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JANUARY 1956 ECONOMIC REPORT OF THE PRESIDENT

HEARINGS

BEFORE THE

JOINT COMMITTEE ON THE ECONOMIC REPORT
CONGRESS OF THE UNITED STATES

EIGHTY-FOURTH CONGRESS

SECOND SESSION

PURSUANT TO

Sec. 5 (a) of Public Law 304

(79th Congress)

JANUARY 31, FEBRUARY 1, 2, 3, 6, 7, 8, 9, 14, 15, 17, AND 28, 1956

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

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JOINT COMMITTEE ON THE ECONOMIC REPORT

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

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WRIGHT PATMAN, Representative from Texas, *Vice Chairman*

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JANUARY 1956 ECONOMIC REPORT OF THE PRESIDENT

TUESDAY, JANUARY 31, 1956

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

The joint committee met, pursuant to call, at 10:05 a. m., in the old Supreme Court Chamber, United States Capitol Building, Washington, D. C., Hon. Wright Patman (vice chairman) presiding.

Present: Representative Wright Patman; Senators Sparkman and O'Mahoney; and Representatives Bolling, Mills, Talle, and Curtis.

Also present: Grover W. Ensley, executive director, and John W. Lehman, clerk.

Howard E. Shuman, legislative assistant to Senator Douglas; Darrell Coover, legislative assistant to Senator Goldwater; and Reed Frishchknecht, legislative assistant to Senator Watkins.

Vice Chairman PATMAN. The committee will come to order.

Senator Paul H. Douglas, chairman of the Joint Committee on the Economic Report, has been called out of town today. He asked me, as vice chairman of the committee, to preside at today's hearing.

On January 24, the President transmitted his Economic Report to the Congress, and it was referred to this committee for study. Section 3 (a) of the Employment Act of 1946 states that the President's report "shall be transmitted to the Congress at the beginning of each regular session." We are sorry that the report again this year did not arrive until late in January—3 weeks after the opening of the 2d session of the 84th Congress. Carrying out the unanimous recommendations of the Joint Committee both last year and the year before, Chairman Douglas wrote the President on September 13, 1955, urging him to submit his Economic Report this January at the "beginning" of the session. On September 22, 1955, Mr. Wilton B. Persons, deputy assistant to the President, replied that every effort would be made to comply with this request. I ask unanimous consent that this exchange of letters be inserted at this point in the record.

SEPTEMBER 13, 1955.

The PRESIDENT,
THE WHITE HOUSE,
Washington, D. C.

DEAR MR. PRESIDENT: On behalf of the Joint Committee on the Economic Report, may I respectfully urge you to submit your Economic Report next January "at the beginning" of the session of the Congress. This will permit committee hearings and reporting to the Congress early in the session as provided by the Employment Act of 1946. In its annual report to the Congress last March, our committee unanimously stated "We urge the President to transmit the report in the future no later than January 15." You will notice this was a bipartisan recommendation.

The committee report filed by Chairman Jesse Wolcott on February 26, 1954, carried a similar unanimous recommendation, and went on to state that "it may be advisable to establish in the act a fixed early date for its [the President's report] transmittal."

For your information, the dates the President's Economic Reports have been transmitted in the past are as follows: January 8, 1947; January 14, 1948; January 7, 1949; January 6, 1950; January 12, 1951; January 16, 1952; January 14, 1953; January 28, 1954; and January 20, 1955.

I am taking the liberty of writing you at this time because I know advance planning and coordination are necessary with the number of messages that must be presented to the reconvening Congress next January."

Sincerely yours,

PAUL H. DOUGLAS,
Chairman.

THE WHITE HOUSE,
Washington, D. C., September 22, 1955.

Hon. PAUL H. DOUGLAS,
Chairman, Joint Committee on the Economic Report,
Congress of the United States,
Washington, D. C.

DEAR SENATOR: The President has asked me to thank you for your letter of September 13 about the date for the submission next January of the 1956 Economic Report. The President appreciates your interest in having the Economic Report submitted at the earliest possible time and has asked me to assure you that every effort will be made to do this.

With kind regards,

Sincerely,

WILTON B. PERSONS,
The Deputy Assistant to the President.

Since the Employment Act requires this committee to file its report to the Congress before March 1, the committee will have to proceed expeditiously with hearings and executive sessions if the deadline is to be met.

The committee heard the first witness, Dr. Arthur F. Burns, Chairman of the Council of Economic Advisers, in executive session, yesterday. Contrary to the press announcement of January 26, no transcript was made of this session at the request of Dr. Burns. (See pp. 688–691.)

Without objection I will insert also in the record at this point a schedule of the hearings and accompanying releases.

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
January 23, 1956.

SENATOR DOUGLAS ANNOUNCES HEARINGS ON THE PRESIDENT'S ECONOMIC REPORT

Senator Paul H. Douglas, Democrat, of Illinois, chairman of the Joint Committee on the Economic Report, over the weekend announced plans of the Joint Committee to hold 13 days of hearings, commencing January 30, on the President's Economic Report to be transmitted to the Congress this coming week. Under the Employment Act of 1946, the President's Economic Report is referred to the Joint Economic Committee, which is to review it and "* * * file a report with the Senate and the House of Representatives containing its findings and recommendations with respect to each of the main recommendations made by the President in the Economic Report * * *"

In releasing the schedule of hearings, Senator Douglas stated:

"The committee has voted that the hearings this year should provide an opportunity (1) for the executive branch to indicate the economic assumptions and reasoning underlying the President's economic program and to justify major economic recommendations; (2) for a limited number of outside experts to set forth their views on the President's economic analysis and program; and (3) for the principal economic interest and research groups to submit their views.

"Each witness will have 40 minutes to make his presentation, with the balance of the morning and, if necessary, the afternoon given over to committee questions. In the case of the panel of economic interest and research groups on February 15, the time for presentation of testimony will be divided equally among those present, with an understanding that all can submit lengthier statements for the committee's consideration and possible inclusion in the printed hearings."

Chairman Douglas gave three reasons why the committee felt that it should depart in this year's review of the President't Economic Report from the panel sessions used in past years:

"(1) During October, November, and December of 1955, 5 subcommittees received testimony of over 250 witnesses and panel experts on major subjects related to the President's January report; (2) several areas in which legislation is pending were covered by committee hearings last January; and (3) the committee staff is currently assembling detailed information and a synthesis of expert views from published sources and informal conferences on the general economic situation and outlook for the committee's use in preparation of its report to the Congress."

Senator Douglas indicated that it was the committee's hope that its report might be submitted to the Congress before the statutory deadline of March 1.

JOINT COMMITTEE ON THE ECONOMIC REPORT

Paul H. Douglas, Senator from Illinois, Chairman
Wright Patman, Representative from Texas, Vice Chairman

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Arthur V. Watkins, Utah	Henry O. Talle, Iowa
Barry Goldwater, Arizona	Thomas B. Curtis, Missouri

Grover W. Ensley, Executive Director
John W. Lehman, Clerk

SCHEDULE OF HEARINGS ON THE PRESIDENT'S ECONOMIC REPORT

All sessions will be held in the Old Supreme Court Chamber, United States Capitol

General Economic Situation

January 30 (Monday): Arthur F. Burns, Chairman, Council of Economic Advisers [Executive].
January 31 (Tuesday): Robert R. Nathan, Robert R. Nathan Associates, Inc., Washington, D. C.

Fiscal Policy

February 1 (Wednesday): Rowland R. Hughes, Director, Bureau of the Budget
February 2 (Thursday): Gerhard Colm, National Planning Association, Washington, D. C.
February 3 (Friday): George M. Humphrey, Secretary of the Treasury
February 6 (Monday): Randolph E. Paul, Paul, Weiss, Rifkind, Wharton, and Garrison, Washington, D. C.

Monetary Policy

February 7 (Tuesday): William McChesney Martin, Jr., Chairman, Board of Governors of the Federal Reserve System
February 8 (Wednesday): Marriner S. Eccles, First Security Bank, Salt Lake City, Utah

Agricultural Policy

February 9 (Thursday): Murray D. Lincoln, Cooperative League of the United States, Columbus, Ohio
February 28 (Tuesday): Ezra T. Benson, Secretary of Agriculture

Natural Resources Policy

February 17 (Friday): Douglas McKay, Secretary of the Interior
February 14 (Tuesday): Oscar L. Chapman, Chapman and Wolfsohn, Washington, D. C.

General

February 15 (Wednesday): Panel of economic interest and research groups. Opening summary statements limited to 7 minutes. See attached list of representatives of invited organizations who are scheduled tot estify:

ECONOMIC INTEREST AND RESEARCH GROUPS

Labor

American Federation of Labor and Congress of Industrial Organizations, Stanley H. Ruttenberg, director, department of research, 901 Massachusetts Avenue NW., Washington, D. C.
National Independent Union Council, Don Mahon, executive secretary, Warner Building, Washington, D. C.
Railway Labor Executives Association, Eli Oliver, economic adviser, 1001 Connecticut Avenue NW., Washington, D. C.
United Mine Workers of America, Thomas Kennedy, vice president, 900 15th Street NW., Washington 5, D. C.

Agriculture

American Farm Bureau Federation, Charles B. Shuman, president, 2300 Merchandise Mart, Chicago 54, Ill.
The National Farmers Union, James G. Patton, president, 1404 New York Avenue NW., Washington 5, D. C.
The National Grange, Herschel D. Newsom, master, 744 Jackson Place NW., Washington 6, D. C.

Business

Chamber of Commerce of the United States of America, Emerson P. Schmidt, manager, economic research department, 1615 H Street NW., Washington, D. C.
Committee for Economic Development, J. D. Zellerbach, chairman of the Board, Crown-Zellerbach Corp., 343 Sansome Street, San Francisco 19, Calif.
National Association of Manufacturers, Ralph W. Robey, economic adviser, 2 East 48th Street, New York 17, N. Y.

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
January 26, 1956.

ARTHUR BURNS, CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS, REQUESTS EXECUTIVE SESSION

In a letter to Senator Paul H. Douglas, Democrat, of Illinois, chairman of the Joint Committee on the Economic Report, dated January 23, 1956, Mr. Arthur Burns, chairman of the Council of Economic Advisers, in replying to an invitation of the committee dated December 22, 1955, indicated he would be "pleased to testify on the basis * * * worked out last year, that is, at an executive session and with the right to edit my remarks."

Senator Douglas today announced that the hearing of Mr. Burns scheduled for Monday, January 30, therefore, would be in executive session, that Mr. Burns would be given an opportunity to edit his remarks, and that the record would be made public as part of the printed hearings on the President's Economic Report.

The schedule of hearings released over the weekend in other respects remains unchanged. All hearings will begin at 10 a. m.

Mr. CURTIS. Mr. Chairman, may I ask that you also include the release of Sunday, July 28, by the Republican members of the committee.

Vice Chairman PATMAN. Without objection, that will be done.
(The release referred to follows:)

STATEMENT BY REPUBLICAN MEMBERS OF THE JOINT COMMITTEE ON THE ECONOMIC REPORT

(Senator Ralph E. Flanders, Senator Barry Goldwater, Representative Henry O. Talle, Senator Arthur V. Watkins, Representative Jesse P. Wolcott, Representative Thomas B. Curtis)

The chairman of the Joint Committee on the Economic Report, Senator Paul Douglas, in his press release of January 23, 1956, announced the scheduled hearings to be held on the President's Economic Report and at the same time announced a departure from the previous formats of these hearings resulting from a vote of the committee.

It seems important to point out publicly that this was a straight party vote and that the Republicans on the committee opposed this departure from the type of hearings held in the past. The reasons advanced in opposition to the type of hearings that the chairman has announced were as follows:

The Joint Committee in the past has been able to maintain rather successfully the reputation of avoiding a narrow partisan political approach to economic matters. It voted to employ an "integrated" professional staff as opposed to the usual type of staff of the House and Senate committees where there is a majority and minority clerk. The staff presently is set up on the integrated basis with no minority committee employees.

There has been ample opportunity in the past under the previous type of hearing to take opposite positions on economic conditions and to draw different conclusions from what economic indicators are available; indeed, to disagree on the accuracy of the methods of arriving at economic indicators.

Essentially the Joint Committee is required to receive the President's Economic Report and study it. In attempting to study it, it has called before it various officials from the executive branch of the Government responsible for Federal action (or inaction) in various fields of our economy. It has called before it a selected group of students in the field of economics for their comments and appraisals as well as representatives of certain economic groups.

Never before has it called in a group of politicians selected on the basis that they were known to be politically opposed on a partisan basis to the executive department and put on the same plane as members of the President's Cabinet.

This, in the opinion of the Republican members of the Joint Committee, is almost certain to throw the considerations of the committee into the realms of narrow partisan politics as well as to subvert the very purposes of the Full Employment Act which were to study objectively economic trends and to study objectively the Executive Report on the Economic Condition of the Nation.

At the time the chairman of the committee suggested this approach it was made clear that, if he was determined to go through with his plan in spite of the objections of the Republican members, he should at least be certain that the witnesses he would select (on the basis of being politically opposed to the position of the executive officials) had been recognized officially by the Democrat party as spokesmen for that party. Then, their testimony would have some comparable weight and responsibility to that of the administration spokesmen who per force would be expounding the administration and the Republican viewpoint Of course these witnesses could not have the same weight and responsibility as that of the executive officials charged with administering a program would have. For that good reason the very idea was preposterous and unsound.

Presumably the chairman of the committee, who selected his panel of opposition witnesses without any consultation whatsoever with the Republican members of the committee, has cleared the matter with his Democrat Party leaders and we and the public can assume that we will have in the forthcoming hearings a preview of the opinions and politics of the Democrat Party.

Vice Chairman PATMAN. We have as our witness this morning Mr. Robert R. Nathan, of Robert R. Nathan Associates, Inc., of Washington, D. C.

Mr. Nathan, do you have a prepared statement?

Mr. NATHAN. I do, sir.

Vice Chairman PATMAN. You may proceed in your own way. When you have concluded we would like to ask you some questions.

STATEMENT OF ROBERT R. NATHAN, PRESIDENT, ROBERT R. NATHAN ASSOCIATES, INC.

Mr. NATHAN. Mr. Chairman and members of the committee, my name is Robert R. Nathan. For the past 10 years I have been president of a corporation bearing my name and serving as economic consultant to business, governments, labor unions, and other organizations.

Prior to this work, it was my privilege to be employed in Government service for many years. I appreciate very much the invitation to appear before the distinguished members of the Joint Committee on the Economic Report.

Before discussing details of the President's Economic Report and considering economic policies for 1956 I should like to make a few summary remarks about the report.

First, the Economic Report includes a generally thorough analysis of the highly favorable economic developments of the past year and a half.

Technically speaking, it represents economic analysis of a high order and reflects the excellence of the statistical services of the United States Government.

The report projects many of the problems and economic needs of the population that can be foreseen at this time.

And it is particularly gratifying to discover in the report a new degree of emphasis on the need to spread the benefits of our prosperity to many groups of the population whose well-being has lagged.

But the substance of the report raises certain policy questions and in scope it fails to cover several important aspects of international and longer-run domestic economic policy. I will point these out more specifically:

While the report covers monetary policy in great detail there is virtually no evaluation of the contributions made by the many valuable stabilizers which have been built into the economy by earlier legislation.

It is my belief a critical evaluation of the functioning of these factors would have been useful to this committee and the Congress as a whole in considering future economic policy.

The report does not concern itself at all with some important economic aspects of the critical international situation, especially with respect to our capacity to carry out programs of economic aid and cooperation abroad.

Again, it would have been enlightening to the Congress and the American people if the President had dealt with this vital issue in the context of his overall economic analysis.

The Economic Report recognizes many pressing economic needs of the population in terms of schools, housing, health, schools and so forth, but neither policy recommendations nor budgetary provisions are adequate for a full-scale attack on these problems.

The report does not examine basic economic questions affecting the long-term economic and social health of our society and which already have been neglected too long—questions having to do with basic resources and the manner in which the allocation of these resources will shape our future society.

Finally, the President's report for this year once again fails to comply fully with the requirements of the Employment Act. It does not establish levels of employment, production, and purchasing power required to carry out the purposes of the act.

In these respects, it is deficient in scope. As for what it does cover, I have several general observations.

First, I would like to comment briefly about two aspects of the report, that is "stabilization, price stability, and recent growth."

In the Economic Report, the President emphasizes again and again the importance of achieving and maintaining prosperity without inflation. These twin objectives of economic growth and general price stability of course deserve the full support of everyone.

As the report points out, economic recovery after the middle of 1954 was steady and brought us back by the end of 1955 to a reasonably high level of employment and production. However, there are two aspects of this period that deserve close attention.

First, almost half of the dollar increase in the gross national product between 1953 and 1955 is attributable to rising prices. The report acknowledges that "industrial prices in wholesale market * * * rose 3½ percent" in the final 6 months of 1955. It goes on to say that this increase "was not large for a period of high prosperity."

Now, an increase in industrial prices of more than one-half percent per month is not really negligible, especially when you break down the overall index and look at some of the price movements that lie behind the overall figure.

For example, metals and metal products, at wholesale, rose over 10 percent in 1955. Rubber and rubber products increased almost 15 percent during the past year. The prices of component items for manufacturing went up nearly 10 percent. Fortunately, the pace of industrial price increases slowed down toward the end of the year.

But, if it were not for the 13 percent drop in wholesale prices of foodstuffs and feedstuffs, we would not have a general picture of relative price stability in 1955.

The second general point that I should like to make about the recent recovery has to do with the rate of economic growth reflected in the figures for the gross national product.

The real gross national product in 1955 was only 3.5 percent higher than in 1953—an increase of less than 2 percent per year contrasted to an average of 4.8 percent per year for the 6 years from 1947 to 1953.

The same rate of less than 2 percent per year obtains when we compare the 2½-year interval between the peak second quarter of 1953 and the last quarter peak of 1955. These figures do not in any way detract from the markedly improved performance of our economy in the past year and one-half. But these figures, along with the evidence of higher unemployment, indicate that our resource utilization is still relatively lower than it was in the first half of 1953.

This is especially pertinent to the goals and objectives toward which the economic policies of the Government should be focused in 1956. The Economic Report of the President states that the annual rate of production of goods and services in the final quarter of 1955 was at least $397 billion. The December level probably approximated an annual rate of output of $400 billion.

Although the report does not establish goals, the recent performance of the economy indicates that a gross national product of $405 to $410 billion for 1956, in prices prevailing at the end of 1955, is achievable.

The feasibility of this figure is supported by the fact that there were nearly 2½ million unemployed in December.

It has been said many times before this committee that unless economic activity expands, there will be increased unemployment. The labor force continues to grow year in and year out. Output per worker also increases steadily. It is not sufficient to concern ourselves with preventing a decline in output. Because of rising productivity, output must increase even to hold employment at the present level.

But if employment is merely maintained at present levels, there would be rising unemployment as the labor force grows. If output does not increase, but is merely kept from falling, employment will drop steadily and unemployment will rise rapidly.

Thus the two factors of increasing labor force and rising productivity demand not just a modest increase in economic activity but a substantial rise if we are to provide jobs for our young people entering the labor market. An increase in the gross national product of $15 billion during 1956 is none too much just for this purpose.

INCONSISTENCIES BETWEEN THE ECONOMIC REPORT AND THE BUDGET MESSAGE

Generally speaking, the Economic Report appears to reflect a guarded optimism about the economic outlook for 1956, based on analysis of the major economic indicators.

A different position, however, has been adopted in the President's budget message. In the budget message, the estimates of revenue from personal income taxes assume no increase in personal income in 1956 over the seasonally adjusted level that prevailed in the final quarter of 1955.

Tax receipts based on corporate profits imply a slight drop from the level of profits which prevailed in the last half of 1955. As a result, the cash budget shows the same level of surplus—$2.4 billion—for both fiscal year 1956 and fiscal year 1957.

Presumably, in appraising the economic prospects for 1956, the President assumed the Government's receipts from the public would be $2.4 billion more than the Government's disbursements to the public and concluded that this restraint on private buying power would not depress total demand sufficiently to halt our economy's expansion.

But if we enjoy further expansion and achieve reasonably full employment in 1956, the cash surplus in calendar year 1956 and certainly in fiscal year 1957 will total around $5 billion instead of $2.4 billion. We must then ask whether private spending after this net take by the Government will be adequate to sustain the prosperity achieved.

If we appraise the outlook for 1956 on the basis of the implications in the Economic Report, we see rising production, rising personal income, and rising profits.

But if we appraise the outlook for 1956 on the basis of the implicit assumption in the budget message, we see no rise in production, no rise in personal income, a slight drop in profits, and rising unemployment.

If the budget estimates of receipts fully reflect the administration's economic expectations, then there must be serious concern about the economic outlook. On the other hand, if the views expressed in the Economic Report properly reflect the views of the administration, then the estimates of receipts are understated.

No doubt the committee will want to explore this basic inconsistency in view of the central importance of the Government's financial operations to the success of the Government's economic policies.

There also appears to be a difference between the President's budget message and the President's Economic Report, in regard to the basic approach to fiscal policy. In his budget message, the President states:

in the present state of our financial affairs I earnestly believe that a tax cut can be deemed justifiable only when it will not unbalance the budget, a budget which makes provision for some reduction, even though modest, in our national debt.

This statement seems to subordinate general economic policy to the goal of a balanced budget, assuming that the words "financial affairs" refer to the large national debt. This position is in contradiction both with previous tax policy and with viewpoints expressed in the Economic Report.

The substantial tax cut of 1954 was made at a time when the budget already was heavily unbalanced. Though its incidence on different groups left much to be desired, it was a fiscal move in the right direction, for that tax cut helped bring about the recovery from recession and a consequent increase in tax revenues.

In the Economic Report the President consistently relates the question of tax changes to general economic considerations. Yet the budget message appears to relate tax changes only to the size of surplus in the budget.

Two highly important policy questions are posed as a result of these inconsistencies.

First, if the economic outlook does not point toward rising business activity and full employment but rather toward no improvement, as implied in the budget message, then we should have expected indications of expansionary fiscal and monetary policies in the Economic Report.

Second, according to statements that have been made by the President and by the Secretary of the Treasury, consideration will be given to an overall tax cut if the budget surplus rises substantially above what is now contemplated. Obviously a large surplus would occur only in the event of rising economic activity. But an expansion in economic activity would hardly justify reducing taxes because an expansionary fiscal policy would not then be appropriate. The inconsistencies between the Economic Report and the budget message are not merely a technical matter. They have major policy ramifications.

THE IMMEDIATE OUTLOOK

The President states in his report that—

it is reasonable to expect that high levels of production, employment, and income will be broadly sustained during the coming year, and that underlying conditions will remain favorable to further economic growth.

At the same time, the President warns against complacency and calls for "alertness to economic change and for prompt adaptation of economic policies to changing business conditions."

The President's brief observations about the economic outlook derive from the evidence that there are encouraging indications as well as disturbing ones in the economic picture today. These are discussed at length in the Economic Report. It is therefore not necessary to discuss these factors in detail in this statement. However, a few very brief comments might be pertinent.

On the encouraging side, business is planning substantially increased expenditures for new plant and equipment. Constant watchfulness should be exercised in observing whether the plans for business investment might be outrunning the level of effective total demand, which could lead to a subsequent downturn in investment.

An increase is also expected in government expenditures, especially State and local. As a result of expansion in both industrial and Government investment, the propects for total construction activity in 1956 also are favorable, despite the prospective drop in residential construction. The Departments of Labor and Commerce indicate a 5 percent increase in total new construction this year.

If these factors are sufficient to more than offset adverse factors in the business picture, consumer income and demand will rise. The favorable profit picture will support labor's demands for higher wages which should give further impetus to consumer spending.

Higher wages, generally within productivity increases, will lead to purchases of larger quantities of goods and services unless they are dissipated by price increases.

Unfortunately, there are some depressing influences now in effect or on the horizon. Another 8 million passenger car year is not expected. Heavy dealer stocks and some layoffs of production employees are disturbing, even though major style changes and early introduction of 1957 models may contribute toward making 1956 a good year by any standard except that of 1955. But it is the decline from 1955 and not the level of output that is significant in appraising the economic outlook.

Also, as indicated above, residential construction shows signs of falling off in 1956. This tendency could be modified and perhaps reversed after a time by easier credit policies. Consumer credit which played a significant role in the rise of durable goods purchases by consumers in 1955 will certainly not exert as strong a stimulating force in 1956 as it did in 1955.

Also, inventory accumulation is not likely to give as much impetus to the economy in 1956 as it did last year. It is doubtful whether the recent growth in inventories has jeopardized our prosperity, but the rise cannot continue at the same rate for long without rendering the economic outlook more precarious. When this demand slows down, other expenditures will have to offset the drop in outlays for inventories if total activity is to be sustained.

Without legislative measures designed to bring a prompt response, the agricultural situation will continue to have a depressing influence on the overall economy in 1956. Farm prices have dropped 11 percent since last April. The net income of farmers has fallen over $5 billion, or nearly one-third since 1951. Over the same period the earnings of the farm population from nonagricultural sources increased only one-half billion dollars, or less than 10 percent. In 1955 the per capita income of the farm population was one-eighth lower than in 1951.

Over the same period, the per capita income of the nonfarm population increased nearly one-eighth.

On balance, the outlook for 1956 indicates very little danger of inflation. Some doubt may even be expressed about achieving the goal of reasonable full employment throughout 1956.

However, there is no clear present need for major measures to avert deflation. Some selective measures, such as the recent lengthened maturities of insured mortgages, may be appropriate.

The recommendations of the President with respect to avoiding complacency and remaining alert to economic change are altogether proper and appropriate in view of the simultaneous presence of significant trends toward both expansion and contraction.

Though general measures to counteract inflation are not warranted at this time, serious consideration, as recommended by the President, should be given to the study of standby controls on consumer credit. Even though such controls will very likely not be needed in 1956, authority in the field of installment credit similar to that which exists in the area of stock-market credit may well be a valuable instrument for maintaining economic stability in the future.

My own view is that the Congress also should accept the President's recommendation "that an early reduction of taxes cannot be justified." This is a valid conclusion to be drawn from the optimistic outlook expressed in the Economic Report.

I would add an additional reason for no overall tax cut at this time. Too many essential Government services are sadly inadequate to the needs of the population for schools, housing, roads, health, and other facilities and services. Only after these needs are more fully satisfied, should consideration be given to a reduction in Government revenue by a tax cut. I shall have more to say about these needs in a moment.

In any event, the prospects or the trends for 1956 should become somewhat clearer in the next 3 or 4 months. As more pronounced trends begin to manifest themselves, the administration can undertake through monetary measures and credit policies to counteract in some degree any significant tendencies toward either excessive or inadequate demand.

Well before this session of the Congress adjourns, there should be a more solid basis for determining whether fiscal policies should be changed.

USING OUR RESOURCES

In my opening remarks, I stated that the Economic Report recognizes the existence of many of the pressing economic needs of our population. I was referring especially to the section entitled "The Challenge of Prosperity," in which the President sets forth these needs and emphasizes the importance of making progress toward their fulfillment.

We can best focus our attention on these problems by referring to two explicit statements and an implied conclusion in the Economic Report.

First, the report says, "We have reached the threshold of a $400 billion economy."

Second, the report states that action "has lagged sadly behind our accumulating needs" for schools, highways, and medical facilities and lists an impressive range of other economic needs.

Third, if the optimistic expectations of the Economic Report are fulfilled, our economy should continue to expand. If we have reasonably full employment, we can produce at least $15 billion more in goods and services in 1956 than last year.

It is in the context of these three considerations, taken together, that we must consider whether we are moving deliberately toward the healthier and more secure society that is made possible by our economic prospects.

It is worth repeating that just to absorb our increasing labor force and enjoy the full benefits of our increasing productivity, the gross national product should be at least $15 billion higher in 1956 than last year; it should be more than $30 billion higher in 1957 than in 1955; and so on until we reach a level of well over $500 billion within a decade.

There is nothing visionary in this prospect. A gross national product of $500 billion and more within the next decade represents the expectations of respected and conservative economists.

Let us leave aside for the moment any questions about failures in the past to take advantage of economic opportunities. Let us defer for the moment any consideration of the intriguing vistas of a decade hence. And let us focus now on the likelihood that 12 months from now we in this country shall be producing an additional $15 billion worth of goods and services on top of our current output.

These billions of additional production and income can be devoted to many alternative uses. They will be allocated by consumer purchases in the market place and by the Government's monetary, fiscal, and other economic policies.

No nation in history has ever before had the opportunity to make the choices that we can make. Yet, the President's Economic Report does not clearly pose the alternatives in the use of resources that will affect profoundly our economy and our society.

There is one fundamental choice that we will make, deliberately or by default. It determines the allocation of our increasing resources between the needs that can be fulfilled through the market place and the needs that can be fulfilled only through Government services.

The President's Economic Report describes clearly a range of accumulated needs of the American people, many of which can be satisfied only through expanded public services. Our economic prospects indicate strongly that these needs can be fulfilled out of the growing abundance of our economy.

There is no question whether we can afford to pay decent salaries to attract schoolteachers in sufficient numbers and competence.

There is no question whether we have the means to build enough schools to eliminate doubling up and multiple shifts.

There is no question whether we have the resources to build highways to provide safety and comfort for our traveling public.

There is no question whether we can afford to provide minimum health services for all our citizens, or whether we can alleviate the problems of nearly 10 million American families who receive annual income of less than $2,000 a year, or whether we can clear up the slums.

The only question is whether we really want to do these things.

The Economic Report recognizes these neglects and inadequacies, and it recommends many constructive and worthwhile proposals.

I would like to underline that. It certainly does.

However, there is serious question about the adequacy of the recommendations and especially of the provisions made in the budget for constructive action.

For instance, in the field of agriculture the program of the President offers little hope for immediate assistance to the farm population. In the field of housing there is only token support for the essential public-housing and slum-clearance needs of the country.

The school-construction program will not provide the space previously declared "needed" by the Office of Education. No provision is made with respect to the shortage and inadequate compensation of teachers.

Failure to give support to broadening the coverage of workers under the minimum-wage law is excused on the ground that the action of the Congress in raising the minimum wage to $1 per hour during the last session of the Congress will render more difficult the extension of coverage.

A hope that States will liberalize the size and duration of unemployment compensation benefits is expressed in lieu of suggesting positive action by the Federal Government to assure higher standards.

These are mentioned as illustrative of the conclusion that the President's Economic Report is more expansive in its recognition of the problems than in its proposed solutions.

The President's Economic Report, in discussing fundamental principles of sound fiscal management, states:

> First, the budget should provbide adequately for the Nation's security and other urgent needs.

But when discussing the sadly lagging action behind accumulating needs in the vital areas of schools, highways, and medical facilities and the need to make up for the "neglects of the past," the President inserts the disclaimer "with due regard to the need for staying within the limits of Federal revenues." What are these limits in 1956?

We could, if we wanted to, concern ourselves first with meeting the needs of the population and then determine a sound fiscal policy to produce the necessary revenues. We can afford to do this. And this opportunity is, to my way of thinking the real challenge of our prosperity.

TAX INCIDENCE AND ECONOMIC GROWTH

One of the principal accomplishments in the past 25 years contributing toward economic stability has been the relative greater rise in income among the mass of American workers and middle-income groups.

This has produced greater stability in consumer demand and has given sustained support to business investment. At the same time the highly essential element of incentives in our free economy has been preserved.

I believe that everyone who has any faith in the free-enterprise system and understands it realizes that incentives to business are absolutely essential, and must be preserved. Rewards for risk and venture are clearly needed if we are to enjoy an expanding economy. Yet we have increasingly recognized the fact that demand for goods and services is in the final analysis the principal determinant of continued high levels of business investment.

Without existing and prospective demand to take goods and services off the market, businessmen are hestitant to expand and modernize capacity. Consumer demand is the largest component of total demand.

Dependable data on the distribution of income among our citizens cannot be kept up to date. The last figures are for 1953, and really official figures are for 1952. There have only been some estimates for 1953. Conclusive evidence is therefore not yet available but it is probable that in the past couple of years income available for consumption has tended to become increasingly concentrated in the higher income groups, thus reversing important progress made earlier.

This is probably true because of the incidence of the tax reduction in 1954, the very sharp rise in profits in the past 2 years, and the apparent immense increase in realized capital gains which are concentrated in the highest income levels. To the degree that our income distribution has tended to become more concentrated, our future growth and stability are jeopardized.

Therefore, from an economic point of view there is need for tax reform so that our overall tax system will contribute more fully to optimum resource allocation, maximum growth, and price stability. This committee has recently issued an excellent report which convincingly demonstrates the urgent need for changes in our tax structure.

Such tax reforms should be considered along with the subject of more fully satisfying our sorely needed public services. Once these needs are reflected in adequate measure in the Federal budget, then the level of taxation should be determined, taking into full consideration the fiscal policy required for sustained prosperity.

Major attention must then be directed to the pattern and incidence of the needed level of revenues. It is my belief that in 1956 the Congress can and should provide more fully for public services and, consistent with sound fiscal principles, also bring about a shift in the Federal tax burden.

Tax relief to the lower income groups should be legislated through a tax credit or lowering the tax rate in the first bracket or some segment of this bracket. Such tax relief would assure higher consumer demand. While consumer credit is an important instrument in our economy, it would be far preferable if the rise in consumer expenditures relied in larger degree on increasing disposable consumer income rather than on very substantial increase in the amount of consumer credit extended.

In line with the earlier recommendation that there be no overall tax reduction at this time, the Congress should offset this loss in revenue by eliminating the dividend credit, providing for the withholding of tax at the source for dividends and interests and closing some of the many loopholes in the present law.

In the hearings before the subcommittee of this committee last fall there was testimony concerning the erosion of our income-tax system and many suggestions were offered with respect to ways and means for increasing revenue by plugging existing loopholes.

Since the subject of taxation will be discussed by this committee more fully in the next few days, it would be appropriate to consider at that time the details of accomplishing such a shift in the tax burden.

THE ECONOMY AND FOREIGN POLICY

Unfortunately, the President's Economic Report throws little light on the relationship between our economic prospects and our foreign policy. It would have been most helpful if the report had explored this subject much more fully.

During the past decade this Nation, in the interest of its own security, has provided military, economic, and technical assistance to other free countries in a series of programs unparalleled in history. There is a great need for an increased flow of know-how and capital to undeveloped and underdeveloped countries.

It is unfair to private investors and generally unrealistic to expect that this need can be met largely by private business in the face of existing political, social, and economic conditions throughout the world.

The spread between the haves and the have-nots is growing. The Communists have now adopted the American techniques of economic and technical assistance with alarming prospects of success. Yet, our own programs have been tapering off and there is talk of even further reductions and restrictions.

The primary reason advanced for past and future reductions has been the belief that we could not afford to maintain a sizable aid program. The economic prospects implied in the President's report leave no question at all that we could afford to continue and to expand these expenditures.

Another important aspect of foreign economic relations affected by our economic prospects is the field of foreign-trade policy. The desirability of continually expanding trade among the free nations of the world is now recognized by almost everyone.

Yet the President recently has invoked the escape clause in the Reciprocal Trade Agreements Act to increase duties against bicycles and Swiss watches, and low foreign bids for electrical machinery have been ruled out under the Buy American Act.

Pressures continue from many sides to restrict our imports. Yet the economic prospects implicit in the President's report leave no doubt of our ability both to absorb more goods from abroad and to make available more goods to foreign countries.

The fine report of your subcommittee on foreign trade policy lays a sound basis for both legislative and administrative action in this important area.

Finally, there is the question of the relationship of our economic prospects to our military defense program. It is tragic, of course, that so great a proportion of productive resources in the world today must be directed toward military preparedness.

If the production facilities now being used for armaments and defense could be redirected toward economic development, the benefits to mankind would be phenomenal. Yet we live in a state of insecurity and adequate preparedness is vital.

What is needed for adequate preparedness is difficult to judge for one who is not a military expert. The difficulty is compounded when too little is known, apparently even to Congress, about the needs of our military forces and about our strength relative to that of potential enemies.

But in matters of defense the principle is clear: The size of our defense program should be determined primarily on the basis of need. This does not apply when the need is so great that contractions of the civilian economy would have adverse effects on the military program. But obviously our present program does not remotely approach that point, since we have continued to bear it while simultaneously enjoying increasing prosperity in the civilian segment of the economy.

Yet we hear disturbing views from seemingly informed sources to the effect that narrow budgetary considerations—rather than military need—have determined the size of some parts of the defense program. Once again, the implications of the President's Economic Report leave no question whatever that our economy could support a much larger defense program if our military needs required it.

The failure of the Economic Report to discuss these relations between economic prospects and foreign policy leaves an important gap in the material it makes available for the assessment of economic problems and policies by this committee.

LOOKING BEYOND 1956

The benefits of a decade of experience under the Employment Act plus the prevalent prosperity make it particularly timely to consider economic policies in relation not only to 1956, but also beyond.

It is more feasible to give serious attention to our longer run needs in times of favorable business conditions than when we need to concentrate on problems of economic stability. Economic growth readily permits us to concern ourselves with the problem of resource allocation because of the increasing availability of goods and services.

There are several aspects of the longer run perspective which call for increasing attention. One of these is discussed in the President's Economic Report. It relates to the fuller participation by all our citizens in our economic advance.

There are many other long-run important matters not dealt with in the Economic Report. They relate to numerous complex challenges which will emerge as we move toward and beyond a $500 billion gross national product within the next decade.

What are these implications in relation to our work habits and our living standards? Automation is just one element in this complex and this committee is to be commended on its hearings and its report on this subject.

What does a $500 billion economy less than a decade hence and a far larger output thereafter mean in terms of accessible natural resources? Five year ago the President of the United States appointed the Materials Policy Commission to study the materials problems and the free world. The findings and recommendations of that committee were never given adequate attention. Are we concerning ourselves sufficiently with our material and power resources to meet the challenge of the tremendous expansion which lies ahead?

The questions in the decade and generation ahead will become increasingly important with respect to the composition and pattern of our standard of living, especially as between those goods and services which are bought in the free market place and those services which are provided publicly.

Clearly, governmental regulations and control in increasing degree are not desirable. Yet, it is appropriate for our Government to take the lead in assuring minimum standards of basic public services consistent with our productive capacity.

As our national economy grows, there will be a tendency for more and more big business enterprises. The rash of mergers in recent years is a clear warning of an unhealthy trend. Concentration of economic power and monopolistic practices will have to be resisted with increasing determination if we are to preserve a vigorous system of competitive enterprise. Small business will require protection against monopoly and such assistance as is consistent with private responsibility and initiative.

Of major importance is the problem of relationships between governmental units. Decentralization of responsibility and operations, wherever feasible, is desirable. But matters of national scope must not be shunted aside under the banner of decentralized authority.

Particularly serious is the problem of financing State and local governments. Taxes responsive to economic growth are largely preempted by the Federal Government, leaving States and municipalities to rely principally on inflexible and regressive taxes.

As the excellent report of your Subcommittee on Federal Tax Policy recently pointed out, progress toward a more flexible and progressive State and local tax structure is bound to be very slow. Therefore, if our public needs are to be met in a manner consonant with economic growth, the Federal Government with its more progressive and more flexible tax structure must either assume a larger share of the financial responsibility, or devise ways and means to help expand the tax base of States and municipalities. This can be done without undue Federal interference in the administration of programs by State and local authorities.

Resolving these difficult and complex issues is essential to a healthy growth of our economy and to the preservation of our free society. On the threshold of greater abundance than ever before, it is incumbent on our leadership to give major attention to such issues.

As our economic policies are formulated, enacted, and administered year in and year out, we must move toward that kind of productive and distributive economy which most closely reflects the wants and ambitions of the majority of the American people.

Toward that end it is to be hoped that more attention will be given in the future to longer term considerations by the capable staff of the President's Council of Economic Advisers.

A DECADE UNDER THE EMPLOYMENT ACT

In closing, Mr. Chairman, it is appropriate to recall that it is now a full decade since the Employment Act of 1946 became part of the law of our Nation.

The Economic Report of the President takes cognizance of this occasion and notes that "the Employment Act has provided sound guidance and serviceable procedures for promoting economic growth and stability."

The occasion should not pass without reference to the fact that the President's report generally reflects the remarkable degree to which the principles of the Employment Act are now widely accepted. What was considered as heresy in the 1920's, radical in the thirties, and dubious when embodied in the Employment Act of 1946, has now become generally accepted doctrine.

This doctrine embraces several important elements:

First, there is the virtual rejection of the old thesis that booms and busts are inherent ingredients of a free-enterprise economy. We are now determined never again to permit the wasteful losses of hundreds of billions of dollars worth of production and the tragic consequences of mass unemployment in disastrous depressions. In fact, we are increasingly restive concerning even the tens of billions lost in such recessions as occurred in 1949 and 1953–54.

Second is the general acceptance of the principle that sustained high levels of employment, production, and income can be achieved without inflation. We have learned increasingly how to use monetary, fiscal, and other tools to prevent harmful inflation in an expanding free-enterprise economy.

Third is the acceptance of governmental responsibility for protecting the health of the national economy and the recognition that constructive Government policies can give added strength to the vigor of a free, competitive economy. In his economic report, the President lists among the factors adding strength to our economy "the general recognition of the Government's responsibility in helping to maintain a stable prosperity." He went on to say that—

> we have also come to believe * * * that the Federal Government has the capacity to moderate economic fluctuations without becoming a dominant factor in the economy.

Fourth is the acceptance of the proven value of the built-in stabilizing influences such as progressive taxation, unemployment compensation, bank deposit insurance, social security, minimum wages, and maximum hours.

The fact that these economic views are now broadly accepted must be put down as real progress of the last decade.

But one is tempted to point out that they have been valid for a long time—and to ask whether their wide acceptance today means only that we have now reached a point in our official economic thinking that would have been appropriate a generation ago.

If we rest on these gains we may repeat the mistakes of so many military services which have trained their officers superbly well to fight the last war.

I have attempted to stress the point that the President's economic report does not now face up to the real challenge and the real opportunities of a gross national product moving upward from $400 billion.

Project that forward to $500 billion and beyond, and throw into the picture atomic power, jet propulsion, automated industry, longer and longer life expectancy—just to mention a few of the factors that will have a tremendous impact on our economy and our society. If we don't think ahead to anticipate and cope with such developments, we and our children surely will pay a heavy price.

Thank you, Mr. Chairman.

Vice Chairman PATMAN. Thank you you, Mr. Nathan. In compliance with Chairman Douglas' request, we will first give an opportunity to the minority member at the end of the table. Mr. Curtis, would you like to interrogate the witness?

Representative CURTIS of Missouri. Yes, Mr. Chairman. I have a number of questions and I know we have a time limit. What I will do is use up my time and I know I will not get through with all of these, but I think there will be an opportunity of coming back, will there not?

Vice Chairman PATMAN. We will try to hold it to about 10 minutes each the first round.

Representative CURTIS. Just interrupt me whenever my time is up. The reason I say that is I know I am going to go considerably beyond that, I think in my questions, that is why I thought that should be done. Then I can ask the balance later. I have several general observations to make first, and to get some answers from you on those.

I was impressed with your conclusions, where you point out that a great deal of our problem in projecting our economy in the future involves an attempt to get the proper relationship between private enterprise, Federal Government, and State government.

And yet I gathered the impression from the tenor of most of your presentation in the beginnig that you presumed that the Federal Government was the method to go ahead in these areas.

I am wondering if I am fair in that presumption. In each instance, you just presumed that the Federal Government is the best agency to move ahead in these: For instance, the area of health—or, in fact, any of these areas that you mentioned—when actually the problem is not as you state in your general paper—in the minds of many people, it is not, at any rate—a question of whether the Federal Government has the revenue, it is a question of whether we have the proper relationship between the Federal Government, local government, and private enterprise.

Mr. NATHAN. I certainly would say that the area that can be handled most effectively in private hands ought to be left there entirely. But when we come to such questions as education or highways, it is obvious that these are governmental responsibilities, and there is then only the question between Federal, State, and local.

Representative CURTIS. That is right; a very serious one, although I will say in education I think we have been very blind to the fact that private education in this country is a big factor and a tremendous force in the field of education.

That is in no sense to detract from public education and the basic importance of it. But even in that area, there is a balance.

Mr. NATHAN. Of course, it is mainly in the higher levels of education, rather than to a major degree in the lower level.

Representative CURTIS. There are people in the field of education who feel we have suffered because there are not more private educational facilities in the primary and secondary fields. I happen to be among those that do, because a great deal of the advancement that we get in the area of education comes from these small prep schools and private schools who can experiment and go ahead and do things, leading the way, you might say, for some of our public education.

Mr. NATHAN. I think generally, though, it is true that the inadequacy in the education area is primarily in the public schools, overwhelmingly as compared with private schools.

In health, you raise a proper question. In the area of health I personally believe that socialized medicine, where most doctors would work for Government, is by no means desirable or necessary. I believe that private practice is preferable.

On the other hand, there is no question of the inadequacy of medical facilities in certain communities, areas that are rather remote from major centers. There are certain portions of our people who are incapable of financing adequate medical care for themselves.

There are certain types of research which are needed which governmental activity alone can support adequately. I would merely say that in the health field there are activities that we can engage in which will broaden the benefits of our health facilities for individuals. This is not a matter of major magnitude.

I think that there are further modest measures that can and should be undertaken. The President's message on health submitted to Congress the other day is highly desirable. There are some important aspects he neglected, but the increase of funds made available for medical education is proper for the Federal Government.

Representative CURTIS. I might say my concern in these areas, to be very honest with you, is not the money. I agree with your statement on that. So far as the revenues are concerned I think our society has the ability to meet these problems.

My question revolves around, How do we do it for the long run, because I know or I feel in my own mind that proceeding at the top with the Federal Government, coming down as the Lady Bountiful is not the way to get permanent advancement.

I think the Federal Government has a part to play, and I think possibly the differences lie not so much in economics, because we agree that these services should be performed, but how they should be performed, by what segment in our society, and when we get into that we get away from economic and more into politics.

Mr. NATHAN. Except——

Representative CURTIS. I am using the word "politics" in a broad sense as I always try to, being a politician myself.

Mr. NATHAN. I would just say this, Congressman Curtis; to give an illustration of how the economic aspects enter into these sort of problems—this question of the financing between State and local governments on the one hand and Federal Government on the other hand is quite distressing.

I think that if one analyzes State and local taxes and one analyzes Federal revenues it is found that the State and local administrations have been left pretty much with the most difficult kinds of taxes whereas the Federal Government has largely—I use the word "largely" advisedly because it is not complete—preempted the flexible and easier taxes.

Certainly, the administration of many activities should not be centralized such as education. In matters of that nature the degree to which you can decentralize is helpful, I believe.

However, it may be necessary to work out tax measures where the Federal Government remits in some way to the State without in any way interfering with administration.

Representative CURTIS. Unemployment insurance?

Mr. NATHAN. That is a perfect example. Under the estate or inheritance tax the same method was followed. It happened many years ago where the Federal Government did assess taxes on estates and then allowed State taxes to be credited against the Federal assessments.

Representative CURTIS. It seems to me—the reason I raised this fundamental question, it seems to me that there would lie the differences in your presentation as I see it and in the President's Economic Report.

You find a constant reference there to the need for private enterprise to move forward, in the President's Economic Report.

In other words, I would say the President's report relies upon that in these areas more than your criticism would suggest.

In other words, it seems to me your criticism is based upon your belief that the Federal Government needs to take more of a part in this thing. You may be right.

But if that is so, to me that is a political argument and political discussion and a perfectly fair criticism in all of these areas, whether or not the Federal Government should not be doing it; but in an economic report I do not think it is exactly fair to say that the President disregards these things.

Rather, the Economic Report disregards it. The Economic Report places great emphasis on the need for private enterprise to move into these areas, and the discussion then comes around to how do we best do it.

Do we do it better by having the Federal Government do it or pick up the ball in this area or not?

Mr. NATHAN. We all recognize that a healthy economy does require expansion in education and health.

Output does depend considerably on the health and productivity of our people. That is stated over and over again in the President's Economic Report.

Representative CURTIS. Let me give you an illustration—I agree with you—how I as a person, one in politics, tried to meet this need for additional education and health facilities.

I was an author and helped get through the additional 10 percent tax deduction for charitable donations to churches, schools, and medical facilities, hospitals. In other words, that was a technique to try to channel more private money into those areas. We were both after the same objectives.

Mr. NATHAN. I think that was very desirable.

Representative CURTIS. These things to me come really out of the field of economics to a large degree and more in the field of politics—legitimately in the field of politics for decision.

I did want to get across that point.

I understand I have used up my time, so I will be back.

Vice Chairman PATMAN. The Chair recognizes Senator O'Mahoney, of Wyoming.

Senator O'MAHONEY. I am at a disadvantage, not having been able to reach the committee room this morning by reason of matters over which I had no control until the witness had about completed his statement, so that I am not able to cross-examine him about the statement.

I am very much interested in the distinction that Mr. Curtis seems to make between politics and economics. The Congressman speaks of himself as a politician and says he wants to use that word in the broadest sense.

Well, let us use it in the broadest sense. If we do, then the major objective of politics at this time is to deal with economics, because we are engaged in an economic war.

Just because we call it a cold war, no one could imagine for a moment that it is less critical to the maintenance of a free economic system and a free political system in the United States than would be a military war.

From my point of view, it is highly important that we shall go hand in hand developing the political objectives of economic affairs.

I am of a definite feeling that in an economic war the best thing we can do politically is to develop and stabilize our economic system here at home. That we are not doing.

Yesterday afternoon there came to my office a group of not less than a dozen or 15 cattle feeders. They represented a group of persons engaged in the cattle industry from the Mississippi River west, who met on January 26 in the city of Denver.

They met there because the economic conditions that now exist in this country are such that the price of livestock is falling so steadily that cattle growers and sheep growers are afraid to send their animals to the market.

I have talked personally with commission merchants in Iowa who have told me that they are advising their customers not to send their animals to the market because the price is so low.

I assure the Congressman from Missouri if these commission men were members of this committee they would be sitting on the minority side and not on my side.

What have the cattle feeders asked us to do? I have arranged an appointment at their request with the Deputy Secretary of Defense for Procurement, Mr. Marsh, to be held this afternoon at the Pentagon.

They have three programs in mind to stimulate the market for beef:

First, they want the Defense Department to buy more meat products. The usual rule in the Defense Department is to buy these products for about a 60- to 75-day supply.

Last week, or perhaps a little bit sooner than that, maybe in November, when it began to dawn on the administration that the price of livestock was not responding to the economic or the political methods being taken by the administration the purchases were extended to 90 days' supply.

Of course, the purchase of meat for 90 days or over will require the Department of Defense to provide storage. It raises a very serious problem.

Then their second suggestion was that more meat should be bought for foreign aid.

And finally, they want more meat purchased for the school-lunch program.

Now, all of these suggestions are all part of the economic dilemma with which the country is faced at the moment.

Do you not agree, Mr. Nathan, that the purchase and the production, and the distribution of the purchase and the processing of food is basically both an economic and a political problem?

Mr. NATHAN. Yes, Senator; I would agree a hundred percent. The political problem has to do with a decision by the elected representatives of the people of the country as to what policies should be followed in respect to problems such as this one. I believe that the use of our resources, the relationships of income of different groups are matters which are properly considered by the legislature. Therefore, they are political in that respect but, certainly, they are economic because the well-being of the farm population has a real effect on the well-being of the entire population.

Senator O'MAHONEY. I think that everybody will agree with the statement of Congressman Curtis that if private capital can do these things that the Nation needs, it is a very worthy objective and should be accomplished.

But we find periods in the development of our country when private capital cannot and will not do these things. There is the building of certain high dams and flood control, and so forth.

The President's Economic Report does not condemn that sort of thing.

So there is no partisanship and there is no politics in these economic problems except to the degree that the Congress which is organized on a political basis divides itself upon the economic issues and takes the steps that are necessary to bring about the stabilization of the economic system.

I am glad to note in the beginning of your talk you called attention to the fact that during several years past, the steps which were taken by Congress to stabilize our economy did much to lay the basis for the prosperity of which we talk at the present time.

I remember very well when there was set up in the Senate, under the chairmanship of Senator George, a postwar economic policy board which held hearings all over the country that resulted in the board's recommending the passage and securing the enactment of a law which brought about the speedy settlement of debts that the Government owed to free enterprises.

This resulted in putting private money in private hands, to step from a war economy to a peace economy.

The bill under which we are meeting today which was enacted for the purpose of declaring the responsibility of the Government to take the steps that are necessary to maintain the high economy was a declaration by Congress that the political machinery which the Constitution creates should be used for economic ends.

The chairman hands me a paper saying my time is up. I am sorry I did not get around to questioning you.

Vice Chairman PATMAN. Senator O'Mahoney was the Chairman of the Joint Committee on Economic Report and we also note the appearance this morning of Dr. Nourse who was the first Chairman of the Council of Economic Advisors.

The Chair will recognize Mr. Talle, a Representative in Congress from the State of Iowa.

Representative TALLE. Mr. Chairman—Mr. Nathan, at the outset of your statement I think you expressed the view that the President's Economic Report is pretty good.

Mr. NATHAN. Yes, I think it provides a type of economic analysis which can certainly be characterized as of very high order.

There were a couple of matters of substance like this question of emphasis on price stabilization and the inconsistency between the

Economic Report and the budget message which I think are most disturbing, along with some deficiencies in scope which I emphasized.

Representative TALLE. What, in your judgment, would be a fair definition of the purpose of the President's Economic Report?

Mr. NATHAN. This particular report, Mr. Congressman?

Representative TALLE. Yes, or any economic report, under the Employment Act.

Mr. NATHAN. I would say as I read the act, Mr. Talle, the purpose of any economic report under the act is threefold:

First, to analyze and interpret the existing economic conditions on the basis of what has been happening.

Second, to set forth levels of production and employment and income which should be achievable, or can be achieved under appropriate policies.

And third, to recommend policies to achieve those objectives.

Representative TALLE. In other words, there would be appraisal——

Mr. NATHAN. Yes, sir.

Representative TALLE. Followed by recommendations on the basis of that appraisal?

Mr. NATHAN. Yes, sir.

Representative TALLE. Turning now to the budget message, what would you say its purpose is—by way of definition?

Mr. NATHAN. I would say that the purpose of the budget would be—and I would fall back on what is stated in the Economic Report—first, a suggested set of expenditures to meet the essential needs of the economy which fall properly within the bailiwick of the Federal Government.

And secondly, a level of receipts, based on various type of taxes which are consistent with a vigorous economy and with the economic needs of the economy for the coming year.

That, I would say, primarily, is the purpose of the budget, because it will then reflect our objective as to how resources shall be allocated and how the Government's fiscal policy shall be related to the overall economic picture.

Representative TALLE. Basically then the budget resembles accountancy?

Mr. NATHAN. It is a matter of implementation, financial implementation of the economic policy.

Representative TALLE. In accountancy, there is a recognized principle that the accountant should not include in his income what might be called "anticipated income;" that is correct, is it not?

Mr. NATHAN. Yes, but usually I think the accounting statements are statements of the past. The accountant usually is not the one who makes up a projected budget for a business company. I think that is made up by the executives, the policymakers. The accountant just records and checks the past and makes a statement of past performance.

Representative TALLE. In other words, on his records he should not include anticipated, or unrealized, income?

Mr. NATHAN. No, on his records—that is on his records up to date, he should not include anticipated income; that is right.

Representative TALLE. Then there is a second principle in accounting, that the accountant should include all probable expenses.

Mr. NATHAN. Yes, sir, those that are obligated.

Representative TALLE. Then, if a person does recognize these, he leaves out all anticipated income and he includes all probable expenses. As a result his income and expense statement will perforce be a conservative one, and properly so.

Mr. NATHAN. You mean a future statement that he would project? I would like to try to distinguish between the past accounting system and a projected statement; I think that is our major difference.

If the projected statement were to include all of the probable expenditures but not anticipate expectations or improvements in the receipts, then I think it would be a very conservative statement; yes, sir.

Representative TALLE. In other words, the purposes of these two are not the same. The President's Economic Report has its purpose and the budget message has its purpose.

Of necessity the budget message should be and is conservative, if well set up. The Economic Report, I would say, should be more forward looking and enters somewhat into the field of forecasting.

Mr. NATHAN. Except that the budget message in itself also has to have forecasting.

Let me explain where I think the relationship is, because in a sense the purpose cannot be separated that way, Congressman Talle.

When the people who make up the economic reports, who provide the President with the basis for the Economic Report look ahead to the next year, one of the factors that they have to keep in the back of their mind is, what is the contribution of the Government's financial operation to the overall economy.

Is the Government going to be pouring out a lot more money to the private economy than it takes in or is it going to be draining from the private economy more than it puts in?

What I feel is very important is that the President's budget message implies that in 1956 Uncle Sam will be taking \$2.4 billion more out of the hands of the public than he is going to put into the hands of the public.

The people who prepared the Economic Report must have known that was in the budget. That means they must assume that that extra \$2.4 billion of private buying power will be helpful, but it won't create inflation.

If they are optimistic on that basis, and if their optimism proves true, Uncle Sam will be taking \$5 billion net from the public, not \$2½ billion.

Can they be optimistic on that basis? Are they optimistic that private spending will permit a \$5 billion "take" from the public by the Government, rather than \$2.4 billion?

It seems to me that the two interrelate with each other.

That is why I feel that they have to be integrated. I think that the two have a sort of common purpose.

If I may differ, Congressman Talle, I would say in most corporations the accountant is the one who prepares the statement on the past performance but it is the executives who prepare the projected statements.

In a sense that is true of the Federal budget. It is the accountant who audits the returns and presents the analysis for the past year but something beyond pure figures have to go into the future.

Representative TALLE. I know this, that if I hire an accountant, I want a fellow who does not anticipate income and I want a fellow who includes all probable expenses. I want to be on the conservative side.

Mr. NATHAN. I think it is good to be conservative.

Representative TALLE. The budget message should be like that, whereas in the President's Economic Report, I would be glad to try to peer into the future on a reasonable basis, and be a bit more optimistic.

I would like to ask you: What do you think of the President's nine-point-agricultural special message to the Congress?

Mr. NATHAN. I do not regard myself as an expert at all in the field of agriculture. However, I have studied that message very carefully. I made just one observation in this report, and I would like to confine myself to that.

In my judgment, the President's program will not have any immediate impact on farm income; I would say, within the current year. That is what I was talking about. I do not think it will have any significant impact on farm income this current year.

The longer run ideas of taking land out of use, and trying to adjust levels of production to levels of maximum demand, and, of increasing the sale of farm products, are very commendable. But I do not believe that there will be an immediate impact from such measures which would affect our economic outlook favorably for 1956.

Representative TALLE. May I just say that how quickly that program will have its effect will depend altogether upon Members of Congress, because all of it requires congressional action.

Mr. NATHAN. Yes.

Representative TALLE. And today after 12 o'clock (noon) we in the House of Representatives expect to repeal the Federal tax on gasoline and other motor fuels that farmers use in their operations.

So, we are acting quickly on one of the President's points. We have eight more to go. I hope Congress will act quickly. I have no more time. Thank you, Mr. Chairman.

Vice Chairman PATMAN. Mr. Mills, the Representative from Arkansas.

Representative MILLS. Mr. Chairman, and Mr. Nathan, let me direct your attention to page 8 of the President's Economic Report, if I may.

In the first full paragraph on that page the President sets forth certain closely related policies that the Government should pursue. One of these reads as follows:

> By extending the automatic workings of our fiscal system that tend to offset or cushion changes in income arising from changes in economic activity.

It is my understanding that this statement refers principally to the unemployment compensation program.

Aside from any improvements that might be made in that program, does anything occur to your mind that the Congress might do to further that objective?

As I understand it—permit me to continue just a moment—what we are talking about here are countercyclical forces that may go into operation immediately and automatically as economic activity changes.

I have thought for many years that one of our great weaknesses is the lack of more "automatic workings."

Are there any that you could suggest to the committee that we might include with unemployment compensation?

Mr. NATHAN. Well, Congressman Mills, I regard as perhaps the most important of all "automatic workings" the system of progressive taxation. If we have a progressive tax system, as the economy rises, our tax revenue increases more than proportionately with total income, which tends to take the bloom off of excessive inflationary pressures. And as the national income and personal income decline, or gross product declines, our tax revenue on a progressive basis, declines more rapidly than the total income, which then in turn tends to help support or cushion the decline.

I believe that is one area that is of major importance.

In this movement toward progressive taxation, one must be cautious not to destroy incentive. That is clear.

I believe, as I said in my statement, that in the last couple of years we probably have regressed or lost some of the progress we previously had made toward more progressivity in our income distribution.

The incidence of the 1954 tax cut, the tremendous increase in realized capital gains in the past couple of years I think have brought this about. From that point of view, today I believe we have less benefit of the automatic consequence of our tax system than we had 2 or 3 years ago.

I think that while it is an administrative rather than an automatic influence, controls such as the one over stock market credit are very important in preventing a highly speculative and very rapid rise in economic activity through an excessive flow of credit.

From that point of view I think there is justification for considering instalment credit control when needed so that you prevent the kind of excessive demand emerging in a sharply rising period that precipitates later difficulties.

But I do believe that greater automatic stabilizing benefits can come in the tax area than in any other.

Representative MILLS. You feel somewhat then as we did in our Subcommittee on Tax Policy Report in that respect.

Mr. NATHAN. That was an excellent report—excellent. I certainly agree with it 100 percent.

Representative MILLS. Do you consider changes appropriate in the Unemployment Compensation Act itself in this direction.

Mr. NATHAN. Very much so. To me it is a scandal, the way in which the unemployment benefits system has not kept pace with our economy, with our productivity.

I was looking at the figures on average weekly benefit from unemployment compensation. The average is around $24, I believe, or $25 per week. It has increased not nearly in proportion to the rise of weekly earnings. It is clear that one cannot pay a person as much when he is unemployed as when he is working, but in a society where we have average weekly earnings of 70 and 80 and 90 dollars in most industries, to have unemployment compensation of $25 a week is scandalous.

And I would say also that there is no logic to the 26-week duration. If a person is unemployed and can't find a job and you can cut off his benefits if he refuses to take a job, I do not see why the 26-week limitation ought to prevail.

I think both in terms of level of benefits and duration there is need for a tremendous improvement in the unemployment compensation system.

Representative MILLS. I did not find in the report any implementation of this objective or policy. Did you find anything in the report that we could look to for guidance in extending the "automatic workings" of our fiscal system?

Mr. NATHAN. No, I did not. As a matter of fact, I read this page, by the way, a little differently than you did. I read it to mean that the administration has done these things. You see, the sentence before where it lists the nine points, it says, "The administration has sought—to discharge its responsibility through a series of closely related policies."

I frankly found nothing in the report on the past nor for the present of any meaningful magnitude with respect to this particular objective. I think it is a very important one.

Representative MILLS. You and I read it alike. I realized that nothing had been done in this particular instance. I thought possibly it had reference to something we could have done.

Thank you, Mr. Chairman.

Vice Chairman PATMAN. I would like to ask a few questions, Mr. Nathan.

I noticed throughout this report it is said that the average of consumer prices has remained fairly stable. Is it not a fact that the constant level of prices for the consumers was due entirely to the fact that farm prices reduced as industrial prices increased?

Mr. NATHAN. That is right.

Vice Chairman PATMAN. In other words, there has been no effort to keep industrial prices from increasing, and as they went up, in order for the consumer price level to remain stable, it was necessary for the farm prices to go down as much as the industrial prices went up.

Mr. NATHAN. Well, Mr. Chairman, of course the administration did in 1955 undertake some anti-inflationary montetary measures. There was an increase in the rediscount rate a number of times and there was activity in the Federal Reserve open market operations, but no direct measures on price.

Vice Chairman PATMAN. I know they were not direct. But they were effective on savings, because of increased interest rates.

Mr. NATHAN. Interest rates rose very rapidly.

Vice Chairman PATMAN. In other words, it was a deliberate attempt to arbitrarily increase interest rates in this country, was it not?

Mr. NATHAN. Well, the interest rates were directly raised. I do not know whether it was quite as arbitrary an attempt as I would characterize the 1953 behavior of the Government in bringing about interest rate increases.

Vice Chairman PATMAN. On page 108 the statement is made:

> In 1955, as in 1954, the increase in personal consumption expenditures was greater than the rise in disposable income; therefore, for 2 years in succession, the volume of personal saving has shown a decline, from $19.8 billion in 1953 to $18.3 billion in 1954 and $16.8 billion in the year just ended.
>
> Personal saving as a percentage of disposable personal income dropped 7.9 in 1953 to 7.2 in 1954 and 6.2 in 1955.

It is a fact that the uncontrolled industrial prices, and high interest rates, made a direct contribution to that situation, is it not?

Mr. NATHAN. I think the rise in prices in industrial goods and the high interest rates did affect savings somewhat.

I think another contribution was, of course, the tremendous increase in installment credit where people bought out of future income and, therefore, engaged in some dissaving which offset their positive savings.

Vice Chairman PATMAN. Is it your understanding that the interest rate has increased at least 1 percent the last 2 years?

Mr. NATHAN. The last 3 years, yes, at least.

Vice Chairman PATMAN. One percent increase means a lot of money, say, on $740 billion which is estimated to be the total debt, public and private. That would be about $7,400 million a year, for that 1 percent increase. That would be about $50 per capita, would it not?

Mr. NATHAN. Yes.

Vice Chairman PATMAN. About $50 per capita, and in a family of 5 that would be $250 a year which would have to be paid in extra interest each year.

Do you not think that made a great contribution towards the lack of savings and the reduction in savings?

Mr. NATHAN. Well, that would depend, Mr. Chairman, on who paid the interest, and who received it.

Vice Chairman PATMAN. It almost goes clear across the board.

Mr. NATHAN. The payment I would say is more widely distributed than the receipt—the interest payments.

Vice Chairman PATMAN. People who pay interest are in greater number than those who receive it.

Mr. NATHAN. That is right. Interest income is more concentrated than interest payments.

Vice Chairman PATMAN. This is evidence of it, too. People who were saving generally were not allowed to save so much, by reason of the higher interest and that reduced their savings.

That was not withstanding the fact that the tax bill passed in 1954, was supposed to help the middle income group and the lower income group.

Apparently it did not help; is that right?

Mr. NATHAN. The tax in 1954, I think, helped the higher income groups and the corporations more than the lower income groups proportionately.

Vice Chairman PATMAN. There is pretty good evidence in the fact that savings went down. If the tax law had helped the middle income and lower income groups, personal savings certainly would not have gone down so much.

Mr. NATHAN. Except, Mr. Chairman, that savings are a function of two factors, how much income you get and how much you spend.

Even if their income rose if the lower income groups had suddenly gone on a buying spree, there could be a reduction of savings, even though they would be better off.

I think that what you are pointing to in the matter of interest rates is very important. Rising interest rates do have an adverse effect on income distribution, but I think in 1955 there is also this factor, there were tremendous purchases of items on credit.

These savings figures are a combination of two factors, the people who get income and save part of it, offset by those that spend more than their income; and engage in what we call dissaving. It is the net savings figure you quoted. You have to look at both income and spending factors.

Vice Chairman PATMAN. On page 109, I will read one sentence:

Corporate undistributed profits and depreciation allowances in 1955 totaled about $5 billion more than in the previous year, despite an increase of $1 billion in dividend payments.

And then at the bottom of the page:

Because of rising profits and larger retained earnings, the increased requirements of business corporations for investment capital could be met for the most part from internal funds.

Do you not see a dangerous trend there, these large corporations, contrary to the private-enterprise system as we know it, going into the market place and borrowing their money, and instead of permitting savers to make investments in either stocks or bonds, in the enterprises, and getting some return from it, they are charging the consumers prices sufficiently high to give them sufficient retained earnings to do their own expansion and thereby have capital that cost them nothing, costless capital.

Do you not see in that a great evil?

Mr. NATHAN. The evil I find in it, or I am concerned about is the fact that we get a very high level of profits and a very high level of retained earnings and thereby have the financial basis for a very high level of plant and equipment expenditures that may create distortions in the economy, as between demand and investment which will in turn cause a decline.

That is the most serious matter. But I think there is the other question, that if business seeks to set its prices so that its profits after dividends provide it with all of the money needed for investment then I think certainly the prices are too high.

Those who save funds must then go out into the market and buy stocks rather than enter into a new investment directly.

Vice Chairman PATMAN. As it is now they have to compete in the market for the limited number of stocks because the large corporations are not selling stocks and bonds any more. They are making the consumers pay the cost of their expansion.

Last year if, I understand this correctly, the corporations of the country, manufacturing, industrial, and others, after being allowed all expenses of every kind including taxes and wages and materials, if they bought materials, and after setting aside a sufficient amount for obsolescense and depreciation and paying the stockholders a fair and in most cases generous dividends,—which is all a private utility would have been allowed to charge in prices—they charged in addition, $23 billion. After paying 52 percent taxes they had $11 billion left in capital that did not cost them anything, that they got from higher prices.

Do you not think this is something that needs correcting? Shouldn't some consideration be given to it? Of course, if they are in competition, it is all right to charge all the traffic will bear—but where they have no competition do you not think that is detrimental to our country for them to get their capital out of the consumers' prices?

Mr. NATHAN. Certainly, where there is no competition, I think that some method of limiting prices to prevent the exorbitant extraction is justified.

The question, of course, arises as to whether most of these huge profits before taxes, profits after taxes and profits after dividends come from the competitive or the noncompetitive area. I think they are very large in both areas, Mr. Chairman.

Vice Chairman PATMAN. My time has expired, I am told. Later on I want to interrogate you about installment credit, but I shall now yield to the gentleman from Missouri, Mr. Curtis again.

Representative CURTIS. Before interrogating the witness I would like to say in response to Senator O'Mahoney's discussion, that my idea of the purpose of the Economic Report is to clarify the issue by bringing out economic facts, so that the political differences can be more intelligently drawn.

In other words, I want to clarify these pictures so that we will get away from the present atmosphere, as I see it, where the political arguments are sought to be won before the debate even starts by one side claiming they are for the people and that the other side is against the people.

I think as to the issues involved here, I think anyone in politics, of course, is trying to do what is best for the people over the long run and the issue as you have well stated in your conclusion is this business of trying to figure out what is the best balance between Federal, State, and local, and private enterprise.

Incidently, I might say so far as the people are concerned, I think we ought to give a little more careful definition of what the people of this country, that word, should include.

I do not believe it should include just the voting generation. I think "the people" should include a little bit more in its term than just those who happen to vote today.

Mr. NATHAN. Yes.

Representative CURTIS. With that background, the reason I asked that question I think that maybe one of your criticisms of the report's failure to set constant levels is derived from the fact that the President seems to feel that private enterprise is the greater force involved in this economic picture and, therefore, to presume that the Federal Government can set constant levels is a gross presumption in itself.

Although I think it can be argued by the other side who think that the Federal Government should take more of a part and thereby can set levels. I wonder if you think that is a fair comment of mine?

Mr. NATHAN. I would say that the major activity, the major vigor and drive of the American economy derives from the dynamics of the private-enterprise system. I think that is correct.

If we can mobilize the dynamism of the individual trying to get ahead, the desire to accumulate, and have that force always at work vigorously we will always have a dynamic economy.

The problem, I would say, is a matter of two categories of policies: One, that letting the economy go completely we have seen in the past brings extreme fluctuations, booms and busts. I think the Government must take some responsibility to prevent them.

I think the second aspect, Congressman Curtis, relates to exploitation. When you let it go completely there are certain consequences in the way of exploitation which we all agree in a modern society are unfair.

I think that even today if we took off the child labor laws some unscrupulous employer somewhere would maybe go back to it, and force competitors to follow suit.

Representative CURTIS. I do not think there is any disagreement on the part—at least on my part—that the Federal Government certainly has an area where it must perform. I could set them out.

In my own belief, for instance, antitrust laws on which I feel we have not been doing the job we should.

You mentioned child-labor laws. I could not agree with you more. I have a lot of others, and we all would, I would say, agree on certain ones, just as I know you would agree on certain areas of private enterprise.

I might further state that as far as I personally am concerned I think the President's Economic Report goes a little too far in accepting the position of the Federal Government presently assumes. I think we would do much better economically and do better for our people in the long run if there were even more of a tendency to get the Federal Government out of areas it is presently in.

On the contrary, I know that people like yourself and others, feel that the balance should be a little the other way. It is not a question of extremes, either on your part or on my part—it is a question of these balances.

I do think that is the basis on which the President in his report and his previous reports has refused—not refused, but has not thought it advisable to try to set levels on the theory that the Federal Government is not in our economics to the extent that they could set levels. They might predict levels; they might make estimates, but I do not think they could set them.

Mr. NATHAN. I think it is much more precarious to predict than to set levels. Almost everybody would agree, Congressman Curtis, that if the United States Government were to propose goals, the Congress could then, in its fiscal policies next year, set out to bring about the proposed increase in production and do it by cutting taxes or increasing expenditures and not interfering with private enterprise.

Representative CURTIS. Those forces are so relatively small in comparison to the forces we have previously mentioned, private enterprise and the drive that exists there, that is why I say it is hard for the Federal Government in my judgment even with the vast powers we have and the extent to which the Federal Government is a purchaser in the market, even with that, the economy, the private economy is much larger.

Mr. NATHAN. Yes, but just to give you an idea as to how important the Federal role is, if the Federal Government tomorrow decided it was necessary to cut $10 billion off of taxes—just say we did that—that would have a powerful effect on private buying power and it would not curtail the role of the private sphere. They would have still as much a role, even a bigger role than before.

I think there are really two aspects of governmental influence. One is in the policy area—the fiscal, credit, monetary policies of the Government. The other is the operational side of the Government.

In the first, the responsibilities and opportunities of the Government are very great. There is where this matter of goals is very important.

In the second I would agree that we do not want Government operations to be any larger than necessary for the good of the country. Leave as much in the private area as possible.

Education, except for this limited segment of private schools you mentioned, is primarily public. If the State and local and Federal Government do not expand schools or do not do anything about getting more teachers, then we are going to have more Cadillacs and more television sets and more kitchen gadgets, and we will not have education. The Government has to take responsibility and initiative if we are to have adequate education.

Representative CURTIS. I do not want in discussing this point with you, to be in the position of not feeling the Government should not be in that area. I will put more emphasis, I might say, on the State and local and less on the Federal.

If I were asked my opinion I would like to see a trend whereby we could get more tax revenues into the hands of the local governments, so that this constant call upon the Federal Government to move into areas which I think are better served by our local school boards would be stopped. I think we agree on that.

Let me go on with some other points here to the extent of my time.

One thing I noted in your comments in regard to previous stabilization and growth is your failure to recognize the existence of the Korean war. I have noted that, too, in critics of this present administration, in these economic areas, a failure to recognize that we have moved from war to peace.

One is in the area of unemployment. My Heavens, we took around 750,000 people out of uniform who in turn were absorbed by our private economy. We shut down a number of defense plants, and our private economy had to absorb the jobs.

It is the failure to recognize the impact of the Korean war on our economy that disturbs me in your criticism. You criticize the report for not paying attention to international trends and yet here war is probably the biggest international influence we could have. If we are at war, that particular international situation causes more economic upheavals in our domestic economy than anything else.

Mr. NATHAN. Of course, I would say that it really has not been nearly as big a shift as one would think. We are spending over $40 billion for military purposes today. That is only some 20 percent below what we spent when we were engaged in hostilities in Korea.

What we have done is to go from a period of military activity to a tremendous defense program, which brought only a moderate cut in governmental expenditures.

Representative CURTIS. It has been cut certainly so far as the use of individuals is concerned in uniform. There was quite a cut. In my judgment, that is what we were experiencing all of these cries about the unemployment picture last year. I felt it was a shift from war to peace.

I would have felt better about it if the critics at least had recognized we were shifting from war to peace but the critics just ignored it, that very basic economic fact.

Maybe they would not have put as much weight on it as I did but they would not even recognize that it existed apparently.

Mr. NATHAN. We did have a drop in real production in 1954—the gross national product was lower than in 1953.

Representative CURTIS. In Missouri we were manufacturing small ammunition for the whole Korean war. When we shut down operation without a shooting war we had quite a number of men, in the thousands, to get relocated in jobs. The economic impacts—a failure of an economic analysis to report those and give recognition to them is to me much more of an oversight.

That is why I think in our comparison on page 3 from 1947 to 1953, in comparing that to our recent peacetime advancement without recognizing this transition from war to peace or the existence of the Korean war, it seems to me that you have left out one of the biggest economic factors of them all.

Mr. NATHAN. Of course, in 1947 we only spent, as I remember, about $14 billion for defense and today we are spending $40 billion.

Representative CURTIS. And ignored the Korean war. That is my basic comment.

Mr. NATHAN. The main reason I mentioned the growth from 1947 to 1953, was not in any way, as I said, to depreciate the tremendous improvement we have had in the last year. It does indicate, I think, we still have more room to go ahead.

Representative CURTIS. I agree with you and I do not object to your pointing it out. My criticism is that you do not include one of the biggest economic factors that existed then. That was the existence of war.

Mr. NATHAN. I still say if you go from $52 or $53 billion defense military spending in war to over $40 billion in peace, it is hard to characterize the change as a war-to-peace shift. Demobilization of manpower after the Korean armistice was modest, dropping by only about one-sixth or a little over one-half million.

Representative CURTIS. Any shift of use of manpower produces economic changes.

That is all.

Vice Chairman PATMAN. We will next hear from Senator O'Mahoney.

Senator O'MAHONEY. What would your suggestion be, if you have not already made it, with respect to the international policy that the Government should follow—what would be your opinion on the expenditures that are projected? Did you cover that?

Mr. NATHAN. Just briefly I would like to——

Senator O'MAHONEY. Here is the request: They have asked for authority to give commitments covering a 10-year period for international financing, military and economic.

The dilemma which is above all party differences arises from the fact that the Constitution provides very clearly a limitation upon the number of years for which Congress can make any commitment for the Army.

The Navy has gotten around that and Congress has gone along with it. We have had to do the same with respect to the Air Force because in both of those services, the weapons and the instruments which we build cannot be built in a few years.

An air carrier has to take 5 years to be built. And it is about the same period from the drafting board to actual flying with respect to the huge air carriers. Now, of course, we also have the guided missiles.

Here is a program of economic spending and military spending during 10 years. It is based upon the concept which was initiated under the Marshall plan that this Government could provoke international peace by promoting the economic recovery of other nations and by strengthening the defense of the free nations, in the event that they would have to resist attack from Communist forces. That is the problem with which we are faced.

You as an economist whose reputation is known not only here but abroad, too, could contribute very much to our understanding of this problem.

Mr. NATHAN. I am not familiar with the full constitutional implications of the extent to which commitments can be made for the future, but I would certainly hope that the sense of the President's proposal with respect to longer term commitments could somehow be legislated by our Congress because the aid that is needed abroad has longer day run implications than from year to year. There are developments which, like the aircraft carrier, cannot be concluded within 1 year. And if we could somehow work out contract-authorization procedures such as we have used in the Navy, I think it would be highly useful.

I doubt very much whether a 10-year authorization is feasible. But authorizations which would extend well beyond 1 or 2, or even 3 years if it were legally possible, should be undertaken.

And along with that, there should be a congressional expression of our intent to utilize our resources for economic-aid purposes as long as it is to the benefit of the United States.

I believe very strongly that foreign aid is of benefit to the United States. I believe very sincerely that we did help stop the spread of communism in Western Europe by the Marshall plan.

Economic development is not a guaranty against communism by any means but I think it provides an environment within which communism can be resisted more effectively.

I have had the experience of working abroad myself in recent years, and I am convinced that the threat of Communist penetration through the economic area is a very serious one. By their dictatorial structures they are able to adapt themselves more readily to each situation and opportunity here and there. Unless we are alert to this problem and unless we are willing to enlarge the flow of know-how from the United States to the undeveloped countries and the flow of capital, we may find ourselves isolated from free nations, which would be not only unfortunate but also dangerous to us.

From the economic point of view, which is what I primarily stress in my statement, we have the resources to do this job.

If we said to the undeveloped countries "we will lend"—and I think they are more interested in loans than gifts—"we will lend you the capital which you can efficiently and effectively utilize"—I doubt if our increased economic aid, not military assistance, to the under- and undeveloped countries would be more than two or three billion dollars a year in the next 2, 3 or 4 years.

That magnitude is certainly within our capacity and we ought to do it on the longer run basis.

Senator O'MAHONEY. On page 3 of Economic Indicators for January 1956, the document which as everybody knows is published by this committee, under the authority of law, but which is prepared for the Joint Committee on the Economic Report by the Council of Economic Advisers, shows what seems to me to be some striking statistics with respect to our national income.

It will be seen from the chart on this page that the total national income has gone up from $240 billion in 1950, to $325.7 billion in the third quarter of 1955.

According to your testimony the important point is that some of this is attributable to increases in prices.

Mr. NATHAN. I was talking mainly of increases in prices in 1954 and 1955 rather than the longer run. But in the President's Economic Report, Senator O'Mahoney, there are figures which eliminate the price increase; and that shows, for instance, from 1950 to 1955 our gross national product has gone from $285 billion to 387 billion.

Senator O'MAHONEY. What page are you referring to?

Mr. NATHAN. Page 169, table D-4.

Senator O'MAHONEY. Thank you.

Mr. NATHAN. It shows that the gross national product—right in the middle of that table—in real terms, in 1955 prices, went up from $321.8 billion in 1950 to $387.4 billion in 1955. That is a rise of $66 billion, in real production.

Senator O'MAHONEY. Let us use that table then. Now for the comparable figure for farm income, our gross private production, in 1950 was 18.7 billion, and nonfarm, 277.3 billion

The estimate for 1955 for farm income was 20.5, and the nonfarm income 333.6.

The gross Government production was from 25.8 to 33.3.

The estimate for 1955, which is labeled here as a "preliminary," was undoubtedly compiled before the table to which I referred in the Joint Economic Report. The letter is based not on a gross production but upon national income, statistically a little different figure. In that table the farm income, after the deduction of the necessary expenditures has dropped from 13.3 in 1950, to 10.6 in the third quarter of 1955.

While for corporations the total profits for corporations, which were 35.1 billion in 1950, in the third quarter of 1955, were 41.9 billion.

In other words, we have here an increase of national income and an increase of corporate income, but a lowering of farm income.

And as Congressman Patman has pointed out, a very substantial increase in the net interest rate.

What is the effect of these shifts when viewed in connection with the expenditures for international programs?

Mr. NATHAN. Well, I think that the drop in farm income which has been precipitous in and of itself, is quite serious, irrespective of the international program.

By the way table D-8 on page 173 of the President's report brings this page 3 of the Economic Indicators up to date through the fourth quarter—page 173 of the table D-8 brings it right through the fourth quarter. We find that the ratio of farm income, from both farm and nonfarm sources, to total national income has dropped almost in half since 1951, from 6 percent, I think, to 3½ percent.

Vice Chairman PATMAN. Have you concluded for the moment?

Senator O'MAHONEY. I was told my time had expired.

Vice Chairman PATMAN. Mr. Talle, I believe, you said you wanted to make a statement for the record.

Representative TALLE. Yes, Mr. Chairman, I would like to make a clarifying statement because at least to one gentleman in the audience I did not make myself clear.

My reference is to your statement, Mr. Nathan, that you found inconsistencies between the Economic Report and the budget message. I did not find them in my reading. And the point of my questioning was this, that, should there be inconsistency between the report and the budget message, then I would expect to find a degree of conservatism in the budget message which might not appear in equal degree at least in the Economic Report.

That is all.

Vice Chairman PATMAN. Without objection we will stand in recess until 2:30 this afternoon, in this room.

(Whereupon, at 12 noon, the committee recessed to reconvene at 2:30 p. m., this day.)

AFTERNOON SESSION

Senator SPARKMAN. Let the committee come to order, please.

I understand that Senator Douglas, our chairman, will be here soon.

Mr. Mills, would you rather that Congressman Curtis continue? Mr. Curtis, you wanted to ask some more questions?

Mr. CURTIS. Thank you, Mr. Chairman.

Having laid some groundwork for a rather general discussion, I hope to get to some more specific items. Before doing so, I want to pick up one thought that Congressman Talle was developing when he referred to whether or not the budget report is inconsistent with the Economic Report.

Essentially I share Congressman Talle's views that they are not inconsistent, that essentially they are two things trying to do different things, and I feel even more strongly that way, serving as I do on the Ways and Means Committee, where we constantly are trying to estimate what revenue yields we are going to get from specific taxes.

I might state that I have been a little bit critical of the way we make those estimates, which are on a very conservative basis, without taking into consideration the fact that there would be growth. I have felt that maybe there is something that we can do in that area.

I think the Economic Report is to reflect trends. In that light, I think your criticism is not well founded.

The differences between the objective of the Treasury Department in preparing the budget and the Council of Economic Advisors accounts for what might be regarded as inconsistencies. I think it comes from that area.

Mr. NATHAN. Yes; I think that is quite true, Congressman Curtis, but it does raise a serious question, I think, for the Congress, with respect to what to do about its tax policies and spending policies.

The administration has come up with proposals for increased spending in certain areas in 1956–57, the new fiscal year. The question as to whether there should be appropriations in the measure requested by the administration, or more, or less, should depend in some degree on what can be anticipated in terms of revenue, and then whether there is a surplus, large or small, or a deficit, large or small, and how that affects the economy. It all should be wrapped together.

Representative CURTIS. Well, in one sense, perhaps, the present statement that if I think it is the President, or Secretary Humphrey, could take a look at the way this revenue comes in around April, that would be an indication of what might be the policy, for instance, on this question of tax reduction. I might say I tend to share your views, though, even if it were increased I would like to see more applied on the Federal debt.

Mr. NATHAN. If the business situation continues favorable, I think it would be unfortunate to cut taxes and just add more demand at what would appear then to be a high level of employment. It would generate inflation more than production.

Representative CURTIS. In the area of taxes, though, I always hasten to add I think we have tended too much to pay attention to tax rates, and assume that by reducing a rate, we thereby are going to reduce the amount of tax take.

In my judgment, many of our taxes have actually gotten down to the point of diminishing returns, and are creating some certain economic situations that result in a lessening of the take.

Certainly, from the standpoint of the revenue, we realize it is taken from the private economy.

Mr. NATHAN. Yes.

Representative CURTIS. Now, one specific question on the report. I was wondering, in my own mind, whether or not this shortage that we have experienced in steel, cement, glass, nickel and other metals, and so forth, might not indicate a lack of investment dollars into the increased production that is obviously needed in this area. Do you think there is any such indication?

Mr. NATHAN. Well, I doubt very much whether, Congressman Curtis, the failure of adequate capacity or a comfortable margin of capacity, say, in steel, as an illustration, has been due to a lack of investment capital.

I think the steel industry deserves a strong vote of commendation for the degree to which it has responded to increased demand and has expanded capacity in the last few years, as compared with its attitude 10 or 15 years ago.

I remember in 1940–41, in the early days of mobilization, they resisted expansion of capacity very much, because they just did not have confidence in the future expansion of the country. But now their expansion is quite remarkable.

One of the reasons why I think their capacity has lagged behind demand, Congressman Curtis, has been the fact that our prosperity in the last year and a half has been tremendously concentrated in the durable goods field; far more than most people anticipated. There is no evidence of a shortage of investment capital, because it seems that investment capital has been sizable with undistributed earnings and easy market flotations.

Representative CURTIS. Yes. With, for instance, cement or glass even more, where both automotive industry and the housing industry have tended to utilize them. On the other hand, take cement, there is a type of thing that lends itself to new corporation endeavor.

Mr. NATHAN. Yes.

Representative CURTIS. Small corporations in areas would form little cement companies if there were a favorable atmosphere for capital formation.

I raise the point because it is always a question of where our emphasis needs to be, on traditional consumption or demand, that is, or in the area of additional capitalization. And I think either one can get out of balance.

Mr. NATHAN. Yes. Congressman Curtis, I think you are hitting on a very important point there. What is it that really motivates investment?

Cement, I think, is a very intersting area. My firm just did an analysis of that industry for a client of ours in the investment field. We found that for many years the cement industry was running at around 50 percent of capacity, all during the thirties and most of the forties; demand required operations around 50 percent of capacity.

It wasn't really until, as I remember, the early fifties when production began to reach around 75 percent or more of capacity. Recently the rate of operations has been very high and the industry responded this year and last year and their plans point toward a very substantial further increase in capacity.

Their early failure to increase was not due to a lack of investment capital, but to a lack of demand for cement. With high demand relative to capacity, they have responded remarkably, and company after company, has increased its investment very substantially.

Representative CURTIS. I have been very, very gratified to see the rate of increase of new corporations in recent years. Incidentally, of course, marketing can create demand, and of course, marketing, if you conduct a big advertising campaign, requires capital formation. So the two things are intermingled.

Now getting on, though, to some earlier comments in regard to the wholesale price index—I see Congressman Patman is not here, so I won't comment on his remarks, but the remarks were made that essentially the reason the wholesale price index didn't go up——

Senator SPARKMAN. He is still here.

Representative CURTIS. Oh, he is. I was just going to say I was surprised that Congressman Patman asked the question in the form that he did, as if it were the decline in agricultural prices that had kept the thing stable. After the questions that were asked yesterday in reference particularly to the table D–36 on page 204, which indicates that there were declines in other areas, although there were increases in some.

For instance, chemical and allied products, there was a decline. Fuel, power, and lighting materials, there was a decline, and in the miscellaneous areas, so it isn't just agriculture that has produced that.

I wonder whether or not the increase, though, getting back to my other question, the increase in manufactured items is part and parcel of this shortage that we are experiencing, because that does tend to increase prices, of course, if there is a greater demand than there are materials.

Mr. NATHAN. I think that shortages generally tend to precipitate price increase. I would say this, Congressman Curtis, that many of these increases, such as in the steel industry, are in areas where the degree of competition leaves much to be desired, where there isn't as vigorous competition as in other areas.

We have seen the steel industry raise prices at times when there has been quite a bit of idle capacity in steel.

Representative CURTIS. But of course some of those, in fact, I would say quite a number of those increases, are a reflection of increased labor costs, too, raising wages.

Mr. NATHAN. Well, it is a long subject, but I have a feeling, Congressman Curtis, that if you analyze the steel companies' statements that come out at the end of this year, we will find that many, many of the price increases were much bigger than was necessary to compensate for wage increases.

Representative CURTIS. Beyond the increases to labor?

Mr. NATHAN. That's right, sir.

Representative CURTIS. But you will agree that it is a factor that will be weighed in that area?

Mr. NATHAN. Yes. Increases in wage rates beyond productivity increases, provide justification for passing this extra wage increase on to users in the form of price increases, provided profits are not inordinately high already.

Representative CURTIS. Those are the details actually. I wish we had the time to get into that, and that is the kind of thing, frankly, that I think our committee ought to be getting into.

Those are the economic facts that I think we should know. That is why I had previously commented that until we do study them, I wish that we didn't get into these political decisions which are involved in these economic facts.

Mr. CHAIRMAN. I have other questions, but I want to keep within our time limit here. All right, I will keep on, then.

One comment which you made, and I was quite interested in, is the fact that you feel that the report indicates there will not be the same amount of residential construction in the next year, and also probably the demand for automobiles has tapered off.

I am wondering, though, if that decline in residential construction is almost solely the result of our limitations, tightening up of credit, rather than demand. It may be in certain areas the demand, but the overall picture looks like the demand for housing is still very strong. Don't you agree?

Mr. NATHAN. I agree. I think that we are still forming in this country some seven or eight hundred thousand new families every year, and if one were to count the average housing unit as having a useful span of 50 years, we would need well over a half a million units a year for replacement. I think the basic demand is there, Congressman. I think you are 100 percent right.

The problem of the credit restrictions is very important, and the recent lengthening of maturities from 25 to 30 years was a good thing.

Representative CURTIS. I agree with you. In fact, I personally don't think we have yet become quite modern, even now, on our housing financing. I think housing financing could become a lot more liberal and still be basically sound financially.

Another reason, from an economic fact, that however well our people are doing, they are going to pay out so much for housing whether it is in terms of rent or paying off on a home, and so that is a factor that will be in the family budget one way or another.

Mr. NATHAN. Yes; and if we made our housing credit terms easier, the same equal outlay for rent or housing can provide a better house with easier terms, and a worse house with more difficult credit terms.

Representative CURTIS. I might say I have the same general approach even on automobile financing, because there we are dealing with transportation, and our society has become more and more dependent upon automobiles for transportation in the economic sense. I mean just the man going to work instead of taking the street railways, at least——

Mr. NATHAN. But the problem with automobiles is, I think, somewhat different. My discussions with some automobile dealers have led me to feel that when the terms have gotten so easy that 6 months after a person buys a car it is worth less than what he still owes on it, then we are likely to have trouble.

Representative CURTIS. Although I must confess I will agree with Congressman Patman in regard to the Government in this area, of imposing restrictions on financing.

If a little finance company wants to risk, on the reputation of the individual citizen in his community, I personally think that there should be some opportunity to do so.

Then, finally, because I think my time is up on this one general subject, I want to pay a little bit of attention too to the housewife, in talking about financing for some of these items like washing machines and dryers and so on. With our increased size in families I might say that I think it has become a practical necessity for the housewives to have many of those things. Otherwise she can't raise 3 or 4 children, because there aren't servants today, even for those who can afford them.

