finally, let me repeat that of all the things that Government can do to help a growing and successful economy, the greatest is to stimulate confidence and encourage a favorable climate. Intangibles can be just as real and just as important as other elements in our search for growth and stability. Government can do a great deal to shape the environment and the psychology which breeds success. The Government needs to continue its practice of encouraging maximum cooperation among labor, management, and capital.

A friendly, constructive atmosphere not only makes for pleasant living in a country, but establishes an environment where men and women enjoy their work better, where management is more apt to recommend expansion and development of new products and new business, and capital is willing to invest its share to the end that we may ward off the enemy and at the same time enjoy an increased standard of living.

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STATEMENT OF HENRY G. RITER, 3D, PRESIDENT OF THE NATIONAL ASSOCIATION OF MANUFACTURERS

The basic economic philosophy set forth in the Economic Report of the President, January 20, 1955, is one which the National Association of Manufacturers can heartily endorse. Although there may be some difference of opinion on specific measures for implementing this philosophy, the President has clearly reaffirmed our historic reliance on free competitive individual enterprise as the driving and guiding force in our economy. We believe that the great potential growth depicted in the report will be realized if—and only if—this basic faith continues to guide our Government and our people.

THE CURRENT ECONOMIC OUTLOOK

The President summarizes his analysis of economic developments in 1954, and prospects for 1955, in the following words:

"* * * the mild recession of last year was arrested and a new phase of economic expansion got under way before the year closed. The vigor of the recent recovery taken in conjunction with the investment and expenditure plans already set in motion, suggests that economic expansion will continue during coming months. It holds out the promise that we shall achieve a high and satisfactory level of employment and production within the current year."

This conclusion is in close agreement with our own views. Signs are multiplying that we are well on our way upward, and that the contraction of last year was only a transient episode. The present mood of both consumers and businessmen is such as to sustain a high and rising rate of economic activity.

Consumers, it is clear, have not felt either the need or the desire to curtail their expenditures. There has been no wave of fear leading to large-scale postponement of buying. It is true that consumers are becoming more discriminating but business regards this as a stimulating challenge rather than as cause for alarm.

I can assure the committee that the business community views the immediate future with high optimism. Businessmen confidently anticipate economic growth and, what is more important, they are preparing for growth. Business is investing in new plant and equipment to meet the expanded demand expected in the future. Despite the tapering off of defense spending last year—and the decline in the need for the specialized plant and machinery used in producing defense goods—total expenditures on plant and equipment remain at very high levels. Business is preparing many new products and new services, which will enrich our lives in the future. These business preparations for future growth are in themselves a stimulant to our prosperity in the present.

In viewing the course of the economy in 1954, what we find disturbing is not the slight economic contraction which occurred, but the eager haste in certain quarters outside Government to proclaim an emergency and to urge adoption of drastic measures to counteract the recession. Many of the measures proposed were such as to weaken the forces making for economic growth, by departing from our normal reliance on individual incentives and competitive markets.

This economic nervousness—this willingness to abandon the ship at the first alarm—is a most distressing phenomenon. I trust that cool heads will continue to prevail over this type of counsel, as they did in 1954.

STAGNANT PROFITS

Although the immediate business outlook is generally good, there is one aspect of it which should cause some concern. That is the fact that business profits have not participated in the growth of the economy in recent years.

Figures in the statistical appendix to the President's report indicate that profits after taxes have remained within a narrow range of $1 billion for the last 7 years, while all other facets of our economy have experienced a substantial growth in the same period.[1] In particular, total corporate sales increased by more than 30 percent between 1948 and 1954, but total corporate profits in 1954 were actually lower than they were in 1948. Thus corporations have been compelled to produce and sell about one-third more in the way of goods and services, with no increase whatever in profits. It is as though an employee had to work harder and harder to keep up with the growth of his company, but never got any more pay for it.

By contrast the disposable income of individuals—including wages, salaries, and other forms of personal income after taxes—increased by 35 percent during the same period. Clearly it is in the area of business profits, rather than of consumer incomes, that economic difficulties are to be foreseen.

Since profits play a major role in supplying funds for new plants and equipment—thus helping create jobs—as well as providing incentive for production, their stagnation over a 7-year period is genuine cause for concern. This record discredits any contention that further cost increases or tax increases can or should be absorbed out of profits. On the contrary, it demonstrates the pressing necessity for corporate tax reduction.

LONG-TERM GROWTH

The President announces that his intention this year is to concentrate on "basic policies for long-term economic growth" rather than to "seek to impart an immediate upward thrust to general economic activity." This is economic statesmanship and vision of the highest order.

The subject of long-term growth is much emphasized in current statements by all schools of economic thought, and rightly so. Yet this objective is some-

[1] These figures apply to profits after taxes, adjusted for inventory valuation. If the adjustment for inventory valuation is not made, corporate profits after tax show a drop between 1948 and 1954 of over $2 billion. (See p. 189 of the report.)

times interpreted as meaning that we must never, in our upward progress, fall below a precalculated mathematical trend line. It is too often argued that even the slightest or most temporary setback is evidence that we have failed in our objective of long-term growth, and that desperate remedies are called for.

Since we live in a society of free individuals we must accept the fact that the actions of freemen are not predictable to the last degree of mathematical precision. We can know, in general, that one type of economic climate will encourage individuals to behave in ways which lead to economic expansion. We can be sure that other kinds of economic policies will discourage enterprise and frustrate growth. But, if we want to control behavior with no margin of uncertainty whatever, we must deal with slaves or robots and not free human beings.

If every minor economic fluctuation is regarded as an excuse for abandoning the basic policies which promote growth, we would never lack for such excuses. We would be in the position of a hypochondriac, who never has time to live fully, since he is always busy caring for imaginary or trifling ailments. Our long-term goals will require some strenuous exertions. Let's not abandon them and take to our beds every time some minor ailment occurs.

Incidentally, business firms are tending more and more to base their investment plans on the long-term outlook, and then to ignore temporary shifts in the wind in carrying out those plans. They have learned the futility of attempting to revise their policies with every minor drop in the rate of economic activity. It would be most unfortunate if government were persuaded to adopt the opposite procedure and to regard every economic fluctuation as a signal to reverse all its basic economic policies.

BASIC PRINCIPLES

We are especially pleased that the President has chosen to present, as the very first of his "basic economic tenets," the proposition that "* * * competitive markets, rather than government directives, are as a rule the most efficient instruments for organizing production and consumption."

Attempts to control prices and wages by administrative rulings are both impractical and pernicious. They cannot prevent inflation if the basic fiscal and monetary causes of inflation are present. Furthermore, as our experience demonstrates, direct controls impede production and block the free flow of goods. One form of direct control breeds another—price controls lead to wage controls and at a later stage they make rationing inescapable. They lead logically to a situation where all economic decisions have to be made by Government agencies—rather than by the firms and individuals who are closest to the problems and have the most at stake in reaching a correct solution.

The imposition of direct controls—or even the threat of their imposition—can only be a roadblock to the attainment of our future economic goals. Such direct economic controls should be permently renounced as a proper function of government.

The second "basic economic tenet" of the President is also, in our view, a happy choice: "* * * a free economy has great capacity to generate jobs and incomes if a feeling of confidence in the economic future is widely shared by investors, workers, businessmen, farmers, and consumers."

This emphasis on the central importance of confidence reappears frequently in the report, and might be described as its keynote. This theme is indeed worthy of emphasis at the present time, when we are being urged from some quarters that the economic outlook is a gloomy one and that only drastic measures, even though they may involve departure from our free-enterprise principles, can save us. But it should be obvious that our economy can remain dynamic only if we retain confidence in ourselves and in our institutions.

Of course this emphasis on confidence does not mean that we, or the President, advocates a Pollyanna attitude that all will be well and we need not be vigilant. It would be absurd to pretend that a rosy future is in store for us no matter what policies we pursue or what mistakes we make. There are serious dangers ahead and they had better be faced. But, when all is said and done, these dangers do not arise from the possibility that our free competitive enterprise system will be inadequate for our future needs. Rather they arise from the possibility that the free competitive system will be undermined and impeded in its operation, either through misunderstanding or through sabotage.

As we see it, there are four chief dangers of this type threatening us currently:

1. The danger that the monopolistic power of labor unions will be used to push labor costs to an unworkable level. This could undermine our prosperity by jamming the machinery of production and distribution. Raising wage costs can restrict employment, just as the raising of prices can reduce the sale of goods.

2. The danger that deliberate monetary expansion will be used in an attempt to offset the restrictive effects of monopolistic wage rises. This is the policy of continuous inflation, advocated by certain thoughtless persons as a means of preventing unemployment. It would destroy the value of our money and wipe out our accumulated savings.