These mechanical aids enable our modern housewife to cope with the economics of her situation, and I don't regard those as luxuries in any sense of the word. With that in mind, again, I think that we ought to think of consumer credit in light of what it is credit for, whether it is performing a real economic function in our society.

Mr. NATHAN. I would like to comment briefly on this subject. I think consumer credit does perform a real function, and while one might say that if the housewife put away $1.50 or $2 a week, in 2 years she would be able to buy the washing machine, it is better for her to be able to have it available and to pay for it over the next year or two.

The problem, I think, that consumer credit poses for us is the pace of change, the rate of increase. What is bought on credit has to be paid for, and if we develop a rate of obligations which requires an overly burdensome rate of payments in the next year or 2 years, difficulties may result. If you build credit up so fast that pretty soon the consumers' creditworthiness, ability to repay, begins to diminish and people have to take the next year or two to catch up, and can't get new credit in the meantime, then, of course, we are inviting disaster.

Representative CURTIS. And you thing that rate has been something that we ought to watch a little bit?

Mr. NATHAN. I think in 1955, Congressman Curtis, credit expansion did run a little too wild in automobiles. Generally, outside of automobiles in 1955, I think the increase in installment credit or the terms were not dangerous.

Senator SPARKMAN. Congressman Bolling.

Representative BOLLING. Mr. Nathan, in your statement, starting at page 4, you discuss the inconsistencies which you feel exist between the Economic Report and the budget message.

In that conection, Mr. Chairman, I would like to have permission to insert a column by Joseph and Stewart Alsop from the Washington Post of January 20.

Senator SPARKMAN. Without objection, that will be made part of the record.

(The article referred to follows:)

[Washington Post, January 20, 1956]

MATTER OF FACT

POLITICS AND THE BUDGET

(By Joseph and Stewart Alsop)

Before President Eisenhower submitted his budget to Congress, Secretary of the Treasury George M. Humphrey and Dr. Arthur Burns, Chairman of the Council of Economic Advisers, had a long running argument about it. The nature of this argument tells a lot about the budget.

Burns took the position that some continuing growth in the economy ought to be assumed. He agreed, as all Government economists do, that the boom will slow down. But the national economy has been expanding steadily since the war, and Burns argued that some continued expansion in the level of the national income and the level of corporate profits must be allowed for.

Humphrey, on the other hand, took the exceedingly conservative view that the budget should be based approximately on the current level of personal income and business profits. In the end, Humphrey had his way. The budget for fiscal 1957—which begins in July of this year—is based on the assumption that business profits in fiscal 1957 will remain at the 1955 level of $43 billion. It is also assumed that the national income will be at the level of $312 billion, which is about what it is today.

The importance of the Burns-Humphrey debate, which was quite amicable throughout, can be easily illustrated. Suppose that the national income grows by 4 percent next year, which has been about the postwar average. Call the growth $12 billion.

The Treasury's take on that $12 billion, judging from past experience, will be in the neighborhood of $3 billion to $4 billion, plenty to permit a balanced budget, some reduction of the national debt, and a nice, sweet tax reduction as well. All these pleasant things will be possible, moreover, without any increase in business profits, which ordinarily increase along with the national income.

The other side of the coin is less happy. Virtually all economists, including the President's advisers, have accepted the thesis that the national economy has to continue to grow to take care of increases in the labor force and labor productivity. Thus, if Humphrey is right, and the national income remains at today's level, there is certain to be a sharp increase in unemployment. In short, the Humphrey budget in effect assumes a mild slump.

Secretary of the Treasury Humphrey is a conservative businessman, and conservative businessmen tend to take a cautious view of the economic future. But the political aspects of the cautious assumptions on which the budget is based are also rather obvious.

In the first place, the budget neatly boxes in the Democrats. The Humphrey budget, because it is in very close balance, allows no room for a tax cut. If the Democrats vote a tax cut now—at least a tax cut big enough for the voters to feel in their pockets—they will be accused of fiscal irresponsibility. This is a charge to which the largely conservative Democratic leadership in both Houses in peculiarly sensitive.

By the same token, the Democrats are effectively barred from voting any substantial increase in expenditures. The administration has achieved the prospect of a balanced budget by cuts in defense and security expenditures. The Humphrey budget, for example, is actually more than $4 billion higher in the nondefense category than the last Truman budget, while it is $17 billion lower in the defense and national security category.

Because the administration has shrewdly swiped so much of their program, the Democrats are at a loss for a winning issue on the domestic front. They are obviously inclined to make the defense cuts a major issue. But it is hardly possible to make defense cuts a major issue without demanding increased defense expenditures. And here again the Democrats are impeded by the charge of fiscal irresponsibility—plus, of course, the President's reputation as a military man.

Finally, if the boom continues to hum along, next summer Secretary Humphrey can take a second look at the economic future. He can then announce proudly that, on second thought, a balanced budget, debt reduction, and a nice tax cut will all be possible—and only few months before the presidental election. All this is enough to suggest why a good many Democrats darkly suspect that the cautious assumptions on which the Humphrey budget is based derived as much from political astuteness as economic conservatism.

Representative BOLLING. I missed, as you may remember, the latter part of your statement, and I wondered if you would enlarge upon the last sentences of that section of your statement which say:

The inconsistencies between the Economic Report and the budget message are not merely a technical matter. They have major policy ramifications.

Mr. NATHAN. Congressman Bolling, I think it has important policy ramifications because it is clear that the fiscal policy which the Government adopts, that is, whether it increases revenue or decreases revenue, whether it increases expenditures or decreases expenditures and makes changes in the relationship between revenue and expenditure, will, we all agree, have important effects on the level of economic activity in the country.

If we have a balanced cash budget in 1 year, it means that the Government is taking no more from the public than it is putting into public hands. The Government is exerting a neutral impact, overlooking, for the moment, the fact that the very level of Government spending has some economic significance.

Now, if in the next year the Government were to change from a balanced cash budget to a cash deficit of 2 or 3 billion dollars, that means in the second year the Government is then providing a stimulus or giving an expansionary impetus to the economy of 2 to 3 billions, compared with the previous year.

Or, if the Government moves from a deficit to a surplus, that shift has an important effect in terms of curtailing private buying power. Like the ripples from dropping a stone in the water, these shifts have ramifications throughout the economy.

Now, let us see what these ramifications are in this year's budget and Economic Report. The budget message implies—rather, assumes—that the level of personal income in 1956 will be where it was in the last quarter of 1955, seasonally adjusted, at $312 billion, and the corporate profits in 1956 will be 43.5 billion, whereas they were at a 44½ billion level in the second half of 1955. These figures really imply a leveling off in economic activity.

Now, I think it is no exaggeration to say that, if we end the year 1956 with the same level of consumer spending and the save level, roughly, of corporate profits that we had in the latter quarter of 1955, we will have at least 4 million unemployed in the last quarter of 1956.

This can be anticipated on the basis of increased productivity and increased labor force. If the assumptions underlying the budget are correct, then I think the Economic Report should have come to Congress with a proposed fiscal policy designed to overcome such a period of leveling off or period of rising unemployment.

I feel that, in the Economic Report, the President was obligated to come to the Congress and say, "For 1956, gentlemen, I believe you are going to have to adopt some kind of program that is going to help lift this economy, because we don't see further growth." Instead the Economic Report anticipates further growth.

Now, that is one major implication for your gentlemen to consider this year in your tax policy and in your spending policy. Now let's look at the other side of the picture.

If the budget message really were conservative because it wanted to be conservative, and let us say that next year we do have full employment and therefore the optimism of the Economic Report is justified, I think that instead of a $2.4 billion cash surplus there will be about a $5 billion cash surplus for fiscal year 1956-57.

Now, that poses a question, which requires us to go back to the President for clarification. The President or the Council of Economic Advisers should be asked: "You are optimistic on 1956. Are you optimistic on the basis of a $5 billion Government cash surplus? Do you feel that the private spending, the private demand in the economy, is strong enough to carry us to full employment if the Government is taking 5 billion more from the public than it is disbursing to the public?"

I think it would be wonderful if we had that kind of impetus to private spending in the economy in 1956, so we could have a $5 billion cash surplus and reduce our debt. That would be ideal, but I have doubts whether we have that kind of present power in private demand, and I think that it is proper that we ask whether there is such a basis for optimism in the economic outlook.

As I see it, the two reports must fit together. The major implications to the Congress, Congressman Bolling, are that you folks will have to concern yourselves when it comes down to deciding on these spending measures that President Eisenhower has suggested, and on other expenditures, and on the matter of taxes, whether private demand will require governmental expansionary or contractionary fiscal impacts?

Representative BOLLING. If we were to find that as the months passed we were, in fact, headed for a much more substantial surplus than was projected in the budget message, what, then, would be your opinion of what Congress should do?

Should this lead to a tax cut, should it lead to a greater expenditure for services which the report itself says have been accumulating deficiencies over the years, or a combination of the two, or other things?

Mr. NATHAN. Well, I would say, Congressman Bolling, that if we are moving along at a fast clip in the spring toward full employment, then I think the Government should certainly not cut taxes.

I think that some of these public services ought to be expanded, no matter what the fiscal implications are. I think it is scandalous that we don't have enough schools. I would hold back on the school program or highway or health, even if I had to raise taxes. But I would put those first.

But if you are running along at a high pace and you have a bigger surplus and the basic strength is clear in the economy, I would say we should not cut taxes. If anything, if we felt it would be sound fiscally, we might even raise taxes and assure these essential public services, but I would not cut taxes.

Representative BOLLING. Thank you.

There is considerable discussion in the report that industrial prices only went up 3½ percent in the last 6 months of 1955, a rate of over a half a percent a month.

How do those recent price increases compare with price trends prior to the session of 1953–54?

Mr. NATHAN. Well, in 1952 we actually had a downward trend in wholesale prices, and that included the industrial prices as well as the farm prices.

In the first half of 1953 we had what I would say was almost imperceptible change in wholesale prices for finished goods, and in the total series. For instance, in 1952, actually the wholesale prices for finished goods were even a little bit below 1951. There was a little bit of a rise in the middle of 1952.

The concern which led to the hard money policy at the beginning of 1953, the price concern, certainly did not have as clear and sizable a basis as is prevalent today.

To put it another way, the price increases in the last half of 1955 were far more pronounced than the price rises in 1952 and the first half of 1953. Then we had more nearly full employment and far less inflation than we have had recently.

Representative BOLLING. Now, during that same period, and looking at it only to guide ourselves in the present and the future, we speak often of the big accumulation of needs in such fields as education, highways, health, and so on.

What would have been the economic effect if, in the period when the administration felt justified in pushing for a very substantial tax cut—if, rather than making a substantial tax cut at that time, we had moved in the direction of spending some of that money that went from tax cuts for various needed services, would the effect on the economy have been better or worse, or somewhere in between?

Mr. NATHAN. I think that an expansionary fiscal policy in 1954 was a right one.

I feel, in retrospect—as I said here in my statement, Congressman Bolling—that while the tax cut from the fiscal point of view was right at that time, since it helped to bring about the reversal and helped to bring about the balanced budget that we see in prospect now, we should have given priority to more public services. In view of the President's own statement of these sadly neglected needs in housing, schools, and highways, we should have at that time raised our service expenditures very substantially. The net effect upon the health of the economy would have been better.

Instead of a $7.4 billion tax cut, let's say we had a 6 or 5 billion dollar tax cut, and had taken that extra 1.4 or the extra 2.4 billion and put it into highways and into schools, our economy would be healthier today.

As a matter of fact, we would really have done both, because we had idle resources. I feel, when we now look back at 1954, we clearly see that we made a mistake in not providing more fully for some of these essential public services.

And I think it is because of that mistake 2 years ago, that the President is so right when he uses these words "sadly neglected" and "long accumulated demand" and "the neglects of the past."

Hindsight is always easier than foresight, but I think on the basis of hindsight we would have been better off if we reduced taxes by a smaller amount and spent more on schools and highways.

To put it another way, if I may, with reference to what Congressman Curtis was saying this morning, we cut our defense spending—not tremendously, but we cut it quite a bit. It would have been better if we had put some of that saving, some of those resources that have been going to the military, into some of these neglected services, rather than to have idle resources in 1954.

Representative BOLLING. Thank you.

I understand my time is up, Mr. Chairman.

Senator SPARKMAN. Congressman Mills.

Representative MILLS. I did have in mind asking further with respect to the point that Mr. Bolling has just been discussing, Mr. Nathan.

Do you have any opinion that you could express for the benefit of the committee as to which appears to be the more accurate, on the baisis of our present economic situation, the estimates of the Economic Report of the President or the estimates of the President's budget message?

Mr. NATHAN. Well, let me start out by saying that the favorable projections of the Economic Report can certainly be accomplished.

I have no doubt in my own mind that we can have rising income, rising production, rising employment in 1956.

However, unless we have some further easing of credit facilities for housing, for instance, and unless the expenditures provided for in the President's budget message are enlarged, I have serious doubts whether the year will provide full employment.

I think that we are more likely to have the leveling off that is expected in the budget message, unless we do some things to expand activity.

Representative MILLS. Mr. Nathan, I have had businessmen visiting with me who seem to be a little bit more pessimistic about the situation even than you have indicated you may be.

Just recently I had people talking to me about the problems of television and radio producers. They seem to indicate that warehouses are bulging now with articles for sale in these lines, the retail merchants are pretty well loaded with stock, that there might be some difficulty in maintaining in 1956 the level of production that existed in 1955.

You have indicated that you had conversations with people in the automobile industry, and there appears to be some possibility of some less production of automobiles in 1956 than occurred in 1955. You have indicated that there may be some less construction of new homes in 1956 than in 1955, so I was prompted to ask you a question, which really was this:

Do you feel that the President might have been overly optimistic in his statement of possibilities for the remainder of the calendar year, from the economic point of view?

Mr. NATHAN. Yes, he might well have been. Also I think that there are other elements to be taken into account.

The matter you raise, about disturbing elements, needs thorough consideration. Automobiles, I think, almost certainly are not going to have as good a year as last year; that is almost certain.

Representative MILLS. I did not mention agriculture, which may not have as good a year as it had even last year.

Mr. NATHAN. Yes, it is very doubtful whether it will have a better year. Agricultural income is not going to be a positive factor, the way it looks now.

Certainly automobiles will go down, and I think you are quite right about the durables. On the other hand, if we will loosen up quickly enough on the credit on housing, we can halt this housing decline. I think Congressman Curtis is right. The need and demand is there. It depends on the cost, so to speak, to the individual, and I hope the Government contemplates further action of that nature.

I think that 1956 can be a prosperous year in the nondurables relative to the durable goods, even more so than in 1955. The year 1955 was a phenomenal durable goods year.

As I recall, durable goods account for about a seventh of total consumer expenditures, but of the total consumer outlay increase in 1955 over 1954, they accounted for over 40 percent.

Here is one segment that accounts for one-seventh of consumer spending, which provided about 40 percent in the rise in consumer spending for 1 year.

I think that 1956 can be an improved year in food consumption, in services, textiles, and so forth; but I think there is a need for rising wages and for a shift in the tax burden.

I think the Congress should consider favorably a reduction in taxes at the lower levels and recouping the tax loss from other sources. We should put a tax at the source on dividends and interest. It seems to me it is inappropriate to place a tax at the source on wages and salaries and not a tax at the source on dividends and interest.

I think there are other things we can do to help create the demand at the lower levels to increase demand for soft goods in 1956.

Representative MILLS. Did I understand you correctly? Did you say if the optimism of the President's Economic Report is actually realized that full employment exists in 1956, that on the basis of existing tax rates and projected expenditures for fiscal 1957, we might have as much as a $5 billion surplus?

Mr. NATHAN. Cash surplus; yes, sir.

Representative MILLS. Cash surplus?

Mr. NATHAN. Yes, sir.

Representative MILLS. In order to have a cash surplus of $5 billion from our situation in 1956, would it not be necessary for us to enjoy an even higher degree of boom or prosperity than that predicted by the President in his Economic Report?

Coming from our level in 1956 fiscal year up to a $5 billion cash surplus would seem to me to indicate the necessity for even greater activity than that described by the President. You would almost have to have inflation, I take it.

Mr. NATHAN. The President contemplates a cash surplus in the 1956 fiscal year budget of $2.4 billion cash and the same for fiscal 1957.

Representative MILLS. I know. This is $5 billion, doubling it.

Mr. NATHAN. That's right. I think the budget message assumes that in 1956 there will be a $312 billion consumer income level.

For full employment in 1956 we will need at least a $320 billion consumer income. Then paralleling that with the higher other incomes, profits and so forth, I think that we would have an extra 2.5 billion cash surplus.

The big question is can we live with a 5 billion cash surplus. Will there be enough private demand so that when the Government takes away $5 billion, there will still be enough for full employment. I think that is the heart of the question that is posed for us.

Representative MILLS. I understand this is an important question, but I was thinking in terms of the accuracy or inaccuracy of one of these messages.

We are in the position of having to make decisions legislatively on the basis of one or the other, and you can understand the concern that some of us have over the apparent discrepancies between the budget message and the economic message.

Frankly, I wanted your opinion, and you have given it to me as to what you thought might be more accurate. Thank you, Mr. Chairman.

Senator SPARKMAN. Senator O'Mahoney. Senator, I am sure you know we are limited to 10 minutes.

Senator O'MAHONEY. I was here this morning and I took up more time than I should have done without getting the answers. I didn't realize that we were limiting our question periods.

I have been interested in following the questions that are being raised by other members, together with taking a speedy glance at Mr. Nathan's report and the statistics available to us in the President's report and in Economic Indicators.

Now, this comparison of the budget, the legislative budget for the program which is being laid before us by the President with the actual program that the Congress faces, I think, requires a great deal of study, and I am inclined to admit that I have not yet made it. I do know that the budget, for example, does not contain any estimate of income for the vast expansion of highway construction which is proposed.

Mr. NATHAN. Neither income nor expenditures for this program.

Senator O'MAHONEY. Neither income nor expenditures?

Mr. NATHAN. That's right.

Senator O'MAHONEY. Now, that highway program is wanted generally by Congress and by the people and by the industry, particularly the automobile industry which has always found the highway program of the Federal Government in combination with the States as being highly desirable.

Sometimes we are prone to overlook the fact that the highway program has been generally in terms of 50–50 operation between the States and the Federal Government. But the new highway program which has been presented to us is much more largely a Federal plan for expenditures.

The original plan for obtaining revenue through the sale of bonds, which were not to be called a Federal debt because they would be sold by a Federal corporation created by the law, seems to have disappeared.

I notice also that the income of the Government, as set forth in the budget assumes that the Congress will pass the postal rate increase, providing that first-class mail shall travel at 4 cents, instead of at 3 cents. Have you made any comparison of these budget expenditures, and these demands which are implicit in everything that appears in the messages? Take the message on education.

Mr. NATHAN. Actually, Senator O'Mahoney, most of the items proposed in the Economic Report are in the budget, though not all of them. The highway program, as you point out, Senator, is not in. I think it is probably left out on the assumption that whatever is appropriated for expenditure will be collected by new taxes.

If the Government does not enact the higher postage rate, which is over 300 million, then of course revenues will be lowered by that amount. That is included as revenue now.

It looks to me as though the appropriations for agriculture are too low relative to what the President has proposed. I think you will have a chance to discuss that item with Dr. Colm, who is looking into the budget thoroughly and will testify before this committee 2 days hence.

Some of the provisions in the Economic Report would seem to call for bigger spending than seems to appear in the budget. That can only be determined after careful study.

To give you an illustration, let us look at the approach to this distressed area problem, which I regard as a very good idea. I think the Government is trying to undertake, in a rather broad way, rather than interfering with localities, to help those that have been stranded, like coal areas and some other specific areas of the country.

That proposal calls for a $50 million a year program ultimately, but there is only $10 million for this work in the budget in 1957. That will probably prove to be about right. It is going to be difficult to get a program like that under way quickly and efficiently. But I suspect, Senator O'Mahoney, that there are some programs that are not fully reflected in the budget. I haven't been able to study them in detail yet.

Senator O'MAHONEY. Well, there is one thing that is perfectly apparent through the budget message. Congressman Mills was calling attention this morning to the statements of past policy by the administration, on page 8:

> The administration has sought, in cooperation with the Congress, to discharge its responsibility through a series of closely related policies.

I don't want to go through that again, because it has already been covered, but I am not sure that education is covered in that list, is it?

Mr. NATHAN. Well, as the fourth item, the list states:

> by restricting public expenditures and yet adding to the country's defensive strength and its stock of public assets including highways, hospitals and educational facilities.

Senator O'MAHONEY (reading):

> Restricting public expenditures and yet adding to the country's defensive strength and its stockpile of public assets, especially highways, hospitals, and educational facilities.

That is the item I was looking for. Now, that was looking backward. We are looking forward. Are we going to be able to get these highways, these hospitals, and these educational facilities without making expenditures that are not contemplated in the budget as it is now written?

Mr. NATHAN. We won't be able to get the highways. The education we won't get in fiscal 1957 with these expenditures, Senator O'Mahoney. The program for education calls for $250 million of Federal funds a year. The budget has only 150 million in fiscal 1957.

Now, again I assume that depends on when the bill is enacted. If it were enacted immediately and action could be initiated rapidly, I think $150 million might not be enough in fiscal 1957. But if the bill did not get enacted until, let us say, the early summer or late spring, maybe the provision of 150 million is right.

But the highways certainly are not provided for, that is clear. I haven't had a chance to look at the hospital provisions in the budget, but in the health message sent to the Congress this week, the President calls for $50 million a year for medical educational facilities. I am not sure that $50 million is in the budget.

Senator O'MAHONEY. It is perfectly obvious that public expenditures are being demanded for activites which cannot be handled apparently by the so-called private-enterprise system.

No. 1 among these, of course, is the highways. No. 2 is the building of additional hospitals and additional schools, and No. 3 would involve the national defense, and all of these other things which must be done by the Government, if they are to be done at all.

Mr. NATHAN. That's correct.

Senator O'MAHONEY. Is the budget as you see it now so graphic that it can lead us as Members of Congress to believe that we can possibly adopt these programs with the public revenue which is estimated in the budget?

Mr. NATHAN. From a cash point of view I think you can. I think the Congress can accept all these proposals of the administration, and even in more adequate measure than they are proposed, and even with a conservative income estimate, there will be the cash to cover all these outlays.

Senator O'MAHONEY. I know somebody is going to read your testimony, so I want you now to explain the difference between the cash budget and the actual budget. I think that cannot be explained too often.

Mr. NATHAN. Well, the biggest difference is in the trust accounts such as social security.

In the administrative budget those figures do not appear at all because it is the Government taking in the money, putting it in a trust account, and when a person reaches retirement age, he takes the money out.

In these early stages of our social-security program, far more is being put into reserves than is taken out by those that are retiring. There are also some other trust funds. That is the biggest single item that distinguishes betwen the cash budget and the administrative budget, which is a difference of about $2 billion.

Senator O'MAHONEY. Yes. I want the record to show that my own experience in the past as a member of the Appropriations Committee, is when the committee cuts the Federal contribution for retirement or social security, as has been done, it is only postponing the tax which must be made to pay the retirements and pay the social security when they become due, or else not paying the retirement or not paying the security.

Mr. NATHAN. There is no question that if the necessary appropriation to a trust fund is not made and that if there is an obligation from that fund, then it must be appropriated at a later date, or else there will be a default on the obligation.

Senator O'MAHONEY. Well, it is true, is it not, that expenditures are constantly being made from trust funds?

Mr. NATHAN. Oh, they are. It so happens they are less now than the receipts, but presumably later they will be increased relative to the receipts.

Senator O'MAHONEY. When I was practicing law, my office was in the First National Bank Building, and it was a matter of amusement to all of the tenants in the building, some of them lawyers and some of them doctors and some of them bankers, that there was a lady whose business was to cook for various families in the town when they were giving parties, and she was saving her money. She had a savings account in the First National Bank.

Every 3 months regularly she would come down with her passbook, withdraw her money in cash, go into a booth, count it, and then take it back and deposit it again.

The bank never cut off her interest, though the rules of the bank have required that to be done. But she wanted to know that her money was right there in the bank all the time, and that nobody was trifling with it.

Now the fact of the matter is that with our trust funds, which are called trust funds because they are laid aside for the benefit of the beneficiary, have been used for the payment of current expenses.

Mr. NATHAN. The trust funds are used to buy Government bonds so that Government can make expenditures for current and capital purposes.

Senator O'MAHONEY. And the Government I O U goes in; is that not so?

Mr. NATHAN. That's correct.

Senator O'MAHONEY. Doesn't that have to be taken into consideration?

Mr. NATHAN. It actually is taken into consideration in the cash budget.

Senator O'MAHONEY. In what way?

Mr. NATHAN. Not in the administrative budget. You see, they are counted in the cash budget, because when we compute a cash budget, we in essence count every cent that goes from inside this whole Government complex to outside of the complex and also what comes from the public into the hands of the entire Government complex, including trust funds.

What happens between the trust fund and the administration and moving of I O U's and the appropriations are not counted in this cash budget. Only what is paid to the Government as a total, including the trust funds, and what is paid out of it, so that what happens within Government accounts is ignored.

Senator SPARKMAN. I want to ask just one question in passing, and then I shall yield to Congressman Curtis.

In answer to questions by several of those who interrogated you, you pointed out that there are certain items carried in the recommendations of the President in his economic report for which there is not adequate provision in the budget recommendations.

I realize that you have referred to general items. Frankly, I was rather impressed when I looked at the four pages of recommendations, 99 to 102, where so many different items are carried. I was just wondering if anyone had though to go through to see the extent to which certain individual items may or may not be adequately covered in the budget recommendations. Have you done that?

Mr. NATHAN. I have studied these, Senator Sparkman, very carefully. I would say first of all that I don't believe the Government can do everything for the people. I agree with the report that the free enterprise and initiative of the individual is very important. But with that clearly understood, I still had a feeling that many of these recommendations were a little bit on the pious hopeful side and not substantive, and that there really weren't very many substantive provisions.

For instance, let us take the housing matter. I feel that 35,000 units of public housing a year is not enough, not that I believe that the Government should undertake to provide every person a low-rent house. I think we have a problem though, with our 10 million families with under $2,000 a year income.

I notice that the District of Columbia has a waiting list, as I recall, of an 8-year equivalent of applicants under their present public housing construction. If we are going to get slum clearance, we have got to have a larger program than is proposed. This is what I would call inadequate.

I think that likewise if you will read section 8–A, "Make Federal assistance to a community for public housing contingent on its adoption of a workable program of slum prevention and elimination," you will agree that is not a program. That is saying that we shouldn't give any assistance for public housing to any community unless they are undertaking slum clearance.

I agree with that, and I think it is a very good point, but it is a recommendation of a sort of philosophy which is fine, but there is no provision for any substantial activity in the slum clearance area on an increasing scale implied by such a philosophy, even though we see the words "slum clearance, slum prevention and elimination."

Also, for instance, we find in the report a great concern expressed about disabilities and about older people who aren't covered by social security, people who are really in the full sense of the word unemployable and are not therefore sharing in our prosperity. But there is nothing about increasing public assistance to these people made possible by the high productivity in the economy. Despite far higher living standards, there is no provision to take care of increased public assistance needs.

Senator SPARKMAN. I suppose it is safe to assume, However, that if we followed the President's recommendations on these various items and enacted those items into law, certainly Congress would make some provision. That is what I had in mind.

Mr. NATHAN. Oh, yes; some progress.

Senator SPARKMAN. That is what I had in mind when I asked you the question. If we assume—and I will admit that it is probably a drastic assumption—that Congress would enact every single one of these items, I wonder what the impact on the budget would be, Surely Congress would implement the legislation with some kind of adequate provision for funds.

Mr. NATHAN. Then I think there would be some increase in expenditures, maybe a billion, maybe even 2 billion for next year. What I would call a reasonable minimum provision for appropriations for all these things that are listed in the report and translating them into tangibles, we might need another billion, maybe a little more in the 1957 budget, maybe even 2 billion.

Senator SPARKMAN. Now, in responding to Congressman Mills, the matter came up about the possibility of $5 billion surplus that you thought could accrue in fiscal 1957.

You said the question then would be whether or not it would be safe to take that extra amount from the people. Of course, if that were taken and applied only to the national debt, it would serve as a counteraction; would it not?

Mr. NATHAN. Contractionary; yes. But if it were taken, say, in increased schools, increased highways, increased other provisions, it wouldn't have that adverse effect.

In other words, then you wouldn't have the cash surplus of that magnitude.

Senator SPARKMAN. Except so far as stepped-up employment is concerned.

Mr. NATHAN. Yes; most of these activities have the further result of stepping up employment.

Senator SPARKMAN. Congressman Curtis, we are back to you.

Representative CURTIS. Thank you. I hope I can get my questions in in these last 10 minutes. I am going to try.

I want to pick up this subject of agriculture and your feeling that it will probably still remain depressed.

The main comments I want to make are along the line that I regret that there has not been more basic economic discussion of the agricultural problems, a little more light on the subject, and a little less sound. I think everyone agrees that our agricultural population began declining around 1776, and is continuing to decline as this Nation industrializes. It looks like it is going to continue to decline.

Wouldn't you say that that is a fair observation, economically?

Mr. NATHAN. I think that it is almost certain to happen. There will be a continued farm-to-city migration.

Representative CURTIS. Well, actually, even though the farm income is lessened, it is going to remain divided up among fewer and fewer people, so our basic problem, of course, economically is the per capita farm income.

Mr. NATHAN. Yes. But of course per capita farm income has gone down quite a bit in the last few years.

Representative CURTIS. Yes, but then you have another economic factor there that I regret to say seems to be ignored constantly. It is to me one of the most interesting of all factors. It is the percentage of earnings that our farmers now derive from nonagricultural sources, which is an indication that factories are moving out into the rural areas and the fact the farmer works in the factory or his wife works in the cannery. I think that percentage now is well over 30 percent of the farmer's income today comes from nonagricultural sources. That factor has tended to result in, at least there was a period this year when actually the per capita farm income, his actual income, was going up.

I think toward the end of the year that took a little dip again, but the net result as far as the individual farmer is concerned is that the per capita farmer income has not been increasing to the extent that the industrial income has.

But then I would further observe that if you take a long-range view that the per capita farmer income increased tremendously, way above industrial per capita income in the war period and in the Korean war, which leaves him not so far away in comparison in the long-range trend.

Mr. NATHAN. I happen to have the figures in front of me, Congressman Curtis. In 1955 the income of the farm population from non-agricultural sources was 32.2 percent of the total farmers' income.

Representative CURTIS. Yes.

Mr. NATHAN. The total farmers' income.

Representative CURTIS. Yes.

Mr. NATHAN. Now, what you said later is quite right. In 1940, just before World War II, the per capita income of the farm population from all sources, agriculture and nonagriculture, was 37½ percent of the per capita income of the nonfarm population.

Then during the war and right after, this ratio increased sizably. In 1951 the per capita income of the farm population was 55 percent of the average for the nonfarm population.

Now it has slipped back to 43 percent. It is still above the 37½ prewar percent, but it is well below the 55 percent in 1951, so of course the share has slipped badly in the last 4 years, and that is where all the discussion, of course, arises.

Representative CURTIS. That, to me, is the way to approach this farm problem, plus, of course, the situation that we will get into details on when we discuss this with the agricultural experts, the effect of our surpluses on the general economy of the farmer.

Now I was interested in the conclusions that you drew on page 10 of your paper, which I thought were not in accord with the conclusions that this committee in its study on low-income characteristics of the low-income population and the Federal programs made. This is the study, the staff report of the subcommittee of this committee on low-income families.

At the bottom of page 10 you make the statement:

> To the degree that our income distribution has tended to become more concentrated, our future growth and stability are jeopardized.

So, the chart of page 6 of this report attempts to show the number of families and individuals, and then families in 1948 and 1954 by their income from under $1,000, $1,000 to $2,000, $2,000 to $3,000, $3,000 to $5,000, and $5,000 and over, along with percentages, and to me it shows just the opposite of what your statement is.

It shows a very wonderful, I would say, spreading out of our income. There is also on page 2, Mr. Nathan, a table that shows the shifting over.

Mr. NATHAN. I wish we had these for every year, Congressman Curtis. What I said here was that dependable data on income distribution can't be kept up to date. Conclusive evidence isn't available, but it is probable that the concentration has increased in the last couple of years.

The reason why I think it has increased in the last couple of years, Congressman Curtis, is because, as I say, I think the incidence of the 1954 tax cut shifted our distribution a little bit.

But I think it did render a little higher benefit to the higher-income groups than to the lower-income groups; both the across-the-board 10-percent tax cut, and the dividend credit, too.

Representative CURTIS. The dividend credit in my judgment—of course, this gets into a long argument—actually took more money out of the hands of the investing population. I just recently directed a letter to my colleague on the Ways and Means Committee to try to demonstrate that point as best I can. The purpose of the dividend credit, at least as far as I was concerned, and the Ways and Means Committee members were concerned, was to try to shift corporate investment from borrowings to equities; and if we did produce the shift, we were going to get a greater tax take from the investing public. Because we would get, if the corporation then declared dividends instead of retaining it as earnings, we would get the individual tax on it. Likewise if the corporation shifted from a bonded indebtedness to a stock, we would get the 52-percent corporate rate on the earnings of that capital; interest on bonds and bank borrowings, of course, are deducted from the 52-percent corporate tax.

I didn't want to get into an argument other than to point out that there are those who differ with your view as to what the economic effect has been on that.

Now, if it had not been that, I would agree that possibly there might be an indication of a concentration in the past year or so.

Mr. NATHAN. Actually, though, let's assume our conclusion is right, Congressman Curtis, that it helped from the investment side. Still a person with, say, $50,000 in dividends after the 1954 tax, paid less tax than before.

Representative CURTIS. No; I am talking of the investing public.

Mr. NATHAN. The individual.

Representative CURTIS. You might be able to tell me that the fellow who invested in a bond, those who invested in bonds as opposed to stock, there might have been a shift in the tax burden there, but I am taking the investing public as a whole.

Mr. NATHAN. As a whole, yes.

Representative CURTIS. I think it is an indication, at any rate, it can't be proven, but I think there are indicators that indicate we actually took more money from the investing public in the way of taxes as the result of that tax cut.

Mr. NATHAN. Than you would have without it.

Representative CURTIS. Than lost from the dividend credit. But the main thing I wanted to point out was to call your attention to these charts and the fact it looks like, to me, we have got a very favorable trend in spreading family income.

On one point I agree with you; I think we ought to have some statistics on this area each year, to sort of watch things. I think it is a very important factor.

Senator SPARKMAN. May I interject just one thought there, too, Congressman Curtis, with reference to the chart? I think the real purpose was to show that while generally the incomes have been moving up, yet for this great group of low-income families there had not been a material change.

Representative CURTIS. That is true, Senator, but the percentage has decreased, I believe, because our population has increased.

Senator SPARKMAN. No; as I recall, the percentage was practically the same.

Representative CURTIS. You are right; the percentage is practically the same.

Senator SPARKMAN. In other words, from 5,000 up they were having a steady increase, but for the 2,000 and down it had virtually remained unchanged. I think that was the purpose of the chart.

Representative CURTIS. The one under 2,000 actually increased by 2 percent; the 2,000 to 3,000 decreased by 5 percent; the 3,000 to 5,000 increased by 1 percent; and the 5,000 and over increased by 8 percent. But it shows a lesser concentration, I think you will agree.

Mr. NATHAN. That can be argued, Congressman Curtis. An 8-percent jump for the 5,000 and over group reflects an increasing concentration. I think what you need is the income figures along with it.

In other words, what we need to know is how much of a total income, say in 1955, did the highest 1 percent of the recipients get; how much did the highest 5 percent get; how much did the highest 10 percent get, and so forth. You see, we have got to put alongside the distribution of families by the size of income, the distribution of the amount of income, and that is hard to keep up to date.

Representative CURTIS. I commented to the staff at the time that I wish we had a further breakdown of the 5,000 and over. We need a lot of information.

Mr. NATHAN. Yes.

Senator SPARKMAN. I agree with you, but, as I was saying, what we were trying to show was that the very lowest group was being left almost stationary, while the others were pulling away from it.

Mr. NATHAN. Yes.

Senator SPARKMAN. Congressman Bolling——

By the way, Senator O'Mahoney, can you stay here?

Senator O'MAHONEY. I have a date at 4:30. I can certainly stay until 4:15.

Senator SPARKMAN. We will certainly be through before then. If I may turn it over to you, I will certainly appreciate it.

Senator O'MAHONEY. Congressman Bolling.

Representative BOLLING. This is not only an economic question, but one in which I have a personal vested interest.

Back in 1952, when the House and Senate both eliminated the standby credit controls pertaining to regulation W, I found myself in a very awkward position in the Committee on Banking and Currency in the House, being the only person who voted to continue that authority.

I was very much interested, therefore, to see the President's recommendation in the Economic Report. I was particularly interested in your last sentence on that subject, indicating that you agree this should be given serious consideration, and that it may well be a valuable instrument for maintaining economic stability in the future.

I would like you to discuss and expand on that, and indicate, perhaps in terms of the past, how it might be used as a tool.

Mr. NATHAN. Well, I feel that installment credit as a vehicle and an instrument, should be used or should be available primarily for the purpose that I believe Congressman Curtis suggested before, to make available items for which the individual doesn't have the cash to pay at one time, because they call for rather sizable expenditures.

On the other hand, I think that in our society we have historically tended to move in extremes. When business is rising and everyone is optimistic and enthusiastic, the businessman is inclined to loosen his credit standards rather than tighten them, and the consumer, in the exuberance of rising income, is inclined to obligate himself for more debt in order to push his standard of living up fast.

We have a tendency, therefore, for a very accelerated increase in credit. That rise in the debt of the individual may be faster than his underlying rise in income can support. In the next year or the 2 years after that rush of purchasing on credit, he finds that he can't buy any more on credit and he is required to begin to pay back the obligation.

Then you tend to depress demand at that time, and you tend to accentuate a downturn, so that installment credit if issued very liberally in the rising period, tends to give a boost and an impetus to an expansionary or even an inflationary situation, whereas in the downward period the consumer is trying to pay back, the retailers are trying to collect their money, and they won't give new credit, so it all tends to depress and push down the business situation further.

I feel that in a period like 1955, for instance, it would have been well if we had limited the terms of payments on automobiles, let us say, to 24 or maybe even 30 months. In 1955 we really borrowed automobile sales from 1956 as a result of the very substantial automobile credit.

I think we might have been better off with 7 million cars in 1955 and 7 million in 1956 than 8 million in 1955 and maybe only 6 million, I don't know, or 6½ million or 5½ million, or less or more, in 1956.

So I believe that, without trying to interfere with a decision of the individual businessman or the consumer, we can state that beyond a certain point we regard these kinds of relationships as unsound because they do tend to create economic excesses.

And I would say that if we don't have enough demand without those kinds of rather precarious credit relationships, then we ought to see to it that we have higher wages to try to assure a level of income commensurate with our level of production.

Prosperity ought to be based on the ability of consumers and businesses to buy the goods that we produce at full employment on a sustained basis, and not on a temporary, precarious basis.

Representative BOLLING. In answer to an earlier question, I think from Congressman Curtis, you said something to the effect that you did not believe it was sound, say, in automobile credit, for a person to be in a situation, after the car he bought on credit was 6 months old, of owing more than the car was worth.

Shifting from that over to the field of housing, doesn't the same principle apply very clearly to credit in the field of residential construction?

Mr. NATHAN. Definitely.

I think that while it is incumbent on the country in its sense of obligation to veterans to provide assistance in the adjustment of veterans to the civilian economy when they leave the Armed Forces, the idea of continuing extra benefits, year in and year out, way after they have made their adjustment, does not make too much sense from an economic-point of view. We may run into real trouble in our veterans housing provisions.

I would much rather have us require some downpayment from veterans and then give them longer terms, maybe a 40-year mortgage. After all, most houses are good for 40 or 50 years.

We ought to set our credit terms so that the probabilities are that it is not advantageous to a person to buy property and then dump it a year or two later because it isn't worth as much as the buyer owes.

Representative BOLLING. Isn't it also possible that if credit, say on housing, is extremely loose or if the approach to the expansion of housing demand is making credit extremely loose, that in the long term we might, in effect, by those extremely loose credit possibilities, be actually subsidizing housing?

Mr. NATHAN. Yes; we might.

I don't see that it is a bad thing if it is done, for instance, through lower interest rates. I would much rather see us, to give an illustration, say to the veterans, "If you want a house, you must pay $1,000 or $500 or $1,200 or $1,500, a reasonable downpayment." Then to help home buyers, by lengthening the period of mortgage maturity and keeping low interest rates, we would be on better grounds than we are with no downpayment.

I am not sure how much help is necessary, but such measures, rather than no downpayment are useful even if the low interest rates are in part subsidized.

Representative BOLLING. Would it be your opinion that it would be better to have a subsidy and pay the subsidy in the beginning, rather than have a hidden subsidy which you pay in the end through terms that are so loose that the house, perhaps, has no value before the end of the mortgage?

Mr. NATHAN. It would be better to do it right at the beginning.

Representative BOLLING. Thank you.

That is all, Mr. Chairman.

Senator O'MAHONEY. Congressman Curtis.

Representative CURTIS. I am going to try and finish this time.

Congressman Bolling has raised some points on this housing that I can't neglect; particularly, being a liberal, I have to speak up against these conservative viewpoints.

Actually, to me, one of the most intriguing things in home financing is the fact that it is the direct opposite of automobiles to this extent: You drive an automobile off the dealer's floor and it decreases in value considerably, just the mere driving it off.

A new house, when it becomes a home, actually increases in value, and I think you will find that is true all over the nation.

I know in certain subdivisions in St. Louis the old homes, the home that is 2 years old, sells for more than the new homes in the same subdivision. And the new homes are actually a little bit improved, simply because, for some reason or other, a house that has been lived in, probably the people have improved it some, but mainly, the house that has been lived in is not going to have any latent defects. So you have just the opposite situation to an automobile.

And I think the actualities of the situation will show that in home lending, at any rate, the item is increased in value rather than decreased.

Mr. NATHAN. I may say I don't know about the general application there, but I think in Washington it has been different. I know in our neighborsood, where we moved into a new house 7 years ago, the houses in that neighborhood that have turned over, in every single instance sold for two to three thousand dollars less than the original payment. This happened even though new houses are being built at higher costs in the neighborhood. It is interesting that these houses have had to be sold at a discount.

Representative CURTIS. Maybe it would be interesting to get the data nationwide.

Mr. NATHAN. Yes; it would be.

Representative CURTIS. Because I know in St. Louis that the actual reverse is true, and I have talked with real-estate people who have told me they thought that was pretty generally the case.

Mr. NATHAN. It would be interesting to study the matter.

Senator O'MAHONEY. I did not hear your answer to the Congressman; would you repeat it?

Mr. NATHAN. I said, Senator O'Mahoney, that while the Congressman was saying in St. Louis a house that has been built tends to sell at a premium in the next year or two or three relative to new houses, in our neighborhood the opposite has been true. Also I know a couple of my staff members went overseas and were also involved in selling homes and found they had to take losses.

Senator O'MAHONEY. You both mean homes which have been lived in?

Mr. NATHAN. Yes.

Representative CURTIS. I was talking originally about new housing. Take a subdivision—incidentally, I was referring, and I should confine my remarks to what I know about, to relatively low-cost housing, around $8,000 to about $12,000. Those houses in the same subdivision that have been lived in for a couple of years actually sell for more, consistently, than the brand-new houses build in the same subdivision.

Senator O'MAHONEY. Isn't that a result of the fact that families ordinarily living in a new home, improve the home?

Representative CURTIS. Yes; that is a good bit of it.

Senator O'MAHONEY. The lawns are better.

Representative CURTIS. That's right. They put little things on it.

And another thing, the potential purchaser feels that the latent defects, if there are any, which is always possible in a home, will have shown up in that time. I think that is another factor that bears on it.

Mr. NATHAN. I was saying, Senator, in our neighborhood there are some fairly new houses that have been sold.

We happen to have a home that is only about 7 years old, but starting about 2 years after we moved in, there have been about 3 houses sold of about 20, and every one of those was sold at 5 to 10 percent below what was paid for it, not above but below, even with the lawns, the fences, the fixing up, and everything else.

Representative CURTIS. It would be interesting to me to know whether there is any generality that can properly be drawn.

The two questions I wanted to close on, one is foreign aid, which, of course, is a tremendous field in itself. I know you posed the matter as if there are those who question whether we can afford foreign aid. In my own judgment, it isn't a question of that as much as it is how can we get the results.

Again getting back to this question of who best does it; the Federal Government? private enterprise? and what techniques can be employed. Now it is particularly true with foreign aid, in my judgment, in these areas of point IV.

We have forgotten, or I think we have tended to forget, that a great many of these fields that point 4 has moved into were traditional fields of our medical missions, educational missions, sanitary missions, et cetera, which private enterprise has been interested in for years, or centuries, if we can regard our churches as private enterprise, and I think we can, in this area.

There are many people, myself included, who feel that the person-to-person approach is the only real way we are going to get ahead and get real friends abroad; and this government-to-government approach is the very thing that has meant that our efforts to aid these people, these other economies, other societies, have not met with too good results.

In fact, in many instances they afford propaganda for the Communists, who say the United States Government is helping to keep on backs the particular political government that is on their backs, so it isn't a question of economics, or whether we can afford it.

I, incidentally, think we tend to agree it is one of the things we have to afford. That is our objective of getting friends abroad. Again it comes to a question of techniques and where and how the money might well be spent.

I want to illustrate that with a little argument that I had by letter with Senator Fulbright in regard to this student exchange program, the question of whether we were going to increase a 17 million appropriation to 25.

I pointed out that the bulk of the student exchange program is a private one, 34,000, I believe it is, students under the student exchange program, 31,000 of whom were private scholarships, and only 3,000 the Government Fulbright scholarships. And here we were spending 18 million for 3,000 scholarships, roughly; that is 6,000 a scholarship.

And furthermore, with the techniques of the Government in the program, whether we were getting the same value from those type of scholarships that we would if we would try to encourage more people to set up private scholarships.

I only use that to illustrate the point. It isn't just spending money in my judgment that the issue revolves around. It is how we do it, and whether it is the Federal Government that should do it, or whether there are other techniques that might be employed.

Mr. NATHAN. I would just say that I hope that much more private activity can be undertaken.

But, though this missionary work has been very valuable, when one notes, for instance, the slow rate of health and education improvement and the slow lengthening of life in some of these backward countries, the slow rate of the drop in infant mortality and so forth, until a big effort is made, it is clear that not enough can be done by private groups. Take Ceylon for instance, they had a life span, as I remember, of something like 28 or 29 years, and suddenly there was an all-out effort against malaria and the life span just jumped phenomenally.

Representative CURTIS. Yes; and that is a good illustration, too. I wonder just how much good we are doing in these societies by doing that. I noticed in the paper about a year and a half ago we have increased the life span in Afghanistan, through some of our health measures, from about 7 to 10 years; and I kept wondering can the economy be pulled up in that fashion, I mean the society, or doesn't it have to work in a different way?

I know health is important, but we see the situation of overpopulation in some of those areas, and the misery created, if a person dies at 18, instead of 7. I just question the values in those things.

In other words, the intentions are all good. Our missions, and I am not just referring to church missions, I am referring to educational missions, in China did more, in my judgment, to gain the good will of the Chinese people over a period of years than governmental programs have been doing in recent years.

There are many reasons why I would argue in behalf of an emphasis on the private programs, and for the Government to try to withdraw even more than they are. And yet the objective still remains, the one you have set forth, trying to gain these friends abroad.

Mr. NATHAN. As head of a private firm, Mr. Congressman, that works under contract arrangements with countries, I must say I agree with you. But, unfortunately, many of these countries can't afford to pay private firms.

I would love to see the United States Government, if necessary, make available finances for more of this university-to-university education, religious-to-religious assistance in health and so forth.

The use of private techniques, of private agencies is very fine, and the report of this committee was very interesting on that subject. To me it is rather tragic that companies like General Motors and United States Steel have not somehow created their own sort of point 4 program.

Representative CURTIS. Some of them have. The much criticized oil countries in Arabia, to me have done one of the most amazing things.

The thing that interests me the most is to notice the categories of the native employees, and the type work they were doing, whether they were just being kept in the lower echelon jobs, or whether they were being moved up, and it has been a very gratifying thing to see the way they have moved up.

But I simply wanted to again emphasize, though, that it seems to me in this area, too, it is a question of balancing. There is a place for the Federal Government, but it becomes a political question of just where it should be, rather than economic.

I know there are a lot of people that are against the economics of foreign aid, but there are also people who are against the politics, the way in which we have been doing it.

Then my concluding remark is the same thing in regard to our defense budget. I do not regard more money spent as necessarily meaning stronger defense.

I have, along with many others, been very much interested in furthering unification of getting the military out of business. It think we are talking about billions in savings there.

And it just disturbs me every time we effect what seems to me an efficiency in the Military Establishment, immediately people say, well, you are cutting the funds of the military and therefore you are impairing the defense.

Well, you could be, but the issue is are you, in that specific instance. And there has been an awful lot of what I call pretty shoddy thinking on both sides of that question.

Mr. NATHAN. I think there you are right, Congressman Curtis; but I think the trouble is that we have not had sufficient information on which to judge this matter.

Now, I spent 11 years in the Federal Government, I have a great many friends in many agencies with whom I talk. I don't get any secret information, of course, but they have a feeling that there hasn't been as much increase in efficiency as sometimes is pretended, and there has been a big quantitative cut for defense purposes.

While the security of the country, in terms of information and classification is essential, I believe that at least there ought to be enough information so that the people can decide such matters. They can never decide whether we have enough 4-engined bombers, 2-engined planes or this kind of fighter or that kind—that is a tactical problem—but I think in terms of our overall strategy if we had more information about needs and what we are doing, we could make better decisions.

Representatives CURTIS. I could not agree with you more. Of course, the area in which I, as a member of the Conner Committee, did a lot of work on what was in the common-use items.

Now, when we see the military cut down their supply of green coffee beans, as they did about 3 years ago, under pressure, from a 2-year supply to a 6-month supply, thereby saving $50 million, you know you are talking about something.

That is the area in which I am talking about unification, unification of medical supplies. I regret that we haven't been moving the way we might.

One final comment again on the military, and it is something to try to point up this same kind of thinking.

I have appeared every year before the Appropriations Committee in behalf of vocational education, in wanting to increase the budget. But what I have pointed out to them each time, or tried to, is that the Military Establishment has been duplicating vocational education all over this country, building duplicate classrooms, competing for teachers, and so forth, and doing the identical job that our civilian society, in my thinking at any rate, is much better set up to do.

Now, it is that area, another kind of area, that it seems to me we need to get into. But essentially we need the information, and every time Congress asks for the information, we get hit on the head by the press and orators, I might say, who claim that what is being done is to impair the defense.

I say quite the contrary, if that sort of trend can continue, we are going to end up spending billions of dollars less and end up with a tremendously stronger defense and not weaker.

Mr. NATHAN. I can't agree with you more. My own experience in the War Production Board supports such views. I remember instances where we went to the military to check on certain items. If they wanted 15 blankets per soldier, it didn't make any sense. But on questioning military personnel, the first answer given was that it is a military secret. Then of course, finally when you were able to overcome that attitude, then you were confronted with the question, "Do you want to lose the war?"

None of that helps. I feel the matter is that we can afford to supply what is needed. I think we all agree on that.

Representative CURTIS. We have got to afford it.

Mr. NATHAN. We need to know what are the real needs, and then predicate our budget on these needs.

Representative CURTIS. I say this, and I should have said it before. Senator O'Mahoney is the author of this one amendment that sought to bring about this unification in common-use items, and I was working very strongly on that on the House side, and I pay tribute here to that work that you did.

Senator O'MAHONEY. You are referring to the efforts that we made to establish a central system of procurement?

Representative CURTIS. That's right.

Senator O'MAHONEY. I think one of the difficulties that had to be overcome, and that is not yet overcome, is the habit of the services to procure separately.

Representative CURTIS. That is right, lack of unification.

Senator O'MAHONEY. They actually don't push it through, because it is easier, I think, for them frequently to do it the other way.

But I have no doubt it would save money. However, wars and preparation for wars are the easiest way to waste the substance of the people.

Mr. NATHAN. But if war comes, it is better to have done too much too early than too little too late, and the question is where is that margin?

Senator O'MAHONEY. Particularly when you are a member of a nation that doesn't seek to recoup the cost of war by exploiting the victims.

Mr. NATHAN. That's right.

Senator O'MAHONEY. Are there any other questions, Mr. Curtis?

Representative CURTIS. No, Senator.

Senator O'MAHONEY. Mr. Ensley, do you care to point out anything that has been left untouched today? There must be much.

Mr. ENSLEY. Thank you, no; I have no further questions.

Mr. NATHAN. I would like to just say one word, if I may, Senator O'Mahoney, on one of the points that Congressman Curtis raised on this public-private international.

I would say this, Congressman Curtis: That I would hope that American private investment would go abroad in large measure. I think it is useful because know-how goes with the capital.

But we must not lose sight of the fact that in many of these countries there is need for public assets like harbors, highways, and so forth, which private investors can't undertake.

Secondly, in many of these countries that have recently become independent, there is not a large entrepreneur class. There just aren't the businessmen who could undertake sizable projects, even if we could provide ready capital for them.

There are problems of physical insecurity and political insecurity and, in a way therefore, you can't blame the American businessman for not going abroad and investing in joint ventures. We need public capital in the form of loans.

The undeveloped countries can't lift themselves by their bootstraps. Their production is so low that, unless they want to use the Communist tactic of severely squeezing the consumer, they can't squeeze out enough capital to build rapidly.

And I think our own early history of the United States proves that we needed foreign capital to grow faster, and I believe we now must recognize the capital needs abroad.

Representative CURTIS. I would like to see it go there, too; but I will tell you one thing that disturbs me.

I don't want to see private capital going abroad simply to avail itself of cheap labor or to get around our antitrust laws or our health laws and so forth. Along that line I tried to get an amendment into the Reciprocal Trade Act to tie in our tariff setup with our minimum-wage law, feeling that until these countries develop, start developing their own domestic markets, which only comes from getting purchasing power in the hands of the people, we are going to have this dollar gap.

Incidentally, I get very little support for that point of view. The opponents say that is interfering in foreign countries' affairs. I would rather interfere in that fashion than some of the ways we have interfered in the past.

Senator O'MAHONEY. It may be interfering with our own economic affairs if we don't do something like that.

Representative CURTIS. I think so, too, Senator; but I do think we have that to bear in mind.

I would rather see us doing it through tax differential. But I am anxious to be sure we don't just get our capital down there for purposes that are not going to develop the economy.

Let me illustrate with a situation in Italy. The capital take over there on a chemical plant is around 30 percent per annum. The wage scale is about 40 cents an hour. The equivalent plant in the country has a $2.20 per hour wage scale, and the capital take is around 10 percent.

I don't think we are doing much good by putting capital in Italy on that basis, and I don't think we are developing the domestic economy of Italy very much. It is that kind of thing that worries me more than anything else.

Senator O'MAHONEY. Did you have anything else to add?

We are very grateful to you, Mr. Nathan, for your paper and for the discussion in response to questions.

The next meeting of the committee will be on Wednesday morning in this room at 10 o'clock, when Mr. Rowland R. Hughes, the Director of the Bureau of the Budget, will be the first witness. He is the only witness scheduled.

The committee now stands in recess until tomorrow morning at 10 o'clock.

(Whereupon, at 4:10 p. m., the joint committee recessed, to reconvene at 10:05 a. m., Wednesday, February 1, 1956.)

JANUARY 1956 ECONOMIC REPORT OF THE PRESIDENT

WEDNESDAY, FEBRUARY 1, 1956

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

The joint committee met, pursuant to recess, at 10:05 a. m., in the Old Supreme Court chamber, United States Capitol Building, Washington, D. C., Senator Paul H. Douglas (chairman) presiding.

Present: Senators Douglas, Sparkman, Flanders, and Goldwater; and Representatives Bolling, Mills, Kelley, Wolcott, Talle, and Curtis.

Also present: Grover W. Ensley, executive director, and John W. Lehman, clerk.

Chairman DOUGLAS. The committee will come to order.

Before we proceed with the testimony of the witness, I should like to propose the following procedure for this set of hearings.

Witnesses are expected to take not more than 40 minutes. Then I would suggest that each member of the committee be given 10 minutes to question the witnesses, alternating between the Democratic side and the Republican side.

I would suggest that on the first day, and succeeding odd-numbered days, the questioning be begun by the most senior members of the committee. On the second day and succeeding even-numbered days, I suggest the questioning be begun by the newest members of the committee. That will permit each committee member equal opportunity to question the witnesses.

Additional time will be permitted for each member to question witnesses.

Is this temporary rule agreeable to the committee?

Without objection, that will be adopted, and I will begin.

Mr. Hughes, we are very glad to have you here. Thank you very much for appearing and preparing a statement. We are much interested in your testimony.

STATEMENT OF ROWLAND R. HUGHES, DIRECTOR OF THE BUREAU OF THE BUDGET, ACCOMPANIED BY WILLIAM F. McCANDLESS, ASSISTANT DIRECTOR FOR BUDGET REVIEW; AND ROBERT E. MERRIAM, ASSISTANT TO THE DIRECTOR

Mr. HUGHES. Thank you, sir. I have a statement, Mr. Chairman, which I should like to read, if I may, and there will be some charts which we will look at as we go along through the statement.

Mr. Chairman and members of the committee, I appear before you today to discuss fiscal policy, with particular reference to the budget for the fiscal year 1957, the year beginning next July 1.

Budget policy was discussed in its broad economic framework in the Economic Report of the President. It was spelled out in considerable detail in the budget message which the President sent to the Congress on January 16, 1956. I propose to summarize some of the highlights of the 1957 budget with this statement and a few charts, and I will, of course, be glad to try to answer questions on this subject that you may have.

The budget which was sent to the Congress on January 16 is President Eisenhower's third budget.

In his first budget message—2 years ago—the President said his budget policies were designed to achieve the "twin goals of a balanced budget and tax reductions."

A tax reduction was actually achieved with the President's first budget. This reduction was during the period in which Government expenditures were being substantially reduced and in which a transition to a peacetime economy was taking place.

A balanced budget for the fiscal year 1957 is now proposed to the Congress, and it is estimated that the budget for 1956 will also be in balance. President Eisenhower's second and third budgets, therefore, are projected to bring surpluses which would allow small reductions this year and next in the national debt.

In the 1957 budget message, the President discussed in some detail the basic governmental policies which were used in preparing the budget.

We seek, above all—

he stated—

the attainment of a just and durable peace. Thus, the resources of the world can be directed to building a better life for all people * * * I regret that the Soviet leaders have not as yet given any tangible evidence of an intention to agree on a plan of disarmament that can be verified by adequate inspection. In the absence of such tangible evidence, we must follow the course reflected in this budget of steadily strengthening the defense of the United States and its allies * * *.

At home, we have an unprecedented prosperity with general price stability. The programs worked out by the Executive with the Congress have helped to achieve this result. As the President said in the budget message:

Our objective is to foster and encourage conditions in which this prosperity can be sustained and can be more fully shared by agriculture and certain sectors of our industrial economy. The growth and movement of our population and the complexity of our dynamic society are continually creating needs which must be met if we are to build wisely for the future.

The President explained that he was mindful that the fastest progress will be made by relying on private initiative as the mainspring for economic growth and that the interests of our citizens can be best advanced by encouraging State and local governments to strengthen themselves and thus keep as much Government responsibility as possible in the States and communities, close to the people themselves. Among other advantages, these principles serve to multiply the effectiveness of Federal expenditures.

The President emphasized that, and I quote again:

These two national objectives of securing a lasting peace and of sustaining widespread prosperity and well-being are closely linked to our third goal of financial strength and stability.

This third basic policy of financial strength and stability helps us keep that sense of proportion which is necessary if we are to continue to advance toward our objectives. The budget message pointed out that—

while continuing substantial expenditures for military defense and mutual security, with some increases where needed, we can now propose the expansion of certain domestic programs and, at the same time, strengthen our financial position by a balanced budget. But we must make sure that we do not undermine our financial strength by laying the groundwork for future budget deficits.

BUDGET TRENDS

The present encouraging budgetary outlook arises from a combination of factors: Revenues are increasing as a result of our current prosperity. Substantial reductions in Government expenditures have been made in the past 3 years. Public confidence born of prudent fiscal and credit management is a strong energizing factor in our economy.

The budget submitted to the Congress is balanced at a high level of receipts and expenditures. This calls for the utmost cooperation between the executive and legislative branches to prevent increases in expenditures or reductions in receipts that would create a deficit.

These trends in the budget totals are shown on chart 1. You can see how expenditures came down. You will notice how the receipts line goes down in 1955 after the tax cuts. Receipts turn up again in the estimates for the fiscal year 1956.

In 1956, estimated budget expenditures are $64.3 billion. Looking at the line for expenditures, you will note that this is a reduction for the third successive year. It is a decrease of $10 billion from the amount actually spent in the fiscal year 1953, which began July 1, 1952.

For the fiscal year 1957, total expenditures are expected to rise about $1.6 billion. This increase will be more than offset by the estimated rise in receipts.

The amount of new appropriations and other forms of obligational authority enacted by the Congress is the control figure for the total amount of budget expenditures—although not necessarily specifying the year in which the spending takes place. You will note from chart 1 that for the fiscal year 1957, the requested new authority to incur obligations is still within the estimated budget receipts. In the preceding 3 years, the new authority was also kept below the level of revenues. Thus, the annual income of the Government has covered, and the budget proposes that it continue covering, the new commitments which lead to budget expenditures. Balanced budgets can be made possible and maintained in the future only by continuing such action.

You will also notice from chart 1 that the total of new obligational authority declined sharply through 1955. The 1956 and 1957 estimates bring the line back again about to the level of receipts and expenditures.

Recent trends in the amount of unexpended balances of appropriations are shown in chart 2.

By the end of the fiscal year 1956, we expect to have reduced unexpended balances of appropriations by well over a third, to below $50 billion. This amount is believed more reasonable in its relation to actual needs for current operations. The backlog of unexpended balances is estimated to be reduced somewhat further by the end of 1957, to $46.8 billion, despite the fact that new authority to incur obligations is estimated to rise. We should be able to do this because some appropriations enacted in prior years will be allowed to lapse.

BUDGET EXPENDITURES

Like the plans for a building, the budget must be sketched from several points of view if we are to obtain a clear idea of its consent and composition. Therefore, despite some repetition, three different classifications of budget expenditures are set forth in the budget message. Budget expenditures are summarized in terms of a few broad purposes, then in terms of major function or program, and also in terms of their controllability through the budget process. The same items were dealt with from three viewpoints.

Expenditures by purpose.—When we look at budget expenditures according to their broad purposes, we find that the greatest portion of total expenditures in the fiscal year 1957, 64 percent, is for protection against possible aggression and for strengthening our international alliances. The next largest part, 21 percent, is devoted to civil benefits of various kinds.

Chairman DOUGLAS. Mr. Hughes, I do not want to interrupt, but this is a new classification. Would you mention some of the items?

Mr. HUGHES. We are covering this right now in a minute.

Interest, largely on the public debt, accounts for nearly 11 percent. Expenditures for civil operations and administration are estimated at 4 percent of the total.

The dollar figures for these broad purposes are shown in table 1 and chart 3, which you have before you, and you can see how they carry out those percent figures. I will not read them unless you want me to, Mr. Chairman.

Chairman DOUGLAS. For the record, I think it would be well to list the so-called civil benefits.

Mr. HUGHES. We cover that in the next two paragraphs, Mr. Chairman.

(Table 1 is as follows:)

TABLE 1.—*Budget expenditures, by purpose*

[Fiscal years. In billions]

	1955, actual	1956, estimated	1957, estimated
Protection, including collective security	$42.7	$41.4	$42.4
Civil benefits	13.7	13.8	13.9
Interest	6.4	6.9	7.1
Civil operations and administration	1.7	2.1	2.2
Reserve for contingencies		.1	.2
Total	64.6	64.3	65.9

Mr. HUGHES. The category of protection includes the military functions of the Department of Defense, the entire mutual security program, the Atomic Energy Commission, and the programs for stockpiling, defense production expansion, civil defense, and our foreign information activities.

Expenditures for civil benefits are designed to encourage the private development and growth of our economy and to provide economic safeguards for certain individuals and groups. The items include, among others, the following: civil public works; grants to States to aid the construction of highways, airports, and schools; and current benefits to various groups such as veterans and agriculture.

Expenditures by major function or program.—The estimated expenditures for 1957 are shown by major function or program in table 2 and chart 4. The major programs are discussed in considerable detail in the budget message. These are the same functions that have been used before. They are shown on the chart.

Of course, the major national security is the principle item, at $40.4 billion; with interest $7.1 billion; veterans $4.9 billion; agriculture $3.4 billion; labor and welfare $3.0 billion; international $2.1 billion; commerce and housing $2.1 billion; general government $1.7 billion; natural resources $1.0 billion; and reserve for contingencies $200 million—with a total of $65.9 billion, and those are the net expenditures.

Within the category of major national security, expenditures for the military functions of the Department of Defense will increase by almost $1 billion in 1957. Special emphasis will be placed on new types of weapons and equipment. Outlays for conventional weapons and for the stockpiling of strategic and critical materials will be decreased. Expenditures for atomic energy will rise in 1957 to a somewhat higher total than for any previous year. Expenditures for the military part of the mutual security program are estimated to be the same in 1957 as in 1956.

There are four other bars on chart 4 which I would like to discuss briefly with you.

First, veterans' services and benefits. These expenditures continue to go up. It is one of the other ones which goes up besides defense. They are estimated to total $4.9 billion in the fiscal year 1957. The most important elements in the persistent upward trend are compensation and pension payments. Under existing legislation, significant increases in the amount of these payments may be anticipated annually until the end of this century, when payments may be twice their present yearly total of nearly $3 billion. This long-term outlook arises chiefly from the very large number of veterans who may become entitled to pension benefits not connected with disabilities arising from their service.

We now have more than 22 million veterans. When benefits for dependents and survivors are considered, nearly one-half of our population is potentially entitled to veterans' benefits. The Commission on Veterans' Pensions, under the chairmanship of General Bradley, is reviewing the relation of the existing nonmedical programs for veterans to each other and to the numerous civil benefits which the Nation now provides for the aged, needy, infirm, and disabled—both veterans and others. Its report is expected later this year and will deserve careful consideration by the administration, the Congress, and the public.

The next bar, agriculture, includes the price support operations of the Commodity Credit Corporation as well as other expenditures for agriculture. For both 1956 and 1957, net expenditures for agriculture are estimated at $3.4 billion. The net outlays of the CCC are estimated to go down from the abnormally high level of 1955. Of course, this net amount is difficult to estimate, since under requirements in the law it depends substantially on world markets, weather, and other somewhat unpredictable factors. These estimates for 1956 and 1957 reflect assumptions that CCC purchases of and loans on additional commodities will be somewhat lower than in 1955—additional commodities does not mean additional types of commodities; it means new loans—and CCC sales will be somewhat higher, both because of improved markets.

Other expenditures for agriculture are estimated to go up, mainly because of the soil bank and accompanying proposals in the President's recent message on agriculture. Secretary Benson is scheduled to appear before you and to review the Government's agricultural programs.

Expenditures for labor and welfare—the next bar on chart 3—are estimated at $3.0 billion in 1957, an increase of $226 million over the 1956 estimate. The increase arises primarily from the recommendations in the President's special messages dealing with school construction and with strengthening health programs.

Before leaving chart 4, I should like to call your attention to two other points, both of which pertain to the bar on commerce and housing.

The net expenditures shown for commerce and housing, $2.1 billion, reflect the President's recommendation to increase postal rates. Enactment of this proposal would reduce the postal deficit by $350 million in 1957 and enable the postal service to become self-supporting in the future.

Pending determination of the amounts involved for the proposed new program for the interstate highway system—and that is moving fast now—the estimates for commerce and housing in the 1957 budget cover the continuance of the present annual authorization for Federal-aid highways. The new program will be of substantial size, but since it is still under discussion and has not taken definite form, and since it is contemplated that the balance between receipts and expenditures will not be affected, specific amounts are not included in the estimates.

Expenditures by controllability.—Another way of looking at budget expenditures is from the point of view of their relative controllability through the budget process, and chart 5 shows the dollars, the division into three principal parts.

The major national security is 61 percent of the budget dollar; the other programs fall into two categories. The larger of these, in fact 25 percent of the budget dollar, depends upon the provisions of the laws which authorized the programs and on other factors not readily subject to budgetary control.

Interest is the largest example of such an expenditure. Another example is expenditures for certain veterans' benefits, expenditures which depend upon benefit rates established pursuant to law and upon the number of eligible veterans who apply. Page M13 of the 1957 budget message contains a listing of all the programs included in this category.

BUDGET RECEIPTS, BUDGET SURPLUS, AND DEBT REDUCTION

Chart 5 also shows four categories of budget reciepts on a percentage basis. Income taxes, both individual and corporation, comprise the largest source of revenue, an estimated 78 percent of all budget receipts in the fiscal year 1957.

Revenues in 1957 are estimated to be $66.3 billion, an increase of $1.8 billion over the fiscal year 1956, and $5.9 billion more than in 1955. These figures reflect the President's recommendation that present corporation income tax rates and excises be extended for another year. These tax rates are scheduled, under present law, to be reduced on April 1, 1956. Secretary Humphrey will discuss the estimated budget receipts with you and give you the economic assumptions used.

When we put the figures for receipts and expenditures together, as on chart 6, we see the modest surpluses which are estimated for both the fiscal years 1956 and 1957, and we made the figures large so that you can see them.

Because of the effect of the transactions of trust funds and Government enterprises on the Treasury's cash balances, the anticipated debt reductions in the fiscal years 1956 and 1957 are not precisely the same as the estimated budget surpluses. In 1956 the debt reduction is estimated to be $74 million; in 1957, it is estimated to be $500 million.

This committee has always been interested in drawing the distinction between changes in the public debt and the net borrowing or repayment of borrowing from the public. Thus far, I have talked about budget receipts and expenditures, which reflect transactions in funds belonging to the Federal Government. When we also take into consideration the sizable sums which the Government collects and pays out for the various funds it holds in trust for others, such as old-age and survivors insurance, we get a somewhat different picture. By consolidating budget transactions with those of the trust funds, and eliminating intragovernmental payments and receipts, we get an estimated excess of receipts from the public of $2.4 billion in each of the fiscal years 1956 and 1957. Most of this excess will be invested in special issues of Government securities and will thereby permit the Government to repay this amount of previous cash borrowings from the public.

SPECIAL AREAS

I shall conclude my remarks with a brief summary of the 1957 budget provisions with respect to public works, Federal credit programs, and Federal economic statistical programs. These special areas have been of interest to this committee in the past.

Public works.—For the fiscal year 1957, public works expenditures are estimated at $4.5 billion, of which $2.2 billion is for national-security purposes.

At the present time, direct Federal public works, including construction for national security, amount to about 8 percent of total net construction in the Nation. State and local construction aided by the Federal Government represents another 4 percent. The major construction grants-in-aid to the States in the 1957 budget are for highways, schools, airports, and hospitals. About two-thirds of the estimated $300 million increase in expenditures for public works in the 1957 budget is for federally aided State and local construction.

The budget policy for direct public works is to include funds for initiating construction only after adequate plans have been made. In the case of authorized flood control and other water resource projects, the budget provides funds only for projects for which planning has reached the stage where the design and scope of the major structure has been clearly determined, a firm estimate of cost has been prepared, and a current analysis of economic justification shows a favorable relationship between benefits and costs.

The budget also makes provision for advance planning on water resources and other projects prior to initiation of construction. Expenditures for such planning are estimated at $26 million in 1957, including plans for buildings to be constructed under the lease-purchase program. This does not include about $6 million of loans for planning of non-Federal public works or the planning by State and local agencies for highways, airports, and hospitals for which Federal grants are authorized.

Federal credit programs.—These programs have a major impact on a number of segments of our economy, particularly on housing.

The Budget estimates that in the fiscal year 1957, Federal agencies will make $21.3 billion of commitments for direct loans or for guaranties or insurance of private loans. Since almost 80 percent of these commitments will be for guaranties or insurance of private loans, however, their major economic impact is not reflected in budget expenditures.

The commitments for direct loans in the fiscal year 1957 are estimated to be $600 million less than the commitments of $5.3 billion in 1953. Moreover, in contrast to the net expenditures of $1.5 billion for loans in 1953, collections on old loans are expected to exceed new disbursements in both 1956 and 1957.

Federal economic statistical programs.—Again this year the budget document includes a special analysis on Federal economic statistical programs (special analysis J, pp. 1159–1161). This analysis was introduced last year in accord with the recommendation of the Joint Committee on the Economic Report.

The Government's basic statistical program for 1957 was formulated in the light of the recommendations made and the hearings held by this committee and its Subcommittee on Economic Statistics last year. The 1957 budget provides for meeting the more urgent needs for improvements in fields where immediate action is feasible. It includes estimates of $35 milion in obigations for current economic statistical programs, an increase of a little more than $3 million over estimates for the fiscal year 1956.

Of particular interest to this committee are the proposed increases to the Departments of Commerce and Labor for statistics on construction activity, and to the Office of Business Economics in Commerce for the national income series and the measurement and analysis of business trends. Amounts for these programs were included in the budget for 1956 but were not allowed by the Congress.

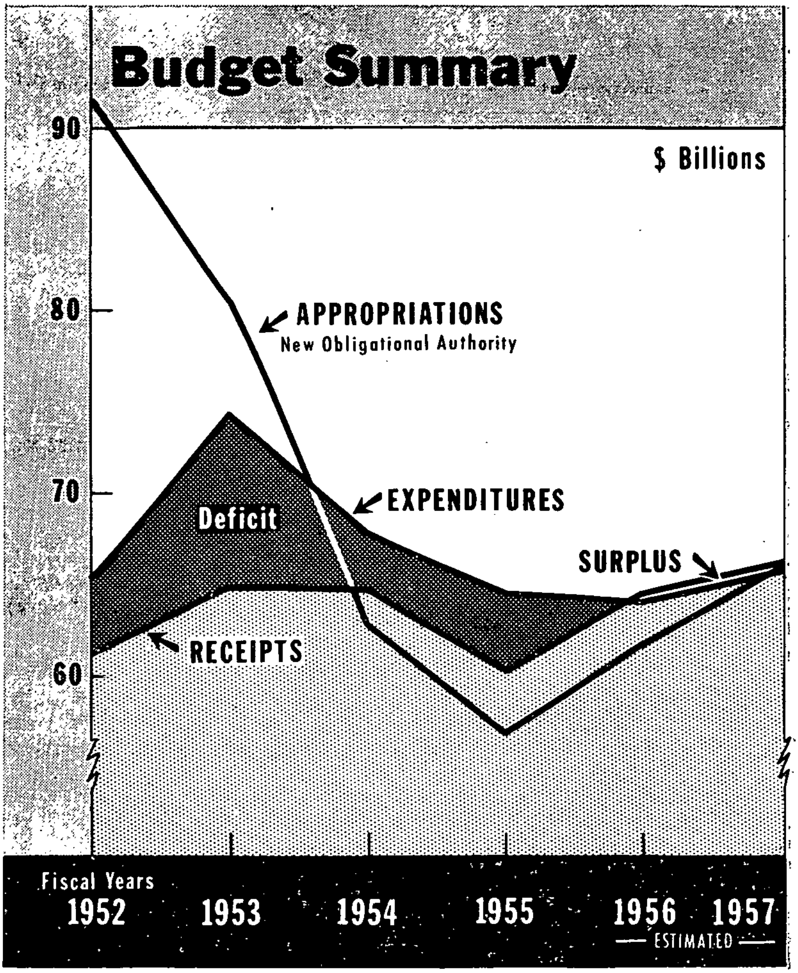
The 1957 budget also recommends increases to the Bureau of the Census, the Department of Agriculture, the Bureau of Labor Statistics, and the Securities and Exchange Commission for improvements in various statistical series about which this committee or its Subcommittee on Economic Statistics has expressed interest or concern.

Chairman DOUGLAS. Thank you, Mr. Hughes.

Mr. HUGHES. Thank you.

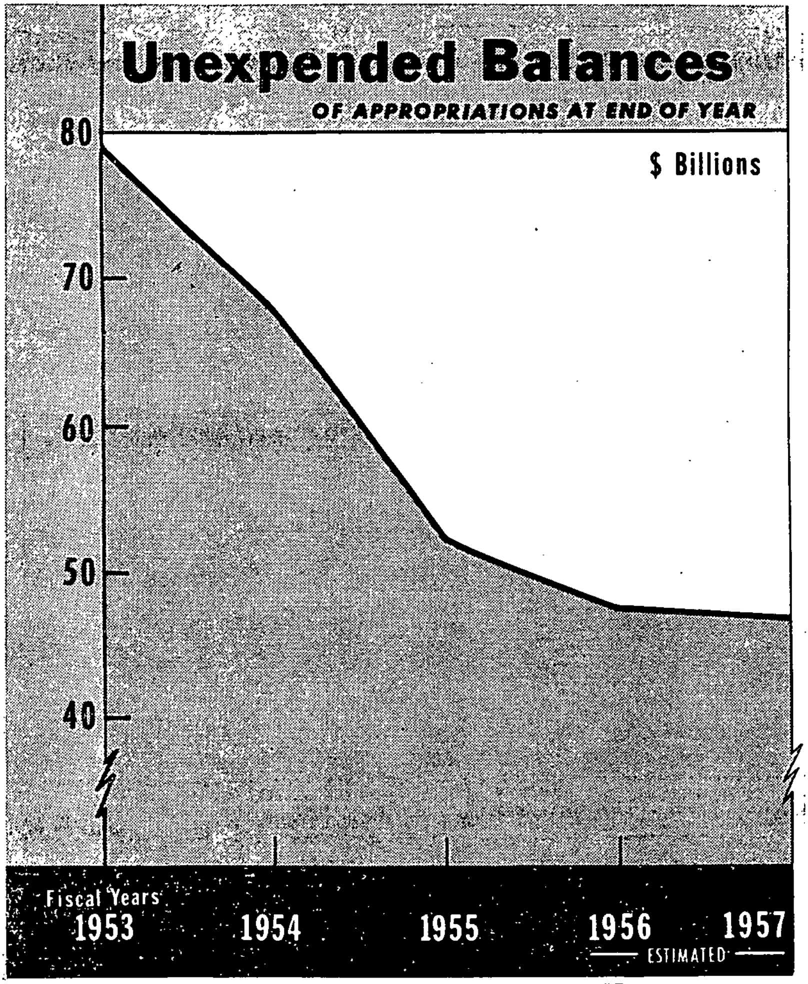
(Charts 1 through 6 are as follows:)

CHART 1



EXECUTIVE OFFICE OF THE PRESIDENT • BUREAU OF THE BUDGET

CHART 2



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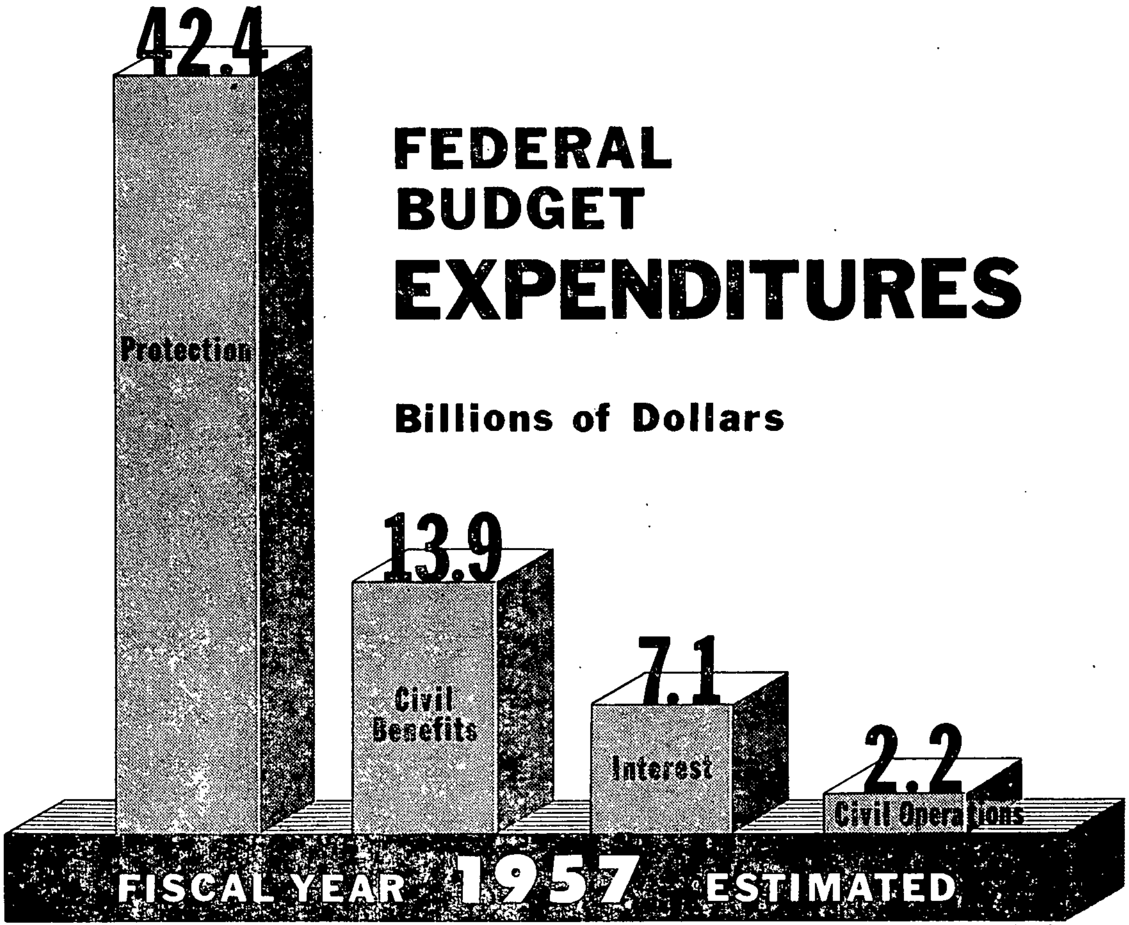

EXECUTIVE OFFICE OF THE PRESIDENT · BUREAU OF THE BUDGET

Excludes reserve for contingencies

CHART 4

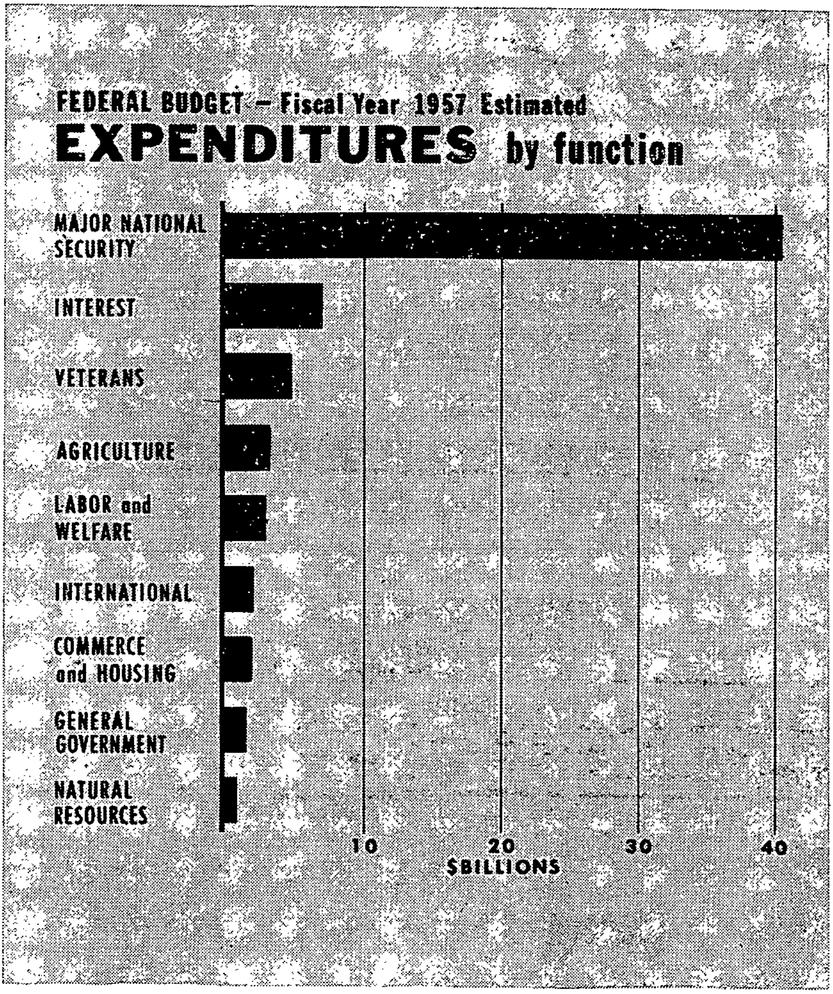

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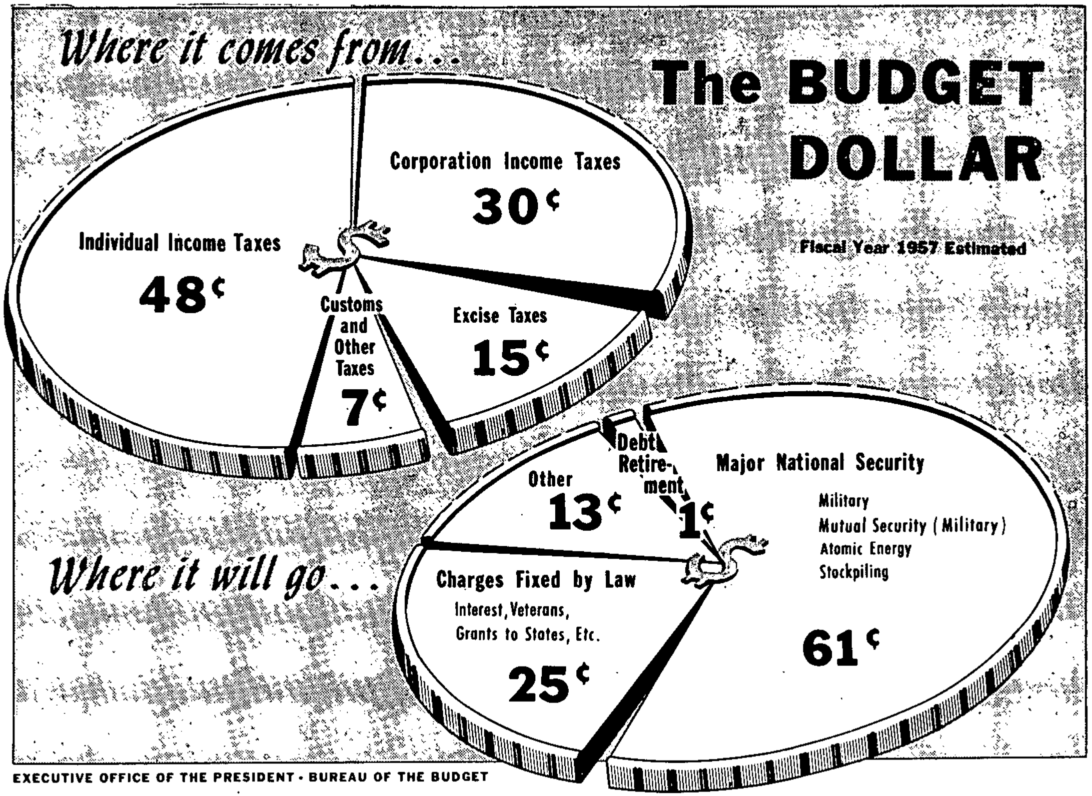
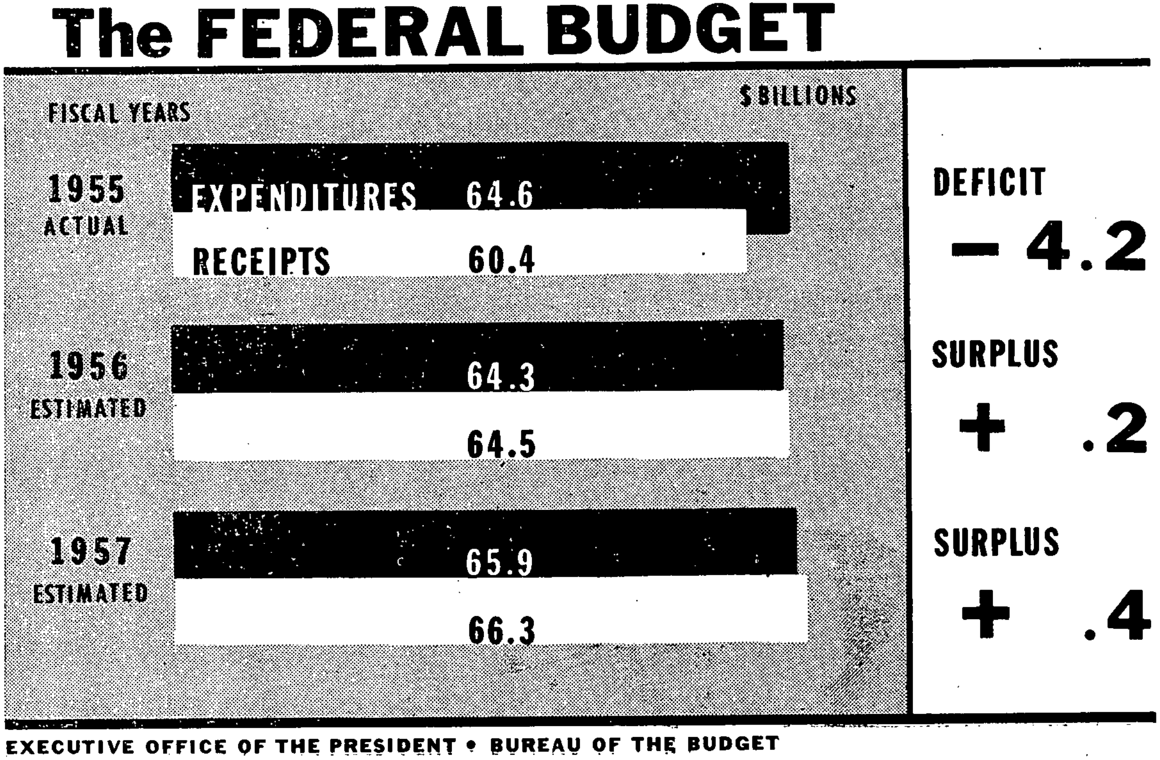
CHART 5



EXECUTIVE OFFICE OF THE PRESIDENT · BUREAU OF THE BUDGET

CHART 6


The FEDERAL BUDGET
FISCAL YEARS
$ BILLIONS
1955
ACTUAL
EXPENDITURES 64.6
RECEIPTS 60.4
DEFICIT
− 4.2
1956
ESTIMATED
64.3
64.5
SURPLUS
+ .2
1957
ESTIMATED
65.9
66.3
SURPLUS
+ .4
EXECUTIVE OFFICE OF THE PRESIDENT • BUREAU OF THE BUDGET

Chairman DOUGLAS. Although the budget message of the President is signed by President Eisenhower, I take it that it was prepared by the Bureau of the Budget, and the Bureau of the Budget stands behind it; is that correct?

Mr. HUGHES. Yes, sir.

Chairman DOUGLAS. I take it, therefore, that you have constructed the budget on the estimate of what the probable income for fiscal 1956–57 will be.

Mr. HUGHES. The budget, as you know, sir, is a teamwork operation.

Chairman DOUGLAS. Yes; but I mean, you assume responsibility.

Mr. HUGHES. Everybody contributes their best part in it, and the particular things with regard to revenue are mainly contributed by the Treasury.

Chairman DOUGLAS. Yes. But I mean, you approve of the estimates.

Mr. HUGHES. Oh, yes.

Chairman DOUGLAS. I addressed a letter to the Secretary of the Treasury on the 12th of January, asking for the assumptions underlying the 1957 budget estimates, and he sent me a table on the assumed figures for personal income and corporate profits for the calendar years 1955 and 1956, and he stated, "We assume no change in prices during this period."

In a sheet which I have before me, which I will make a part of the record, he stated that the estimate for personal income for the calendar year 1956 is $312.5 billion, and corporate profits $43 billion; and since you do not propose an alteration in the tax rates on these two major sources of revenue, I take it that your estimate of revenue is based on these figures. (See p. 116.) Am I correct?

Mr. HUGHES. That is right, sir. But I think you will have to ask concerning the details of that from the Secretary of the Treasury, as we do not work on that.

Chairman DOUGLAS. But you have assumed responsibility for this, Mr. Hughes, and therefore I am entitled to ask some questions.

Mr. HUGHES. But I do not assume personal responsibility for checking every figure in the item.

Chairman DOUGLAS. That is all right.

Now I hold in my hand the Economic Indicators, for January, 1956, and I have brought the figures for personal income and corporate profits up to date by personal inquiry for the fourth quarter of 1955. I find that for the fourth quarter of 1955, personal income is stated to be $312.2 billion, which is almost identical to the estimate of the calendar year 1956. In other words, the Treasury estimated, and you accepted, a figure for personal income which was identical for the last quarter of 1955; is that correct?

Mr. HUGHES. The figures which are included in there as the basis of the estimate were worked out in conjunction with the Council of Economic Advisers and the Treasury, and carefully gone over.