3. The danger that we will, as settled policy, rely on Government spending to take up any slack in employment. Such a policy would be an invitation to labor unions to present all sorts of impractical demands, knowing that the Government would assume responsibility for employing any workers who were thereby priced "out of the market" for their services.

4. The danger that the tax burden will prove so heavy, or so unduly concentrated on certain particular types of income, that it will seriously impede future investment. Our economic growth, as projected in the President's report, will require a great and continuous flow of capital into plant, machinery, tools, and all the other things needed in production. This flow of capital can only come out of people's savings, and what is taxed away cannot be saved or invested.

FUTURE TAX REDUCTIONS

It is encouraging to see that the administration recognizes the destructive effects of our present heavy tax burden. The President states that:

"It should, nevertheless, be recognized that present taxes are still a heavy burden. Lower taxes would tend to encourage work, promote more efficient business practices, and create more jobs through new investments. Fortunately, with our economy continuing to expand, we can look forward to larger Federal revenues from existing tax rates. This, together with further economies in expenditure, should make possible next year another step in the reduction of taxes. Congress might then consider enacting a general, though modest, reduction in taxes and, at the same time, continue the program which was begun last year of reducing barriers to the free flow of funds into risk-taking and job-creating investments."

The recognition that economic growth will provide a margin for tax reduction is in close accord with this association's thinking on the subject. We have estimated that our potential growth over the next 5 years will, if economic developments permit its attainment, make possible tax reduction totaling $9 billion.

But I had better explain that this does not mean that the $9 billion margin for tax reduction will be available for Congress to distribute in any way it pleases. The assumed rate of economic growth on which the calculation is based cannot simply be taken for granted. Unless we have a tax reduction specifically designed to correct the growth-limiting features of our present tax structure, there may be no opportunity for any tax cut.

We believe that the $9 billion margin must be used, over the next 5 years, to cut the rate of corporate-income taxation and to reduce the degree of graduation in the personal income-tax rates. If our plan is followed, it will be possible to lower both the top rate of corporate tax and the top rate of individual tax to a uniform level of 35 percent at the end of 5 years. First things must come first, and the primary task is to correct the gross discriminations which, over the years, have crept into our tax system. These discriminations are roadblocks to growth, and unless progress is made in eliminating them we will not have the margin for tax reduction that growth can provide.

GOVERNMENT COMPETITION WITH BUSINESS

The business community is especially appreciative of the reiteration, in this report, of the President's determination to reduce the degree of Government competition with private business. This is stated in the following words:

"The Government also made progress in redrawing the line separating private and public enterprise. Steps were taken to dispose of numreous enterprises for which public operation was inefficient or of doubtful advantage. Simultaneously, the Government increased the amount of its contracting with private firms for necessary services and facilities—as an alternative to producing them itself, often at higher cost to the taxpayer. To hasten the economic development of our water resources, and yet restrict Federal participation to what others are incapable of accomplishing, the partnership principle of Federal cooperation with local interests, public or private, was launched."

We applaud both this view and the steps the administration has taken, and is taking, to implement it. The notion that the Government should enter fields of productive activity in which private interests stand ready to provide what is needed is a most pernicious one. Especially dangerous is the belief that such Government enterprieses can provide a yardstik for judging the performance of privately-owned enterprises in the same field—as though a tax-supported activity can be compared with one which must continuously justify its existence by paying its own way.

THE QUEST FOR SECURITY

The President's report sets forth as one of the proper functions of Government the strengthening of the floor of security for individuals and families in our industrialized society" (p. 6). The measures recommended under this heading include: extension of the coverage of unemployment insurance, increases in the amount and duration of benefits under the unemployment insurance system, and some further extension of the Federal old-age and survivors insurance system.

Economic security is a legitimate aspiration and a desirable objective. But serious question must be raised as to whether individual and family security would in fact be increased by such extension of governmental social welfare programs.

The OASI system, for example, is still an unproven social experiment. To pretend otherwise is to encourage false hopes of security which may be cruelly disappointing. We lack any adequate information on the ultimate cost of the program, on the willingness and ability of employed people to pay those costs, and of the effect of the program on the all-important process of private saving.

How far does the OASI program go toward the socialization of saving, and what will be the result on investment for our growing needs? What will its effects be on the initiative and self-reliance of our population? What will be the effect of such a program on the value of our dollar and hence on the value of the future benefits it promises?