Chairman DOUGLAS. That is not quite the answer, Mr. Hughes. Did you accept this figure of $312.5 billion, which as a matter of fact is identical with the official figures for the fourth quarter of 1955?

Mr. HUGHES. I can only say to you, sir, that those are figures on which you should talk in detail with the Treasury, because we are not so much concerned with that point.

Chairman DOUGLAS. Are you not acquainted with the nature of the figures on which you based your estimate?

Mr. HUGHES. Yes, I am acquainted with the nature of the figures.

Chairman DOUGLAS. Is it not true that the figures of personal income for the fourth quarter of 1955 amount to $312.2 billion?

Mr. HUGHES. I believe it has been so reported; yes, sir.

Chairman DOUGLAS. And your figure, your estimate, for 1956 is $312.5 billion, or you assume a constant personal income and no increase, therefore, in personal income in 1956 over the last quarter of 1955.

Mr. HUGHES. Well, these are the averages, as estimated on the revenue side, and we have to work those out in detail through the Treasury, and we do not work them out ourselves.

Chairman DOUGLAS. I am simply saying you accepted these figures, that is all, with no increase in personal income in 1956 over the fourth quarter of 1955; that the personal income will level off.

The figure for the last month, of December 1955, is not yet out, but it will be released on Friday by the Department of Commerce. Of course, we do not know what it is, but our staff has been working on this matter and they estimate it will be about $315 billion, minus a possible $1½ billion for certain errors in the December estimates. So that in practice, I think it would be found that your estimated figure of personal income for 1956 is slightly below the figure for December.

The next question I wish to raise is in connection with corporate profits.

Secretary Humphrey, in his letter, stated that the estimate of corporate profits for the calendar year 1956 is $43.0 billion, and that happens to be the estimated figure for the calendar year 1955.

So that was an assumption that 1956 would show no increase over 1955, but the fourth quarter of 1955 shows a probable rate of corporate profits of $44.5 billion. In practice, then, you assumed a decrease of 4 percent in corporate profits as compared to the last quarter of 1955. Is that not true?

Mr. HUGHES. No; I am not ready to discuss that point with you. As I say, you must discuss that with the Secretary of the Treasury.

Chairman DOUGLAS. Well, Mr. Hughes, I object to this avoiding responsibility.

Mr. HUGHES. I am not avoiding responsibility.

Chairman DOUGLAS. You are charged with the preparation of the budget, and you should be prepared. You say you stand behind these figures. Therefore, you should be prepared to explain and defend them.

Mr. HUGHES. I stand behind them, but I am not prepared to defend every item in every defense budget and every——

Chairman DOUGLAS. This refers to receipts.

Mr. HUGHES. In the thinking——

Chairman DOUGLAS. These are receipts which, according to your own bar charts, provide for something like 73 or 74 percent of total revenues.

Mr. HUGHES. And that is worked out on the basis of an administration position, a consideration of the factors by the Treasury, by the Council of Economic Advisers, which are reviewed as to their general soundness, but we do not——

Chairman DOUGLAS. And which you have approved.

Mr. HUGHES. As to their details, we do not go into them.

Chairman DOUGLAS. But you have approved them.

Mr. HUGHES. We have approved on the basis of the whole presentation; yes, sir.

Chairman DOUGLAS. I would like to point out that population grows at the rate of at least 3 percent a year. The working force grows by 750,000 to 800,000 a year. There is an increase in productivity per man-hour at the rate of 3 percent a year. With the addition of the 750,000 new workers, with the increase in productivity of 3 percent per man-hour, if your assumptions are correct, then there will be displacements from industry of people seeking work and a figure of unemployment for the year, not of 4 million as Mr. Nathan estimated yesterday, but, in my judgment, nearer 5 million.

Are you such a prophet of gloom and doom as that, Mr. Hughes, to say——

Mr. HUGHES. No, sir; I am not the expert.

Chairman DOUGLAS. To say in the year 1956 we are going to have an increase of 2 million unemployed to add to the figure of 2.3 million? Are you one of the Four Horsemen of the Apocalypse, as Representative Martin, the former Speaker of the House, referred to us some 2 years ago?

Mr. HUGHES. No. I know very well that estimates are things which have to be worked out on the best basis and the best information we have available, and I am not a fundamental expert in this particular field, and you have experts whom you are going to hear and have discussion with on that, and I think you ought to talk with them about it.

Chairman DOUGLAS. I would say that is not responsive to the question.

Mr. HUGHES. Well, I don't know. I cannot talk as an expert on something which I am not an expert on.

Chairman DOUGLAS. Does it not follow that if the personal income is the same, but there are more people and more workers to share it, either the income per worker must go down or the number of people seeking work will increase, and an additional number of people seeking work will not be able to find it?

Mr. HUGHES. If you made a budget, you would know we have to take all factors into consideration, and that is what we tried to do.

Chairman DOUGLAS. What you have assumed is that the economy is going to level off, either at or slightly below the level of the last quarter of 1955. Now if that is true——

Mr. HUGHES. No.

Chairman DOUGLAS. Then the new workers coming into the labor market will not be able to find employment, we will not have our usual economic growth rate, and the increase in productivity per man-hour will cause a decrease in the number of workers. I would say the Budget Department has become a prophet of gloom and doom for the ensuing year.

Mr. HUGHES. I do not accept your statement, Mr. Chairman, because it is not true.

The figures were all worked out with the complete consideration and discussion as to the best estimates to be used for this purpose, with the Council of Economic Advisers and the Secretary of the Treasury, taking into consideration all factors as to what the revenue we can count on will be.

(The letter of the Secretary of the Treasury, with attachment, is as follows:)

THE SECRETARY OF THE TREASURY,
Washington, January 18, 1956.

Hon. PAUL H. DOUGLAS,
Chairman, Joint Committee on the Economic Report,
United States Senate, Washington, D. C.

DEAR SENATOR DOUGLAS: In accordance with your request of January 12 for the assumptions underlying the 1957 budget estimates, I enclose a table showing the assumed figures for personal income and corporate profits for the calendar years 1955 and 1956. We assume no change in prices during this period.

Sincerely yours,

G. M. HUMPHREY,
Secretary of the Treasury.

Enclosure.

BASIS OF REVENUE ESTIMATES

Calendar year income levels assumed in the revenue estimates for fiscal 1956 and fiscal 1957 are as follows:

[Billions of dollars]

	Calendar year 1955	Calendar year 1956
Personal income	$302.5	$312.5
Corporate profits	43.0	43.0

January 14, 1956.

Chairman DOUGLAS. The chairman's 10 minutes are up, so I will now turn to Mr. Talle.

Representative TALLE. I will pass for the moment, Mr. Chairman.

Chairman DOUGLAS. Senator Sparkman?

Senator SPARKMAN. I will pass for the moment.

Chairman DOUGLAS. Mr. Wolcott?

Representative WOLCOTT. No.

Chairman DOUGLAS. Congressman Kelley?

Representative KELLEY. No.

Chairman DOUGLAS. Senator Flanders?

Senator FLANDERS. I must pass, because I only just came in.

Chairman DOUGLAS. Congressman Curtis?

Representative CURTIS. I am not passing, Mr. Chairman.

I should like to say, first of all, I want to disassociate myself from the conclusion that the chairman was trying to draw in his questioning of the witness. I think the witness has been quite responsive to the questions, and has pointed out that the details which go to make up this particular thing lie in the department of other witnesses who are going to be with us, and I am willing to accept that.

I wish to state this, though: that I think on this issue of reconciliation of the President's Economic Report with the full figures which are contained in the Bureau of the Budget or in the budget message, there is some differential there. I want to ask for your comment, because the 2 are seeking to do 2 different things.

The President's Economic Report is an attempt to evaluate economic trends and what might happen in the future, as I understand it.

The Bureau of the Budget message is a dollars-and-cents proposition upon which we are going to be basing our estimates of what we can appropriate, and how much revenue we will actually get; and with that in mind, you have to be a great deal more conservative, is that not true, Mr. Hughes?

Mr. HUGHES. That is right, sir.

Of course, when making a budget in which we are going to calculate the spending and the operations of the Government—because, after all, a budget is a plan of Government operations, not merely a compilation of figures—we have to operate on a basis that we figure can be, we hope it will be, better, we hope to reduce the expenditures as we go along. Very significantly and naturally, we are always hoping that the increase in activity and the prosperity of the country will increase the receipts.

But we have got to count on what is in sight at the present time when we make up our estimates and forecasts for what we can go ahead with in the programing of the Government operations for the ensuing year.

Representative CURTIS. Mr. Hughes, I might also comment on this: Being on the Ways and Means Committee, we constantly have had to get estimates from the Treasury, as well as our staff of experts, on what revenue effect a particular change in our tax laws would produce. In all instances they use a conservative approach, basing it upon experience rather than projections into the future.

I must state that I have been critical, myself, of that, and thought perhaps we ought to go a little more or make a little more attempt to project into the future. But I do think it is a fair thing to realize that has been a traditional approach of the Treasury, and perhaps it is the proper approach, at that, that they base their revenue estimates on what has happened more than on what is going to occur in the future.

In estimating revenue take on the basis of—well, let's see, what were the estimates—$312.5 billion, which was the past figure, it is entirely possible, within this range of estimating revenue, in fact I have heard from experts who have estimated the personal income, to be as high as $317.5 billion; and yet they, in their estimates of what the revenue take is going to be from that, have estimated the revenue take to be $35 billion as opposed to the Treasury's $35.1 billion, based upon the $312.5 billion.

In other words, in this estimating business, experts can actually start with a higher base, like $317 billion, compared to $312 billion, and yet come out with a lower tax-take estimate.

I think that is important in the consideration of the chairman's question that he has presented to you.

Mr. HUGHES. I think that is true.

Representative CURTIS. The other comment I wish to make for the record is that the Department of Commerce estimates of corporate income profits over a period of years has been shown to be always overoptimistic.

We have a rather complete reporting of statistics of income which is put out by the Bureau of Internal Revenue in regard to actual corporate profits, but that is such a thorough job that we are about 3 or 4 years lagging in bringing those up to date. I think the latest is for the year 1952; and comparing the estimates which were made on corporate profits for the year 1952 by the Department of Commerce in 1953, they were, I think—I have got these figures—$39.2 billion. A year later their estimates, that is, their 1954 estimates of what the corporate profits for 1952 were were reduced to $37.2 billion.

Right now, in 1955, those figures for the year 1952 were reduced to $35.9 billion, and we have seen a constant lowering adjustment when we get our data and figures more firmly in mind. I certainly think the Treasury is on a very firm base in discounting the Commerce Department's estimates.

Not that those estimates are not of value. They are of value. But in weighting, for our purposes of anticipating revenue, I think it is a very wise thing, in view of experience, that we do weight them downward, and take a more conservative approach. And there should be no implications at all—and this is what I am getting at—no implications at all, from such a revenue estimate, to insinuate that this administration in that regard has anything other than optimism toward our future, economic future.

Mr. HUGHES. That is certainly correct, because we are estimating figures up to a year and a half ahead, and we have to know and be on a little surer ground in figuring out what we are going to base our spending on than in estimating what we think is going to happen.

Obviously, it is not a figure which you can put in the adding machine and add it up and get an exact dollar figure, because you are dealing with many variables and many potential changes in one way or another. We have to make the best estimate we can and make sure we are not erring on the wrong side so we would end up with a plan for a balanced budget which was not actually balanced.

Representative CURTIS. Thank you, Mr. Chairman.

Chairman DOUGLAS. Senator Goldwater?

Senator GOLDWATER. I do not have any questions to ask the witness. I just had a comment to make on the chairman's line of questioning, which I did not agree with at all.

I have not heard anybody in this administration profess themselves to be a member of the Four Horsemen. The prophets of gloom and doom have come entirly from other sources. In fact, we had a witness yesterday who forecast quite a bit of gloom.

I think you will notice all through the opposition witnesses a note of gloom and doom. I do not see any particular relationship between an estimate of personal income and employment.

We have had in the last 4 years an increase of about 20 percent, roughly, in personal income in this country, and at the same time we have had an increase in employment of about 10 percent. I do not see the line of reasoning which the economists on the opposition follow when they constantly try to relate personal income to employment.

I think the relationship might be drawn with investment and we would reach a better figure than from employment. I merely wanted to get that comment in so I might save some of my 10 minutes.

Chairman DOUGLAS. Do you have other questions, Senator Goldwater?

Senator GOLDWATER. No, I have no other questions.

Chairman DOUGLAS. We will start on the second round, and I will make a brief reply to my friend from Arizona.

Of course, no one wears on his chest a huge sign saying, "I am a prophet of gloom and doom." Every administration assumes optimism in its objectives. But I simply pointed out that in its estimates of national income upon which the administration bases its receipts, the administration assumes that the economy is leveling off, and will be below the last figure of 1955. In view of the fact that the population is growing, and in view of the fact that we normally do have an increase of 3 percent in productivity per man-hour, the only consequence of this is either that progress stops—and the birth rate does not stop, of course—or that we get an increase in unemployment.

So that while the administration does not say, "I am one of the Four Horsemen" or "We are the prophets of gloom and doom," if we dig into the figures, that is what the estimate of receipts really gives us.

But, Mr. Hughes, turning from this passage-at-arms with my colleague——

Senator SPARKMAN. Mr. Chairman, will you yield for a brief comment?

Chairman DOUGLAS. Yes, sir; with the understanding this does not come out of my time.

Senator SPARKMAN. I should like to say this in answer to what Senator Goldwater said about the witness yesterday. I thought the witness yesterday was one of the most optimistic we have had. As a matter of fact, he rather chided the administration for not being optimistic enough.

You will recall that the witness said there was no reason in the world why we could not achieve the goals which have been set. In fact, he said that the estimate of the surplus for next year which had been made was entirely too low; that we should have a $5 billion surplus next year.

Chairman DOUGLAS. Is that all?

Senator SPARKMAN. That is all.

Chairman DOUGLAS. I wonder if Mr. Hughes would open the Economic Report, which I see he has beside him, to page 99. These are the recommendations in the Economic Report of the President. Some of them either do not directly involve the Federal Government or do not require expenditure by the Federal Government, but many of them do call for explicit legislative recommendations.

Some of the latter are difficult to locate in the President's budget. I worked over it, but I had some trouble in finding them.

With respect to each of the following, has a specific provision been made in the budget; and, if so, what expenditures are called for in the budget for fiscal 1957:

I now take I (*b*). The President recommends that we:

> Implement the Great Plains program to promote sounder land use in portions of 10 Western States between the Corn Belt and the Rocky Mountains.

Has any budgetary authorization or expenditure been asked for, for 1956?

Mr. HUGHES. Not as a particular item, but it is included in the general new program that they have in mind.

Chairman DOUGLAS. Is that included in the estimates of expenditures?

Mr. HUGHES. Yes, sir.

Chairman DOUGLAS. How much is included?

Mr. HUGHES. The Department of Agriculture tells us that——

Chairman DOUGLAS. In what amount?

Mr. HUGHES. No; not a particular item.

Chairman DOUGLAS. Not a particular item?

Mr. HUGHES. Not a particular item, but it is included in the total.

Chairman DOUGLAS. If it is not included as an item, how can you be sure it will be carried out?

Mr. HUGHES. Well, we have a program of new agricultural development which the Agriculture Department is working out.

Chairman DOUGLAS. Yes; but programs do not implement themselves without appropriations or without the shifting of funds.

Mr. HUGHES. There are appropriations in there for that, for those programs.

Chairman DOUGLAS. Could you break down this figure which you say the Department of Agriculture is giving for a whole new program?

Mr. HUGHES. They have, as you know, the $450 million in the appropriations and the $400 million in expenditures, which is divided into a number of different parts which they are working out, and they have worked out with us, and they have been over the program.

Chairman DOUGLAS. How much is set aside for this Great Plains program?

Mr. HUGHES. That is worked in with the whole program, and there is not very much money, as far as I can remember right now, although you can talk with Mr. Benson on that.

Chairman DOUGLAS. What items are included in the figure of $400 million which the Department of Agriculture is asking for?

Mr. HUGHES. What is that?

Chairman DOUGLAS. What items are included?

Mr. HUGHES. Of course, the whole program of new operations, including the soil bank.

Chairman DOUGLAS. You mean the soil bank reserve and land bank?

Mr. HUGHES. And land bank.

Chairman DOUGLAS. But there is nothing in addition to the soil bank and the land bank in a special program for the Great Plains?

Mr. HUGHES. Well, the Great Plains works in with those programs.

Chairman DOUGLAS. I see; it is included in the soil bank and land bank, but there is no specific provision for it.

Mr. HUGHES. There is money in there which can be used, but it is not very large at the immediate present time, because it will not run to that in 1957. There are many items in there, such as the——

Chairman DOUGLAS. I would say, then, that I (*b*) is included in I (*a*). To say that it is supplementary and that it is in addition to I (*a*), is double counting.

Mr. HUGHES. Let me say this, Mr. Chairman, that each one of these items in this program has been checked over with the departments, and everything which is needed or is necessary to be provided in the Federal budget is provided. The Great Plains program, in addition to benefiting from the acreage reserve and the conservation reserve, will involve specific increases in certain of the existing programs of the Department. It may not be provided as item (*a*) or item (*b*) or item (*c*), but it is in there.

(The following additional information was submitted later:)

Increases contained in the 1957 budget estimates for Great Plains program

Agency and item:	*Amount*
Under Agricultural Research Service	$297,000
Under Soil Conservation Service	724,165
Under Farmers' Home Administration:	
Loan authorization	2,500,000
Salaries and expenses	95,520
Total	3,616,685
Direct appropriations	1,116,685
Loan authorizations	2,500,000

Chairman DOUGLAS. But you list it as thought it were something in addition to it, but as a matter of fact it is not. It is merely part of (a).

Let me pass to I (c), to—

Take other steps, such as to speed surplus disposal, broaden outlets for farm products, reduce farm production costs, improve farm credit facilities, and expand agricultural research.

How much is appropriated for each?

Mr. HUGHES. They are all in different categories, Mr. Chairman.

Chairman DOUGLAS. Yes; but how much?

Mr. HUGHES. There is not a particular item of $340, or that sort, in these particular things, but they are included in the programs for the Department in the year.

Chairman DOUGLAS. They are included in the ordinary programs; these are not additions?

Mr. HUGHES. These are not all additions to legislation.

Chairman DOUGLAS. But to count it as though they were additions and as new steps which should be taken——

Mr. HUGHES. There have been increases in those regular programs to provide for additional money in these fields, as you can see.

Chairman DOUGLAS. How much additional money for reducing farm production costs is included?

Mr. HUGHES. Well, it is all part of the general production program, and you have got new money in research, you have got new money in, what do they call it, the land-disposal program, which is what, $250 million this year.

Chairman DOUGLAS. Land-disposal program is to be used to reduce farm production costs?

Mr. HUGHES. No; reducing production. You have several different factors which come into the area of reducing operating costs.

Chairman DOUGLAS. How much money is being appropriated for speeding the disposal of the surplus?

Mr. HUGHES. The expenditures for removal of surplus commodities increase $40 million and increased efforts will be made to dispose of surplus CCC stocks. There will be a separate man to head that. That has already, I believe, come up before the Congress, and there will be a staff to handle that.

Chairman DOUGLAS. You are going to provide an additional man to dispose of the surplus?

Mr. HUGHES. Well, I mean he has got his staff, and other people, too, of course.

Chairman DOUGLAS. I would like to point out that on page 59 it is stated that a great many of these programs are included, or rather, are to be paid for out of receipts from the CCC, but the appropriation for the CCC remains the same as before.

Mr. HUGHES. The CCC is a net operation, as you certainly know.

Chairman DOUGLAS. Yes; but there is no additional amount appropriated for CCC, but you say that you are going to get more for these purposes by taking them out of CCC. This must mean that you intend to reduce the amount which CCC has in stock, and therefore you propose to finance these programs out of the sale of the farm surplus, whether on the domestic or on the foreign markets.

Mr. HUGHES. If you are disposing of some of the products held by CCC, you are getting money into the CCC.

Chairman DOUGLAS. Then you are going to finance these by sales on the open market for——

Mr. HUGHES. No. That is only one factor in the whole big operation.

Chairman DOUGLAS. How large an appropriation is given for III (a) of the President's recommendations, section (a):

Provide the requested Federal support for the rural development program to help low-income farm families improve their earning power.

Mr. MCCANDLESS. I think there are $15 million in there, additional to the Farmers' Home Loan Administration, for loans; and I think in other aspects, Mr. Chairman, the program is included—that was the only one, I think, which was contingent on new legislation.

Chairman DOUGLAS. Will the administration support this new legislation?

Mr. HUGHES. Yes. It sent up some new legislation.

Chairman DOUGLAS. On this point?

III (b):

Expand State programs of vocational rehabilitation on the basis of available Federal financial assistance.

How much additional Federal money are you proposing in the field of vocational rehabilitation?

Mr. HUGHES. Vocational rehabilitation—Is that a separate item?

Mr. MCCANDLESS. Yes.

Chairman DOUGLAS. I may say my time is up, Mr. Hughes, so in prizefight parlance, you have been saved by the bell.

Mr. HUGHES. We will get you the information, Mr. Chairman.[1]

[The following table was submitted:]

Office of Vocational Rehabilitation	Estimated expenditures		
	Fiscal 1956	Fiscal 1957	Increase
Grants to States and other agencies	$33,750,000	$36,800,000	+$3,050,000
Training and traineeships	2,228,147	2,700,000	+471,853
Salaries and expenses	1,072,000	1,318,000	+246,000
Total	37,050,147	40,818,000	+3,767,853

[1] Additional references and details on this and other recommendations appear at the end of the hearing.

Chairman Douglas. Mr. Talle?

Representative Talle. I am very much pleased, Mr. Hughes, with the attitude you have taken toward improvement in economic statistics. The special analysis of last year, and the special analysis again this year, are encouraging to all of us on this committee, I am sure, and even more encouraging to those of us who have served on the subcommittee.

Mr. Hughes. Well, you worked very hard on that.

Representative Talle. Everyone who has worked on that assignment has worked very hard.

Mr. Hughes. Yes. I mean the whole group.

Representative Talle. Yes; the subcommittee. And we are very much pleased with your encouragement.

Mr. Hughes. We have not stopped. We are going ahead with that program.

Represenative Talle. That was my next point, and I am glad you anticipated me. I hope the Congress will go through with that, because while statistics are fearfully drab and completely without romance, they are pretty useful, are they not, both in Government and in private business?

Mr. Hughes. You can get sunk in them, but you have got to have the right kind.

Represenative Talle. That is right.

Yesterday, when our witness stated that there was an inconsistency between the budget message and the Economic Report, I said that I could not find that inconsistency; but in the event it does exist, I would expect a greater degree of conservatism in the budget message than in the Economic Report. Was I right or wrong?

Mr. Hughes. That is right. It is a matter of degree.

Representative Talle. Yes, sir.

Mr. Hughes. But actually, the entire budget message was reviewed and extensively gone over and discussed with Dr. Burns and the others, so it represents their thinking as well as our own with regard to its findings and inclusions.

Representative Talle. It is my feeling that in a budget message you can come a little closer to employing the principles of good accounting than in an economic report.

Mr. Hughes. That is right.

Representative Talle. There are of course certain unknown factors in all messages and reports of that character.

What finally happens to the program must depend upon what Congress does, is that not right, Mr. Hughes?

Mr. Hughes. That is correct; that is right, sir.

Representative Talle. Now I would like to jostle my chairman a little bit.

Chairman Douglas. It has been done before.

Representative Talle. This is all in good humor, Senator Douglas. Do you remember the essay you wrote on Adam Smith?

Chairman Douglas. Yes, long ago; 30 years ago.

Representative Talle. It is dangerous these days not to read something and yet approve it. I thought your essay was good when I heard you read it at the University of Chicago 30 years ago.

Chairman Douglas. I wrote that; no assistant in my office wrote it.

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Representative TALLE. I will see to it that, in revising my comments, I certainly will not claim that anybody else did, but I do remember, Mr. Chairman, that you were really very gloomy in 1954.

Chairman DOUGLAS. Oh, I thought you were asking me about Adam Smith.

Representative TALLE. Yes; oh, yes. I should have carried that on a little further. I wanted to say I found some of your speeches in 1954 at variance with what you said in that earlier essay, if not in words then in spirit.

Chairman DOUGLAS. Oh, in spirit. What I did say in 1954 was that we were in a recession. I never said that we were in a depression. I said that we should recognize that we were in a recession, which, when Mr. Burns was a private citizen and a pupil of my teacher, Wesley Mitchell, had been defined as a contraction of employment and production.

Since then, everyone admits we were in a recession and Mr. Burns said so a year ago when testifying before us; but at the time, the gentlemen of the opposing political party said that this was a base libel, and that I was a prophet of gloom and doom. Then the previous Speaker of the House, Mr. Martin, made a trip to Philadelphia and spoke before the gentlemen of the Union League Club, calling me one of the Four Horsemen of the Apocalypse. I do not know whether I was Death or Famine.

This should not be deducted from your time, Mr. Talle, so that you should not be prejudiced, but since you started to debate with me, I thought the principle of self-defense permitted me to reply.

Representative TALLE. I merely wanted to say that our chairman—and I can think of 2 or 3 other members of the less numerous branch of the Congress—fell in line with that fear of gloom and doom, and I was about to suggest that inasmuch as those words seem to harass the souls of some persons, perhaps we could turn to the field of poetry and borrow something from Whittier, such as—

> Alas for him who never sees
> The stars shine through his cypress trees.

Or say: "Hail, blessed melancholy."

Chairman DOUGLAS. I see that you know your Milton as well as your Whittier.

Representative TALLE. That is all, Mr. Chairman.

Chairman DOUGLAS. May I say in reply to my good friend, because I think when these personal issues are raised, one should be permitted to reply, that I merely said it was a recession, and the facts have borne me out. Certainly, emotionally insecure people in high office felt that merely the hint of a recession was a terrible thing, and it threw them into a difficult psychological state. I would be glad to prescribe competent psychiatric treatment for them. I have a couch in my room which they are welcome to use, if a psychiatrist wants to work on them.

Senator Sparkman?

Representative TALLE. May I add this: In any event, I am sure everyone here is very glad that we did not get into that swamp of despondency.

Chairman DOUGLAS. That is right.

Representative TALLE. And we are in better shape now.

Chairman DOUGLAS. That is correct, although we had a rather rough 1954.

Senator Sparkman?

Senator SPARKMAN. Mr. Chairman, I want to continue the questioning relating to specific recommendations about which you were inquiring a few minutes ago, at pages 99 and 102.

Mr. Hughes, yesterday a witness before us said there were, and simply made the general statement in response to a question, that there were several items in this list for which he could find no specific provision in the budget.

Congress enacts all of these measures into legislation and makes available adequate financing for them; the witness, when asked that question, said that in his opinion it probably would mean a billion dollars increase to the budget.

Was he wrong in that statement?

Mr. HUGHES. He might have been.

Senator SPARKMAN. I will say it is just a figure that he more or less pulled out of the air. He first said he had not been able to find many of these specific provisions in the budget.

Mr. HUGHES. Of course, when anybody pulls a figure out of the air, why, a billion dollars seems to be a good place to start with. But these proposals have all been reviewed, and we are satisfied that if the Congress is able—I do not think they will be, under all the time and other limitations—to enact these things, the amounts would still be, as we have planned it and programed it, within the budget totals.

Senator SPARKMAN. I am glad you put in that additional statement regarding Congress enacting it, because frankly, when I first saw this list, I thought it must have been submitted on that premise—that surely Congress would not enact all of them.

Chairman DOUGLAS. The budget figures support the budget requests.

Senator SPARKMAN. That is what I am saying. Yesterday the witness said he could not find them. You are saying a budget request will not be submitted to compensate for them in the event Congress enacts them into law.

Now, I want to ask you a few general questions regarding the housing program.

The public housing program of 35,000 units per year for 2 years, and a part of the housing aid for the elderly, are conditioned to a certain extent, as I understand it, upon a quickened urban renewal and slum-clearance program. Does the budget provide for sufficient additional funds to take care of a real energetic slum-clearance and urban-renewal program?

Mr. HUGHES. All the plans and programs which are included in urban renewal are provided for. That does not mean, of course, that everything which everybody can think of is in there; but what has been considered to be a good, sound program is provided for.

Senator SPARKMAN. In your opinion, is adequate provision made?

Mr. HUGHES. Yes, sir.

Senator SPARKMAN. I want to go back to this soil bank or, rather, your new agricultural program, I believe is the way you describe it. You say the total is $450 million?

Mr. HUGHES. Appropriations.

Senator SPARKMAN. Yes, appropriations.

Mr. HUGHES. Yes.

Senator SPARKMAN. Is that for the two years?

Mr. HUGHES. No. That is just for the one year.

Senator SPARKMAN. For 1956?

Mr. HUGHES. 1957.

Senator SPARKMAN. For fiscal 1957.

Mr. HUGHES. Yes.

Senator SPARKMAN. Has any provision been made for 1956?

Mr. HUGHES. Well, there is some provision in the total estimate, but a large amount could not be spent before July 1, 1956.

Senator SPARKMAN. Of course, it is assumed the program will not get far enough under way to have much impact in 1956; is that the idea?

Mr. HUGHES. That is correct for the impact of expenditures in the fiscal year 1956.

Senator SPARKMAN. My understanding has been that it was desired to get the soil bank operating quickly; is that true?

Mr. HUGHES. There are certain moneys in there which can be used, if it is worked out on that basis.

Senator SPARKMAN. To take care of the soil bank for fiscal 1956?

Mr. HUGHES. What can be done in 1956.

Senator SPARKMAN. The $450 million is designed for fiscal 1957?

Mr. HUGHES. That is right.

Senator SPARKMAN. And that would cover the soil-bank operations? What other activities make up this new agricultural program?

Mr. HUGHES. That has been all summarized and set forth by Secretary Benson, and includes——

Senator SPARKMAN. But I want to get a breakdown of items, although I understand we cannot get a breakdown of figures; is that right?

Mr. HUGHES. That is right. It will, of course, include the continuation of the special school milk program, and 1 or 2 other lesser items which are included in the general agricultural effort, but which are not tied in to any particular appropriation request at this stage. They have presented, I think—I have not read this exact last message, but I believe they presented a pretty rounded picture of what they were planning to do, and all the money which will be required is provided in the budget. That has been very carefully gone over.

Senator SPARKMAN. The soil-bank program consists, so far as this is concerned——

Mr. HUGHES. Two parts.

Senator SPARKMAN. Of two parts; is that right?

Mr. HUGHES. That is right.

Senator SPARKMAN. How do you describe the two parts?

Mr. HUGHES. Well, one is the acreage reserve program, and the other is the conservation reserve program. That is the way they are described.

Senator SPARKMAN. How many acres is it contemplated will be taken out of production?

Hr. HUGHES. That I cannot answer you at the moment.

Have you got that?

It is a substantial figure, but I do not recall the figure right now.

[The message of January 9 from the President relative to agriculture mentioned 15 million acres in the acreage reserve and 25 million acres in the conservation reserve as possible goals.]

Senator SPARKMAN. I do not recall what it is, but I have seen estimates in newspaper items which would indicate that $450 million probably would not do an adequate job for the soil bank alone.

Mr. HUGHES. Of course, you could get all kinds of ideas. This has been carefully worked out with the Agriculture Department, and according to their estimates and calculations, and this was based upon their estimates, it will be adequate.

Senator SPARKMAN. You take, in other words, their program and accept it, and make it part of the budget; is that right?

Mr. HUGHES. That is right, because we reviewed it with them and discussed all parts of it in a general way to make sure they were in keeping with each other.

Senator SPARKMAN. Do you do that with all departments and agencies?

Mr. HUGHES. Yes; we review programs with them.

Senator SPARKMAN. By the way, does not the budget also assume that Congress will enact a postal pay increase?

Mr. HUGHES. Yes, sir.

Senator SPARKMAN. If it does not, then what happens?

Mr. HUGHES. If you do not provide that amount of revenue, why, then there will be something else which will have to be put in its place if you are going to keep a balanced budget with a $435 million surplus.

Senator SPARKMAN. Do you recall offhand what that amount is?

Mr. HUGHES. It is $350 million. There may be some adjustment on that, but that is the basic figure.

Senator SPARKMAN. I am not sure whether you were questioned on this, but if you have not been, I want to ask some questions on the highway program.

Mr. HUGHES. Which program?

Senator SPARKMAN. The highway program. The budget is set up on the assumption that it will be a fully self-sustaining program?

Mr. HUGHES. That is right. That is still, of course, as you know, very actively under discussion right now.

Senator SPARKMAN. I know it is. That is one reason I am concerned about it right now—what its impact might be.

Mr. HUGHES. As far as our viewpoint is concerned, in the budgetary and administration side, that is our viewpoint of it.

Senator SPARKMAN. In other words, your idea is that if Congress sets up a highway program, it should at the same time set up a method of paying for it?

Mr. HUGHES. That is right.

Senator SPARKMAN. Is that same thing true with reference to school construction?

Mr. HUGHES. No. There is a provision in there for the school construction.

Senator SPARKMAN. How much is included?

Mr. HUGHES. Well, $375 million appropriations, and expenditures estimated at about $150 million in the first year.

Senator SPARKMAN. 375 million.

When you say the first year, does that mean fiscal 1957?

Mr. HUGHES. 1957; yes.

Senator SPARKMAN. Mr. Chairman, I will stop right there.

Chairman DOUGLAS. Mr. Wolcott?

Representative WOLCOTT. Mr. Hughes, getting back to the chairman's question about the possible budgetary estimates for the agricultural program. With reference to any deficits concerning the Commodity Credit Corporation, as I understand the basic law, and I may be incorrect, you budget only when you anticipate impairment of commodity credit capital.

Mr. HUGHES. What is that, sir?

Representative WOLCOTT. Commodity credit impairment——

Mr. HUGHES. That is appropriations, but we budget the expenditures each year.

Representative WOLCOTT. That is correct.

Mr. HUGHES. Yes.

Representative WOLCOTT. But the expenditures on the part of the Government are only in connection with impairment of capital?

Mr. HUGHES. No. The appropriations only relate to replacing an impairment of capital or increasing capital; in other words, the passing of an appropriation. But the actual expenditures which have to be made under the provisions of the law affecting price supports are immediately a charge against the budget for that year. If we buy new commodities, make new loans, that immediately goes in as an expenditure. We have no control of it whatsoever.

Representative WOLCOTT. And that is chargeable against the capital of the Commodity Credit Corporation?

Mr. HUGHES. Yes; theoretically, on the books; but actually, for the budget it is charged as an expenditure of the Government. It is not easy to estimate it, I assure you.

Representative WOLCOTT. I think you put it better than I can. But there is no loss to the Federal Government until there is an impairment of the Commodity Credit capital?

Mr. HUGHES. There is a loss in the fact that at least there is a paying out of money from the revenues——

Representative WOLCOTT. Of the Commodity Credit Corporation.

Mr. HUGHES (continuing). When the loan is made.

Representative WOLCOTT. Yes.

Mr. HUGHES. The actual realization of the loss is not made until the impairment of the capital takes place when the commodity is disposed of at a loss.

Representative WOLCOTT. Payment of that money might be from the accumulation which the Commodity Credit has from the sale of surplus?

Mr. HUGHES. Yes; it might be. It is a net operation.

Representative WOLCOTT. Yes.

Mr. HUGHES. If they sell some of their products and then make new loans, the balance—and it is quite a substantial figure—goes back and forth there.

Representative WOLCOTT. Senator Sparkman, I believe it was, asked a question about the part of the budget which might have to do with public housing, which for some reason or other we have had to deal with for a good many years.

I assume that the recommendations in that respect are contingent primarily upon the action which Congress might take in order to follow the President's recommendations in respect to workable programs incident to urban renewals and slum clearance; is that right?

Mr. HUGHES. That is right. We have provided in the budget the amounts necessary for the President's recommendations. But we do not know, of course, what may eventually be provided in the law.

Representative WOLCOTT. Your budgetary estimates, therefore, are not predicated upon existing law, if existing law is continued?

Mr. HUGHES. Yes; it is on existing law, plus the new recommendations which we are making.

Representative WOLCOTT. Which are so different, of course, that one would almost nullify the other. But that is just a matter of opinion. Thank you.

Chairman DOUGLAS. Congressman Mills?

Representative MILLS. Thank you, Mr. Chairman.

Mr. Hughes, may I direct your attention to the concluding paragraph of page 72 of the President's Economic Report.

In that paragraph are stated certain very fundamental principles for managing the Government's fiscal affairs in the future, and I think I would be in complete agreement with the very laudable statements, which are divided into six parts.

However, I had a question I wanted to ask you, if I may, with respect to the top of page 73:

> Third, sufficient revenues should be raised to meet the Government's outlays, if not every individual year, then surely over a term of very few years.

Does that mean that for every dollar of deficit run in an individual year, there should be an equal dollar of surplus within a very few years thereafter?

Mr. HUGHES. I do not know exactly. Of course, that is Dr. Burns' statement.

Personally, I am, as you know, a firm believer in a balanced budget. I realize we cannot balance the budget every year. But I think this, as a general statement, is a good guide. But in its direct application, as far as I would be concerned, I would think we need to balance income and outgo as closely as possible in each year.

Representative MILLS. This, of course, is the President's statement.

Mr. HUGHES. That is right.

Representative MILLS. It is in the President's Economic Report.

Mr. HUGHES. There is no question about that.

Representative MILLS. And I was trying to interpret what is meant, because I think it is sound, frankly, if it means what one might gather from a simple reading of it.

Mr. HUGHES. I do not think you need to read anything in it. I think it is perfectly clear what it says.

Representative MILLS. That lays down the doctrine of the future, then, I take it, that in a very few years following this year, or the last fiscal year, we should have surpluses to the extent of $16.5 billion, since we have had deficits in the preceding 3 budgets of about $16.5 billion, without taking into consideration some deficits which have occurred in previous years, even.

Mr. HUGHES. I do not know how much you want to predate this. That is a matter of discretion.

Representative MILLS. We could predate it, but I am just taking 3 years, because $16.5 billion of surplus might stagger the economy if we were to accumulate it in the next few years, even.

Mr. HUGHES. Well, I think all those things have to be governed by wisdom and judgment each year. I do not think you need to set up an ironclad jacket to stay in in any one particular year.

Representative MILLS. I now come to the question I wanted you to enlighten me on, if you would. Do you consider that the budget for 1957 carries out this principle?

Mr. HUGHES. To which?

Representative MILLS. Do you consider that the budget for 1957 carries out this stated principle of the President?

Mr. HUGHES. Do you mean this whole——

Representative MILLS. No; I am talking now about the third principle.

Mr. HUGHES. Well, I think that, taking 1957 as a separate item, it certainly does.

Representative MILLS. To the extent that good management of fiscal affairs would dictate?

Mr. HUGHES. If you ask, Is it perfect, I will say "No." Is the desire to work toward carrying it out, I would say "Yes." But we are dealing with human beings here, and we have not yet found a way to make that a 100-percent-perfect operation in any place.

Representative MILLS. The reason I am asking you, Mr. Hughes, I doubt if there is much difference in your thinking and mine, as individuals, with respect to the desirability of paying on the public debt in times of so-called peace and prosperity when we cannot refrain from creating debt in times of depression and war. I think you and I would agree that we are in that period of prosperity and sufficient peace, and that we are not at actual war with anyone, to justify reduction of the public debt.

On the basis of your estimates of expenditures and your estimates of receipts in the budget according to the chart now before us, we show for 1957 a surplus of only $400 million in the administrative budget which can be used to reduce the public debt. Therefore, I ask again the question whether or not we are pursuing the objectives set forth in the President's report with respect to the budget for 1957, to the extent that we should.

Mr. HUGHES. Yes, sir; when you consider another statement which is made very positively in, I think, one or two places, and we have made it before in other situations, that the figures we are presenting here are our best estimates at the present time, but we shall continue to work, and that is very definitely the President's policy and the whole administration policy, to work to improve that picture through continuing efforts to do the job better, and to make savings and make reductions as we go along.

Representative MILLS. My point is that, much as he may desire and much as he may have done in that direction, it seems to me incumbent upon the Congress to endeavor to do a little bit better job with respect to this budget than you were able to do, let me say.

Mr. HUGHES. We won't fight you on that. If you can find the right places to make it, that suits us. We will help you.

Representative MILLS. Actually, as I see it—and this is not in any sense critical, whatsoever, but I am looking at it factually—as I look at the budget, and I have had an opportunity to study it some—of course, I will admit readily that I know so little about it, since it is so voluminous. But as I look at the totals of $400 million projected surplus in 1957 in the administrative budget, and realize that $400 million includes $350 million of postal increases, which I venture to predict will not be enacted by the Congress, I then come to the conclusion that the budget as set forth would have a surplus of $50 million; and I look on the other hand and I find in the budget that the increase in overall expenditures over 1956 is $1.6 billion, and I wonder whether or not we are following the principle of good government fiscal responsibility in increasing expenditures in this year of peace and prosperity to that extent.

Mr. HUGHES. There are two things—may I comment?

First, of course, the principal part of that increase is in the defense budget, and unfortunately, we are dealing with factors there a little bit beyond our control.

Representative MILLS. Let me raise the question: Is the principal increase in defense?

Mr. HUGHES. Yes, almost a billion in defense.

Representative MILLS. And only $600 million in nondefense?

Mr. HUGHES. Yes.

Representative MILLS. You think that is a fair evaluation of it, then.

Mr. HUGHES. Oh, yes, no question about it. That is the fact.

Representative MILLS. How do we do all of these new things that are proposed in the budget on this $600 million? I do not see how we can.

Mr. HUGHES. We have done it by carrying out the provision that you have spoken about, by keeping under control every item that we can.

Representative MILLS. You have had some reductions, I know.

Mr. HUGHES. It is not an overall increase of everything. What we do—that is the net increase.

Representative MILLS. How much of that $600 million, actually, which is in the nondefense field, is accounted for by increase in the interest on the public debt?

Mr. HUGHES. About $200 million.

Representative MILLS. That leaves, then, $400 million net to take care of all of the increased activities contained in the Economic Report and the budget.

Mr. HUGHES. That is right.

Representative MILLS. For the life of me, I doubt that we can get by with no more increase in nondefense expenditures than $400 million for all of these purposes.

Chairman DOUGLAS. The Congressman is pursuing a very interesting line of questioning, but again Mr. Hughes is saved by the bell.

Representative MILLS. Mr. Chairman, it is not Mr. Hughes who is saved. I may be saved.

Chairman DOUGLAS. That is a very gracious way of putting it.

Senator Flanders?

Senator FLANDERS. I have no comment at this time.

Chairman DOUGLAS. Mr. Kelley?

Representative KELLEY. Mr. Hughes, in a question directed by Senator Sparkman to you asking for the estimate by the Bureau of the Budget of the expenditures of fiscal 1957 for school construction, I understood you to say $250 million.

Mr. HUGHES. No; I said $375 million in the appropriations, and I think $150 million in the expenditures.

Representative KELLEY. Are there not direct grants in the President's proposal? In his proposal for school construction he asked for $250 million a year for 5 years. That would mean $250 million for fiscal 1957.

Mr. HUGHES. These are the projected estimates of what will be spent under the program in 1957. Of course, in subsequent years it will be increased.

Representative KELLEY. There is nothing I know of which would come out of the Federal Treasury except the $250 million.

Mr. HUGHES. No; that is not correct.

Representative KELLEY. The other provisions of the act would be refunded.

Mr. HUGHES. Well, eventually, but even if they are refunded or even if you get some repayment, you still have to charge them up as an expense.

Representative KELLEY. Then you do estimate that probably $250 million would be needed to help finance the other provisions of the act?

Mr. HUGHES. The total cost of the act as estimated is $375 million in appropriations, and $150 million in the expenditures for the first year.

Representative KELLEY. One hundred fifty million dollars expenditures for the first year? I do not understand it.

Mr. HUGHES. You cannot get these things started all at once. It takes a little time to get construction. In the next year expenditures will be more than that.

Representative KELLEY. The legislation which is pending before the House of Representatives now calls for $400 million in direct grants for each of the 4 years, each year. You did not take that into consideration, estimating your budget.

Mr. HUGHES. Three hundred seventy-five million dollars is the figure that we have in the budget, sir.

Representative KELLEY. You did not make any allowance for what might happen if the House passed the pending legislation.

Mr. HUGHES. I would not attempt to do that, sir.

Representative KELLEY. That is all, Mr. Chairman.

Chairman DOUGLAS. Mr. Curtis?

Representative CURTIS. Yes.

Mr. Hughes, I want to try to point up some matters which I gathered, from your testimony and questioning, you had previously discussed. The estimates of revenue, of course, are somewhat speculative, but at least on fairly firm and conservative grounds.

In the budget, probably the most speculative part is that which depends on trying to figure out what Congress might do with some of these proposed new programs; is that not about what you have been saying and what these questions have brought out?

Mr. HUGHES. That is true; except for one point.

In the last year, for example, there were a number of changes, but the net effect on the budget was not great.

Representative CURTIS. Because wherever you estimated that Congress might do something and you had something in the budget for it and they did not do it, they might have gone ahead with something else?

Mr. HUGHES. That is right.

Representative CURTIS. That is very pertinent, and I think it is very pertinent in regard to school construction.

I notice you have $150 million in it, and from my observations in talking around with both the Senate and the House, it appears it is going to be highly questionable, and I regret it, that there will be any school construction bill. So, if there is not, why, there is $150 million which, so far as the budget is concerned, will be available for possibly some of these programs that you have regarded as speculative, but actually have not been put into the budget.

Mr. HUGHES. That is right, with this point; that we put up the budget as the President has said, very specifically, on the best basis that we can figure for the recommendations to the Congress.

Now it is on a balanced basis, and we feel that puts it up to all of us, if we do make changes in those figures—and no question about it, there will be changes made, because just experience will tell you that—why, then it should be done on a basis where there is some consideration of the offsetting factors; if you are going to take out something here, put something in there, or vice versa, so that the net balance is not changed.

Representative CURTIS. You have quite a bit in there for foreign aid, have you not, in this budget?

Mr. HUGHES. Yes.

Representative CURTIS. And there are some, anyway, who feel that the temper of Congress is such that you probably are not going to reach that figure.

Mr. HUGHES. That is right. That is up to the Congress.

Representative CURTIS. Yes. I am just trying to point up what to me is the practical situation which the administration is faced with in these estimates, and I think what Congressman Mills was driving at is entirely true. If Congress were to grant all of these moneys for all of these or grant these programs, I think there is no question but what we will have an unbalanced budget in order to meet them. But the estimate of the budget message is this give-and-take proposition of trying to figure out what Congress might do, and I think probably you have been a little bit conservative in your estimates.

Mr. HUGHES. I hope so.

Representative CURTIS. As to your estimates of what this Congress will do, and I would regret it in many instances, because many of these programs I am very anxious to see implemented. But from a practical standpoint, I suspect we are going to have a lot more to apply on the Federal debt than your budget message indicates.

Mr. HUGHES. We hope so, from two sides, both on the expenditures side and from the receipts side; but at the same time, we have been honest in putting forward what we think should be done, and that is our recommendation.

Representative CURTIS. Thank you, Mr. Chairman.

Chairman DOUGLAS. Senator Goldwater?

Senator GOLDWATER. I have no questions.

Chairman DOUGLAS. If I may resume the questioning which Congressman Mills started, let me see if my impression is correct.

You say that the total increase in expenditures recommended by the budget was $1.6 billion; am I right?

Mr. HUGHES. That is right, over 1956.

Chairman DOUGLAS. That is right. And that $1 billion of that is for military purposes.

Mr. HUGHES. That is right.

Chairman DOUGLAS. Leaving an increase of $600 million for civil purposes, of which $200 million is for increased interest payments.

Mr. HUGHES. Yes; that is right.

Chairman DOUGLAS. That leaves $400 million for all other purposes.

The cost of the soil bank program is how much; $450 million, did you say?

Mr. HUGHES. That is the appropriations. About $400 million expenditures.

Chairman DOUGLAS. $400 million?

Mr. HUGHES. For the whole of that new agricultural program.

Chairman DOUGLAS. So if you take into account the soil bank program, there is no increase for other functions.

Mr. HUGHES. Well, you are only going to pick out one thing.

Chairman DOUGLAS. No; I am picking out all things. If you allow for military expenditures, interest, and the soil bank program, there is no increase for all other purposes.

Mr. HUGHES. In other words, the others balance out, the increases and decreases balance out.

Chairman DOUGLAS. That is what I wanted to establish.

Mr. HUGHES. Yes.

Chairman DOUGLAS. And that also takes into consideration an estimated increase of $350 million for postal increases?

Mr. HUGHES. That is right.

Chairman DOUGLAS. What type of postal increase are you proposing?

Mr. HUGHES. Well, the Postmaster General, I think in the next day or so, will be putting up a bill on that which is very much like the previous proposal.

Chairman DOUGLAS. Was that not an increase from 3 cents to 4 cents on first-class mail with very small increases for second-class mail and third-class and fourth-class mail? Is that not true?

Mr. HUGHES. I do not remember the details.

Chairman DOUGLAS. I think the record shows that.

Where does the deficit in the postal service comes from; on first-class mail on letters, or does it come on second-class mail, namely, newspapers and magazines?

Mr. HUGHES. That is something that the Congress will be debating quite extensively.

Chairman DOUGLAS. Mr. Hughes, you the Director of the Budget. Do you not know where the deficit in the Post Office comes from?

Mr. HUGHES. Well, I can tell you what the accounting figures show, which have been presented, of course, in different ways.

Chairman DOUGLAS. What do they show?

Mr. HUGHES. They show deficits in second- and third-class, but we are interested in the whole, total, overall picture.

Chairman DOUGLAS. And it shows no deficits for first class; is that not true?

Mr. HUGHES. That, of course, is the accounting setup.

Chairman DOUGLAS. That is right.

Mr. HUGHES All those things are an allocation.

Chairman DOUGLAS. So you are proposing to raise your revenue on that type of service which already pays for itself, and not to raise the revenue on newspapers and magazines and direct-mail advertisers; and, of course, you know that it is the weeklies, the slick weeklies, which are probably getting the largest subsidies from the National Government of almost any private group, and which are great supporters of your political party. Now their rates are not to be increased.

Mr. HUGHES. That is something which will be discussed extensively between the Congress and the Postmaster General, of course. We are interested in the net result.

Chairman DOUGLAS. All right.

Now then, returning to the list of your whole new program on pages 99 to 102 of the recommendations of the President, Senator Sparkman has spoken to you about IV (c) and IV (d), and I take it you are going to furnish me a memorandum on III (b).

Mr. HUGHES. Yes.

Chairman DOUGLAS. May I turn to V (a). You say "Accelerate work on practical flood-control projects."

Mr. HUGHES. Which is that, sir?

Chairman DOUGLAS. V (a).

Mr. HUGHES. Oh, yes.

Chairman DOUGLAS. You say, "Accelerate work on practical flood-control projects." Yet on page 14 of your statement when you deal with this matter, you say:

> The budget policy for direct public works is to include funds for initiating construction only after adequate plans have been made. In the case of authorized flood control and other water resource projects, the budget provides funds only for projects for which planning has reached the stage where the design and scope of the major structure has been clearly determined, a firm estimate of cost has been prepared, and a current analysis of economic justification shows a favorable relationship between benefits and costs.

I want specifically to ask you, what do you propose for flood-control projects in the New England area and in the area of northern California and Oregon which have suffered very heavily from the floods of the summer and fall?

Mr. HUGHES. There is a supplemental which has already gone up for the Northeast which is before the Congress now.

Chairman DOUGLAS. Is that included in your budget statement?

Mr. HUGHES. Well, it is included in the figures, yes.

Chairman DOUGLAS. It is included?

Mr. HUGHES. Yes.

Chairman DOUGLAS. How much does that call for?

Mr. HUGHES. That calls for a total in fiscal 1956, which is the supplemental, of $1.59 million for planning and $1.10 million for construction.

Chairman DOUGLAS. That will be, in effect——

Mr. HUGHES. That is the 1956 start on a total cost of $220 million.

Chairman DOUGLAS. That is a total cost of $220 million.

Mr. HUGHES. You know, these things are very insidious as far as the costs are concerned, because you start out with a small figure, and then in 2 or 3 or 4 years—we are now just getting rid of items which we are paying $40 or 50 million a year out on.

Chairman DOUGLAS. I pointed that out on the floor of the Senate many times.

Mr. HUGHES. It is a good thing to point it out.

Chairman DOUGLAS. Apparently you do not contemplate any rapid action in——

Mr. HUGHES. That is rapid action.

Chairman DOUGLAS. In New England or the Pacific Northwest.

Mr. HUGHES. That is as rapid as it can be done. That has been gone over by the governors and engineers.

Chairman DOUGLAS. Have not the plans been drawn up for many years?

Mr. HUGHES. Not in sufficient detail for the present requirements.

Chairman DOUGLAS. I have gone over the history of the New England flood-control controversy, and I can remember ever since the floods of the late thirties in New England there have been a series of studies. I should think that you would have your plans pretty thoroughly laid, instead of which you are preparing a plan to begin, to commence, to start working on this; is that right?

Mr. HUGHES. Well, we are doing both as fast as it can be done, and that has been gone over and thoroughly discussed with the governors in those States, and agreed upon as the most feasible program.

Chairman DOUGLAS. If other floods should hit in 1956, or 1957, or 1958; or 1959——

Mr. HUGHES. What is that?

Chairman DOUGLAS. If other floods should hit in 1956, 1957, you would not be ready, or probably 1958 or 1959.

Mr. HUGHES. I do not know. Of course, if you think we can immediately start all the flood control and other projects throughout the country, we just can't do it.

Chairman DOUGLAS. No, I am speaking about these two areas which have been heavily hit.

Mr. HUGHES. This is being done. The California one is very definitely in hand.

Chairman DOUGLAS. The point I am trying to make, Mr. Hughes, is that I am sure the Army engineers prepared very detailed plans after the 1936 and 1938 floods in New England, and I do not see the reason for prolonged further postponement.

Mr. HUGHES. There is no postponement. Just as fast as they can do the work——

Chairman DOUGLAS. Your appropriation is simply for planning?

Mr. HUGHES. No more than half the 1956 supplemental is for new planning.

Chairman DOUGLAS. What have you provided in 1956–57?

Mr. HUGHES. Almost all of it will be for construction in 1957.

Chairman DOUGLAS. How much in additional funds do you provide for New England and California and Oregon?

Mr. HUGHES. We will get you that figure, but I recall it is about $15 million.

Chairman DOUGLAS. Fifteen million dollars?

Mr. HUGHES. That is for the New England side.

Chairman DOUGLAS: That is virtually nothing in comparison with what you need.

Mr. HUGHES. Mr. Chairman, in these things, you do not wave a wand and put this thing through. It takes a lot of work and preparation to do it and do it properly.

Chairman DOUGLAS. It also needs some money, which apparently is not being provided for.

Mr. HUGHES. No, this had not been a question of money, this particular thing. It is a question of doing what can be done with the best results.

Chairman DOUGLAS. I submit the plans have already been prepared by the Corps of Engineers for a much better start.

Mr. HUGHES. This is the engineers' own recommendation.

(The following information was submitted on flood control for the Northeast and Far West.)

Accelerated Northeast flood-control program, Corps of Engineers

[Fiscal years. In thousands]

	Number of projects	Total cost	New obligational authority requests in 1956 supplemental		New obligational authority requests in 1957 supplemental	
			Planning	Construction	Planning	Construction
Connecticut	1	$16,000	$140			$360
Massachusetts [1]	7	42,360	340	$400		7,866
New Hampshire	2	37,820		100	$600	1,250
Rhode Island	1	4,200				600
Vermont	9	64,330	571	300	500	5,828
Total New England	20	148,710	1,051	800	1,100	15,904
New York	1	9,200	80			1,030
Pennsylvania	6	46,510	455	300	160	4,000
Grand total Northeast	27	204,420	1,586	1,100	1,260	20,934

[1] Includes two projects under construction.

In the far western flood areas, the budget message pointed out that the Corps of Engineers is actively engaged in emergency repair work in cooperation with the Federal Civil Defense Administration and will be appraising, without delay, the need for additional flood-protection measures. The budget had made provision for certain flood-control projects in these areas even before the flood occurred. These are summarized in the table below. If the current appraisal shows that additional projects are necessary, the amounts required for the first year would not be great, judging by the first year's experience in the northeastern flood areas.

1957 budget recommendations for projects in California-Oregon flood areas (Corps of Engineers)

	Number of new projects	Estimated total cost	Construction (new obligational authority)	Planning (tentative allocation)
California	8	$492,647,000	$22,650,000	$322,000
Oregon	6	140,955,000	4,000,000	100,000
Total	14	633,602,000	26,650,000	422,000

Chairman DOUGLAS. If you read the articles by General Ridgway, they indicate the recommendations of the Army are not always followed as policies of the Government.

(Off the record.)

Chairman DOUGLAS. I will ask another question: What about V (e), "Increase benefits available under the Longshoremen's Compensation Act."

Do you provide funds for that, because it carries with it Federal employees, too?

Mr. HUGHES. We have got the administrative costs provided for in the budget.

Chairman DOUGLAS. That is provided. I am very happy. How much?

Mr. HUGHES. We did not put every individual item in there separately. It is included in that total, "Reserve for contingencies." It is enough to cover it, anyway.

Chairman DOUGLAS. A total is made up of parts. A total is not a platonic abstraction floating in the void. What is the specific item for——

Mr. HUGHES. We have no item X in the budget, but we have the dollars there to cover it.

Chairman DOUGLAS. How many dollars?

Mr. MCCANDLESS. I do not think we have a specific amount in there. All compensation benefits authorized by this law are paid by the employer or through his insurance carrier.

Mr. Chairman, I think I might say this, in terms of what is listed here as specific. There is quite a long list of legislation, as you have seen, on page 15 of the budget, which is listed in more detail at the end of each chapter in the budget, and then there are many small legislative proposals which are recommended in the budget or in the message.

Chairman DOUGLAS. You mean there is going to be a supplemental budget coming out?

Mr. MCCANDLESS. No, sir. They would take the form of a supplemental estimate, yes; but not——

Mr. HUGHES. Not new dollars.

Chairman DOUGLAS. Not in dollars?

Mr. MCCANDLESS. To cover those small items.

Chairman DOUGLAS. That is what I am trying to find out, whether the fine language is backed up with action, because rhetoric is no substitute for action.

Mr. HUGHES. That is what we are trying to tell you.

Mr. MCCANDLESS. May I go on?

Chairman DOUGLAS. Would you identify yourself for the record?

Mr. HUGHES. Mr. McCandless, Assistant Director for Budget Review.

Mr. MCCANDLESS. For major items we attempt to identify the amounts. There are many other items which are relatively small as a general matter. But we cover them in what we call a reserve for contingencies. If you will notice in the list on page M15 in the budget, there is an amount which shows the legislative program. I believe you will find the last item down there is reserve for contingencies of some $250 million of appropriations and some $225 million of expenditures.

That covers many items of small legislation, or would cover it if they are passed, and other things that we cannot foresee at the time, now, in the way of small amounts of money.

Chairman DOUGLAS. Then I take it that that accounts for V (f) as well as V (e).

Mr. HUGHES. Yes; to the extent necessary.

Chairman DOUGLAS. Now may I ask about VII (f), "Increase appropriation for antitrust law enforcement."

How much are you appropriating for that? This is a very worthy purpose, and I want to say I think you have a very good man in charge of the Antitrust Division, as far as I can tell. He is Judge Barnes. It is very important work.

How much is provided for that?

Mr. HUGHES. That was included in Justice. We included an item for that.

Chairman DOUGLAS. My time is up, so when the question is replied to——

Mr. HUGHES. Pardon?

Chairman DOUGLAS. I say my time is up, and when your associate finds the figure——

Mr. MCCANDLESS. There is in the Antitrust Division about——

Mr. HUGHES. There is an increase of about a million dollars.

Chairman DOUGLAS. If the other members of the committee would permit, I would like to ask one question, with the understanding this will be deducted from my next time.

What is the appropriation for this year, 1955–56, for this item?

Mr. MCCANDLESS. It is about $3.1 million, Mr. Chairman, and there will be an additional amount added to it for the pay increase, making it about $3.3 million for 1956, which will compare with the figure of $4,265 million appropriations for 1957.

Chairman DOUGLAS. Mr. Talle?

Representative TALLE. Mr. Chairman, I have no further questions.

Chairman DOUGLAS. Senator Sparkman?

Senator SPARKMAN. Just one or two questions, Mr. Hughes.

First I want to go back to this farm program. I find on page 60—

> The soil bank program will, of course, be operative in the Great Plains States. It should be supplemented there by a special Great Plains program, which has been developed—

and so forth. And then the last sentence in that paragraph:

> Additional legislation is being proposed.

Does that additional legislation call for anything in the way of additional funds?

Mr. HUGHES. I do not know at this moment, no, but we have worked with them on the basis that the whole thing is covered.

Senator SPARKMAN. In the $450 million?

Mr. HUGHES. Yes.

Senator SPARKMAN. Just one other question. I do not want to belabor this too much, but it is also provided in the legislation that the farmer would be paid, at least in part, by certificates which will entitle him to draw certain amounts from the surplus crops.

I understand that has been dropped in the legislation which is being proposed now. Will that have any effect on the——

Mr. HUGHES. No. You can talk that out with Mr. Benson, but there has been no change, as far as anything that is now under discussion, which would affect the total figures.

Senator SPARKMAN. Let me ask you just one more question—this may have already been asked before I came in, I do not know: Assuming that we do have a better year for fiscal 1957 than is predicted by your charts and analysis and by the report, and that we do have a surplus of some 3, 4, or 5 billion dollars, is it your thought that that should be applied to the national debt rather than to a tax reduction?

Mr. HUGHES. I do not think I will cross that bridge at the present moment. That is something which, of course, the administration will have its full discussion on if such a happy contingency arises.

Senator SPARKMAN. I heard Secretary Humphrey on one of our radio programs a week or so ago, and I gathered from his statements that he was more optimistic than you seem to be as to the revenues for fiscal 1957.

Mr. HUGHES. I am not unoptimistic; but in counting, on sending up the budget, that we have got money to spend, I have to be pretty sure that we are talking about figures which are dependable and which we can count on.

Senator SPARKMAN. Mr. Humphrey was rather positive in his statement that certainly there should be no tax reduction unless we ran to a very high figure. I think he used the figure of 4 or 5 billion dollars.

Mr. HUGHES. Well, he will be a potent factor in the discussions, no question about that.

Senator SPARKMAN. I am trying to get your own individual belief and philosophy. Do you agree with that?

Mr. HUGHES. I agree with the policy which has been established, of the President, that there should be a—what does he call it?—moderate, or something of that sort, retirement of the debt.

Beyond that, we have got to consider it in the light of the situation as it arises at that particular time.

Senator SPARKMAN. You do believe that in order to carry out this philosophy which Congressman Mills read to you a while ago, it is essential in periods of prosperous times to try to do something to get the debt under control, do you not?

Mr. HUGHES. Oh, sure; most certainly.

Senator SPARKMAN. I use this statement because you have used it so many times, and the report uses it—during the last 3 years the public debt has increased by about $9 billion, has it not?

Mr. HUGHES. Yes, about that.

Chairman DOUGLAS. Since fiscal 1953.

Senator SPARKMAN. During the last 3 years.

Mr. HUGHES. Yes.

Senator SPARKMAN. It has increased by some $9 billion.

Chairman DOUGLAS. Including fiscal 1953, by $16.5 billion.

Senator SPARKMAN. Oh, yes. I am not including fiscal 1953. I mean the last 3 fiscal years. I assume that is what they refer to when they use that expression, "the last 3 years."

Mr. HUGHES. At the end of 1953 it was $266.1, and we projected it for 1957 at $273.8, so that is 7.7 billion.

Senator SPARKMAN. What is it for 1956?

Mr. HUGHES. For 1956 it would be $274.3, so that would be about 8 billion.

Senator SPARKMAN. About 8 billion rather than 9 billion?

Mr. HUGHES. Yes.

Senator SPARKMAN. You have 1 more fiscal year to complete in your administration?

Mr. HUGHES. That is right. Maybe more, of course.

Senator SPARKMAN. Maybe.

So certainly we should work to try to pay something substantial on the national debt, do you not believe?

Mr. HUGHES. I believe we should pay down the national debt as fast as the conditions permit, but at the same time we also have the requirement that we must keep our economy healthy and flourishing, and taxes are too high to do that over a long period of time.

Senator SPARKMAN. I think everybody would agree with you on that statement. In other words, we must maintain a healthy balance.

Mr. HUGHES. That is right.

Senator SPARKMAN. But in times of great prosperity, when revenues are extmerely high, we ought to think very seriously of beating down that debt some, should we not?

Mr. HUGHES. I thoroughly agree.

Senator SPARKMAN. That is all.

Mr. HUGHES. How fast is another question, and how much is another question.

Senator SPARKMAN. Yes.

Chairman DOUGLAS. Mr. Wolcott?

Representative WOLCOTT. I have no questions.

Chairman DOUGLAS. Congressman Mills?

Representative MILLS. I wanted to ask Mr. Hughes a question following Senator Sparkman's colloquy with you.

You mentioned that the public debt may be $273.8 billion at the end of the 1957 fiscal year.

Mr. HUGHES. Yes. That is the forecast in the budget on the basis of these figures.

Representative MILLS. Yes. What is the public debt at the moment?

Mr. HUGHES. Oh, it is close to the $275 billion limit. I do not know exactly what it is at the moment. No, I guess it is close to the $281 billion temporary limit, because this is the seasonally high period—yes, this is the high period. It is around $280 billion, somewhere in that neighborhood.

Representative MILLS. Around $280 billion now. What do you anticipate the debt to be——

Mr. HUGHES. $280 billion.

Senator SPARKMAN. It is how much?

Representative MILLS. $280 billion.

Mr. HUGHES. That is the curve, that goes up and comes down.

Mr. MCCANDLESS. At the end of December 1955, the public debt subject to limitation was $280.3 billion.

Representative MILLS. What do you anticipate the public debt will be June 30, 1956?

Mr. HUGHES. That is $274.3 billion.

Representative MILLS. And $273.8 billion in June 1957?

Mr. HUGHES. That is right.

Representative MILLS. Does it mean there is no necessity for the continuation of a billion dollar increase?

Mr. HUGHES. No. That is brought out in the report, because we are still in the same position of having during the year a seasonal period where the debt goes up and after that when the debt goes down, so we have to have that leeway during that time to operate. It is like the busy time of the year in a business. You have to have a credit line to operate during that period.

Representative MILLS. I had some questions which I do not know whether you can answer or whether the Secretary of the Treasury would be a better one to answer, but in the President's report on page 102, he discusses two features which in all probability will bring about a reduction in revenues.

Mr. HUGHES. Where is that?

Representative MILLS. It is IX (i):

Allow regulated investment companies which hold the bulk of their assets in State and local securities to pass through to their shareholders the tax-exempt status of income received on such securities.

And then in XI (c):

Enact legislation to stimulate foreign investment by modifications of the taxation of corporate income from foreign sources.

Now are those two elements of revenue loss taken into account by the budget?

Mr. HUGHES. No; not as specific items as far as I know. The general rule is that anything which has been proposed is in there, but nothing that has not been proposed.

Representative MILLS. You prompt me to ask a question now on the basis of your most recent answer, that is not proposed. Do I take it, then, that the reason some of these items may not be specifically provided for in the budget on the expenditures side——

Mr. HUGHES. No; I am only talking about the revenue side at that point.

Representative MILLS. Only about the revenue side?

Mr. HUGHES. Yes.

Representative MILLS. We do not reduce the contemplated revenue in 1957.

Mr. HUGHES. None of these are that precise.

Representative MILLS. We were told in 1954 or 1955, I have forgotten which, Mr. Curtis, that the second one I read involved a loss of revenue, a $147 million loss of revenue.

Now if our budget is to be as close on expenditures and receipts as you indicated, a $147 million or $150 million loss in receipts might well determine whether we have a balanced budget in 1957 or an unbalanced budget in 1957.

Mr. HUGHES. I think you will find that these estimates, of course, and I realize that this is a problem, but you cannot get down to the last dollar of these estimates, you know very well, on that. You just cannot do it. I have been talking about that already.

We do the best we can in regard to what the estimates are expected to be.

Representative MILLS. I am always amazed that you do as good a job as a Director of the Bureau of the Budget in knowing what you are actually spending for the Federal Government.

Mr. HUGHES. We can do a little better job on spending in most cases, although we are stuck with some provisions of the law, than we can, of course, on some of the revenue estimates, but you talk with Secretary Humphrey, and he will discuss with you this matter.

Representative MILLS. Is this $60 million loss to the farmers taken into consideration?

Mr. HUGHES. It is, yes.

Representative MILLS. It is?

Mr. HUGHES. Yes.

Representative MILLS. Do you know what the revenue loss on the first item read is, the one with respect to the tax-exempt securities?

Mr. HUGHES. No, I have not seen any estimates on that.

Representative MILLS. Frankly, I do not remember. Do you, Mr. Curtis?

Representative CURTIS. No, I do not recall. We had an estimate, though; I remember that.

Mr. HUGHES. It has been discussed, but I have not seen any estimates on it.

Representative MILLS. The more I look at this situation, the more I think we have to take in more than the Treasury has estimated in fiscal 1957, if we are to have a balanced budget, having in mind our standing record of the Congress in always approving more in appropriations that have not been taken into consideration at this point.

Mr. HUGHES. I hope that is taken into consideration in the voting.

Representative MILLS. It would appear from what you have said so far, Mr. Hughes, that it is just simply folly to talk about tax reduction in fiscal 1957 on the basis of the estimate of expenditures and receipts, without at the same time unbalancing the budget; is that right?

Mr. HUGHES. There are two things on that: In the first place, the budget as prepared is as honest a budget as we can make. We have allowed for anything we can think of.

We have attempted to find out what has to be done, and do it.

We have not attempted to start with the answer and work backward.

Secondly, when it comes to the income and revenue estimates, we will have, as you know, a much better picture on that when we come along in April and get the returns in. So I think any final statement with regard to that could not be made until after you see what the picture is on that.

Representative MILLS. Well, I remember in the past, Mr. Hughes, the staff of the Joint Committee on Internal Revenue Taxation, which generally makes it report after the final date for the filing of returns——

Mr. HUGHES. Yes.

Representative MILLS. Have generally been more accurate in estimates of revenue for the coming fiscal year than has the Treasury.

Mr. HUGHES. Well, you can make a much better estimate at that date than you can now.

Representative MILLS. Certainly. And it has generally, in the last few years, turned out that the Treasury estimates were low in comparison to the estimates of the staff, and I can understand why. I am not criticizing it. That is the situation.

But, as I remember the difference, it amounts to generally about a billion-dollar increase over the previously estimated receipts.

Even if we have underestimated receipts by a billion dollars and it turns out that we will take in a billion more than we estimated, I still do not understand how we could have tax reductions on the basis of this budget——

Mr. HUGHES. It does not show much room there.

Representative MILLS. And have a balanced budget. A billion dollars divided among the people does not provide very much tax relief.

Mr. HUGHES. Unless you find ways of cutting out about $3 billion of expenditures, or something like that.

Representative MILLS. Is there any place in the budget where we could cut $3 billion?

Mr. HUGHES. I wish I knew it.

Representative MILLS. As an individual, you could not recommend anything.

Thank you, Mr. Chairman.

Chairman DOUGLAS. Congressman Curtis?

Representative CURTIS. I might say to my colleague, I think I know what the problem is, and I hope we can go to work on it and get the cuts.

One thing, to pick up where Mr. Mills left off, is a further emphasis on this point that we have of estimating our revenue on past rather than on growth. I think there is where that discrepancy comes in, and I want to again state that I personally believe we could, with fairness, do a little estimating on growth, but I think that is an element which needs a lot of discussion. I know most people disagree with my observations, but I do think it is a little bit unfair to criticize this at the present time as if that were something new, because that has been traditional to change a policy of estimating revenue to include what you think the growth will be would be a real change in policy, would it not, Mr. Hughes?

Mr. HUGHES. Yes, although we have, since we have been in, and this year particularly, and last year, carefully given consideration to those factors. Not to the extent, perhaps, of going overboard, but there is very definitely an element of growth in those figures which has been talked out, not only with the Treasury but with the Council of Economic Advisers and other people who know something about it.

Representative CURTIS. In other words, taking this $312 billion of personal income—that was your last level—but do you think that that peak, by taking that figure and carrying it over for a full year, the last fiscal year does include some growth in it?

Mr. HUGHES. That is right. The total figures as presented in the final estimate do include a reasonable estimate of growth as calculated, and I think if you talk with Secretary Humphrey about that he will give you some very interesting thoughts with regard to it.

Representative CURTIS. I am very glad to hear that, because I had been under the impression they just used the past entirely, and I know, as a member of the Ways and Means Committee, I have thought we ought to do a little bit of speculation, not too much, possibly.

Mr. HUGHES. Of course, we always hope that we will be behind the actual growth and not ahead of it in making the estimates.

Representative CURTIS. In regard to this item of foreign-income credit, I can say there that the speculation of whether we will have a revenue loss from that is certainly of the highest sort. Having been interested in getting that measure through for several years in the House Ways and Means Committee, if anyone asks my advice as to whether we are actually going to experience a revenue loss, I would regretfully state that we will not, knowing the opposition that exists to that particular measure. But that is again, as I say, this area of speculation you have to make as to what the Congress might do or might not do.

Mr. HUGHES. That is right.

Representative CURTIS. One final detail: The chairman, Senator Douglas, was commenting on the flood control measures, and you mentioned that this had been cleared with the various governors of the States.

I presume you included Governor Ribicoff, of Connecticut.

Mr. HUGHES. Oh, yes, there is a regular group of New England Governors that have worked together on this under the chairmanship of Denny Roberts, of Rhode Island.

Representative CURTIS. The reason I wanted to mention it is because it seemed to me there was a partisan implication there, and I know Governor Ribicoff served with me, I served with him, in the House, and he is a good Democrat, and I am sure that there are no political implications in this. I suspect that your statement that they are moving ahead as rapidly as possible is accurate, because I never have yet known any Army engineers who are not willing to accept funds from the Congress if they can get them.

Mr. HUGHES. This has not been a political situation at all. It has been entirely nonpolitical. Both parties have been in it, and the discussions have been on the basis of need and not on the basis of any political consideration, to my knowledge.

Representative CURTIS. I was sure that was so, and I wanted to erase those impressions which might have been created.

That is all, Mr. Chairman.

Chairman DOUGLAS. Senator Goldwater?

Senator GOLDWATER. I have just a technical question I would like to ask, and I do not even know if it comes under your jurisdiction.

I believe I am right in calling on my memory in having you tell me that in the approximately $3 billion appropriated in foreign aid last year, there was a matter of a billion or a billion and a quarter which was to be applied to construction of overseas bases; is that correct?

Mr. HUGHES. Of the foreign aid?

Senator GOLDWATER. Yes.

Mr. HUGHES. No. The overseas bases are in the military budget.

Senator GOLDWATER. It is separate?

Mr. HUGHES. Yes.

Senator GOLDWATER. There was an item of that nature in there?

Mr. HUGHES. In the military budget. I mean, I am not talking about $3 billion, but the foreign bases are constructed under the military budget.

Senator GOLDWATER. Then my question has no place in this discussion. I was under the impression there was a figure in the $3 billion of a billion and a quarter——

Mr. HUGHES. That is for assistance.

Senator GOLDWATER. Would that be military assistance?

Mr. HUGHES. I will check that for you, Senator, but I think that is in the military budget. I do not believe it is included in the foreign aid.

(The following information was submitted:)

The 1956 mutual security appropriation of $2.7 billion, of which $1,022 million was for military assistance and direct forces support, does not provide for construction of United States military bases abroad. These are covered by appropriations to the Department of Defense. The mutual-security appropriation did, however, include $122 million as the United States contribution to the North Atlantic Treaty Organization for its share (38 percent) of the total cost of constructing airfields, pipelines, and communications systems for use of all NATO forces.

Senator GOLDWATER. I thank you.

Chairman DOUGLAS. One or two preliminary comments.

The statements were made, I believe by Congressman Curtis, that in the past, the Treasury has made its estimates of income and, therefore, revenues for the future year, on the basis of the past. I am sure the Congressman was sincere when he said it, but I have here the 1955 Economic Report of the President hearings, page 1147. There was a letter from Under Secretary Folsom addressed to me, in reply to a letter which I addressed to him, at the top of the page, which reads as follows:

> 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.

In other words, they assume a growth of $12 billion in 1955 over 1954, or 4 percent over 1954.

If you take the last quarter of 1954, that would run at the rate of $289 billion, so that the growth rate over the end of the year, I think, would be $9 billion, or 3 percent.

Then it goes on to say:

> 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.

Therefore, it follows, in making out the budget for 1955–56, they assumed a growth rate of approximately 3 to 4 percent over 1954. But it is interesting that in making out the budget for 1956, no growth rate is provided for, and it is assumed, instead, that the economy will level off at that point in the last quarter, or slightly before it.

I would like to ask the Congressman to look this over so that he will see I have not misrepresented the statement.

Representative CURTIS. My statement, I might say to the Chairman, was clarified by Mr. Hughes when I very definitely expressed myself that I was under the impression I had in the past, and I was very interested to know there was—I was under a misapprehension. And then Mr. Hughes said that Secretary Humphrey would have some very interesting comments on that to go into in detail. But I think it is very pertinent, and I am glad to be corrected as to what was the situation in the immediate past.

Chairman DOUGLAS. There is another point that inadvertently was introduced by Congressman Mills, and I am sure he would like to have it clear at this point. He said if Congress passed supplemental appropriation bills, that these supplemental appropriation bills would be presented by the administration?

Mr. HUGHES. The supplemental appropriation bills are provided for in here, because obviously everything has not been enacted; we are proposing new legislation.

Chairman DOUGLAS. So if new money was requested, it would come from the administration?

Mr. HUGHES. That is right, and it is included in the figures in the budget.

Chairman DOUGLAS. So if you ask for more money than provided for in the big budget, then to that degree the figures in the big budget understate the amounts which you are asking for?

Mr. HUGHES. That is right, except supplemental does not necessarily mean it is in addition to the figures in the big budget, because there are supplementals already allowed for in the big budget.

Chairman DOUGLAS. At page 101 of the Economic Report you say, under VIII (b):

Authorize 35,000 units of public housing in each of the next 2 years.

Does the budget carry any added appropriation for this?

Mr. HUGHES. Yes.

Mr. McCANDLESS. I can find it for you. It is an item for administrative expenses, Mr. Chairman, to carry on the expanded program.

Chairman DOUGLAS. It is an administrative expense, but not to provide for the construction of the new homes. Is there a figure for the building of houses rather than for administrative expenses?

Mr. MERRIAM. That is by a local bond program, Senator.

Chairman DOUGLAS. Yes, but you have to supplement the annual appropriation to meet the interest on those bonds to the degree that that interest is not——

Mr. HUGHES. That is included.

Chairman DOUGLAS. But I mean, you are adding to the number of houses each year, presumably, and therefore the annual appropriations should be increased for supplementation.

Mr. HUGHES. The number of items which are programed to be built are included in the estimates of 1956 and 1957, as shown here.

Chairman DOUGLAS. Where is it? You say the increase is simply for administrative purposes.

Mr. HUGHES. Well, the increase is for a separate item, because you have those figures in your budget.

Mr. McCANDLESS. Your increase will come later down the line.

Chairman DOUGLAS. Is it provided for in the budget?

Mr. McCANDLESS. It will not occur in 1957, sir; the construction will come later. This is to authorize annual contributions contracts with local housing authorities in 1957.

Chairman DOUGLAS. What about the houses built in 1956?

Mr. McCANDLESS. They are provided for.

Mr. HUGHES. They are provided for. Those have all been scheduled out with the Housing Administration, and are included in their figures, and have been carefully reviewed.

Chairman DOUGLAS. Now the administration sponsored a Colorado River project which I thought was one of the most wasteful ever proposed in Congress, and which I fought on the floor of the Senate, but it was passed by the Senate, and it is now before the House. I hope it will not pass there; but if it does pass there, to what degree has the administration provided funds to back up the project which it has been urging?

Mr. HUGHES. We have got the funds here.

Mr. McCANDLESS. We have, I think it is $20 million for appropriations under proposed legislation in the budget, Senator, to cover new projects, including the Fryingpan and the upper Colorado.

Chairman DOUGLAS. How much for the Fryingpan project? I may say in this connection, that to move from the Fryingpan to the upper Colorado is to jump from the fryingpan into the fire.

How much fat is there in the Fryingpan?

Mr. HUGHES. It is not broken down in these figures.

Chairman DOUGLAS. How much for the upper Colorado?

Mr. HUGHES. It is $13 million for the 2 together.

Chairman DOUGLAS. Thirteen million for the two together?

Mr. HUGHES. This is 1 year's appropriations.

Mr. MCCANDLESS. To start construction.

Chairman DOUGLAS. With the exception of one other, this is the most wasteful expenditure to irrigate public land.

Mr. HUGHES. Eight million for the upper Colorado.

Chairman DOUGLAS. To irrigate land in the upper Colorado will cost from a thousand to two thousand dollars an acre, if one includes interest costs. But I fought that battle and have lost. However, I hope that a sense of financial sobriety will restrain the administration in this wasting of the public funds.

On the one hand you take land out of cultivation, and on the other hand you make appropriations to put land into cultivation. Where is the consistency in that policy?

Senator GOLDWATER. The development of the West.

Chairman DOUGLAS. It is the "tribute" which the 16 western Senators or the 34 irrigation Senators levy on the rest of the country.

Senator GOLDWATER. We might make the same charge about the railroads. We had to give them every other section of our land so the great city of Chicago could prosper from the railroads.

Chairman DOUGLAS. The railroads have had far more influence on the governments of the States beyond the Mississippi River than they have upon the governments of the States east of the Mississippi River.

Senator GOLDWATER. I was not talking about political influence. I was talking about economic influence. There is still some difference.

Chairman DOUGLAS. As I remember it, it was a Republican Congress which voted a few years ago to free the railroads from any further payment for the enormous gratuities of public land which were given to them during the administration of General Grant.

Senator GOLDWATER. Well, the gifts were given. I do not know whether they were Republican or Democrat. The development of the Colorado is a natural, normal function in the development of the West.

Chairman DOUGLAS. And also the most wasteful.

Senator GOLDWATER. You might be interested to know the first reclamation project in this country paid back 100 percent.

Chairman DOUGLAS. Yes. That was a good project in the lower reaches of the river, where the altitude was low and the growing season long, but now you have exhausted virtually all good projects and are going to the headwaters of the river, where the altitude is much higher and the growing season is short, and the costs per acre are enormous. Have a heart.

Senator GOLDWATER. We have gone through this time and again, and I enjoyed it.

Chairman DOUGLAS. The country, I hope, does not enjoy it. I hope the country shows a sense of righteous indignation.

Senator GOLDWATER. It is interesting for me to note that some of the farmers in the East and Middle West are beginning to get interested in reclamation. The farmers in Illinois are actually carrying out some reclamation.

Chairman DOUGLAS. I may say, a dollar spent on getting water on fertile land will yield a much greater increase than a dollar spent on infertile land. In the fertile areas we can increase our crops with an expenditure of $50 or $60 an acre; whereas you need an expenditure of a thousand dollars an acre, and if we are to allocate our resources properly, the best thing to do is to put the water on fertile soil rather than on the rocks of the upper rivers.

Senator GOLDWATER. The Senator knows we are not going to put that water on the rocks.

Chairman DOUGLAS. It will go either on rocky soil or on very non-fertile soil where the growing season is so short there are only 60 to 90 days in the year in which to grow hay, which is not a high-value crop. It will not be the luscious crops around Phoenix and rich orchards of Phoenix upon which the price support of meat has been based, but it will be hay and apples.

Senator GOLDWATER. The Senator is trying to tempt me off with flattery, and I won't be removed.

Chairman DOUGLAS. I will insert in the record two letters, together with enclosures.

(The documents referred to are as follows:)

DEPARTMENT OF COMMERCE,
OFFICE OF BUSINESS ECONOMICS,
Washington 25, D. C., January 23, 1956.

Hon. PAUL H. DOUGLAS,
Chairman, Joint Committee on the Economic Report,
United States Senate, Washington 25, D. C.

DEAR MR. CHAIRMAN: Following the agreement which was made in the letter of January 19 by the Secretary of Commerce to supply you with the budget data requested in your letter of January 12, I am attaching a table showing Federal Government receipts and expenditures, actual for fiscal year 1955, and estimated for fiscal years 1956 and 1957.

You will notice that the table shows three measures of the budget. The top two are the administrative and cash budgets taken directly from the Budget of the United States Government for the fiscal year ending June 30, 1957. The last measure represents a translation of receipts and expenditures given in the budget to the national income and product account basis.

Sincerely yours,

JAMES W. MCNALLY, *Acting Director.*

Enclosure.

Federal Government receipts and expenditures: Administrative budget, cash budget, and national income and product accounts, 1955–57

[Billions of dollars]

	Fiscal years		
	Actual, 1955	Estimated	
		1956	1957
Administrative budget:			
Receipts	60.4	64.5	66.3
Expenditures	64.6	64.3	65.9
Surplus or deficit (−)	−4.2	.2	.4
Cash budget:			
Receipts	67.8	73.5	75.4
Expenditures	70.5	71.0	72.9
Surplus or deficit (−)	−2.7	2.4	2.4
National income and product account:			
Receipts	66.6	73.4	74.8
Expenditures	67.5	70.0	71.5
Surplus or deficit (−)	−.9	3.3	3.3

Source: Administrative and cash budgets from the Budget of the U. S. Government for the fiscal year ending June 30, 1957; national income and product account data from U. S. Department of Commerce, Office of Business Economics, statistics for 1956 and 1957 based on estimates in the budget for fiscal year 1957.

UNITED STATES DEPARTMENT OF LABOR,
BUREAU OF LABOR STATISTICS,
Washington 25, D. C.

Hon. PAUL H. DOUGLAS,
Chairman, Joint Committee on the Economic Report,
United States Senate, Washington 25, D. C.

DEAR SENATOR DOUGLAS: In accordance with the telephone request from the staff of the Joint Committee on the Economic Report, I am transmitting an estimate of the annual average labor force for 1956 based on assumptions provided by your staff.

The assumptions are that present levels of economic activity will continue and Armed Forces wil decrease slightly as indicated in the President's budget message for fiscal year 1957. The 1956 labor force is estimated at 69.7 million, providing for an average increase for the year of about 750,000 compared with an increase of 1.1 million between 1954 and 1955.

The 1956 estimate is presented in the attached table together with actual data for 1950–55. Each year's labor force is compared with the "trend" estimate of labor force based on long-term trends in labor force participation rates by age and sex. The comparisons provide a crude means of measuring each year's labor force in terms of longer-run expectations. Since labor force changes do not occur with regularity over short periods of time, these comparisons are helpful in making a short-run estimate because it takes into account accumulated excesses or deficits in relation to expected growth over a period of years.

The "trend" or expected labor force for each year was projected from the actual 1950 annual average, using projected labor force participation rates which assume a continuation of 1920–50 trends in labor market participation for each age-sex group with an adjustment in the rates for adult women to take account of accelerated increases observed in the post-World War II years 1947–50. The trends in labor force participation rates can be summarized briefly as including slight declines for school-age youth, continuing declines for older men, and increases for adult women. The trend labor forces also include growth resulting from increased population of working age.

The trend labor force shows a net addition of 3.7 million workers over the 5-year period from 1950 to 1955, or about 750,000 persons per year. The actual increase which occurred just matched the expansion that was anticipated in

1950. However, there were more men and women aged 25–64 in the 1955 actual labor force than were expected on the basis of trend and fewer men over 65 and young women.

Looking back over the 5-year period it appears that the pattern of deviation was broadly related to the post-Korean expansion of economic and military activity and the subsequent economic developments. Between 1950 and 1951 the labor force increased by almost 1.3 million, some 450,000 more than was anticipated. In the following year the labor force was still above the expected size, but the amount of excess had been cut down to a little over 250,000. By 1953, the excess was completely wiped out. In the following year, the labor force growth was again less than expected, resulting in a deficit of more than 300,000. Then, as a result of the recent increases in labor force, the 1955 labor force averaged out to the expected level of 68.9 million.

Taking account of recent developments and the given assumptions, we believe that the labor force will increase by about 750,000 between 1955 and 1956, which is approximately the amount expected from long-term trends. There will probably be considerably variation in over-the-year change from one quarter to the next. Because of sharp increases in the labor force in the second half of 1955, the annual increments will probably be quite large in the first half of 1956 and taper off sharply in the second half.

Very truly yours,

EWAN CLAGUE,
Commissioner of Labor Statistics.

Deviation of actual from trend[1] labor force, by age and sex, annual average 1951–56

[In thousands]

Age and sex	1950, actual labor force[2]	1951			1952			1953		
		Actual labor force[2]	Trend labor force	Deviation of actual from trend	Actual labor force[2]	Trend labor force	Deviation of actual from trend	Actual labor force	Trend labor force	Deviation of actual from trend
Total, 14 and over	65, 135	66, 401	65, 942	459	66, 977	66, 706	271	67, 362	67, 417	−55
Male, 14 and over	46, 417	47, 072	46, 828	244	47, 391	47, 186	205	47, 692	47, 528	164
14–24	8, 474	8, 586	8, 419	167	8, 510	8, 383	127	8, 423	8, 342	81
25–64	35, 348	35, 878	35, 771	107	36, 342	36, 124	218	36, 729	36, 454	275
65 and over	2, 595	2, 608	2, 638	−30	2, 539	2, 679	−140	2, 544	2, 732	−188
Female, 14 and over	18, 718	19, 329	19, 114	215	19, 586	19, 520	66	19, 668	19, 889	−221
14–24	4, 675	4, 683	4, 622	61	4, 513	4, 583	−70	4, 399	4, 546	−147
25–64	13, 427	14, 064	13, 843	221	14, 453	14, 255	198	14, 571	14, 619	−48
65 and over	616	582	649	−67	620	682	−62	693	724	−31

Age and sex	1954			1955			1956		
	Actual labor force	Trend labor force	Deviation of actual from trend	Actual labor force	Trend labor force	Deviation of actual from trend	Estimated labor force	Trend labor force	Deviation of estimated from trend
Total, 14 and over	67,818	68,144	−326	68,896	68,854	42	69,660	69,556	104
Male, 14 and over	47,847	47,832	15	48,054	48,108	−54	48,316	48,377	−61
14–24	8,257	8,303	−46	8,229	8,261	−32	8,273	8,309	−36
25–64	37,065	36,778	287	37,299	37,052	247	37,500	37,252	248
65 and over	2,525	2,751	−226	2,525	2,795	−270	2,543	2,816	−273
Female, 14 and over	19,971	20,312	−341	20,842	20,746	96	21,344	21,179	165
14–24	4,380	4,530	−150	4,445	4,541	−96	4,476	4,575	−99
25–64	14,925	15,028	−103	15,617	15,410	207	16,050	15,771	279
65 and over	666	754	−88	779	795	−16	818	833	−15

[1] Trend labor forces for 1951–56 are projections which assume the continuation of 1920–50 trends in age-sex labor force participation rates with an adjustment in the rates for adult women based on accelerated increases observed in the postwar years, 1947–50.

[2] The actual labor force estimates for 1950, 1951, and 1952 differ from published census figures for the same dates as a result of using revised population estimates.

NOTE.—Figures may not add to totals because of rounding.

Source: U. S. Bureau of the Census and Bureau of Labor Statistics.

Prepared by: U. S. Department of Labor, Bureau of Labor Statistics, Division of Manpower and Employment Statistics, Jan. 18, 1956.

Chairman DOUGLAS. Those are all the questions I have.

Any further questions?

I think that is all. Thank you, Mr. Hughes.

Mr. HUGHES. Thank you, sir.

Chairman DOUGLAS. There will be no session this afternoon.

(Whereupon, at 12:20 p. m., the joint committee recessed, to reconvene at 10:15 a. m., of the following day, Thursday, February 2, 1956.)

JANUARY 1956 ECONOMIC REPORT OF THE PRESIDENT

THURSDAY, FEBRUARY 2, 1956

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

The joint committee met, pursuant to recess, at 10:15 a. m., in the Old Supreme Court Chamber, United States Capitol Building, Washington, D. C., Senator Paul H. Douglas (chairman) presiding.

Present: Senators Douglas, Sparkman, and Goldwater; and Representatives Bolling, Mills, Talle, and Curtis.

Also present: Grover W. Ensley, executive director, and John W. Lehman, clerk.

Chairman DOUGLAS. The committee will come to order.

We are very happy to have as a witness this morning Dr. Gerhard Colm, who has had a distinguished career in Government, and he is now the chief economist of the National Planning Association, whom we asked to discuss primarily the budget features of the President's annual Economic Report.

Dr. Colm, we are very glad to have you here.

STATEMENT OF GERHARD COLM, CHIEF ECONOMIST, NATIONAL PLANNING ASSOCIATION

Mr. COLM. Mr. Chairman and members of the committee, my name is Gerhard Colm.

Chairman DOUGLAS. Just a moment. I wonder if you would speak a little louder. The acoustics are not good in here, in spite of the fact that this is the room in which Webster, Clay, and Calhoun debated. I wonder if you could speak a little bit louder.

Mr. COLM. I am chief economist of the National Planning Association, which is a nonprofit and nonpartisan organization. I am appearing here today, however, in response to an invitation by the chairman, as an individual student of fiscal policy. I am not representing the National Planning Association.

The Federal budget is one of the most important factors influencing employment, production, and purchasing power in our present-day economy. That two sessions of these hearings are devoted to the budget attests to the committee's recognition of its economic importance.

I assume that my role here today is principally to focus attention on the probable economic impact of the Federal budget for the fiscal year 1957. With the committee's leave, I will discuss the economic significance of, first, the expenditures side of the budget; second, budget revenues and taxation; and, third, the budget balance; that is, the estimated budget surplus.

72738—56——9

I. FEDERAL EXPENDITURES

My discussion deals mainly with what is technically called expenditures rather than with appropriations or obligations. I shall concern myself with the economic effects of Government expenditures, both under existing programs and under proposed legislation. This should not imply any forecast on my part that the Congress will or will not adopt or modify the President's proposals. We economists, Mr. Chairman, have not been too successful in predicting economic events; it would be presumptuous if we thought we could predict congressional action.

Chairman DOUGLAS. You do not imply there is an element of irrationality in congressional action which is not present in economic events; do you?

Mr. COLM. I think there is an equal element of rationality in the two areas.

Budget expenditures of the Federal Government are estimated at $64.3 billion for the current fiscal year ,and $65.9 billion for the fiscal year ending June 30, 1957. This is an increase of $1.6 billion or 2.5 percent. Viewed in terms of the economy as a whole, budget expenditures for fiscal year 1956 amount to 16 percent of gross national product for the fourth quarter 1955. This compares with ratios of budget expenditures to gross national product of about 3 percent during the 1920's and 10 percent during the thirties.

Mr. Chairman, you may see these percentages on this chart which gives the total budget expenditures, and also the civil program expenditures, as a percent of the gross national product.

A GENERAL COMMENT ON EXPENDITURES

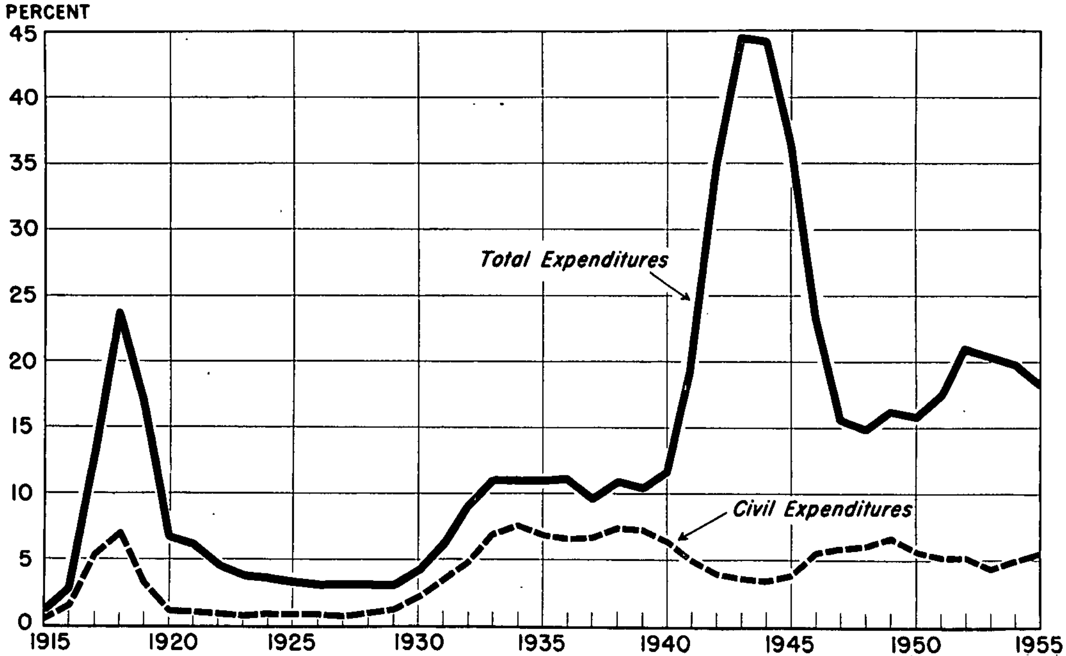
I would like to first make a few general comments about the expenditure side of the budget.

I feel that I can contribute little to the discussion of whether the budget estimates for specific programs—for national security, for schools, or for health—are adequate to meet the needs of the country. I have my opinion on these questions, but I believe that the members of the committee have a better judgment on these issues than I have. Rather, I shall comment on matters which I believe lie more directly within the competence of the economist.

My first question is: Can we afford the scheduled level of Government expenditures?

Looking at the ratio of Government expenditures to total production, looking at the resources left for private consumption and investment, and looking finally at the tax burden individuals and businesses have to carry, I cannot find that present programs of the Government go beyond what the American economy can support. Lest I be misunderstood, let me qualify this statement by adding that taxes are heavy; the national security program is large. A reduction would be more than welcome. All I am saying is that, as an economist, I cannot find that Government programs are preempting resources to an extent which undermines the strength of the American economy, or that taxes generally are interfering with needed incentives and capital formation. Therefore, the adoption or modification

FEDERAL EXPENDITURES AS A PERCENT OF GNP 1915 - 1955



Source: 1915-1951 - M. Slade Kendrick, A Century and a half of Federal Expenditures, NBER Occasional Paper 48
1952-1955 - National Planning Association

of these programs should be determined primarily on their own merits, rather than by fears that we cannot "afford" them or that we may be approaching the "breaking point" of our economy.

Second: How much increase is involved in present programs, using the budget as a base?

It may be useful to view the estimated increase in budget expenditures, the $1.6 billion, by major purposes, and here I am using the same breakdown which was used and explained yesterday by the Budget Director.

This breakdown gives us the following figures for the increase:

For national security and related programs, $1 billion.

For civil-benefit programs, $0.1 billion.

For interest on the national debt, $0.2 billion.

For civil operations and administration, $0.1 billion.

For contingency reserve, $0.1 billion.

The rise in expenditures in civil-benefit programs would be $350 million larger, amounting in toto to about $500 million instead of the $100 million which is shown in the figures, were it not for the proposed increase in postal rates which is accounted in the budget as a minus expenditure. This also was explained yesterday.

In the longer run perspective, however, Federal Government programs for purposes other than national security and war liquidation have lagged far behind the growth in gross national product. That, I think, is demonstrated by the chart if you look at the civil expenditures as a percentage of gross national product. The chart shows Federal expenditures only. In order to give a complete picture, one should also add State and local government expenditures, because during the thirties the Federal Government undertook functions in support of State and local programs, while more recently it is State and local expenditures which have been increasing.

Still, this would not change the picture very much. During the thirties, State and local direct expenditures were around 11 to 12 percent of the gross national product. These expenditures are now moving around 8 percent. Therefore the general impression that this chart gives would not be substantially altered even if State and local expenditures were taken into consideration.

Some increases in civil-benefit programs are small relative to the budget total. Nevertheless, they should bring considerable improvement. For example, expenditures for research and development outside the national-security programs are expected to increase by $75 million. Research and development outlays in atomic energy which are classified as part of "national security and related programs" are scheduled to rise by $128 million. Since the largest part of this increase is for the development of reactors for the peaceful use of atomic energy, it should be included in a discussion of research programs outside of national security.

Furthermore, this committee, which has been very active in pointing out gaps in our statistical knowledge, will be pleased to see that at least a modest step has been made toward implementing some of its most urgent recommendations for improvement in Federal statistics.

As for the new legislative proposals in the field of agriculture, public health, school construction, depressed areas, flood indemnity, and public works, about $2.5 billion in obligational authority is requested for fiscal 1957; but less than $1 billion in actual additional spending for all new programs is contemplated.

The chairman yesterday raised the question of how this billion dollars, mainly in the field of civil-benefit programs, can be reconciled with the fact that the budget shows only a very small increase in expenditures for these programs.

The explanation is that part of this additional spending for new programs is offset by a reduction in other existing programs.

In the current farm-price-support program alone, which I will discuss later in my testimony, we have a reduction by $400 million, which to a large extent offsets the increases due to the new programs.

There are also other minor reductions in existing programs scattered among several categories. The largest of these minor items is in the TVA.

Not all of these increases reflect an increase in real activities. We have no price index for Government services and procurement items, as was constructed during World War II, and consequently cannot measure the effect of cost increases precisely. According to administrative procedure, budget estimates are not supposed to take possible future price increases into consideration. However, it appears that some cost increases are implied in the budget figures.

For example, expenditures for military personnel—that includes pay and so-called soft items—are estimated to remain virtually constant in fiscal years 1956 and 1957 at about 3 percent below that of the actual expenditures for the fiscal year 1955. Yet, the average armed strength is expected to decline by 8 percent from 1955 to 1956, and a further 3 percent reduction is scheduled for the fiscal year 1957.

Chairman DOUGLAS. Dr. Colm, is there a specific statement to that effect in the budget?

Mr. COLM. Mr. Chairman, the budget uses a somewhat different basis for the comparison. It compares the strength at the beginning of the fiscal year with that at the end of the fiscal year, and says that the strength is increasing.

This may seem to be incompatible with my statement, but I used the average for the fiscal year 1957, compared with the average of the fiscal year 1956. Armed strength is going down, but during the fiscal year 1957 there will be a very small buildup. And only the buildup is mentioned in the budget document.

Chairman DOUGLAS. In other words, the numbers in June 1957 in the Armed Forces will not be less than in June 1956, but the average for the fiscal year will be lower; is that correct?

Mr. COLM. Yes, sir.

This reduction in numerical military strength without any drop in personnel expenditures seems to imply a rise in military costs.

In this connection might be mentioned the fact that national-defense expenditures would be $824 million higher in 1956 and $725 million higher in 1957 were it not for increased cash balances resulting from the reduction of inventories held by capital (revolving) funds. These amount of cash have been made available for other defense purposes. This is, so to speak, a windfall gain which cannot be expected to be repeated in the same magnitude in future years.

Another item which reflects a cost rise is the increase in interest payments. The average rate on the interest-bearing debt is expected to rise from approximately 2.48 percent in the fiscal year 1956, to 2.56 percent in the fiscal year 1957. This compares with 2.3 percent in fiscal year 1955.

Looking at budget expenditures as a whole, it appears that the 2.5 percent increase from the fiscal year 1956 to 1957 represents a somewhat lesser rise in activities, measured in real terms.

This result may appear——

Chairman DOUGLAS. Just a minute, Dr. Colm. Will you repeat that sentence?

Mr. COLM. I say that the budget figures show an increase in expenditures by 2.5 percent. Now I say, Mr. Chairman, that because some cost increase is involved, the increase in activities would be less than the 2.5 percent increase shown in the nominal figures. But this statement refers exclusively to the items reflected in the budget.

This result is somewhat astonishing in view of the numerous new programs which have been recommended by the President. The budget supposedly reflects expenditure estimates both under existing and under proposed legislation. This is the requirement of the Budget and Accounting Act of 1921. How, then, can this apparent discrepancy be explained?

A partial explanation is that new programs usually start with small amounts in the first year and require some time before they move into full-scale operation. This, by the way, is one of the reasons why the National Planning Association, in a joint statement of last year, has proposed that the budget statement include a budget outlook covering a number of years. Then you can see how programs which start with a small amount would go up, according to whatever program there is.

I quote here the name of the statement, which is The Need for Further Budget Reform. (NPA Planning Pamphlet No. 90.)

One proposal whose future impact is not fully reflected in current budget expenditure estimates relates to the school construction program, which I may mention as an example. In this case, only $150 million appears as 1957 expenditure estimate. This figure appears to include not only the Federal grants program—that is how it is labeled—but also a small allowance for proposed Federal purchases of local school construction bonds—$750 million over 5 years—and advances for bond reserves and matching grants for State school planning.

We have no official estimate of the total costs of this program. But using only the items which have been specified in the budget document, we would certainly get a figure of more than $400 million per year when the program is in full operation, and only $150 million are allowed for the 1957 fiscal year, when the program would not yet be in full operation.

This is just one example of how a current budget does not fully reflect growing programs.

A second reason why budget expenditures appear to rise only moderately is that not all Government programs are fully reflected in budget expenditures. However, an economic appraisal of Government programs should take into consideration the impact of all Government programs, irrespective of whether they show up inside or outside the budget account. Therefore, the committee may find it of value if I point out some programs which do not appear to be fully reflected in the estimated budget expenditures for 1957.

B. GOVERNMENT PROGRAMS NOT FULLY REFLECTED IN THE BUDGET

I will now discuss two examples of Government programs not fully reflected in the budget of 1957.

I begin with a discussion of some of the new programs proposed in the state of the Union message, the budget message, and the Economic Report.

1. The interstate highway program

There is, first, the interstate highway program, to which reference was made yesterday.

The budget message recommends an authorization of about $900 million for highway construction for the fiscal year 1957.

Chairman DOUGLAS. Dr. Colm, is this in addition to the existing appropriations for Federal aid to the States?

Mr. COLM. Yes, sir. That is in addition. There is also in the budget a proposal for extending the present legislation into the future.

Chairman DOUGLAS. Which calls for the appropriation of approximately $900 million to $1 billion?

Mr. COLM. Sir, I would have to look up the figures. I would gladly include the figure in the record. The budget message calls for a new highway program for which no allowances were made either under recommendations for new obligational authority nor under estimated expenditures. The budget does include, however a recommendation for the continuation of existing legislation concerning Federal-aid highways and forest highways which would expire in the fiscal year 1957. For these programs an obligational authority of $898 million is provided.

Chairman DOUGLAS. Yes.

Mr. COLM. The budget does not give any estimate for expenditures for the new program. The text of the budget message simply expresses the President's hope that the highway program will be financed in a manner which does not "create budget deficits."

This language could suggest that it would be equally acceptable to the President if the highway program were financed by borrowing outside the budget, as in the original proposal, or by additional taxes, as proposed in other bills. I wrote that before the recent communication from the President which says this method of tax financing is acceptable to him.

From an economic point of view there is little merit in keeping these expenditures outside the budget, quite aside from the legal question of the Budget and Accounting Act.

Unless additional taxes are adopted for this program or the actual start of this program is delayed, expenditures for this one item alone could more than wipe out the estimated budget surplus.

Senator GOLDWATER. Mr. Colm, have you revised your thinking in this paragraph since the President announced his acceptance of the Gore plan?

Mr. COLM. No, sir; I have not changed my mind, because I favored a bill inside the budget, financed by additional taxes.

Senator GOLDWATER. That, in effect, is what he accepted.

Mr. COLM. Yes, sir.

Senator GOLDWATER. So, then, you would be in agreement with his position now?

Mr. COLM. I am, yes, sir.

Chairman DOUGLAS. I would say the President was in agreement with the position which Dr. Colm had taken.

Mr. COLM. Thank you, Mr. Chairman.

Senator GOLDWATER. I might say that many of us here are now in agreement with the President.

Chairman DOUGLAS. I am very glad that the President is now in agreement with the principles of sound finance. It indicates the need for an intelligent and alert opposition.

Representative CURTIS. Mr. Chairman, I believe that was the unanimous report of the committee last year.

Chairman DOUGLAS. That is correct.

Representative CURTIS. So perhaps they are following the committee's ideas.

2. The farm program

Mr. COLM. Another program I want to touch upon is the President's soil-bank proposal, and I may say, Mr. Chairman, I enter this field with hesitation. I have, since you were good enough to ask me to appear here, spent most of my time studying this proposal.

I also want to say I had the full cooperation of the officials of the Budget Bureau and also of members of the Agriculture Department, who tried their best to explain the details to me and made worksheets available to me; but still I am not sure that I have understood it.

I give you the best of my understanding, but I may be wrong.

Chairman DOUGLAS. You are not alone in your failure to understand the program.

Mr. COLM. It is quite striking that, whereas the President has presented to Congress an additional farm program, no increase in total net expenditures for farm purposes appears in the budget. The amount provided for the new program—an estimated $400 million—happens to be fully offset by reductions in existing programs. The soil-bank proposal consists of two parts, the conservation reserve and the acreage reserve. However, according to official explanations, the $400 million will cover only the conservation reserve. No explicit allowance is made for the acreage reserve plan in the budget.

The official explanation is that this part of the program does not add to the expenditures of the price-support program estimated under existing legislation. It appears difficult to understand that, in the face of this expanded farm program, the estimated net expenditures for the price-support and related programs actually decline by more than $400 million.

The question must be raised, therefore, as to whether net outlays for price support in 1957 have not been underestimated. Net outlays for farm-price support are primarily determined by three factors: First, gross expenditures for price support (mainly commodity loans and purchases); second, receipts (particularly from sales of commodities and repayment of loans by farmers); and, third, financial transactions, that is, changes in the amount of loans and certificates held by banks.

Direct loans for price-support and related programs are estimated to drop by a full billion dollars from the fiscal year 1956 to 1957. The largest reductions are in loans for cotton and wheat.

Sales of commodities from CCC inventories are estimated to rise somewhat during the fiscal year 1957. A very substantial increase in sales of cotton—more than $200 million—is assumed, in part offset by reduction in sales of other CCC commodities. These estimates were made by the Budget Bureau and Department of Agriculture before the soil bank proposal was formulated, and therefore cannot be explained as an expected result of the new plan.

The estimated increase in cotton sales implies that domestic and foreign consumption of cotton will substantially exceed domestic production in the 1956 crop year. This estimate is in contrast to the increase in stocks estimated officially to amount to 3 million bales by August 1956.

Chairman DOUGLAS. Is that for the fiscal year?

Mr. COLM. No, sir; that is for the crop year which ends August——

Chairman DOUGLAS. That is the total stock?

Mr. COLM. Yes, sir.

The budget estimate therefore assumes a rather drastic reversal of this trend. There may be some doubt if this is not an overoptimistic assumption. I have no judgment on this, but I raise that as a question.

Reduced gross expenditures for direct farm price support loans combined with increased sales would have resulted in a still greater reduction in next expenditures, greater than the $400 million, for the farm price-support program, were it not for the fact that the CCC is expected to redeem a much larger amount of loans and certificates held by banks during the year 1957 than in the current fiscal year.

That means there is an increase in the purely financial outlays, that is, those that arise through the redemption of bonds and certificates. The actual net payments to farmers decline by more than the $400 million.

According to the official explanation, the new acreage reserve plan is, as I mentioned before, not expected to result in costs in addition to those estimates for the farm price-support program. However, some of the costs of the 1957 operations under the acreage reserve program might not result in actual expenditures until subsequent years. The acreage reserve program allows farmers to redeem acreage certificates either in cash or in CCC inventories. Some of the certificates redeemed in cash will not fall due until the fiscal year following the crop year for which they have been issued, which means that some of the certificates issued in the year 1957 will not become expenditures until the fiscal year 1958.

Certificates redeemed in commodities obtained from CCC stock may possibly have an impact on the budget only in the second subsequent year, which would be 1959. Under present practice, the reduction in CCC stocks would not be accounted as a sale because it would not involve a cash transaction, and these sales figures are strictly cash sales. Rather, it would result in a reduction of inventories and would be accounted as an impairment of capital which would be made up by an appropriation 2 years later. Such an appropriation for making up for impairment of capital would not be reflected in the net budget expenditures of the Government at all. It is only reflected in an appropriation.

I just repeat that this is an explanation to the best of my understanding, but I may be subject to correction.

In spite of the remaining uncertainties, I am inclined to the conclusion that the new farm program is not fully reflected in the expenditure estimates for 1957, and that some of the actual costs may appear only in budgets for subsequent years. I also believe that the estimate of net expenditures for the price support program as a whole appears to be based on very optimistic economic assumptions, particularly with respect to cotton.

At least, it seems to me that in this area lies a substantial source of possible underestimation of Government expenditures.

In summary, then, Government expenditures could well be estimated at about $1 billion higher if the new legislative proposals were treated in the same way as other budget programs.

Senator GOLDWATER. Might I interrupt you just for a moment, before you leave that.

You mentioned the possibility of the sale of cotton to the extent of $200 million. Are you assuming that $200 million will be out of the CCC inventory, or will it be the sale of new cotton?

Mr. COLM. No, sir; that is an estimate of what the CCC is likely to sell, either on the domestic market or in foreign countries.

Senator GOLDWATER. And you do not think that is liable to happen?

Mr. COLM. Well, sir, I hesitate to pose as an expert on agriculture. I only know that through August 1956, the official estimates—by the way, recently reconfirmed by a special committee of the Committee for Economic Development in a statement which came out last week—these experts believe that inventories will accumulate all through August 1956.

In the next crop year, there are more stringent acreage reductions, and that may have an effect; but a very considerable effect is implied in these estimates and, while I am not expert enough to say that I doubt it, I just would like to leave this question with the committee.

Senator GOLDWATER. I think it is a good question, which is the reason I bring it up, because there is a determined effort to move this cotton; and while $200 million is quite a large figure, it is possible it can be done without attendant losses.

Mr. COLM. Yes. It is also contemplated that the market price would be somewhat lower by using a somewhat different standard.

Senator GOLDWATER. That is right.

Mr. COLM. And it is hoped that this would put cotton into somewhat better competitive position relative to other textile materials.

3. The loans and guarantee programs

Loan programs in general are budgeted on a net basis, that is, repayments are deducted from gross outlays. Guaranties and insurance are not reflected in the budget at all except to the extent that small amounts are expended in the operation of these programs. I do not criticize this method at all—there is no way of including guaranties and insurance fully in the budget—but I do want to call your attention to this item because, when considering the budget as a measure of the economic impact of the Government program as a whole, these items must be taken into consideration.

It would be wrong to say, for example, that the Farm Credit Administration's loan operations have no economic significance merely because disbursements and repayments happen to be equal. The major credit programs of the Federal Government are estimated to give a net repayment of $128 million—resulting from $6,846 million disbursements and $6,974 million repayments. I think the gross figure is equally, if not more, significant for an economic appraisal than the net of $128 million.

Similarly, it would be just as erroneous to neglect the effect of the guaranty and insurance programs of the Federal Housing Administration or Veterans' Administration simply because they are not reflected in budget expenditures. About one-half of the nonfarm housing starts are financed by Government underwriting of one kind or another. FHA and VA guaranties and insurance are expected to rise by more than $7.5 billion during the next fiscal year——

Chairman DOUGLAS. Where do you get that figure, Dr. Colm?

Mr. COLM. That figure I get out of special analysis F in the budget document, which I would like to bring to your attention, because I think it is an excellent analysis not usually seen by many people.

The guaranties and insurance are expected to rise by more than $7.5 billion during the next fiscal year, contrasted with an estimated $7.1 billion rise during the current fiscal year. The economic ramifications of such programs should not be ignored in appraising the economic impact of Government activities simply because they are not reflected in the budget.

Representative CURTIS. Mr. Chairman.

Could I ask, is that a net figure you are talking about, that rise, over the payments that go off the books?

Mr. COLM. Yes, sir.

Representative CURTIS. It is a net rise?

Mr. COLM. Yes, sir. There is an increase in commitment.

Representative CURTIS. Over those which have been paid off?

Mr. COLM. The increase is in outstanding commitments.

Representative CURTIS. Yes. Thank you.

Mr. COLM. It is a net figure.

The significance of these operations can be measured by the fact that outstanding direct loans of the Federal Government amounted to nearly $17 billion, or 5 percent of the estimated private debt on June 30, 1955. Private loans guaranteed by the Federal Government, amounted to $45 billion, or 13 percent of the total private debt. They are estimated to reach $60 billion in the fiscal year 1957. The Federal Government's total involvement in the United States credit market would rise to $76 billion by the end of the fiscal year 1957.

The following conclusions may be suggested for appraising the possible rise in Government activities during fiscal year 1957:

1. The rise in expenditures as recorded in the budget may turn out to be somewhat larger than the $1.6 billion officially estimated.

2. The highway program may involve initial expenditures of possibly half a billion in the fiscal year 1957, if promptly enacted.

3. An allowance should be made for expenditures for public buildings which are constructed under the congressionally authorized "lease-purchase program."

Chairman DOUGLAS. Is there any allowance for this in the budget?

Mr. COLM. No, sir, but if I am not mistaken, it is estimated that during the fiscal years 1956 and 1957, between 50 and 60 of these programs will be started. That will occasion a considerable amount of spending which is spending of private money, but it is spending which would not have taken place had it not been——

Chairman DOUGLAS. I said an allowance. You mean the rental and amortization charges which the Government pays?

Mr. COLM. Yes, sir. It would add up over a period of, let us say, 30 years, it would add up to the purchase price, plus interest and other costs.

Chairman DOUGLAS. What you are saying is that the Government budget reflects the money outlay of the Federal Government, but not the economic impact of the Federal program.

Mr. COLM. Yes, sir. That is a much better way of putting it.

Senator SPARKMAN. Mr. Colm, before you go further, what do you mean by "allowance should be made"? Do you mean actually in figures in the budget, or do you mean there should be taken into consideration this impact, as you have described it, of the guaranteed loans, and so forth? In other words, it is difficult for me to see that the budget should carry a dollar figure to reflect that.

It seems to me it is a matter which we keep in mind in considering the economic impact of this program. I am just asking what you mean by the words "an allowance."

Mr. COLM. Senator, I meant that in appraising the economic impact of Federal activities in 1957, we should include this item as a consideration.

Senator SPARKMAN. But not a dollar figure, as such, in the budget itself?

Mr. COLM. This has in it a second question, whether this is a sound procedure. Now this raises the whole question of the capital budget, and I feel that at the moment we really do not know what we have when we talk about the budget, because some of these capital figures are out of the budget, as this one, and others are in. I would prefer a more general arrangement by which all these capital items would be shown in a subitem of the budget, rather than that some are out and some are in. Without a detailed analysis it is difficult to determine what we really are dealing with.

Senator SPARKMAN. Thank you.

Chairman DOUGLAS. Have you made any estimates, Dr. Colm, of the net stimulative effect of these governmental lease-purchase arrangements for public buildings?

Mr. COLM. No, I have not, sir.

Senator GOLDWATER. Have you examined the budget to the extent that you can tell how large this lease-purchase program is at the present time, in dollars?

Mr. COLM. There is no dollar figure given, Senator, in the budget. I think the figures are available, because each project must be approved; and it would be possible, I am sure, to obtain that figure. But there are approved 50 to 60 buildings which are being constructed.

Senator GOLDWATER. What was that?

Mr. COLM. Units, individual units.

Senator GOLDWATER. I was wondering if you had any figures which would show the importance of it in relation to the total budget.

Mr. COLM. Senator, I shall try to obtain such a figure for the record.

Senator GOLDWATER. I do not think you will be able to find it in the breakdown, but it should be available somewhere.

Mr. COLM. I think it should be available, because each project must be approved, and therefore the figure should be available.

(The following was later furnished for the record:)

According to the budget, page 1139: "53 projects involving construction costs totaling $105 million were approved during the 1st session of the 84th Congress. Additional projects costing over $250 million are expected to be considered for approval by the end of 1957. It is anticipated that 38 buildings will be completed and occupied during 1957."

Chairman DOUGLAS. May I ask the staff to try to obtain statistics as to the amount under authorization for the construction of public buildings under the lease-purchase arrangement.

Senator SPARKMAN. I would also like to have completions, where the contract is running. Let us see what is happening. Does that meet with your approval?

Representative TALLE. Oh, yes.

Mr. COLM. Fourth. Official estimates assume a moderate rise in loan guaranty and insurance programs, particularly for housing. Increases should also be expected for health facilities, communities suffering from chronic unemployment and possibly for the foreign investment guaranty program.

The last point of my summary, No. 5: Disbursements from trust funds are expected to increase somewhat more than receipts, making for a smaller net accumulation in the trust funds, and hence a reduction in the deflationary effect of these operations.

Taking these points into consideration, I would estimate that the rise in the level of Federal activities under existing legislation and under programs proposed in the various messages may be more adequately estimated for fiscal year 1957 at about $3 billion above the level of the current year instead of the $1.6 billion increase shown in the budget. However, several of the new programs would involve somewhat higher additional expenditures in future years.

Mr. Chairman, with your allowance, I come to the second part of my testimony, dealing with the Federal revenues.

II. REVENUES AND TAX POLICY

The collection of taxes by the Government is no less an important economic factor than expenditures. One only needs to remember that individuals in the United States could use $35 billion or more than 10 percent of their personal incomes for additional spending or saving if it were not for individual income taxes. Corporations could use $20 billion more out of their $45 billion profits for dividend disbursements or internal financing. Consumers could save $10 billion out of their $250 billion expenditures budgets if it were not for excise taxes.

I mention these magnitudes simply in order to demonstrate the great economic significance which changes in taxation may have on the availability of funds for consumer or business spending. I do not suggest that individuals could have these incomes and business these profits without the many services performed by government which are reflected in budget spending and tax collection.

A. Economic assumptions for receipt estimates

Budget receipts are stated as follows:

	Billion
1955 (actual)	$60.4
1956 (estimated)	64.5
1957 (estimated)	66.3

The rise in receipts is explained as resulting from the recent and expected increase in economic activity. This increase compares the average level of economic activity in the calendar year 1955 to that of the calendar year 1956.

One could believe that the increase, particularly in the income tax, might also be a result of the expected improvement in collections. However, the official explanation does not refer to this possible fact.

It is regrettable that the budget itself does not state the economic assumptions upon which the revenue estimates are based. They were given, however, in a press conference by the Secretary of the Treasury, and, as the chairman mentioned yesterday, were also submitted to this committee.

The assumptions are: For personal income, $302.5 billion and $312.5 billion for the calendar years 1955 and 1956, respectively; for corporate profits, the estimate is $43 billion for each of the 2 years.

With respect to these assumptions it has been pointed out—and this was also discussed here—that the estimate for personal income for calendar year 1956 is partcically identical with the annual seasonally adjusted rate of personal income in the fourth quarter of 1955. This, together with the 1956 estimates for profits actually below the recent rate, has been interpreted either as predicting a leveling out of business in 1956 or as building up a reserve for showing later a budget surplus actually larger than the one shown in the budget.

Since this matter was discussed yesterday, I would like, with your permission, to draw only two conclusions regarding the most desirable volved in these estimates. First, I think it would be most desirable if the budget, both on the revenue and expenditure side, were based on a set of uniform economic assumptions. In this budget, it seems to me that there is not complete uniformity between assumptions on both sides.

I have already mentioned the relatively optimistic assumptions which were implied in the CCC estimates. There are also rather optimistic assumptions implied in the estimated State withdrawals from the unemployment trust funds. The figures for 1957 are somewhere between those for 1955 and those for 1956, and would allow for an increase in unemployment, I think of something like 200,000. These assumptions would not appear to be on the same basis as the estimates for the revenue side. We should remember that the process of expenditure budgeting starts much earlier than that of revenue estimating. Different economic data are available at these periods.

I am personally in sympathy with agencies which are reluctant to base their budget estimates on actual predictions. Therefore—and this is my second related conclusion—it would be a better method if the budget, both on the expenditure and receipt sides, were based on a maximum employment and production assumption for the ensuing year, rather than on any alleged or attempted actual forecast.

This would mean, let us say, that for the fiscal year 1957 budget estimates would be based on perhaps a $405 billion GNP or a $320 billion personal income assumption.

Then it should be specifically stated in the text of the budget message that revenues would be lower and certain expenditures higher if the economy should fail to reach the maximum employment and production objectives. Such alternative estimates would, I believe, be very useful for the Congress. For programs which are highly sensitive to a worsening of economic conditions, small contingency funds could be requested so that they would not get into trouble if some unemployment appeared.

On balance, it seems to me that the 1957 budget may be somewhat underestimated, both in revenues and expenditures, assuming that business conditions remain favorable, that the Congress takes prompt action on proposed legislation, and that programs are not artificially kept outside the budget. I would not venture a guess whether the amount of underestimation may be larger on the expenditure or the receipt side.

B. Recommendations for tax policy

The President has recommended that the corporate and excise taxes, which according to present legislation would be lowered on April 1, 1956, should continue at present rates; he has made no commitment for tax reductions. This is a change from the position taken last year when the President expected that a moderate tax reduction should be possible in the calendar year 1956.

The present policy of the President is in accord with the conclusions reached by your Subcommittee on Tax Policy. However, there appears to be a difference in the line of reasoning that leads to this conclusion. It is important to clarify this difference in order to understand the conditions under which this conclusion might change, that is, under what conditions a tax reduction recommendation would be appropriate.

I should like to set forth, perhaps in oversimplification, the two divergent views. One argument maintains that taxes should not be reduced now because the expected budget surplus is not large enough to permit tax reduction without resulting in a deficit. The President says in the budget message:

> * * * I earnestly believe that a tax cut can be deemed justifiable only when it will not unbalance the budget * * *.

Secretary Humphrey has clearly and uncompromisingly stated the conclusions from this type of argument. If economic expansion should lead to a more rapid rise in incomes and profits, then anticipated revenues would rise, the budget surplus would be larger, and a tax cut would be possible.

The Secretary has indicated that perhaps a $3 billion surplus from curtailment in expenditures or rise in tax yields would be needed to make a tax reduction advisable.

The second argument says that taxes should not be reduced at a time when the economy is expanding, but rather, that tax reduction should be enacted when needed to support continued economic growth. Such a policy, to use the words of your subcommittee—

> would tend to result in Federal surpluses and debt retirement during prosperous and boom periods and deficits during recessions and depressions.

The subcommittee therefore concludes that—

> * * * it must be recognized that the economic outlook may change rapidly in the coming months. * * * In this event, we would be in a position to reduce taxes more advisedly than by taking the action prior to evidence of economic need.

In other words, the first position implies that taxes should be reduced when the boom assumes unexpected proportions; the second would reduce them when the boom begins to taper off. The first position takes as its guide the balancing of the Government budget; the second aims at helping to balance the economy.

As I said, the positions as described are probably somewhat oversimplified. I notice in the President's budget message, and particularly in the Economic Report, an attempt at compromising with the other type of argument. The sentence I read from the budget message is anteceded by a reference to "conditions of high peacetime prosperity, such as now exist * * *" and to "the present state of financial affairs."

In the Economic Report it is said:

> In view of existing economic conditions and present budget estimates, an early reduction of taxes cannot now be justified.

This latter statement is, I believe, somewhat closer to the position of your subcommittee than to the statement in the budget message.

It is difficult to see how these 2 positions taken in the 2 messages can be reconciled. Perhaps having both positions presented means that a door is left open for possible later switch from the one to the other position. This, however, is mere speculation. I hardly need to add that I personally agree in general with the position of your subcommittee.

I agree also with the subcommittee's opinion that, over the years, if peace is maintained, a substantial tax reduction will in all likelihood be feasible but that this reduction should be so timed as to give greatest support to the economy.

III. THE BUDGET SURPLUS AND THE PROBLEM OF THE DEBT

The budget message places great emphasis on the budget surplus of $400 million in the so-called administrative budget and on the hope that the $274 billion debt can be reduced by approximately that amount by $500 million. That would be a reduction by 0.018 percent in the fiscal year 1957. It seems to me that this $400 million or $500 million figure is of rather limited significance and a tenuous estimate at best.

Uncertainties in both the revenue and the expenditure estimates are such that I would regard $400 million or $500 million as within the margin of error. If the optimistic cotton outlook should turn out less favorable than assumed, this one factor alone could wipe out the surplus.

The same would be true if the Congress should not adopt the proposed increase in postal rates. In addition, there are the activities which are now kept outside the budget and which we have discussed. With some modification in the arrangement of some of these programs, without changing the substance of the work to be done, they could fall within the budget and the surplus might be changed into a deficit.

But if the so-called administrative budget is not a good measurement of Government activities and of a net balance between expenditures and receipts, you may expect me to suggest a method of measurement which takes all of these factors I mentioned earlier into account. This I am unable to do. There is no perfect measurement.

I do believe, however, that for measuring the economic impact of Federal transactions, the so-called consolidated cash budget is superior to the administrative budget. Both measurements are used in the Economic Report of the President and are presented in the budget.

The consolidated cash budget takes into account all Government receipts from and payments to the public. Hence, the cash budget reflects the fact that social insurance and other trust funds take in more money than they disburse, and to that extent have an anti-inflationary effect. By recognizing that the accrual of funds for future social-security claims has current effects on the economy, I do not propose that we should disregard the fact that these funds are held in trust by the Federal Government.

The excess of receipts in the consolidated cash account for fiscal 1957 is estimated at $2.4 billion. Thus, the surplus in the consolidated cash budget is about $2 billion higher than the surplus in the administrative budget. The fact that the net accumulation in the trust funds in 1957 is expected to decrease, as I noted earlier, makes for a smaller difference between these two budget concepts. The difference used to be more like 3 to 4 billion dollars.

Chairman DOUGLAS. Mr. Colm, what you mean to say is, while the trust funds will show a net accumulation, it will be at a lower rate in 1957 than in 1956.

Mr. COLM. Yes, sir.

Chairman DOUGLAS. Or, in terms of calculus, that the change in D would be D times DY, and would be less than in the preceding year.

Mr. COLM. Yes, sir. I tried hard to avoid all mathematical formulas in this testimony.

Chairman DOUGLAS. In other words, the second degree differential will be less.

Mr. COLM. Yes.

Chairman DOUGLAS. I put this in to indicate that members of the Joint Economic Committee understand differential calculus.

Mr. COLM. However, this measurement, I mean the consolidated cash budget, too, is incomplete because it does not reflect guaranties and insurance and other methods by which private credit is mobilized to do the public business. If these programs were also taken into account, I would guess that the spending for Government purposes would be somewhat larger than the incomes which it will absorb through taxes in 1957.

Thus, I do not expect that, under present and proposed programs, there will be in fiscal 1957 a reduction in the sum total of the debt composed of two parts, namely, (1) of the Federal debt held by the public and (2) that part of the private debt which has been contracted by reason of some cooperative arrangement with the Government and which, in one form or another, represents a Government commitment.

I would welcome some debt reduction during prosperous times, but it should be recognized that there is no more effective way for reducing the debt burden than by promoting a growing economy. The debt burden is expresssed as the ratio of interest payments to gross national product or national income.

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This ratio has been declining with the growth of the economy. Federal interest payments were 2.3 percent of gross national product in 1946, and declined to 1.6 percent in 1955. This represents a more substantial relative decline in the debt burden than an 0.018 percent reduction in the absolute amount of the debt, which is what the $400 or $500 million expected budget surplus or debt retirement would mean. Without minimizing the problems involved in the management of a huge debt, it must be stated that it becomes more manageable as the economy grows in size.

I come to my conclusions, Mr. Chairman.

IV. CONCLUSIONS

A. The budget as a built-in stabilizer

That our budget is so big, is a reflection of the fact that we are living in a world of great international tension and turmoil. A large budget, however, has a desirable aspect, also. A relatively large public sector acts as a built-in stabilizer in case of fluctuations.

In a recession most Government programs would probably continue as scheduled; others—particularly unemployment benefits, farm-price support payments, social-assistance payments, retirement benefits—would not decline but rather would rise, and some of the reduction in private incomes and profits would be offset by tax declines even without any specific legislative action.

It has been estimated that this stabilizing effect of Government—including State and local governments—might absorb 60 percent of the downturn in incomes and profits which could occur if Government expenditures moved in proportion to private spending and taxes remained constant. This means that the combined budgets—Federal, State, and local expenditures—would cut the severity of a depression by more than one-half. If I were to present the proof, I would need more complicated formulas than those mentioned by the chairman a minute ago. Therefore, in my paper I refer to the place where these estimates are given by Mr. Lusher, of the Council staff, and myself, in a recent publication of the National Bureau of Economic Research (in: Policies to Combat Depression, National Bureau of Economic Research, Princeton 1956).

While this result is very reassuring, it should be noted that we don't know how severe such a depression without built-in stabilizers might be. Even a remaining 40 percent decline may still be pretty big. Furthermore, built-in stabilizers act like a cushion, but are not likely to change a downturn into an upswing or help in promoting a desirable rate of growth. We cannot rely on the stabilizing effect of a large budget alone for doing the job prescribed in the Employment Act.

B. The budget as a tool for anticyclical measures.

Changes in tax rates and the rate of expenditures belong to the most potent devices in our anticyclical toolchest. In the case of light fluctuations it is prudent to use first monetary policies and see how far they carry.

Under present conditions, variations in the financial terms for VA and FHA loans should also have a place in early antirecession measures. In the use of Government expenditure and tax policy, long-term and short-term objectives should be reconciled. We should have an idea of the kind of tax reductions and tax revisions which we think are desirable from a longer run aspect of equity and economic incentives.

When a downturn occurs, it might be desirable to reduce taxes promptly. In a similar fashion, we ought to have a number of long-term programs for public works and other Government undertakings which are recommended on their merits. In case of a slack in economic activity, these programs should be stepped up.

In this connection I am concerned with the fact that the so-called Federal public works reserve is very small. According to the 1957 budget, there are authorizations for $10 billion construction, but plans ready for an immediate beginning of construction will amount to less than $1 billion.

Perhaps it would be useful if there were available lists of such Federal, State, and local undertakings which, in case of a slack, particularly in the construction industry, could be stepped up, irrespective of whether the projects have actually been initiated or not. Also, studies should be made of the ways by which the Federal Government could induce State and local governments to step up their programs in case of need.

C. The effect of the budget on economic growth

A budget discussion which focuses exclusively on the effect of expenditures and taxes on private income and spending may easily miss one important economic aspect. The effect of Government activities on the flow of income has been called the spending effect of the budget and should be distinguished from what might be called the economic program effect.

The Government makes a distinct contribution to economic growth through the programs which affect education, training, mental and physical health, basic and applied research, development of natural resources, urban development, and so on. These direct effects of Government on economic growth are quite distinguishable from the effects of Government spending, taxation, and borrowing on the flow of funds through the economy.

Both aspects, I believe, are important. Therefore, considering all the attention paid to the flow of funds and the balancing of the budget, we should not neglect to ask the question: Does the Government make the contribution to the development of productive resources which is needed in our domestic and in our world situation?

In most of these areas, we need not a "crash" program but, rather, a long-term sustained effort. While I said at the beginning that I did not intend to discuss the adequacy of the various programs, I cannot present my conclusions without raising this question for your most serious consideration.

With respect to the economic effect of those Government activities which have been discussed in this testimony, we reach the conclusion that expenditures generated by the Government will probably add somewhat more to the flow of incomes than will be absorbed through taxes and other revenues in the coming fiscal year. To this should be added the consideration that the same amount of Government expenditures probably adds somewhat more to private spending than is prevented by the same amount of tax collections. Considering both these factors, I would conclude that the operation of the Federal Government as proposed in the President's messages would have a mildly expansionary effect on the economy as a whole.

How, then, should I answer the question I raised at the outset of my testimony: What is the probable economic impact of the Federal budget for the coming year? The answer must be seen in the light of the economy as a whole.

I agree with the judgment expressed in the economic report that the present economic outlook shows both strong and weak points. We see some factors of strength—the continued rise in private business investment, the momentum which the economic expansion of the last year has generated in many lines of consumer goods, and the increases in State and local government spending.

To this should be added, as I said before, a moderately expansionary force resulting from Federal activities.

On the other hand, we see some relative weakness. Automobile production and housing are examples. Nor will the rebuilding of inventories have the same stimulating force that it had last year. Moreover, the influence of moderately rising Government programs will be dampened by the fact that out of a rise in incomes, additional taxes must be paid.

If the economy should show some moderate expansion as hoped for in the President's economic report, then tax receipts under current tax rates would be more than expected in the budget, and the surplus would possibly be larger, even if some increase in expenditures is also considered.

Thus, I doubt if on balance the Federal sector as a whole will be substantially more expansionary than it has been in the recent past.

At this moment, I would be unable to predict whether on balance the factors of expansion will be strong enough to make for an adequate rate of growth or whether economic expansion is likely to level out with rising unemployment as a consequence. If the latter should prove to prevail, then it would be the time to step up some of the expenditure programs and adopt some tax reduction.

I believe this committee could be of great service if it insists on having plans for such actions both on the expenditure and tax side prepared, even though for the time being it might rightly take an attitude of watchful vigilance.

Proposals have been made in the literature, and also in testimony before this committee, that a greater discretionary power of the Executive is needed for an effective stabilization policy, particularly in the field of taxes.

I do not believe that the record of the past bears out that need, although I believe that some improvement in expediting legislative action would be desirable. I do believe that advance thinking on both the executive and the legislative side of Government is needed.

Because of this conviction, Mr. Chairman, I feel particularly grateful that I was given the opportunity to testify before this committee, which I believe has the power, the ability, and the duty to do this job.

Chairman DOUGLAS. Mr. Colm, I want to thank you for a very brilliant discussion.

The questioning will be begun this morning by the Senator from Alabama, Mr. Sparkman.

Senator SPARKMAN. Mr. Colm, I want to thank you for this statement. I think it is a very fine, clear, and helpful statement.

By the way, while I think of it, we were talking a few minutes ago about public buildings under the lease-purchase plan. Our staff has obtained that information, and I thought you might be interested in it.

To date, approval has been obtained for 26 units, costing about $91.4 million. No projects have been completed nor has construction been started on any.

Bids are to be solicited for 2 of these projects within the next 30 or 40 days. Approval is to be sought for another 65 units in the amount of about $285 million during the current session of Congress.

In addition, the Post Office Department has had 27 projects approved for a total of $14.1 million, but they are still in the planning stage. So that might modify slightly the statement you made, I presume, because it seems it will have very little impact; no impact on 1956 and no appreciable impact on 1957 at the rate they are going now. Is that correct?

Mr. COLM. Yes, sir; that would be, for fiscal 1957, only a moderate impact.

Senator SPARKMAN. It seems to me that might add a little emphasis to the statement you make that many of these programs will have a greater impact in future years than they will in 1956 and 1957.

Mr. COLM. Yes.

Senator SPARKMAN. Mr. Colm, on page 4, and even at an earlier point in your statement, you refer to the money which was provided for the agricultural program.

Mr. Hughes, testifying before us yesterday, said that all of the new programs were covered by the $450 million additional money. That includes the soil bank, the special Great Plains program, the stepped-up disposal program, new research, and apparently expansion of the extension service and new programs of all kinds.

Do you feel that the $450 million, particularly in the light of the statement you make, is a sufficiently high figure to take care of these programs?

May I say, he was not able to give us a breakdown. He did not have it item by item, but he said all of it was grouped in the $450 million.

Mr. COLM. Senator, the Secretary of Agriculture has said in a press statement that the acreage reserve is not included in this figure because no estimate is made—pardon me, I want to correct myself. The estimate is made that there would be no additional costs for the acreage reserve.

Now it is particularly this part which worries me, in the light of the fact that there is such a substantial decline in costs estimated for the current price support program, that is, the price support program under existing legislation.

Senator SPARKMAN. In other words, a substantial part of the cost of that program would be taken care of by the reduction in the amount used in the price support program?

Mr. COLM. No, sir. The acreage reserve plan would according to the official estimate not involve any additional costs. So it is not making up for the reduction, but the reduction stands in spite of the new program.

We have the $400 million reduction in net outlays for the price-support program, considering that this includes the acreage reserve plan. This reduction is made up by the $400 million additional expenditures for the conservation reserve and the related programs, such as Western Plains improvement program.

Senator SPARKMAN. It will be interesting to hear Mr. Benson break it down when he comes before the committee.

You make some reference to what would happen to the budget estimates which have been given if the legislative program recommended by the President should be enacted into law by the Congress. Do you refer to the recommendations contained in the Economic Report on pages 99 to 102, or are you referring only to those programs which have been submitted in special messages to Congress?

Mr. COLM. Senator, I was referring particularly to the summary of the legislative program which is given on page 15 of the President's budget message. This list is in essential accord, according to information given in the Budget Bureau, with the long list, particularly if you consider that the budget has also an item for other proposals and reserve for contingencies which is supposed to take care of a number of smaller legislative actions.

Senator SPARKMAN. What is that reserve for contingencies? It is $250 million; is it not?

Mr. COLM. Yes, sir.

Senator SPARKMAN. I think Mr. Hughes said $250 million authorization, and $225 million estimated expenditures.

Mr. COLM. Yes.

Senator SPARKMAN. You say all of the items are substantially covered. Do you know what, if any, are not covered by the budget message?

The reason I ask that question is because some of our previous witnesses have pointed out that there may be some inconsistency between the budget message and the Economic Report. One of those inconsistencies was the fact that certain programs were recommended here which were not provided for in the budget.

Mr. COLM. It is very difficult to answer, because here are two groups without specification—"Other proposals," and the "Contingency reserve."

I was told that the whole legislative program, as far as it does involve cash expenditures, is reflected here. Of course, there are—for instance, parts of the program for the depressed areas and some of the programs for promoting foreign investment, which are of the nature of guaranties; also, I think the same applies to programs for health facilities. They would not be entered here. As I pointed out, Senator, a part of the President's program is not reflected in net expenditures, because the technique used is that of guaranties, which does not lead to net expenditures except small amounts for the administration of the program.

Senator SPARKMAN. Doctor, one witness who has testified before us said that if we continued along pretty much the same way we seem to be going now, he would estimate that we might have a surplus in 1957 of as much as $5 billion.

Do you think he might have been pretty sound in that estimate, instead of the $400 million which the Budget Bureau estimates?

Mr. COLM. Senator, as a rule of thumb, we say that if we get about $10 billion additional gross national product, then we would have additional taxes, I think it is, under present tax legislation, of something above $2 billion, but less than $2.5 billion. I may be wrong in the exact figure, but something of that magnitude.

I do think that for the average of the year 1956, a 10 to 15 billion dollar increase I would regard as a satisfactory increase in gross national product.

We had in the preceding year a $25 billion increase, but there we were coming out of a recession. Now we are on a high level, and all we account for is another——

Senator SPARKMAN. You are not very cautious, Doctor, to use that term "recession," or is it all right to use it now, since it is past?

Mr. COLM. I think if the Senator will be good enough to look up the record before this committee, I was bold enough to use the word "recession" last year.

Chairman DOUGLAS. When it was occurring?

Mr. COLM. Yes, sir.

Chairman DOUGLAS. Were you called a prophet of gloom and doom?

Mr. COLM. No, I have not been, because I combined it always with a statement that I thought we were not and are not likely to get into an early depression. So that saved me. [Laughter.]

Senator SPARKMAN. That immunized you.

I do not believe I heard you make any reference to what might happen in the automobile industry. Assuming that the production of automobiles is reduced as drastically as has been indicated it might be, what do you think would be the effect on employment?

Mr. COLM. Senator, the automobile production, as I understand it, has been running, and I may not be exact as to the figure, but something at the rate of 182,000 units per week, and that has been reduced to only a little bit above 150,000.

The automobile industry, I think, is taking the position that they are at the rate now, that reduced rate, which they hope to maintain through the season, let's say, through May.

If that were so, then the greatest impact of the curtailment in the automobile industry proper has already taken place, although it has not yet been rolled backward to all the suppliers, and some effects may still spread through the economy.

A drop from 182,000 to 150,000 would, of course, be a very substantial cutback, and some of the companies have cut back employment, and certainly have cut out overtime. But if the present level could be maintained, then the major impact has already taken place.

Senator SPARKMAN. In other words, you think we can absorb it without any great difficulty?

Mr. COLM. Well, Senator, if other factors remain favorable, then this one might be absorbed. Of course, we have other unfavorable factors. I mentioned the construction industry.

Chairman DOUGLAS. I may say that the Senator from Alabama has taken approximately 13 minutes.

Senator SPARKMAN. May I ask one more question, and then I am through, because I have to leave.

Representative CURTIS. By unanimous consent.

Chairman DOUGLAS. I will extend the time of the Republican members of the committee correspondingly.

Senator SPARKMAN. Mr. Chairman, I am sorry I am over my time, but I have to leave in 5 minutes.

There is just one question I would like to ask in relation to tax reduction. I enjoyed very much your discussion about that. I thought it was very fine.

At a high level of production, of income, of prosperity, that we are enjoying now, would a tax reduction be inflationary?

Mr. COLM. Senator, in a growing, expanding economy, a tax reduction would have an inflationary effect. Whether the net effect of the whole economy is inflationary or not depends on other factors; but under present circumstances, that must be taken into consideration as a possibility.

Senator SPARKMAN. Thank you.

Thank you, Mr. Chairman.

Chairman DOUGLAS. The Senator from Alabama consumed 14½ minutes, so the Republican members of the committee are entitled to 14½ minutes apiece.

I will now ask that the questioning be continued by the Senator from Arizona, Mr. Goldwater.

Senator GOLDWATER. Mr. Chairman, I will set a good example for the Republican side by not using more than a few moments, because I have nothing to say about this presentation this morning except to thank the gentleman.

I admit that I had expected to find areas where I might disagree, but they are so small that I do not care to discuss them.

I think you have presented a very sound, well-thought-out argument, and you have answered the question in a commendable way.

I also wish to comment at this time on a remark that you made in Newsweek, because I think it is refreshing to note that economists have finally come to realize what business has always realized. In explaining the discrepancies between your forecasts of last year and what actually took place, you said:

> Consumer and business psychology plays an increasing role, and is difficult to predict except for relatively short periods of time.

I say again, it is refreshing to hear an economist recognize that fact, and I hope that economists over the country will read that statement of yours and recognize that psychology has probably the greatest impact of all upon the economy, and when certain economists are tempted to prophesy gloom, that they will restrain themselves with the knowledge that it might do more damage than good.

Thank you, Doctor.

Chairman DOUGLAS. May I say that the fears and forebodings and charges which the Republican members of the committee indulged in at the thought of having anyone but a governmental witness testify before us seem to have abated in the light of the very able and dispassionate testimony of the nongovernmental witnesses, and I suggest that they cease looking under beds for witches, and they will find that in practice we are all men of good will, seeking a solution.

I thank the Senator from Arizona for his very manly statement on this point.

Representative CURTIS. Mr. Chairman, at that point, I would like to say this: That certainly if the caliber of the presentation of nongovernmental witnesses is on this plane, I think our forebodings were unjustified. I am hopeful, though—I should not say "hopeful"—it is entirely possible that a well-presented statement at a particular time might have cleared the air so that we could be sure that this would come about.

Chairman DOUGLAS. I think the character of the witnesses is such that they are not intimidated by charges, and I thank the Congressman from Missouri for his manly statement, too.

I think as we get along we will get to understand each other better, and we will realize that we should all be governed by facts. We should get a grasp of the facts, however different our interpretation of what the correct policy should be.

Senator GOLDWATER. I might just say, before I leave— and I apologize for having to leave—that whenever there is an absence of politics in these hearings, there is always present sound reasoning.

Chairman DOUGLAS. Yes; and of course I would like to say that the idea that governmental witnesses never inject politics in hearings is false and incorrect. They inject a great deal of politics, only they do it under the unctuous guise of being governmental witnesses, and that is the worst type of politics.

Representative TALLE. Now, Mr. Chairman, I will say, as Scarlett O'Hara, "Tomorrow is another day."

Chairman DOUGLAS. That is the attitude of Republicans, always fearful of tomorrow, even though they come to approve what has been approved yesterday and today.

After this stage of pleasantries, let us proceed with the report on the statement.

May I take a detailed point which is important, I think. You have evidently given a good deal of study to this cotton situation, Dr. Colm. Did I understand you to say that during the crop year from August 1955 to August 1956 the CCC bought 3 million more bales than it sold?

Mr. COLM. Is expected to buy.

Chairman DOUGLAS. No. From the crop year from August 1955 to August 1956—you mean that some of this is on loan?

Mr. COLM. Well, it is not quite August 1956 yet, Senator.

Chairman DOUGLAS. I beg your pardon.

Mr. COLM. This is a forecast.

Chairman DOUGLAS. My mind moves forward. Yes, that is right. It is expected to buy 3 million bales.

Mr. COLM. Yes, sir.

Chairman DOUGLAS. But that in the crop year from August 1956 to 1957, it is expected to sell $200 million more than it buys.

Mr. COLM. Senator, the expected sale of cotton in the fiscal year 1957 is estimated—now that is gross sales—at $448 million worth of cotton.

Chairman DOUGLAS. That is the gross sales?

Mr. COLM. Yes.

Chairman DOUGLAS. And net sales?

Mr. COLM. Pardon me. It is the same, because there are no purchases estimated.

Chairman DOUGLAS. As I understand it, cotton is selling at $160 a bale, is that not true, or approximately 32 cents a pound?

Mr. COLM. Yes.

Chairman DOUGLAS. So if there are a gross sales of $448 million, which you say are the same as net sales, that means they would sell 2.8 million bales, although——

Mr. COLM. I think your arithmetic is correct.

Chairman DOUGLAS. Although currently they are purchasing 3 million bales.

Mr. COLM. Yes.

Chairman DOUGLAS. Does this seem reasonable to you?

Mr. COLM. Senator, I repeat what I said before, with your permission: I raise the question. It does not convince me, but I am not expert enough to say that it is wrong. I think it is a question worthwhile pursuing further with experts on that commodity.

Chairman DOUGLAS. What you are saying is that in practice, the soil bank proposals of the Department of Agriculture are proposed to be financed by the sale of 2.8 million bales of cotton.

Mr. COLM. Senator, these estimates were made before there was a soil bank proposal formulated. They were made irrespective of that, simply on the assumption that there would be a reduction in acreage allotments and, therefore, a reduction in production, and also an increase in domestic consumption, in part due to a lower price.

Chairman DOUGLAS. But is that treated as a governmental receipt?

Mr. COLM. Yes, sir; the sale of cotton.

Chairman DOUGLAS. So that while the two are divorced in time and in logic, nevertheless it so happens that they, according to the budget, they approximately balance each other.

Mr. COLM. Yes. The conservation reserve of $400 million balances the net reduction in price support.

Chairman DOUGLAS. And if they should not be able to sell this, the total estimated budget surplus would then be wiped out.

Mr. COLM. Yes.

Chairman DOUGLAS. Have you made any computations of the increase in the Federal gas tax which would be required to finance an added expenditure of $500 million for highways?

Mr. COLM. I have not, Senator.

Chairman DOUGLAS. It would be an increase of approximately one-half of the existing gas tax, would it not, Congressman Curtis?

Representative CURTIS. They have considered, of course, rubber and other things, on automobiles and trucks, and so forth, so it was not just confined to gas. But if you confined it to gas, it would be that.

Chairman DOUGLAS. Your present rate would bring in $1 billion.

Representative CURTIS. Something like that, $1.1 billion.

Chairman DOUGLAS. What is the rate per gallon?

Representative CURTIS. It is 2 cents.

Chairman DOUGLAS. So that would be a further increase of 1 cent, roughly.

Representative CURTIS. That is correct.

Chairman DOUGLAS. I believe you were here yesterday when I questioned the Director of the Budget on the estimates, which he approved, that corporate income would decline slightly for calendar 1956 below the level of December or the last quarter of calendar 1955, and that personal income would hold steadily at the level of the last month of calendar 1955.

Is it not true that the estimates of receipts, have been framed with this in mind, namely, that corporate income will either remain the same or decrease slightly, and that personal income will not increase above that of the last month in calendar 1955; is that not true?

Mr. COLM. Yes, sir.

Chairman DOUGLAS. It would seem to me that we must take for granted that these assumptions have been made in good faith and represent the best thinking of the Treasury, and that they do not hold any cards under the deck, so to speak. By how much is the labor force increasing each year?

Mr. COLM. About 700,000.

Chairman DOUGLAS. 700,000, and a study by the Bureau of Labor Statistics indicated there has been an increase of productivity per man-hour of around 3 percent over the course of the last few years, is that not true?

Mr. COLM. Yes.

Chairman DOUGLAS. So that if the assumption of Secretary Humphrey and of Budget Director Hughes is correct, would you not expect a very large increase in unemployment during the year?

Mr. COLM. Yes, sir; and I mentioned this fact in connection with the assumption used on the expenditure side. Only a very small increase of unemployment is reflected, something like 200,000 in the estimated withdrawals from the unemployment trust fund.

Chairman DOUGLAS. Let us assume the figure of unemployment is 2.3—it is, of course, more than that because of layoffs—the estimated growth of the labor force would raise it, according to the administration's estimates to 3 million. In addition, a 3 percent increase in productivity, unless it were accompanied by a rise in personal and corporate incomes, would displace very close to 2 million people.

Mr. COLM. Yes, sir.

Chairman DOUGLAS. So that we would get an unemployment figure of 5 million on the administration's assumptions, is that not true?

Mr. COLM. The arithmetic is true, Senator.

Chairman DOUGLAS. Unless money wages were reduced during the period.

Mr. COLM. Yes.

Chairman DOUGLAS. Is it not a very gloomy result, which is really contained in the administration's estimates?

Mr. COLM. Senator, if you will permit, I think it might be well to ask at what time were these estimates made. It is a pretty early time, at which time the fourth quarter estimates were not yet available, and while I agree——

Chairman DOUGLAS. They sent them to us, what was the date—on January 16.

Mr. COLM. As far as my past experience with the Budget Bureau is concerned, I do remember that the revenue estimates come very late in the estimating process, and are usually made around October, and at around that time there were only figures available for the summer.

I personally think, and I give a very frank guess of what happened, that the Treasury experts, as much as many of us, did not expect such a rise in production and income as actually took place toward the end of the year, and were surprised by that and have not taken that into consideration.

Chairman DOUGLAS. And the Secretary of the Treasury and the Director of the Budget did not revise their figures?

Mr. COLM. That is correct.

If I may add one comment to this, I think, Senator, that this whole attempt to base the budget on actual forecast is not the best possible method.

The expenditures have to be finalized at a much earlier time than that; and, therefore, my suggestion is to base the whole budget on admittedly hypothetical figures, which need not be revised. They would be based on full employment assumptions for revenue and expenditures, and then in the message, in the text, adjustments would be made when the outlook does not look quite as good, and this means less revenue or means some additional programs, depending on the situation.

Chairman DOUGLAS. Congressman Curtis?

I may say that the quorum call is to hear the Prime Minister of Great Britain in the Senate Chamber, so I shall have to leave.

Representative CURTIS. Mr. Chairman, do we plan to come back this afternoon?

Chairman DOUGLAS. Of course, you shall have your chance of questioning.

Representative CURTIS. I have a number of questions. I want to reiterate my commendation of this very fine presentation of Dr. Colm.

Chairman DOUGLAS. Shall we recess until 2:30?

Representative CURTIS. I only wish to make one point, and then not go into the others.

Just on this agricultural question, I just wanted to point out one thing about the President's message and proposals, which I do not think have been given full weight as far as they might affect the budget.

Suppose we limit price supports to $25,000 per individual. I suspect that we would be cutting the cost of that program considerably. I remember I put the figures in the record back in 1953, which indicated that over 50 percent of the price-support money went to only 9 percent of the farmers, and at the same time, I put in the record a list of those farmers who were receiving for 1 year checks in 6 figures.

I remember there was 1 down in Missouri who got $460,000 in 1 check, and 1 in Mississippi got $1.5 million in 1 check. I think if that program was implemented, and I certainly hope it is, we are going to save considerably on our price supports and also, I might say, to achieve our objective, which is to interject the law of supply and demand into this business of how much is planted. It is these large farm operations which can well afford and can, with some degree of accuracy, estimate what the demand for their crops would be. I was just wondering if you had a comment on that observation?

Mr. COLM. No; I have not.

Representative CURTIS. But you did not calculate the possible tremendous reduction—I would say "tremendous"—in the farm price-support program if we did limit the amounts which could be paid per individual to $25,000, for example?

Mr. COLM. It would be reflected in expenditures for loans which for cotton are estimated to decline from $1 billion in 1956 to $300 million in 1957.

Representative CURTIS. You would certainly include it in there, then, I am sure.

Mr. COLM. I do not believe that this proposed change in the law has been taken into consideration and I do not know what effect it would have.

Representative CURTIS. I do not know whether it has, either. But I do feel that that would be a considerable savings in the farm program if Congress would adopt it.

Chairman DOUGLAS. I may say that the Senator from Illinois agrees with what the gentleman from Missouri has apparently said, namely, that he would favor a restriction on the total amount which could go to one farmer.

Representative CURTIS. Not only favor; I have been working for that for several years.

Chairman DOUGLAS. Congressman Talle, do you have a question to ask before we adjourn?

Representative TALLE. I will be brief, Mr. Chairman.

I want to commend you, Dr. Colm, for paying notice to the desire of this committee, and especially the Subcommittee on Economic Statistics, to get improvements in this field. I believe you recall appearing before this committee before, do you not, Dr. Colm?

Mr. COLM. Yes, sir.

Representative TALLE. And we were pleased to hear you at that time.

I want to point out that last year for the first time in the President's budget message there was recognition of the need for improvement in economic statistics. My reference is to the section called special analysis, and this year again there is the same recognition under special analysis J.

Mr. COLM. Yes.

Representative TALLE. Would you like to comment on the requests made for additional efforts in that field, Dr. Colm?

Mr. COLM. Yes.

Representative TALLE. The request made in the President's budget, I mean to say.

Mr. COLM. I have prepared a list of increases, and have looked up in which case there was a recommendation by your subcommittee or one of the task forces of your subcommittee. I know that the members of the committee want to go to listen to a more distinguished person. Therefore, I hesitate to present this material at this moment, because it would take some time, but with the permission of the chairman, I have this material ready and could put it in the record.

Representative TALLE. I make the request, Mr. Chairman, that it be inserted in the record.

Chairman DOUGLAS. That will be done, and we can discuss it when we reconvene at 2:30. Is that satisfactory?

Representative CURTIS. Yes.

(The document is as follows:)

In response to Congressman Talle's request the following comparison between the Subcommittee on Economic Statistics' recommendations and the budget recommendations for the fiscal year 1957 has been prepared:

The Subcommittee on Economic Statistics' recommendations "on immediate needs" (pp. 4 and 5 of 1955 report):	Budget recommendation (see Special Analyses J in 1957 budget). dollars in terms of estimated obligations:
(1) Strengthen the monthly Survey of the Office of Business Economics, covering manufacturers' inventories, shipments, and orders	Increase by $240,000 for OBE in part for monthly estimates of manufacturers' inventories, shipments, and orders.
(2) Enlarge and improve the Census Bureau's monthly series on retail and wholesale sales and inventories	Increase by $300,000 for Census Bureau in part for monthly estimates of retail commodity inventories.
Provide data by market categories not yet planned.	
(3) Expand Federal Reserve statistics on department stores.	
(4) Develop monthly series on orders and shipments for capital equipment.	Feasibility of monthly series will be studied.
(5) Improve current construction statistics.	Increase by $600,000 for Business and Defense Services Administration. Also small part of $600,000 increase for BLS for labor requirements for construction. Total additional estimate for construction statistics; about $700,000.
(6) Expand SEC-Commerce Survey on anticipated plant and equipment expenditures.	Some of the increase for OBE (see above No. 1) and some of the $25,000 increase for SEC for improvement of plant and equipment expenditure survey.
(7) Lodge responsibility for savings statistics in one agency.	No funds required.
(8) Extend the FTC–SEC quarterly Financial Reports:	
Include additional types of corporations	Small increases (less than $10,000) for SEC.
Establish sample of unincorporated business.	No recommendations.
(9) Surveys of consumer and business expectations: consider retiming of surveys or additional preliminary surveys.	No recommendations.

The Special Analysis J includes also a few other proposed improvements which have been recommended by Joint Committee in other context.

There is no proposed budgetary implementation on the subcommittee's recommendation on longer run needs. Excluding allowance for the periodic censuses actual or estimated obligations for statistical programs are—

Fiscal year 1955, $27.8 million.
Fiscal year 1956, 31.9 million.
Fiscal year 1957, 35.1 million.

I interpret Congressman Talle's request for information "about the status of economic statistics in foreign countries" as relating specifically to statistics which have a bearing on economic stabilization policies, comparable to data included in the President's Economic Report and reports released by the Joint Committee. In this connection, I would like to refer first to the extraordinarily informative and comprehensive material which has been presented to your Subcommittee on Foreign Economic Policy and is included in the hearings of November 9. I am referring especially to the survey presented by Dr. Stuart A. Rice. It may be useful to add to this information a list of selected countries which publish official economic reports or surveys. (This material is based on an article by Theodore Geiger on Adoption of Employment Policies and National Account Techniques by Foreign Countries and International Organizations to be published on February 20 in The Employment Act, Past and

Future: A Tenth Anniversary Symposium, edited by Gerhard Colm, National Planning Association.)

United Kingdom

Chancellor of the Exchequer presents to Parliament an annual economic survey.

France

Ministry of Finance prepares an annual survey of economic conditions and trends which contains policy recommendations for government stabilization measures. In addition, the Commissariat du Plan is responsible for setting goals and evaluating progress in the investment sector of the French economy.

Netherlands

Central Planning Bureau prepares an annual central economic plan and evaluates and forecasts the results of government policies designed "to maintain employment for the rapidly growing population."

Norway

The Economic Committee of the Government prepares an annual economic budget.

Sweden and Denmark

Prepares annual economic surveys with projections and evaluations of alternative policies.

Canada

Ministry of Trade and Commerce issues an annual economic review and prepares an economic forecast for internal Government use. In addition, comprehensive statistics of public and private investment intentions are annually prepared.

Australia

Publishes an annual white paper on national income and expenditures and on the general economic situation.

New Zealand

Publishes an annual economic survey with projections and policy recommendations in budget speech of the Minister of Finance.

In addition, all member countries of the United Nations are requested to submit to the U. N. Secretariat annually "full information concerning economic trends, the full employment standard, domestic economic objectives and—where appropriate—goals or forecasts, and domestic policies and programmes." The U. N. regularly publishes in an annual eonomic survey analyses of the data submitted in compliance with this request.

Representative TALLE. I have another request, Dr. Colm, that you might like to think about. I would like to know something about the status of economic statistics in foreign countries, what they are doing, what your appraisal of them is. Would you include that in your submitted materials?

Mr. COLM. Yes, sir.

Representative TALLE. And then one other thing: How far can we go in taxation without destroying incentive?

Mr. COLM. I will make a bargain. I will answer the first two questions specifically but the third only in a general way.

Representative TALLE. Pardon?

Mr. COLM. Could I answer the first two questions specifically with figures, but the third only in a general way?

Representative TALLE. Yes; indeed. Thank you, Mr. Chairman.

Chairman DOUGLAS. Thank you. We will adjourn until 2:30.

(Whereupon, at 12:00 noon, the joint committee recessed, to reconvene at 2:30 p. m., of the same day.)

AFTERNOON SESSION

(The joint committee reconvened at 2:40 p. m., pursuant to recess.)

Chairman DOUGLAS. We will come to order.

Mr. Curtis, you were questioning the witness. Will you resume, with the understanding that you will have the full 10 minutes, plus 1 minute in addition.

Representative CURTIS. Although I would be perfectly willing to go on for 10 minutes, because then it will come back to me and I will pick up on that.

Mr. Colm, I have a series of questions, but I am going to start a little backwards as far as your paper is concerned.

In your discussions about the—I am trying to think of your terms—budget surplus and the problem of debt, one thing I noticed you did not discuss, or at least I did not catch it if you did discuss it, was the importance of keeping a constant dollar value, keeping the dollar as a measuring stick.

Of course, if the debt became too large, that would create inflationary effects or forces which actually could affect the value of the dollar, is that not correct?

Mr. COLM. Yes, sir.

Representative CURTIS. I presume, but I want to be sure, that you feel that is a very basic and important goal that the Government must always seek, that is, to maintain a firm dollar.

Mr. COLM. Congressman, I said somewhere this morning that our main guide should be balancing the economy; and balancing the economy means, for me, several things, several objectives, which must be reconciled with each other.

One is an adequate use of all human resources and capacities; another is keeping the price level on approximately an even keel.

I think these are two interrelated, both very important objectives, and I would regard it unwise if a policy would endanger price stability and would only pursue the full employment objective while giving up the other twin of the two. So I agree entirely with you that both objectives are of great importance and should be pursued.

Representative CURTIS. What I am trying to convey is this: It seems to me, in order to measure economic effects and economic trends, the Government must maintain its monetary policy in such a way that we do maintain a sound dollar.

Mr. COLM. Yes.

Representative CURTIS. Even though your economic trends may be all over the place.

Perhaps another way of stating it is, I question whether the Government should use its monetary powers, which it has, to dampen economic effects; and by its economic powers I would mean only those which would affect the dollar as a measuring stick.

To me, it is not a question of waiting there; it is something which I think the Government must do, and I am curious to know if you share with me that belief, which I think is very strongly stressed in the President's Economic Report, the need for maintaining a sound dollar.

Perhaps I can clear up my questions better by taking this tack: That the effect of inflation on our economy, the inflation which occurred, say, from 1940 to 1950, mainly due to World War II and the method in which we financed World War II, was that the dollar value did not remain constant. The economic effect which that failure to maintain a sound dollar has had, I have suggested—as you may have recalled in our subcommittee discussions—that inflation is a form of taxation; that actually it transfers purchasing power from our people to the Federal Government. And along with that statement, I think I tried to point out the groups of people which a tax of inflation seems to hit the most.

Coupled with that, in observing some of the pleas which have been presented to the Ways and Means Committee for tax changes on the grounds of inequities, as I trace them back, many of those inequities have arisen because we did allow the dollar value to change and not remain a fair measuring stick. Even economic reports and statistics refer to now, of course, the two different dollars.

So by that preliminary discussion, perhaps I can come back again to this point of how important you feel maintaining a sound dollar is as far as our Federal Government is concerned.

Mr. COLM. I do think that stabilization of employment at a high level and maintaining a sound dollar are two interrelated objectives which, in my opinion, can be reconciled.

You know, Congressman, that some economists believe you have to make a choice, one or the other; but I think that the record shows that from virtually—as you said, the period of inflation came to an end in 1950—March 1951 to 1956, we had a period, with a very short intermission, almost continuingly high employment and with very great stability in the general price level.

We know that sometimes our overall price level is stabilized because something goes up and something goes down. Particularly, industrial prices have been inching up a bit, and that was plainly offset by a reduction in farm prices. But, by and large, I wonder whether we had ever—I want to be sure when I say "ever"—but from the graphs I have in mind, I can hardly remember a period where we ever had such price stability, relatively speaking, and this combined with very high employment.

Representative CURTIS. Yes.

Mr. COLM. So this shows——

Representative CURTIS. I see your point, and I think I agree with you, that it is not that you are saying there is any less need for the sound dollar; you simply say the two should be viewed together, and I get your point.

Mr. COLM. Yes, sir.

Representative CURTIS. One other basic problem I had in mind: I think it is on page 2 of your statement, yes, you said this: that you—

> cannot find that Government programs are preempting resources to an extent that it undermines the American economy or that taxes generally are interfering with needed incentives and capital formation.

And yet, later in your presentation, you point out these various areas of economic endeavor where it has been public capital formation which has produced the development in that particular area, and I like to use housing as a typical example.

We would not have the tremendous residential construction which has been going on in this country without some basic capital formation, whether the Government had done it or private enterprise had done it.

There are other areas where the Government has gone in, the Federal Government in particular, and has provided this capital formation. So it seems to me there is a question whether that might not be a preemption. The argument could be advanced, of course, that that is an area in which the Government could only have done it, and that private enterprise could not have done the job in creating this capital formation.

But I think it has a bearing. And then to interject these other elements, here we have a shortage of cement, glass, steel, nickel, and other metals in our emonomy right now, which is an indication that our production is not what it might be in those areas, which again suggests the possibility of a lack of capital formation to provide this additional production.

So I wonder if there are not some economic indications that we do not have all the private capital formation which we could use.

Mr. COLM. Congressman, I intentionally referred in my statement to conditions in general. I admit there are areas where taxes do interfere, but this statement refers to the economy in general. I feel that the examples which you mentioned—for instance, in housing—prove not so much a lack of capital, because most houses are built with private capital; really, public housing is a very, very small portion. In quantity, it is not very significant; maybe in social value significant——

Representative CURTIS. I agree with you there, but I do think this: I do not care who would be doing the financing. Without FHA, for example, guaranties, without VA guaranties, I do not believe you would have, in fact I know we would not have, this construction boom.

Mr. COLM. Yes.

Representative CURTIS. And I do think that kind of insurance is a necessary capital formation in order for that economic endeavor to go ahead. That is why I say that the capital must be somewhere. Now it happens to be from Government sources.

But I raise the question, if the same capital had been provided by private sources, we would get the same result.

Mr. COLM. Congressman, is it not true that the example you refer to is a case of private capital formation, but for one reason or another the private capital would not go ahead without the Government insurance or guaranty?

So the reason why Government action is needed is not that we have not the needed supply of capital, but for instance, that the risk is too high. We have here a phenomenon in housing which does not fit into any of our conventional concepts. Housing, with virtually very little downpayment, is more the sort of a quasi-rent proposition, but with a deed; I mean with the form of private ownership.

This is a new thing, and it does not give the security for the lender which is usually required.

Therefore, the Government steps in and takes care of that risk factor.

I do not think this proves a lack of capital. As a matter of fact, I think the American economy as distinguished from the economy of many other countries, does not suffer from a lack of capital, that is in general.

If we have a lack of capital, then it is one of the exceptions for instance for smaller businesses.

A recent survey by the Department of Commerce seems to suggest—it is not very conclusive—that there are quite a number of small businesses which have difficulty getting financing, but it is more an institutional matter. For a number of reasons, they have difficulty.

Chairman DOUGLAS. The time of the Congressman from Missouri is up, certainly over 11 minutes taken.

I will call on the other Congressman from Missouri, the Kansas City district, for questioning, and then the Congressman from Missouri will have another chance.

Representative BOLLING. Thank you, Mr. Chairman.

I have two lines of questioning: One grows out of the fact that the testimony of the witness is on the budget. There is sort of an ancient cliche that has been abroad for many years which compares the budget of the Federal Government to the budget of the home and the budget of business, and I noticed it again in the state of the Union message. The President said:

> Over the long term the balanced budget is a sure index of thrifty management in the home, in business, or in the Federal Government.

And, Mr. Colm, I would like to hear you discuss whether you think the budget of the Federal Government is directly comparable with that of a household.

Mr. COLM. Congressman Bolling I do not think this comparison is a very good one. You referred to the quote which I also read, and kept in my mind. It did appear in the state of the Union message. I would say balancing or not balancing the budget is important from the point of view of debt management, but is not proof of thrifty management.

You might have a balanced budget with lots of waste, and you may have a budget which is out of balance which has been cut down very drastically.

I think these are two different concepts, and one is not a measurement of or for the other.

Second, with respect to your specific question: In the home we have a given income from a certain source, and then we have to divide that up, and our expenditures are determined by the income we have.

A sovereign government is in a different position. It must not only look at its own household, but it looks at the nation as a whole and determines what are the essential needs, and weighs these needs as compared with needs which in our economic system are left to private operations.

Then there must be a balance between the public needs and private needs. That means we do not have a fixed revenue which then is used for whatever can be financed with that revenue but we must determine the required revenue in the light of the needs of the Nation.

Furthermore, making this comparison with the home, I think, frankly, is a little old-fashioned, because most homes do not have a balanced budget, at least not in each year.

Through some of the period of the past we had a budget surplus, if we think of it in terms of the consolidated cash budget; we had a surplus in most of the postwar period. We could have it because deficit financing was all done by private homes in the form of consumer installment credit and by business in the form of capital expansion.

As a matter of fact, theoretically we should have a budget surplus in order to offset some of the deficits incurred in private homes, and also in businesses. I would say it is a stagnation concept which presumes that it is sound policy for all private businesses and the Government to have strict balancing between ingo and outgo. We even measure the prosperity of a business by the amount of resources it needs for expansion of its facilities.

A growing business is never in balance in this definition, and the Federal budget does include capital items which, from the point of view of the national economy, at least, add to the national wealth, and sometimes add to Federal assets.

So for all these reasons, I do not believe that this is a very good comparison, and certainly not a measurement of thrift.

Representative BOLLING. Thank you, Dr. Colm.

I have had to skim over your statement. I much regret I was not here this morning to hear it. But I notice that in the last three paragraphs of your statement you indicate you are unable to predict whether, on balance, the factors of expansion will be strong enough to make for an adequate rate of growth, or whether economic expansion is likely to level out with rising unemployment as a consequence.

I take it your inability is somewhat shared by the administration, since there seems to be an evident disagreement between the Economic Report's relative optimism, and the budget message's relative lack of optimism, in relation to expansion. But you then go on to say:

> I believe this committee could be of great service if it insists on having plans for such actions both on the expenditure and tax side prepared, even though for the time being it might rightly take an attitude of watchful vigilance.

I would like you to discuss that, if you would, a little more fully; what, more precisely, do you have in mind? I can see the tax side. We could have the standby tax bill in preparation or prepared, and I did catch in your statement a mention of, not a shelf but—what do we call it these days—a reservoir of public works.

Mr. COLM. With respect to the tax side, I feel, personally, that the work of the Subcommittee on Tax Policy of this committee has done lots of groundwork which, in case there should be a tax reduction, would be of great use. At least much thought has been given to where there are inequities, and what taxes should be reduced if you want to strengthen either investment or consumption; I think this is a preparatory step even if there is no specific bill ready which you can pull out and have adopted as a joint resolution in 24 hours.

On the expenditures side, I did think, as Congressman Bolling said, of the so-called shelf—a shelf which may include public undertakings, a little broader than public works. It need not only be something out of concrete and steel.

I did refer in this connection, a little earlier, to a statement on the public works reserve which we have in this document, which tells us that in spite of the preparatory work going on, by the end of the fiscal year 1957 we will have only $1 billion in projects really ready for undertaking.

But I do notice that an office was organized pretty much in line with the so-called Douglas-Bolling bill, I think, of 2 or 3 years ago, recommending the setting up of an office for a Public Works Coordinator, who should concern himself not only with the Federal but also with State and local government public works. Well, this was one of the bills which has been adopted without benefit of legislation. We have such an office in the White House. It was originally set up in the Council of Economic Advisers' office. It is now in the White House.

But what I am thinking of is the activity along the lines of that office which, in my judgment, needs to be strengthened and stepped up.

Chairman DOUGLAS. Would the Congressman from the St. Louis section of Missouri permit me to make a comment, since the witness has made a laudatory statement about the Douglas-Bolling bill, and since the Congressman from the Kansas City district, I am sure, is too modest to mention it as I am not similarly restrained, may I say that I am naturally very much pleased by this eulogy of the Douglas-Bolling bill. I think for the sake of the record it should be said that, when this bill was submitted to the Government departments for criticism, 11 Government departments denounced it as either impractical, unnecessary, or unsound.

Representative BOLLING. Then, of course, adopted it in toto.

Chairman DOUGLAS. And only the General Services Administration made no comment. The rest were unanimous in their criticism and very mild in their praise.

Excuse me. I apologize to both the Congressmen for the statement, but go ahead.

Representative BOLLING. I concur in the statement, and I am finished.

Chairman DOUGLAS. I think we ought to divide the time evenly between the two sides and, when we have an unbalanced representation, that those on the side with the smaller number will have to do double duty.

Representative CURTIS. Thank you, Mr. Chairman.

I am mainly just going to go through the list of questions that I had in mind. I still want to pursue that nebulous topic which I was on when my time expired before, in regard to capital formation.

I recognize, of course, what you say, that basically, of course, the capital formation involved in VA and FHA insurance is in the nature of reinsurance.

And yet, what I am suggesting is that in any area of endeavor, we seem to have the need for that kind of reinsurance which will enable those in there to take some of the risk out of their venture.

For example, an illustration of reinsurance in private enterprise is the grain futures. Where companies which have to buy a great deal of grain want to take an element of risk to some degree out of their operation, they tend to, and do, rely on the grain futures market in order to take that risk out. They thus allow other people in the economic endeavor to absorb that risk. Some of them make money on it, and some lose money.

But it illustrates that the capital formation necessary to perform the economic function of reinsurance can be in the private field.

It is a ticklish subject, because I do not necessarily mean to convey the thought that the Federal Government might not be in this area; I am simply posing the fact that in some areas, private enterprise has done this capital formation for reinsurance.

In the area of housing, the Federal Government has done a great deal of it, and the only significance it has is in relation to the question of whether we have, through our tax laws, actually created such a deterrent that we are not getting all the capital formation we do need.

Mr. COLM. Congressman, if I may make one remark, assume for a minute we paid no taxes, there were no taxes whatsoever, somehow or other. I know there are some communities in Europe which just sell their wood, and that is how they finance all their public affairs. Let us assume no tax is paid, I don't think that would change a bit under the situation that no private lender would advance money for construction of homes without any downpayment by the owner. In other words, I do not think this is a question of taxation limiting capital supply.

You might say it is unsound for the Government to assume this risk. This is then an entirely different question on which I am not an expert and, therefore, have strong opinions. But from the point of view of the question you raise, I don't think the issue here is the scarcity of capital or the effect of taxes on the capital supply. I think here is a different problem.

Representative CURTIS. I certainly know that, at least in my own judgment, one of the main reasons we have not had private capital formation in these areas has been a reluctance of private capital to take the risk. I fully agree with that.

Mr. COLM. Yes.

Representative CURTIS. But I do know that in raising the question of why or whether capital might go into this area or might not, the supply of capital makes a difference. If there is an overabundance of capital, there is a tendency for more capital to go into riskier areas, and this business of private capital formation is then a matter of degree.

In some of these areas the Government has gone into, like RFC, after demonstrating it is a good economic risk, why private enterprise has taken over again.

In many areas of insurance, traditional insurance, fire insurance, and so forth, private capital has of its own initiative moved in. So in this general area of guaranties that the Government has moved into, it seems to me in many of these areas it has been a lack of initiative, partly, of private enterprise to see the true economic facts.

Take housing. I remember when savings and loan institutions were established. You could not get the banks to set up mortgage lending on the basis of a regular payoff. When the mortgage came due all at once you renewed it, at considerable expense which goes along with rerecording, and so forth. So a new technique came into the field which now, thank goodness, as far as my views are concerned, is handled in private enterprise.

The main thing in this area is, I think, we just have not done as much basic thinking as we might. We have grown just to assume that because private enterprise has not done this, that therefore the Government must do it, the Federal Government. I, in my own mind, question seriously whether there are not certain intermediate steps, some other action the Government might take which perhaps would make the area a little more attractive, rather than going to the extent of guaranties.

Certainly I would rather see guaranties than the Government going in in a direct subsidy.

But I do think the amount of risk capital available has a real bearing on how much of these areas are taken over by private enterprise, and in trying to evaluate, as we were, as you know, in our Subcommittee on Taxation, as to whether or not we have put too much of a deterrent on capital formation, and the other goal, or the other guidepost, was whether we were taxing the consumer dollar too much. Because if we tax the consumer dollar too much, we will cut down the demand for these things.

On the other hand, if we cut down the capital formation, we cut down on the ability to produce to meet the demand, and so tend to bring about inflationary effects.

Your paper, in my judgment, raises some very valuable and interesting questions, when you go into this area of the extent to which the Federal Government has moved into this area of guaranties and loans, I think it is about time we did a little more serious thinking of whether or not private capital formation might be doing more in this area than it is.

If you would like to comment on my observations, I would be happy to hear them.

Mr. Colm. My only comment might be in adding to what I said before, why I think that it is not the amount of capital which is lacking; it is the risk factor.

We have a pretty unique situation that the biggest demand for capital originates in business; I mean, beside the area of housing and consumer credit.

By and large, the amount of internal capital formation in business is sufficient to meet all needs for fixed capital investment. There is some borrowing necessary for working capital, and as I said before, there are some businesses which have difficulty, while others have none.

But by and large, I do not think scarcity of capital is one of our most serious problems in the United States. It is a very serious problem for other countries.

Representative Curtis. Yes.

Now to some particular items until my time runs out here.

On page 2, I was very interested in the ratios which you set forth of the Federal expenditures to our GNP.

Mr. Colm. Yes.

Representative Curtis. I notice these were over a period of years. Do you have a percentage of our expenditures to gross national product during war periods?

Mr. Colm. Yes, sir. You find it on this chart.

Representative Curtis. I see.

I notice you pointed out that it was 3 percent in the twenties, 10 percent in the thirties, and 16 percent for the fourth quarter. During wartime, I presume it moves up considerably, does it not?

Mr. COLM. During the First World War it moved up close to 25 percent; during the second World War, close to 45 percent.

Representative CURTIS. Yes. And of course, we are in a period, even though we are not at war, of considerable defense expenditures which perhaps makes that 16 percent abnormally high.

Do you think there is any——

Mr. COLM. Ten percent, broadly speaking, 10 percent is for national security, and 6 percent——

Representative CURTIS. To me, those are very important ratios.

Do you know whether any study has been made for other governments, for instance, Western European governments, as to what their ratios run?

Mr. COLM. Yes. Such studies have been made partly in connection with NATO Organization, for appraising the contribution various countries are making to the joint defense effort.

Representative CURTIS. Yes.

Mr. COLM. This question has been raised, and such estimates are available for various countries.

Representative CURTIS. Roughly, do you know where we happen to stand? I guess we spend a little higher percentage of our gross national product, do we not, or do we? I do not know. Aside from the NATO countries, that is.

Mr. COLM. I would like to refresh my memory.

Chairman DOUGLAS. Would you supply that for the record?

Mr. COLM. If I may put that into the record.

(The information is as follows:)

Defense expenditures as a percent of gross national product for selected countries, 1955

	Percent		Percent
United States	10.5	Spain	5.0
South Korea	[1] 21.0	Thailand	5.0
U. S. S. R.[2]	12–14	Indonesia	5.0
Yugoslavia	13.4	Belgium-Luxembourg	4.5
United Kingdom [3]	9.2	Norway	4.3
Poland	[4] 9.2	Italy	4.1
Canada	7.8	Portugal	4.1
France [3]	7.3	Pakistan	3.7
Greece	6.8	Denmark	3.3
Netherlands	6.4	Iran	2.9
Turkey	5.9	Philippines	2.0

NOTE.—Percentages represent proportion of resources devoted to defense purposes and do not represent defense strength comparability. Defense expenditures for the United States follow NATO definitions and are different from national-security estimates cited earlier in my testimony.

[1] 1953–54.

[2] 14 percent of gross national product if heavy indirect taxes are excluded (i. e., GNP at factor cost); 12 percent of gross national product using market value definition for GNP.

[3] Excludes intermediate aid.

[4] 1952.

Source: Data provided by ICA except for U. S. S. R. and Poland which was derived from Trends in Economic Growth—A Comparison of the Western Powers and the Soviet Bloc, Joint Committee on the Economic Report, 1955, and for South Korea which was obtained from John P. Lewis, Reconstruction and Development in South Korea, National Planning Association, Planning Pamphlets No. 94, 1955.

Chairman DOUGLAS. I regret to say that the clerk of the committee reports that the Congressman's time is up.

The gentleman from Arkansas.

Representative MILLS. Thank you, Mr. Chairman.

Dr. Colm, may I take you a little beyond your prepared statement, to ask a question of you concerning some language in the President's Economic Report, on page 72?

Mr. COLM. Yes.

Representative MILLS. The last paragraph, which has to do with sound management of Government fiscal affairs. It states that certain fundamental principles are required. Six of them are listed.

You have read those; have you not?

Mr. COLM. Yes.

Representative MILLS. First of all, before I get to my basic question, would you agree with me that No. 5 should read this way rather than as it appears in the report:

> Revenue should be raised in ways that interfere as little as possible with incentives to work, to venture, to invest, and with the most efficient use of resources.

Mr. COLM. Yes, sir; I think that is a very good addition.

Representative MILLS. That would be your opinion and mine, then.

Let me ask you, since you have studied the President's budget both from the expenditure and receipts side, is it your opinion that the budget tends in the direction of carrying out these stated fundamental principles? Insofar as the budget effects those principles, all of them would apply, of course.

Mr. COLM. Of course, I do not remember by heart the six items. 1, "the budget would provide adequately for the Nation's security and other urgent needs."

I said this morning specifically I did not want to go into an appraisal of the question whether the national security program is adequate or not, and the same for the other programs.

I would have to enter the field of foreign policy, military strategy and so on. I may have my opinion as an individual citizen, but I do not think I have the competence to present that in a convincing manner. So I put a question mark behind that sentence as an individual, but I would prefer not to discuss this extensively.

Second, "All Government operations should be continued with prudence and economy." I certainly would say that the budget strives for that, and always measures how closely we come to it, but I think a great effort has been made in economy. I think sometimes it went a little far in pennypinching. I know some operations, minor operations, which I think have been cut down a little far, but certainly I would say the intent, broadly speaking, is in the budget to carry out that principle.

No. 3, this is a very difficult question. It states here that—

> sufficient revenue should be raised to meet the Government's outlays, if not every individual year, then surely over a term of a few years.

Well, I am not sure that I would phrase the principle that way, although I accept the general objective. I do not think it is wise to state this in quantitative terms. We ought to have a surplus in periods of prosperity and boom, and—I don't say we ought to have a deficit—I say we are going to have a deficit in periods of recession, whether we want it or not. It is only a question of whether we get it by planning, by taking counteractions properly, and then we may get away with a small deficit, or whether we get it against our wishes, and then it is likely to be very big.

So I do think the principle is right with respect to the direction, but I would not say that the surplus should always be exactly equal to the deficit of other years, that is where I would like to modify this principle.

Certainly I cannot say that the present budget carries this principle out, again except in a vague, general direction.