Because uncertainty exists on these and other questions, we must decry the tendency toward continuous and indiscriminate expansion of Government-sponsored retirement insurance. Although the original objective of OASI was to provide a basic-subsistence minimum at retirement, recent revisions have placed the amount of benefits consideraby above this level for many participants. In our opinion, this will impair the incentive for individuals to provide for their own old-age security by their own savings.

Thoughtful people must also feel reservations in regard to recent tendencies in the field of unemployment insurance. The original objectives of the program were to encourage business in its efforts to stabilize employment, and to pay limited benefits to those who have become unemployed through no fault of their own and who stand ready to accept a job if offered. But these objectives have sometimes been lost sight of by eager reformers who have wanted to make the program a panacea for unemployment.

As it stands, the unemployment-compensation system is administered by the States. We regard this decentralization as desirable, since each State is able to adapt the details of its program to its own needs. In addition, decentralization offers opportunities for comparison and evaluation of results. Frankly we are disturbed at the presumption, indicated in the President's report, that the Federal Government can and should recommend general standards of benefits and coverage to all the States. From this it is only a short step to the imposition of such general standards by Federal statute.

The real road to security lies in the expansion of our free-enterprise economy, so as to increase production and to provide continually more opportunities for employment. Government social-insurance programs can at best be only a palliative and at worst they can be destructive of the real foundations of security.

In conclusion, I wish to state that, in my judgment, the administration has placed a correct interpretation on its responsibilities under the Employment Act of 1946. I am reassured that the President has resisted pleas to have his Council set up in advance a statistical model of how the economy may be expected to act in 1955, and to derive from the model mechanical solutions to the problems it predicts. Economic models of this type have a way of predicting deflationary gaps which never materialize—as witness our experience with them in 1945 and 1946. Centralized planning, based on presumed governmental clairvoyance, is the opposite of our traditional reliance on freedom of individual action.

DEPARTMENT OF COMMERCE,
BUREAU OF THE CENSUS,
Washington 25, D. C., February 21, 1955.

Mr. GROVER W. ENSLEY,
Staff Director, Joint Committee on the Economic Report,
House of Representatives, Washington, D. C.

DEAR MR. ENSLEY: I regret this delay in replying to your letter of December 21, relating to the recruitment of enumerators for the collection of current employment statistics.

In general, I do not believe that the practice of seeking enumerators initially through party referral sources has impaired the adequacy and accuracy of current employment statistics. Likewise, I do not believe there is need for concern currently over the problem of delay in making vitally needed replacements, although such delays will inevitably occur occasionally.

Over a period of many years the Census Bureau has learned how to deal with the problems implied by this type of recruitment system. Persons recommended are subject to a qualifying test given by the Bureau to screen out unsuitable applicants. If no suitable person who wants the job proves to be available through this channel, the supervisor looks to other sources. As a matter of fact, of the 859 individuals added from July 1, 1953, to December 31, 1954, to the Current Population Survey staff, almost entirely enumerators, only 281 or about one-third were actually referred by political sources.

Safeguards as to adequacy and accuracy of data have been built into the system of collecting the data. Questions are formulated in such a way as to call for specific, factual information in the answers. Interviewers are given careful training when they first come on the job and refresher training each month thereafter. Completed questionnaires are reviewed before tabulation, and any apparent discrepancies are brought to the attention of the interviewers. Supervisors periodically observe the work of interviewers. The work of each interviewer is systematically and regularly rechecked by actual reinterview of a small sample of households. The results of the reinterviews are carefully analyzed in Washington to assist in the interpretation of the results, as well as in the development of improvements in the survey. This is a major part of the research program to aid us in developing improved survey procedures which will reduce still further the possibility that the views or biases of the interviewers might affect the survey results.

In view of those built-in safeguards and the continuing effort to introduce improvements in procedures where our checks indicate defects, it is my judgment that the political affiliations or views of our interviewers have not biased the monthly estimates, and it is my opinion that it is possible to maintain the statistical quality of the current employment statistics program under the present referral system. I do not mean to imply that problems do not arise in particular situations from time to time, but the machinery exists for resolving these difficulties without impairment of the soundness of the results. While it is recognized that some problems would arise under this or any other system of recruiting a widely scattered staff of part-time workers at a very modest rate of pay, it is my view that action by your committee to change current procedures is not required under present circumstances.