There is a small surplus, but I would say that surplus has no relationship either to the quantities of previous deficits or those which may occur at future times. That is my comment on the third one.

Mr. Congressman, with the modification of the fourth, I would entirely accept the fourth principle.

Representative MILLS. I am sorry, it was the fifth which we modified.

Mr. COLM. The fifth, pardon me.

The fourth, I would say I am sure everybody agrees with that, that the cost of Government should be fairly distributed.

The fifth was the one, and I agree with the modification.

Representative MILLS. Before you leave the fourth, would you comment on whether the budget, from the point of view of expenditures and receipts as we have it before us, carries out that principle?

Mr. COLM. I think the fourth only refers to receipts, not to expenditures, because it says how the cost should be, not how the benefits should be distributed.

Representative MILLS. That is right.

Mr. COLM. I personally do not feel that our present tax system is as fair as the tax system could be.

Representative MILLS. In other words, the costs of Government are not as fairly distributed among taxpayers as those costs should be?

Mr. COLM. Yes.

Now I agree with the budget message and Economic Report that this is not the time for tax reduction.

I could imagine however that there are some improvements in the tax system, some revisions which could be made without a general tax reduction. I am sure they are of a limited size, because it means if you give on the one hand, you have to take on the other, and under conditions where you do not want to reduce the total tax take, you have only a narrow margin within which you can operate. But these reports only say that taxes should not be reduced—period—and that is all; in contrast we should examine the possibility, even within the limits, that some improvement in the tax system could be made.

I certainly agree with the sixth principle, and I do not see anything in the budget which would run counter to the principle that the public debt should be so managed as to contribute to stable economic growth.

Representative MILLS. Let me ask you, Dr. Colm, in that connection, aside from the budget, do you feel that the public debt is now being managed so as to contribute to stable economic growth?

Mr. COLM. It is a very broad question. I do think that we had in recent years a certain flexibility in debt management which I think, by and large, has made errors at certain times. I mean, if I include under that management also, let us say, open market operations, which is a little broader term, not just the issue of loans as well as the way the Treasury refinances the debt, but including Federal Reserve operations. In 1953 I felt that the Federal Reserve stepped on the brakes a little too hard, but they very promptly reversed this trend, and I think during the last year it was right to have a policy of debt management which dampened the boom. That, I think, was the right policy.

I would not put quite the same emphasis, the same significance, as a general policy, on changes in the composition of the debt as we did in recent years. But I do not think that this has interfered with the promotion of economic expansion.

Representative MILLS. I had in mind this thought, also, Dr. Colm, the fact that in recent years the rate of interest which is paid on the public debt has risen. Does that contribute to stable economic growth or have any effect on economic growth?

Mr. COLM. Well, the average rate of interest bearing on the public debt has increased from 2.3 percent in 1955 to around 2.5 or 2.56, a little bit above.

Congressman, if that increase in costs is part of a monetary policy designed to somewhat flatten out the cycle, I would be willing to accept what is involved here. It is perhaps $200 million additional costs. I think that price is perhaps not too high if this policy is part of a monetary policy designed to stabilize our price level.

Chairman DOUGLAS. The time of the gentleman from Arkansas has expired.

Mr. Curtis?

Representative CURTIS. Mr. Colm, I believe you had the feeling that the budget both underestimated the revenues and underestimated the expenditures.

Mr. COLM. Yes, sir.

Representative CURTIS. I also gathered that the main basis that you felt the expenditures were underestimated was on the ground of the new programs which were suggested in the Economic Report which, if fully put into effect, would increase the expenditures. Is that the major element of why you feel there is an underestimation of expenditures?

Mr. COLM. I mentioned only one program which I think is not reflected at all in the budget, and that is the new highway program.

Representative CURTIS. And, of course, that was supposed to be presented, theoretically, if we do have it, why, we are going to increase revenues to take care of it.

Mr. COLM. Yes.

Representative CURTIS. But I think you did, in going into detail, suggest that—what was it—the additional estimates were around $400 million additional toward these new programs, and you felt that that was a low estimate.

Mr. COLM. Well, I raised a question, as you will remember, about the new farm program——

Representative CURTIS. Yes.

Mr. COLM. Which is related to the economic assumptions implied in the cost estimate of the farm price-support program.

I also said in connection with the farm program that there may be elements which are not reflected in the budget. That referred to certificates redeemable in stocks, the reduction in stocks would result in impairment of capital of the CCC and this would not be reflected in expenditures.

Representative CURTIS. The reason I raise the question, I personally am a little more pessimistic than apparently even the Economic Report is, as to what this Congress is going to be doing with some of these new programs; for example, the school-construction program. The way it looks now, we probably do not need anything in the budget for it, because it does not look like it is going to pass the Congress.

Mr. COLM. Pardon me, did you say that there is nothing in the budget for schools? There is $150 million in the budget.

Representative CURTIS. I say it will not be needed, though, because it does not look like Congress will pass it. In other words, I doubt if, regrettably in many instances, the expenditures are underestimated, because I am rather pessimistic as to what this Congress is going to do about these new programs.

It is in that area, though, that the budget has to do quite a bit of speculation, because we do not know exactly what Congress will do.

Mr. COLM. May I make a comment on that?

Representative CURTIS. Yes.

Mr. COLM. The Budget and Accounting Act does not permit the budget to speculate whether Congress may or may not act on a certain measure. The Budget and Accounting Act requires the President to make his estimates on existing legislation plus his own recommendations, whether they are likely to be accepted or not. I mean, that is the law, and I followed the same procedure in my statement. By including these items, I did not mean to say they will all be adopted in time.

So one has to revise the budget at a later time when it becomes clear that certain programs would be either smaller or larger.

Representative CURTIS. In my judgment, that is the most speculative area in which those who prepare the Federal budget have to deal.

Mr. COLM. Yes.

Representative CURTIS. Now then, I was not quite sure why you felt there was a distinction between Secretary Humphrey's approach on reducing taxes, and our subcommittee, the Mills Subcommittee on Studying Taxation.

On page 15 you discuss it, but I was not quite sure why you felt those were inconsistent points of view, and I wonder if you would elaborate on that a little bit.

Mr. COLM. Congressman, both recommendations come to the same result. Taxes should not be reduced now.

Representative CURTIS. That is right; yes.

Mr. COLM. Secretary Humphrey, on television but also in a number of statements to the press, has said that if it should turn out that economic activities—national income, personal income, and profits—should be higher in 1956 than he now conservatively estimates, or if expenditures should remain lower than now estimated, then we may get a larger budget surplus; and if that budget surplus should be as large as something like $3 billion, then he would recommend tax reduction, and he said he had some hope that that might materialize.

Representative CURTIS. Yes.

I think I see it, and our committee seemed to report it, on the basis when you have an expanding economy, that would be the time to pay off on the debt; and you feel those are inconsistent approaches?

Mr. COLM. Exactly; yes.

Your subcommittee also said, "We might have tax reduction," but the criterion is different. In the one case taxes can be reduced if the economy booms longer and larger so that we have more receipts; and in the case of your subcommittee that taxes can be reduced if the boom levels off and the economy needs support.

So while the conclusion for the time being is the same, the criterion for pinning down exactly the condition under which you would recommend tax reduction, that condition is different in the two cases.

The economic report, I think, takes, in a way, a middle position.

Representative CURTIS. Yes.

I wonder, in my own mind, whether they are actually inconsistent, or just different factors, both of which must be taken into consideration in estimating a tax reduction. In other words, it seems to me Secretary Humphrey would recognize the need for taking into consideration the criteria that our subcommittee suggested, of possibly not reducing taxes when the economy is expanding, at least the reasons that went behind it, in weighing his proposition, just as we, in my judgment, would, of course, have to take into consideration whether we would apply some of the additional surplus if the surplus were $10 billion instead of $1 billion; we easily might say we would split it.

In other words, I doubt that there are inconsistencies; they seem to be two different factors bearing on the same thing, because I can see where, in my own thinking, I would be paying attention to the criteria which Secretary Humphrey sets forth, and at the same time be having some regard for the criteria which our subcommittee report sets forth.

I would throw in some other criteria, as a matter of fact.

Going back to the oversimplification that I have made on this taxes and inflation, I have felt that we can reduce the tax of inflation; I mean, those who have borne it in the past, particularly those on fixed incomes, and who are still bearing it. If we can put purchasing power back into the dollar and still not lower the wages, we would still be, in fact, giving back to some of the people who are hit by inflation; and if that could be geared into what to do with a surplus if we had it, and then the other factor which you yourself mentioned—and I was so happy to hear you mention it—this business of talking about tax rates as if that necessarily meant a lowering of tax take, is not necessarily so. We, by eliminating certain taxes, if they happen to be a deterrent or beyond the point of diminishing returns, actually could gain in revenue, and sometimes can; particularly with a tax structure which, in my judgment, in many instances is not equitable and is not producing or is not encouraging economic growth to the extent to which it might.

Then finally, in talking about tax reduction, I think the main thing on a rising economy and in times of prosperity in not reducing taxes, I think we are mainly thinking of the consumer dollar rather than the investment dollar.

I still think we need to explore this area of the need for capital formation a little more thoroughly. There is where you and I disagree somewhat. I think there has been a lack of needed capital formation which lies behind some of the movement of Government into certain areas, where private enterprise was not fulfilling its need.

I could not agree more that obviously, from an economic standpoint, there was a human need, and that private enterprise was not meeting it; but I wonder, in my own judgment, particularly in wartime, when we were taking so much away from private capital formation and the Government had gone into that area, I do not know whether we have balanced it back, but I do not have the economic factors on which to base any firm judgment.

And so, my disagreement with you is just really in theory rather than in anything I can specifically point to.

Thank you.

Mr. Colm. Yes.

Chairman Douglas. The Congressman from Missouri has taken 12 minutes this time. His time has expired.

I regret that I must leave. Would you take over as chairman?

Representative Mills (presiding). Dr. Colm, I have just one further question.

In the fall of 1955, I think all of us could anticipate that there would be the increase in receipts of Government that has occurred up to now. Expenditures for the fiscal year had been rather well determined, so we were talking in terms of what the Government might do in the fiscal year 1957 with surpluses of receipts over expenditures, and we found that taxes could be reduced to absorb such surpluses. We found that debt could be reduced to absorb such surpluses. We found that services of Government could be enlarged, new services created, to absorb these surpluses. And a fourth step or course of action was that we might utilize some of all three.

On the basis of your analysis of the budget for 1957, how would you characterize it, under these possible courses of action? Which outline does it follow?

Mr. Colm. Well, the 1957 budget gives a small increase in expenditures; I mean, the amount shown is $1.6 billion, but part of that is due to the postal rates. Excluding that increase in expenditures, it is $1.9 billion, almost $2 billion.

So since no tax reduction is recommended, one can say that this budget mainly moves in the direction of a moderate increase in expenditures and applies a small amount for debt reduction.

This amount is so small, 4 to 5 hundred million dollars—$400 million is the surplus; $500 million debt exemption, maybe, because of changes in the cash balance. $500 million, I think, is the amount of debt reduction, which I believe lies more or less within the margin of error; it could be a little bit bigger, but I think there is a greater likelihood, if the whole program is adopted, that it will not be.

I recognize Congressman Curtis' point that part of it might not be adopted. But under the assumption on which the budget is based, one would have to say that there is about a $2 billion increase in programs, and $500 million debt reduction through redemption, and a $350 million increase in revenue.

You see, I am putting the postal rates out of expenditure side and putting it on the revenue side, because that is what it is. It is an additional charge on the economy.

I don't know whether that, in quantitative terms, answers the question of how the effect of rising receipts is distributed among the three factors.

Representative Mills. So your answer is this: That the 1957 budget tends to take the course of action of increasing governmental services or creating new services to absorb most, if not all, of the surplus in revenue which has been created.

Mr. Colm. Yes.

Representative Mills. Through increased economic activity?

Mr. COLM. Yes; it adds to the revenue by recommending some increase in postal rates and, including the present recommendation of the highway program, would also add some revenue on that score through additional gasoline and other automotive taxes.

Representative MILLS. Do you think that is the course of action which should have been pursued in the budget or should this surplus have been utilized largely for debt retirement, or should it have been used for reduction of taxes?

Mr. COLM. It is only easy for me to answer the last part of your question, because besides the budgetary situation, on an economic ground, I feel this is not the time for tax reduction. So that is easy.

The other question, whether the increase in expenditures should have been, let us say, $500 million more and no redemption of the debt, or whether one should have prevented that increase in expenditures and have a larger debt redemption, I think my inclination is to say that the increase in expenditures is probably the minimum that is required, under the circumstances.

Now I am getting into what I tried to avoid. I said I did not want to discuss the priority among these governmental programs, because I cannot do that on a strict economic basis.

I cannot believe that this is a time for reducing the military strength. Even besides the $1 billion increase the strength might be increased by a reallocation of the same amount of money to areas where it might be more necessary. But overall, with the rising costs which are involved, this is no net increase in real spending. Whether it is adequate should be measured, not by past standards, but in relation to the world situation—let's say, specifically speaking, related to the increase in strength of other countries.

Therefore, my second pretty definite answer to your question would be that I would not favor having held expenditures absolutely at the present level, or even reducing them, and increasing debt redemption. I do not think that would have done justice either to the international or the domestic situation.

Representative MILLS. We have been following a pattern in the last few years of not reducing nondefense expenditures, but I believe I am correct in concluding that we have actually in the last several budgets increased our nondefense expenditures.

We are continuing that practice in the present budget, and it is that aspect of the budget that I was directing your attention to, rather than to the military features of the budget.

Is it better for us to do that, or would it be better for us to follow the other course of action, of attempting to reduce our nondefense expenditures and to apply those differences on debt retirement, especially that part of the debt which is held by banks? Would the latter promote greater economic growth?

Mr. COLM. This is very difficult to answer; I can only give my offhand reaction.

I believe that during the whole period of World War II, during the whole period of inflationary trends after the World War, and, finally, with the necessity for the increase in the post-Korean rearmament, we have very drastically held back the civilian programs.

It is true, as the Congressman has said, that in recent years we had a small increase, but it was a very small one. And I do believe that in the fields of schools, mental and physical health, and urban development, and in many areas, the need is such that I regard what is in the budget as, Iwould almost say, a necessary minimum.

Therefore, if I had a very strong opinion that the debt should be reduced more, then I would be driven to the conclusion that taxes should be increased. Really, if I were a purist, I would say that is a conclusion to which we should be driven.

We are, however, in a situation now of economic uncertainly. The Economic Report speaks of crosscurrents, and I think that is right. They come out on balance that the thing looks pretty good, in spite of the pluses and minuses. One can come out in a different way, but I think the elements are correctly seen.

If that is so, I would hesitate to recommend a very substantial tax increase except in such cases as the highway program where, let us say, on the basis of the benefit principle, we let people pay for the highways as they pay for the railroad tracks. That is a special situation. But I would hesitate, in the present situation of uncertainties, to rock the boat by a substantial tax increase.

I would also wait with tax reduction, for reasons which are clearly set forth in the subcommittee report on tax policy, with which I entirely agree.

So, therefore, taking both the budgetary and the economic situation into consideration, I would wait with substantial tax changes except for tax revision where you have a little upward and a little downward adjustment, and such special things as the highway financing. I would wait with action until the picture becomes clearer.

If we should get into a continuation of the boom of the dimensions which were all right from 1954 to 1955, because we were coming out of a recession, if that should continue from the present level, then I think a tax increase and a larger repayment of the debt should be considered.

I do not see that in the cards right now. I don't think the symptoms are visible, and therefore I would stand pat on the tax side, go very modestly, very moderately ahead with the new programs, and be satisfied with what reduction in the debt we get.

In my own mind, I am a little bit optimistic on that, because I am thinking not only of the general public debt, but I am also thinking of the debt held by the public, and there we have not only the $500 million, but we are talking about something like $2.5 billion debt reduction which might be possible—I am thinking in terms of the consolidated cash budget, which gives us an indication of how much debt held by the public could be reduced, and that is a little bit more substantial.

Representative MILLS. I have finished, and my time has expired. Mr. Curtis?

Representative CURTIS. Doctor, I want to call your attention to one of the other recommendations of the subcommittee, the Subcommittee on Taxation, on page 4, and I am just going to read this:

> If we succeed in moderating short-run fluctuations in economic activity, we can count on steady growth over the next decade which will make possible within that decade substantial reductions in effective Federal tax rates by perhaps as much as one-third.

Now, that has a bearing on my previous statement, I believe, where I thought there was consistency between Secretary Humphrey's position and the position here, because, of course, that would be occurring over a period when we, hopefully, would continue to have this expanding economy.

I wonder if you would care to comment on that further recommendation. That was the long-term recommendation.

Mr. COLM. I agree entirely with that recommendation. As a matter of fact, I had an estimate of possible tax reduction of my own for 1960 in the testimony I submitted to the Subcommittee on Tax Policy.

I agree with that statement. At the moment I cannot say whether I agree with the one-third. I am a little doubtful about that particular figure. It depends on how far ahead you look. You can get any projection for gross national product. You can choose any figure, if you do not specify the time; you can say $2 trillion, if you wish.

But I see very well and now I understand better what you said before, Congressman, that you see some justification in both positions, and I do, too. I did not see it before clearly. I do think that with the growth of the economy, we can reduce taxes. But there is the question of timing, I think we have to make a distinction between a long-term trend and the timing—when do you want to do it?

And this is, I think, where the difference comes in. It need not be an irreconcilable difference. When we talk in the long run, I think it is right that with a growing economy we can reduce taxes, and I would say we ought and we must reduce taxes in order to get that growth. But you want to do it at a time when it gives you the greatest help. Otherwise, you dissipate a tool for economic stabilization which could be powerful if used at the right time, and is not available if you use it prematurely.

Representative CURTIS. In other words, Doctor, nothing is going like that [indicating straight upward movement]; it is going like this [indicating a fluctuating upward movement]. And it is when the dip comes in that you are——

Mr. COLM. It is the specific timing.

Representative CURTIS. Yes.

Mr. COLM. That, I think, reconciles the difference between the long-range and the direct timing; that reconciles, I think, the difference that you have been talking about.

Representative CURTIS. I have one other general point I wanted to mention, and then I am finished. I want to be sure I got your views right.

I gathered that you felt in your presentation that the Federal debt was a stabilizing economic influence in the overall economy. Am I right in that? Am I quoting you correctly?

Mr. COLM. No, sir; I did not say that. I would not entirely object to it.

Representative CURTIS. You have said——

Mr. COLM. Ever since Alexander Hamilton, this statement has been made, and I see a certain justification for it——

Representative CURTIS. I wish I could find the exact point in here where I gathered——

Mr. COLM. I did say a large budget, undesirable as it is from many aspects, has a stabilizing effect. I spoke of the budget, not of the debt.

Representative CURTIS. That is right. It was the budget you were mentioning.

Now then, your comments were just limited to one aspect of it rather than whether you felt that was a desirable thing, that the overall thing was a desirable thing, a large Federal budget. You were not commenting on that?

Mr. Colm. No, sir. I wish we had a smaller budget.

Representative Curtis. Yes.

Mr. Colm. We would not have the same built-in stabilizers but I would rather do with a smaller budget if we could have it.

Representative Curtis. Yes, I get your point now, and I agree with you; you were commenting that it was not all bad, there were some redeeming features to it, but the overall judgment you would have is that you feel it should be smaller, and of course I think so, too.

Thank you.

Mr. Colm. Yes, sir.

Representative Mills. Are there further questions?

We thank you for your appearance, Dr. Colm.

The committee is adjourned until 10 o'clock in the morning, when we will hear the Secretary of the Treasury.

(Whereupon, at 3:55 p. m., the Joint Committee adjourned to reconvene at 10 a. m. of the following day, Friday, February 3, 1956.)

JANUARY 1956 ECONOMIC REPORT OF THE PRESIDENT

FRIDAY, FEBRUARY 3, 1956

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

The joint committee met, pursuant to recess, at 10 a. m., in the Old Supreme Court Chamber, United States Capitol Building, Washington, D. C., Senator Paul H. Douglas (chairman) presiding.

Present: Senators Douglas (chairman), Sparkman, Fulbright, Flanders, Watkins; and Representatives Patman (vice chairman), Wolcott, Bolling, Mills, Talle, and Curtis.

Also present: Grover W. Ensley, executive director, John W. Lehman, clerk, Darrell Coover, legislative assistant to Senator Barry Goldwater, and Howard Shuman, administrative assistant to Senator Paul H. Douglas.

Chairman DOUGLAS. Ten o'clock having arrived, we will listen to the witness, the Secretary of the Treasury, Mr. George M. Humphrey.

STATEMENT OF HON. GEORGE M. HUMPHREY, SECRETARY; ACCOMPANIED BY HON. W. RANDOLPH BURGESS, UNDER SECRETARY; AND DAN THROOP SMITH, ASSISTANT TO SECRETARY, DEPARTMENT OF THE TREASURY

Secretary HUMPHREY. Mr. Chairman and gentlemen, I have a short prepared statement that I will read to you with your permission and then Mr. Burgess has some charts that he will explain, if it is agreeable to you, and at the conclusion of that, we will be ready to answer any questions that you may have.

I am pleased to appear before your committee this morning to discuss with you various matters in connection with your study of the President's Economic Report.

The United States today is enjoying plenty—in peace. Americans have broken all records in the numbers of people with jobs, the high wages they are receiving, and in the production of goods and services for the people to enjoy. They are benefiting from this high prosperity while reasonably resisting pressures toward inflation.

Whether this high prosperity will continue without involving the excesses of either inflation or deflation depends in very large part upon what 167 million Americans do.

Continued high activity in our economy depends not so much upon Government as upon the efforts of all the people, all in their own ways trying to do a little more for themselves and their loved ones. It is the sum total of all these indiividual efforts that makes our system so superior to anything ever known in this world before. That is what makes free America.

This Government has helped in several specific ways to provide a more fertile field in which free Americans can work to better themselves.

Total Government spending is now $10 billion below that of 3 years ago, and $14 billion below what had been previously planned.

We, at long last, have proposed a balanced budget, the surest index to thrifty management in a home, in a business, or in the Federal Government.

We have made the largest dollar tax cut of any year in the history of this country. This tax reduction of nearly $7½ billion was a strong assist in the transition from a wartime to a peacetime economy.

And the long trend of inflation that dropped the value of the dollar from 100 cents in 1939 to 52 cents 13 years later has been halted, with no significant loss in the buying power of the dollar now for over 3 full years.

We have been assisted to this high level of prosperity by the confidence of the American people in the policies of their Government and by their confidence in themselves to exercise their own initiative and endeavors to improve and better the lives of their loved ones and themselves.

If all Americans—workers, farmers and other producers, businessmen, consumers, and investors—all go ahead and work, and buy, and build, and improve with confidence tempered with prudence, this Nation will continue to enjoy new peaks of prosperity in business, production, and wages, and constantly higher standards of living—for all the people.

Under Secretary Burgess now will explain some charts on the budget and the public debt which we have prepared and, thereafter, both he and I will endeavor to answer any questions that you may wish to suggest.

Chairman DOUGLAS. Mr. Secretary, I am greatly disappointed at the brevity of your statement which I think is unprecedented in the testimony of responsible Cabinet officials given hitherto before our committee. I think it does not really meet the type of information to guide us, which the committee deserves from the Cabinet.

But I shall make no comments upon that and merely let the record speak for itself.

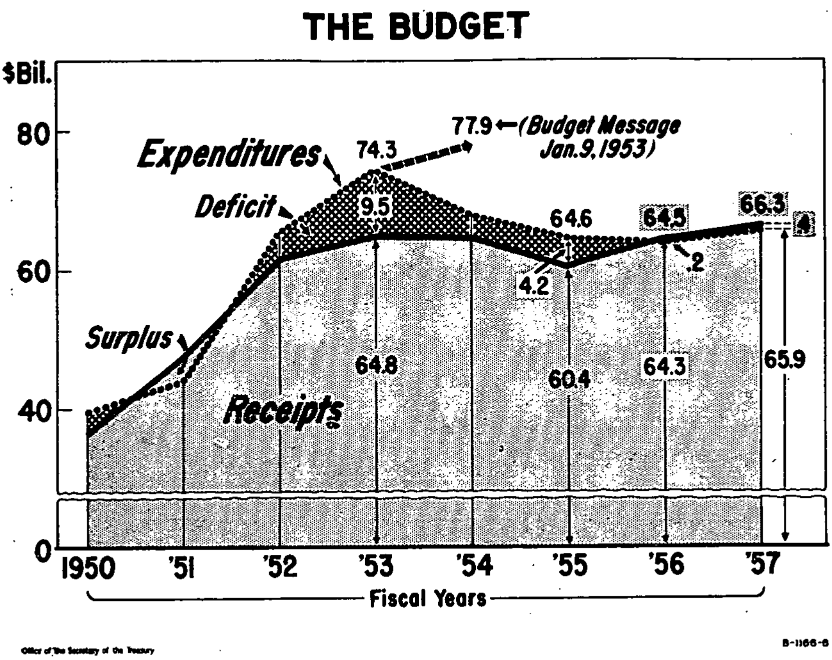
I do think also there is a strong injection of politics in your statement by your continuous emphasis upon the record of the last 3 years, but that also I will make no comment upon and let the record speak for itself.

I will be glad to hear Mr. Burgess.

Mr. BURGESS. Mr. Chairman and members of the committee: We presented somewhat similar charts to these something over a year ago to your Subcommittee on Economic Stabilization.

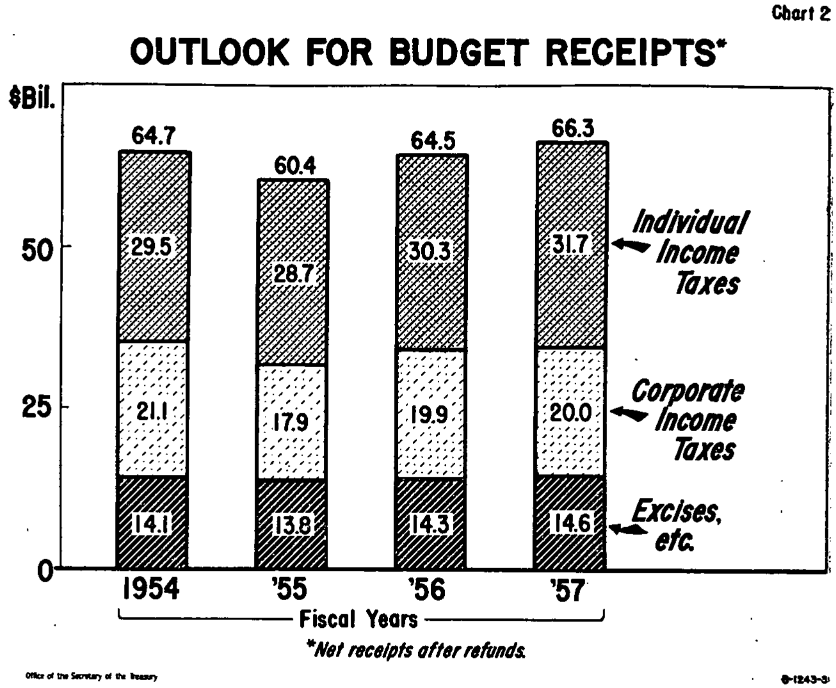
I will run over them rapidly because I think they tell the story of Treasury activities over the past year about as well as one coud do in language and, perhaps more vividly.

Chart I



The first chart shows the budget figures. I will not dwell on this long because I notice that the Director of the Budget presented a somewhat similar chart to you, 2 days ago.

The blue in the chart shows the receipts. The top line shows the expenditures. The pink shows the budget deficit. And it shows, as you know, a very modest surplus projected for the current fiscal year and for the fiscal year beginning July 1 and ending on June 30 of 1957.



Looking at one phase of the budget on "The Outlook for Budget Receipts," the columns in chart 2 show the actual results in 1954 and in 1955 and the projected results for 1956 and 1957.

The one interesting thing about it is that when we made the tax cuts of some $7½ billion, effective back in calendar 1954, it cut down Government revenue to some extent in fiscal 1955, although that was affected also by economic conditions.

But the receipts have now, through the growth and the vigor of the economy, restored themselves so that they no longer suffer from that tax cut; indeed they may have benefited from it in the stimulation of business activity.

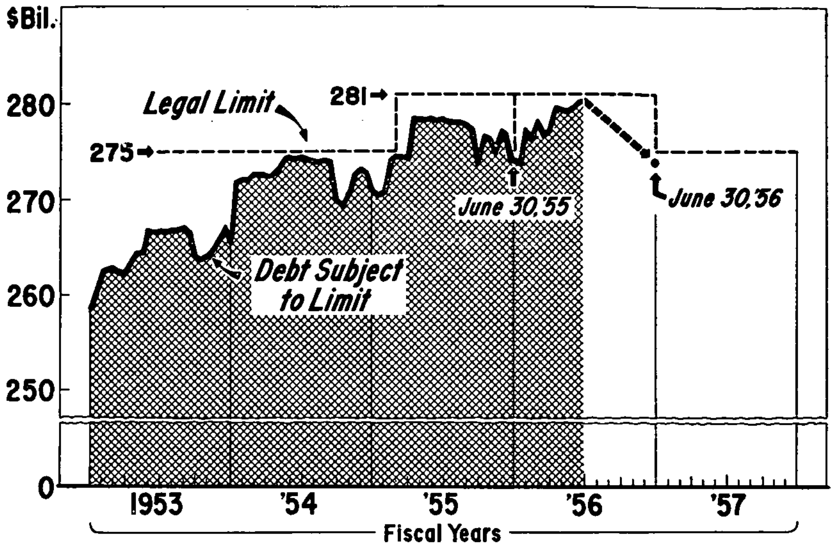
The breakdown between the different groups of taxes is shown here. The results on excises are shown in pink, just short of $14 billion in fiscal 1955. We estimate they will climb to $14.3 billion this year and $14.6 billion in 1957.

Corporate taxes in fiscal 1955, $17.9 billion, are expected to climb to $19.9 billion this year and to $20 billion in 1957.

And individual taxes show the increases indicated in the chart.

Chart 3

PUBLIC DEBT OUTLOOK



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Now, looking at the "public debt outlook" (chart 3), and I may say you have before you small charts which are the same as these so you would have a permanent record, the green mass here shows the debt subject to limit; and as you know the legal limit was $275 billion, until changed around the beginning of the 1955 fiscal year to $281 billion. This continued through until the end of 1955, and it was again carried through to June 30, 1956, when it goes back to $275 billion.

Our problem has been to keep the debt below that limit. We came reasonably close to the limit around this time last year. We have come even closer in the past few months. We have been within a billion dollars of the debt limit.

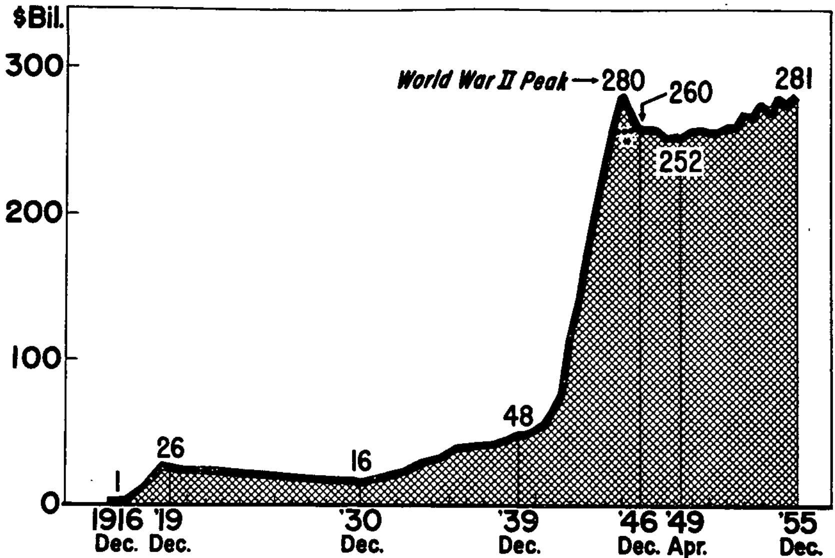
The tax receipts are beginning to come in now. They will come in again heavily in March, and we expect them to pay off the debt to a point where it will be under the $275 billion limit on June 30 next.

But we will still have the seasonal swing in debt in the autumn of the year. That is gradually being reduced through the congressional legislation that distributes payments on corporate taxes, pulls them forward, but it will take 5 years before that is fully effective. It will only partly eliminate the seasonal trend even then.

Even with the balanced budget the public debt will rise above that $275 billion unless there is a miracle of some kind.

Chart 4

THE PUBLIC DEBT



Excluding Victory Loan proceeds used to repay debt in 1946.

Office of the Secretary of the Treasury 9-1204-B

Here is a longer term comparison of the public debt (chart 4), showing the rise to $26 billion in World War I, the reduction to $16 billion by December 1930, the rise during the depression to $48 billion, and then the great rise due to the war.

These figures show a World War II peak debt of $280 billion. That was partly artificial because we borrowed a large amount of money on the Victory loan, which was not needed because of the big reductions in war spending and some $20 billion of that was used to pay down the debt in the following year.

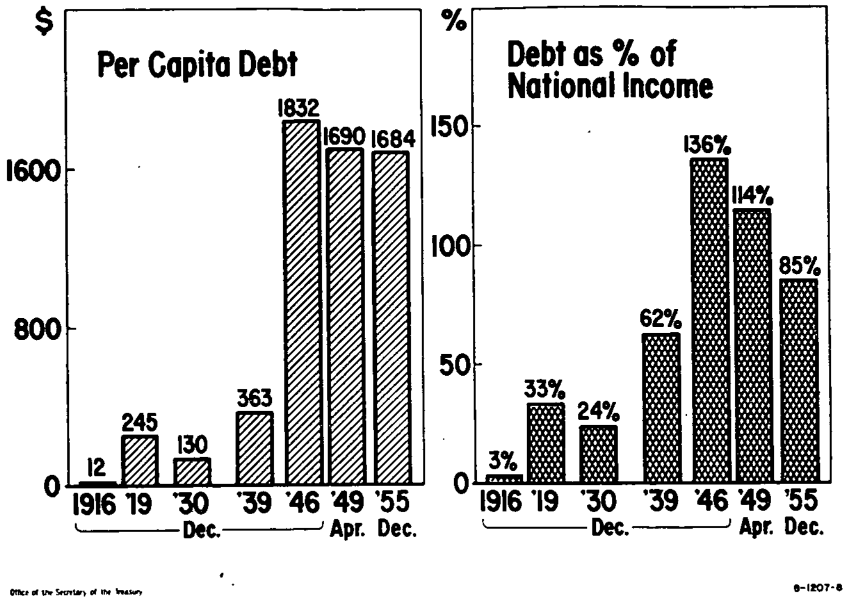
So the $260 billion can be considered the true World War II peak debt in a way. It got down through surpluses in 2 years to $252 billion in 1949. Then with Korea, with heavier defense expenditures, it has risen until it is now very close to $281 billion.

That figure I may say is the public debt as reported, but not as computed for the debt subject to limitation. The debt subject to limitation is slightly under that, by around a half-billion dollars.

To introduce an element of cheer, after looking at those dreadful figures for the debt, it perhaps is well to consider the debt in terms of its relation to the growth of the population and to the growth of the economy (chart 5).

Chart 5

RELATIVE SIZE OF THE PUBLIC DEBT



The left-hand figures show the debt per capita—the amount of debt per individual—which got up to a high point of $1,832, just at the conclusion of the war, and has shrunk by around $150 since that time by reason entirely of the growth of the population.

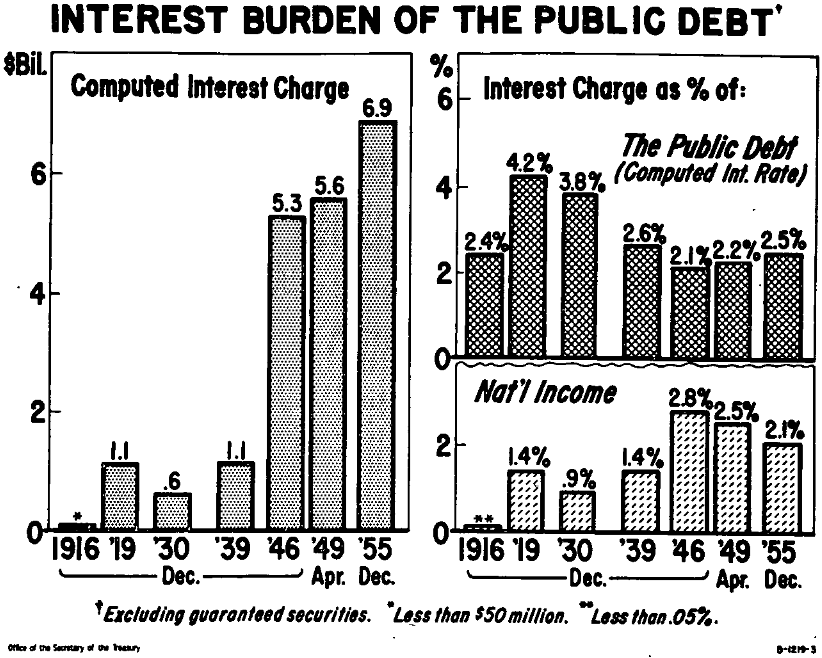
If you relate it, however, to national income, the improvement is much greater. In 1946 the debt was 136 percent of the national income. It is now down to 85 percent, due to the growth of the income.

I think it is fair to say that a part of that is due to inflation. This is all in dollar figures. And the dollars buy somewhat less than they did. So that the improvement, the real improvement, is not quite as great as is shown by the chart.

Chairman DOUGLAS. Do you have the chart on the percentage which the interest charges bear?

Mr. BURGESS. Yes, Senator, that is coming. Here it is right off.

Chart 6



This left-hand side of the chart shows the computed interest charges which have been rising partly because of the increase in the debt and partly because of the increase in money rates with extremely active business.

In December 1955, the debt charge was at a rate of $6.9 billion a year. It may be slightly higher than that in the current fiscal year.

The interest charge as a percentage of the public debt; that is, the interest rate on the debt, is shown here. Running back, it is interesting to see that the 2½ percent which is now the average interest charge on the debt, is about the same as it was in 1916, just before the outbreak of World War I, and as a matter of fact, it is very close to what it was in 1939 at the outbreak of World War II.

Of course, during the war interest rates were held low. We also had a flood of gold coming in that was effective in lowering rates.

Here is the figure, Senator, that you asked for: the interest charge as a percentage of the national income. There at the highest point it was 2.8 percent of the national income. It is now down to 2.1.

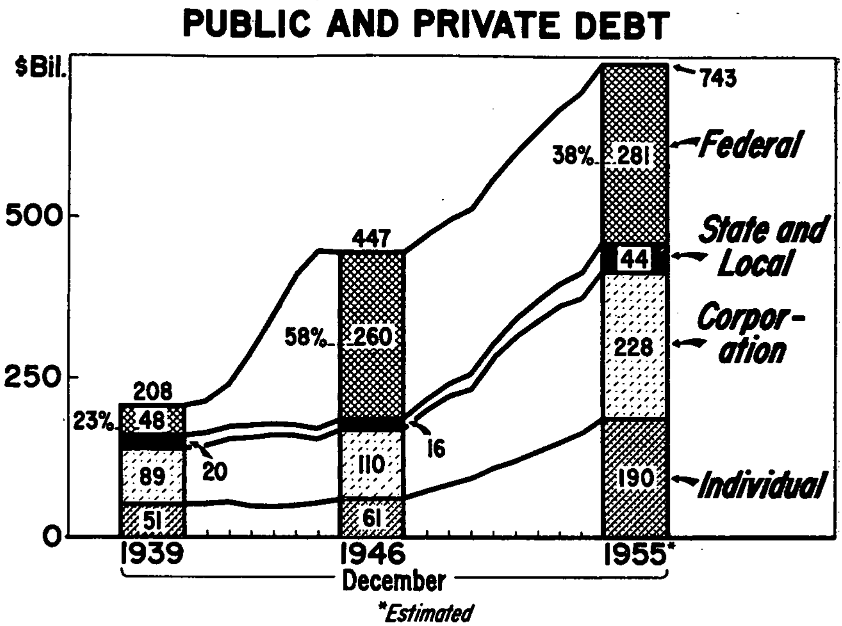
Chairman DOUGLAS. Do you have any figures for 1932, Mr. Burgess?
Mr. BURGESS. Well, here is 1930.
Chairman DOUGLAS. I know, but 1932.
Mr. BURGESS. I do not think we have that with us.
Chairman DOUGLAS. I made some computations and they show that in 1952 the interest charges were no larger and I believe a somewhat smaller percentage of national income, than in 1932. The national income in 1932, was, of course, a very low figure.
Mr. BURGESS. Very low income.
Chairman DOUGLAS. It was approximately $40 billion of gross national production.
Mr. BURGESS. I should think that might be true. The figure on interest charge as a percentage of national income for 1952 would not be very far from here—about 2.1.
Chairman DOUGLAS. As a matter of fact, the gross debt in 1932 was a little over $19 billion. The interest rate was, I believe, approximately 4 percent. Interest charges were, therefore, approximately $800 million. National income was approximately $40 billion, which would mean that the interest on the debt was 2 percent of national income in 1932, approximately.
So as compared with 1932, interest charges on the national debt in 1952, before the additional increase in the national debt, formed a smaller percentage of national income according to the figures than in 1932.
Mr. BURGESS. We would be glad to compute the figures from our figures and put them in the record, if you would like.
Chairman DOUGLAS. Thank you very much and we will put figures in on our side.
(The information subsequently supplied is as follows:)

	Dec. 31, 1932	Dec. 31, 1952
	Billions	*Billions*
National income [1]	$38.3	$301.2
Gross public debt	$20.8	$267.4
Computed interest charge	$0.7	$6.2
Interest charge as a percent of—	*Percent*	*Percent*
Public debt (computed interest rate)	3.4	2.4
National income	1.8	2.1

[1] Approximate annual rate at given date.

Mr. BURGESS. The public debt is a matrix of the country's whole debt, private as well as public, and this chart shows the changes from 1939 to 1946 and again to 1955.

Chart 7



During the war period there was, of course, very little increase in private debt. Individual debt increased only $10 billion, corporate debt a little over $20 billion. Local and State debt actually went down. The States, municipalities were held up on doing public works, roads, etc.

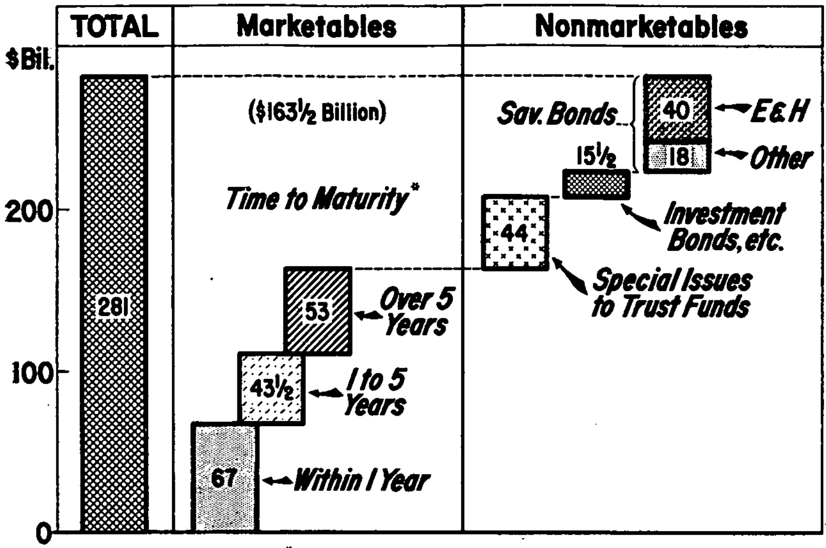
So they actually paid down some of their debt.

The big increase was in the Federal debt for financing the war. Following the conclusion of the war, the situation was reversed. The Federal debt, while increasing, increased as you have seen by other charts at a slower rate than the national income. But there have been enormous increases in individual debts and in corporate debts with the largest percentagewise increases in individual debt and in State and local debts.

The big elements in this individual debt are real estate mortgages, consumer credit, and various other miscellaneous debts.

Chart 8

STRUCTURE OF THE PUBLIC DEBT, DEC. 31, 1955



*Callable bonds to earliest call date.

Now against that background we have this "Structure of the public debt" as shown in Chart 8, which affects greatly the way it can be handled. It affects the reaction of the debt on the entire public, and our efforts as well as the efforts of the preceding administration have been to get this debt into manageable form, to distribute it widely among the people.

One of the efforts that was begun back in the thirties and has been enormously successful has been the sale of savings bonds. That has been picking up in the past 2 or 3 years also. And a substantial block of the debt is now held in the form of savings bonds, $58 billion.

There are the investment bonds, the 2.75 percent issues that are not salable in the market. And then the special issues that go to trust funds, largely the old-age and survivor funds, Government life insurance of the two types, etc.

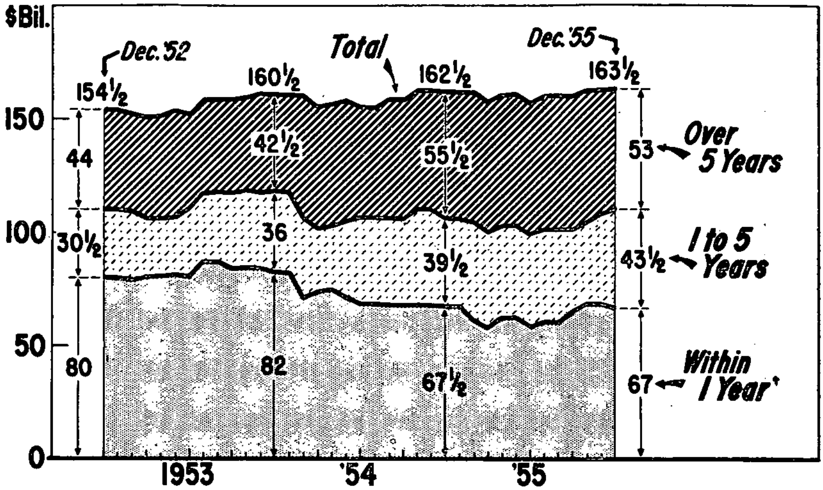
Those nonmarketable debts are pretty well out of the current stream of finance so they do not interfere with it.

Of course, some of them are redeemable on demand. So far that redemption on demand has not proved embarrassing. The experience seems to indicate that it is not likely to prove too embarrassing.

So that the major problem we have to deal with so far as the effect on the money market and on inflation and so forth is the marketable debt. And there we have now at the current time $67 billion maturing within a year, $43½ billion in 1 to 5 years, and $53 billion in over 5 years. We show that in another way in the next chart.

Chart 9

MATURITY DISTRIBUTION OF THE MARKETABLE DEBT*



*Callable bonds to earliest call date.
†Including savings notes and original issues of 15 months or less.

Office of the Secretary of the Treasury

This shows the changes over the past 3 years in the maturities of the debt in those 3 blocks that I have indicated. The figure for the debt within 1 year was over $80 billion during most of the year 1953. It was a year when it was not easy to do refunding, when the money conditions were tight, with very heavy demands for funds. And, of course, with this debt you have to run very fast in order to stand still, like the red queen, because maturities are always coming closer, and the debt that is 2 years off today is only 1 year off a year from now.

We have gradually been able to change that picture somewhat without radical steps, so that the amount as shown before has been reduced to $67 billion due within a year. The 1 to 5 year debt has increased, largely by stretching out the bank debt, and the amount over 5 years has been increased somewhat through issuing around 8-year bonds and the latest 40-year bonds.

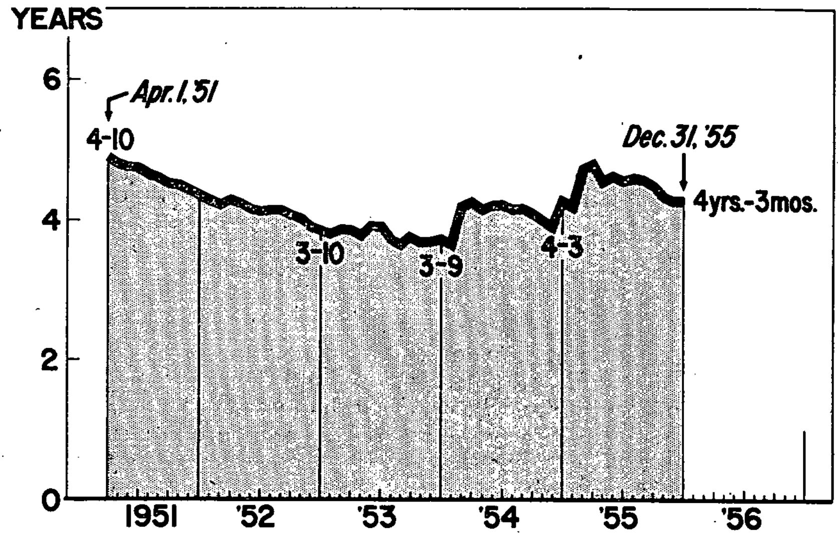
There seems to be indication that the market will take and absorb, put away, a really long-term Government bond. The amounts that can be sold, however, are limited by demand. Insurance companies and others, trust companies, trust funds, pension funds are the substantial buyers.

Gradually we hope to increase the amount of the longer term debt outstanding because that does not come around so often to interfere with the money market. We are able to reduce the number of times we go to the market each year, to leave more opportunity for private financing and leave more leeway for the Federal Reserve System to exercise its credit policy without our interfering with them or their interfering with us.

This is another way of looking at the same thing. It is the "Average Length of the Marketable Debt."

Chart 10

AVERAGE LENGTH OF THE MARKETABLE DEBT
(Callable Bonds to Earliest Call Date)



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Back in 1951 it was 4 years and 10 months. It went down by the end of 1952 to 3 years and 10 months.

We made very little headway during 1953. In 1954, with relatively easier money conditions we were able to lengthen the average maturity several months.

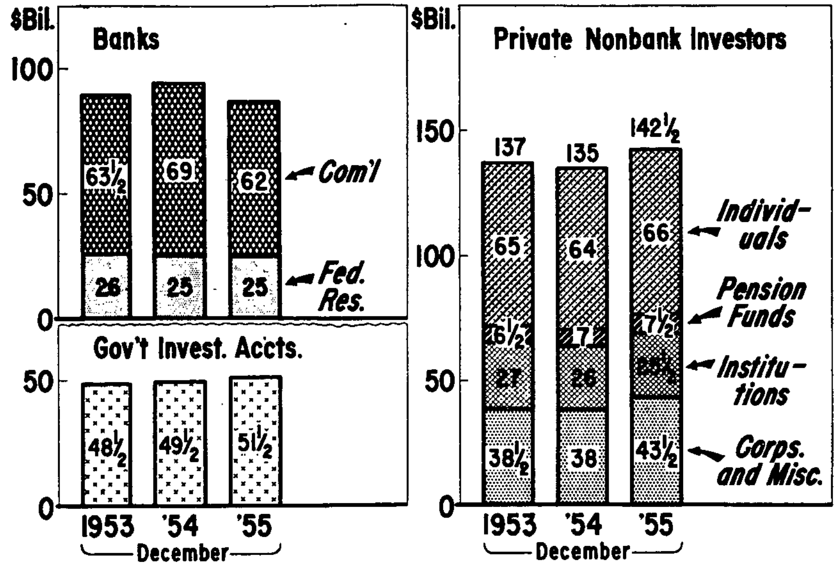
This year again we have made relatively little headway. Looked at from that point of view, because money conditions have been firm, it has not been possible to sell very large amounts of securities with long-term maturities.

Chairman Douglas. Let me see if I understand you correctly. The average length of the marketable debt is 7 months shorter now than it was in April 1951.

Mr. Burgess. That is right.

Chart II

OWNERSHIP OF THE PUBLIC DEBT



Now again looking at it from the point of view of the ownership of the public debt, this part here (bank held debt) is what we may call the part of the public debt that has the most effect on the prices, on bank credit, on the money stream, on the economy in a sense.

And the interesting thing there is that the Federal Reserve debt remains relatively constant.

The amount held by the commercial banks rose in 1954.

But this year that has been reduced, reflecting a good deal the pressure of every heavy demand for money, for commercial purposes, and a firm money policy by the Federal Reserve.

The banks have had to steadily liquidate Government securities in order to get the funds to take care of their customers and to meet the credit pressures on them.

That has reduced the money supply from that angle, even though it has been made up by bank loans. But it has been to that degree anti-inflationary in this past year when inflationary pressures were prevalent.

Government investment accounts are a steady absorber of the Federal debt. Their holdings now total $51½ billion, and the amount has been increasing steadily. That is largely the old-age insurance and veterans' insurance, and so forth.

Private nonbank investors are amazingly stable in a way. The institutions, for example—which are insurance companies and savings banks—have reduced their holdings a little over the past 3 years, reflecting the same tendencies as the commercial banks.

They are under pressure to supply funds for mortgage lending and were net sellers of Government securities. Although some of them are buyers, some are sellers, and this is the net result.

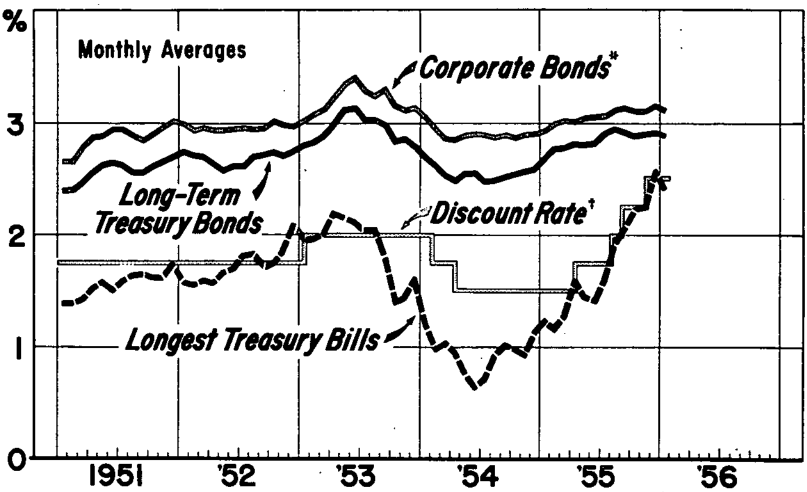
Corporations, on the other hand, were net gainers in their holdings of Government securities, using surplus funds to buy Treasury bills and so forth.

Individuals' holdings are up a little, largely due to the savings bonds accumulation.

Pension funds are steadily increasing their holdings of public debt.

Chart 12

MARKET YIELD TRENDS
OF SHORT AND LONG-TERM SECURITIES



*Moody's Aaa. †Federal Reserve Bank of New York.

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Now this is simply another way—this is the final chart—of showing the environment in which we operate in the management of the public debt. These are "market yields" for short- and long-term securities, or to put it another way, these are the interest rates.

Vice Chairman PATMAN. Do you have a chart going back beyond 1951?

Mr. BURGESS. I haven't it right here. We, of course, have the Federal Reserve chart books readily available, Mr. Congressman.

The most sensitive rate is the Treasury bill rate, which pops around from week to week reflecting very quickly and directly the changes in the money situation. The long-term Treasury bonds move more slowly and corporate bonds move with them, both reflecting the supply and demand in the market.

This pink line in the chart is the discount rate of the Federal Reserve banks which has responded to money conditions and has also been used at times for credit relaxation and at other times for credit restraint.

As you will see, this year their rate is up by 1 percent. From 1½ to 2½. This is the matrix against which our operations are conducted. That is all I have on these.

Chairman DOUGLAS. Thank you.

Secretary HUMPHREY. That concludes our presentation.

Chairman DOUGLAS. You spoke of this administration having balanced its budget. May I ask what the public debt was on the 1st of January 1953 or December 1952?

It is on page 219.

Secretary HUMPHREY. If you have it right there——

Chairman DOUGLAS. I want you to give it.

Secretary HUMPHREY. I do not carry these figures in my head.

Chairman DOUGLAS. On page 219 of the Economic Report.

Secretary HUMPHREY. For when do you want it, on what date did you say?

Chairman DOUGLAS. End of December 1952. Just a minute: It was $267.4 billions of dollars.

Secretary HUMPHREY. That is right; $267.4 billion.

Chairman DOUGLAS. That is the public debt in December 1952?

Secretary HUMPHREY. I am finding it.

Chairman DOUGLAS. I think you will find that on page 219 of the Economic Report, the last item on the bottom of the page, sir, third column.

Secretary HUMPHREY. $275.2 billion for December 1953.

Chairman DOUGLAS. I asked for the public debt as of December 1955.

Secretary HUMPHREY. I thought you said 1953.

Chairman DOUGLAS. Well, I beg your pardon.

Secretary HUMPHREY. You ask for 1955 now?

Chairman DOUGLAS. Yes, I beg your pardon.

Secretary HUMPHREY. December of 1955, is $280.8 billion.

Chairman DOUGLAS. So there has been an increase since December 1952 of $13,400 million in the public debt. Do you regard this as a balanced budget?

Secretary HUMPHREY. I do not think that has anything to do with our current annual balanced budget.

Chairman DOUGLAS. That indicates a net deficit to date, does it not, of $13,400 million.

Secretary HUMPHREY. We started right out from the Truman administration with $11 billion of deficit.

Chairman DOUGLAS. I simply want to point out that the public debt has greatly increased during the last few years.

You estimate the public debt as what as of next June?

Secretary HUMPHREY. What?

Chairman DOUGLAS. You estimate the public debt to be what?

Secretary HUMPHREY. It will be just under the limit of $275 billion.

Chairman DOUGLAS. So that will be an increase of something like $7½ billion in 3½ years of operation.

Secretary HUMPHREY. That is about right. We had a little over 3 one year and about 4 another. That is about right.

Chairman DOUGLAS. You also spoke about price stabilization being accomplished in the last 3 years. Is it your contention that prices were only stabilized beginning with 1953?

Secretary HUMPHREY. No; I think the decline in the dollar stopped just a little before that.

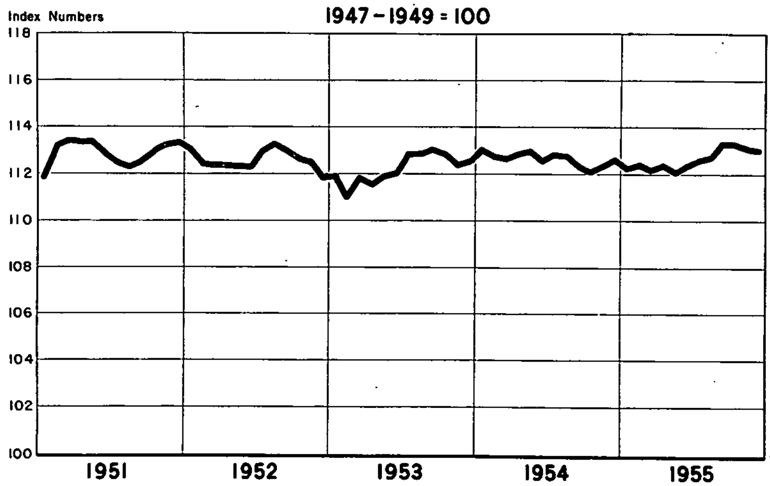
Chairman DOUGLAS. When?

Secretary HUMPHREY. As I recall it was the middle of 1952, where the turn in consumer prices took place.

Chairman DOUGLAS. We have some charts here which I would like to have displayed. We have a chart showing the composite of the consumer price index and the wholesale price index. May we have that? That is probably the best measure. I ask that to be displayed.

COMPOSITE PRICE INDEX

JANUARY 1951 - DECEMBER 1955



Source: Computed-Average of Consumer Price Index and Wholesale Price Index, U.S. Department of Labor.

This indicates the stabilization of general prices began approximately in March of 1951, and the price level has remained approximately constant since then. I think this is very important.

The stabilization of prices began with the Federal Reserve-Treasury accord of March 1951, and it is wrong, to say that the period from March 1951 to January 1953 was a period of inflation. It was not.

The point is we have had comparatively stable prices generally, although I shall speak of difference in prices in a minute, since March 1951.

Now, Mr. Secretary, in the last 2 years even though the general price level has remained constant, what has happened to industrial prices or the prices of industrial commodities?

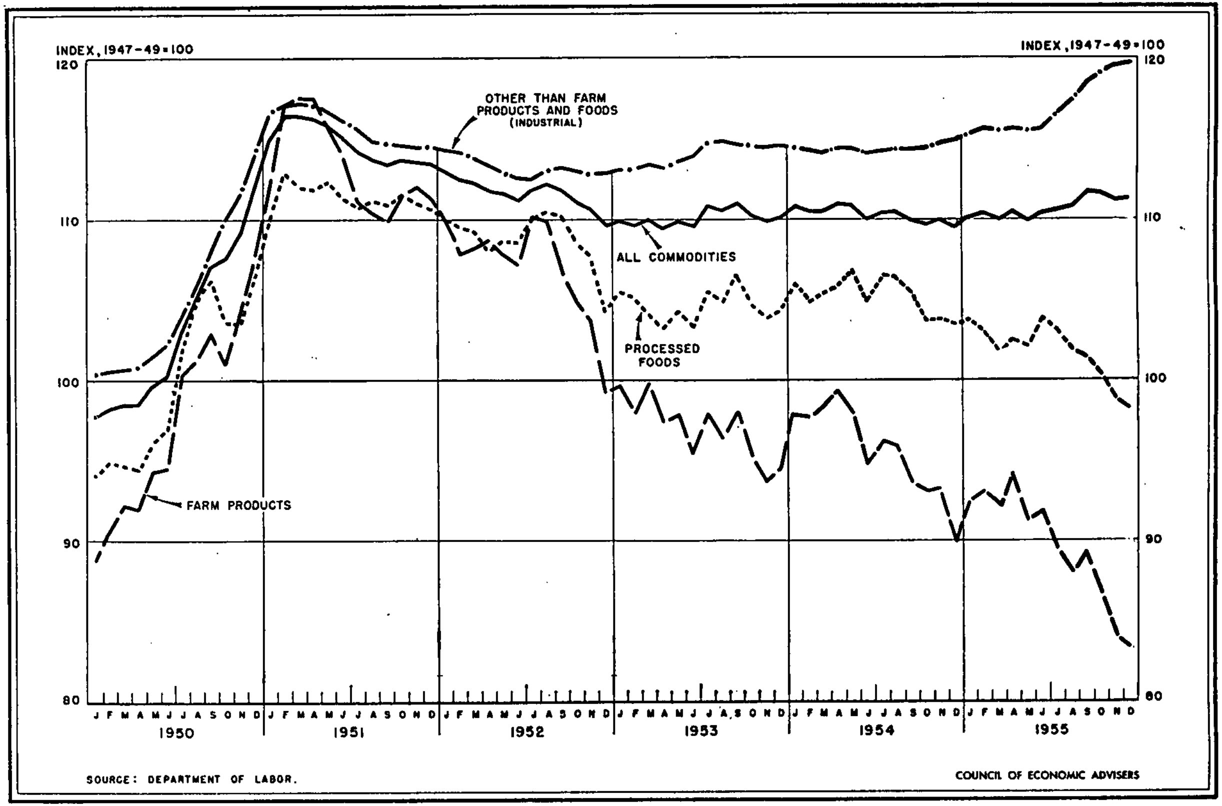
Secretary HUMPHREY. I think they have increased somewhat.

Chairman DOUGLAS. Do we have a chart on that, on the increase of industrial commodities?

Yes; the top line. What does that show?

I see it dropped in 1952.

WHOLESALE PRICES, 1950–1955



Secretary HUMPHREY. They are a little above the average.

Chairman DOUGLAS. It shows an increase, does it not, in the last 2 years of approximately how much—the last 2 years?

Do we have a smaller detailed chart on that?

Secretary HUMPHREY. Maybe I can help. Wholesale prices have gone up about 5 percent.

Chairman DOUGLAS. Turn to page 24, Mr. Secretary, of the Economic Report for January.

You will find whereas the all commodity index rose from a level of approximately 100 in 1949 to 111 in 1955, for the week ending January 1956—the index—just a minute, sir—the index of farm prices fell to 85.5 percent.

So that we have had a degree of stability in the general price level, which has been obtained by a fall in prices of farm products, whereas other than farm products have increased from a relative of 113 in 1952 to 119.6 for the week ending January 3 of 1956, or the industrial products have increased by 6 points or just about 6 percent whereas farm products have decreased from a relative of 107 in 1952, to 85.5 on January 3 or a decrease of 20 percent.

In other words, within the price structure, if you will look, you will find farm prices going down 20 percent, and industrial prices going up approximately 6 percent.

And it is the fall in farm prices which has given relative price stability; is that not true?

Secretary HUMPHREY. Since the end of 1952 the farm prices are down from 100 to about 85.

Chairman DOUGLAS. That is right.

Secretary HUMPHREY. And your industrial prices are up from about 113 or 114 to about 120 or 119.

Chairman DOUGLAS. That is right, that is what the chairman has just said.

Are you disturbed by this price situation, Mr. Secretary.

Secretary HUMPHREY. Well, I think that it would be better if it were all even but I do not think that it is anything that is alarming.

Chairman DOUGLAS. Not alarming?

Secretary HUMPHREY. I do not think so.

Chairman DOUGLAS. You do not regard the fall in farm prices as alarming?

Secretary HUMPHREY. I do not. I think it is undesirable—a thing that we, all of us, ought to do everything we can to correct, but I think it results from a great many years of practices that cannot be corrected in just a minute.

Chairman DOUGLAS. Now, Mr. Secretary, on January 12 I addressed a letter to you, requesting that you give to the committee the estimates for personal income and corporate profits from which you had made your estimate of revenues for the budget for 1957.

I find that I have taken up my 10 minutes, Mr. Secretary, so that I shall postpone inquiry on that point until later on.

Representative WOLCOTT. According to our own figures, that is the figures released by the Joint Committee on the Economic Report in these indicators, we find the index on all items, as the chairman has suggested, in 1953 the index at 114.4.

The last figure on the indexes in November 1955, 115, an increase of 0.6 of 1 point.

I have been told unofficially—I think I got the information from the press—will you confirm it or deny it—there has been a reduction from 115 in November of about 0.3 of 1 percent so that it is now about 114.7. Is that correct?

Secretary HUMPHREY. I think that is correct.

Representative WOLCOTT. Do you know of a period of time in the history of this Nation where the price index has been as stable over a comparable period of time?

Secretary HUMPHREY. We have been through a very unusual period of stability.

Representative WOLCOTT. That is all.

Chairman DOUGLAS. Mr. Patman.

Vice Chairman PATMAN. Mr. Secretary, you have stated a number of times that you would like to see the small-business concern benefit from tax reduction.

The Small Business Committee of the House has been considering presenting a bill along that line. It would be predicated upon the theory, that we should not reduce the aggregate amount of taxes received by the Government during the current year.

In other words, we would present a bill that would have lower rates for smaller concerns and make up for it on larger concerns.

Would you oppose that type of a bill?

Secretary HUMPHREY. Yes; I think I would.

Vice Chairman PATMAN. On what theory or principle?

Secretary HUMPHREY. Well, I think that graduated taxes, when you get into business affairs, would operate disadvantageously to the whole economy.

I think that if you have a level tax throughout the whole economy—reasonably level—I am not talking about the extremely small concerns for which there is already a special benefit—but I do not think that a graduated corporate tax would be a good thing for our total picture and I do not think it would help the small concerns as you think it would because I think the small concerns are helped far more by good business—by good business conditions—than by any relatively small reduction in their tax.

Vice Chairman PATMAN. You are taking the position then that the company with, say, a billion-dollar income should pay no more taxes in proportion than the smaller $1 million or $2 million concern?

Secretary HUMPHREY. I think that is right.

Vice Chairman PATMAN. You are for that and you are opposed to anything else?

Secretary HUMPHREY. I think that is right.

Vice Chairman PATMAN. As to the question of stability of prices, is it not a fact that if farm prices had gone up since March 4, 1951—the time of the so-called accord—in proportion to industrial prices that there would not have been any stable price line at all but the price line would have gone consistently upward?

Secretary HUMPHREY. Slightly.

Vice Chairman PATMAN. There would then have been no stability?

Secretary HUMPHREY. No, no. It would not have been as great a stability as we now have but it would have been a fairly stable situation.

Vice Chairman PATMAN. Is it not a fact, Mr. Secretary—I do not see how anyone can dispute it—that the stable price level has been obtained at the cost of the farmer. In other words, if farm prices had not gone down in proportion to industrial prices going up, there would not have been any stable price level. This price stability that you are talking about is at the expense of the farmer, is it not?

Secretary HUMPHREY. I do not think that that is entirely right. I think that any average, of course, takes the top and the bottom to make the average.

Now in a case where the top only varies from the average relatively a small amount which is 5 percent or so in 3 or 4 years, I think that you have a relatively stable line right there in your top alone without taking your bottom to bring out the average.

Of course, the top is never as good a figure as the average.

Vice Chairman PATMAN. Mr. Secretary, that talk of averages contradicts just a little bit the actual facts, which you are using, with all due respect to you.

The facts are that farm incomes have gone down, billions of dollars over the last few years, 20 percent since 1953.

Now you can talk about averages all you want. The facts cannot be disputed, that if farm prices had not gone down in proportion as industrial prices have gone up, you would not have had a stable price level. The stability has been obtained at the expense of the farmer.

Secretary HUMPHREY. I did not quite hear what you said. You said farm prices had gone down 20 percent since 1953?

Vice Chairman PATMAN. Approximately; yes.

Secretary HUMPHREY. That is not indicated here—wait a minute—just a minute.

I just want to get it correct. This chart does not indicate that, Mr. Patman. I think you are just about twice as much as you ought to be.

Vice Chairman PATMAN. All right.

Secretary HUMPHREY. What you mean is 10 and not 20.

Vice Chairman PATMAN. I am not interested in pinning it on the Republicans. I think the Democrats started it and they started it March 4, 1951. Where I blame the Republicans is for not stopping it.

When you had this so-called accord, that meant higher interest rates. Agricultural prices from the farmer to the ultimate consumer go through about 10 or 15 middlemen. That is necessary under our competitive system and I am not objecting to it. Everyone takes out his part and that includes higher interest rates. That means lower farm prices because of higher interest costs all along the line.

In reverse from the iron ore and the steel on down to the farm-machinery dealer, 10 or 15 middlemen add on his part of the interest.

Consequently, the farmer paid the interest both ways—on his products going to the consumer, and on the finished products coming back to him. So he is hit both ways.

I think the charts will show that from March 4, 1951, the farmers' prices have continued to go downward, downward, and I think it is largely on account of higher interest rates. I think that is an important reason for it. I think the Republicans are to be blamed for not stopping it when they came into power. Instead of that, they made it worse. That is the point I am making.

And is it not a fact, Mr. Humphrey, that you sincerely believed when you came in that interest rates should have been increased?

Secretary HUMPHREY. No. I do not think so.

Vice Chairman PATMAN. Did you not arbitrarily, I mean did not your policies arbitrarily increase interest rates?

Secretary HUMPHREY. We did not do it. Interest rates increased because of the demand.

Vice Chairman PATMAN. You fixed the rate, anyhow?

Secretary HUMPHREY. No, no.

Vice Chairman PATMAN. You certainly did. Who fixes 3.25 percent? And the 3 percent? You fixed that.

Secretary HUMPHREY. We determine what rate we think we can price our securities at to have them sell on the market. The market fixes the rates, Mr. Patman, and we try to guess it as near as we can.

Vice Chairman PATMAN. You go to the bankers and find out what the market is, that is who you call in. You talk to the bankers.

Secretary HUMPHREY. We talk to everybody we can.

Vice Chairman PATMAN. If they have a lot of money on the books of the bank to buy the bonds, you talk to them and find out what rate they want, and you then set the rate. You do not deny fixing the rate, do you?

Secretary HUMPHREY. No, I do not fix interest rates.

Vice Chairman PATMAN. Well, you fix——

Secretary HUMPHREY. I fix the rates on a particular security.

Vice Chairman PATMAN. That is what I mean.

Secretary HUMPHREY. Yes.

Vice Chairman PATMAN. You fixed the 3¼ percent rates?

Secretary HUMPHREY. Absolutely.

Vice Chairman PATMAN. And you fixed the 3 percent rate?

Secretary HUMPHREY. That is right.

Vice Chairman PATMAN. And over a long——

Secretary HUMPHREY. That is what we thought was the proper rate to market the securities.

Vice Chairman PATMAN. That is right. You knew it would raise interest rates?

Secretary HUMPHREY. No, no, I would not—I do not think it did.

Vice Chairman PATMAN. Over the years, the 2½ percent rate prevailed until that so-called accord, and, of course, the accord was to let the Federal Reserve System have its independence.

But you did not respect that independence last fall, did you?

Of course, I commend you for doing it. I am in disagreement with Senator Douglas on that. But you did put pressure on the Federal Reserve Board to go into the market, did you not?

Secretary HUMPHREY. Well, Mr. Patman, as long as you can afford it until you go broke, you can peg a price.

Vice Chairman PATMAN. Beg pardon?

Secretary HUMPHREY. As long as you can afford it and until you go broke you can peg a price. But sooner or later if you do, you will go broke.

Vice Chairman PATMAN. You put pressure on the Federal Reserve Board to go into the market.

Secretary HUMPHREY. I did what?

Vice Chairman PATMAN. You put pressure on the Federal Reserve through Mr. Martin, the Chairman, to go in the market and buy securities.

Secretary HUMPHREY. What time are you talking about?

Vice Chairman PATMAN. November or in December.

Secretary HUMPHREY. You mean this last December?

Vice Chairman PATMAN. Yes.

Secretary HUMPHREY. Well, it just happened that I was down south at that time.

Vice Chairman PATMAN. Well, now you are not pulling a "Mr. Benson" on us, putting it off on somebody else.

Secretary HUMPHREY. No, not at all; not at all. I think we might just as well talk about that one for a minute right now. Let me see if I can illustrate it this way, Mr. Patman.

Vice Chairman PATMAN. I just merely wanted to have a "Yes" or "No."

Secretary HUMPHREY. You asked— just let us finish it. Let us assume—you just pay attention, please.

Vice Chairman PATMAN. Certainly, I will be glad to.

Secretary HUMPHREY. Let us assume now that there are two questions that I have to discuss with the Congress.

You think the Congress is independent, do you not, of the Executive?

Vice Chairman PATMAN. It is independent of the Executive.

Secretary HUMPHREY. We will agree that you are independent of the Executive and that we are reasonably independent.

There are two questions that I have to take up with you.

On one of them I come to you and say to you, "Mr. Patman, this is what I think we ought to do. I figured it out and I think this is to the best interest of the country. This is the way we ought to proceed."

You say, "George, I do not believe so at all. I do not think we ought to do this in any way and I will not be with you."

And you have proved your independence and you vote "no."

I come to you again and I say, "Mr. Patman, here is a thing that I think we ought to do. I think this is to the best interests of the country."

You look it over and you say, "By golly, you are right. I believe you are correct and I think we ought to do it. I will support you in the Congress."

Now, have you lost your independence?

Vice Chairman PATMAN. Is that the way you used your influence?

Secretary HUMPHREY. Have my blandishments deprived you of your independence?

Vice Chairman PATMAN. That is the way you used "moral suasion" on Mr. Martin?

Secretary HUMPHREY. That is exactly the way you do with anybody.

Vice Chairman PATMAN. Did you do that with Mr. Martin?

Secretary HUMPHREY. Exactly, and I expect to continue to.

Vice Chairman PATMAN. So it is not independence every time. Mr. Martin was in this position——

Secretary HUMPHREY. If any time anybody discusses anything with me they lose their independence then they are not independent.

Vice Chairman PATMAN. Had his name been submitted then for the 14-year term?

Secretary HUMPHREY. I really can't tell you. I imagine it had—I can't tell you.

Vice Chairman PATMAN. Do you know, Mr. Burgess?

Mr. BURGESS. The decision had been reached that his name would be submitted.

Vice Chairman PATMAN. It had not been submitted—it could have been withheld if he had not cooperated, could it not?

Secretary HUMPHREY. No.

Vice Chairman PATMAN. I say it would have been possible.

Secretary HUMPHREY. Frankly, I can't tell you—I don't pay much attention to that.

Vice Chairman PATMAN. Anyway, my time is up. I will have to come back.

Chairman DOUGLAS. Senator Flanders.

Senator FLANDERS. First, Mr. Secretary, I would like to compliment you on the brevity of your presentation. [Laughter.]

Secretary HUMPHREY. Thank you, Senator.

Senator FLANDERS. It has not prevented a full and thorough investigation of your activities by the members of this committee.

There are 1 or 2 points in your brief presentation that interest me.

One is your statement that "continued high activity in our economy depends not so much upon Government as upon the efforts of all of the people, all in their own ways trying to do a little more for themselves and their loved ones."

I think if there is anything political in this it is the addition of the words "loved ones." That is a very pleasant political touch on which I compliment you.

But the point is, you have an interesting point there that there are limitations to what Government can do and when Government does all it can, then it is up to the people—is that the point you are trying to make?

Secretary HUMPHREY. I think I would put it the other way, Senator. I think I would say that it is up to the people and that Government should interfere as little as possible and in some relatively small ways can be helpful.

But the great thing is the people. It is the people that do things in this country. It is not the Government.

Senator FLANDERS. Now when you say "people" you are thinking of workers?

Secretary HUMPHREY. All of the people.

Senator FLANDERS. Consumers, investors, managers, all.

Secretary HUMPHREY. All of the people—all participating.

Senator FLANDERS. Do you include in that list of activities of the people, for instance, courageous buying?

Secretary HUMPHREY. I do, certainly.

Senator FLANDERS. Well, that is an interesting thought because as I was brought up and as the sentiment in my part of the country was for many years, there still remains the thought of not buying but saving every cent you can. Both I take it are required—both saving and spending.

Secretary HUMPHREY. That is correct.

Senator FLANDERS. Is there anything that the Government can do to help to obtain a balance between "spending" and "saving"?

Secretary HUMPHREY. Yes; there is a great deal that can be done from the point of view of the Government. If the Government's conduct in relation to its money is such that the people become scared of their money, they will buy things they do not need and do not require, just to get rid of their money and get it into things that will be of more stable value. That is bad buying.

If the people have confidence in their money and have confidence in their Government and in their Government's policies, and in the stability that their Government is giving to help to provide, the people will buy what they need and what they have in relation to their earnings and you will have good business and good times that everybody will prosper in and you will have stability in your money and in your prices.

Senator FLANDERS. Do you think that there are inherent difficulties in maintaining the balance when production is high, that is, it is easier to help a state of economy to get high or is it easier to maintain it in a rising balanced position, or is it easier to arrest a decline. There are three situations.

Which one would you rather handle?

Secretary HUMPHREY. I think the surest action that a Government can take is to retard inflation. You can lead a horse to water but you cannot make him drink.

I think it is more difficult for Government action to actually inspire activity.

Of course, the best thing for the people and everyone concerned is to have the Government like the man on the high wire, tipping first one way and then the other, toward inflation and toward deflation and keeping his balance and never falling off on either side.

Senator FLANDERS. You feel that it is possible to do that under present conditions?

Secretary HUMPHREY. That is what we are trying to do. We have been getting along—have not really fallen off yet, and I hope we won't.

Senator FLANDERS. That is all, Mr. Chairman.

Chairman DOUGLAS. Senator Sparkman.

Senator SPARKMAN. Mr. Chairman, I have to go to the Senate floor in just a minute or two. I want to ask some quick questions, if I may.

I am sorry I was not here when you gave your direct statement. I want to go back to something that Congressman Patman and you discussed briefly; that is, with reference to some kind of tax relief for small business.

I wonder if by any chance you have read the report that was made by the Senate Small Business Committee on Tax Relief for Small Business about 2 or 3 years ago.

Senator HUMPHREY. I have not, Senator, no.

Senator SPARKMAN. I would like to have an opportunity to send you a copy of that report and ask your most serious consideration.

Secretary HUMPHREY. I will be glad to read it and talk to you.

Senator SPARKMAN. The report was unanimously agreed to by all members of the committee. I believe the work was started under a Democratic Congress and was completed in the Republican Congress.

The report resulted in hearings held in all parts of the country, at which people were invited to come in and testify.

We continue to get those complaints from small businesses throughout the country about the repressive effects of present tax policies so far as small business is concerned and, particularly, the newer smaller businesses.

These new businesses are having a very hard time building a base sufficient to enable them to grow and expand as they would like to.

I recall one recommendation that we made was that the base for the surtax—that is now $25,000; is it not?

Secretary HUMPHREY. That is right.

Senator SPARKMAN. Be lifted to at least $50,000, and preferably to $100,000.

I just mention this and then ask for your comment if you have any.

Senator Fulbright has just introduced or is planning to introduce a proposal which would change the normal and the surtax base so as to reverse them.

I believe the normal tax now is 30 percent and the surtax is 22 percent. He suggests that if that were just reversed, the normal tax made 22 percent and the surtax 30 percent, it would give a very great amount of relief.

It is true that it would amount to a loss of revenue. Then he goes one step further and suggests that the normal rate be 22 percent and the surtax 31 percent, which would result in a saving for all businesses with an income, as I recall, of about a million dollars net. I suppose you would wish to study it carefully before giving an opinion, but I just wondered if I might invite your comment to this proposal.

Secretary HUMPHREY. I saw that just the other day. Our people who are studying it are not prepared to give a comment on it today.

Of course, basically America is the land of opportunity and that is what we want to keep it. And we want to keep opportunity, we want to do everything we can to provide opportunity for the young man, the growing man, to get started and to progress in this country. That is the basis of this country.

And if the little business wants to get a toe in and get started in growth, we want to do everything we can to inspire that—that will really do it and not upset the balance some other place.

So we are very interested to study this. We are studying it.

As I say, I am not prepared to give you an answer today because I do not know all of the ramifications of it yet.

Senator SPARKMAN. I hope you will study it, because, as I say, the complaints continue to come in.

As a matter of fact, I believe the reports show that there has been a stepup in bankruptcies and that they have been almost exclusively in the small-business field, to say nothing of the numerous mergers that have taken place where small businesses were simply not able to continue on their own.

Secretary HUMPHREY. We have to keep this mind: There are more businesses than there have ever been. Small businesses are growing in numbers and in prosperity.

After all, we must remember that these taxes that we have, this tax level, is a burden on everyone in this country. It is a burden on everybody. I think, as I have many times said, it is too much of a burden on everyone.

Senator SPARKMAN. It is true, though——

Secretary HUMPHREY. It ought to come down.

Senator SPARKMAN. That a big business which has had a long history is in much better shape to bear that burden than the business that is striving to get started?

Secretary HUMPHREY. As a rule, that is definitely so, I think.

Senator SPARKMAN. Your Department will give sympathetic consideration to the problems and try to work out a program?

Secretary HUMPHREY. We are studying it very carefully.

Senator SPARKMAN. Thank you. I will have to go to the floor.

Chairman DOUGLAS. Senator Watkins.

Senator WATKINS. I have not been here long enough to get into this discussion, so I think I will forego asking any questions.

Chairman DOUGLAS. Mr. Bolling.

Representative BOLLING. Mr. Secretary, will you look at page 93 of the Economic Report beginning with the last paragraph on that page and continuing through to the conclusion to the top of page 94?

Secretary HUMPHREY. That relates to the consumer credit.

Representative BOLLING. Yes, sir.

I would like to get your attention on the desirability in effect of reinstating Regulation W.

Secretary HUMPHREY. I do not think anything is required at the present time. I think it is the subject that should be given the most careful consideration. It is a thing that both Congress and the Executive should have before it for study and consideration, so that we will not be taken by surprise in any development that may occur.

But the results of our studies so far are, and my own belief is, that it would be more detrimental to do something about it at this time than it would be otherwise. I do not see enough of bad effect yet.

I do not see that it is in any way out of line sufficiently now so that I think that any action should be taken.

You take a great responsibility onto yourselves and off the people of the country when you tell a man he can't buy something or when you sit here in Washington and tell 167 million people what they can afford to buy.

I have great confidence in the American people. I think the 167 million people in this country collectively know more than any few of us here in Washington and I think you take a tremendous responsibility when you tell them they can't do something, they can't buy something, or that they are overextended in their credit; that they can't afford to pay the bills they have already contracted.

So that I think it is a thing that you have to do very, very cautiously and very slowly, and if the time comes when it is very apparent that something is going wrong, then it might be that Washington, that the Government should do something about it.

Representative BOLLING. Mr. Secretary, accepting that as the correct approach, and it is certainly an approach that would be used by this administration, what then would be the possible harm of having standby controls available when we all know that an emergency might arise at a time when Congress was not in session? And even if the Congress were in session, since this is a matter of considerable controversy, there would be a substantial lag.

Secretary HUMPHREY. Well, I think that is just a matter of degree. When a law of that kind is on the books and is in somebody's discretion to use, it is narrowing the discretion of who may use it.

If the law is not on the books it takes the discretion of the whole Congress to get it put on and the whole Congress with hearings and everything else has an opportunity to determine whether or not it shall be done.

If it is on the books, and it is, in somebody's discretion, then it is much narrower discretion than can put it into effect.

My own feeling about standby controls, as I have said many times, is that I think it is better not to have standby controls.

I think it is better to attempt to work out controls when you know the conditions that you have to meet, that you want the controls to operate on.

As to emergency, I testified previously I am sure that I think it might be a very good thing with some great emergency to have a power to put a 60- or 90-day freeze on everything. In the event of a very great emergency, that would give time enough, that would stabilize everything temporarily and give time enough for the Congress and the Executive at the time to meet and consider whatever the conditions were that controls were thought to take care of and to be necessary for.

And you could act in the light of conditions then existing and that everything would be held in status quo for that period.

Representative BOLLING. In the light of what you said then, I gather that it would be safe to assume when consumer credit is so significant a factor in the stability of the economy that it would be under constant study, would that not be so?

Secretary HUMPHREY. I think that is right. I think we all ought to keep track of it and keep it in mind and not be at any time taken by surprise by something that might occur.

Representative BOLLING. That would be a fact, anyway, because of its importance. We would have had it constantly under surveillance.

Secretary HUMPHREY. I think we should.

Representative BOLLING. Then what does this statement in the Economic Report mean?

Secretary HUMPHREY. I think it is just that. It is just that.

Representative BOLLING. That we should continue to do what we have already done?

Secretary HUMPHREY. That is right.

Representative BOLLING. In the last paragraph of your statement, the first page, there is this language:

> We, at long last, have proposed a balanced budget, the surest index to thrifty management in a home and business, or in the Federal Government.

And on page 7 of the state of the Union message there is a statement that over the long term a balanced budget is a sure index to thrifty management—in a home, in a business as in the Federal Government.

It occurs to me that there is a significant difference between the Budget of the Federal Government and the budget of a home.

I take it you do not feel that is the case.

Secretary HUMPHREY. I do not know just what it is. I think the same general principles apply to it. The Federal Government is simply made up of 167 million people and families and groups, and in homes.

Representative BOLLING. You do not feel that it would be very thrifty management on the part of the Federal Government at a time when we faced a declining economy to accept a deficit in the hope of perhaps giving that economy a boost back up?

Secretary HUMPHREY. I think you are talking about a condition that is paralleled in a home. When the home burns down or when there is a major operation or a terrible sickness or some terrible emergency in the home—and there are times in a home as well as in the Federal Government, when, perhaps, a balanced budget is not the desirable thing for a very temporary period—in a great war, for instance.

Representative BOLLING. Thank you, Mr. Secretary.

Chairman DOUGLAS. Technically, it is Congressman Talle's turn, but he has asked that his right be waived for the time being.

So I shall call on Congressman Curtis.

Representative TALLE. Correct.

Representative CURTIS. First, I want to take up one item that Congressman Patman has been developing because it involves the name of one of my constituents, Mr. Martin. I think anyone knowing him would recognize that no one could put him under pressure. I might also state that he is a good Democrat, if anybody is worried about the political implications of it.

I wondered, Mr. Secretary, along that line, did you ever have any Congressman try to put pressure on you? [Laughter.]

Secretary HUMPHREY. I plead the 14th amendment. [Laughter.]

Representative CURTIS. Well, at least, they tried to use some sweet reasoning from time to time.

I wanted to ask you and Mr. Burgess one question on the holdings of the public debt. I noticed that was your chart 11.

I was particularly interested in the Government investment accounts which you showed, for 1953, 48½ percent; 1954, 49.5 percent; and 1955, 51.5 percent, and then made the statement that you thought that would increase. I wanted to question you there.

Is that really the projection? I thought we were getting to the point with the social-security fund where from increasing it might start declining some.

Mr. BURGESS. Mr. Congressman, I hesitate to answer because your committee has been examining that pretty carefully and probably has better information than I have.

I think we have not yet reached the point where that begins.

Then, of course, there are certain other accounts in there besides social security. There is unemployment trust funds. There are the two Government life insurance accounts which continue to rise.

Representative CURTIS. You are dealing in percentages. Those were percentages, were they not, or were they?

Oh, I see they are billions. I beg your pardon. I am in error, because I was thinking in terms of percentage.

Secretary HUMPHREY. These are dollars.

Mr. BURGESS. These are dollars.

Representative CURTIS. The percentages would probably decline—the billions would increase.

Mr. BURGESS. I hope the percentages will increase because that might mean the whole debt would be getting a little smaller.

Representative CURTIS. That would be true, too.

Now, I want to direct the attention of my colleagues on the Democratic side of this committee again to the table in the Economic Report, No. 26 on page 204, to the wholesale price indexes.

I presume my colleagues are going to have questions each time with each witness, to try to point out that any stability in price has come from a combination of the increase in industrials and the decline in agriculturals.

Each time before I have tried to carefully point out that there are declines in other areas if they will look at the table—processed foods, chemical byproducts there is a decline, hide, skin, leather products, fuel, power and light, lighting materials, and then the miscellaneous categories.

So it is not all in one particular area. The rises and falls differ.

And also I think that it is pertinent to remark again that some of this increase in the industrials, of course, comes from increased wages which I think is all right, but in analyzing this thing we should recognize that.

The question I want to ask you, Mr. Secretary, is that part of this industrial rise could come from rather inflationary situation where we presently are experiencing insufficient supply of certain basic things like glass, nickel, cement, steel, and so forth.

I wonder if you do feel that there is a little bit of inflation as the result of more demand with the limited supply in those areas.

Secretary HUMPHREY. There is no doubt that there are certain commodities that are in short supply, where the prices have been pushed up and as the supply becomes more liberal that it will undoubtedly recede. It is a temporary situation in some commodities.

Representative CURTIS. Yes. I raised the question yesterday with Mr. Colm whether he had made the remark that he did not think our tax structure had been a real deterent on private capital formation.

I posed that question to him in the light of the limit that certainly it looks like we have increased production. The failure to have it could be from many sources, but it could be from a lack of capital formation, too, could it not?

Secretary HUMPHREY. I think that is undoubtedly a contributing factor. It is one of the great problems.

As industry has to expand and as our people expand and as we have to make more jobs and more and more jobs, we can't have a job without somebody saving some money and having some capital.

There is no job in America that does not require tools and investment to give that man a job to earn the kind of wages he gets in this country today, and that he ought to get in this country today.

He ought to have the tools and the power and he ought to have those things at his disposal in order to get a job and to make these high wages. He ought to keep getting better wages.

But to do that he has to get more tools and more investment and somebody has to save to do that and you have to have capital formation to supply it.

Representative CURTIS. These are two things we have to have, the consumer dollar and we certainly have to have the investment dollar.

Secretary HUMPHREY. We have to have them both.

Representative CURTIS. I think those things have to be weighed.

In regard to this farm economy, I still plead that this committee start digging into economic facts and get away from the surface political elements because after all farm income has been declining since the Revolutionary War in relation to our national income because our society has industrialized.

I think our farm population used to be 80 or 90 percent of our national population and now it is around 7 percent.

One important economic factor, and I think the one that is the most important from a political standpoint, using it in its broadest sense is the per capita income, that is, how well is the farm family getting along?

If the farm income declines and is divided up among fewer people who are engaged in farming, you have an economic trend that is, of course, of interest, but not so disturbing so far as the lifting of standards of our people is concerned.

Secretary HUMPHREY. That is exactly correct. The same thing is happening on the farms that is happening elsewhere in America and should happen.

The farmers are getting the benefit of more tools, of more mechanization, of more scientific developments, and it is raising the productivity of the individual and the individual farmer of today has a greater productivity than he had a good many years ago.

Representative CURTIS. Exactly.

Secretary HUMPHREY. And without that greater productivity he cannot get greater earnings and he cannot participate in this great advance that is going on all through the rest of this country where we are all advancing because individual productivity is being increased in all lines.

Representative CURTIS. And as his efficiency increases just as in industry the price of the product should reflect some of that increased efficiency and does.

Secretary HUMPHREY. That is right.

Representative CURTIS. I call attention to two other economic factors that I just want to bring out just for review a little bit.

One other basic economic factor is that a lot of what used to be farm business no longer is farm business; for instance, raising horses.

The horsepower that is used on the farm used to be horses. And now it is, of course, largely tractors.

So the farmers' business of raising horses is disappearing and, of course, the people who furnish the fuel for the present power on the farm are the oil and gas industries instead of the people raising oats.

That is, of course, a very important factor in considering this farm economy.

And finally, that factories are moving out into the rural areas is borne out by the fact that the farmer today derives, I think it is around—the last figure—32 percent of his income from nonagricultural pursuits—either his wife works in the cannery, or he works part time in the factory.

I think the question I would direct to you is this: When you said that the farm problem was something that we should be very definitely concerned about, and do something about, but you did not feel that it was really alarming—I gathered from your answer it comes from the fact that you regard a number of factors entering into this picture, not all of which affect the actual living standards of the man on the farm.

Secretary HUMPHREY. That is correct, Mr. Curtis, and I would just like to say this: Is it not a mighty good thing, to use your own language, that some of the boys that were raising horses on the farm are now raising horsepower in the motorcar plants?

Representative CURTIS. Yes.

Chairman DOUGLAS. Your time has expired, I regret to say.

Congressman Mills.

Representative MILLS. Mr. Secretary, as I said in other committees to you on occasions, I am certain we can approach considerations of this committee on an entirely nonpolitical basis, that you and I are thinking nonpolitically at least on economic matters.

I will follow my friend from Missouri's admonition to talk economics a little bit with you, rather than discuss politics.

There is a sentence at the top of page 76 of the President's Economic Report, in the first uncompleted paragraph on that page:

> Once a budgetary surplus comes definitely into sight and economic conditions continue to be favorable, we should begin reducing our huge public debt.

Mr. Secretary, that time has arrived, has it not?

Secretary HUMPHREY. I hope so. I do not know. We are estimating that it has arrived to a very minute degree and I hope that we will be right in our estimates.

Representative MILLS. I think the statement is widely accepted as being sound in all of its aspects. I am of the opinion that, perhaps, that time has arrived. I wanted to get your opinion as to whether or not it has.

Secretary HUMPHREY. We will know when the time arrives because then we will have some extra money in the till.

Until we get the extra money in the till the time has not arrived. We haven't got it yet, but I hope we will get it.

Representative MILLS. We can take certain courses of action, and provide that extra money in the till. That is what I am talking about, whether this is the time to do it.

Secretary HUMPHREY. Any way you can think of to do it will be very interesting to me.

Representative MILLS. Frankly, I have been just a little bit disappointed in the magnitude of the expenditures projected in the budget for 1957. Perhaps I am a little lacking in understanding in some respects.

I think when you accumulate debt or make debt, in times of war or in depression, that there must be a corresponding period in history when you can comfortably repay some of that debt.

And presumably that time would be in an era of peace and prosperity. Are we in such an era?

Secretary HUMPHREY. Yes, we are in that, Mr. Mills, and I can say to you that, generally speaking, I agree just 100 percent with you in everything you have said.

I am disappointed; and I think this is the right time, and I wish we could do it. That is generally speaking.

When you get down to specifics, and I have been down to specifics going through every Department of this Government, I cannot find where we can render the service that we should render to the public that they are demanding, where we can provide for the proper amount of the security that we should have in our security expenditures and spend less money than we have budgeted here.

I wish I knew where we could do it and do it properly, but I haven't been able to find it.

Representative MILLS. On the basis of the budget that is before the Congress and in the event that the Congress cannot reduce that budget, it would appear to be most impractical, would it not, from the viewpoint of economic growth and sound fiscal policy, to provide a tax reduction in a fiscal year when we are enjoying this degree of prosperity and continuing peace that will amount to any appreciable reduction in the overall burdens of individuals?

Secretary HUMPHRIES. Well, until, Mr. Mills, we have a surplus I do not think we can consider tax reduction at all. I think it would be the height of folly under present conditions to give a tax reduction out of borrowed money.

Representative MILLS. I agree with you.

Do you not think then if the Congress has the desire to reduce taxes for the coming fiscal year, that the Congress would have to find means of reducing the budget for fiscal year 1957?

Secretary HUMPHREY. Practically, that is the answer. Theoretically, of course, you get a surplus two ways: You get a surplus by both reduction of expenditures and an increase of revenues.

If there is some later increase in our revenues, or if our revenues increase over our estimates, or if there is some way to reduce our expenditures by elimination of items, which Congress could do, or by more efficient operation which the Department heads themselves might be able to do, to contribute, you could get a surplus in any of those ways which would raise the question of tax reduction.

But until you have that, until some of those things have come together to create that surplus, I do not think there is any question of tax reductions at all.

Representative MILLS. We are talking in terms of tax reduction with the continuation of the present degree of prosperity for a growing economy.

Secretary HUMPHREY. Talking about the present economy.

Representative MILLS. You are, I assume, acquainted with the report that a subcommittee of this committee made just prior to the first of the year. It was the conclusion of the subcommittee that if there continued this degree of economic activity, if the economy grows and expands and peace continues, that we should not materially reduce taxes—it would be better in our opinion to reduce the public debt with such surpluses as we might gather from either increased receipts, or reductions in expenditures, if those were possible in an era of peace and prosperity of this degree.

Do you agree with that conclusion?

Secretary HUMPHREY. I do not know that I would agree with it wholeheartedly or that I can agree with it completely unless there is a surplus.

If there is a surplus, I think before you can cross the bridge that you have crossed you must know how much that surplus is.

I will illustrate it by an absurdity. Suppose that these conditions that you have outlined would transpire to give us a surplus of $20 billion. I think that under those circumstances, to say there would be no tax reduction would be foolish.

On the other hand, if it comes out as we are estimating that it is $200 million, I say it would be just as foolish to think of a tax reduction under those circumstances.

Representative MILLS. Somewhere in the President's report I noticed he takes the position that when you accumulate deficits in certain years, then in the years ahead, in the next few years I think is the expression, the overall economic situation requires a repayment of some or all of that which you can accumulate. That is on page 73 of the President's Economic Report at the top of the page.

> Third, sufficient revenues should be raised to raise the Government's outlays, if not every individual year, then surely over a term of very few years.

Now, over a term of a very few years in the past, even beginning with the period of World War II, we have found it impossible or impractical to raise revenues sufficient to defray the cost of each individual year's operation and we have built up debt.

I know it is not an easy thing for you to handle at the present time.

If we have a sound philosophy for building for future prosperity, and I think we have, then it seems that we must sometime reach that period of a very few years within which we should begin to repay some of the debt that we could not pay in these past years.

Secretary HUMPHREY. I think it is just a matter of degree. And in general, I think I agree with you.

I think, of course, a series of continuing and increasing deficits would kill the goose that laid the golden egg. On the other hand, you have got to feed that goose if you want it to continue to lay those eggs.

I think it is just a matter of balance, and a matter of emphasis. depending very largely on the amounts involved and the conditions prevailing at the time.

First, there must be a surplus. Without a surplus you have got nothing to talk about under those conditions.

Now, then, if under these conditions you do have a surplus, then it becomes a matter of balance as to how that surplus will be used, how much of it will be used to pay down on your debt, or how much of it might be used to pay in tax reductions or a combination of the two. That depends both on the consideration of the conditions, and on the consideration of the amounts involved.

Representative MILLS. In that connection you would also want to consider, would you not, the question of whether the circumstances under which a tax reduction might occur would be inflationary?

Secretary HUMPHREY. That is right.

Representative MILLS. Or deflationary?

Secretary HUMPHREY. That is right. You have to take everything into consideration and reach a sensible, reasonable balance.

Representative MILLS. In the interest of economic growth, full employment, all of the various aspects that concern this committee, there might be circumstances in the months ahead that would justify a tax reduction even though it would be at the expense of an unbalanced budget; is that right?

Secretary HUMPHREY. I think that is a possibility. I think that that is regarded as a pretty easy road to take, and in most instances that should be avoided; but there again we are speculating on various conditions that do not confront us at the present time.

I really do not think it is very profitable to speculate on what you might do under various conditions that you do not know will ever occur.

Representative MILLS. In legislating we always have to take into consideration possibilities, as you know. You do it, too.

Secretary HUMPHREY. There is no occasion to legislate at all at the present time.

Representative MILLS. I think you and I are getting to the point that I wanted to and I am going to conclude our colloquy with this suggestion, to see if we could be together on it:

That certainly unless there are materially more surpluses than we see at the present time, unless there is a downturn in business activities of some sort, then it might be unwise to reduce taxes for the coming fiscal year unless expenditures and receipts vary materially from those projected in the budget.

Secretary HUMPHREY. That is right. Mr. Mills, our present estimates do not give any room for any tax reduction.

Representative MILLS. None at all?

Secretary HUMPHREY. Not at all, any at all. In fact, we will have to have a continuation of the taxes we have or we will not even have that.

Chairman DOUGLAS. We will next hear from Congressman Talle.

Representative TALLE. Mr. Humphrey, you said a moment ago you would plead the 14th amendment, in good humor. I want to report that over many years I have had a lot of pleas relating to the effects of the 16th amendment, with which you are so fully familiar.

I want to congratulate you, Mr. Secretary, on remarkable achievements. I have said repeatedly, over a long period, that the management of the finances of the Government of the United States is the most difficult financial task ever given to any person.

Is it not true, Mr. Secretary, that in managing our Federal Government finances you are obliged to take into account numerous factors including foreign currencies that are tied to the American dollar?

Secretary HUMPHREY. There is no doubt that conditions in other countries, and their financial affairs, can affect us, and that we have to take them into account.

Representative TALLE. I will not take any more time except to say it is a terrific assignment——

Secretary HUMPHREY. No doubt about it.

Representative TALLE. The debt is astronomical and the task is exceedingly difficult and I congratulate you.

Secretary HUMPHREY. Thank you very much.

Chairman DOUGLAS. The chairman would like to clear up a point on which there seems to be a misapprehension.

Congressman Curtis made the statement which had previously been made by Secretary Benson and others, that the per capita income of farmers from all sources had increased.

Secretary HUMPHREY. No.

Chairman DOUGLAS. Or had not gone down.

Secretary HUMPHREY. No, I do not think so.

Chairman DOUGLAS. Will you refer to——

Secretary HUMPHREY. I did not understand him to say that.

Chairman DOUGLAS. Page 181 of the Economic Report?

Representative CURTIS. I did not make that statement. I did not make such a statement, Mr. Chairman.

Chairman DOUGLAS. I thought you said that the per capita income had decreased.

Representative CURTIS. No, no, I have a statement on that. I made no reference to that. I said that was a thing that we should be concerned about.

Chairman DOUGLAS. It is a matter to be concerned about. I think we should invite the attention of the group to page 181 of the President's Economic Report, the last column which shows that in 1951, the per capita income from all sources was $977; in 1952, $949; in 1953, $918; 1954, $913; and in 1955, $856, showing the decrease in almost $100 from 1952 on.

I also invite the attention of the group to the final column showing the percentage of the per capita income which came from nonagricultural sources, and the group will take notice that this amounted to 23.7 percent in 1951, and 32.2 percent in 1955, or an increase of almost 9 percent or approximately $80.

So despite the fact that the farm family was getting $80 more from outside sources, its per capita income went down by almost $100, indicating that the decline in farm income per capita was even more marked.

This, I think, is extremely important and checks pretty roughly with the decline in income per farm from some $2,800 in 1952 to about $2,000 in 1955.

That is the first correction that I wanted to introduce into the record.

The second correction that I think should be made——

Representative CURTIS. That is not a correction. Mr. Chairman, that is no correction. I think you are pointing out something that is very important which I shall have comments to make on, too.

Chairman DOUGLAS. Very good.

The second comment that I should like to make is directed to the statement of the Secretary of the Treasury that we should not have a tax cut while we have a deficit.

I will merely remark that the $7½ billion tax cut in which the Treasury takes such great pride which was put through in 1954, took place in the year when the net budget receipts were 60.4 billion, and expenditures 64.6 billion, or a deficit of 4.2 billion.

So there is a slight inconsistentcy there.

Secretary HUMPHREY. Just a minute, please. I do not think you were listening very attentively when Mr. Mills and I were talking.

I did not say just what you have said now.

I said that what you had to do was to take into consideration all of the conditions that prevailed at the time.

And if you will recall, one of the important conditions that prevailed at the time we made the tax cut was that we had just made a saving in expenditures of as large an amount—having made a saving in expenditures.

Chairman DOUGLAS. You had a deficit for the coming year.

Secretary HUMPHREY. A contemporaneous saving in expenditures—just a minute now——

Chairman DOUGLAS. Just a minute, please, to you, sir.

Secretary HUMPHREY. When you are through I will talk.

Chairman DOUGLAS. No, while your expenditures went down, your receipts fell even more, so that the deficit was $4.2 billion.

Secretary HUMPHREY. Are you through? May I speak now?

Chairman DOUGLAS. Yes, I am through.

Secretary HUMPHREY. We made a reduction of about $10 billion that took place over a 2-year period. Between 7 and 8 billion dollars of that took place contemporaneously with the tax reduction of about an equivalent amount.

So that under those circumstances, I thought then, and I believe now, and I believe it is entirely consistant with everything I said to Mr. Mills, that a tax reduction was appropriate because we made the saving to pay it.

Chairman DOUGLAS. Have you finished now, sir?

Secretary HUMPHREY. I have finished.

Chairman DOUGLAS. Thank you.

Now, Mr. Humphrey, when I ceased questioning you before, I was pointing out that on the 12th of January, I addressed a letter to you regarding the assumptions underlying your 1957 budget estimates. Since major Government receipts come from taxes upon personal income and corporate profits and you proposed the tax rates should not be changed, therefore, your estimate of revenues was based upon your estimate of personal income and corporate profits. I now give you a copy of the letter which I received from you and ask you if you will identify it as being a correct statement.

Secretary HUMPHREY. Yes, this is, Mr. Chairman.

Chairman DOUGLAS. If you would retain that copy, and look at the second page—on the second page, what did you estimate the personal income for fiscal 1956–57 to be?

Secretary HUMPHREY. Personal income—well, this is for the calendar year 1956 that we are talking about?

Chairman DOUGLAS. That is true.

Secretary HUMPHREY. The estimated personal income for the calendar year 1956 at $312.5 billion.

Chairman DOUGLAS. Corporate?

Secretary HUMPHREY. And the corporate at $43 billion.

Chairman DOUGLAS. Now, Mr. Humphrey, if you will turn to page 175 of the Economic Report, would you read the figure in the last column of what personal income was in the fourth quarter of 1955—the last figure in the last column.

Secretary HUMPHREY. That is an estimate. It is not stated what it is.

Chairman DOUGLAS. It is not an estimate. It is a figure given by the Council of Economic Advisers.

Secretary HUMPHREY. It is an estimate.

Chairman DOUGLAS. Preliminary?

Secretary HUMPHREY. That is right. The only figures you have are the figures through the third quarter.

Chairman DOUGLAS. The fourth quarter was furnished to us as a preliminary figure?

Secretary HUMPHREY. Well, it is an estimate of what the figure will be.

Chairman DOUGLAS. Would you read it, please?

Secretary HUMPHREY. Yes; the estimate is $312.2 billion.

Chairman DOUGLAS. And you say that you estimate personal income for the calendar year 1956 at $312.5 billion?

Secretary HUMPHREY. For a whole calendar year—as compared with that quarter.

CHAIRMAN DOUGLAS. So that you have estimated personal income will not increase above the preliminary figure for the last quarter of 1955. Is that true, or it is not true?

Secretary HUMPHREY. I think that what we estimated is this.

Chairman DOUGLAS. Is that true or is that not true?

Secretary HUMPHREY. Let me just state it.

Chairman DOUGLAS. Mr. Secretary, I am not trying to badger you. Are not these figures identical?

Secretary HUMPHREY. You will have to let me make my own explanations.

Chairman DOUGLAS. Before you do this, let me ask you on the corporate profits.

If you will turn to page 223 on corporate profits, the first column, what was the preliminary figure for the fourth quarter on corporate profits as given to us by the Council of Economic Advisers?

Secretary HUMPHREY. What page?

Chairman DOUGLAS. First column, the last figure.

Secretary HUMPHREY. The third quarter was—which quarter do you want?

Chairman DOUGLAS. Either the third or fourth quarters—they are the same.

Secretary HUMPHREY. Corporate profits?

Chairman DOUGLAS. Yes, sir.

Secretary HUMPHREY. The third quarter was 44.5.

Chairman DOUGLAS. And the estimate for the fourth quarter?

Secretary HUMPHREY. The estimate was the same.

Chairman DOUGLAS. And your estimate for the calendar year 1956 was how much?

Secretary HUMPHREY. 43.

Chairman DOUGLAS. 43?

Secretary HUMPHREY. Yes.

Chairman DOUGLAS. So you estimate that for 1956 corporate profits will be less than for the third and fourth quarters of 1955, and that personal income will be approximately the same, is that true?

Secretary HUMPHREY. So far as the corporate figures are concerned, I am not at all sure. The fourth quarter is a figure that has very wide fluctuations in it and until we get those figures, I do not know what they will be.

Chairman DOUGLAS. Your figure is—I am not asking for the third quarter. We made preliminary estimates that the fourth quarter would be somewhat about that.

Secretary HUMPHREY. I would like to point out two things:

First, that the average on the individual, the 1955 income, assuming as high a figure or even a higher figure for the fourth quarter than is here estimated, the average will be about 302 for the whole year of 1955, and we are estimating about 312½, for the whole year of 1956.

In other words, we are estimating about a 3-percent increase from one year to the next year in personal income.

That is what our personal income-tax figure is based on.

Chairman DOUGLAS. At the same level or below the last quarter of 1955?

Secretary HUMPHREY. That is right. We are not talking about quarters—we are talking about years.

Chairman DOUGLAS. I am talking about quarters.

Secretary HUMPHREY. We are basing our estimate on the year of about a 3-percent increase in the year.

Chairman DOUGLAS. I am talking about quarters.

Secretary HUMPHREY. On personal income. Now, on the corporate——

Chairman DOUGLAS. I may say, Mr. Secretary, that these are seasonally adjusted annual rates so that you were in error in your "Meet the Press" interview saying that these fourth-quarter figures had a seasonal expansion in them. They are seasonally adjusted.

Secretary HUMPHREY. You may think so. I do not.

Chairman DOUGLAS. I simply take the figures from the Council of Economic Advisors. If you will look at the table, page 223, you will find it stated that they are seasonally adjusted, annual rates.

Secretary HUMPHREY. Now, just let me give you a few illustrations of what happens to these estimates. And I am referring now to the corporate figures and I will just take you back for a couple of years and let you see about how much reliance you put on these estimates.

Chairman DOUGLAS. I do not want to have you make an oration, Mr. Secretary. I want a response to my question.

Secretary HUMPHREY. I will answer your question.

Chairman DOUGLAS. I have a question that I am leading up to.

Secretary HUMPHREY. I have an answer I want to give you.

Chairman DOUGLAS. Well, I do not see what it applies to.

Secretary HUMPHREY. I will start with the estimate of 1950. The estimated corporate profits were $36.2 billion for the first three quarters. In January it was raised to $40.2 billion for the year.

The next year, in July of the following year, it was raised to $41.4 billion. Then the final figure that they gave out a year later, the present figure, is $44 billion.

Now let us take 1952. An estimate of $41 billion was made at the end of the year.

In January they published a figure of $40.8 billion.

The following July that was reduced to $39.2, and at present it is published at $35.9—down $4 billion to $5 billion.

Now, let us take 1953——

Chairman DOUGLAS. I must interrupt you at this point, Mr. Secretary, to say what I am trying to get at is your estimates.

Secretary HUMPHREY. I am giving you the estimates.

Chairman DOUGLAS. Your estimates for 1956 were as you stated and I am merely pointing out that your estimates for 1956 were the same as, or a little less than the past recorded history for the last quarter of 1955.

I am not going into the question as to whether forecasting is correct. I am merely pointing out that your estimate for the future is the same as the actual record for the last quarter of 1955. That is the point that I am trying to get at and which you seem to misunderstand.

Secretary HUMPHREY. I do not misunderstand it at all. I am explaining to you why it is that my estimates are different.

And I am trying to show you that by history those estimates have been so far off that they are of very little value.

Chairman DOUGLAS. In other words——

Secretary HUMPHREY. Just let me finish, if you please.

Chairman DOUGLAS. In a minute—I am a member of this meeting, too.

Secretary HUMPHREY. I am, too.

Chairman DOUGLAS. Mr. Humphrey, do you mean to say then that you do not place much reliance on your estimates for 1956?

Secretary HUMPHREY. I place more reliance on my 1956 estimates than I do on any others and I think that mine have been better—just a minute, please.

I think that mine have been better than the history shows others have been, and I think that ours have been better, with all due respect to you, than yours were, Senator, last year and the year before.

Chairman DOUGLAS. I will make a reply to that at an appropriate time. In the meantime, I must call time on myself. My time is up.

Secretary HUMPHREY. I am sorry, if I exhausted your time.

Chairman DOUGLAS. Mr. Wolcott.

Representative WOLCOTT. Mr. Chairman, and Mr. Secretary, just to break the tension, may we get back to this question of farm income? A question over which you have no jurisdiction. I do not expect you to answer it.

I am just throwing it in for an observation to develop a situation which has been a problem in the light of the decrease in farm income.

According to the Council of Economic Advisers, according to the Economic Indicators for which this committee is responsible, it is amazing to me to find that agricultural employment is greater now than it was in December 1954.

I would not expect you to answer why. Of course, we have an increase in agricultural employment of about 400,000 at a time when there has been as we all admit, a decided decrease in farm prices.

I would not expect you to comment upon that. I just throw it in for something that I think we should take into consideration in discussing farm prices, although at the same time, the number of farms in the United States has remained stable at just about 5 million.

Secretary HUMPHREY. I do not know, Mr. Wolcott, what the answer to that is.

Representative WOLCOTT. I think we should give it some consideration.

Secretary HUMPHREY. I do not really know what it is. We will try to find out and see if there is anything we can supply you.

Representative WOLCOTT. That is all.

Chairman DOUGLAS. Congressman Patman.

Vice Chairman PATMAN. Mr. Chairman, a while ago I think I used the wrong language when I said the Democrats started the farm decline. It was started under the Democrats, March 4, 1951, but in opposition to the administration in power. Mr. Truman was President of the United States at that time, and he had an agreement with the Open Market Committee that they would support Government obligations, but they defied Mr. Truman, and refused to do it. Mr. McCabe could not carry out Mr. Truman's policies and he resigned as a man with self-respect should do under those circumstances.

Mr. Truman then appointed from the Treasury Department a person who was certainly supposed to be in sympathy with the administration on supporting Government obligations, who was Mr. Martin. And Mr. Martin was normally expected to carry out the administration policy. But he did not carry out the administration's policy and he was so successful in being against it that he was acceptable to the Republicans when the Republicans came in.

As to whether or not he was a Democrat, I do not know, but I know he is quite acceptable to the Republicans—so acceptable, in fact, that they are willing to give him a new 14-year term.

I wanted to make it clear that I am not questioning Mr. Martin's capabilities. But his confirmation was coming up, and his name had not yet been submitted. He was Chairman of the Board and had served 1 year but he could not be Chairman any more, unless he got this reappointment. Since his reappointment had not been sent up and it was certainly a very appropriate time to put a little pressure on him or a little moral suasion used in order to get him to do this although I do not think Mr. Martin did it. I do not believe that the question was so important that he would.

Secretary HUMPHREY. I think you are right.

Vice Chairman PATMAN. Last year, Mr. Humphrey, when you had $100 million in bills due each week, did you not also buy $100 million extra that you did not need each week?

Secretary HUMPHREY. I do not know just what you are referring to. You mean to sell?

Vice Chairman PATMAN. Yes; I mean to sell.

Secretary HUMPHREY. Oh, sell. That is quite different.

Vice Chairman PATMAN. Excuse me.

Secretary HUMPHREY. There is quite a lot of difference.

No, what we were doing, Mr. Patman, was accumulating some funds in anticipation of needs a little later and doing it in this way so as not to disrupt the market.

Vice Chairman PATMAN. The answer is "Yes"? You sold $100 million extra every week?

Secretary HUMPHREY. In anticipation of needs.

Vice Chairman PATMAN. I am not talking about the reason—I am just asking, did you, the answer——

Secretary HUMPHREY. You asked the question if we sold more than we needed. I am saying we did not sell more than we needed. We sold more than we needed that day but to meet what we did meet a few days hence.

Vice Chairman PATMAN. I am talking about current needs. You sold more than you needed currently?

Secretary HUMPHREY. For a single day——

Vice Chairman PATMAN. Was not the effect of that to raise the interest rates on those very securities that you were selling?

Secretary HUMPHREY. I suppose that anything that adds to the supply of securities affects somewhat the market. To illustrate——

Vice Chairman PATMAN. I understand.

Secretary HUMPHREY. The more you put out the more it tends to raise the price.

Vice Chairman PATMAN. So your answer is "Yes."

Secretary HUMPHREY. By a very minute microscopic amount.

Vice Chairman PATMAN. I know, but $100 million a week.

Secretary HUMPHREY. That is pretty microscopic in the total picture.

Vice Chairman PATMAN. That is a pretty good size when you do it for 13 weeks. Did you not do it for 13 weeks?

Secretary HUMPHREY. Yes.

Vice Chairman PATMAN. That is 1,300 million. Whenever you just sell that many more securities, in 13 weeks, that is calculated to keep the market going up, is it not?

Secretary HUMPHREY. Well now, just a minute——

Vice Chairman PATMAN. It did go up and people had to pay more taxes in order to pay that extra interest; did they not?

Secretary HUMPHREY. May I answer that?

Vice Chairman PATMAN. Yes, sir.

Secretary HUMPHREY. That 1,300 million that we put out over 13 weeks would have had to be put out by the end of the 13 weeks anyway. If we had not done it during the 13 weeks—just a minute, please—and had done it at the end of the 13 weeks, we would have exactly the same amount of money, one way, as we would have had the other, and it would not have affected the interest any more.

Vice Chairman PATMAN. Which incidentally is one-fourth of a year you increased interest rates unnecessarily.

Secretary HUMPHREY. We exactly had the same demand in the market one way or the other. It didn't increase interest rates any more one way than the other.

Vice Chairman PATMAN. You admitted that it did increase interest rates and you admitted that you did not need it. It was a backlog. You were getting it for the future, not current needs. Therefore, it occurs to me that you just must admit that you deliberately and arbitrarily increased interest rates on those short-term securities.

I want to ask you about this installment credit, Mr. Humphrey. I find myself in agreement with you on that.

Secretary HUMPHREY. Good.

Vice Chairman PATMAN. We do not need this standby authority and we should not have it. And I oppose it.

I think we could have twice the amount of installment credit out today and not have any danger today—twice the amount. I hope that you stay by your convictions. I hope you do not let anybody use any moral suasion upon you to change your views. I think this regulation W is terrible.

Secretary HUMPHREY. I am very glad to have your support.

Vice Chairman PATMAN. I agree with you that if you want to sell me an automobile for 25 percent down and 26 months for the payments, why that is your business to sell and my business to buy. And no Government agency should be allowed to tell you that you have to charge one-third down and have to pay for it in 2 years. That is regimentation of the worst sort, I think. You talk about destruction of the private enterprise system, that would certainly be the entering wedge. I hope it is not done.

Installment buying to my mind is about the healthiest part of our economic system. As you know, our capitalistic system, which we all agree with and believe in, supports the finest banking system in the world. It is based on the debt.

I criticize the banking system but I am for it. I criticize the Federal Reserve System, but I am for it, too. It is all based on debt. If people do not go in debt you do not have any money to do business with. Do you agree with that?

Secretary HUMPHREY. Yes, sir; oftentimes that's true.

Vice Chairman PATMAN. Now then, we have about $704 billion in debts. We have to have more debts and not fewer debts—I believe you will agree with that—in order to have an expanding economy.

Do you not believe that installment buying, where people buy the necessaries of life—installment credit is the poor man's money—that if it should begin to go up to where it should alarm someone, the way to offset that would be to pay some on the national debt, so as to reduce the total aggregate debt, and thereby prevent inflation. Would not that be a good way to do it?

Secretary HUMPHREY. I think to pay something on the national debt is a very good thing to do under any circumstances.

Vice Chairman PATMAN. I agree with you on that; in fact, I have been advocating, and in fact, have been criticized for talking about tax reduction and not doing something about it. I think we should pay something on the national debt when times are good.

Do you not think, Mr. Humphrey, that installment buying should not be classified in considering inflation in the same way that you would classify borrowing money at a bank, for the reason that if you buy something on an installment basis you pay for it over a period of months. It is a matter between you and the person who sells it to you.

But now if you go to a bank, and you borrow the same amount of money, that has actually created that much money, and it will not stop there. It is placed to the credit of the person who borrows it and he gives checks and the credit has velocity, and will probably go to 20 and 30 and 40 people during the course of the year.

Do you not think that installment credit is preferable to that type of credit, which circulates 20 or 30 times a year?

Secretary HUMPHREY. I think that the advantage of installment credit is the fact that there are usually weekly or monthly payments and those keep whittling away at it currently so that it is more nearly paid off.

Vice Chairman PATMAN. My time has expired.

Chairman DOUGLAS. Senator Flanders.

Senator FLANDERS. Mr. Chairman, I feel moved to introduce a note of bipartisan humility into this discussion so far as farm prices are concerned.

When I look at page 24 of our monthly Economic Indicators, I note that neither Democrats nor Republicans have been able to favorably affect that declining line. And so let us have a little humility on both ends of this table.

That is all I wish to say.

Vice Chairman PATMAN. What page?

Senator FLANDERS. Page 24 of the Economic Indicator.

Chairman DOUGLAS. Mr. Bolling.

Representative BOLLING. I understand that the chairman will not be able to be here this afternoon and I ask unanimous consent that I be permitted to yield my 10 minutes to the chairman.

Chairman DOUGLAS. Is there any objection? I did not solicit this.

I appreciate the Christian virtue of humility that the Senator from Vermont has introduced. If he would look at page 24, opposite page 24, he will find that parity stood at 100 in 1952 and on December 15, 1955, it stood at 80.

So I would suggest that there is ample cause for humility, indeed, on one side of the House.

Senator FLANDERS. It was going down, however, all of the time.

Chairman DOUGLAS. And it was 107 in 1951, and 101 in——

Senator FLANDERS. At the beginning of 1951?

Chairman DOUGLAS. No—101 in 1950. We Democrats have never urged that the parity index be above 100.

But now I wanted to make a comment upon the consequences of the statement that the Secretary of the Treasury made.

He said, and I am sure that he prepared the estimates on the assumption that corporate incomes for 1956 would be somewhat less than the statement of the Council of Economic Advisers for the third quarter of 1955 and that personal incomes would be approximately at the same level as the fourth quarter of 1955.

I would like to point out, if his assumptions are correct, what the consequences of this will be.

We have every year about 750,000 new people entering the labor force. If personal incomes do not grow, then money incomes must be reduced or these 750,000 will not find employment and will join the unemployed raising unemployment from the present level to 3 million.

Furthermore, there is a long time increase of 3 percent per year in productivity per man-hour, which has gone on for many years, and which the Bureau of Labor Statistics has confirmed for the period from 1949 to 1955.

If personal incomes do not grow and if we have, at the same time a year of advance in productivity, as we all hope and believe we will, in a labor force of 65 million, this will produce the equivalent of an additional 2 million workers who will be unemployed.

If personal incomes do not increase, therefore, the increase in productivity per man-hour will either cause a reduction in average money incomes, or will displace 2 million workers more, sending the amount of unemployment up to approximately 5 million.

Therefore, while the adjectives which the Secretary of the Treasury uses are optimistic and while the Washington Post hailed the budget as a "prosperity" budget, I think that when one comes to the figures, unfortunately, the Secretary of the Treasury is extremely pessimistic and has become indeed a prophet of gloom and doom.

This is the only consequence which I can draw, assuming that his figures are made in good faith and, of course, I certainly do not want to question the good faith of the Secretary of the Treasury.

Secretary HUMPHREY. You will accord me the privilege of commenting on that?

Chairman DOUGLAS. I will give you the privilege of replying after I finish my statement.

Secretary HUMPHREY. Certainly.

Chairman DOUGLAS. A year ago, January 15, in your press conference on the 1956 budget, you showed no such conservatism.

At that time you stated that the revenue estimates for the fiscal year 1956 budget, assuming corporate profits were 38.5 billions or 4 percent above the fourth quarter rate of 1954 of 37; personal income for 1955 was estimated at 298.5 billion, or 9½ billion or 3.3 percent above the fourth quarter of 1954.

In other words, you assumed a growth for 1955 in excess of the fourth quarter of 1954.

But this year, you refuse to make any such assumption and you say the economy will level off. With new workers coming into the market and with increases in productivity per man-hour, this means increasing unemployment. Secretary Humphrey, I think you are really one of the pessimists and instead of your favorite poem being L'Allegro by John Milton, I think it should be Il Penseroso.

Secretary HUMPHREY. I assure you that I have no aspirations to displace you as a prophet of doom and gloom.

You are entitled to your own opinions as to my attitude, but I assure you that you are entirely mistaken.

I am not pessimistic. I am trying to be realistic.

I think these estimates are the very best estimates that we can make. I do not think they lead to your conclusions in any respect.

Chairman DOUGLAS. You assume a leveling off of the economy, then?

Secretary HUMPHREY. Not particularly, no. We are assuming about a 3 percent increase over the year, over the period of the year.

Chairman DOUGLAS. But a leveling off as compared to the third and fourth quarters?

Secretary HUMPHREY. I am talking about the whole year.

Chairman DOUGLAS. I am speaking of the third and fourth quarters.

Secretary HUMPHREY. I expect that the economy over the year will continue to rise, perhaps not as much as it has in the past. I think we had quite an important rise in the past year.

Chairman DOUGLAS. Will it rise in 1956 over the fourth quarter of 1955?

Secretary HUMPHREY. I think that we will continue to rise during the coming year, over the past year—it will be somewhat larger than 1955 in personal employment and I think our corporate profits will be about the same.

Chairman DOUGLAS. Will it be above the third quarter of 1955?

Secretary HUMPHREY. The corporate profits will be about the same for 1956 as in 1955.

Chairman DOUGLAS. Will be about the same as for the fourth quarter of 1955?

Secretary HUMPHREY. It will be about the same as last year.

Chairman DOUGLAS. I am speaking of the fourth quarter.

Secretary HUMPHREY. You do not know any more about the fourth quarter than I do and neither one of us knows anything about it because there are no figures on corporate profits out—until we get some figures to know what they are.

Chairman DOUGLAS. You will not accept the figures of the Council of Economic Advisers?

Secretary HUMPHREY. They are purely estimates and I do not think they can estimate corporate profits much closer than the rest of us.

We are all talking about figures that we do not know what they are. And they are figures, Mr. Chairman, that are revised downward 6 months later and a year later, and 2 years later, as shown by the figures I gave you a few minutes ago, in 3 years out of 4.

So I do not think we need to get too concerned about where we are being led by estimates of things that are yet to come.

Chairman DOUGLAS. Mr. Secretary, I would like to point out to you that the figures for the last quarter of 1955 given by the Council of Economic Advisers are the actual figures for October and November and the only estimate is for December. I think you will find that the December figure is to be out today.

Secretary HUMPHREY. On personal income, that is right.

Chairman DOUGLAS. And when the figure comes out——

Secretary HUMPHREY. It will be very close.

Chairman DOUGLAS. What you are likely to find is that it will be somewhat higher than stated here. So that you are assuming that the level for next year will really be below the fourth quarter of 1955.

Secretary HUMPHREY. The month of December?

Chairman DOUGLAS. October and November have already been given.

Secretary HUMPHREY. It will be below the month of December. I will give you the figures, if you have not got them in your mind.

For October, they were 309. For November, they were 311. For December, they may be somewhere anywhere from 314 to 315 or 315½.

As they come out that is about what I think they probably will be. And if you will average those out they will come out about 311½ to 312.

Chairman DOUGLAS. You are assuming that it will be virtually the same for calendar 1956?

Secretary HUMPHREY. We are estimating that the figure of about 302 for the year 1955 will wind up about 312.5 for the next year.

Chairman DOUGLAS. Again I want to point out that the Secretary is insisting on making these comparisons for 1956 for the whole year of 1955, whereas I am making my comparison for 1956 with the last quarter of 1955.

And I am pointing out that on the basis of the Secretary's assumptions, 750,000 more people are coming into the labor market, and with an increase in productivity of 3 percent per man-hour, unless personal and corporate income grows, the consequences of the Secretary's figures—the Secretary's figures—will give an unemployment close to 5 million people.

I want to say, Mr. Secretary, I am much more of an optimist on the future of America than you seem to be.

Secretary HUMPHREY. All I am trying to point out, Mr. Chairman, is that the error that you are making is in moving from your premise to your conclusion and I think you are entirely wrong.

Chairman DOUGLAS. We will terminate the questioning after the conclusion of Mr. Curtis' question and reconvene at 2:30 this afternoon.

Secretary HUMPHREY. I would like to know this. We did not make any plans to be here this afternoon. Mr. Burgess is leaving for New York, and I have an afternoon full. Can you give me an idea? I will be glad to try to do anything I can to accommodate the committee.

Vice Chairman PATMAN. Mr. Chairman, since the Secretary had not made plans to be here this afternoon and Mr. Burgess is going away, why can we not have another day? Now tomorrow is, of course, Saturday. You would not want to be up here on Saturday and I do not think the members would, either. What about some day next week, Mr. Secretary?

Secretary HUMPHREY. I will be glad to try to fit in some day next week.

Vice Chairman PATMAN. What is our program next week? Do we have a program all week or part of the time? What about Friday of next week?

Secretary HUMPHREY. I wonder if, perhaps, the clerk might try to work out a day next week that would suit your convenience after we all check our calendars and see where we are.

Vice Chairman PATMAN. What about the following week?

Mr. ENSLEY. Hearings are scheduled through Wednesday, February 15.

Vice Chairman PATMAN. What about making it February 16, Thursday?

Chairman DOUGLAS. Is that satisfactory to you?

Secretary HUMPHREY. I would have to check. I am afraid that is the week I am away. I am going to be away from the 14th to the 22d.

Vice Chairman PATMAN. We have got to get this in by March 1.

Secretary HUMPHREY. How much longer will you gentlemen want me? Maybe I can come back this afternoon.

Chairman DOUGLAS. I cannot tell, Mr. Secretary. For the record, I would like to say that in the letter which I addressed to you, and to the other witnesses, I stated that you will "be given 40 minutes to make your presentation and the balance of the morning and, if necessary, the afternoon will be given over to questions." So we asked for an option on the afternoons.

Secretary HUMPHREY. I know.

Chairman DOUGLAS. So that this is not something that we are springing on you suddenly.

Secretary HUMPHREY. I made my presentation in about 4 minutes instead of 40, which I thought would help to get it over with.

Mr. Chairman, if you can be here this afternoon I will try to come back for a while.

Representative WOLCOTT. You said that Mr. Curtis would be the last. Did I understand that was the ruling? Now, there are other members who have expressed the desire that they question the Secretary.

Vice Chairman PATMAN. We have all been restricted to 10 minutes, Mr. Wolcott.

Chairman DOUGLAS. The questioning moves back and forth.

Representative WOLCOTT. Those of us who were here have exhausted our 10-minute periods. I would still like to find out, and I think the chairman would like to find out how many members desire to extend their questioning who have not had an opportunity to do so.

Chairman DOUGLAS. May I say to my good friend from Michigan that no limitation is placed upon the total amount of questioning which any member of the committee can make. We aim merely to divide the time properly and equally between the two sides. Each member is allotted 10 minutes, but then when we make the round, we begin again until such time as the members have no further questions to ask.

Representative WOLCOTT. Until you finish?

Chairman DOUGLAS. Not until I have finished but until the subject is adequately covered.

Vice Chairman PATMAN. It will probably take Mr. Humphrey 10 or 15 minutes to answer my questions. I would not want to be bound by that because it all depends on how long he takes to answer.

Representative CURTIS. I can be done, I think, in 2 or 3 minutes. I just wanted to correct the record.

Secretary HUMPHREY. I am perfectly willing to stay right here. If you want to go on for another hour, that is perfectly agreeable to me.

Representative WOLCOTT. I find it inconvenient for me to be here this afternoon. Mr. Patman has suggested that we give some consideration to when we might be able to come back next week.

72738—56——15

Secretary HUMPHREY. We can stay right here until 1 o'clock.

Representative WOLCOTT. I think we should have in mind the fact that a recess of the House, if not of the Senate, starts next Wednesday.

Vice Chairman PATMAN. For one week.

Representative WOLCOTT. You can hear many of the witnesses following next Wednesday.

Vice Chairman PATMAN. Mr. Humphrey has offered to remain on here for a while. Let us see how we can get along.

Representative CURTIS. First, I think the Secretary was interrupted when he was trying to give his basis for revision of the fourth quarter estimates and rather than going into that question further, I would like to have unanimous consent that the Secretary may put those estimates, or rather those revisions in the record so that we can have them.

Vice Chairman PATMAN (presiding). Without objection it is so ordered.

(The information to be supplied is as follows:)

Corporate profits indicated or estimated in publications of the Council of Economic Advisers and the Department of Commerce

[In billions of dollars]

	Indicated or estimated in publications of the Council of Economic Advisers			Department of Commerce	
	December publication, average for first 3 quarters	December publication, average for year, taking 4th quarter as equal to 3d quarter	January or February publication, first estimate for year	As published in July of following year	As currently published
1950	36.2	37.6	40.2	41.4	40.0
1951	46.2	45.0	44.8	42.9	41.2
1952	41.1	41.0	40.8	39.2	35.9
1953	45.5	45.6	43.2	39.4	38.3
1954	[1] 34.2	[1] 34.0	[1] 35.0	34.0	34.0
1955	42.6	43.0	43.2	(2)	(2)

[1] Effects of Internal Revenue Code of 1954 not taken into account.
[2] Not available.

Source: Office of the Secretary of the Treasury, Analysis Staff, Tax Division, Jan. 25, 1956.

Representative CURTIS. I want to take up a point that the chairman was raising with regard to per capita farm income.

I am sorry that the chairman has left. I think we was under a misapprehension as to what I had said. He had heard me say before that the per capita farm income decline had been arrested and there was a slight gain which was true in certain periods of this last year.

To me it was a very important and significant factor. But the important factor is to review the entire table, D–16 on page 181, and take a look at the per capita income, say, from 1940 to 1955, and also notice the fluctuations, the tremendous increase in per capita farm income during the war periods.

You can always solve the farm problem by going to war, I think, because of the increased foreign demand for consumption of our farm products.

The farmers per capita income though, even with this decline, is comparable, in fact, a greater increase than the per capita national income which I think you can figure out on table D–13 on page 178.

Just to give the figures, the per capita farm income in 1940 was 262, raised to 836 in 1955.

Turning over to the table on page 178, D–13, the per capita disposable personal income of the national average was 576 in 1940, going up to 1,629 in 1955, which is a slightly less overall increase than the percentage was in the per capita farm income.

That does not mean—and I do not think anyone in this administration, certainly not myself, wants to minimize the decline we now are experiencing and have been experiencing since 1951 in farm incomes, but this committee in my judgment ought to get into the economics of this situation and get away from the politics.

There is plenty of opportunity for all of us here in this committee to do the politicking on the floor of the House and on the Senate floor.

But in these hearings, I am hopeful that we will resist that temptation and get down to considering economic factors and try to analyze this situation because it is only in that way, I submit, that we are going to really help the farmer.

I just wanted to clarify the record on that.

That is all, Mr. Chairman.

Vice Chairman PATMAN. Senator Fulbright.

Senator FULBRIGHT. Mr. Chairman, I have one item I would like to call to the attention of the Secretary with regard to small business, and its sad plight during the last few years.

I think the Secretary is familiar with some of the statistics, such as the increased bankruptcies in this field. I think they have gone up about 10 times in the last 10 or 12 years.

I am introducing two bills this afternoon, intended to be in the alternative, depending upon the conditions that are developed at the time of action on proposed extension of the present corporate rate.

I understand Senator Sparkman, who cosponsored this, mentioned it earlier in the hearing. I do not know whether or not he had the tables which had been prepared. I do not believe he did.

Senator SPARKMAN. I did not.

Senator FULBRIGHT. Could you express any view for or against such a proposal?

Secretary HUMPHREY. I said, Senator, that I just heard of this within a day or two, and that we were studying it and that I was not prepared to make any comment with respect to it until I had a chance to know more about where it might lead.

Senator FULBRIGHT. You would be sympathetic to something that can be done?

Secretary HUMPHREY. I said to Senator Sparkman that I am sympathetic to anything that will actually keep America the land of opportunity for the young man.

I believe that is fundamental in our whole society.

Senator FULBRIGHT. I would like to call attention, that is, your attention, to a part of the staff report "The Federal Revenue System: Facts and Problems," prepared for the Subcommittee on Tax Policy of the Joint Committee on the Economic Report, which is found at pages 80 through 84, and I read just a sentence:

> It is generally conceded that vigorous small business enterprises are vitally important to a healthy, competitive structure in our economy. Of particular importance is the rate at which new businesses are formed and their ability to survive and to become established as successful business units.

I introduced legislation in this field about 1948 and nearly every year since and it has received no consideration. Very few people remember that up until the Korean war the tax rate on small businesses was substantially less than it is today.

I believe the combined rate on $5,000 at that time was about 21 percent as against 30 percent which is the normal tax rate today.

I only want to emphasize that, since in the last few years, especially last year, some considerable changes have been made which benefited large business; but I know of nothing that affected the small business with incomes of $25,000 to $100,000 or $150,000. That was the reason for bringing it forward at this time.

The concessions made in the field of depreciation or quick amortization have very little, if any effect, on small business.

Secretary HUMPHREY. I would have to disagree very heartedly with you on that subject; but that has nothing to do with my desire to study your new proposal, to see where that would lead and to be favorable to it if it leads in the right direction.

Senator FULBRIGHT. What I meant by that, I did not mean that the law in its terms discriminates against small business. It is simply a factual matter. Very few companies of that small income are in position to take advantage of fast amortization.

I think that is in the nature of the thing.

Secretary HUMPHREY. I think you are a little confused in that. Our position did not have anything to do with the tax law. The thing in the tax law that was of great value to the small business is the change in the depreciation rate. It permitted small business a great advantage in the purchase of new equipment.

And it was a very desirable thing. I am sure you will find that if you investigate it was very helpful.

Senator FULBRIGHT. The rate of failures, certainly, has not been improved. That has gone up considerably.

Secretary HUMPHREY. That, of course, varies with conditions.

Senator FULBRIGHT. And the rate of mergers according to the Federal Trade Commission is higher than at any time in our history. I believe that the tax rate has much to do with it. Of course, it is emphasized by the figures which I presented in the statement which I would not bother to put in now, that the rate of profits of the large companies, the rate itself, is far higher than on the smaller, and that the small companies are gradually and progressively getting in worse and worse shape over the last several years.

Secretary HUMPHREY. I think the mergers, perhaps—the tax laws do affect the rate of mergers but I think perhaps the most important aspect of that are the estate taxes, which means as a rule that a small company is owned by a man or a family, and the estate taxes are so severe under present conditions that a man just cannot die owning a small business. He has to get some way to liquidate it.

It is a bad influence, there is no doubt about it. That has to do with the estate rather than corporate taxes.

Senator FULBRIGHT. I agree. I think that may have a very strong and disastrous effect in some instances, but the accumulation of reserves on which their survival is dependent is certainly influenced by the very heavy normal tax.

It seems to me that 30 percent on $5,000 is a far heavier real burden than 52 percent on the $1,189 million which General Motors made last year. I think they can absorb 52 percent and still have more than enough left to meet their competition.

Secretary HUMPHREY. You have an awful lot of people dependent on jobs under those circumstances.

Senator FULBRIGHT. Oh, sure, they are. But they still are permitted to absorb other companies and have actually done it just recently by the acquisition of the Euclid Co., which is one of the great companies in their field, but which I think has very little relation with the basic business of GM. The pressure on GM to invest six or seven hundred million dollars is pretty heavy.

I would not criticize them for it. I suppose it is the duty of Mr. Curtice to make as wise an investment as he can.

That is very different from the effect of the 30 percent on $5,000 which is in many cases the difference between survival and collapse.

And as 11,000 bankruptcies last year show, they are going out quite rapidly.

All I would like to do is to solicit your sympathic consideration to these two bills.

Secretary HUMPHREY. I am sure we will.

Senator FULBRIGHT. One would entail a decrease in tax receipts of between $200 million and $300 million. The other one, which would entail an additional 1 percentage point increase in the surtax, would, according to the staff estimate, result in an increase of $20 million.

So it is presented in that way.

I invite the Treasury's attention to them. It will always be very influential with the Committee on Finance. That is why I want to call it to your attention.

Secretary HUMPHREY. We will try to give it the very best advice we can.

Senator FULBRIGHT. Mr. Chairman, I think inasmuch as this was already raised I would like unanimous consent to insert at this point the 2 tables which after all are most significant showing the impact on the businesses of the 2 alternative proposals.

Vice Chairman PATMAN. Without objection, it is so ordered.

(The tables are as follows:)

EXHIBIT 1.—*Effect of a normal tax rate of 22 percent and a surtax rate of 30 percent*

Income subject to normal tax and surtax	Present tax liability (normal rate 30 percent, surtax rate 22 percent)	Proposed tax liability (normal rate 22 percent, surtax rate 30 percent)	Change	
			Amount	Percent
$5,000	$1, 500	$1, 100	−$400	−26. 7
$10,000	3, 000	2, 200	−800	−26. 7
$15,000	4, 500	3, 300	−1, 200	−26. 7
$20.000	6, 000	4, 400	−1, 600	−26. 7
$25,000	7, 500	5, 500	−2, 000	−26. 7
$50,000	20, 500	;18, 500	−2, 000	−9. 8
$100,000	46, 500	44, 500	−2, 000	−4. 3
$225,000	111, 500	109, 500	−2, 000	−1. 8
$500,000	254, 500	252, 500	−2, 000	−0. 8
$1,000,000	514, 500	512, 500	−2, 000	−0. 4
$10,000,000	5, 194, 500	5, 192, 500	−2, 000	−0. 04
$100,000,000	51, 994, 500	51, 992, 500	−2, 000	−0. 004

EXHIBIT 2.—*Effect of a normal tax rate of 22 percent and a surtax rate of 31 percent*

Income subject to normal tax and surtax	Present tax liability (normal rate 30 percent, surtax rate 22 percent)	Proposed tax liability (normal rate 22 percent, surtax rate 31 percent)	Change	
			Amount	Percent
$5,000	$1,500	$1,100	−$400	−26.7
$10,000	3,000	2,200	−800	−26.7
$15,000	4,500	3,300	−1,200	−26.7
$20,000	6,000	4,400	−1,600	−26.7
$25,000	7,500	5,500	−2,000	−26.7
$50,000	20,500	18,750	−1,750	−8.5
$100,000	46,500	45,250	−1,250	−2.7
$225,000	111,500	111,500	(1)	(1)
$500,000	254,500	257,250	+2,750	+1.1
$1,000,000	514,500	522,250	+7,750	+1.5
$10,000,000	5,194,500	5,292,250	+97,750	+1.9
$100,000,000	51,994,500	52,992,250	+997,750	+1.9

1 No change.

Senator FULBRIGHT. That is all.

Vice Chairman PATMAN. I am against an unbalanced budget this year, just as much as you are. Let us pay something on the national debt, too. I am not going to propose any bill that will cause the total amount of taxes to be lowered. I mean taxes collected.

Representative CURTIS. Mr. Chairman, I thought we were through. Under the Chairman's ruling it will not take me a minute.

Vice Chairman PATMAN. I will be glad to yield to the gentleman.

Representative CURTIS. I do not know which way we have been proceeding.

Vice Chairman PATMAN. I will not argue about it.

Representative CURTIS. It is just that it was pertinent to what Senator Fulbright stated.

Vice Chairman PATMAN. I will be glad to yield, anyway.

Representative CURTIS. I wanted to call attention, in line with Senator Fulbright's questioning, I was calling attention in view of your line of questioning, to the table, D–59, on page 231 of the Economic Report of the President and I think percentagewise, there is not any increase in number of failures of small business on that table.

It has been rather constant in number, and the formations of new businesses in the same table shows quite an increase.

So I think if we have the percentages worked out it would show a decline in percentage, even though there have been some fluctuations. That is on page 231, table D–59.

Senator FULBRIGHT. I have not seen that table but I have the figures. I agree with you that since 1952 the number of business firms as a whole has remained stable at about 4 million 2. And the growth has been stable.

But the actual bankruptcies have increased from 809 in 1945 to 11,000, in 1954, and our best estimate last year was nearly that amount, 10,800 and something. There has been an increase in the total number.

Representative CURTIS. There has been. But looking over the chart over a period of years which is table D–59 I think that is an interesting figure but I do not think it shows a trend.

I just wanted to point that out for the record.

Senator FULBRIGHT. Of course, I have a lot of statistics and arguments as to what is happening to small business which I did not think would be necessary to take the time of this committee.

I am going to make a speech on the floor of the Senate this afternoon. But I did want to mention this proposal, since the Secretary was here to raise the question for his consideration.

Representative CURTIS. Thank you, Mr. Chairman.

Vice Chairman PATMAN. I wanted to ask the Secretary some questions and I believe that Mr. Bolling wanted to ask some questions, Mr. Secretary, but he had to leave.

Would you consent to his submitting those questions in writing and then you answer them and put them in the record?

Secretary HUMPHREY. I will be very glad to.

Vice Chairman PATMAN. Without objection that will be done.

(The information referred to follows:)

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
February 6, 1956.

Hon. GEORGE M. HUMPHREY,
Secretary of the Treasury,
Washington, D. C.

DEAR MR. SECRETARY: As you know, I was unable to remain in attendance and complete my interrogation during the hearings of the Joint Committee on the Economic Report, Friday, February 3. However, unanimous consent was granted for my addressing additional questions to you. I would, therefore, appreciate your attention to the following:

In your discussion with Congressman Mills you emphasized your thought that we cannot consider tax reduction at all until we have a surplus in the budget. Is it, therefore, correct to assume that you will recommend tax reduction if economic activity in 1956 is at a higher level than implied in your estimates, resulting in a larger prospective budget surplus for the fiscal year 1957 than shown in the budget message?

When will you know whether you will recommend tax reductions? Will you recommend tax reduction if it appears that the budget surplus for fiscal 1957 will be $2 billion? Three billion dollars? Are there any other criteria, aside from the magnitude of the budget surplus, you would use in determining whether to recommend tax reductions?

I would like to have your reply by February 13.

Very truly yours,

RICHARD BOLLING.

THE SECRETARY OF THE TREASURY,
Washington, D. C., February 14, 1956.

Hon. RICHARD BOLLING,
House of Representatives,
Washington 25, D. C.

DEAR MR. BOLLING: This is in reply to your letter of February 6 asking whether it is correct to assume that I would recommend a tax reduction if economic activity in 1956 is at a higher level than implied in our estimates, resulting in a larger prospective budget surplus for the fiscal year 1956 than shown in the budget message.

I really don't believe I can add anything useful to the statement I made in answer to a question of Mr. Mills at the hearings on February 3 with reference to debt reduction and tax reduction. On page 419 of the verbatim transcript, I stated:

"I think it is just a matter of balance, and a matter of emphasis depending very largely on the amounts involved and the conditions prevailing at the time.

"First, there must be a surplus. Without a surplus you have got nothing to talk about under those conditions.

"Now then, if under these conditions you do have a surplus, then it becomes a matter of balance as to how that surplus will be used, how much of it will be used to pay down on your debt, or how much of it might be used to pay in tax reduction or a combination of the two. That depends both on the consideration of the conditions, and on the considerations of the amounts involved."

As indicated in the foregoing statement, careful consideration should be given to all of the conditions existing at the time a decision is made, but until there is assurance of a surplus available for the purpose—and there is no evidence of that now—there is no problem to consider.

Sincerely yours,

G. M. HUMPHREY.

(For additional references to assumptions see correspondence pp. 535, 536.)

Vice Chairman PATMAN. I want to proceed along the line of this question of installment buying just briefly.

In addition to the reasons that we discussed a while ago, I want to suggest for your consideration that for the Open Market Committee, of the Federal Reserve System and the Federal Reserve Board, in particular, to advocate even standby controls on installment buying, in view of the fact that the Board has not raised the margin requirement on stock purchases, that stocks can still be bought and paid for 70 percent down, amounts to almost hypocrisy. To think about stopping the poor man, the little man from buying the things that he needs badly, and to permit stock purchasing on margin.

Another thing, Mr. Secretary, there are enough banks outside of the Federal Reserve System whose business will aggregate, I imagine, about as much as installment buying is now.

I cannot understand how they can consistently advocate jumping on the poor man's installment buying and try to stop that, and not deal with other parts of our economy, where credit is just as large in amount, as installment buying. I refer to the banks that are not within the Federal Reserve System.

Would not the amount compare favorably with the amount of installment buying of the banks out of the system and the amount of installment buying?

Secretary HUMPHREY. I really could not answer that.

Vice Chairman PATMAN. Mr. Burgess, could you answer that?

Mr. BURGESS. I could not answer it offhand. We will be glad to furnish the figures for the record.

(The information to be supplied is as follows:)

Total consumer credit on November 30, 1955, amounted to $35.1 billion. Of this total, $27.2 billion represented installment credit, and $10.2 billion of this in turn was installment credit extended by commercial banks. Nearly all of this commercial bank installment credit was extended by banks which are members of the Federal Reserve System.

Total outstanding loans for all purposes for all commercial banks in the country amounted to $81.4 billion on November 30; $69.9 billion of these loans were accounted for by banks which are members of the Federal Reserve System.

Total stock market credit to customers in November 1955, as reported in the Federal Reserve Bulletin, amounted to $4 billion.

Vice Chairman PATMAN. Very well. How do you justify, Mr. Humphrey, saying that you are opposed to a graduated tax on corporations, and do not oppose a graduated tax on individuals, or do you?

Secretary HUMPHREY. No; I do not. I think they are quite different.

Vice Chairman PATMAN. You think they are quite different?

Secretary HUMPHREY. Yes.

Vice Chairman PATMAN. You are in favor of a graduated tax on individuals?

Secretary HUMPHREY. Within limits; yes.

Vice Chairman PATMAN. All right. One point I wanted to ask you, and then I will try to conclude. That is on what I consider to be a major point, and something that is really starting right now, and is likely, I think, to ruin the price system of our country.

And that is what I call costless capital. Utilities are allowed by the public service commission to pay all of their expenses, and materials, and taxes, and anything else, and then pay the stockholders a fair dividend, and that is all they can charge in the way of a price to the consumers. Now we have growing up in our country huge corporations, giant corporations that are not engaged in a truly competitive business, wherein they would be justified in charging all the traffic would bear in prices. They are not justified in doing that, because they are not in a competitive market, but just charge the consumers what they want to. Last year the records disclose some corporations collected not only expenses, which corporations should collect, for materials, wages, taxes, and a certain amount for obsolescence, depreciation, and paying dividends, plus a reasonable amount to shareholders, but they charged $23 billion more than all that to the American consumer.

That means $135.50 per capita. So it is not chickenfeed. It is really something. They charged that much extra, more than they would have been allowed to charge if they had some public service commission overseeing their prices. I am not advocating such control, but the point is, that on this $23 billion they had to pay 52 percent taxes and still had $11 billion left. That capital to them was costless. It did not cost them a penny.

It occurs to me that is disruptive and destructive to the private enterprise system, particularly to the small concern. The small concern must go into the market place and borrow its money and pay interest on it, and finds itself in competition with the outlet of the large concern across the street that is using costless capital from the public.

What is your recommendation on that? Do you think there is any harm there? Do you see any evil or do you see anything that should be corrected?

Secretary HUMPHREY. No; I think it is a very wholesome thing. I think it is a very wholesome thing for a company to pay out only a part of its earnings and to use the other part to keep improving its position. And I think, if you want the best illustration you can have as to what happens when you do not keep modern and keep improving and keep moving up by the investment of additional funds, look at what happened in England.

Vice Chairman PATMAN. I know; but let us get down to this one point, Mr. Humphrey. The one point that I am asking you about, as to whether or not the American consumer should have enough added to the prices of the thing that he buys to give them money for their expansion and investment capital.

Secretary HUMPHREY. What happens, Mr. Patman, is just this, that by the use of part of these earnings for the modernization of plants and for the putting in of new improvements and for the conduct of research and the development of new and better ways of doing things, the American consumer is benefiting very greatly because he gets his products over a period of time at a cheaper price.

Vice Chairman PATMAN. I am not arguing that, but is the principle sound of an industry raising its prices solely for the benefit of getting expansion capital from the consumer?

Secretary HUMPHREY. That depends upon the competitive conditions.

Vice Chairman PATMAN. There is no competition in steel.

Secretary HUMPHREY. You ought to get in it for a little while.

Vice Chairman PATMAN. Let us take the facts. When any industry can raise its price when it is only 70 percent in production, there is no competition. They could not raise it when they are not producing 100 percent. There is no competition pricewise in automobiles, I do not think. Pricewise I am talking about.

There are a lot of things such as aluminum, there is no competition pricewise.

We have got to do one of two things: We have to do something to keep them from getting their expansion capital out of the consumer price or we have to encourage and build up smaller concerns, competitive businesses, so they cannot charge all the traffic will bear.

Secretary HUMPHREY. You and I both ought to get out of Government and go back in some of these businesses and you be a salesman for me and find out whether there is competition or not.

Vice Chairman PATMAN. I am afraid I have passed that age. I just feel like we have a serious question there. It is disturbing to me. It is shocking. When I see some of the biggest concerns in America give out a statement, "We are raising our prices so that we will have more expansion capital," it occurs to me that is fundamentally wrong, almost bordering on dishonesty.

To raise their prices solely for the purpose of taking the money away from the consumer, and the consumer that furnishes that extra money gets no interest in the business, whereas if we carried out the private enterprise system, they would go into the marketplace and borrow that money and the savers would be allowed the privilege of investing in their stocks and bonds. When they put up the extra money it would not be an involuntary assessment but an investment from which they would receive returns.

Secretary HUMPHREY. You have to have pretty good earnings if you borrow money.

Vice Chairman PATMAN. These concerns that can fix these prices, they can get certainly all they want and probably at a cheaper rate than the Government is getting it now.

Mr. BURGESS. Certainly not.

Representative WOLCOTT. I think that you and I representing the committee should express our appreciation in behalf of the committee to the Secretary for his very valuable contribution.

Vice Chairman PATMAN. Although we have asked you some questions that were rather sharp, there is nothing personal in our statements.

Secretary HUMPHREY. I have had a great experience this morning. To be in accord with you is a wonderful feeling and I appreciate it very much.

Vice Chairman PATMAN. We have a high respect for you gentlemen. We will give all of the members permission, if it is all right with you, to ask any questions before the record is closed, and you will give the replies.

Secretary HUMPHREY. We will be glad to do that.

Vice Chairman PATMAN. Without objection, the commitee will recess until Monday morning at 10 o'clock in this room.

(Whereupon, at 1 p. m., the committee adjourned to reconvene at 10:05 a. m., Monday, February 6, 1955.)

JANUARY 1956 ECONOMIC REPORT OF THE PRESIDENT

MONDAY, FEBRUARY 6, 1956

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

The Joint Committee met, pursuant to recess, at 10:05 a. m., in the Old Supreme Court Chamber, United States Capitol Building, Washington, D. C., Hon. Richard Bolling presiding.

Present: Representatives Bolling (presiding), Mills, Talle, and Curtis.

Also present: Grover W. Ensley, executive director, and John W. Lehman, clerk.

Representative BOLLING. The committee will be in order.

Our witness today is Mr. Randolph E. Paul.

Mr. Paul, I understand that you have a longer statement than the one which you will read, and without objection, that will be inserted in the record.

You may proceed as you wish.

STATEMENT OF RANDOLPH E. PAUL, ATTORNEY, NEW YORK, N. Y., AND WASHINGTON, D. C.

Mr. PAUL. My name is Randolph E. Paul. I am a lawyer engaged in the practice of tax law with offices at 575 Madison Avenue, New York, N. Y., and 1614 I Street NW., Washington, D. C.

It goes almost without saying that the fiscal policy of the Federal Government has tremendous impact upon virtually every aspect of the Nation's economic activity. The study conducted by this committee's Subcommittee on Tax Policy during the year just ended pointed out that the relationship of Government revenues to Government expenditures has a substantial effect upon the overall level of economic activity. It also observed that the way in which the revenues are raised has a direct and important bearing on the efficiency with which our productive resources are used, on the relative rates of growth of various industries, and on the competitive positions of new and small as against established and large enterprises. In short, the subcommittee's study has served to highlight in dramatic fashion the inescapable fact that the Federal Government's fiscal policies significantly affect the economic well-being of the Nation. Those policies, therefore, rank with the conduct of foreign affairs and the maintenance of national defense as an area of intensely important public interest.

I take it that my job here today is to suggest ways in which fiscal policy may be made an effective and constructive instrument for attaining the objectives of the Employment Act of 1946, particularly as those objectives relate to steady and sustainable economic growth. Without appropriate standards, fiscal policy will be only haphazardly related to those objectives. It may even be a barrier. Formulated in the light of appropriate standards, as I hope it may be, our fiscal policy will help us to achieve an economic growth which will keep pace with our potentialities.

One fundamental fiscal policy problem derives from the fact that the American public calls upon the Federal Government to perform certain functions and provide certain services on its behalf. In performing these functions and services the Government must use some of the resources available in the economy and must finance the acquisition of these resources. It must do these things with minimal dislocation of the nongovernmental sector of the economy. Fiscal policy is concerned with the basic framework of decisions as to which functions the Government will perform, the way it will finance these functions, and the relationship of the one to the other.

To formulate standards with respect to the spending activities of the Federal Government is an undertaking which I approach with humility. My first general proposition, on which we are all agreed, I am sure, is that Government spending programs should be free of waste. All of us who are basically biased in favor of a free enterprise economy will, I imagine, readily agree to a second proposition. That proposition is that the Government should not spend money doing things which private individuals and corporations want to do and can do more efficiently than the Government.

But even though we may note this area of general agreement, we still have the question: How much should the Federal Government spend and on what should it spend what it may spend? The answer to this question involves a system of priorities established by the Nation as a whole and tested periodically through the electoral and legislative processes.

I doubt if there is much disagreement about the basic framework of an acceptable system of priorities. First, as a nation we have the right peacefully to determine our future and the obligation to assist others whose persuasions are similar to ours. It follows in my mind that we should give top priority to national security, devoting whatever resources may be required to give us maximum safety and an assurance of peace in the entire world. On balance, the developments in the last few years offer us little, if any, reason to act upon the belief that there has been any reduction in the magnitude of this undertaking. On the contrary, technological developments would indicate that difficulties have increased rather than decreased.

I confess that the contraction in recent years of our budget for national security makes me vaguely uncomfortable. Of course, like most laymen, I have no basis for determining from budget data whether our national security programs are adequate. Moreover, I am not sure that historical comparisons of budget expenditures are relevant. The critical question, rather, is where we stand in a military sense relative to Russia. Whether the proposed expenditures for fiscal 1957 are adequate in this context is a question as to which the Congres should, and no doubt will, seek enlightenment.

Another major persuasion of the American people seems to me to give high priority to certain civil functions of the Federal Government. The lack of these facilities and programs could be a major stumbling block along the path of economic growth. As the President's economic report states:

> Action in these vital areas has lagged sadly behind our accumulating needs. If economic growth is not to be seriously retarded in the future, we must * * * strive to make up for the neglects of the past.

In the aggregate, civilian needs have been rising with a big increase in the population and with the growing complexity and interdependence of our industrial economy. Altogether, a continued deepening of our school shortages, a marked disparity between our health standards and potential health levels, the spread of slums and city blight, repeated flood disasters, unsatisfactory development of our natural resources, a developing inadequacy of our highway plans, and our failure sufficiently to cope with many problems affecting our low-income population testify eloquently to the extent to which the Federal Government, in partnership with State and local governments and private enterprise, has fallen behind schedule.

Of course, enthusiasm for these expenditure programs must face the question: What can we afford? But the correct answer to this question cannot come from a projection of anticipated tax revenues at existing tax rates. To determine expenditure programs in these terms would be to ignore the responsibility of the Federal Government for contributing both to economic stabilization and growth.

Rather, the correct answer must be sought in terms of the inescapable fact that at any moment in time, a limited amount of resources is available to meet our total demands, both governmental and private. When these resources are being fully utilized, the decision to devote more of them to fulfilling governmental programs is necessarily a simultaneous decision to devote fewer of them to private spending programs.

Whether we can afford to enlarge Federal expenditures to meet higher standards in national security and civilian programs depends on the relative importance we attach to these programs as compared with private programs. In an expanding economy such as ours, this statement does not necessarily imply an absolute decrease in levels of spending, either for private consumption or for private investment. Rather, it may mean that we would accept a somewhat lower rate of increase in the level of private spending.

I should, therefore, like to suggest that we place a somewhat higher priority on the Government programs I have described and a somewhat lower priority on private spending.

Since the end of World War II the Nation has made remarkable progress toward the goal of meeting our private material needs. We have, however, been sacrificing our public material needs, and many items of cultural development. I am not suggesting that we should try to compensate in one budget for the deficiencies of 15 years. But the time has come, I think, to devote a part, at least, of any surplus revenues that may develop to these other prerequisites to economic growth. In the context of our needs they have a better claim than tax reduction or debt reduction.

So far I have dealt with questions of Federal spending and relative priorities in that area. The next basic question is how the Government should finance its spending.

We are all probably pretty much in agreement about the fundamental standards which should determine the answer to this question. Stating that standard in simple terms, the Government should so finance any given level of expenditures as to assure "full" use of resources without undue pressure on the general level of prices. Our financing program, so designed, will make a positive contribution to economic stabilization and growth.

Once we have in mind a given level of Government expenditures, the application of the general standard I have stated involves appraisal of the present overall level of economic activity and a judgment as to the direction in which that activity is moving. If the economy is moving upward at too rapid a rate, as reflected in rising price levels, there should be an increase in the surplus or a shift from deficit financing toward a surplus. By the same token, if the economy is contracting, or not expanding rapidly enough to assure full use of available resources, there should be a reduction in tax revenue relative to Government spending. Such a reduction will result in a lowering of Government surplus or even in a deficit. To some extent these adjustments in tax revenue take place automatically by reason of the built-in flexibility incorporated in our revenue system. However, automatic adjustments will not always be adequate to secure continuing stabilization and full employment. Explicit action by the Congress may at times be required.

I am afraid that the President's state of the Union message, his budget message, and his economic report do not fully apply these principles. The reasoning of the first two documents permits the possibility of tax reduction if the present boom gives us higher tax yields. I would suggest that lower tax yield would constitute a wiser basis for tax reduction.

If the present boom continues and provides higher revenues, tax reduction would be highly inadvisable. The economic report may perhaps leave the door open for the position that taxes may have to be reduced if economic expansion should slacken. However, it fails to say so specifically. There is in none of the three documents a clear recognition of the principle that the dictates precluding operating at a deficit in a period of high prosperity also call for tax adjustments designed to counteract any serious recessionary movement.

This is a serious omission. We cannot expect to continue to balance the budget if the economy should slacken its pace or fail to grow at the necessary rate. Such a posture of the economy calls for increased demand just as the present situation calls for the maintenance of taxes at their existing level.

In last year's economic report the President did not fail to make this point. He stated that deficits may be called for at times, and surpluses at other times, in the following language:

> Properly coordinated with other measures, a reduction of expenditure or increase in taxes can restrain inflationary tendencies, just as a reduction of taxes or increase in expenditure can at times be an effective check on recessionary forces. There will, therefore, be occasions when the Government's accounts are out of balance in one direction or the other.

I hope that this policy has not been changed.

In applying the standards I have stated as being relevant to the determination of how the Government should finance its spending, it is necessary first to focus upon the economic outlook. I believe that it is still too early to make any reliable estimates with respect to the overall level of economic activity for the year 1956. Until the economic outlook appears in sharper perspective, all we can do is to make alternative assumptions and prepare for whatever may develop.

One assumption we might make is that the economic trend of 1955 will continue through 1956. If there are no changes in tax rates, this will mean a continuing increase in the budget surplus even with the slightly higher level of Government expenditures set forth in the budget message. We should soon be able to determine whether that surplus is adequate to prevent a general rise in prices. If not, it would be desirable either to increase revenues or apply the surplus to the retirement of the bank-held Federal debt, or both. Under this assumption, responsible fiscal policy would require that we forego any overall reduction in Federal revenue.

Alternatively, we may assume that economic activity will tend to level off at the rate prevailing at the end of 1955. If we take into account an expected increase in labor force and in productivity, this assumption means the development of some slack in the economy with a higher rate of unemployment.

If the slack were to grow to large proportions, as evidenced, for example, by an unemployment rate significantly above 4 percent, sound fiscal policy would call for some reduction in tax revenues relative to spending unless there were persuasive reasons to believe that the slack would be very short lived and that it would be followed during the year by resumption of a healthy growth trend.

It would be unrealistic to deny that tax reduction is an attractive idea. But I think we should resort to tax reduction this year only if it appears more than probable that the level of tax revenues is so high in relation to the level of Government expenditures as to prevent full use of resources and continued economic growth—or, in previously stated terms, if a serious slack develops in the economy.

As I have tried to suggest, sound and appropriate standards of fiscal policy preclude a tax reduction at this time. In this respect I agree with the recommendations of the state of the Union message, the budget message, and the President's Economic Report. As I have indicated, there is a possibility that we may later in the present session need tax reduction for the benefit of the economy. But in many areas there is much room in our Federal tax system for improvement. Some of the many necessary revisions could be accomplished within the present revenue framework. It would, therefore, be appropriate at this time to consider the possibility of a revision of the tax structure either without tax reduction or in connection with any tax reduction which may become necessary.

The papers filed with this committee's Subcommittee on Tax Policy and the hearings held by that subcommittee in December 1955, brought forth a number of areas of difficulty which should receive the careful attention of Congress at this time, even if it proves inadvisable to reduce taxes this year. Our Federal tax law contains many discriminations. In some respects it can also be made to contribute more to economic stabilization and to a balanced growth of the economy.

I take it to be a fundamental precept that a tax system should do equity in the sense of treating alike taxpayers who are in an economic sense similarly situated. This precept has particular importance where rates are as high as they now are. For one thing, the success of a voluntary assessment system depend to a high degree upon the good will of taxpayers. Discriminations also make the tax system more complicated and difficult to understand. A major vice of inequality is that one discrimination in favor of a particular group of taxpayers inevitably leads to another discrimination in favor of another group, with a consequent continuous erosion of the tax base. This erosion has already reached startling proportions, as is pointed out in your Tax Policy Subcommittee's report.

Another weakness of our existing tax system is that to an alarming extent it lacks the progressivity it pretends to have. Substantial progressivity is necessary, both to provide automatic buildin flexibility and to distribute our heavy tax burden on the basis of ability to pay. Taken as a whole, the system shows only a very modest degree of progression in relation to incomes of less than $10,000. If we take State and local government taxes into account, there is at least a further reduction of the modest progression contained in the Federal system.

For 1953, the last year for which estimates are available, 63 million out of 77 million taxpayers paid tax at the first bracket rate. I am counting married couples filing joint returns as two taxpayers, each with half the combined income, in that statement. For these taxpayers the exemptions were the only factor of progressivity. For taxpayers in the lower and middle range of the income scale, the exemptions are probably the all-important factor of progressivity.

Moving to the whole income range, recent data show that no more than 18 percent of the total yield of the individual income tax was provided by graduation above the first bracket.

The complaints of many critics of our tax system call attention to the high rates of tax supposedly affecting taxpayers with high incomes. Section 1 of the 1954 code does reach a top marginal rate of 91 percent and a top effective rate of 87 percent. But evidence is available that very few taxpayers pay tax at these rates on much of their income, and that most taxpayers in the high brackets pay tax at an effective rate far below 87 percent. The actual effective rates of income tax for 1952 for taxpayers with incomes above $100,000 was 53.4 percent of adjusted gross income, which does not include half of net capital gains. Moreover, if it were possible to take full account of various items of income not included in the statutory concept of taxable income and certain deductions which exceed actual cost, the average effective rate of tax paid by taxpayers with incomes above $100,000 would be well below 45 percent. This lack of progression obtains all the way up to incomes of $5 million.

It must be added that there are some groups to whom the upper rate brackets enumerated in section 1 of the Internal Revenue Code apply. The upper brackets apply to some high-salaried taxpayers, a number of professional taxpayers, some entertainers, and a few others. These taxpayers are unable to reap much advantage from available tax-avoidance techniques. Thus, there is discrimination not only as between low- and those high-bracket taxpayers who do not pay at the high rates enumerated in section 1 of the Internal Revenue Code, but also among various groups of high bracket taxpayers.

The report of the Subcommittee on Tax Policy pointed out the desirability of improving built-in flexibility in the Federal revenue system. Built-in flexibility, of course, refers to the tendency of tax yields at constant rates to fluctuate in response to changes in the level of economic activity, thereby helping to moderate or offset those economic changes. The advantage of built-in flexibility in the light of the objectives of the Employment Act is that it lessens the necessity for explicit action by Congress and the administration to combat these fluctuations. It is recognized that built-in flexibility cannot be achieved to the degree required to eliminate completely the need for action by the Congress and the executive department.

The Tax Policy Subcommittee's report shows also that the principal components of the Federal tax system affording built-in flexibility are the individual and corporate income taxes. Excises, employment, and estate and gift taxes at best make minor contributions. The extent of built-in flexibility in the individual income tax—the most important component of the tax system—is actually quite modest. It has been estimated that the built-in flexibility of the income tax is between 0.15 and 0.16—that is, the individual income tax will automatically offset \$1.5 billion or \$1.6 billion of a \$10 billion decline in total adjusted gross income. It would be an important achievement in terms of the objectives of the Employment Act to improve this built-in flexibility ratio.

We should be continuously alert in connection with private sectors of the economy to signs of uneven advance in our capacity to produce and to consume our national product. The President's Economic Report observes quite correctly, I think, that the dynamic quality of the American economy largely accounts for the ever-present possibility that the flow of money against goods need not match precisely the rate at which goods leave workshops for markets.

While this is a fact of economic life, it is still necessary to be sure at all times that public policy, particularly tax policy, does not produce a greater, more frequent, or more prolonged imbalance than would otherwise occur. In this context it is necessary to take care that our tax structure promotes a working balance between capital accumulation and current consumption.

Since much has been done in the past 3 years to encourage business investment, we should perhaps be ready with appropriate tax reductions to buttress consumer demand if and when the need is felt. The recent decline in housing expenditures and automobile purchases, discussed in the Economic Report, may not be offset by increases in consumer spending for other goods and services. In that event, tax reductions designed to maintain the growth of consumer expenditures would be in order.

There is also need for an alert attitude toward signs of unevenness in the rate of economic growth as among various channels of commerce and industrial activity. In a dynamic economy we cannot expect growth among all these channels to be completely even. But we can from time to time inquire whether any apparent unevenness is merely a reflection of changing conditions of demand, supply, and technology, or is the product of other causes which should not be in operation. There is a constant necessity to avoid using tax policy as a means of preferring one type of activity to another. As your Tax Policy Subcommittee's recent report, pointed out, preferential tax treatment afforded any group in the economy "necessarily implies a value judgment with respect to the type of economic activity most

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essential to the process of economic growth. We must be keenly sensitive to the weight of responsibility we assume if such decisions, which traditionally we are inclined to leave to the mechanism of the price system in the market, are made. Errors in making these value judgments may prove very costly in terms of the efficiency with which scarce economic resources are used and therefore in terms of the growth in living standards and productive capacity of which the economy is capable."

I shall now attempt the perilous venture of making some suggestions for the constructive revision of our Federal tax structure. Before I do so, I want to restate an important ground rule. It is a two-ply rule. In its first part it assumes that any tax-adjustment program attempted should at the least maintain present levels of revenue if the economy continues to grow this year at a satisfactory rate. In its second part it assumes that overall revenue reduction will be advisable and even necessary if economic activity persistently fails to achieve the levels required for fulfillment of the Employment Act objectives.

This second part of the ground rule, which is not articulated in the state of the Union message and budget message, is to my mind as important as the first part.

I believe that there is a compelling requirement for revision of the individual income tax in the direction of increased progression. Most taxpayers are in the first taxable income-tax bracket. If we want to keep them on the rolls, it follows that an increase in progression for these taxpayers would require a splitting in some way of the present first bracket, which is $2,000 for a single person and $4,000 for married taxpayers filing joint returns. Once it is decided to split the first bracket, a lower starting rate can be provided for the resulting bottom bracket.

The revenue loss involved in this proposal would be about $600 million for each point by which the new first bracket rate was reduced below the present 20 percent initial rate. For example, if the new starting rate were at 15 percent on the first $1,000 of taxable income for single persons and the first $2,000 in the case of joint returns, the Treasury would receive about $3 billion less revenue. The tax savings per return would reach a maximum of $50 when taxable income was $1,000 or more for single persons, and $100 when taxable income was $2,000 or more for married couples.

At the other end of the spectrum I would also like to urge a revision of the upper bracket rates of tax downward to more reasonable and realistic levels. Such an adjustment would increase the equity of the system as between those who can and those who cannot take advantage of various tax-minimization opportunities. It would also relieve pressures which are resulting in a continuing erosion of the tax base.

If we made an adjustment in rates applicable to low incomes and restored to a substantial degree an eroded tax base, considerations of equity and built-in flexibility point clearly, in my opinion, to the necessity of a new rate structure which would taper off at 65 to 70 percent instead of 91 percent. A revision of this character would eliminate many distortions now affecting economic growth, and would probably cost relatively little in terms of revenue.

The improvement of the corporate income tax to serve the manifold objective of greater equity, greater responsiveness to changes in levels of economic stability, and greater neutrality as among types of economic activity, involves a wide range of problems. Some of these problems are similar to those found in the field of individual income taxation and derive from the same cumulative process of tax-base erosion.

The extent of this erosion in the corporate field has been dramatically suggested by Mr. William Hellmuth in a paper included in the appendix to your subcommittee's compendium, Federal Tax Policy for Economic Growth and Stability.

Limitations of time prevent me from presenting a fully detailed analysis of the problems in this general area. I would like, however, to focus on one observation made in the course of the December testimony before the subcommittee and the subsequent development of the subject by the subcommittee in its report.

The conclusion is reached in that report that while the present corporate rate structure has not impeded the growth and development of large corporate enterprises, it may have proved extremely burdensome to small and new businesses. Before I try to develop this subject, I want to state my opinion that the small-business problem cannot be wholly solved by tax measures. In the last analysis, the health of small and new business depends, I believe, primarily upon the maintenance of a prosperous and freely competitive economy and of institutions which give new and small business access to capital markets. But we should try to develop a tax structure which, to the extent possible, will foster the development of new and small business.

In this context I cannot endorse a number of proposals which have been made for the revision of the corporate tax system. These proposals include such items as a graduated corporate income tax, an increase in the surtax exemption, and an outright exemption from both normal and surtax of a designated amount of earnings. I would like, instead, to endorse the proposal made by Senator Fulbright and others that the present corporate normal and surtax rates be reversed. Senator Fulbright has provided an excellent analysis of the revenue implications of this proposal and the relief it will provide to companies of various sizes.

Among other things, this revision would contribute a modest increase in the built-in flexibility of the corporate income tax. I must confess that it would not solve many problems arising out of the highly differential impact on different types of enterprises resulting from preferential special provisions in the statute. To accomplish this more ambitious result, many more fundamental changes would be required.

Excise taxes in general measure up poorly to accepted standards of equity, automatic stabilization, and balanced economic growth. While justification may be found for retaining some of our present excises, such as the gasoline tax and the manufacturer's excises on automotive products, on the basis of special benefits provided by Government to the purchasers of the taxed commodities, it is difficult to justify many of our remaining excises except in terms of revenue considerations. Some immediate reduction in those excise taxes which bear most heavily upon the lower income brackets should be provided. A more substantial reduction should probably be postponed until very much greater revenue reductions become available.

The excise taxes which have the most seriously adverse economic consequences are those on the transportation of property and of persons and upon communications and business machines. The elimination of these taxes, which I think should take place at the first opportunity, would involve a revenue loss of about $1.2 billion annually.

So far I have dealt with the basic changes in the individual and corporate and excise tax area which would involve revenue losses. All of these changes have as their objectives increased equity, greater automatic responsiveness to changes in levels of economic activity, an improved climate for balanced economic growth, and more efficient use of resources. But unfortunately the rule precluding substantial revenue reduction when the economy is highly prosperous will require a postponement of these changes until a tax cut is required to combat a recessionary movement in the economy, unless means may be found to provide offsetting revenue increases.

I hope that this suggestion of possible offsetting revenue increases will receive careful consideration by the appropirate committee of Congress. I will, therefore, briefly mention a few possible revisions which would serve to provide elbow room for some of the changes I have suggested earlier in my testimony.

(*a*) The majority of expert statements submitted to this committee's Subcommittee on Tax Policy concluded that the recently enacted dividends received credit and exclusion are poorly adapted to solve the problem of encouraging a higher level of equity financing by corporations and introduce a major inequity. The provision extends substantial tax savings to dividend recipients. The benefits of the provision are, therefore, principally concentrated in the upper income brackets. I would recommend the elimination of this dividend received credit and exclusion. Its repeal would increase revenues about $420 million at current dividend distribution levels.

(*b*) Evidence provided by the Internal Revenue Service and others establishes, I think, conclusively that the level of effective compliance by taxpayers in reporting taxable dividend and interest receipts is extremely low. Only about 87 percent of taxable dividends, and only between 35 and 40 percent of reportable interest receipts, appear in individual income tax returns. In sharp contrast, about 95 percent of reportable wages and salaries appear in returns.

This difference in compliance rate is clearly attributable to withholding at the source in the case of wages and salaries. I would, therefore, recommend the enactment of a withholding provision as to dividends and interest. Such a provision would increase revenues by about $300 million a year. I am confident that the administrative objections to the proposal are less compelling than those which have been successfully overcome in the administration of the withholding provision so far as it now applies to wages and salaries.

(*c*) The Internal Revenue Code, in its present form, gives capital gain treatment to gains realized on the sale or exchange of depreciable business property. This provision was first proposed in 1942 because it was then thought unjust to subject gains on the involuntary conversion of depreciable business property to tax at ordinary rates, and as proposed was limited to this type of situation.

By the time the bill was enacted, the treatment provided was extended to all sales and exchanges of real property, whether depreciable or not, used in the taxpayer's business. This history of the original enactment of the provision, therefore, furnishes a striking example of the erosion process as it operates in actual practice. Subsequent revenue acts extended so-called 117 (j) treatment to ever-widening categories of assets.

The implications of recent legislation powerfully suggest that this preferred treatment on sales and exchanges of depreciable property has become wholly indefensible. If depreciable property may be written off under accelerated depreciation schedules at ordinary income-tax rates, gains on the transfer of assets of this character—which reflect too rapid depreciation—should be treated as ordinary income. In its present form the tax statute serves to encourage wasteful use of resources by offering an inducement to unduly rapid replacement of assets, the useful life of which may be far from exhausted.

The elimination of this provision would increase revenue about $300 million at present levels of the economy.

(*d*) Now I would like to pass briefly to the whole subject of our tax treatment of capital gains and losses. This subject has been extensively discussed in Prof. Stanley Surrey's paper included in the subcommittee's compendium Federal Tax Policy for Economic Growth and Stability. It is full of knotty questions, primarily of a definitional character. Since the capital gain rate is a preferential rate, Congress is under constant pressure to extend the operation of the capital gain provision into new territory.

More or less recent legislation has extended the benefits of capital gain treatment to income derived from the cutting of timber, to coal royalties, to gains on the sale of livestock used for breeding purposes, to lump-sum distributions from retirement plans, to certain lump-sum employment termination contracts, to part or all of the gain from the sale of stock purchased by employees under certain option arrangements, and to gains on the transfer of patents. Court decisions have extended the same treatment to sales of life interests in estates and to gains on sales of in-oil payments. These provisions have resulted in considerable erosion of the tax rate structure, the cost of which to the Treasury may be as high as $200 million annually.

I do not pretend to have the competence to suggest here a solution of a problem which has plagued Congress for 34 years. I have no hesitancy, however, in suggesting that many, of not all, of the recent extensions of capital gain treatment should be repealed. Certainly considerations of equity and of efficient use of revenues would strongly urge a rollback of this preferential treatment and a discontinuation of any further extension of the capital-gain provision.

(*e*) A serious loss both of uniformity and of effective progression has resulted from the provision in the Internal Revenue Code which permits taxpayers filing joint returns to compute their tax by dividing their combined income in two, applying the rates applicable to single individuals to each half, and then adding together the taxes on each half. The original justification of the provisions was that it served to remove discrimination against married individuals living in noncommunity property States as compared with those in community property jurisdictions.

The obvious injustice of taxing a single person with dependents at a higher rate than a married man with the same number of dependents soon led to the enactment of a third set of rates applicable to so-called heads of households.

These provisions violate the principle that taxpayers with equal taxable incomes should be subject to equal rates of tax. They also result in a serious overall loss of progression.

The advantage of filing joint returns increases far more than proportionately as income rises. Where the husband is the only income recipient and his taxable income is $100,000 per year, he saves $13,680 by filing a joint return. The saving in the case of a man similarly situated and with taxable income of $5,000 is only $80. Thus, the man with 20 times as much income saves 171 times as much tax. Income-splitting, as now in effect, shifts the tax burden from high- to low-income taxpayers.

Another difficulty is that these provisions make it extremely difficult constructively to revise the individual income tax rate structure. Perhaps as much, if not more than any other statutory provision in the code, income-splitting is responsible for the very high level which obtains in the present rate structure.

Several different methods have been proposed for eliminating preferential schedules now enjoyed by some taxpayers under present split-income and head-of-household provisions without restoring the inequality between community property and non-community-property States which formerly obtained. It is noteworthy that estimates of additional revenue which could be derived from bringing rates applicable to married taxpayers up to the level of rates now imposed upon single taxpayers range as high as $3.5 billion. I do not necessarily recommend the complete elimination of the benefits of income-splitting, but I do think something should be done to cut down the discrimination between married and single taxpayers and high- and low-income taxpayers created by the existing system.

(*f*) Another major substantial source of compensating revenue lies in a constructive revision of the Federal estate and gift taxes. Over the years, these taxes, as demonstrated in a paper presented to the subcommittee by Mr. Louis Eisenstein, have suffered a considerable erosion. As it is stated in this paper:

> The tax has become the pariah of our internal revenue system * * * its inadequacies methodically increase from one act to another. An excessive exemption is combined with inadequate rates, and these are joined by significant loopholes.

The estate and gift taxes today provide only about $1 billion of revenue, or about 1.5 percent of total net Federal receipts. The present statutory estate and gift tax rate schedules are also illusory. There is little progression in the system. The actual average effective rate on total gross estates reported in 1951 amounted to only about 12.5 percent, while gift taxes paid in that year were only about 7.1 percent of the total value of gifts reported.

In addition to the revisions I have enumerated, there are others which would contribute to an improved tax system and which would bring in substantial revenue.

The purpose in outlining this tax program has been to show that it is possible for the Congress to provide general tax relief without evading the responsibility for contributing to a balanced economy. Even in the narrow context of balancing the administrative budget, we can afford tax relief for low-income individuals and reduction in the unrealistically high rates of tax on upper brackets of income. Clearly we can find from the measures I have suggested the revenue to offset the losses this relief would entail.

The revisions I have called to the committee's attention today are directed toward the goal of a tax system which will be more equitable, which will be better adapted to carrying out the objectives of the Employment Act, and which will promote better use of our national resources. If we are unwilling to compensate for lost revenue, the only remaining course of action available will be to postpone tax reduction until we have objective evidence that a reduction of taxes is required to sustain continued economic growth.

Representative BOLLING. Thank you, Mr. Paul.

Mr. PAUL. Thank you, Mr. Chairman.

(Mr. Paul's formal statement is as follows:)

TESTIMONY BEFORE THE JOINT COMMITTEE ON THE ECONOMIC REPORT ON THE PRESIDENT'S 1957 BUDGET BY RANDOLPH E. PAUL

My name is Randolph E. Paul. I am a lawyer engaged in the practice of tax law with offices at 575 Madison Avenue, New York, N. Y., and 1614 I Street NW., Washington, D. C.

As we begin the year 1956 we face the sixth consecutive year in which the fiscal operations of the Federal Government will account for one-fifth or more of the national income. This one startling fact would account for the importance which the Congress must attach to fiscal policy.

It goes almost without saying that the fiscal policy of the Federal Government has tremendous impact upon virtually every aspect of the Nation's economic activity. This impact was recently documented by one of the most impressive sets of hearings ever held by a committee of Congress. I refer to the study conducted by this committee's Subcommittee on Tax Policy during the year just ended. Properly, the subcommittee's unanimous report reflects the pervasive impact of Government spending and taxing activities. The report points out that the relationship of Government revenues to Government expenditures has a substantial effect upon the overall level of economic activity. It also observes that the way in which the revenues are raised has a direct and important bearing on the efficiency with which our productive resources are used, on the relative rates of growth of various industries, and on the competitive positions of new and small as against established and large enterprises. In short, the subcommittee's study has served to highlight in dramatic fashion the inescapable fact that the Federal Government's fiscal policies significantly affect the economic well-being of the Nation. Those policies, therefore, rank with the conduct of foreign affairs and the maintenance of national defense as an area of intensely important public interest.