I hope that this information will bring about a clearer understanding of the problem of recruitment of interviewers. If we can be of any further assistance, please let us know.

Sincerely yours,

ROBERT W. BURGESS,
Director, Bureau of the Census.

THE WHITE HOUSE.

To the Congress of the United States:

Our unity as a nation is sustained by free communication of thought and by easy transportation of people and goods. The ceaseless flow of information throughout the Republic is matched by individual and commercial movement over a vast system of interconnected highways criss-crossing the country and joining at our national borders with friendly neighbors to the North and South.

Together the uniting forces of our communication and transportation systems are dynamic elements in the very name we bear—United States. Without them, we would be a mere alliance of many separate parts.

The Nation's highway system is a gigantic enterprise, one of our largest items of capital investment. Generations have gone into its building. Three million three hundred and sixty-six thousand miles of roads, traveled by 58 million motor vehicles, comprise it. The replacement cost of its drainage and bridge and tunnel works is incalculable. One in every seven Americans gains his livelihood and supports his family out of it. But in large part, the network is inadequate for the Nation's growing needs.

In recognition of this, the governors, in July of last year at my request, began a study of both the problem and methods by which the Federal Government might assist the States in its solution. I appointed in September the President's Advisory Committee on a National Highway Program, headed by Lucius D. Clay, to work with the governors and to propose a plan of action for submission to the Congress. At the same time, a committee representing departments and agencies of the National Government was organized to conduct studies coordinated with the other two groups.

All three were confronted with inescapable evidence that action, comprehensive and quick and forwardlooking, is needed.

First: Each year more than 36,000 people are killed and more than a million injured on the highways. To the home, where the trafiic aftermath of an accident on an unsafe road is a gap in the family circle, the monetary worth of preventing that death cannot be reckoned. But reliable estimates place the measurable economic cost of the highway accident toll to the Nation at more than $4.3 billion a year.

Second: The physical condition of the present road net increases the cost of vehicle operation, according to many estimates, by as much as 1 cent per mile of vehicle travel. At the present rate of travel, this totals more than $5 billion a year. The cost is not borne by the individual vehicle operator alone. It pyramids into higher expense of doing the Nation's business. Increased highway transportation costs, passed on through each step in the distribution of goods, are paid ultimately by the individual consumer.

Third: In case of an atomic attack on our key cities, the road net must permit quick evacuation of target areas, mobilization of defense forces and maintenance of every essential economic function. But the present system in critical areas would be the breeder of a deadly congestion within hours of an attack.

Fourth: Our gross national product, about $357 billion in 1954, is estimated to reach over $500 billion in 1965 when our population will exceed 180 million and, according to other estimates, will travel in 81 million vehicles 814 billion vehicle-miles that year. Unless the present rate of highway improvement and development is increased, existing traffic jams only faintly foreshadow those of 10 years hence.

To correct these deficiencies is an obligation of Goverment at every level. The highway system is a public enterprise. As the owner and operator, the various levels of Government have a responsibility for management that promotes the economy of the Nation and properly serves the individual user. In the case of the Federal Government, moreover, expenditures on a highway program are a return to the highway user of the taxes which he pays in connection with his use of the highways.

Congress has recognized the national interest in the principal roads by authorizing two Federal-aid systems, selected cooperatively by the States, local units and the Bureau of Public Roads.

The Federal-aid primary system as of July 1, 1954, consisted of 234,407 miles, connecting all the principal cities, county seats, ports, manufacturing areas and other traffic generating centers.

In 1944 the Congress approved the Federal-aid secondary system, which on July 1, 1954, totalled 482,972 miles, referred to as farm-to-market roads—important feeders linking farms, factories, distribution outlets and smaller communities with the primary system.

Because some sections of the primary system, from the viewpoint of national interest are more important than others, the Congress in 1944 authorized the selection of a special network, not to exceed 40,000 miles in length, which would connect by routes, as direct as practicable, the principal metropolitan areas, cities and industrial centers, serve the national defense, and connect with routes of continental importance in the Dominion of Canada and the Republic of Mexico.

This national system of interstate highways, although it embraces only 1.2 percent of total road mileage, joins 42 State capital cities and 90 percent of all cities over 50,000 population. It carries more than a seventh of all traffic, a fifth of the rural traffic, serves 65 percent of the urban and 45 percent of the rural population. Approximately 37,600 miles have been designated to date. This system and its mileage are presently included within the Federal-aid primary system.