I take it that my job here today is to suggest ways in which fiscal policy may be made an effective and constructive instrument for attaining the national objectives stated in the Employment Act of 1946, and particularly the objective of promoting "maximum employment, production, and purchasing power." From the standpoint of that act fiscal policy must also be directed to the reduction of economic fluctuations, with emphasis upon the selection of sources of revenue which automatically expand and contract in response to changes in individual and business incomes. Our principal national objective is a steadily growing economy. Without appropriate standards fiscal policy will be only haphazardly related to that objective. It may even be a barrier to the achievement of that objective. Formulated in the light of appropriate standards, as I hope it may be, our fiscal policy will help us to achieve an economic growth which will keep pace with our potentialities.

One fundamental fiscal policy problem derives from the fact that the American public calls upon the Federal Government to perform certain functions and provide certain services on its behalf. In performing these functions and services the Government must use some of the resources available in the economy and must finance the acquisition of these resources. It must do these things with minimal dislocation of the nongovernmental sector of the economy. Fiscal policy is concerned with the basic framework of decisions as to which functions the Government will perform, the way it will finance these functions, and the relationship of one to the other.

A. GOVERNMENT EXPENDITURE PROGRAMS AND LEVELS

To formulate standards with respect to the spending activities of the Federal Government is an undertaking which I approach with humility. It is an area where we must recognize with Holmes that general propositions do not always correctly decide concrete cases. Nevertheless, I shall indulge in some cautious preliminary generalization. My first general proposition, on which we are all agreed, I am sure, is that Government spending programs should be free of waste. All of us who are basically biased in favor of a free-enterprise economy will, I imagine, readily agree to a second proposition. That proposition is that the Government should not spend money doing things which private individuals and corporations want to do and can do more efficiently than the Government.

But even though we may note this area of general agreement, we still have the question: How much should the Federal Government spend and on what should it spend what it may spend? The answer to this question of implementation involves a system of priorities established by the Nation as a whole and tested periodically through the electoral and legislative processes.

I doubt if there is much disagreement about the basic framework of an acceptable system of priorities. First, as a Nation we have the right peacefully to determine our future and the obligation to assist others whose persuasions are similar to ours. It follows in my mind, as I think it does in most minds, that we should give top priority to national security, devoting whatever resources may be required to give us maximum safety and an assurance of peace in the entire world. On balance, the developments in the last few years offer us little, if any, reason to act upon the belief that there has been any reduction in the magnitude of this undertaking. On the contrary, technological developments would indicate that difficulties have increased rather than decreased.

I do not question the assertion that expenditures of $40 billion in the fiscal year 1957 will provide us with "the greatest military power" this country has had "in its peacetime history." But our defense problem cannot, in my mind, be expressed in historical terms. The critical question is where we stand in a military sense relative to Russia.

Another major persuasion of the American people seems to me to give high priority to certain civil functions of Government. There is an unprecedented demand for educational facilities, mental and physical health programs, natural resources development, slum clearance, increased flood control, and new roads. These programs have their cultural and social values, but we may talk here in terms of the objective of economic growth. The lack of these facilities and programs could be a major stumbling block along the path of economic growth. Recent hearings of this committee's Subcommittee on Economic Stabilization have suggested that the real basis for long-term growth are scientific research and invention. These hearings established, from many expert witnesses, the proposition that at present one major limitation on technological development is a shortage of technically equipped personnel. The source of this shortage may be seen in virtually any school district in the country: There are too few classrooms, too little teaching equipment, too many underpaid and inadequately prepared teachers. Insufficient education for public school pupils is bound to result in an undertrained labor force and an inadequately prepared college enrollment from which those who are to break the bottlenecks of industrial progress must come.

The need for improvement in the Nation's health standards is also similarly and directly related to our economic well-being. Better health means a more efficient and more productive labor force. It means fewer hours of work needlessly lost, and lower production costs to the benefit of all. Even more significantly, it means that our growth potential is increased. Housing and slum clearance similarly bear a direct relation to economic growth. Clearing the blight of slums from our major cities, for example, can represent an investment, the returns on which will be reflected in reduced requirements for public action to combat delinquency, communicable diseases, fire hazards, and crime. This can mean a more productive future economy. In the last 2 years the Nation's attention has been focused on the inadequacy of our highway plan. The relationship of road facilities to economic development is too obvious to require development in our discussion today. But it should be cited as a prime illustration of the manner in which public expenditure programs may make a contribution to economic growth and progress. During the past year floods have washed away hundreds of millions of dollars of capital assets. We need a substantially expanded program of flood control if we would develop the full potential of our economy. The best type of disaster insurance program is one that minimizes the possibility of this kind of devastation.

While the total civilian programs of the Federal Government have risen moderately since 1953 in terms of total net budget expenditures, most of the increase of the 1957 fiscal budget over that of 1954 consists of interest costs and farm payments. Proposed expenditures in the fiscal year 1957 for labor and welfare, for natural resources development programs, and for commerce and housing are actually lower than those proposed in the budget for the fiscal year 1954, transmitted in January of 1953. In terms of constant dollars the Federal Government today is spending 30 percent less per capita for welfare and economic development than it did in the fiscal year 1940. It is true that the abundant prosperity of the year 1955 resulted in less need for certain types of Federal programs than were required in 1940. On the other hand, in the aggregate civilian needs have risen with a big increase in the population and with the growing complexity and interdependence of our industrial economy. Altogether, a continued deepening of our school shortages, a marked disparity between our health standards and potential health levels, the spread of slums and city blight, a developing inadequacy of our highway plans, and our failure sufficiently to cope with many problems affecting our low-income population testify eloquently to the extent to which the Federal Government, in partnership with State and local governments and private enterprise, have fallen behind schedule.

I am not suggesting that we should try to compensate in one budget for the deficiencies of 15 years. I am suggesting that fiscal policy, directed to the objective of a growing economy, calls for a major start. Of course, enthusiasm for these expenditure programs must face the question: What can we afford? But the correct answer to this question cannot come from a projection of anticipated tax revenues at existing tax rates. To determine expenditure programs in these terms would be to ignore the responsibility of the Federal Government for contributing both to economic stabilization and growth. Rather, the correct answer must be sought in terms of the inescapable fact that at any moment in time, a limited amount of resources is available to meet our total demands, both governmental and private. When these resources are being fully utilized, the decision to devote more of them to fulfilling governmental programs is necessarily a simultaneous decision to devote fewer of them to private spending programs. Whether we can afford to enlarge Federal expenditures to meet higher standards in national security and civilian programs depends on the relative importance we attach to these programs as compared with private programs. In an expanding economy such as ours, this statement does not necessarily imply an absolute decrease in levels of spending, either for private consumption or for private investment. Rather it may mean that we would accept a somewhat lower rate of increase in the level of private spending.

I should, therefore, like to suggest that we place a somewhat higher priority on the Government programs I have described and a somewhat lower priority on private spending. The pace of private investment in recent years has been very rapid. Personal consumption expenditures have increased steadily and rapidly since the end of World War II. But, during this period in which the Nation has made such remarkable progress toward the goal of meeting our private material needs we have been sacrificing our public material needs, and many items of cultural development. We have developed the largest and most modern industrial plant in all history, but we have neglected many important prerequisites to the continuance of that industrial growth. I do not say that we may immediately spend large increased sums for the civilian services I have enumerated. But the time has come, I think, to devote a part of any surplus revenues that may develop to these other prerequisites to economic growth. In the context of our needs they have a better claim than tax reduction or, depending on the circumstances, debt reduction.

B. FINANCING EXPENDITURES

So far I have dealt with questions of Federal spending and relative priorities in that area. The next basic question is how the Government should finance its spending.

We are all probably pretty much in agreement about the fundamental standards which should determine the answer to this question. Stating that standard in simple terms, the Government should so finance any given level of expenditures as to assure full use of resources without undue pressure on the general level of prices. Our financing program, so designed, will make a positive contribution to economic stabilization and growth.

Once we have in mind a given level of Government expenditures, the application of the general standard I have stated involves appraisal of the present overall level of economic activity and a judgment as to the direction in which that activity is moving. If the economy is moving upward at too rapid a rate, as reflected in rising price levels, there should be an increase in the surplus or a shift from deficit financing toward a surplus. By the same token, if the economy is contracting, or not expanding rapidly enough to assure full use of available resources, there should be a reduction in tax revenue relative to Government spending. Such a reduction will result in a lowering of Government surplus or even in a deficit. To some extent these adjustments in tax revenue take place automatically by reason of the built-in flexibility incorporated in our revenue system. However, automatic adjustments will not always be adequate to secure continuing stabilization and full employment. Explicit action by the Congress may at times be required.

I am afraid that the President's state of the Union message, his budget message and his Economic Report do not fully apply these principles. True, these documents recommend the continuation of excise taxes at present rates and a postponement of the corporation income tax cut scheduled for April 1 for another year. Also, they recommend against tax cuts "under conditions of high peacetime prosperity." I agree completely with these recommendations. But I am troubled by the reasons given for them and the philosophy underlying them. The state of the Union message states as a reason for maintaining present levels of taxation the President's belief "that a tax cut can be deemed justifiable only when it will not unbalance the budget." The same language is stated as an earnest belief in the budget message.

In short, the philosophy, at least of the state of the Union and budget messages, gives almost unlimited priority to a balanced administrative budget. While I favor a balanced budget and even a surplus in times of high prosperity, the criterion which I think should guide our fiscal policy should be the attainment of stable economic growth. This reasoning would lead me, in all deference, to the conclusion that a tax cut may be justifiable at times when the economy is sufficiently out of balance and in a decline. Thus, in my judgment the state of the Union message and the budget message give the wrong reason for a right answer in the present posture of the economy. The danger of its reasoning is that it may lead to unhappy results in another posture of the economy.

This leads me to a discussion of a significant omission in the state of the Union message, the budget message, and perhaps also the President's Economic Report. The reasoning of the first two documents permits the possibility of tax reduction if the present boom gives us higher tax yields. I would suggest that lower tax yields would constitute a wiser basis for tax reduction. If the present boom continues and provides higher revenues, tax reduction would be highly inadvisable. The Economic Report may perhaps leave the door open for the position that taxes may have to be reduced if economic expansion should slacken. However, it fails to say so specifically. There is in none of the three documents a clear recognition of the principle that the dictates precluding operating at a deficit in a period of high prosperity also call for tax adjustments designed to counteract any serious recessionary movement. This is a serious omission. We cannot expect to continue to balance the budget if the economy should slacken its pace or fail to grow at the necessary rate. Such a posture of the economy calls for increased demand just as the present situation calls for the maintenance of taxes at their existing level.

In last year's Economic Report the President did not fail to make this point. He stated that deficits may be called for at times, and surpluses at other times, in the following language: "Properly coordinated with other measures, a reduction of expenditure or increase in taxes can restrain inflationary tendencies, just as a reduction of taxes or increase in expenditure can at times be an effective check on recessionary forces. There will, therefore, be occasion when the Government's accounts are out of balance in one direction or another." I hope that this policy has not been changed.

In applying the standards I have stated as being relevant to the determination of how the Government should finance its spending, it is necessary first to focus upon the economic outlook. I believe that it is still too early to make any reliable estimates with respect to the overall level of economic activity for the year 1956. Until the economic outlook appears in sharper perspective all we can do is to make alternative assumptions and prepare for whatever may develop.

One assumption we might make is that the economic trend of 1955 will continue through 1956. If there are no changes in tax rates, this will mean a continuing increase in the budget surplus even with the slightly higher level of Government expenditures set forth in the budget message. We should soon be able to determine whether that surplus is adequate to prevent a general rise in prices. If not, it would be desirable either to increase revenues or apply the surplus to the retirement of the bank-held Federal debt, or both. Under this assumption responsible fiscal policy would require that we forego any overall reduction in Federal revenue.

Alternatively we may assume that economic activity will tend to level off at the rate prevailing at the end of 1955. If we take into account an expected increase in labor force and in productivity, this assumption means the development of some slack in the economy with a somewhat higher rate of unemployment. If the slack were to grow to large proportions, as evidenced, for example, by an unemployment rate significantly above 4 percent, sound fiscal policy would call for some reduction in tax revenues relative to spending unless there were persuasive reasons to believe that the slack would be very shortlived and that it would be followed during the year by resumption of a healthy growth trend.

It would be unrealistic to deny that tax reduction is an attractive idea. But it can have a higher price than most of us would be willing to pay in terms of inflationary pressures, insufficient civilian services, and too little preparedness to meet possible threats to world peace. We should resort to tax reduction this year only if it appears more than probable that the level of tax revenues is so high in relation to the level of Government expenditures as to prevent full use of resources and continued economic growth.

C. TAX POLICY

As I tried to suggest, sound and appropriate standards of fiscal policy preclude a tax reduction at this time. In this respect I agree with the recommendations of the state of the Union message, the budget message, and the President's Economic Report. As I have indicated, there is a possibility that we may later in the present session need tax reduction for the benefit of the economy. But in many areas there is much room in our Federal tax system for improvement. Some of the many necessary revisions could be accomplished within the present revenue framework. It would, therefore, be appropriate at this time to consider the possibility of a revision of the tax structure either without tax reduction or in connection with any tax reduction which may become necessary.

The papers filed with this committee's Subcommittee on Tax Policy and the hearings held by that subcommittee in December 1955, brought forth a number of areas of difficulty which should receive the careful attention of Congress at this time even if it proves inadvisable to reduce taxes this year. Our Federal tax law contains many discriminations. In some respects it can also be made to contribute more to economic stabilization and to a balanced growth of the economy.

1. Need for tax revision to provide greater equity

I take it to be a fundamental precept that a tax system should do equity in the sense of treating alike taxpayers who are in an economic sense similarly situated. This precept has particular importance where rates are as high as they now are. For one thing, the success of a voluntary assessment system depends to a high degree upon the goodwill of taxpayers. Discriminations also make the tax system more complicated and difficult to understand. A major vice of inequality is that one discrimination in favor of a particular group of taxpayers inevitably leads to another discrimination with a consequent continuous erosion of the tax base.

This erosion has already reached startling proportions, as is exemplified in the unanimous conclusion of your Subcommittee on Tax Policy that the income tax now reaches "only about 40 percent of what the Department of Commerce describes as personal income." Although the largest portion of the remaining 60 percent remaining outside of the tax base is accounted for by the personal exemptions, there is a substantial amount of income which is left untaxed as a result of the numerous eroding features of the Internal Revenue Code.

2. The degree of progressivity in our income tax system

Another weakness of our existing tax system is that to an alarming extent it lacks the progressivity it pretends to have. Substantial progressivity is necessary both to provide automatic built-in flexibility and to distribute our heavy tax burden on the basis of ability to pay. The most progressive element of the structure, the individual income tax, shows a relatively moderate rate of progression over that range of incomes in which the most individual income-tax payers are situated. The corporate tax is more proportionate than progressive, and over the same range may even be regressive in impact. Excises, social security taxes, and customs are markedly regressive. Taken as a whole, the system shows only a very modest degree of progression in relation to incomes of less than $10,000. If we take State and local government taxes into account, there is at the least a further reduction of the modest progression contained in the Federal system.

For 1953, the last year for which estimates are available, 63 million out of 77 million taxpayers[1] paid tax at the first bracket rate. For these taxpayers the exemptions were the only factor of progressivity. For taxpayers in the lower and middle range of the income scale, the exemptions are probably the all-important factor of progressivity.

Moving to the whole income range, an estimated total of $117 billion of taxable income was reported for 1953. The recipients of this total of taxable income paid $32 billion of individual income tax. The average effective rate of tax applying to the total reported tax base was about 27 percent, a rate which exceeded the first bracket rate of 22.2 percent only by 4.8 percentage points. Thus no more than 18 percent of the total yield of the individual income tax was provided by graduation above the first bracket.

The complaints of many critics of our tax system call attention to the high rates of tax supposedly affecting taxpayers with high incomes. Section 1 of the 1954 code does reach a top marginal rate of 91 percent and a top effective rate of 87 percent. But evidence is available that very few taxpayers pay tax at these rates on much of their income, and that most taxpayers in the high brackets pay tax at an effective rate far below 87 percent. The actual effective rates of income tax for 1952 for taxpayers with incomes above $100,000 was 53.4 percent of adjusted gross income, which does not include half of net capital gains. Moreover, if it were possible to take full account of various items of income not included in the statutory concept of taxable income and certain deductions which exceed actual cost, the average effective rate of tax paid by taxpayers with incomes above $100,000 would be well below 45 percent. This lack of progression obtains all the way up to incomes of $5 million.

It must be added that high rates set forth at the beginning of the code do apply to a limited number of taxpayers, which makes the average effective rate all the more significant as to other taxpayers. The groups to whom the upper rate brackets enumerated in section 1 of the Internal Revenue Code apply include some high-salaried taxpayers, a number of professional taxpayers, some entertainers, and a few others. These groups are unable to reap any advantage from available tax-avoidance techniques. Thus there is discrimination not only as between low- and those high-bracket taxpayers who dot not pay at the high rates enumerated in section 1 of the Internal Revenue Code, but also among various groups of high-bracket taxpayers.

3. The need for tax revision to provide greater built-in flexibility

The skillful interrogation by the Subcommittee on Tax Policy of witnesses appearing at the hearings held in December served to establish a virtually unanimous conclusion that built-in flexibility in the Federal revenue system should be an important objective of tax policy, and that improvement in this area would be highly desirable. Built-in flexibility, of course, refers to the tendency of tax yields at constant rates to fluctuate in response to changes in the level of economic activity, thereby helping to moderate or offset those economic changes. The advantage of built-in flexibility in the light of the objectives of the Employment Act is that it lessens the necessity to explicit action by Congress and the executive departments to combat these fluctuations. It is recognized, of course, that built-in flexibility cannot be achieved to the degree required to eliminate completely the need for action by the Congress and the administration.

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[1] Counting married couples filing joint returns as two taxpayers, each with half the combined income.

The report of the Subcommittee's on Tax Policy shows also that the principal components of the Federal tax system affording built-in flexibility are the individual and corporate income taxes. Excises, employment, and estate and gift taxes at best make minor contributions. The extent of built-in flexibility in the individual income tax—the most important component of the tax system—is actually quite modest. It has been estimated that the built-inflexibility of the income tax is between 0.15 and 0.16—that is, the individual income tax will automatically offset $1.5 billion or $1.6 billion of a $10 billion decline in total adjusted gross income. It would be an important achievement in terms of the objectives of the Employment Act to improve this built-in flexibility ratio.

4. The need for tax revision to promote balanced economic growth.

The maintenance of an appropriate balance in the growth of the economy is perhaps the most difficult policy objective set forth in the Employment Act. I should, therefore, like at this point to discuss one sector of this problem by suggesting some indices from which we may draw inferences as to what revisions of the tax system would be best suited to the achievement of this objective.

As I tried to suggest above, it is constantly necessary to inquire whether economic growth is being deterred by inadequacies in public programs. We should be continuously alert in connection with private sectors of the economy to signs of uneven advance in our capacity to produce and to consume our national product. The President's economic report observes, quite correctly, I think, that the dynamic quality of the American economy largely accounts for the ever-present possibility that "the flow of money against goods need not match precisely the rate at which goods leave workshops for markets." While this is a fact of economic life, it is still necessary to be sure at all times that public policy, particularly tax policy, does not produce a greater, more frequent, or more prolonged imbalance than would otherwise occur. In this context it is necessary to take care that our tax structure promotes a working balance between capital accumulation and current consumption.

The strong emphasis in recent tax legislation has been to provide a favorable climate for private investment. We are all cognizant of the necessity of encouraging private investment. But we also have to remember that long-continuing emphasis on revision in this vein may involve a serious danger to balanced economic growth. Obviously, the more we do by way of tax relief in favor of capital accumulation the less relief we can provide with respect to consumption. This may be the time for us to change our emphasis. Since much has been done in the past 3 years to encourage business investment, we should perhaps be ready with appropriate tax reductions to buttress consumer demand if and when the need is felt. The recent decline in housing expenditures and automobile purchases, discussed in the economic report, may not be offset by increases in consumer spending for other goods and services. In that event, tax reductions designed to maintain the growth of consumer expenditures would be in order.

There is also need for an alert attitude toward signs of unevenness in the rate of economic growth as among various channels of commerce and industrial activity. In a dynamic economy we cannot expect growth among all these channels to be completely even. But we can from time to time inquire whether any apparent unevenness is merely a reflection of changing conditions of demand, supply, and technology, or is the product of other causes which should not be in operation. There is a constant necessity to avoid using tax policy as a means of preferring one type of activity to another. This point was made in your tax-policy subcommittee's recent report. That report observed that "the more preferential the tax treatment afforded industry A to stimulate its growth the less can be afforded industries B through Z. Possibly some, if not all, of the latter may even have to assume greater tax burdens than formerly and, therefore, may encounter more substantial barriers to their growth." The report went on to say that preferential tax treatment afforded any group in the economy necessarily implies a value judgment with respect to the type of activity most essential to overall economic growth, and that "we must be keenly sensitive to the weight of responsibility we assume if such decisions, which traditionally we are inclined to leave to the mechanism of the price system in the market, are made."

D. A BROADLY DEFINED PROGRAM OF TAX REVISION

I shall now attempt the perilous venture of making some suggestions for the constructive revision of our Federal tax structure. Before I do so I want to restate an important ground rule. It is a two-ply rule. In its first part it assumes that any tax-adjustment program attempted should at the least maintain present levels of revenue if the economy continues to grow this year at a satisfactory rate. In its second part it assumes that overall revenue reduction will be advisable and even necessary if economic activity persistently fails to achieve the levels required for fulfillment of the Employment Act objectives. This second part of the ground rule, which is not articulated in the state of the Union message and budget message, is, to my mind, as important as the first part.

1. Individual income taxation

The statistics I have furnished earlier in my statement suggest that there is a compelling requirement for revision of the individual income tax in the direction of increased progression. Most taxpayers are in the first taxable income tax bracket. If we want to keep them on the rolls, it follows that an increase in progression for these taxpayers would require a splitting in some way of the present first bracket, which is $2,000 for a single person and $4,000 for married taxpayers filing joint returns. Once it is decided to split the first bracket, a lower starting rate can be provided for the resulting bottom bracket.

The revenue loss involved in this proposal would be about $600 million for each point by which the new first bracket rate was reduced below the present 20-percent initial rate. For example, if the new starting rate were at 15 percent on the first $1,000 of taxable income for single persons and the first $2,000 in the case of joint returns, the Treasury would receive about $3 billion less revenue. The tax savings per return would reach a maximum of $50 when taxable income was $1,000 or more for single persons and $100 when taxable income was $2,000 or more for married couples.

At the other end of the spectrum I would also like to urge a revision of the upper bracket rates of tax downward to more reasonable and realistic levels. Such an adjustment would increase the equity of the system as between those who can and those who cannot take advantage of various tax minimization opportunities. It would also relieve pressures which are resulting in a continuing erosion of the tax base. If we made an adjustment in rates applicable to low incomes and restored to a substantial degree an eroded tax base, considerations of equity and built-in flexibility point clearly in my opinion to the necessity of a new rate structure which would taper off at 65 to 70 percent instead of 91 percent. A revision of this character would eliminate many distortions now affecting economic growth, and would probably cost relatively little in terms of revenue.

2. Corporate income taxation

The improvement of the corporate income tax to serve the manifold objective of greater equity, greater responsiveness to changes in levels of economic stability, and greater neutrality as among types of economic activity involves a wide range of problems. Some of these problems are similar to those found in the field of individual income taxation and derive from the same cumulative process of tax base erosion. The extent of this erosion in the corporate field has been dramatically suggested by Mr. William Hellmuth in a paper included in the appendix to your subcommittee's compendium, Federal Tax Policy for Economic Growth and Stability.

Limitations of time prevent me from presenting a fully detailed analysis of the problems in this general area. I would like, however, to focus on one observation made in the course of the December testimony before the subcommittee and the subsequent development of the subject by the subcommittee in its report. The conclusion is reached in that report that while the present corporate rate structure has not impeded the growth and development of large corporate enterprises, it may have proved extremely burdensome to small and new businesses. Before I try to develop this subject I want to state my opinion that the small business problem cannot be wholly solved by tax measures. In the last analysis the health of small and new business depends, I believe, primarily upon the maintenance of a prosperous and freely competitive economy and of institutions which give new and small business access to capital markets. But we should try to develop a tax structure which to the extent possible will foster the development of new and small business.

In this context I cannot endorse a number of proposals which have been made for the revision of the corporate tax system. These proposals include such items as a graduated corporate income tax, an increase in the surtax exemption, and an outright exemption from both normal and surtax of a designated amount of earnings. I would like, instead, to endorse a proposal made by Senator Fulbright and others that the present corporate normal and surtax rates be reversed. The corporate tax now consists of a 30 percent normal tax applicable to the full amount of net earnings and a surtax of 22 percent applicable to earnings in excess of $25,000. A reversal of these rates—making a 22 percent normal tax and a 30 percent surtax—would leave the same combined tax rates applicable to corporate earnings in excess of $25,000. For corporations with net earnings of less than $25,000, the applicable tax rate would be decreased by 8 percentage points. In 1951 the corporations in this classification represented almost 80 percent of all active corporations filing returns. Senator Fulbright has provided an excellent analysis of the revenue implications of this proposal and the relief it will provide to companies of various sizes.

Among other things, this revision would contribute a modest increase in the built-in flexibility of the corporate income tax. I must confess that it would not solve many problems arising out of the highly differential impact on different types of enterprises resulting from preferential special provisions in the statute. To accomplish this more ambitious result many more fundamental changes would be required.

3. Excise taxation

Excise taxes in general measure up poorly to accepted standards of equity, automatic stabilization, and balanced economic growth. While justification may be found for retaining some of our present excises, such as the gasoline tax and the manufacturers' excises on automotive products, on the basis of special benefits provided by Government to the purchasers of the taxed commodities, it is difficult to justify many of our remaining excises except in terms of revenue considerations. Some immediate reduction in those excise taxes which bear most heavily upon the lower income brackets should be provided. A more substantial reduction should probably be postponed until very much greater revenue reductions become advisable.

One of the Nation's leading authorities on excises, Prof. John F. Due, has labeled the tax upon the transportation of property as the most indefensible and injurious element in the present tax structure. The tax on transportation of persons probably contributes to highway congestion by discouraging the use of public carriers. Other excises which enter into business costs in a discriminating fashion and also distort the allocation of economic resources, are those on communications and business machines. The elimination of these taxes, which I think should take place at the first opportunity, would involve a revenue loss of about $1.2 billion annually.

4. Possible compensating revisions

So far I have dealt with the basic changes in the individual and corporate and excise tax area which would involve revenue losses. All of these changes have as their objectives increased equity, greater automatic responsiveness to changes in levels of economic activity, and an improved climate for balanced economic growth and more efficient use of resources. But unfortunately the rule precluding substantial revenue reduction when the economy is highly prosperous will require a postponement of these changes until a tax cut is required to combat a recessionary movement in the economy, unless means may be found to provide offsetting revenue increases. I hope that this suggestion of possible offsetting revenue increases will receive careful consideration by the appropriate committees of Congress. I will, therefore, briefly mention a few possible revisions which would serve to provide elbowroom for some of the changes I have suggested earlier in my testimony.

(*a*) The majority of expert statements submitted to this committee's Subcommittee on Tax Policy concluded that the recently enacted dividends received credit and exclusion are poorly adapted to solve the problem of encouraging a higher level of equity financing by corporations and introduce a major inequity. The provision extends substantial tax savings to dividend recipients. The benefits of the provision are, therefore, principally concentrated in the upper income brackets. I would recommend the elimination of this dividend received credit and exclusion. Its repeal would increase revenues about $420 million at current dividend distribution levels.

(*b*) Evidence provided by the Internal Revenue Service and others establishes, I think, conclusively that the level of effective compliance by taxpayers in reporting taxable dividend and interest receipts is extremely low. One witness stated that only about 87 percent of taxable dividends, and only between 35 and 40 percent of reportable interest receipts, appear in individual income tax returns. In sharp contrast about 95 percent of reportable wages and salaries appear in returns.

This difference in compliance rate is clearly attributable to withholding at the source in the case of wages and salaries. I would, therefore, recommend the enactment of a withholding provision as to dividends and interest. Such a provision would increase revenues by about $300 million a year. I am confident that the administrative objections to the proposal are less compelling than those which have been successfully overcome in the administration of the withholding provision so far as it now applies to wages and salaries.

(*c*) Th Internal Revenue Code, in its present form, gives capital gain treatment to gains realized on the sale or exchange of depreciable business property. This provision, as first proposed in 1942, because it was then thought unjust to subject gains on the involuntary conversion of business property to tax at ordinary rates, was limited to this type of situation. By the time the bill was enacted the treatment provided was exended to all sales and exchanges of real property, whether depreciable or not, used in the taxpayer's business. The history of the original enactment of the provision, therefore, furnishes a striking example of the erosion process as it oprates in actual practice. Subsequent revenue acts extended so-called 117 (j) treatment to ever widening categories of assets.

The implications of recent legislation powerfully suggest that this preferred treatment on sales and exchanges of depreciable property has become wholly indefensible. If depreciable property may be written off under accelerated depreciation schedules at ordinary income tax rates, gains on the transfer of assets of this character—which reflect too rapid depreciation—should be treated as ordinary income. In its present form the tax statute serves to encourage wasteful use of resources by offering an inducement to unduly rapid replacement of assets, the useful life of which may be far from exhausted.

The elimination of this provision would increase revenue about $300 million at present levels of the economy.

(*d*) Now I would like to pass briefly to the whole subject of our tax treatment of capital gains and losses. This subject has been extensively discussed in Prof. Stanley Surrey's paper included in the subcommittee's compendium, Federal Tax Policy for Economic Growth and Stability. It is full of knotty questions, primarily of a definitional character. Since the capital-gain rate is a preferential rate, Congress is under constant pressure to extend the operation of the capital-gain provision into new territory. More or less recent legislation has extended the benefits of capital gain treatment to income derived from the cutting of timber, to coal royalties, to gains on the sale of livestock used for breeding purposes, to lump-sum distributions from retirement plans, to certain lump-sum employment termination contracts, to part or all of the gain from the sale of stock purchased by employees under certain option arrangements, and to gains on the transfer of patents. Court decisions have extended the same treatment to sales of life interests in estates and to gains on sales of in-oil payments. These provisions have resulted in considerable erosion of the tax rate structure, the cost of which to the Treasury may be as high as $200 million annually.

I do not pretend to have the competence to suggest here a solution of a problem which has plagued Congress for 34 years. I have no hesitancy, however, in suggesting that many, if not all, of the recent extensions of capital-gain treatment should be repealed. Certainly considerations of equity and of efficient use of revenues would strongly urge a rollback of this preferential treatment and a discontinuation of any further extension of the capital-gain provision.

(*e*) A serious loss both of uniformity and of effective progression has resulted from the provision in the Internal Revenue Code which permits taxpayers filing joint returns to compute their tax by dividing their combined income in two, applying the rates applicable to single individuals to each half, and then adding together the taxes on each half. The original justification of the provisions was that it served to remove discrimination against married individuals living in non-community-property States as compared with those in community-property jurisdictions.

The obvious injustice of taxing a single person with dependents at a higher rate than the married man with the same number of dependents soon led to the enactment of a third set of rates applicable to so-called heads of households.

These provisions violate the principle that taxpayers with equal taxable incomes should be subject to equal rates of tax. They also result in a serious overall loss of progression.

The advantage of filing joint returns increases far more than proportionately as income rises. Where the husband is the only income recipient and his taxable income is $100,000 per year, he saves $13,680 by filing a joint return. The saving in the case of a man similarly situated and with taxable income of $5,000 is only $80. Thus, the man with 20 times as much income saves 171 times as much tax.

Perhaps the most serious difficulty is that these provisions make it extremely difficult constructively to revise the individual income tax rate structure. It may also be largely responsible for the very high level of rates now in the code.

Several different methods have been proposed for eliminating preferential schedules now enjoyed by some taxpayers under present split-income and head-of-household provisions without restoring the inequality between community-property and non-community-property States which formerly obtained. It is noteworthy that estimates of additional revenue which could be derived from bringing rates applicable to married taxpayers up to the level of rates now imposed upon single taxpayers range as high as $3.5 billion. I do not necessarily recommend the complete elimination of the benefits of income splitting. But I do think something should be done to cut down the existing discrimination between married and single taxpayers.

(*f*) Another major substantial source of compensating revenue lies in a constructive revision of the Federal estate and gift taxes. Over the years, these taxes, as demonstrated in a paper presented to the subcommittee by Mr. Louis Eisenstein, have suffered a considerable erosion. As it is stated in this paper "the tax has become the pariah of our internal revenue system * * * its inadequacies methodically increase from one act to another. An excessive exemption is combined with inadequate rates and these are joined by significant loopholes."

The estate and gift taxes today provide only about $1 billion of revenue, or about 1.5 percent of total net Federal receipts. The present statutory estate and gift tax rate schedules are also illusory. There is little progression in the system. The actual average effective rate on total gross estates reported in 1951 amounted to only about 12.5 percent, while gift taxes paid in that year were only about 7.1 percent of the total value of gifts reported.

I shall merely enumerate some of the items of possible revision of these taxes. Revision might be made of the marital deduction provision so that tax benefits resulting from use of the deduction would be limited to the surviving spouse. The premium payment test eliminated in the 1954 code might be reapplied for purposes of determining the taxability of the proceeds of life-insurance policies. The termination of life interests could be made a taxable event. A more effective provision could be enacted to reach gifts made in contemplation of death. A still broader program would include greater integration of the estate tax with the gift tax, a reduction in the exemption level of both taxes, and an increase in rates. Taken all together, these taxes could be wisely revised to provide an additional $750 million annually.

In addition to the revisions I have enumerated, there are a number of other revisions which would contribute to an improved tax system and which would bring in substantial revenue.

The purpose in outlining this tax program has been to show that it is possible for the Congress to provide general tax relief without evading the responsibility for contributing to a balanced economy. Even in the narrow context of balancing the administrative budget we can afford tax relief for low-income individuals or reduction in the unrealistically high rates of tax on upper brackets of income. Clearly we can find from these measures I have suggested the revenue to offset the losses this relief would entail.

The revisions I have suggested today are directed toward the goal of a tax system which will be more equitable, which will be better adapted to carrying out the objectives of the Employment Act, and which will promote better use of our national resources. If we are unwilling to compensate for lost revenue, the only remaining course of action available will be to postpone tax reduction until we have objective evidence that it is required to sustain continued economic growth.

Representative BOLLING. Mr. Mills, do you have any questions?

Representative MILLS. Yes, Mr. Chairman.

Mr. Paul, I want to congratulate you on the thoroughness of your paper, all of which, of course, you did not take occasion to read, but all of which will be in the record of the hearings before the committee.

As I understand, you take the position that taxation for revenue purposes will have and does have an effect upon the economy, either to stimulate growth or to retard growth, and that there are certain features of the code which do provide some stability.

Mr. PAUL. That is right.

Representative MILLS. So in connection with the primary concern which the Congress has in the field of taxation, of raising revenue, it is always advisable in this connection to take into consideration the fact that the act of imposing taxes for revenue purposes may have a good or an adverse effect upon economic growth.

Mr. PAUL. Yes. When you impose taxes for revenue, you have to take into consideration the other effects that a particular taxation provision may have; certainly you do.

Representative MILLS. Well, should the Congress in developing statutes for revenue endeavor to do so in such a way that the effects of those acts will be to neutralize as much as possible the tax effect, rather than to atempt to stimulate in some areas or retard in other areas? Should we not approach it from the viewpoint of trying to be neutral in the general effect, rather than to specifically stimulate?

Mr. PAUL. Well, we should attempt to preserve a neutral—neutrality from the standpoint of the economy; that is, we should not try to—I think we should not try too much to stimulate, except in great emergencies, particular industries or groups, because that process involves an erosion of the tax base.

On the other hand, when we have a slack in the economy, as I tried to indicate, we should, perhaps, reduce taxes to provide additional demand, or vice versa when we have a highly prosperous economy.

Representative MILLS. What I had in mind is this——

Mr. PAUL. Maybe I did not understand your question.

Representative MILLS. What I had in mind is this: You mentioned discriminations in the code, and in the report of the Tax Policy Subcommittee we referred to differentials in tax treatment and we even used the word, to distinguish from the case of differential, of discrimination in the code to some extent.

Now, any time you have differentials in your tax law, you are not affecting the overall economy in a neutral respect, are you?

Mr. PAUL. I would agree with that. You are also introducing an element of inequity which I think endangers the whole income tax, which in turn is a valuable instrument of fiscal policy.

Representative MILLS. So that good tax policy does not include differentials and discrimination, not only because of inequities that such action might create, but also, good tax policy would not include discriminations or differentials from the viewpoint of best utilization of resources and, therefore, the promotion of the greatest economic growth.

Mr. PAUL. Correct. I thoroughly agree with that.

Representative MILLS. In analyzing the President's Economic Report and the President's budget message, do you get the impression that the President takes the position that Congress should be concerned primarily about the balancing of the Nation's economy or the balancing of the Federal budget.

Mr. PAUL. I think the emphasis is on balancing the administrative Federal budget rather than the economy.

Representative MILLS. And you contend in your paper that Congress should be more concerned with respect to balancing the Nation's economy.

Mr. Paul. Yes, and sometimes that involves balancing the Nation's economy over the long pull. Sometimes that may even involve temporarily being in a deficit, as the President pointed out in the last year's Economic Report.

Representative Mills. Well, I thought in the President's Economic Report of this year, on page 73, at the top of the page, the first sentence——

Mr. Paul. Page 73?

Representative Mills. Page 73.

Mr. Paul. Yes.

Representative Mills. Beginning in the last paragraph on page 73, through the first several lines—on page 72, through the first several lines on page 73—the President is laying down some very laudable fundamental principles for the management of the Government's fiscal affairs. The third one of those principles, I thought, bordered upon this concept that you are discussing, of balancing the Nation's economy. He says—

> sufficient revenues should be raised to meet the Government's outlays, if not every individual year, then surely over a term of very few years.

Mr. Paul. Yes. There is an implication there.

(Off the record.)

Representative Bolling. We will adjourn until tomorrow morning at 10 o'clock.

(Whereupon, at 11 a. m., the Joint Committee adjourned, to reconvene at 10:05 a. m., Tuesday, February 7, 1956.)

JANUARY 1956 ECONOMIC REPORT OF THE PRESIDENT

TUESDAY, FEBRUARY 7, 1956

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

The Joint Committee met, pursuant to recess, at 10:05 a. m., in the Old Supreme Court Chamber, United States Capitol Building, Washington, D. C., Hon. Paul H. Douglas (chairman) presiding.

Present: Senator Douglas (chairman); Representatives Patman (vice chairman), Bolling, Mills, Talle, Curtis, and Kelley.

Also present: Grover W. Ensley, executive director, John W. Lehman, clerk, and Darrell Coover, legislative assistant to Senator Barry Goldwater.

Chairman DOUGLAS. We have been saddened by the death yesterday of Mr. Randolph Paul as he was testifying before this committee.

A number of the members of the Senate paid tribute to Mr. Paul on the floor of the Senate yesterday, and this will be found in the Congressional Record, pages 1799–1801.

I want to say at this time that Mr. Paul was one of the most devoted citizens I have ever known, serving not only as a Government official in the Treasury Department and as Chief Counsel for the Treasury, but, unlike so many Government officials, he did not lose his interest in the defense of the public.

He built up a very large law practice and he was one of the most successful lawyers in the country. Yet he gave himself unsparingly to the defense of the taxpayers of the country, and particularly to the defense of the small taxpayers who, in recent years, suffered from the erosion in the tax structure of the Nation.

I should like to say personally that Mr. Paul has been of tremendous assistance to me in my efforts to understand his field, to which he was devoted. As he fulfilled his governmental duties, he was yet fairminded. He literally died defending the public interest. He died, as he lived, with his boots on.

To me he represented the highest type of a citizen. We mourn his death, but I personally am very proud of the United States of America, that it can produce a man of the caliber of Mr. Paul, a man who can rise above his own interests to defend the general public. I am sure that I speak for my colleagues in expressing my sorrow and regret over this tragedy which has occurred.

Vice Chairman PATMAN. Mr. Chairman, I not only concur in what you have said, but I want to say wholeheartedly that Mr. Paul had a fine reputation, and he deserved it.

He was a great American. He was an expert in his line, a line in which few people are experts or know anything about. He was certainly devoted to the public interest at all times, and the fact that he was out in private law practice did not seem to deter him in his efforts to be of aid to the people generally.

Representative MILLS. Mr. Chairman, I want to join in the remarks of our colleagues. I have known Randolph Paul since 1942 when I first began by services on the Ways and Means Committee in the House. Mr. Paul, representing the Treasury, came before the committee often to present the administration's position on the very difficult problems of war finance which we faced. In this capacity he was a truly outstanding public servant.

Mr. Paul's efforts in the public interest continued after he left Government service. Despite the very great demands of his private law practice, he devoted himself to seeking improvement in our tax system through his writings, appearances before committees of the Congress, and counsel to those in both the executive and legislative branches of the Government. The statement he delivered to us yesterday and his testimony last December before the Subcommittee on Tax Policy are splendid examples of his efforts in the public interest.

Randolph Paul's influence on fiscal policy, particularly on tax policy, I am firmly convinced, has been considerable. His grasp of the technical aspects of our internal-revenue laws was unexcelled. Even more significant, however, was the philosophical framework in which he cast his efforts. That philosophy expressed in all of his writings and statements was clearly in the best traditions of our democracy.

Representative BOLLING. I would only add that, like all of us, I regret his loss.

Chairman DOUGLAS. I hope that the American people will be grateful to him.

Mr. Martin, we are very glad to have you here this morning, and we appreciate your coming to testify.

STATEMENT OF WILLIAM McCHESNEY MARTIN, CHAIRMAN, BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM, ACCOMPANIED BY RALPH A. YOUNG, DIRECTOR, DIVISION OF RESEARCH AND STATISTICS; AND WINFIELD W. RIEFLER, ASSISTANT TO THE CHAIRMAN, FEDERAL RESERVE SYSTEM

Mr. MARTIN. Mr. Chairman, if you would permit me, I would like to pay tribute to Mr. Paul, also.

I had the privilege of knowing Mr. Paul for the last 15 years, not intimately but on some, many occasions, he had been kind enough to volunteer assistance to me and counsel to me on questions on which I was not as well informed as I might have been and, if I may, I would like to preface my statement by concurring in the comments that have been made in tribute to Mr. Paul.

On behalf of the Board of Governors, I should like to express appreciation of this opportunity to report to you on the Nation's credit and monetary developments during 1955. The President's Economic Report describes in detail the generally gratifying performance of the Nation's economy, except for agriculture, over the past year and you have already had testimony dealing with important phases of the subject. The only supplement I will offer for your background information is a small chart book of key statistical information on domestic and international economic developments over the past year. My prepared statement will relate mainly to adaptations in Federal Reserve operations in response to the changing economic situation.

In the year 1955 Federal Reserve policy shifted from maintenance of ease in the money market to restraint of inflationary developments. During January, System policy continued to be directed toward fostering recovery, while maintaining conditions in credit markets that would avoid unsustainable expansion. Beginning in February, however, and for the remainder of the year, as overall demands mounted, as industrial output approached capacity and inflationary pressures appeared, measures were adopted to moderate the pace of credit expansion. Federal Reserve action sought to keep growth in bank credit consistent with growth in employment and production. Increased credit demands exerted increasing pressure on bank reserve positions; borrowed funds became less readily available to marginal users, and interest rates rose.

In pursuance of this policy of restraint on bank credit expansion, the Reserve System reduced slightly over the year its portfolio of United States Government securities. Commercial banks, in order to meet growing loan demands from their customers, had to sell a large amount of Government securities to nonbank holders. These banks also increased both the frequency and magnitude of their borrowing from the Reserve banks. The fact that the banks found it necessary to borrow in itself imposed some restraint on their lending activity. This restraint was reinforced by successive increases in the discount rates charged by Federal Reserve banks on member bank borrowing.

For the year 1955 as a whole, the rise in total loans and investments of commercial banks amounted to approximately $5 billion or about 3 percent—a smaller expansion than in 1954. Loans and investments, excluding United States Government securities, rose by $12 billion or 15 percent—the largest growth of any year since 1950. Through sales and runoffs at maturity, bank holdings of Government securities were reduced by $7 billion, mainly in short-term issues. This shift from Government securities to business and consumer loans caused bank liquidity to decline, which in turn worked to restrain bank lending.

Like the increase in total bank credit, the rise in the active money supply; namely, the demand deposit and currency holdings of consumers and businesses, was moderate. For the year, the money supply rose about $3.5 billion or less than 3 percent. The turnover of demand deposits outside leading financial centers, however, rose from 19.2 times a year in 1954 to 20.4 times, or by 6 percent, reflecting more active use of existing money. Deposit turnover in financial centers was also faster than in 1954. As compared with 1954, the increase in time deposits in 1955 was much less at commercial banks and about the same at mutual savings banks. Growth in savings and loan shares was somewhat greater than in the preceding year.

Nonbank sectors of the community, particularly business corporations, State and local governments, pension and trust funds, and individuals, added substantially to their holdings of United States Government securities, including the short-term issues sold by banks. This shift in ownership of Government securities represented a reversal of developments in 1954 when commercial banks added appreciably to their holdings of Government securities by market purchases from nonbank holders while increasing their loans only slightly. Nonbank lenders also extended more credit to private borrowers in 1955 than in previous years. Especially sharp was the rise in mortgage and consumer credit.

Although policy actions of the Federal Reserve in 1955 tended to produce a gradually increasing degree of restraint over much of the year, most of the System's open-market operations, including repurchase agreements with dealers in Government securities, sought to moderate the impact of seasonal factors on the money market. In January and February the System sold, or allowed to mature without replacement, $1.3 billion of United States Government securities. This was mainly for the purpose of absorbing reserves made available by the seasonal return of currency from circulation and the reduction in required reserves associated with the seasonal deposit decline.

Since the declines both in currency demands and required reserves were less than usual for the season, some additional member bank borrowing from the Reserve banks resulted. Borrowings, which had averaged about $300 million in December 1954 and January 1955, increased to $500 million in March and April 1955. This change marked a shift in the emphasis of Federal Reserve operations from ease toward moderate restraint.

During the second quarter of the year Federal Reserve operations in the Government securities market were small, and there was little net change in commercial bank reserve positions. In recognition of the rise in market rates of interest that had been occurring since the summer of 1954, the Federal Reserve banks raised their discount rates in April from $1\frac{1}{2}$ to $1\frac{3}{4}$ percent.

The Board of Governors raised margin requirements for purchasing and carrying listed securities from 50 to 60 percent in early January and again to 70 percent in late April. The volume of stock market credit, which had risen sharply from early 1954 through the spring of 1955, thereafter expanded but little.

In the early part of July, the System purchased Government securities to supply banks with reserves to meet temporary seasonal needs, including Treasury borrowing in the market. From mid-July to late September, the System's holdings of securities declined and member bank borrowing from the Reserve banks rose in September to a daily average level of about $850 million, as compared with an average of $400 million in June. Interbank borrowing also increased during this period. In early August, discount rates were raised from $1\frac{3}{4}$ to 2 percent at 11 Reserve banks, and to $2\frac{1}{4}$ percent at the Federal Reserve Bank of Cleveland. The $2\frac{1}{4}$-percent rate was established at all Reserve banks by early September. Thus in this period, restraint on bank-credit expansion was firmed.

In late September, the System resumed purchases of Government securities. Between that time and the year end more than $1 billion had been added to the Federal Reserve portfolio of securities, of which about $350 million were securities acquired under repurchase agreements. These operations offset seasonal drains on bank reserves and did not ease the money market. In mid-November, restraint on bank-credit expansion was again strengthened by a further increase in discount rates to 2½ percent at all Federal Reserve banks.

During the year, outright purchases of Government securities by the Federal Reserve were confined almost entirely to Treasury bills. At the end of November, however, the System entered into commitments to purchase $167 million of new certificates when issued on December 8. The specific occasion for an acquisition of certificates rather than Treasury bills was to facilitate a large-scale Treasury refunding operation in the face of a more stringent money market than was foreseen when the terms of the Treasury refunding were decided upon. Another unforeseen circumstance was an unusually large volume of maturing issues held by investors desiring cash, which made them indifferent to the terms of the exchange offering.

Toward the close of the year, as is usual, additions to the System's portfolio consisted of temporary purchases of securities under repurchase agreements with dealers in Government securities. The purpose of these purchases was to moderate the effect on the money market of the exceptionally heavy volume of business and financial payments at the year end. Reserves also became available about this time through an unusually large and sustained seasonal increase in Federal Reserve float, which reflects the volume of credits to the depositing banks' reserve accounts for checks still in process of collection through the Reserve banks.

At the year end, the money market continued firm in tone because of the large demands for liquidity, the temporary nature of some of the reserve funds available to the market, and the effect of higher discount rates in keeping down member bank borrowings.

In summary, the year 1955 was marked by the flexibility and adaptability that are essential in the administration of monetary policy if it is to play its proper role. Above all, timeliness is vital. In retrospect I think it fair to say that the transition of monetary policy from ease to restraint in 1955 was effected promptly as economic recovery was achieved and capacity output, accompanied by inflationary tendencies, was approached.

I did not take part a year ago in your hearings on the Economic Report but the preceding February of 1954 I emphasized in my statement to you that the objective of Federal Reserve policy and action is to make available a volume of bank reserves that will safeguard the economy from the oversupply that makes for inflation or the undersupply that makes for deflation. The exact amount of reserves needed for this purpose is difficult to measure with fine precision ahead of time. The goal is a growing economy and a rising standard of living for the Nation.

Monetary policy, closely coordinated with debt management, can contribute to the attainment of that objective but cannot by itself maintain the steady and sustainable economic progress we all wish to have. Responsibility for continued progress rests not alone on Government, but upon the practice of prudence and self-restraint on the part of leadership in business and finance, in labor, and in agriculture.

The operation of free markets may be counted upon to bring about many essential adjustments without the direct intervention of Government. The performance of the economy in the last few years justifies, I believe, renewal of faith in monetary action as an indispensable, though by no means omnipotent factor, in the orderly development of the economy under private enterprise institutions. I continue to have that cautious optimism about the future which I expressed here 2 years ago.

For your convenient reference, I am attaching to my statement a digest review of the Principal Federal Reserve Policy Actions, December 1954 through December 1955.

I had not intended to read those, Mr. Chairman.

Vice Chairman PATMAN (presiding). Thank you, Chairman Martin. Without objection we will just insert your material in the record.

(The material submitted by Mr. Martin is as follows:)

Principal Federal reserve policy actions December 1954–December 1955

Date	Action	Purpose of action
December 1954	Made net purchases of U. S. Government securities in open market of less than $50 million, all under repurchase agreements with dealers and brokers. Member bank borrowing increased to an average of $250 million in December.	To meet part of the temporary end-of-year needs of banks for reserve funds, but in view of rising credit demands, to permit these needs to be reflected in part in slightly less easy reserve positions.
January–June 1955.	Sold in the open market or redeemed U. S. Government securities totaling $1.3 billion. Member bank borrowing increased to an average of more than $400 million in the second quarter.	To offset effects of seasonal factors affecting bank reserve positions and, in view of strong credit demands, to bring about somewhat greater member bank borrowing from Federal Reserve banks.
January 1955	Raised margin requirements on loans for purchasing or carrying listed securities from 50 to 60 percent of market value of securities.	To help prevent an excessive use of credit for purchasing or carrying securities in a period of increasing use of credit for carrying securities.
April 1955	Raised margin requirements on loans for purchasing or carrying listed securities from 60 to 70 percent of market value of securities.	Do.
April 1955	Raised discount rates from 1½ to 1¾ percent	To bring discount rates into closer alinement with open market money rates and make borrowing by individual banks more expensive.
March-December 1955.	Made net purchase of bankers' acceptances in open market totaling $28 million.	To recognize increased use of bankers' acceptances by business as a means of financing international trade.
July-December 1955.	Made outright purchases of Treasury bills in the open market totaling $700 million net and increased repurchase agreements with dealers and brokers by 300 million. Member bank borrowing increased to an average of about $850 million in September and more than $1.0 billion in November but declined to about $850 million in December.	To meet part of reserve needs associated with seasonal factors, thus requiring banking system to meet needs in part by further increasing indebtedness. This action was taken with a view to providing for seasonal needs while limiting undue expansion of bank credit.
November-December 1955.	Purchased when-issued Treasury certificates of indebtedness totaling $167 million.	To facilitate Treasury refunding in period of money market stringency. Supply of reserve was consistent with overall open market policy at time.
August-September 1955.	Increased discount rates from 1¾ to 2¼ percent. This increase was made in two steps at all reserve banks except Cleveland.	
November 1955	Increased discount rates from 2¼ to 2½ percent.	To keep discount rates in an appropriate relationship with market rates of interest and thus maintain a deterrent on excessive borrowing by individual banks at the reserve banks.

CURRENT ECONOMIC DEVELOPMENTS

Board of Governors of the Federal Reserve System

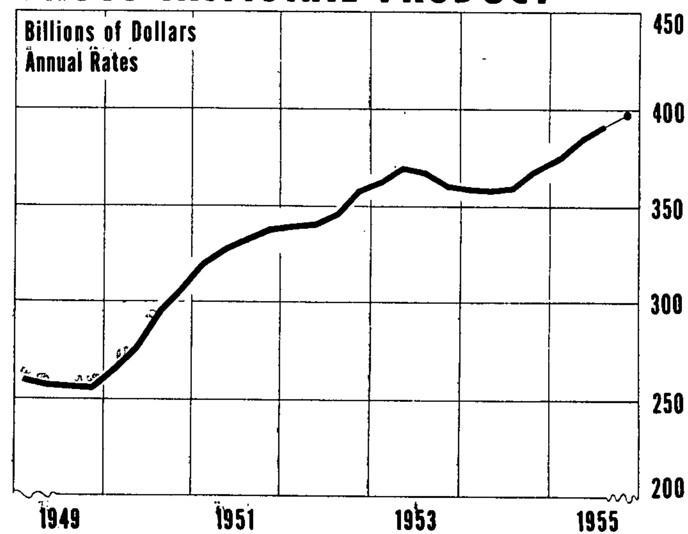
February 2, 1956

Gross National Product Rises Substantially

Gross national product increased rapidly during 1955. The annual rate of 397 billion dollars reached in the fourth quarter of 1955 compares with a rate of 367 billion a year earlier. Most of the increase reflected growth in production, but average prices also increased somewhat.

Expansion in production in late 1954 and early 1955 reflected mainly growth in purchases of consumer durable goods and housing and a shift from business inventory liquidation to accumulation at a moderate rate. Since spring growth has been attributable in large part to increases in business plant and equipment expenditures and in consumer purchases of nondurable goods and services. A decline in the rate of growth late in 1955 reflected in part capacity production in key industries and reductions in spending for new houses and automobiles.

GROSS NATIONAL PRODUCT

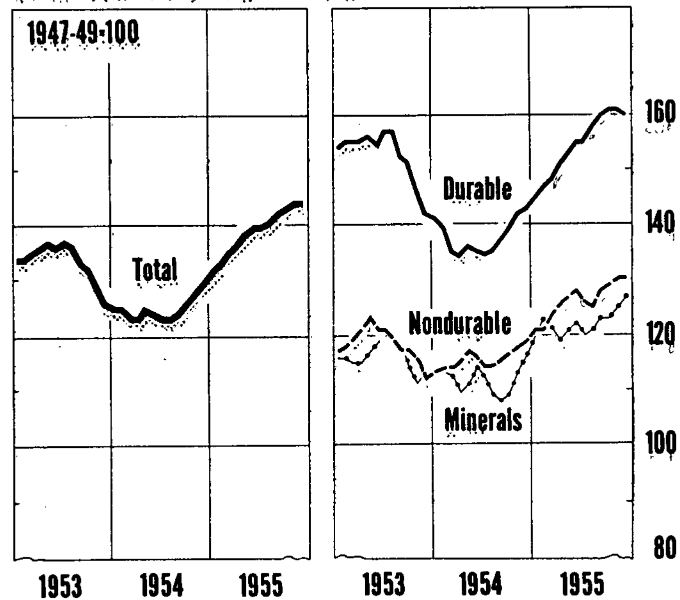


Industrial Output at Record Levels in 1955

Industrial production in 1955 was 11 per cent higher than in 1954 and 4 per cent above the 1953 level. In December 1955, output at 144 was 17 per cent above the 1954 low. Growth slackened in the second half of 1955 as capacity levels were approached in some industries.

Production of durable goods rose through most of 1955. Output in December was close to the October record level as expansion of producers' equipment offset declines in consumer durables in late 1955. Nondurable goods output leveled off in midsummer but subsequently rose to a new high. Production of minerals expanded in the latter part of the year.

INDUSTRIAL PRODUCTION



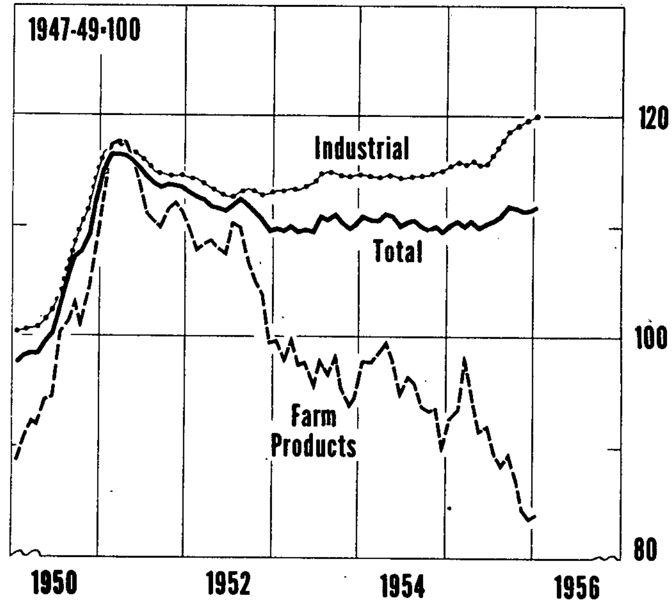
Industrial Prices Rise in 1955

Wholesale prices of industrial commodities rose 4 per cent in 1955, with most of the increase occurring after midyear. Prices of selected materials advanced during the first half. Subsequently, the rise in materials prices became more general, and prices of finished products, particularly business equipment, also increased.

As a result of expanded livestock marketings and reduced Federal support levels for some crops, prices of farm products and foods declined after midyear and in December were 6 per cent lower than a year earlier. By the year-end, the pressure of increased marketings of meat animals was abating seasonally and prices were advancing.

The combined index of wholesale prices in December was 2 per cent higher than a year earlier.

WHOLESALE PRICES

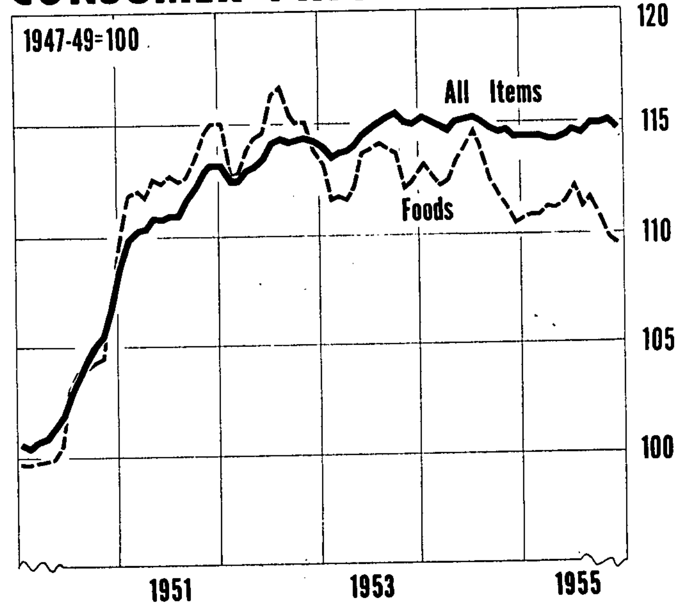


Consumer Prices Tend Higher

Average consumer prices in December 1955 were slightly higher than a year earlier, despite a decrease in food prices. A decline of 9 per cent in meat prices reflected a considerable expansion in meat supplies in the fall. Most other food prices increased somewhat over the year.

Retail prices of other commodities on the average changed little during 1955. Some decline early in the year reflected mainly the spreading of discount selling of durable goods. After midyear prices of some commodities rose. Charges for services generally rose somewhat more rapidly than in 1954, while rents continued to rise at the slackened rate of 1954.

CONSUMER PRICES



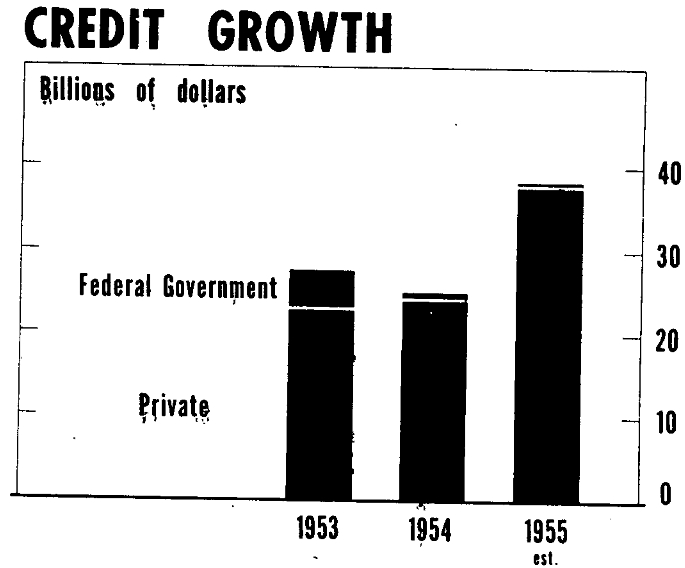
Private Credit Rises Sharply in 1955

Expansion in business activity in 1955 was accompanied by an even greater relative expansion of credit. The aggregate growth in major types of credit was the largest for a calendar year since the war. Practically all the credit expansion in 1955 was in private credit, as shown in the table below.

The expansion in bank loans and investments was less in 1955 than in the preceding year. An increased share of the total public and private credit expansion was accounted for by nonbank investors.

(Billions of dollars)	1954	1955
Total public and private	24.8	37.9
Federal net cash borrowing	0.9	0.2
Private credit--total	23.9	37.7
Business 1/	5.4	9.3
Mortgage	12.5	17.2
Consumer credit	0.6	6.1
State and local governments	5.4	5.1

1/ Excludes sales finance companies and open-end investment companies.



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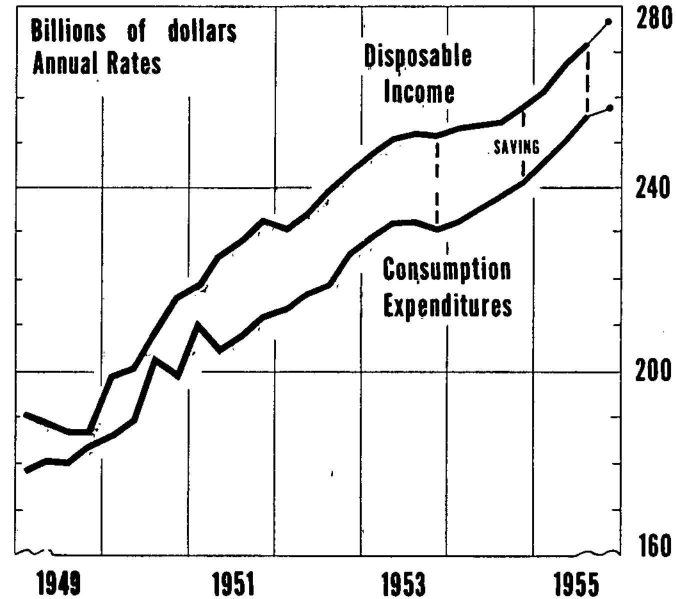
Rise in Consumer Incomes and Expenditures

Disposable income of consumers rose from an annual rate of 258 billion dollars in the fourth quarter of 1954 to 277 billion in the fourth quarter of 1955. Wages and salaries accounted for the bulk of the increase as employment, hours of work, and wage rates all showed substantial gains.

After early 1954 consumer expenditures rose as a proportion of disposable income and personal saving declined. The decline in saving in 1955 reflected heavy consumer borrowing to finance durable goods purchases and also a slowing down in the growth of bank deposits. Consumer purchases of securities increased. In the fourth quarter of 1955 saving increased as the rate of consumer borrowing declined.

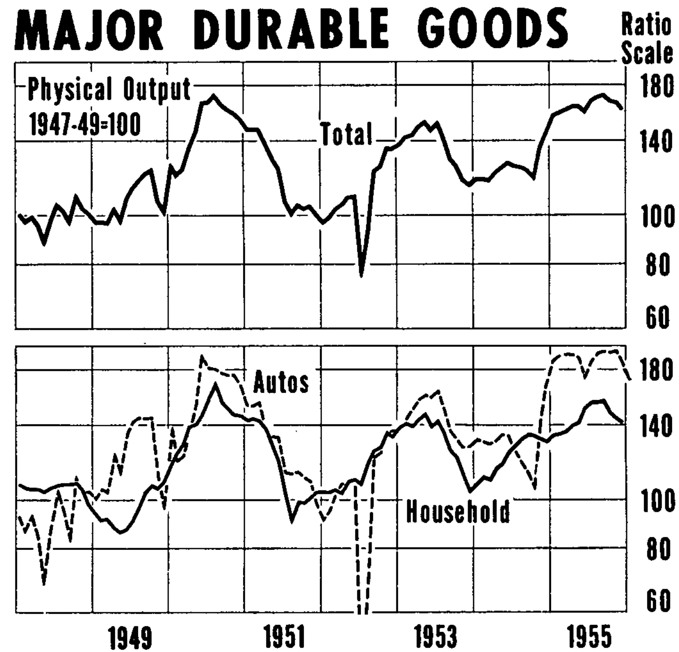
INCOME AND EXPENDITURES



<u>Record Output of Consumer Durable Goods in 1955</u>

Production of consumer durable goods increased sharply in 1955. Output of automobiles totaled 7.9 million units, compared with 5.5 million in 1954. After the model changeover last fall output quickly reached capacity rates. Stocks were replenished by mid-December--much sooner than in earlier years--and production has since been reduced. In late January assemblies were about 12 per cent below the rate a year earlier. Retail sales in December and January, however, were close to the advanced year-ago rates.

A sharp increase in production of household durable goods in 1955 was in response to marked increases in consumer demand. Output of appliances and television has been curtailed in recent months, however, partly as a result of work stoppages.

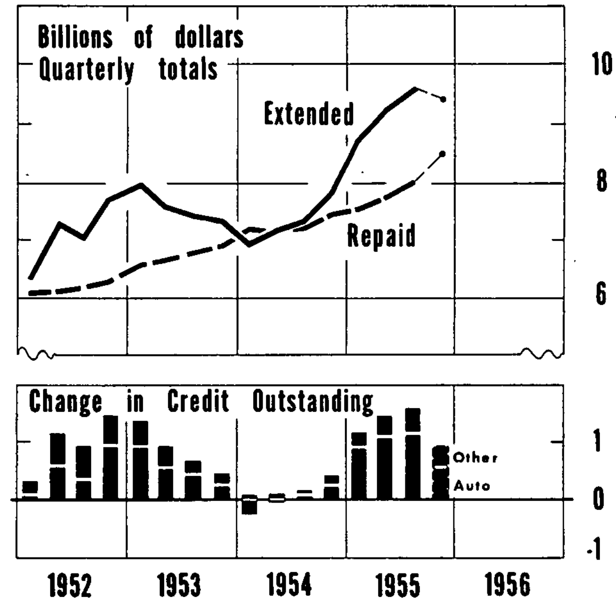


Sharp Increase in Consumer Instalment Credit

Extensions of consumer instalment credit rose sharply in 1955. While repayments also increased, they lagged behind extensions, and for the year consumer instalment credit outstanding increased about 5-1/2 billion dollars, compared with little change in 1954. Almost three-quarters of the increase was in automobile credit, which rose sharply as a result of record automobile sales, an easing of credit terms in late 1954 and early 1955, and a slight increase in the proportion of new cars bought on credit.

In the fourth quarter the rate of growth of consumer instalment credit declined as extensions of automobile credit declined and repayments continued to rise. The ratio of repayments to disposable income reached an all-time high of 12 per cent in the fourth quarter.

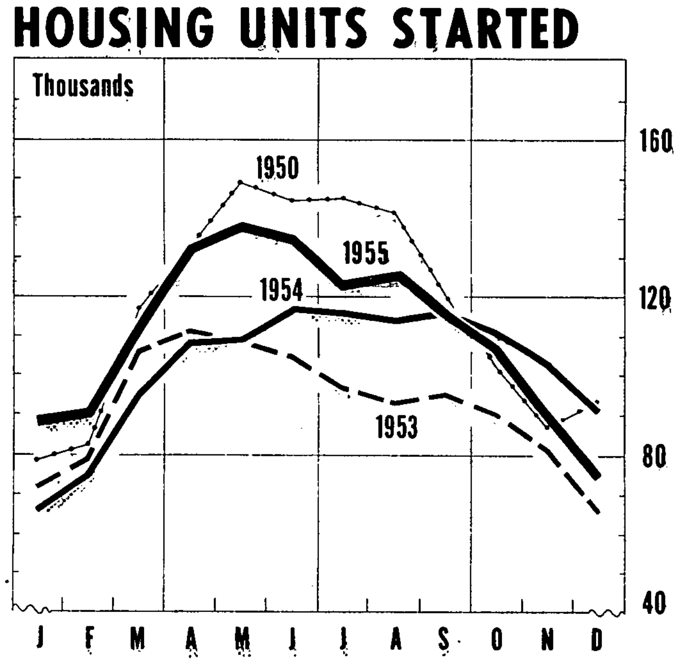
CONSUMER INSTALMENT CREDIT



Private Housing Starts Decline after Mid-Year

Private housing starts for 1955 totaled about 1.3 million units, compared with 1.2 million units in 1954 and a record 1.4 million in 1950. The number of 1-family houses started in 1955 was larger than in any other year, not excepting 1950 when more apartment developments were built. Since September total starts have been somewhat below the exceptional year-ago level. The seasonally adjusted annual rate in December was 1,189,000.

A recent Federal Reserve survey of current housing market conditions showed that markets continue strong in practically all areas. While some builders and lenders are cautious in view of greater consumer discrimination and somewhat tighter mortgage money, they do not expect large declines in any important areas. In January 30-year terms on Federally-underwritten mortgages were reestablished.

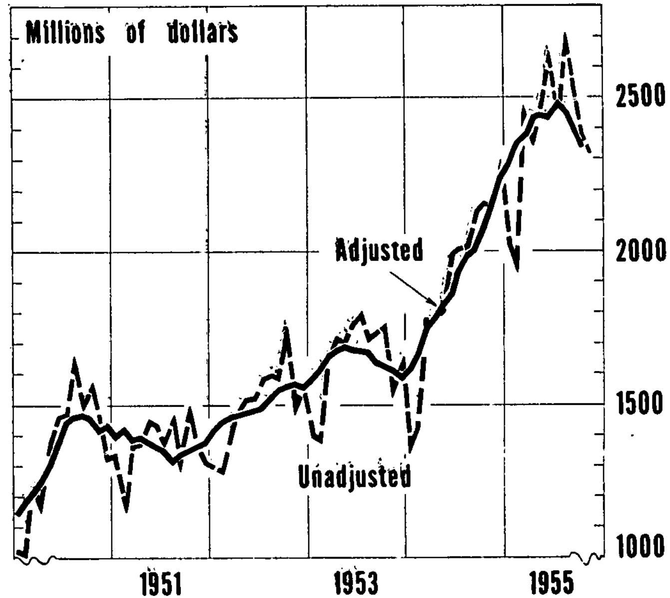


Real Estate Credit Extensions High

Real estate credit extensions on 1-to-4 family houses increased until the summer of 1955 and since then have declined. Extensions totaled an estimated 28-1/2 billion dollars during the year. Repayments rose less rapidly than extensions, and credit outstanding increased about 13-1/2 billion dollars in 1955, compared with 9-1/2 billion in 1954.

All major types of investors increased their mortgage lending compared with the preceding year. Many lenders financed such credit in part by sales of securities and by borrowing from commercial banks. Despite a record inflow of savings, savings and loan associations increased their debt to the Federal Home Loan Banks substantially.

MORTGAGE LENDING - NONFARM

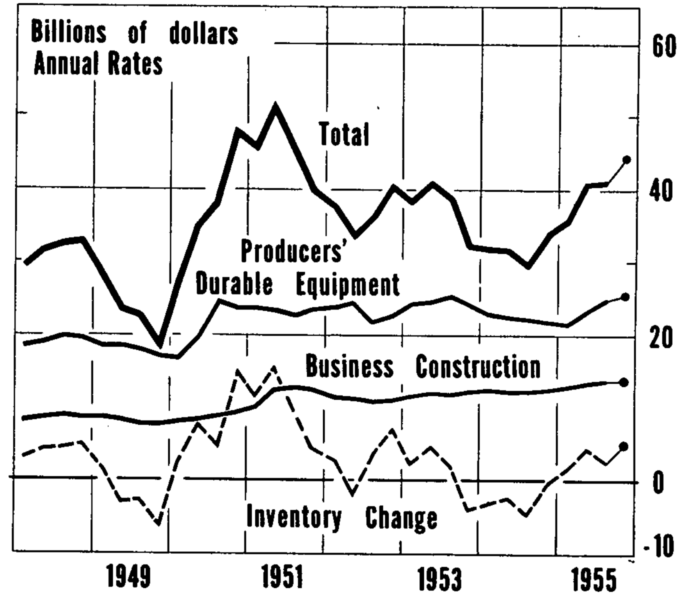


Rise in Business Investment Expenditures

Business investment rose from an annual rate of 34 billion dollars in the fourth quarter of 1954, to 44 billion in the fourth quarter of 1955. Expenditures for equipment have risen sharply since last spring, reaching a record rate of almost 26 billion in the fourth quarter. Construction expenditures have also risen. Recent surveys show that most major groups of industries plan to increase their fixed asset expenditures substantially this year.

Disinvestment in inventories ceased after the fourth quarter of 1954, and since then there has been a moderate accumulation of inventories. As a result of the rapid rise in sales, stock-sales ratios for all groups combined declined sharply through the spring to the lowest levels since early 1951 and have since remained at reduced levels.

BUSINESS INVESTMENT



Corporate Internal Funds Up

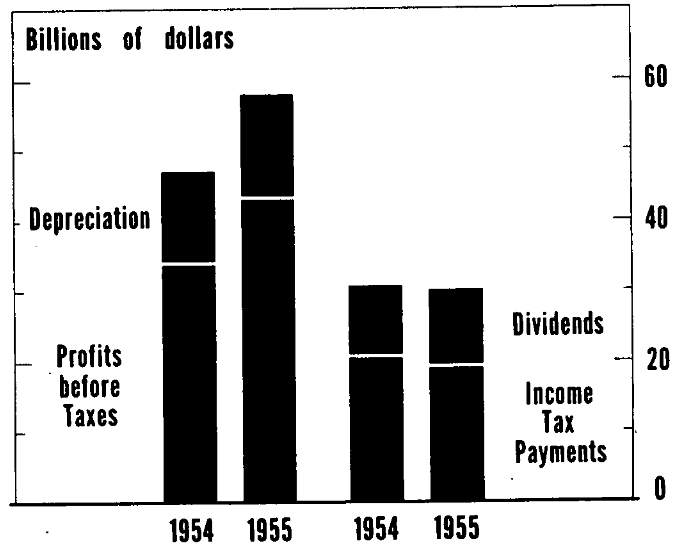
The substantial increase in internal funds of corporations in 1955 reflected both a sharp rise in profits before taxes and higher depreciation charges. The most marked increase in profits occurred in those industries in which the 1954 decline had been concentrated. Lower tax payments in 1955 reflected the reduced earnings in 1954. Although dividends rose, the increase was small relative to the gain in profits.

The larger volume of internal funds helped finance rising outlays for fixed and working assets and also substantial additions to Government security holdings.

(Billions of dollars)

	Prof.	Depr.	Total	Tax Paymts.	Div.	Total
1954	34.0	13.1	47.1	20.7	10.0	30.7
1955	43.2	14.5	57.7	19.3	11.1	30.4

CORPORATE INTERNAL FUNDS

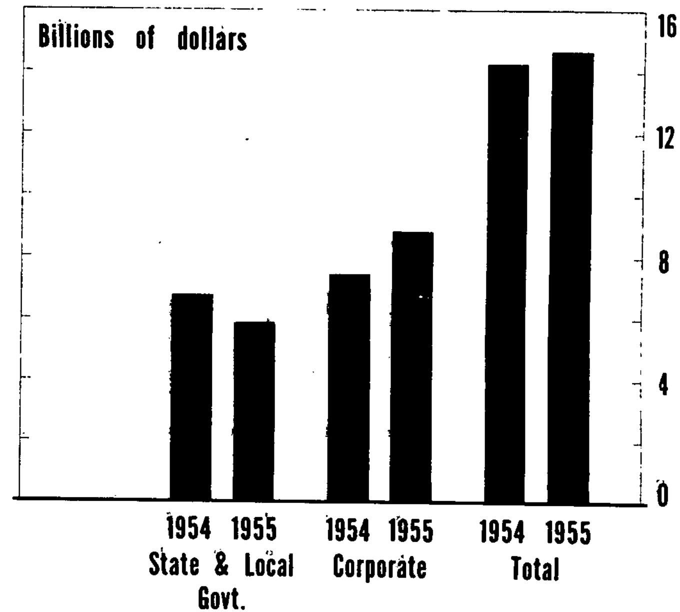


Security Issues Rise

Aggregate corporate and State and local government financing in the capital markets in 1955 was about 3 per cent above the large 1954 volume. The increase was attributable entirely to a substantial rise in corporate flotations, mainly on the part of sales finance companies. A decline of one-eighth in State and local government issues reflected a substantial reduction in toll road financing.

Public offerings by corporations have been relatively light in the first weeks of 1956, but private placement of corporate issues has been much heavier than last January. The decline in municipal offerings has continued into early 1956.

SECURITY ISSUES – NEW CAPITAL



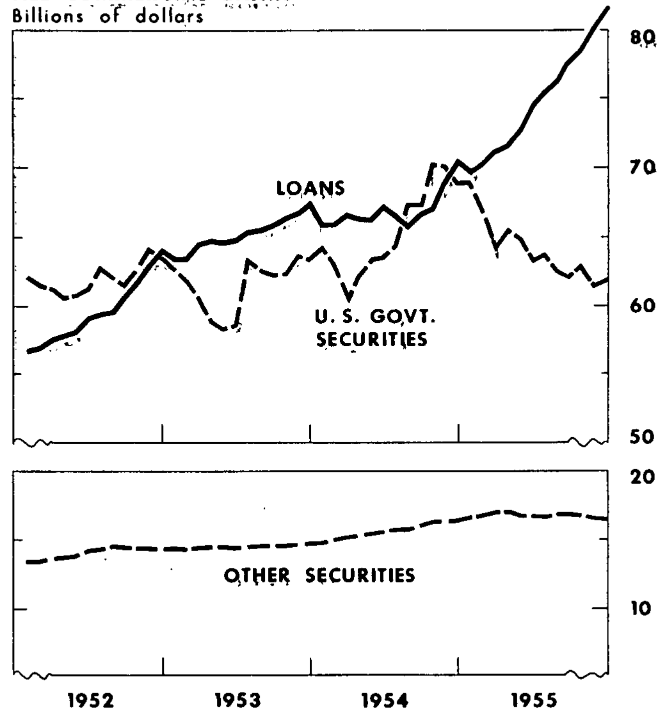
Moderate Increase in Bank Credit

Commercial bank loans and investments increased about 4 billion dollars or 2-1/2 per cent during 1955. Loans increased a record 11 billion dollars, but U. S. Government security holdings declined more than 7 billion. Other securities showed little change.

About 6 billion dollars of the reduction in Government security portfolios of banks took place in the first half of the year, but liquidation continued in the second half despite a seasonal increase in the public debt. Holdings of securities maturing in 1 year declined about 50 per cent in 1955.

During 1955 bank loans and investments had increased more than 10 billion dollars, including increases of 5-1/2 billion in U. S. Government securities, 1-1/2 billion in other securities, and 3 billion in loans.

BANK LOANS AND INVESTMENTS
ALL COMMERCIAL BANKS
Billions of dollars

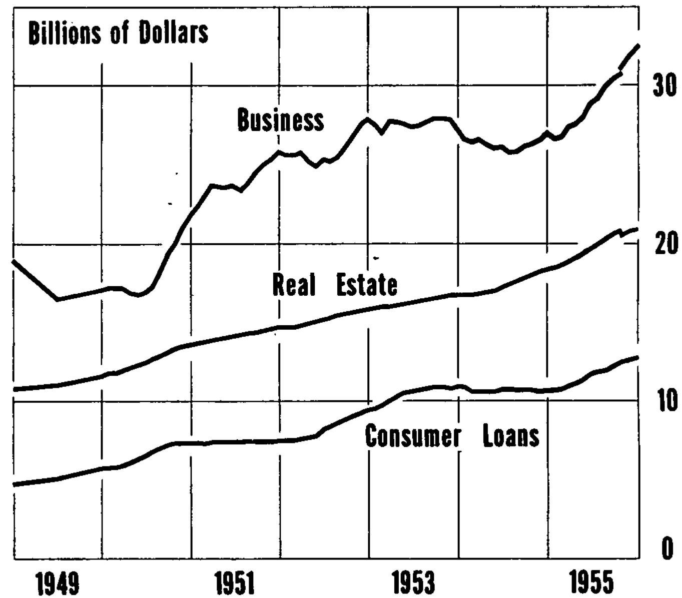


<u>Sharp Increase in Major Commercial Bank Loans</u>

Business, consumer, and real estate loans each accounted for a sizeable share of the record commercial bank loan expansion in 1955. Business loans increased 5-1/2 billion dollars or 20 per cent, compared with declines in the two preceding years. There were sharp increases in loans to most groups of borrowers, including sales finance companies, which were financing consumer credit expansion, and also petroleum and chemical, public utility, metal, textile, trade, and construction concerns.

Real estate loans increased 2-1/2 billion dollars and consumer loans about 2 billion in 1955. Continued rapid growth in real estate loans was due to warehousing of loans for other financial institutions as well as direct lending. Consumer loans had shown little change in 1954.

LOANS – COMMERCIAL BANKS



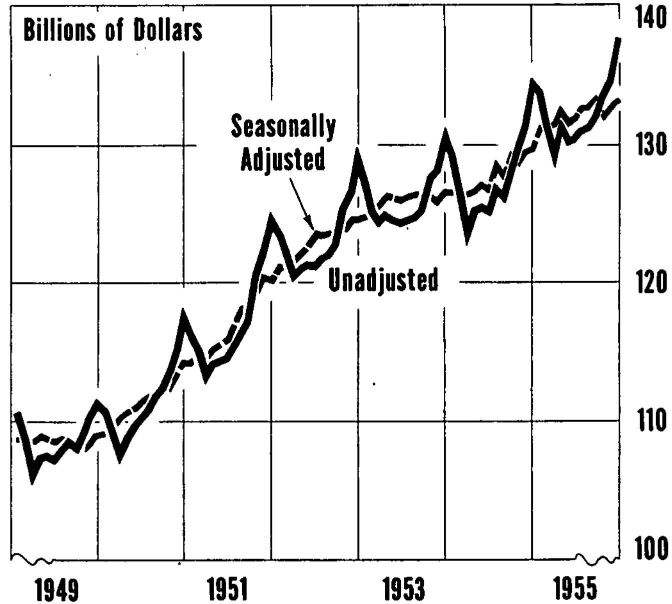
Moderate Growth of Money Supply

The moderate increase in total bank loans and investments was reflected in an expansion of somewhat more than 3 billion dollars or about 2-1/2 per cent in demand deposits and currency held by consumers and businesses. The rate of growth was slightly less than for 1954 as a whole, but only about half the rate reached in the second half of 1954 when banks used available reserve funds to purchase securities.

The annual rate of turnover of demand deposits outside New York City increased from 21.1 in the last quarter of 1954 to 22.6 in the last quarter of 1955. Most of the increase was in the first half of the year.

Time deposits increased about 3 billion dollars in 1955, only about three-fifths as much as in 1954. U. S. Government deposits declined about 700 million.

DEMAND DEPOSITS AND CURRENCY

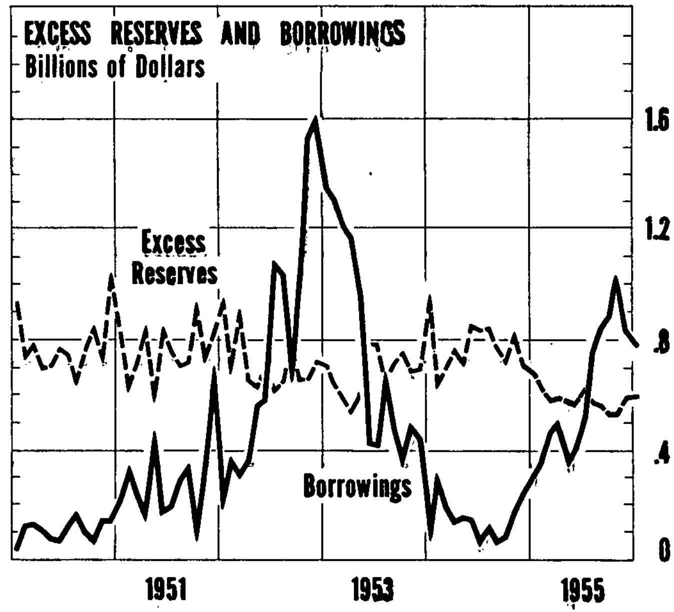


Bank Reserve Positions Tighten

Member bank reserve positions tightened during 1955 in response to the growing demand for credit and the more restrictive Federal Reserve policy. Free reserves--excess reserves less indebtedness to the Federal Reserve Banks--declined from 600 million dollars in the fourth quarter of 1954 to -350 million in the fourth quarter of 1955. Member bank indebtedness averaged more than 1 billion dollars in November, the largest volume since the spring of 1953.

The Federal Reserve sold 1.3 billion dollars of U. S. Government securities in the open market early in 1955 and purchased 1.2 billion in the second half of the year. These transactions offset major seasonal changes in the demand for currency and credit while permitting reserve positions to tighten over the year. Sales were resumed early in 1956 to offset the seasonal inflow of funds.

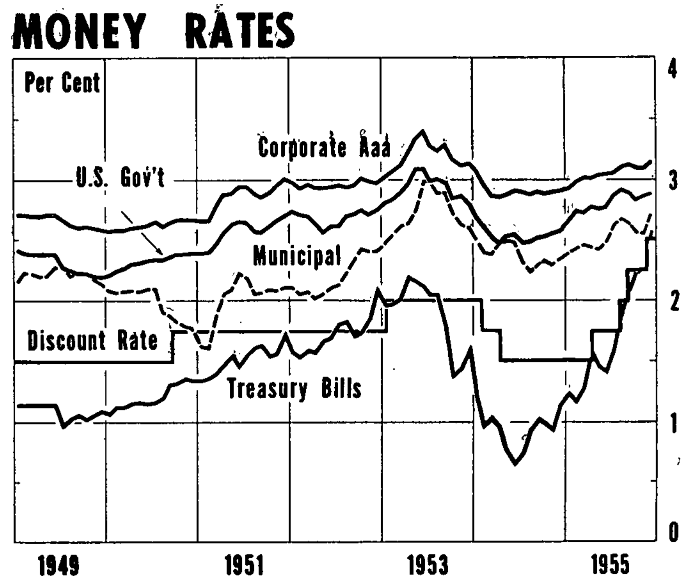
MEMBER BANKS



Short-term Interest Rates Rise Sharply

In response to the growing pressure on bank reserve positions, yields on short-term Treasury securities and on open market commercial paper increased about 1-1/2 percentage points during 1955 to the highest rates in more than 20 years. Yields on Treasury bills rose from a weekly average of 1.08 per cent at the end of 1954 to 2.58 per cent at the end of 1955 but declined to 2.28 per cent in late January. The mid-1954 low had been .61 per cent.

Yields on long-term government and corporate securities generally rose only about 1/4 percentage point in 1955 and at the end of the year were about 1/4 percentage point below their 1953 highs. During 1955 the differential between yields on long-term Treasury bonds and on 90-day Treasury bills declined from more than 1-1/2 to less than 1/2 per cent, the smallest differential in recent years.

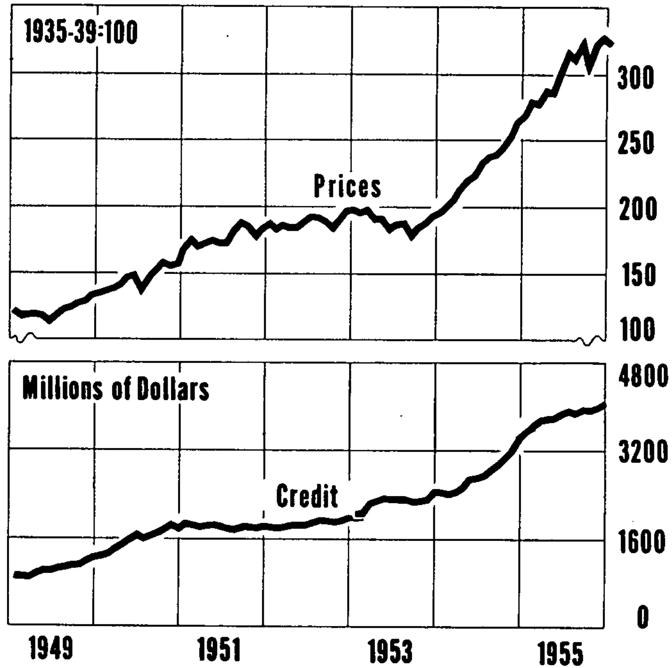


Stock Prices Level Off

Stock prices rose sharply in the first three quarters of 1955. The index of 334 reached in mid-September was about 80 per cent above the level two years earlier. Stock prices declined at the news of the President's illness but subsequently recovered most of the loss. From mid-November to year-end, prices fluctuated about levels close to their September peak; so far this year they have declined moderately.

The rise in stock prices in 1954 and early 1955 was accompanied by a sharp increase in stock market credit. The Federal Reserve raised margin requirements for purchasing or carrying securities from 50 to 70 per cent in two steps in January and April. There has been only a slight increase in stock market credit since April.

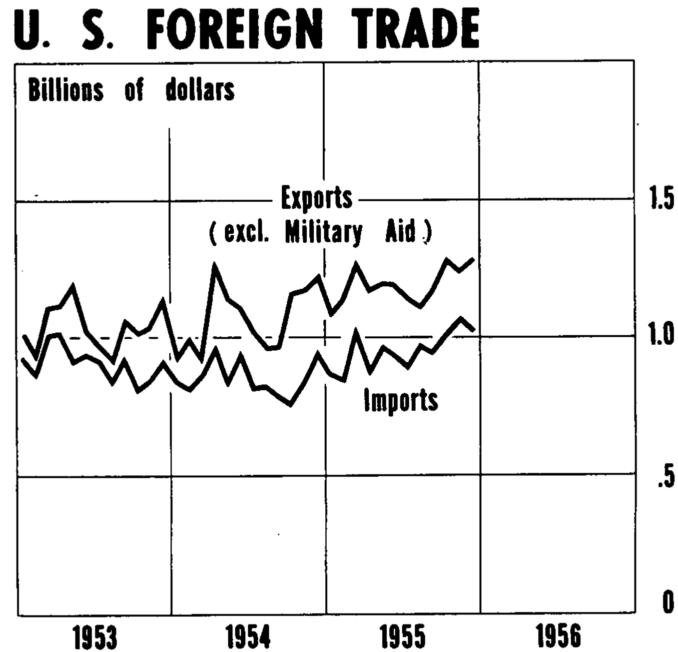
STOCK MARKET



U. S. Trade Expands Substantially

Imports of the United States increased about 20 per cent from the fourth quarter of 1954 to the fourth quarter of 1955. This expansion, which was most marked in manufactured goods, reflected the high level of income and demand in the United States. Exports also rose substantially--at first to Europe, where import restrictions have been relaxed in recent years and where economic activity was expanding strongly early in 1955, and later to other areas where incomes have also been rising.

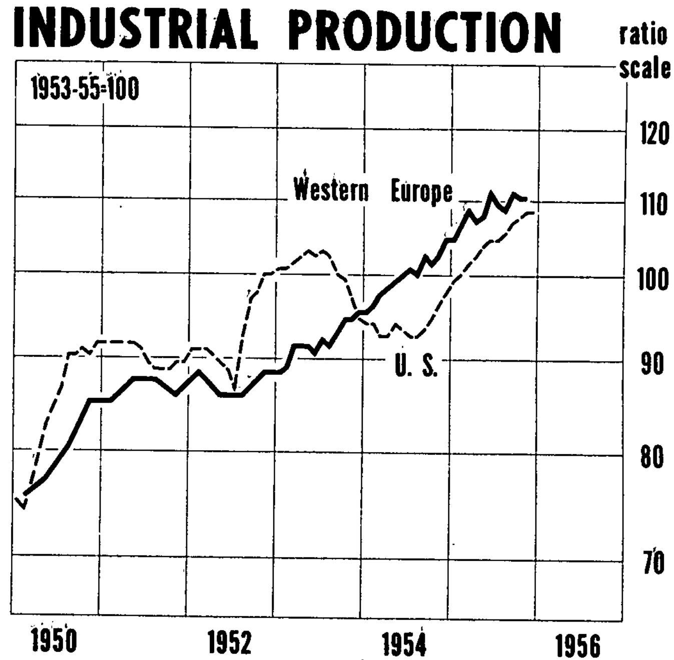
Despite the rise in foreign purchases from the United States, foreign reserves of gold and dollars again increased as a result of the sharp increase in import payments by the United States and the maintenance of a large flow of other payments abroad. Reserves of Germany, France, and Italy continued to increase, while those of Great Britain declined.