In addition to these systems, the Federal Government has the principal, and in many cases the sole, responsibility for roads that cross or provide access to federally owned land—more than one-fifth the Nation's area.

Of all these, the interstate system must be given top priority in construction planning. But at the current rate of development, the interstate network would not reach even a reasonable level of extent and efficiency in half a century. State highway departments cannot effectively meet the need. Adequate right-of-way to assure control of access; grade separation structures; relocation and realignment of present highways; all these, done on the necessary scale within an integrated system, exceed their collective capacity.

If we have a congested and unsafe and inadequate system, how then can we improve it so that 10 years from now it will be fitted to the Nation's requirements?

A realistic answer must be based on a study of all phases of highway financing including a study of the costs of completing the several systems of highways, made by the Bureau of Public Roads in cooperation with the State highway departments and local units of Government. This study, made at the direction of the 83d Congress in the 1954 Federal-aid Highway Act, is the most comprehensive of its kind ever undertaken.

Its estimates of need show that a 10-year construction program to modernize all our roads and streets will require expenditure of $101 billion by all levels of government.

The preliminary 10-year totals of needs by road systems are—

	Billions
Interstate (urban $11 billion, rural $12 billion)	$23
Federal-aid primary (urban $10 billion, rural $20 billion)	30
Federal-aid secondary (entirely rural)	15
Sub-total of Federal-aid systems (urban $21 billion, rural $47 billion)	68
Other roads and streets (urban $16 billion, rural $17 billion)	33
Total of needs (urban $37 billion, rural $64 billion)	101

The Governors' Conference and the President's Advisory Committee are agreed that the Federal share of the needed construction program should be about 30 percent of the total, leaving to State and local units responsibility to finance the remainder.

The obvious responsibility to be accepted by the Federal Government, in addition to the existing Federal interest in our 3,366,000-mile network of highways, is the development of the interstate system with its most essential urban arterial connections.

In its report, the Advisory Committee recommends:

1. That the Federal Government assume principal responsibility for the cost of a modern interstate network to be completed by 1964 to include the most essential urban arterial connections; at an annual average cost of $2.5 billion for the 10-year period.

2. That Federal contributions to primary and secondary road systems, now at the rate authorized by the 1954 act of approximately $525 million annually, be continued.

3. That Federal funds for that portion of the Federal-aid systems in urban areas not on the interstate system, now approximately $75 million annually, be continued.

4. That Federal funds for forest highways be continued at the present $22.5 million per year rate.

Under these proposals, the total Federal expenditures through the 10-year period would be—

	Billions
Interstate system	$25.000
Federal-aid primary and secondary	5.250
Federal-aid urban	.750
Forest highways	.225
Total	31,255

The extension of necessary highways in the Territories and highway maintenance and improvement in national parks, on Indian lands and on other public lands of the United States will continue to be treated in the budget for these particular subjects.

A sound Federal highway program, I believe, can and should stand on its own feet, with highway users providing the total dollars necessary for improvement and new construction. Financing of interstate and Federal-aid systems should be based on the planned use of increasing revenues from present gas and diesel oil taxes, augmented in limited instance with tolls.

I am inclined to the view that it is sounder to finance this program by special bond issues, to be paid off by the above-mentioned revenues which will be collected during the useful life of the roads and pledged to this purpose, rather than by an increase in general revenue obligations.

At this time, I am forwarding for use by the Congress in its deliberations the report to the President made by the President's Advisory Committee on a national highway program. This study of the entire highway traffic problem and presentation of a detailed solution for its remedy is an analytical review of the major elements in a most complex situation. In addition, the Congress will have available the study made by the Bureau of Public Roads at the direction of the 83d Congress.

These two documents together constitute a most exhaustive examination of the national highway system, its problems and their remedies. Inescapably, the vastness of the highway enterprise fosters varieties of proposals which must be resolved into a national highway pattern. The two reports, however, should generate recognition of the urgency that presses upon us; approval of a general program that will give us a modern safe highway system; realization of the rewards for prompt and comprehensive action. They provide a solid foundation for a sound program.

DWIGHT D. EISENHOWER.

THE WHITE HOUSE, *February 22, 1955.*

(Whereupon, at 11:50 a. m., Wednesday, February 16, 1955, the committee adjourned, subject to call of the Chair.)

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