<u>Expansion of European Industrial Production Slackens</u>

Industrial production in Europe continued to increase in 1955. The rate of growth has declined recently, however, as unutilized manpower and capacity have diminished. There was little change in output in the United Kingdom in the second half of 1955, compared with a gain of 6 per cent during 1954. On the Continent, production expanded at an annual rate of about 5 per cent in the last half of 1955, compared with a 12 per cent increase during 1954. In both Canada and Japan industrial production increased about 10 per cent during 1955.

The fuller utilization of resources put pressure on prices and international payment balances. In order to moderate this effect, many countries, including Great Britain, Germany, and Canada, took steps to restrain credit expansion.



Vice Chairman PATMAN. Under our rules, I am privileged to ask questions for a period of 10 minutes, and then we will alternate from side to side, as heretofore.

First, Mr. Martin, do you concur in Mr. Sproul's views about installment buying and the restoration of regulation W?

Mr. MARTIN. Well, now, Mr. Patman, if it is agreeable with you, I expected installment credit would come up, and I have a prepared statement on that.

Vice Chairman PATMAN. That might take a few minutes.

Mr. MARTIN. Would you mind letting me make that a part of my prepared statement?

Vice Chairman PATMAN. All right; but if you will, just tell me whether or not you concur in his views.

Mr. MARTIN. I could not quite go that far. I concur in the position of the Council of Economic Advisers, that a study should be made.

Vice Chairman PATMAN. That a study should be made?

Mr. MARTIN. A very careful study.

Vice Chairman PATMAN. In other words, along the line of the President's message to Congress?

Mr. MARTIN. That is correct.

Vice Chairman PATMAN. But you are not advocating now standby controls?

Mr. MARTIN. I am not taking a position on it; pending the result of this study.

Vice Chairman PATMAN. I am mighty glad to hear you say that, because I am with you on this particular problem. I feel that installment buying is very helpful to our country.

Now, I do not purport to know, and I do not intend to say that I do know, but I feel that I can say that the amount outstanding could be twice what it is now before we should ever be alarmed.

Now, is it not a fact, Mr. Martin, that installment buying is less harmful to the country from the standpoint of inflationary danger than bank loans, for the obvious reason that if you make a purchase of something on the installment plan and you pay it back monthly, you are liquidating the debt all of the time. The balance is not used in the bloodstream of trade and commerce, it is not multiplying with a velocity of 20 to 50 times a year, as with bank loans. For that reason, do you not agree, that installment buying is less dangerous to the economy from the standpoint of possible inflation than bank loans?

Mr. MARTIN. Well, I am not against installment credit. It depends on its volume and the terms and the other factors. It could become just as dangerous as bank loans, depending upon the——

Vice Chairman PATMAN. Well, take an individual transaction, say a $100 purchase on the installment plan, in comparison to $100 in loan form from a commercial bank. Now, in one, the installment purchase, there is no giving of checks on the balance, and the checks being transferred from one person to another and having a velocity of 20 to 50 times a year. In the case of the bank loan, it does have that velocity. Is it not a fact therefore that installment buying is less harmful to the economy insofar as it might affect the inflationary situation?

Mr. MARTIN. I do not think that you could make that as a blanket proposition.

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Vice Chairman PATMAN. Well, it is obvious, though, is it not, Mr. Martin, that in the case of installment credit you do not create on the books of the bank an amount of money upon which to give a check, which can then be passed from one to another, sometimes 20 to 50 times a year, and goes into the bloodstream of trade and commerce?

Mr. MARTIN. Well, somebody has to create the credit, in the first place, that goes to the purchaser.

Vice Chairman PATMAN. Well, I can see that if the person making the sale of the article, the automobile, or whatever, goes to the bank and borrows the money, the same situation would develop. But it is my understanding that such bank borrowing does not enter into these installment purchases 100 percent, by any means. A lot of people carry their own paper, and therefore they do not create any money; isn't that your understanding?

Mr. MARTIN. Well, to a limited extent, that is true, but there are also a lot of loans made to finance companies that——

Vice Chairman PATMAN. Yes; I know that. It occurs to me that if we were going to restore regulation W because of this inflationary danger, should we not then consider also giving the Federal Reserve control over all of the banks that are outside of the System now and over which they have no control? Wouldn't that be more important dollarwise than controlling installment buying?

Mr. MARTIN. Well, I would not say; I would not pass judgment on that, Mr. Patman. I believe in the dual banking system, and I would not want to compel all the banks in the country to become members of the Federal Reserve System against their will.

Vice Chairman PATMAN. Well, we are looking at it now solely from the standpoint of dealing with the substantial amount of credit that is likely to enter into the economic system in a way that would be harmful and cause inflation. Looking at it solely from that standpoint, it would be more helpful to the Federal Reserve System to have control over the nonmember banks over which they now have no control. It would be more helpful in that direction than to have control over installment buying, wouldn't it?

Mr. MARTIN. Well, it goes back to the creation of credit, and it is only through the Federal Reserve System that we can create the credit; that is the importance of the Reserve. We are limited by our deposits——

Vice Chairman PATMAN. I do not believe that is responsive, Mr. Martin, if you will please pardon me for the criticism.

Mr. MARTIN. Well——

Vice Chairman PATMAN. I asked you a direct question. You know, we have so much credit outstanding, it is now about $704 billion, I believe, in credit. You expect it to increase, not diminish?

Mr. MARTIN. Well, not at all times.

Vice Chairman PATMAN. I did not say at all times. I mean the aggregate, we expect the aggregate to keep on increasing?

Mr. MARTIN. Yes; the aggregate.

Vice Chairman PATMAN. It must increase, to have expansion in commerce.

Mr. MARTIN. Well, I would hope that in time——

Vice Chairman PATMAN. Well, now, we are dealing with this $704 billion—that is an arbitrary figure, but now the $704 billion—that includes the national debt, installment buying, and all of the other things. Now, is not installment buying a very minor part of that entire debt structure in comparison with the national debt?

Mr. MARTIN. Oh, I think it is a minor factor.

Vice Chairman PATMAN. And similarly small in comparison to the bank debt?

Mr. MARTIN. It is not an overwhelming factor; but it is a factor.

Vice Chairman PATMAN. Now, how can anyone justify advocating the restoration of regulation W on installment buying without advocating at the same time a 100-percent margin requirement on stock transactions? In other words, it looks like it is almost on the brink of hypocrisy, if I may misuse that word "brink," to advocate restricting the installment purchaser on his credit transactions and still let the stock market speculator go ahead.

Mr. MARTIN. Nobody, to my knowledge, Mr. Patman, is advocating a stopping of the credit, it is just a matter of regulation——

Vice Chairman PATMAN. Well, I know, but that is the first step.

Mr. MARTIN. Well——

Vice Chairman PATMAN. We have dealt with you fellows in the Reserve before. Personally, I have confidence in your integrity as individuals and all that, but I just do not have confidence in the Federal Reserve Board when it comes to handling installment buying.

I just have a feeling that if we are going to restore the power to control it, that we should give it to the Executive, and the Executive should be charged with the duty of imposing it, if it were imposed, and then the people would have some recourse.

If it is put over to the Federal Reserve Board, where the Board members are appointed for 14 years—incidentally, I congratulate you on your own reappointment——

Mr. MARTIN. Thank you, sir.

Vice Chairman PATMAN (continuing). But the people do not have any chance to vote now, or in the future, on your action or that of any member of the Board. I therefore think that the power, if restored at all, should be restored to the Executive as an elected officer of the people charged with the responsibility and the duty of handling it.

Would you like to comment on that?

Mr. MARTIN. I think that is a matter that ought to be carefully weighed, carefully studied, in this proposed study.

I think there are advantages and disadvantages in such a proposal, but I am inclined to think if such a regulation should come up before us, that it should be removed as far as possible from either private pressures or political pressures, and that is the objective of what we are trying to work for.

Now, the advantages of the Federal Reserve Act is that you gentlemen in Congress, in passing the Federal Reserve Act, have given us a working set of—well, general working framework, I now refer to it as a trust indenture, our trusteeship over money, and we have that, and by having that we do not eliminate the fact that we are at the bar of public opinion always, but we do have——

Vice Chairman PATMAN. But you are remotely influenced by public opinion, I think, because the only way that it can reach you is through the Congress or through the Executive.

Mr. MARTIN. Now, Mr. Patman, when we are wrong, they will reach us very fast.

Now, as I say, we ought to have a reasonable time, and that is what the act permits, to establish whether we are right or wrong in our basic judgment.

Vice Chairman PATMAN. Excuse me. My time has expired.

Without objection, your statement will be inserted in the record at this point as an answer to the question about your stand on regulation W.

Mr. MARTIN. Would you object to my reading it, because there might be some later questions?

Vice Chairman PATMAN. Is there objection to reading it—of course, my time has expired——

Representative CURTIS. I would be glad to give my time for——

Vice Chairman PATMAN. No; we will not use your time, but without objection, Mr. Martin will be allowed to read his statement.

Mr. MARTIN. The Economic Report recommends that "consideration should be given to restoring the Government's power to regulate the terms of consumer installment credit" and suggests that "this is a good time for the Congress and the executive branch to study the problem."

The Board of Governors agrees that a special study of consumer installment credit in relation to economic stability would be timely. The study might well be undertaken by or under the direction of Congress with the help of the interested Government agencies.

Both the Twentieth Century Fund and the National Bureau of Economic Research made comprehensive studies of consumer installment credit in the thirties. A current research project could build on the fundamental knowledge contributed by these pioneer studies. The Board would be glad to do what it could to facilitate the research.

There are important arguments both for and against enactment of an authority to regulate installment credit terms. Among those in support of permanent Government regulatory authority, there are at least three that have merit.

The reason we put it in this order is not as a matter of preference, Mr. Patman, but we are trying to be completely fair and objective in this presentation.

The first concerns the tendency for installment credit terms to be liberalized over the expansion phase of the business cycle. Such a tendency may result in increasing risk exposure to a point which at a time of economic reversal would intensify recession.

The second argument concerns the sharp variation in the outstanding volume of consumer installment credit over the various stages of the business cycle and the resultant change in the contribution to, or diminution of, consumer purchasing power from the use of such credit. These swings in installment credit volume also tend to accentuate ups and downs in general business activity.

A third argument, related to the others, is that consumer installment credit extension is not as sensitively responsive to general credit controls—exercised through regulation of the supply of bank reserves and interest rates—as are many other types of credit. For example, in periods of general credit restraint consumer installment credit may continue to expand and impinge on the availability of funds for competing uses, while in periods of decline such credit may contract because of the high level of previously incurred indebtedness, regardless of the ready availability of loan funds and low interest rates.

On the other hand, the most telling arguments against Government regulation of consumer installment credit terms in other than recognized national emergencies need to be stated also.

First is the fact that this type of regulation would necessarily interfere with the allocation of credit resources by the interplay of market forces. To justify regulation, for example, it would need to be demonstrated that credit standards and credit volume over business swings vary to a greater extent for consumer credit than for other types of credit. It would also need to be demonstrated that longer-term economic growth would best be fostered by regulated terms. Over the long run, the argument goes, only competition, experience, and the discipline of the market place can determine reasonable and sound maturities, down payments, and the volume of this type of credit.

Another argument against a regulatory authority is that the administrative problems involved in regulation are exceedingly complex. The installment credit industry includes not only banks, finance companies, and large retailers but also many thousands of small retailers. There were nearly 200,000 lenders and retailers who registered as subject to regulation W when last in effect. Moreover, enforcement requires public acceptance. Experience shows this is difficult to obtain in the absence of national emergency.

I might say that the Federal Reserve Board had that experience.

A third argument against the regulatory authority pertains to the problem of criteria for regulatory action. Determination of guides for deciding what terms were appropriate at different stages of the business swing is a complex undertaking in itself. Then, there is an allegation advanced by representatives of the consumer finance business that regulatory terms inevitably tend to become the standard credit terms. This tendency, if true, would make difficult orderly business adjustment to changes in regulatory terms, particularly when stricter terms became appropriate.

Thoughtful consideration of all of these arguments, as well as of other aspects of the economic role of consumer installment financing, should be included in the broad study of the subject proposed in the President's Economic Report.

Concerning the specific question of an authority to regulate consumer credit terms, the Board's present thinking is much the same as I have expressed several times in recent years. The Board does not seek such authority, but if it were to be enacted, the Board would prefer that it be made a part of the basic Federal Reserve Act, to be used as and when economic circumstances require. With respect to the use of a selective control such as this one, as in the use of general credit controls, timing is of the essence. Finally, I want to emphasize that selective controls of this nature are at best supplements and not substitutes for the general overall credit and monetary instruments.

Let me just make a comment, if I may, there, Mr. Patman, which has to do with my own personal thinking, apart from the Board, for a moment, if I can disassociate myself there, that I have been back and forth in my own mind on this several times.

I can make an awfully good case in my own mind for the usefulness of this control if it is timed properly as a supplement to general controls, but the question of whether we are wise enough to time it properly is one that I don't blame you for having some lack of confidence in the

Federal Reserve Board or anyone else, because that is, in essence, the problem we are dealing with, whether the judgment is correct, and I would only say that that also applies, to a lesser extent perhaps, but in the same way, to general controls.

We came to having a managed currency in this country after years of travail and difficulty, with the decisions of the market place resulting in many panics. We accepted the hazards of a managed currency, and Congress placed in the hands of the Federal Reserve Board the responsibility to regulate the money supply, recognizing the hazards. If their judgment is bad, they can cause a great deal of difficulty, as you have pointed out on many occasions, with respect to the open market committee, but we accepted this hazard because the decisions of the market place became too severe for the public as such to accept.

Now, consumer credit is a relatively new activity in the current development of our country. We have not seen it tested against recessionary tendencies very actively, and I think that we are just kidding ourselves if we think that there will never be any recessions again in this country. We will do the very best we can to avoid and to minimize them, but we are not going to go up in a straight line all the time.

Therefore, we are faced with the problems which I have outlined here on consumer credit and we have to recognize that there may be difficulties when we are faced with recessionary tendencies, that there may be a spiraling downward in consumer credit and in other types of credit; but it is consumer credit which we are discussing at the moment, which will result in considerable reassessment of our viewpoint as to its impact on the general economy and may lead to our wanting to accept some regulation as we have come to accept the general controls.

Now, we are not certain of that and we do not know that, but it seems to me that it was very appropriate in the President's Economic Report this year, for them to suggest that now, in a period when we can do it, that we undertake to explore as carefully as we can all aspects of this problem.

Vice Chairman PATMAN. Mr. Martin, Dr. Talle has a question, I believe.

Mr. TALLE. Thank you, Mr. Chairman.

Mr. Chairman, inasmuch as Congressman Curtis is obliged to leave very soon, I will yield to him enough time to ask some questions.

Vice Chairman PATMAN. Without objection, all right.

Representative CURTIS. First, I want to compliment you on both of your statements, Mr. Martin. I think they are both excellent.

Mr. MARTIN. Thank you.

Representative CURTIS. There is one thing on this consumer credit. In your suggestion that a study would be very advisable, do you find yourself in any difference of opinion with the Treasury Department in that regard?

Mr. MARTIN. Well, I have not discussed it actively with the Treasury Department, but I do not think there is any disagreement as to the desirability of the study.

Representative CURTIS. I did not think there was, either. However, there were a few comments in the press, and I read an editorial this morning that indicated, from the testimony of Secretary Humphrey which he had given this committee, that he was not in accord. I did not so interpret his words at all, in fact I think that his and the Treasury's position is that a study is very desirable; I think possibly he did say that in his own judgment he did not think there was a need for regulations, standby regulations, at this time.

Mr. MARTIN. I feel confident that Secretary Humphrey would recommend a study.

Representative CURTIS. Well, I think so, too, and I just wanted to sort of clear the air on that. Thank you.

Representative TALLE. Mr. Martin, the members of your board and the members of this committee are familiar with various regulations bearing different kinds of designations, like regulation X, regulation W, and so on.

Isn't it true that one objection in these regulations is that they are rather a keen annoyance to the individual?

Mr. MARTIN. That is correct.

Representative TALLE. That is, they curb individual freedom. A marked difference between life today and that of ancient days is that in ancient days the individual's life was very closely regulated. Some patriarch or priestly lawgiver told him what he might do and what he might not do. Therefore, I think as of today regulation W would be a considerable annoyance, for having lived under it and having got rid of it, no doubt the American people would not want it back.

On the other hand, I am certainly not against the study. I think that is an excellent idea.

Just one quetsion, Mr. Martin, and it has to do with the first page of your statement, the second paragraph.

Mr. MARTIN. Yes, sir.

Representative TALLE. Relating to easing the money market and restraining it.

I gather from what I read in the newspapers that there is difference of opinion—some of them say that you are easing and some say that you are restraining.

What is the present attitude of the Board on easing credit or on restraining credit?

Mr. MARTIN. Well, Mr. Talle, that is a difficult question to answer categorically, because our open market committee operates on the strict understanding that it is actions, not statements, that make policy, and I would not want to indicate other than what you can see in these statements that come out every week—any statement of policy which might be used by speculators and others in Government securities for their own use.

I think that our statements have pretty clearly indicated that we are feeling our way as to what policy should be. We do not know what business is going to do in the next 3 or 4 months and we have to watch the sources of supply and demand, the loan demand, and the other factors, and we have always followed a policy in recent years of leaning against the wind, whichever way we can determine the wind is blowing, and at times it is difficult to learn which way the wind is blowing, but we are watching the wind and we are cognizant of the fact that we do not always know which way it is blowing, but it is our intention to lean against it whichever way it is blowing, in order to minimize the forces of deflation when they are in the uppermost, and the forces of inflation when they are in the uppermost.

Now, that is the best answer I can give to you, under my oath of office, on the open market committee.

Representative TALLE. I was not sure that my question was appropriate or not, but I knew if it were not, you would tell me so. I think your answer is a satisfactory answer. For my part, I want to congratulate you and the Board, as well the Treasury.

Vice Chairman PATMAN. Mr. Bolling?

Representative BOLLING. Mr. Martin, I want to congratulate you particularly on your statement on consumer credit. It is a statement that throws a lot of light on the problem.

I am sorry that my colleague from Missouri, Mr. Curtis, is no longer here, because I have some questions on Secretary Humphrey's statement.

Mr. Chairman, I ask unanimous consent to insert at this point in the record an editorial from the Washington Post and Times Herald of February 7 that discusses the subject.

Vice Chairman PATMAN. Without objection, so ordered.

(The editorial referred to is as follows:)

[The Washington Post and Times Herald, February 7, 1956]

HUMPHREY OUT OF LINE

Treasury Secretary Humphrey resorted to very poor logic in opposing President Eisenhower's suggestion that Congress consider establishing some form of standby control over installment credit. He also was badly advised to throw cold water on the President's proposal before Congress had an opportunity to study the problem. Mr. Eisenhower made clear his own feeling that credit control authority is not needed at the present time but might be needed as a safeguard against inflation in the future. Free wheeling by Cabinet officers of the sort Mr. Humphrey has engaged in tends to leave Congress and the public confused as to what constitutes real administration policy.

Quite apart from the propriety of the Secretary's remarks before the Joint Committee on the Economic Report, his emphasis on "let nature take its course" in economic affairs is highly disturbing. Moreover, it is contrary to the spirit of the Employment Act of 1946 and contrary to the policies this administration has pursued. Mr. Humphrey said the Government should not have such "a great responsibility" over credit apparently without remembering that the Federal Reserve Board has authority to control credit in the stock market and exercises that authority firmly. The Federal housing agencies have far-reaching authority over mortgage credit and are not hesitant in using it as situations change. The Treasury itself brings into play great powers over credit policy in its management of the public debt.

If the Government last year had had the authority the President suggested, it might have been able to prevent the granting of excessive automobile credit and a ballooning of sales that now are being paid for in sales cuts and factory layoffs. Allan Sproul, president of the New York Federal Reserve Bank, has been the leading advocate of a law to give the Federal Reserve "permanent authority" to regulate consumer credit because "there is a temptation to abuse it in boom times." Congress should heed the President's request and give the problem the most careful attention.

Representative BOLLING. During hearings before a subcommittee of this committee, the Subcommittee on Tax Policy, a colloquy took place between some of the witnesses and Mr. Musgrave. I hope I will not take all of my time reading it, but I want to read most of it, and then I want your comments on this discussion.

Mr. MUSGRAVE. In the short run, your monetary policy is a good deal more flexible than your tax policy. For the immediate week-to-week or even month-to-month action, it will have to bear the brunt. This is one of the great advantages of monetary policy, that it can be very sensitive to short-run adjustments.

With tax policy, even if we make it a great deal more flexible, we will hardly ever get that far.

Then, there is the question of structural maladjustmnets with regard to consumption and capital formation, which might require something like selective-credit controls at various times. Perhaps there is something to be said, if you want to be selective in some respects, for the use of credit, rather than use of taxation. Then there is a question, as Mr. Bach pointed out, that you will have to decide what course do you want in the long run. A policy for rapid long-run growth would, by and large, be one of low interest rates, and regressive taxation. I am exaggerating, but that would be the direction. This is something to be decided on.

Then there is a final question to be considered in comparing tax restriction and monetary restriction, namely, what is the distributional impact of one or the other? Strangely enough, we talk a great deal about the incidence of taxation and what that does to income distribution. We have to restrict, we have to raise taxation; do we take regressive taxation or progressive taxation; how will they affect income distribution; what is the incidence of taxation? You get precisely the same problem with regard to monetary restriction and maybe one of the things we don't know very much about is what is the incidence of monetary restriction as compared, say, to the incidence of proportional income tax.

Mr. Martin. Well, the answer to the first question is that I am more and more impressed with how little we know about it. I have gotten considerably less confidence in our knowledge of the incidence of monetary policy in my last few years in the Federal Reserve than I had, I think, before I was there.

That does not mean we are not developing a great deal of information, but that information has to be assessed and weighed against changing circumstances, and I doubt if we have enough experience in that, Mr. Bolling.

Now, in the field of consumer credit, I have indicated I have been backwards and forwards on this in my own mind. I am, naturally, against, my leaning is against, regulation W, and that has nothing to do with my present position, because I do not like—I want a minimum of regulation. My philosophy is one of wanting a minimum of regulation because I believe that you will get the maximum from the economy by having a minimum of rules and regulations and giving the economy as free a hand as it possibly can have.

Nevertheless, I recognize that where we have a managed currency and have accepted responsibility, which we have in the 20th century and through our Employment Act, for minimizing economic gyrations as far as we can through the resources of government, that we should be very careful about assessing these factors.

Now, consumer credit has bothered me because I have seen it now through two periods. I saw it in the 1952 period preceding the inventory recession of 1953–54, and I have seen it in 1955, and I do not know whether the volume is excessive or whether the terms are improper, I really do not know. That is not an act or anything that I am putting on, I am not trying to evade, I am really perplexed about it, but I think there are evidences here and there that the terms are liberalized when there is no necessity for liberalizing them, other than trying to get a sale from somebody across the street, perhaps, and that when the cycle reverses itself, terms will not only not liberalize, but that there is a pressure on liquidating the amounts that are outstanding.

That is why I think this study is very appropriate, to analyze as far as we can what the incidence is.

Representative BOLLING. The question in my mind is somewhat broader than the question Mr. Curtis asks.

Are you satisfied, in the light of the historical situation and the specific suggestions in the hearings, with the efforts that are being made to develop more information as to the incidence of monetary restrictions, and in the whole field of restriction on credit?

Mr. MARTIN. Well, I think that the subcommittee that we worked with up here, with respect to inventory figures and other figures, have been extremely helpful in developing that material, and I think that Mr. Young and his staff and the Board have been working overtime to evaluate that. Now, that is as far as I can go.

Representative BOLLING. What I am getting at is very simple. I am very strongly in favor of a thorough study so far as consumer credit is involved.

What I am trying to figure out is whether or not we should have a broader study.

Mr. MARTIN. Well, I think, as it affects the incidence of monetary policy, there should be broader studies as well as this specific study.

Representative BOLLING. Thank you.

Chairman DOUGLAS (presiding). I think that we should give the minority people time. We have only one member present, and I think that after each member of the majority ceases to talk, that is, after each member of the majority stops his questioning, that Dr. Talle will have a chance to ask such further questions as he may have and call upon the Chair.

Vice Chairman PATMAN. Mr. Chairman, of course, I do not object to Mr. Talle asking questions at any time, but that is a new policy. As far as I am concerned, I have never heard it before.

Chairman DOUGLAS. Perhaps a new policy, but I would like to lean over backward because of the suggestions of unfairness which the members of the minority have leveled at the chairman.

Vice Chairman PATMAN. Will the chairman permit me to explain my position?

Chairman DOUGLAS. Certainly.

Vice Chairman PATMAN. My feeling is that these gentlemen, who have enough interest to be here should be given sufficient time for questions, at least to the extent that of the usual 10 minutes. You are proposing to give the same time to people who are not here as you give to those who are here.

I of course do not object to Dr. Talle personally, and I know you realize that. It is just that the procedure is something that has come up that never came up before, and I have been on committees for 28 years and I have never heard of that order before.

Chairman DOUGLAS. It is an unusual privilege accorded the minority, but in view of the charges I think it is only proper that we lean over backward to be fair.

Representative TALLE. If I may interrupt, Mr. Chairman, on Capitol Hill we have to compromise to get anything done, so let me say that I appreciate the chairman's attitude, and I propose a compromise on this basis, that you gentlemen to my left proceed, and unless conditions become unbearable for me, I will keep quiet.

Chairman DOUGLAS. Well, I want you to realize that it is a self-imposed limitation, rather than one imposed by the rules of the committee. Do you have any questions?

Representative TALLE. Thank you, Mr. Chairman. I will say, as I have said on other occasions, but I would like to say it again this morning and in the presence of Mr. Martin that this committee and especially the members of the Subcommittee on Economic Statistics are grateful for the excellent cooperation we have had from you and Mr. Young. The studies you have conducted and cooperated in, have been very helpful.

Mr. MARTIN. Thank you.

Representative MILLS. Mr. Martin, is monetary policy currently one of restriction, neutrality, or ease?

Mr. MARTIN. Mr. Mills, I tried to point that up a minute ago.

Our open market committee operates under strict rules, that it is actions and not statements that make policy.

Now, we publish a statement every week. I should be extremely careful in upholding my oath of office, not to make comments on policy which could be used by speculators in the Government securities market or otherwise as interpreting this policy.

We make in normal times, and in our annual report, a full explanation of what those policies are. Now, it is perfectly obvious from following the statement that we moved down the last year, that during the last year we moved from active ease to ease to moderate restraint to a little bit more restraint, back again to less restraint, and at the present time I would say that we are feeling our way.

Now, a policy—I have frequently referred to this type of operation, that it is like a suit of clothes, that you may sometimes have to have many fittings before you get them into a position where you can wear them.

Now, I cannot say at the present time what the specific policy is, but if you read our statements from week to week, we are making them available to everybody on the same basis.

Representative MILLS. What prompted my question is that action of the Board is disposing in a 4-week period, around the 1st or 2d of February of approximately $1 billion of Government securities.

I wondered if that meant that there was a feeling within the Board that the inflationary forces are still strong. Does that action in selling these securities in that period mean that the Board thinks inflationary forces are still strong?

Mr. MARTIN. Well, you have to measure that against the return flow of currency during that same period.

Representative MILLS. Well, that sale of those securities could be interpreted, could it not, as an act of restraint rather than neutrality or ease? I am asking for information.

Mr. MARTIN. No; it would not be.

Representative MILLS. It would not be an act of ease, would it?

Mr. MARTIN. Well, an act to offset the return flow of currency just prior to the end of the year. We know at Christmas there is a tremendous demand for currency——

Representative MILLS. Well, just for the record, that sale of securities, did it act as restraint, neutrality, or ease, if it had any effect?

Mr. MARTIN. It is a seasonal adjustment. It is not any of those, in terms of policy.

You see, it depends on the amount we are trying there to offset, the seasonable return flow of currency now, by the sale of securities, whereas in the period preceding Christmas, we were trying to provide for that outflow by the purchase of securities.

Now, it does not become a policy factor until it either exceeds or reduces the amount of that; that is why our problem is so different.

Representative MILLS. Well, I am trying to have that for my own thinking.

Mr. MARTIN. Sure.

Representative MILLS. I interpret the action during the first of the year as an element of restraint—I could be wrong, and if I am wrong, I would like for you to so inform me, because I am trying to reconcile how we can have a monetary policy of restraint——

Mr. MARTIN. Well, we are dealing with degrees here, and whether this becomes—we have not only degrees, but we also have this matter of time, as I expressed it, in the market.

Now, the net borrowing reserves, the net that we had previously, in early December, for example, was in the neighborhood of $400 million to $500 million, on a day-to-day basis, and that went down to zero at the end of the year, yet the money market remained tight because of the year-end adjustments and the expectations of people. Now we are back to a level where the negative reserve is in the neighborhood of $400 million or $500 million, again.

The money market is about the same. That is just a rough judgment, but it is about the same today as it was in mid-December, although there has been quite a variation in those particular reserves.

I think our difficulty is the measurement, you see, of the amounts. If we decided, for example, to pursue a policy of active ease, we would have to persist in supplying more reserves over a period of time more than the seasonal requirements would indicate.

Representative MILLS. Let me ask you, then, for your opinion as to how monetary and fiscal policies should be integrated in the year ahead, or could you——

Mr. MARTIN. Well, if business should actively decline and you wanted to stimulate business, you would not only reduce taxes but you would also ease money.

Representative MILLS. But you would do that if there is a downturn in business activity?

Mr. MARTIN. That is a matter of judgment, you see; certainly, I would not want to see a downturn in business without doing what we can to lean against the breeze.

Representative MILLS. Well, you could act promptly to ease the monetary situation, and the Congress, we could perhaps follow along, but that would take some time.

Mr. MARTIN. We have more flexibility.

Representative MILLS. Let me change to another matter, if I have time, to this matter of the installment credit.

You have statistics in the Federal Reserve, I assume, bearing on the various facets of the entire problem of installment credit, do you not?

Mr. MARTIN. We do.

Representative MILLS. Do you have statistics that you consider recent enough and full enough to give you a picture as to what is happening with respect to the failure to meet installment payments, as some do? Is that growing at the present time?

Mr. MARTIN. The situation at the moment is not bad in either the delinquencies or recoveries.

Representative MILLS. In either instance, is it a bad situation?

Mr. MARTIN. No, not in my judgment.

Representative MILLS. Is that partly responsible for the language which the President uses in his Economic Report, indicating that installment credit control is not presently needed? Is that one of the reasons that he said it was not presently needed, because of these statistics, statistics you have, or information from statistics?

Mr. MARTIN. I would think probably that is so; I do not know.

Representative MILLS. Let me ask you, would another factor be that the recent levels are not too high; would that be a factor that he came to that conclusion by?

Mr. MARTIN. I do not know. I would not make a judgment.

Representative MILLS. Or are the levels too high at the present time?

Mr. MARTIN. That I do not know. It certainly has been rising for quite a time.

Representative MILLS. And in the recent period, the expansion of credit has resulted in rising terms taking place in credit; would that be a factor?

Mr. MARTIN. That I do not know.

Representative MILLS. Well, those are the factors that certainly should be known and considered in connection with any overall study on regulation.

Mr. MARTIN. They certainly should be. The impression I have at the moment is that the consumer credit terms and the qualities of them is better than it was several months ago.

Representative MILLS. Well, obviously, I would like your comment on it—whether it is all right or not I do not know, but obviously there is considerable information from many sources, that a large part of the recent rise in economic activity, particularly in 1955, is due to the rise in the level of installment credit.

Mr. MARTIN. Well, there can be no doubt about it. Mr. Young could give you the figures——

Representative MILLS. I also understood that, on the other hand, since the first of the year there has been an appreciable increase in the failure of people to meet the installments that are presently due on this installment credit.

Mr. MARTIN. Well, our information, I don't think, has shown that.

Mr. YOUNG. Well, there may be some instances, but it is not, I think, a very significant matter.

Representative MILLS. Well, what if it becomes a significant matter; what could we do then?

Mr. MARTIN. Well, Mr. Mills, I would say the decision of the market place would have——

Representative MILLS. If installment credit constituted a large factor in this upswing of economic activity and it develops now that people have overexpanded their credit beyond their ability, in many instances, to repay, then does that mean unless we take some further action that there will follow a downtrend in business activity in coming months?

Mr. MARTIN. There will follow some painful adjustments, where some people will be penalized, both the lenders and the borrowers would be penalized.

Representative MILLS. Well, I have enjoyed this very much, but I understand my time is up.

Vice Chairman PATMAN. As I understood the chairman's ruling, Mr. Talle would alternate, he would be recognized.

Representative TALLE. No questions.

Vice Chairman PATMAN. Mr. Kelley?

Representative KELLEY. No questions.

Vice Chairman PATMAN. Mr. Martin, my information is, neither during the years 1953 nor 1954 nor 1949 were there delinquencies in installment payments that were alarming, disturbing, or even noticeable, or I will use the word, significant.

Mr. MARTIN. I think the record has been quite good.

Vice Chairman PATMAN. You think they are quite good and you agree that the information I had was accurate, that it was not disturbing during those years, 1949, 1953, and 1954?

Mr. MARTIN. Well, I wouldn't have firsthand connection with 1949, but I would say that generally speaking that is probably correct.

Vice Chairman PATMAN. What are the implications, Mr. Martin, of the narrowing spread between long- and short-term rates in recent years. I would like to preface that with a reference to your chart entitled "Money Rates." I think you will find that the information you have furnished discloses that the short-term rate has really gone up 100 percent in a year—over 100 percent. Your chart indicates that the yields on Treasury bills rose from a weekly average of 1.08 percent at the end of 1954 to 2.58 percent at the end of 1955, but declined to 2.28 percent last January. In other words, there was an increase of over 100 percent in the short-term rate.

What is the implication of the narrowing spread between the short term rate and the long-term rate?

Mr. MARTIN. Well, in the past there have been times when short-term rates have exceeded long-term rates by substantial amounts.

Now, I think that the general implication of this as I view it—other people may have different judgments on it—is good business. We have had a rising level of business activity generally and——

Vice Chairman PATMAN. You mean it is good business to raise the short-term rate 100 percent?

Mr. MARTIN. No; but in terms of the rise of money there has been an active demand for money, a constantly increasing demand for money, and therefore the people have been willing to borrow on short term and pay more for it because they see an opportunity for profit therein.

Vice Chairman PATMAN. Well, the rate was determined also by the availability of the funds to take up the offerings, is that not true?

Mr. MARTIN. Yes.

Vice Chairman PATMAN. All right. Do you agree or disagree with Secretary Humphrey's action last fall when he sold an additional $100 million worth of bills each week to take care of current obligations when he didn't actually need the money?

Mr. MARTIN. I think he needed the money. I agreed with him.

Vice Chairman PATMAN. You agreed with him?

Mr. MARTIN. I wish he had sold $300 million worth of new bills.

Vice Chairman PATMAN. Well, that caused the rates to go up. Are you in favor of arbitrarily increasing interest rates, even short term?

Mr. MARTIN. You mean of the fact that he sold more bills?

Vice Chairman PATMAN. Certainly. You just said a while ago that the rate was determined by the availability of funds that is measured by offering, and if you offer $100 million a week the rate will certainly be lower than if you offer $200 million a week, wouldn't it?

Mr. MARTIN. Well, I should think an increased supply would tend to decrease the rate. The bills would replace certificates which are less liquid and generally have higher rates.

Vice Chairman PATMAN. I don't understand that at all. You know so much more about this than I do know, I can't argue with you, Mr. Martin. Instead of just borrowing by selling the same amount of bills each week for 13 weeks it sells $100 million additional when it doesn't need it to meet current obligations.

Now, whenever you offer bills, when you don't need the money, you just pile it up there for 13 weeks and it occurs to me that you are bound to be mopping up or absorbing available funds to that extent.

Mr. MARTIN. The Treasury, to my knowledge, was not borrowing when it was not needed.

Vice Chairman PATMAN. Well, Mr. Humphrey—sitting right there where you are sitting now—said he would need it eventually. He said he would need it in 13 weeks.

But, there is a big difference in borrowing 13 weeks in advance when the rate is going up—as high as it has ever been—and then to throw more Government securities on the market for sale than you actually need. It looks to me like it is just arbitrarily forcing an increased rate.

Mr. MARTIN. Well, there was no intention to force an increased rate.

Vice Chairman PATMAN. Well, there was no denial of it by Mr. Humphrey. He admitted that it would force an increased rate, and you have admitted, in effect, it would force an increased rate. The more bills you sold the more the rate was likely to be.

Mr. MARTIN. The Treasury needed it, Mr. Chairman. What would be their alternative?

Representative TALLE. Mr. Chairman, my memory tells me that Secretary Humphrey said that it would have no effect on the rate in the final result.

Vice Chairman PATMAN. Oh, no; I asked him and I prefaced it with a question. I said, "Isn't it a fact that the rate would be influenced by the amount of bills offered, measured by the availability of funds," and he said, "Yes." That is logical; the scarcer money is the higher money rates get; and the more bills you put out the higher the rate is going to be. You fellows know more about it than I do, but it just doesn't seem reasonable to me that the Treasury and that you, as Chairman of the Federal Reserve Board, would approve for 13 weeks in succession selling more in bills than you actually need to discharge current obligations.

Now, the way I understand it, each week $1,500,000,000 worth of bills were coming due. That is correct, isn't it?

Mr. MARTIN. Yes.

Vice Chairman PATMAN. Now, instead of just selling $1,500,000,000 worth of bills each week to pay off the bills that were becoming due they sold $1,600,000,000 worth. I can't see anything else except that it was done to arbitrarily increase the interest rate on short-term securities, to a point 100 percent higher than it was the year before.

Mr. MARTIN. Well, the purpose of that issue was not to increase the interest rate. The purpose was to get the money for the Treasury.

Vice Chairman PATMAN. Well, they didn't need the money then. Why, wouldn't you say, then, that if in the following 13 weeks they needed $1,300,000,000 more, that they ought to have increased it $200 million per week to take care of that?

Mr. MARTIN. Well, they were going to need it, Mr. Patman. I don't have in mind the details on the precise transaction but you must remember that the Treasury could either wait to a given point and put out the entire amount that they needed or they could pick it up for 13 weeks as they did in this instance.

Vice Chairman PATMAN. But, they picked an unfortunate time to do it. They picked a time when the short-term rate had doubled and then they were adding on top of that, making it higher.

Mr. MARTIN. That is a matter of judgment, you see, as with respect to the course of interest rates, and also respect to the demand for credit.

The Treasury and the Federal Reserve, both of us, have to assess this market constantly, and we want to help them when they float their securities. We are anxious to see them successful.

Vice Chairman PATMAN. If you believe in that, if Secretary Humphrey believes in it—and I can't understand it to save my life—if you don't need money for a fourth of a year from then—13 weeks from now—that you think you ought to borrow it now, although it will raise the rate on what you absolutely have to have, I will accept your statement as reasonable and good business, but it just doesn't look that way to me.

Mr. MARTIN. I would be very glad to get you a memorandum on that particular transaction.

(The memorandum referred to appears at p. 306.)

Vice Chairman PATMAN. If you could change my mind, it would please me very much, because I want to agree with you but I can't because it doesn't look sensible to me to borrow money this year when you need a certain amount and borrow twice as much because you may need it next year.

Mr. MARTIN. Well, I don't think those are the details.

Vice Chairman PATMAN. No; 13 weeks is the difference. Now, I will ask you about these repurchase agreements. When a commercial bank needs reserves, is it customary for them to put up Government bonds with the understanding that they could repurchase them at a certain time in order to acquire more reserves at the Federal Reserve bank?

Mr. MARTIN. You mean, through discounting if it is a member bank. Repurchase agreements are made with Government security dealers.

Vice Chairman PATMAN. Yes.

Mr. MARTIN. Yes.

Vice Chairman PATMAN. In other words, if a dealer puts up $1 million in Government bonds with the understanding they could purchase them wtihin a certain time. Do you usually have a specified time?

Mr. MARTIN. On these repurchase agreements, they could be 3 days, they could be 5 days, they could be 15 days.

Vice Chairman PATMAN. Or they could be any time agreed upon?

Mr. MARTIN. We have held them to 15 days.

Vice Chairman PATMAN. And that is the reserve upon which expansion is permitted to take care of an emergency situation?

Mr. MARTIN. That is right and it automatically expires at the time that the repurchase agreement matures.

Vice Chairman PATMAN. All right, Mr. Talle, would you like to ask any questions?

Representative TALLE. I pass.

Vice Chairman PATMAN. Mr. Bolling?

Representative BOLLING. No.

Vice Chairman PATMAN. Mr. Mills?

Representative MILLS. Yes. Mr. Martin, in connection with the proposal we have been discussing for study, looking toward restoration of standby controls on installment credit, would you give us any idea as to what criteria there are to guide the monetary authority in the exercise of this standby control if the monetary authority were given it?

Mr. MARTIN. Do you mean what criterion we would use?

Representative MILLS. Yes. What criteria would you use in the exercise of the discretion given you by controls, if such were provided?

Mr. MARTIN. If we had had the authority last summer, for example, at the time that we felt that there were indications of an exuberance in the economy that might lead to inflation, we might have, if we had had the authority, we might have at the time that the discount rate was raised, we might have specified that the minimum terms on installment credit would be something down and so many months.

Representative MILLS. Pardon me, now. If I may interpose at that point, lacking standby controls at that time, was there any action taken under any general credit controls in the absence of direct standby installment controls?

Mr. MARTIN. Yes, indeed; we raised the discount rate in April.

Representative MILLS. That is a restraining action?

Mr. MARTIN. That is right. Eleven banks raised again to 2 percent in August. One bank, however, raised to 2¼ percent and the other banks followed in early September and then they raised it again in November. In other words, we raised discount rates four times.

Representative MILLS. Let me see if I can understand in terms of policy, whether it is restraint, neutrality or ease, these actions that you list from December 1954 to December of 1955 in connection with your statement.

Now, the first action taken in December of 1954 would have been called one of ease, would it not, so far as your individual act is concerned, not related to the other factors that existed at the time?

Mr. MARTIN. It is a step in the direction of ease; yes, sir.

Representative MILLS. Now, January–June, the next one, would be a step in the direction of restraint?

Mr. MARTIN. That is right, that is correct.

Representative MILLS. January, the third one, would be a step in the direction of restraint?

Mr. MARTIN. That is right.

Representative MILLS. April 1955 was a step in the direction of restraint?

Mr. MARTIN. Right.

Representative MILLS. April 1955, at the bottom of the page, was a step in the direction of restraint?

Mr. MARTIN. Right.

Representative MILLS. And the one on the second page, March–December 1955, "made net purchase of bankers' acceptances in open market totaling $28 million," that is a step in the direction of ease?

Mr. MARTIN. Yes.

Representative MILLS. Now, July to December 1955, that is also a step in the direction of ease, where you made outright purchases of Treasury bills, and so forth?

Mr. MARTIN. That is right.

Representative MILLS. November–December 1955, that also is a step in the direction of ease where you purchased Treasury certificates?

Mr. MARTIN. Well, that is a very difficult one, Mr. Mills. It is, in the purchase, a step toward ease, but you must also remember that the seasonal flow of funds was such that regardless of whether we made this particular purchase we would have had to make some purchases, and we did not make purchases in excess of what we thought would be required to meet that particular demand.

Representative MILLS. The next one, August–September 1955, is in the direction of restraint?

Mr. MARTIN. That is correct, sir.

Representative MILLS. And then November 1955 is also in the direction of restraint?

Mr. MARTIN. That is correct.

Representative MILLS. Now, your purchases on November 30, 1955, which you allude to in your main statement and in the early part of December, were they in the direction of ease or did they have any connection with your monetary policy to that extent?

Mr. MARTIN. We don't think they had any connection with the monetary policy.

Representative MILLS. Then your action in the first 4 weeks of this year, which ended February 2, in disposing of $1 billion of Federal securities, would be in the direction of restraint, would it not?

Mr. MARTIN. Well, yes; yes.

Representative MILLS. Now, then, I will ask you a question that always intrigues me to a great extent about the operation of the Federal Reserve System, which my questions have indicated I know so little about, I am sure.

When you pursue a general policy of either credit restraint or ease, how does the monetary authority separate out and allow for so-called seasonal needs which are superimposed on the prevailing longer-term objectives without to some extent affecting your long-term objectives?

Mr. MARTIN. Well, that is our great difficulty, Mr. Mills. We have to make a projection. Whenever the open-market committee sits down and we meet every 3 weeks now—we have to make some projections of what the required reserves will be in terms of the seasonal requirements and you realize that "seasonal" is a word that has shifted in recent years and sometimes changes in degree also. We have to make a projection of what those seasonal requirements are, and of what we believe to be normal growth factors in the economy, and we have to weigh that projection against the business picture that is developing, trying not to forecast the business picture unduly, but weighing it in terms of what is our best judgment of what will be required to meet the flow of money, to keep the flow of money in accord with the needs of the community. Now we face that every 3 weeks, sometimes oftener.

Representative MILLS. But if you are following a policy of credit restraint, that is, your long-term policy, and you think it is necessary to curb inflationary pressure, and then you are called upon either by your own judgment or because of the necessity of the hour, to assist the Treasury in refinancing its obligation, you have the problem then of whether or not that act might upset your stated long-range objective of restraint to credit, do you not?

Mr. MARTIN. We do, indeed.

Representative MILLS. And it might well do it?

Mr. MARTIN. That is a factor also.

You see, I go back to the meeting. In each meeting we have to take into account the requirements of the Treasury, the seasonal requirements, and the growth factor in the market, and I add a fourth one, which is the psychology. Those four factors have to be discussed and projections made every time we hold a meeting.

Representative MILLS. Would you describe the present situation with respect to housing as being one of credit restraint?

Mr. MARTIN. It is a very difficult—credit restraint in housing—I haven't found any evidence that funds are unavailable for housing.

Representative MILLS. I know they may be available, but the interest rate might be so high that they would not be utilized. That might also be a restraint upon developments, wouldn't it?

Mr. MARTIN. I think our judgment would be that the interest rate is not—that there is not at the present time much evidence that tight credit is unduly restraining housing.

Representative MILLS. What effect would the discount rate have upon housing development? If you raise the discount rate, wouldn't that serve to restrain it?

Mr. MARTIN. It is a factor, you see, but——

Representative MILLS. The Federal Reserve System did some of that last year. Would that have an effect of restraining housing? That is what I am getting at.

Mr. MARTIN. It is certainly in that direction.

Representative MILLS. All right; if we have restrained housing—if we have, I am assuming, I am not saying you have—but if we have, how effective can deliberate relaxation of these controls, if they have been once imposed, be to stimulating recovery of the housing industry?

I am under the impression that once we pursue a course of credit restraint we may not, 6 months from now when there needs to be activity in this particular area, be able to attract the people to construct houses who wanted to construct houses 6 months prior to that time. Some other factors may develop.

Can we always put on these controls, and then take them off effectively to create growth or expansion in the industry that we once restrained?

Mr. MARTIN. No; we cannot.

Representative MILLS. We lose momentum do we not?

Mr. MARTIN. Yes. You do not turn this on or off the way you do a faucet.

Representative MILLS. That is my point. So it isn't as easy after we once restrained the housing industry, if we do, to get it to pick up when we need it in the future.

Mr. MARTIN. It is easier to restrain than it is to galvanize.

Representative MILLS. The same thing would be true of the automobile industry, would it not? If we put restraints on the purchase of cars, through credit, we might not be able to get the industry to pick up at a time when we wanted it to. Those are factors you have to worry about when you impose restraints.

Mr. MARTIN. Exactly, and that is why we should do it extremely cautiously.

Representative MILLS. What, if anything, can monetary policy do to avoid divergent price trends within the price system such as have been taking place with agricultural prices going down mostly and industrial prices going up. Can monetary policy do anything about that divergence?

Mr. MARTIN. Well, I think it can be helpful on imbalances, recognizing always that it is not the controlling factor.

Let's put it this way: take agriculture where the prices farmers pay have been climbing. Our price stability—and that is one of the things that has worried us since the summer—has indicated a rise in industrial prices, offset in part by a decline in farm prices. But, the farmer is caught in a cost-price squeeze and it is not a lack of credit that is the farmer's problem, in my judgment. The cost of credit represents roughly, one of our people estimated, 5 percent of farm costs.

Now, we have been trying to do what we can through monetary restraint, to assist the other 95 percent of these costs which are in other factors.

Representative MILLS. Well, isn't this present divergence between agricultural prices and industrial prices alarming, distressing, dangerous?

Mr. MARTIN. Well, it is undesirable. How alarming it is, I wouldn't be a judge, but I wish that we could find some way of removing the heavy surpluses that are overhanging the farmer.

Representative MILLS. You say monetary authority can do something. What is monetary authority doing at the present time?

Mr, MARTIN. Monetary policy by pursuing—I am not talking about the moment now, I am talking about during 1955—by pursuing a policy of restraint, monetary policy has been assisting the farmer, in my judgment, where 95 percent of his costs lie.

Representative MILLS. You mean by restraint you have tended to reduce his costs?

Mr. MARTIN. We have tended to keep his costs from rising further than they would otherwise.

Representative MILLS. I see. But you have not been able to do anything by monetary policy to increase his price?

Mr. MARTIN. We can't do a thing there; he has got his surplus overhanging.

Representative MILLS. That is something that is left for Congress, I guess, to do.

Thank you, Mr. Chairman.

Chairman DOUGLAS. Mr. Talle?

Representative TALLE. Mr. Chairman, I was detained in an important committee meeting and really haven't gotten into the heart of this discussion yet, so that I would like to pass.

Chairman DOUGLAS. Congressman Kelley?

Representative KELLEY. Nothing, thank you.

Chairman DOUGLAS. Mr. Martin, I don't intend to put you over the griddle again in the way that I did when you were up for confirmation or for reappointment as chairman of the Federal Reserve Board, but there are certain features about this extraordinary action of the Federal Reserve Board on November 30, that I think deserves further exploration.

In response to my questioning some 2 weeks ago, you testified that in September 1953 the Board or the Open Market Committee, I believe, by a vote of 9 to 3, said that it was the policy of the Board not to support Government security issues and that you would maintain that until you changed the policy, so to speak.

Mr. MARTIN. In September 1953 we stated that unanimously as our policy.

Chairman DOUGLAS. That was a unanimous vote? I thought somebody voted against that.

Mr. MARTIN. I guess I stand corrected. It was not unanimous. There were two votes against that. I think it was the Vice Chairman and also President Powell. I don't think he would object to my stating it.

Chairman DOUGLAS. But you also testified at these recent hearings that on November 30, after Under Secretary Burgess had phoned you twice and told you that the Treasury was in some trouble, that is, on the Treasury issue for refinancing certificates, and after Secretary Humphrey relayed his advice that he would like Federal Reserve support, that you favored purchasing up to $400 million worth of Treasury certificates.

It only turned out to be necessary to purchase $167 million; is that correct?

Mr. MARTIN. That is correct.

Chairman DOUGLAS. Perhaps the Vice Chairman might differ on this point but I have always felt that the Federal Reserve should try to control the money supply in the interests of the country and that it should not view its functions so narrowly to support a Federal issue which is likely to go sour. I always thought that you subscribed to this point of view. Yet, here at a time when the Federal Reserve is supposedly practicing restraint, you were willing to buy up to $400 million and actually did buy $167 million of certificates, which had the effect, of course, of increasing the reserves in the System by that amount and which permitted a credit expansion of 5½ times this figure, or close to $1 billion. And this seemed to me to be thoroughly inconsistent, not merely with your past and stated policy, but also with what you were supposedly trying to do, namely, to exercise restraint.

Now, as I said, I am one who believes in letting bygones be bygones, but history is important, too, and I wonder if you will state for the record whether you still think that decision was a wise one?

Mr. MARTIN. Yes, sir; I still think it is a wise one.

I would like to put it in the same context that I did before, which is a matter of judgment as to what the year-end money market would produce.

I regret it as much as you do, Senator, that the Treasury was not successful in that issue, but it became obvious as the issue progressed that it was not going to go, and we had then to assess in terms of the country's interest as well as monetary policy, what would be the proper way to handle it.

Now, the clean-cut way, as I testified previously, would have been to let the Treasury issue fail, and pick up whatever attrition there was——

Chairman DOUGLAS. In bills?

Mr. MARTIN. And issue bills.

Now, it was my considered judgment—I weighed it very carefully; my judgment may have been wrong—it was my considered judgment that the Treasury would have great difficulty in doing that with the year-end market in the state that it was in, and I do not think——

Chairman DOUGLAS. Do you mean to say—excuse me.

Mr. MARTIN. That that is a reflection on the credit of the United States. I think that at times it might have been more of a reflection on the credit of the United States if we had not given the market an opportunity to recognize that these forces, which they were in part misgaging, were also at work.

Now, the money market banks, from time to time, have to be prodded for their responsibility to bid for bills, and accept their role in the market.

Now, my judgment may have been wrong, but I thought that, with the year-end developments occurring, it would be preposterous and perhaps unfortunate to have the Treasury fail in that way and then not have the bills adequately covered, and the Federal Reserve might have had to buy considerably more of those bills to make the Treasury successful, and that would have put that much more money into the market.

Could I just finish one thing?

Chairman DOUGLAS. Surely.

Mr. MARTIN. Which is that our projection, as indicated in this statement, indicated that we have to put from a billion to a billion two into the market between the end of September and the 1st of January, not to ease or restrain the money market, but to just hold the existing degree of pressure on the money market. So that this particular transaction was not out of line with that projection.

Chairman DOUGLAS. The seasonal factor always furnishes a very handy escape hatch, so that the members of the Federal Reserve Board can always claim consistency for inconsistent actions.

Have you finished?

Mr. MARTIN. I have finished.

Chairman DOUGLAS. Mr. Martin, I think this was a very bad mistake on your part. What you did, really, was to bail out the Treasury and prevent the mistakes which they had made in gaging the market from becoming apparent.

The credit in the United States is perfectly good. If that issue was failing, it was because the Treasury had misjudged the market and had not given satisfactory terms.

Now, it has always seemed to me that we should locate responsibility where it lies, and if the Treasury misjudges the market that should be known, and next time they won't misjudge the market.

As a matter of fact, they could have gotten out of this difficulty and made good any deficit by the issuance of bills, or in the adjustment of the interest rate, but they naturally did not want to appear before the public as having misjudged the market and having made a mistake, so they called upon you to bail them out, and you bailed them out.

Now, suppose they make another mistake in the future, and Mr. Burgess calls you up and then Mr. Humphrey calls you up. What are you going to do then? Are you going to bail them out once more, or are you going to stand on your September 1953 policy?

Mr. MARTIN. Well, Senator, I don't think you can state positively what you will do ever, but I want to make this point that I have served faithfully and conscientiously with Secretary Snyder and with Secretary Humphrey, both of them. I have had to say "No" to them on a good many occasions, but I also want to work with them. The Treasury and the Federal Reserve are partners. We are trying to achieve the same general ends, and we each have a 50 percent interest. We are not subordinate one to the other.

Chairman DOUGLAS. I do not think it is the responsibility of the Federal Reserve Board to bail the Treasury out when they misjudge the market. I think that is a function of the Treasury and, similarly, I do not think it is a function of the Treasury to tell the Federal Reserve Board whether or not the currency should be expanded or contracted. What I have been trying to establish is that each has its separate sphere. There should be consultation, that is true, but there should not be pressure.

And, of course, Mr. Martin, I don't want to stress the point but the Secretary of the Treasury has the members of the Reserve Board in a very difficult position, particularly, on the matter of appointments. And, while I certainly do not wish to make any reflection upon you, they had you, in a sense, over the barrel because you were coming up, your term was expiring, and if you were not reappointed you would be out.

Now, as I say, I think on the whole that would be a loss to the country. So this is a weapon which the Executive holds over the members of the Federal Reserve Board. It is true that this occurs only at irregular intervals, but it so happens that this occurred at a very crucial period when your term was expiring.

Now, in times past, chairmen of the board who have taken a contrary position to the Secretary of the Treasury have had their heads lopped off. Mr. Eccles, who is going to testify tomorrow, was dropped as Chairman of the Board. Mr. McCabe—well, he resigned, but I think under some pressure.

Vice Chairman PATMAN. He agreed to support it and he couldn't do it, so he got out.

Chairman DOUGLAS. I don't want to get into a discussion on this question, but I would say that if Mr. McCabe did get out, he got out in the same way that Stephen Leacock described Achilles. He said, "Thus Achilles was projected from behind into the fray."

And, if Mr. McCabe resigned it was with the boot being applied to the rear.

Now then I don't know quite what the answer is to this question. It may be that there is no answer but I do somewhat object to people taking the position that it is wrong for a Democratic administration to coerce the Reserve Board, yet somehow to make it just good financial practice when a Republican administration does this. As you know I blamed the Democratic administration for using pressure on the Board. To me it is bad to put pressure on the Board whether Republicans or Democrats are in power. And I somehow feel that the financial writers, the financial journals, and the Federal Reserve are far more tolerant toward pressure proceeding from a Republican administration than they are toward pressure proceeding from a Democratic administration.

You see, I am very frank. I lay my cards on the table.

Mr. MARTIN. Now, on the matter of my appointment, I would like to have the record show that it never entered my head so far as this decision was concerned.

You have conceded that you think I am an honest man, and I would just like to have that on the record.

Chairman DOUGLAS. But I think you are also a very subtle man, Mr. Martin.

Mr. MARTIN. I just wanted that on the record; but I don't want to belabor it. Now, on the matter of coercion, there has, during my term of office, which is about 4 years and 10 months now, been no coercion on the Federal Reserve. I would not stand for coercion. We have discussed this matter of pressures, and whenever a decision has been made, insofar as I am concerned, it has been made independently and to the best of my ability. I have called my shots as I have seen them. I haven't always called them right, but I have called them as I see them. And I will continue to call them as I see them because I want to make it clear, as I have done before, Senator, that this is the greatest honor that has ever been accorded me and I want to be extremely scrupulous insofar as my conscience is concerned that I don't do anything to besmirch or tarnish that honor that has been given me by in any way departing from my sense of integrity, and I will resign the minute I feel I cannot serve with integrity in this job because the office is much more important than me. Now, I wanted to give you that again because I feel so strongly about it.

Now, on the matter of the Treasury——

Chairman DOUGLAS. Can I just reply to that for a minute?

Of course, Secretary Humphrey did not threaten to blackjack you if you refused to go along, nor did he make any threats of physical violence and probably, I am sure since you say so, he did not threaten that you would not be reappointed. But coercion in the modern world, Mr. Martin, as you as a sophisticated man probably know, is generally indirect rather than direct; but it communicates itself through interstitial layers of politeness and good form, but its pressures are very real nevertheless.

Mr. MARTIN. I hope she won't mind my interjecting a personal comment, but my wife hoped that I wouldn't be reappointed so that I had some pressure also in the other direction.

Chairman DOUGLAS. In such connections generally the wife is relegated to a minor position.

Mr. MARTIN. I won't go into that, but I want to make a comment about the separation of debt management and monetary and credit policy.

Chairman DOUGLAS. Before you do that, Congressman Patman has to leave for a meeting of the House, and he has asked to be permitted to ask a question.

Vice Chairman PATMAN. I regret very much to differ with my good friend, the chairman of this committee. He is certainly a highly intelligent, educated, and cultured person. I just dislike to take the other side at any time, but I think he is clearly wrong on this and I think you did the right thing last fall, although it is bailing out Mr. Humphrey. The alternative would have been higher interest rates and I think if you are going to make a mistake, make it on the side of lower interest rates. I am all for that.

Chairman DOUGLAS. I may say that this is indeed an unusual thing when Mr. Patman praises the Federal Reserve Board, and I would call the correspondents' attention to the fact that this is the equivalent of man bites dog.

Vice Chairman PATMAN. Now then on these 90-day bills, I am still disturbed about that. During the 90-day period of time July 7 to October 7, when these extra $100 million worth of bills were sold each week, the Federal Reserve Board was also pursuing policies that would restrain credit, make credit tighter, you told Mr. Mills, and that would automatically cause interest rates to go up. During that tight time these extra bills were offered when the money was not needed by the Treasury. When the operation was started on July 7 the bill rate was 1.4, and by reason of selling an added $100 million every week the rate kept going up from 1.4 to 1.5, 1.6, 1.61, 1.67, 1.85, 1.89, 1.87, 2.08, and on to 2.21.

In other words, it increased nearly 1 whole percent on short-term securities during that 13 weeks. That was caused by two things: The Federal Seserve Board pursuing a policy of restraint which made money tighter and the Treasury deliberately and without need sold an additional $100 million worth of bills every week for 13 weeks. I think that is just almost on the side of cruelty, Mr. Martin, from the standpoint of the taxpayer. The people had to pay higher rates generally in the market place because of that. They had to pay higher interest rates themselves and as taxpayers they had to pay higher taxes to pay higher interest rates so you caught both of them in a squeeze.

I am not saying it is a deliberate act, but it would certainly have that result. I cannot understand the logic of your reasoning that it was justified.

Now, when Mr. Humphrey was here, I asked him about these $100 million. Let me read a few lines from the transcript:

> Mr. PATMAN. You sold $100 million extra every week?
>
> Secretary HUMPHREY. In anticipation of funds.
>
> Mr. PATMAN. Was not the effect of that to raise the interest rates on those very securities that you were selling?
>
> Secretary HUMPHREY. I suppose that anything that adds to the supply of securities affects somewhat the demand.

That is practically your answer. Now going on with the record:

> Mr. PATMAN. I understand.
>
> Secretary HUMPHREY. The more you put out the more it tends to raise the price.

That is Secretary Humphrey.

All right, now, there is no question from what you say and from what Secretary Humphrey says that by putting out these extra bills, $100 million a week, that would certainly raise the interest rate. The proof is here that it actually did raise almost a whole point during that 13 weeks. That evidence cannot be disputed, and I cannot understand why anyone would deliberately follow an arbitrary policy that would raise interest rates on the taxpayers and make it harder on people who have to borrow money. Now, if you have an answer to that I would like to have it.

Mr. MARTIN. Well, you gave part of the answer. We were following a policy of restraint.

Vice Chairman PATMAN. I know, but that is doubling up on it. That is a double restraint. That is hitting them 2 places instead of 1.

Mr. MARTIN. Well, we certainly don't want to be cruel.

The CHAIRMAN. Well, with the left hand they follow restraint, then with the right hand they buy $167 million worth of Treasury certificates and, therefore, in a part it is mutually cancelable. That is what I call mounting a horse and riding off in all directions.

Mr. MARTIN. I would like, Mr. Patman—I doubt if I change your mind, but I would like to try by having a memorandum presented to you on that.

(The memorandum referred to follows:)

INCREASE IN TREASURY BILL OFFERINGS AND EFFECT ON INTEREST RATES, JULY TO SEPTEMBER 1955

Supplementary memorandum submitted by Chairman William McChesney Martin of Board of Governors of the Federal Reserve System

Questions have been raised concerning the $1.3 billion increase in the supply of Treasury bills through weekly increases of $100 million over the 13-week period from July 7 through September 29. This raised the total size of each weekly issue from $1.5 to $1.6 billion and increased the outstanding supply by less than 7 percent. It has been suggested that this action served to raise interest rates sharply and therefore increased the cost of borrowing. Another question concerns whether or not the Treasury obtained these funds ahead of its needs and thus also unnecessarily incurred additional borrowing cost. As noted below, a number of factors influenced the decision to borrow in this manner, and the rise in interest rates was more a reflection of general credit conditions than a direct result of the increased bill supply:

1. Estimates made at the end of June for the last half of 1955 indicated Treasury cash needs of about $10 billion to cover the seasonal operating deficit and redemptions of about $2 billion maturing Treasury savings notes. It was estimated that about $4 billion would be needed in July, August, and early September and an additional $3 billion in October.

2. Treasury needs in this period were met by selling over $800 million additional 3 percent bonds, and $2.2 billion of tax anticipation certificates in July, in addition to the increase in Treasury bills. Even with these substantial borrowing operations, the Treasury balance declilned about $500 million from the end of June to the end of September.

3. Borrowing through use of the Treasury bill auction offered several advantages:

(*a*) Borrowing at the shortest term gave the lowest possible rate—especially since the market impact was limited to only $100 million a week for 13 weeks rather than a concentrated lump-sum issue of $1.3 billion.

(*b*) An auction allowed a lower average issuing rate since only a small proportion of the total issue was sold at the marginal rate. In contrast, the rate on a lump-sum issue with a coupon must be set high enough to cover the marginal lender with the result that all subscribers receive this rate.

(*c*) Even though interest would have been payable over a shorter period of time, if a lump-sum arrangement at a later date had been used, it would have required an additionally higher coupon since interest rates were rising generally.

(*d*) An increased supply of Treasury bills was needed at the time to meet investor liquidity requirements in a growing economy. From the end of June 1954 to the end of June 1955, the supply of marketable Treasury securities and nonmarketable savings notes maturing within 1 year had declined more than $13 billion.

4. The upward movement of interest rates over the last half of 1955 reflected strong seasonal and other growing credit demands from business, agriculture, consumer, mortgage, and State and local government sources, which exerted pressures on the available supply of savings and lendable funds of banks. Thus demand for funds through Federal borrowing was only one of several factors placing pressure on money and capital markets and interest rates.

5. Federal Reserve open market operations supplied some of the reserves needed to meet growing demands for bank credit but commercial banks found it necessary to borrow increasingly from Federal Reserve banks. Whereas at the beginning of the period, member banks had more excess reserves than borrowings at the Reserve banks, by the end their borrowings exceeded excess reserves. To exert further restraint on inflationary pressures, the discount rates at Federal Reserve banks were raised from 1¾ to 2¼ percent in August and September.

6. Thus pressure of the various demands for credit on the available supply of savings and bank reserves were key factors in the rise in interest rates. The Treasury had to pay competitive rates in order to bid some of the limited supply of funds from other demands; but the modest increase in the issues in question was a relatively small factor in the general advance of interest rates.

Vice Chairman PATMAN. Mr. Chairman, I must go to the floor.

Mr. MARTIN. Could I return to the point on which I was interrupted?

The CHAIRMAN. Yes.

Mr. MARTIN. This goes back to this oft-repeated discussion that we have had of the problem of writing a mandate which would distinguish between debt-management activities and credit, and monetary activities.

Now, that is a problem that I have wrestled with in a limited way for 20 years, and my present conviction is that it isn't possible to write such a mandate, that the point that you have made very effectively of good fences making good neighbors in this particular operation is useless unless you have a revolving door where you can go through the fence.

In other words, it requires consultation and collaboration. The very nature of this problem——

The CHAIRMAN. No general principles?

Mr. MARTIN. Yes; general principles but——

The CHAIRMAN. What should those general principles be?

Mr. MARTIN. Those general principles have been spelled out that the primary responsibility for money and credit policy is in the Federal Reserve and the primary responsibility for debt management is in the Treasury.

The CHAIRMAN. When the Treasury gets into trouble it is the duty of the Reserve to bail them out?

Mr. MARTIN. Let's go back on that, Senator. Let's go back to the evolution of this when the Treasury-Federal Reserve accord was established. One of the conditions of that accord, as I pointed out the other day, was that we would underwrite the Treasury during its financing——

The CHAIRMAN. But that was later superseded by your statement of September 1953.

Mr. MARTIN. Because of an evolutionary process in the market.

The CHAIRMAN. I think perhaps some Members of the Senate played a part, too.

Mr. MARTIN. I want to give the Senate all the credit in the world and I don't think we care who gets the credit as long as we get the right answer.

The CHAIRMAN. You got the right answer in September 1953, but then you go back on it on November 30, 1955.

Mr. MARTIN. Well, I will repeat that exceptions make rules, and I don't believe the nature of this problem is such that you can have a fixed rule which is never varied from. And that also has to do with this problem of debt-management, and monetary and credit policy. They are not dividable or you can't make a complete deck out of them.

The CHAIRMAN. This is the trouble that you are going to get into now: You yield once and by yielding destroy the habits of virtue which you have built up over a period of time. It becomes easier to yield the next time. You can treat each instance as isolated from a general stream of principles and, therefore, every time the Secretary of the Treasury calls you on the phone and says it's an emergency because he has misjudged the market, then you say, "Well, we should come to the support of the Treasury" which you identified with the United States. The Federal Reserve can be used to cover up the failures of the Treasury in the management of the public debt and thus the Treasury can avoid or evade public responsibility for its misjudgment.

Now, I earnestly hope that the members of the Reserve Board will carefully consider this issue and will not act similarly in the future. If there is another case of yielding, then we shall have to push for a congressional mandate, which the Reserve Board has always resisted.

They like to have Congress come in and bail them out on occasion, and to play Congress off against the Treasury, but they never like to have Congress give them a mandate of independence.

So we shall wait with interest and shall give close scrutiny as to what happens in other Treasury issues.

Mr. MARTIN. Well, on the guiding principles, I think you and I are in agreement and we are both seeking the same end; but as to the carrying out of them we may be in disagreement.

The CHAIRMAN. Well, I admit that Mr. Humphrey does not call me on the telephone and try his persuasive black magic upon me.

I have only one further question. I have never been an economic forecaster but I am somewhat under the impression that your moods recently have been to furnish more credit to industry and, apparently, in the back part of your mind has been the feeling that production might fall off. I realize of course that there was slight selling rather than buying in January, but yet I wonder if you feel that production might fall off. Is that true?

Mr. MARTIN. No; I wouldn't say that we have——

The CHAIRMAN. It has been purely a seasonal move?

Mr. MARTIN. I think the statement would be pretty clear on that.

The CHAIRMAN. It would be purely seasonal?

Mr. MARTIN. We have been feeling our way. The only comment I could make on our policy, it was to try to analyze the thoughts of all the members.

The CHAIRMAN. Did you have any worries about the automobile industry?

Mr. MARTIN. Yes; I am worried all the time about the automobile industry.

The CHAIRMAN. Did you have any worries about the farm machinery industry?

Mr. MARTIN. I have indeed.

The CHAIRMAN. Do you have any worries about the building industry?

Mr. MARTIN. I have indeed. I am a professional worrier.

The CHAIRMAN. Well, it is a good thing to be.

I remember how in the twenties a sort of fatuous optimism prevented the banking authorities of the country and the political authorities of the country from taking any precautionary steps, so while I don't wish you to feel that I think you should get ulcers, I hope you will continue to worry.

Mr. MARTIN. At the end of my statement I tried to stress my view that we have to depend upon the community to exercise some prudence in a free enterprise economy.

The CHAIRMAN. You have a great deal of responsibility, too, Mr. Martin?

Mr. MARTIN. I fully accept that but I am also trying to point out that the judgments of the markets have to be made with some degree of responsibility by the leaders of industry as well as by the Federal Reserve and by the Government, that this is still an economy where we work together.

The CHAIRMAN. Dr. Talle, do you have any further questions?

Representative TALLE. No, thank you, Mr. Chairman.

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

The witness tomorrow will be Mr. Marriner Eccles, former Chairman of the Federal Reserve Board.

(Whereupon the joint committee adjourned at 12:15 p. m. to reconvene at 10:10 a. m., February 8, 1956.)

JANUARY 1956 ECONOMIC REPORT OF THE PRESIDENT

WEDNESDAY, FEBRUARY 8, 1956

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

The joint committee met, pursuant to recess, at 10:10 a. m., in the Old Supreme Court Chamber, United States Capitol Building, Washington, D. C., Hon. Paul H. Douglas (chairman) presiding.

Present: Senators Douglas and Flanders; Representatives Patman (vice chairman), Bolling, Mills, Talle, Curtis, and Kelley.

Also present: Grover W. Ensley, executive director, and John W. Lehman, clerk.

Chairman DOUGLAS. The committee will come to order.

Before we proceed to the main business of the morning, I would like to include in the record a release of the United States Department of Commerce dated Monday, February 6, 1956. We remembered that the chairman and the Secretary of the Treasury got into some dispute as to what the personal income of the country was during the last quarter of 1955 and the Secretary of the Treasury stated that in his judgment the figures of the Council of Economic Advisers which, in turn, were based upon those of the Department of Commerce were mere estimates and were not worthy of complete credence.

The chairman made the statement that, in his judgment, the so-called estimate for the last quarter consisted of the actual figures for October and November and an estimate for December. The chairman then stated that, in his judgment, the personal income for December would probably be at the rate of $315 billion, minus approximately $1.5 billion.

I hold in my hand this release from the Department of Commerce which runs as follows:

> Personal income in December was at an annual rate of $315 billion; $3 billion higher than in November and almost $22 billion higher than the December 1954 figure, the Office of Business Economics, United States Department of Commerce, announced today.

That was a quotation.

And I am going to ask that the entire release be placed in the record and, while the chairman does not like to boast about prophecies, he submits that the record supports his estimate rather than that of the Secretary of the Treasury.

(The material referred to is as follows:)

BUSINESS NEWS REPORTS

United States Department of Commerce, Office of Business Economics—for immediate release, Monday, February 6, 1956

PERSONAL INCOME—DECEMBER 1955

Personal income in December was at an annual rate of $315 billion, $3 billion higher than in November and almost $22 billion higher than the December 1954 figure, the Office of Business Economics, United States Department of Commerce, announced today.

An unusually large volume of year-end dividend disbursements accounted for two-thirds of the November–December rise in personal income. Higher wages and transfer payments were responsible for most of the remaining increase.

Personal-income estimates include wages and salaries, the net income of proprietorships and partnerships—farm and nonfarm—as well as dividends and interest, net rents received by landlords, and other types of individual income. The annual rates, which are used to facilitate comparison with previous annual totals, represent the seasonally adjusted dollar totals for each month multiplied by 12.

THE YEAR AS A WHOLE

For the full year 1955, personal income amounted to $303½ billion, $15½ billion or 5½ percent higher than in 1954. Nonagricultural income rose by $16½ billion while income from agricultural sources declined by about $1 billion.

Most components showed an uptrend throughout the past year. Wages and salaries, nonfarm proprietors' income, interest, and transfer payments each increased by about 6 percent. Dividend disbursements rose by 12 percent, while net rental income was little changed. Total nonagricultural income advanced 6 percent from 1954 to 1955.

In absolute terms, wages and salaries accounted for three-fourths of the total increase in nonagricultural income. Payrolls rose most sharply in durable-goods manufacturing industries. The only category of payrolls that was lower in 1955 than in 1954 was military, where the reduction was due to a curtailment in number of personnel.

Although total civilian employment rose appreciably from 1954 to 1955, higher average earnings per employee were the main factor in the year-to-year payroll gain. The increase in average earnings reflected primarily higher wage rates, with a longer average workweek an important secondary factor.

Details of personal income in December and selected months of the past year, as well as for 1954 and 1955 as a whole, are shown in the accompanying table.

Monthly personal income in the United States

[Seasonally adjusted annual rates in billions of dollars]

	December 1955	November 1955	September 1955	June 1955	March 1955	December 1954	Full year 1955	Full year 1954
Total personal income	315.0	312.0	307.9	301.6	295.7	293.4	303.3	287.6
Wage and salary disbursements, total	215.7	215.3	212.4	208.0	202.6	198.8	208.5	196.2
Commodity-producing industries [1]	94.1	94.0	92.2	90.9	87.8	84.8	90.5	84.2
Distributive industries [1]	57.0	56.8	56.4	54.9	53.6	53.1	55.1	52.3
Service industries [1]	28.6	28.5	28.0	27.4	27.0	26.6	27.6	25.9
Government	36.0	36.0	35.8	34.8	34.2	34.3	35.3	33.8
Other labor income	7.2	7.1	7.1	6.9	6.8	6.7	7.0	6.6
Proprietors' and rental income	50.2	50.2	49.7	48.5	48.5	48.9	49.1	48.4
Personal interest income and dividends	29.9	27.6	27.1	26.3	25.5	26.5	26.8	24.7
Transfer payments [2]	17.4	17.1	16.9	17.1	17.4	17.1	17.2	16.2
Less personal contributions for social insurance [3]	5.4	5.3	5.3	5.2	5.1	4.6	5.2	4.5
Total nonagricultural income [4]	299.8	296.6	293.0	287.2	280.9	278.1	288.4	271.9
Total agricultural income	15.2	15.4	14.9	14.4	14.8	15.3	14.9	15.7

[1] "Commodity-producing industries" consists of agriculture, forestry and fisheries, mining, contract construction, and manufacturing. "Distributive industries" consists of wholesale and retail trade, transportation, and communications and public utilities. "Service industries" comprises finance, insurance, and real estate and services.

[2] Consists mainly of veterans' payments and social insurance benefits.

[3] Data since January of 1952 represent contributions of both employees and self-employed persons.

[4] Equals personal income exclusive of net income of unincorporated farm enterprises, farm wages, agricultural net interest, and net dividends paid by agricultural corporations.

STATEMENT OF MARRINER S. ECCLES, BANKER AND BUSINESS EXECUTIVE

Chairman DOUGLAS. Mr. Eccles, we are very glad to have you here. We appreciate your public spirit in coming.

You were a distinguished public servant for 20 years, both in the Treasury and as Chairman of the Federal Reserve Board. I regard you as one of the great public servants of all time, and it is very pleasant to see you now, since you have returned to private life, still willing to lend your talents to the advice and information of the general public.

We always expect something interesting and spicy from you.

I have not read your statement as yet but we await it with great anticipation.

Vice Chairman PATMAN. For background, Mr. Chairman, suppose we let the record show that Mr. Eccles was a member of the Board of Governors—how long, Mr. Eccles?

Mr. ECCLES. About 17 years.

Vice CHAIRMAN PATMAN. And commencing about 1933; wasn't it?

Mr. ECCLES. No; November of 1934 I became a member of the Board and was designated as Governor of the Board. At that time, the Secretary of the Treasury was the Chairman until after the Banking Act of 1935. I stayed on the Board until July of 1951. I was Chairman after the Banking Act of 1935 from 1936, February, until February of 1948, or a total of 12 years.

Vice CHAIRMAN PATMAN. Longer than any other person ever served, of course.

Mr. ECCLES. Well, I think so.

Vice Chairman PATMAN. Yes, sir. And it is interesting to note, too, that from 1913 until 1935 the Board was composed of seven members with the Secretary of the Treasury and others on the Board as ex-officio members; and in 1935 the law was changed to take them off the Board.

Mr. ECCLES. Changed the Board to seven members excluding the ex-officio members; that is correct.

Mr. Chairman, I appreciate very much your very flattering remarks. It was my great opportunity to be in the public service during an extremely interesting period and I also appreciate the opportunity of, from time to time, responding to the requests of the Congress to appear whenever I can be of service.

Before reading the statement which I have prepared, I would like to say a word or two with reference to the passing of my very good friend, Randolph Paul.

I had the good fortune of knowing Mr. Paul going back to the time when he came first as an advisor of the Government prior to the war, and of being associated very closely with him while he was the General Counsel of the Treasury and had the responsibility of developing the wartime tax program.

I kept in very close touch with Mr. Paul since he left the Government service and I was indeed shocked by his very sudden death.

He was a rare person, a man of great independence of mind, a man of great integrity and great courage, a man of great intellect; and he contributed greatly both in the field of private activity as well as in the field of public service, in the development of a progressive tax program, and was continuing right up to the time of his death to lend his support toward developing a tax program that would best fit our economy as he saw it today. His passing is going to be a great loss to the country.

I wanted to say that for the record.

I have here a statement I was asked to prepare. I was asked to prepare a 40-minute statement, but I don't think it is that long—I hope not—and I will read the statement and then that will be a basis, possibly, for the discussion.

It covers maybe a wider field than strictly the monetary field, but it is all, I am sure, related to that field.

I am aware that being out of the service of the Government and lacking the staff that is available to one in the Government is quite a handicap and so my statement, if it isn't as concise and complete as it might be, it is the best I can do in a short space of time.

Mr. Chairman and members of the committee, I presume that I have been invited to appear before you today to discuss monetary and credit policy with particular reference to its influence on the economy, and its management by the Federal Reserve System. Several times in the past I have been honored as I am today in appearing before this committee.

I am gratified by the importance and influence the committee has attained since its creation by the Employment Act in 1946. This recognized importance is substantial evidence of the progress which has been made in the country in accepting the essential role of Government's basic responsibility for the promotion of economic growth and stability. However, I cannot resist reminding the committee of the vast progress that has been made in the short span of about two decades. Before coming with the Government in 1934 I expressed this view—

> Personal security can be had by too few people through individual effort and savings along. The average man's security is no greater than the stability of the economy in which he is a participant. The social problem is not whether there would be Government planning in our interdependent economy; planning of some sort is a prerequisite of survival.

At that time this view was considered revolutionary and totally unacceptable. The generally accepted position of the day, as expressed by the political leaders in the campaign of 1932 at the bottom of the depression and the testimony of business leaders before the Senate Finance Committee in February 1933, was a monotonous repetition of "balance and budget. Stop spending money we haven't got. Sacrifice for frugality and revenue. Cut Government spending, cut it as rations are cut in a siege. Tax everybody for everything. This will revive confidence and take hungry men off the streets and let the people smile again."

Chairman DOUGLAS. Mr. Eccles, my memory may play me false, but as I remember it you were also a witness before the Senate Finance Committee in February 1933. You were virtually the only one who dissented from this point of view and advocated compensatory governmental spending in tax policies to get us out of the depression.

Am I correct?

Mr. ECCLES. That is correct.

Chairman DOUGLAS. So I think time has vindicated you. I remember that testimony very well, having read it very carefully. That was 23 years ago and I think you were alone amongst the business leaders of the country taking that position.

Senator FLANDERS. Mr. Chairman, may I suggest—I forget what year it was—it was about that time that I was the joint author of a book entitled "Toward Full Employment," in which we supported the same thesis.

Mr. ECCLES. Yes; I remember that very well.

Was it Leeds with you, of Philadelphia, and Henry Dennison?

Senator FLANDERS. Dennison, Morris Leeds, Lincoln Fellon, and myself.

Chairman DOUGLAS. Now that we are all pinning roses on ourselves, may I say that I advocated the same policy in 1930.

Mr. ECCLES. I heard you make such a speech at the University of Utah.

Vice Chairman PATMAN. I think I should put my nickel's worth in also. I advocated the same way of spending money by paying the veterans of World War I, what was referred to as their bonus.

Mr. ECCLES. Whereas the economic philosophy of today, as expressed in the President's report, includes such concepts as the following:

> We have come to believe that progress need not proceed as irregularly as in the past. The Government has the capacity to moderate economic fluctuations without becoming a dominant factor in our economy. * * * The Government can contribute to the strengthening of competitive enterprise through monetary, fiscal, and housekeeping policies that promote high and rising levels of economic activity.

The New York Times reporting on the President's report is significant of the thinking of today when it says that the President gave his implied promise that the Government would use its fiscal powers, chiefly tax cuts, if a recession should develop. The only interpretation that could be put upon this is that deficit financing is recognized as an accepted compensatory weapon against inflationary developments.

It is apparent that we have learned by hard experience during the past 25 years how to use monetary, debt management, and fiscal policies of the Government so as to avoid the excesses of wide economic fluctuations. Otherwise the American economy could not have moved within the period since the war from $280 billion to $400 billion of gross national product. If maximum production and employment are maintained at stable prices, it should move forward to at least $550 billion 10 years from now.

However, this does not mean that every element in the economy will grow in the same proportion, nor can all the needed adjustments occur promptly and automatically. We cannot take for granted the challenge of this high level of prosperity. The Economic Report recognizes the problem when it says:

> In a high level economy like ours, neither the threat of inflation nor the threat of deflation can be very far distant. We live in a world in which economic changes are continuous and many. If our economy is to advance firmly along the narrow road which separates recession from inflation, the Federal Government must pursue monetary, fiscal, and housekeeping policies with skill and circumspection.

As a result of the rapid growth in our population and the technological developments that have taken place, we must have an increase in gross national product at stable prices of 3 to 4 percent per year to maintain employment. Therefore, the objective of monetary and fiscal policy must be that at all times there will be a supply of money or credit in the hands of those who would use it in relationship to the goods and services available—this means the volume as well as the use of money is equally important. Such a policy would avoid the excesses of both inflation and deflation, and thereby provide a money having a steady purchasing power which is the best definition for sound money. The responsibility for maintaining this condition in the economy largely depends upon the monetary and credit policy of the Federal Reserve and the debt management and taxation program of the Treasury. These agencies rely upon the Congress for their power and are accountable to it for the manner in which they are used.

Generally speaking I feel that the Federal Reserve has done a creditable job during the past 2 years, considering the limitations of the commercial banking structure through which they must operate and the tools available to them. I cannot agree, however, with the policy of the majority of the Open Market Committee as expressed more than 2 years ago of confining its operations to Treasury bills. It occurs to me this policy leaves the field of operation in the huge Government security market largely to a few Government bond dealers. I believe that the correct principle would be to encourage intervention by the Federal Reserve in all monetary sectors where and when important contributions to economic activity would be produced. In this regard I am in agreement with Alan Sproul, Vice Chairman of the Open Market Committee, in opposing the views of the majority.

The wisdom of the position taken by Sproul was supported in the December Treasury financing when, at the request of the Secretary of the Treasury, the Open Market Committee stepped into the market and purchased $176 million of the new issue of Treasury notes to keep them from going below par and thus assure the success of the Treasury financing.

The views of the majority appear to me to be a reflection of the free-market concept as expressed by Chairman Martin in a speech at Detroit in March 1953, when he said among other things that the credit and money of the country are at the grassroots, and that the composite judgment that comes up through groups in various towns and hamlets has more to do with the credit base of this country than the influence of the Treasury and Federal Reserve put together.

If the Federal Reserve is to discharge its responsibilities, there is no such thing as a free-money market. That concept was meant to be discarded when the Federal Reserve was established in 1913. It is the function of the Federal Reserve System to maintain economic stability so far as that is possible within the scope of monetary and credit management. This can be done only by making Federal Reserve funds available to the commercial banking system, or denying them such funds, depending upon the need of the economy for an expansion of or contraction in the supply of money, including the needs of the Treasury brought about by deficit financing or refunding operations.

Any action taken by the Federal Reserve with such an objective in mind influences immediately the price of Government securities, hence the interest rate structure and the entire money market. The thought of returning to free money and capital markets is as unrealistic and impractical as was the policy of maintaining a pegged Government security market.

The public debt is altogether too large in size and too varied in its types of issues and maturities, and its influence on our supply of money and the stability of our economy is too dominant to permit the Federal Reserve to abandon its responsibility of managing the Government security market so as to meet the fiscal requirements of the Treasury as well as the monetary needs of our growing economy.

The Federal Reserve reduced reserve requirements of member banks during the latter part of 1953 and the first part of 1954 by a total of 2 percent on demand deposits and 1 percent on savings in order to facilitate the easy-money policy, which I may say was a reversal of the restrictive money policy of the first part of 1953. This action added between 2 and 3 billion dollars of excess reserves to the banking system.

Chairman DOUGLAS. Mr. Eccles, may I interrupt you there?

Assuming a multiplication factor of 5½, therefore, it added between 11 and 16 billion dollars of lending capacity to the banks?

Mr. ECCLES. That is right, lending and investing.

During the past year when the Federal Reserve pursued a restrictive monetary policy it did not change the reserve requirements but used the more flexible powers of open-market operations and increasing the discount rate.

The change of reserve requirements is a shotgun rather than a selective method of providing or extinguishing reserve and lacks the flexibility of open-market operations and changes in the discount rates. When reserve requirements are reduced it has the effect of providing banks reserves without cost and when they are increased it reduces their earning assets accordingly.

I believe the reserve requirements of all member banks should be established at a uniform level on demand deposits instead of three different reserve requirements as now exist.

At that point I might also say that it would help the system if all banks of deposit were subject to reserve requirements. Changes in the reserve requirements should then be used only upon rare occasions when the other methods do not produce the desired results.

Since the recession of 1954, which was brought about, in my opinion, by a too restrictive monetary and debt management program in the first half of 1953, there has been a very rapid recovery, possibly too rapid.

Chairman DOUGLAS. Mr. Eccles, I notice you say that 1954 was a year of recession. Is that a deliberate use of words on your part, or is this an inadvertent use of words?

Mr. ECCLES. No, it is not inadvertant, it is what I considered to be a factual situation.

Chairman DOUGLAS. Well, the chairman made that statement repeatedly in 1954 and was called a prophet of gloom and doom, so I am very much interested that you now say that 1954 was a year of recession.

Senator FLANDERS. Mr. Chairman, may I suggest that that characterization of you was not so much for your analysis of the past as to your predictions for the future.

Chairman DOUGLAS. I must suggest to my good friend from Vermont that no predictions were made of the future. It was the Republican National Committee who being emotionally insecure continuously said that this was a prediction and repeated it so often that even good men like yourself have been carried away by it.

Senator FLANDERS. Well, I am not carried away by the Republican National Committee, but I remember distinctly my impressions on the floor at the time, but I do not propose to rip them up and I give you the benefit of the doubt.

Chairman DOUGLAS. I will furnish you with the sources.

It may be somewhat ungracious of the chairman to bring this up, but you know history is important and if one is vindicated by history then I think that should be noted, too.

Will you proceed?

Mr. ECCLES. The gross national product increased nearly $40 billion from the middle of 1954 to the end of 1955. This developed as a result of the very easy money policy of the Federal Reserve, the reduction in consumer taxes supported by the Treasury which increased the deficit, and the excessive stimulation of residential construction by providing especially easy mortgage terms.

Accompanying the accelerated business activity during 1955 an increasingly restrictive credit policy on the part of the Federal Reserve was carried out. Four times during the past year the discount rate was increased by one-quarter of a point until by mid-November it reached 2½ percent, the highest rate in many years. Together with the operations of the Open Market Committee, this action kept the growth of the money supply—demand deposits and currency—to less than 3 percent. I think about 2½ percent. This was considerably less than the growth of the national product, but was more than compensated for by the increase during the year in the use or velocity of existing funds of nearly 7 percent, making an increase of nearly 10 percent in the effective use of money. This velocity plus the growth in the volume was sufficient to place certain inflationary pressures upon the economy, particularly in the fields of consumer credit and housing.

Earlier in the year the Federal Reserve increased the margin requirements on stock market credit from 50 to 70 percent. The use of this selective credit control has prevented an excessive growth of credit in that field. I believe if the Federal Reserve Board had had the authority to selectively control consumer and mortgage credit, there would not have been the excessive frowth of these types of credit, which I believe resulted in borrowing in 1955 some of the automobile production and housing construction which should not have taken place until 1956. Had this been true there would have been less inflationary pressures in 1955 and less concern about maintaining maximum production and employment in 1956.

I believe that consumer credit and liberal housing mortgage terms serve a useful purpose in our economy, but they should not be permitted to grow faster during a period of high prosperity than the growth in the national product. Otherwise the time will be reached when the growth cannot be maintained and the deflationary pressures which result will add to the problem of economic stability.

If the Federal Reserve is to make its greatest contribution toward maintaining maximum employment and production, it should be given broader powers over the use of credit than the indirect overall powers it now has through change of reserve requirements of member banks, open-market operations and changes in the discount rate. These are general in their effect and are usually either too slow or too drastic in reaching the segment of the economy that should be curbed or stimulated, or they affect adversely the other areas of the economy where the use of credit is necessary and desirable.

Therefore, I should like to recommend to this committee that the Federal Reserve Board be given such authority as may be necessary to encourage or curtail the expansion of housing mortgage credit and consumer installment credit.

Another recommendation I would like to make to this committee is that the Congress adopt a mandate or directive generally in accordance with the one in the Banking Act of 1935 as passed by the House. Had this braod mandate been enacted by the Senate, it would have been, in my opinion, most helpful to the Reserve System in the intervening years, both in clarifying its responsibility and strengthening its position in its relations with the Treasury. I should like to see made explicit what is only implicit in the statute, particularly in view of the magnitude of the public debt and the conflicts that have arisen in the past and may occur in the future between debt management and monetary policy.

Following is the statement of the objective or mandate to which I referred:

> It shall be the duty of the Federal Reserve Board to exercise such powers as it possesses in such manner as to promote conditions conducive to economic stability and to mitigate by its influence unstabilizing fluctuations in the general level of production, trade, prices, and employment, so far as may be possible within the scope of monetary action and credit administration.

The effectiveness of the Federal Reserve System depends upon its operation through our existing commercial banking structure, which has grown up during many decades without recognizing the needs of basic changes in the structure to keep pace with the rapid changes which have taken place in our system of production and distribution. For many years I have advocated and strenuously worked for what I choose to call a unified banking system, even though I realize that this subject is violently controversial.

It should be apparent that the Federal Reserve System must play an increasingly crucial role in the maintenance of economic stability. It is difficult for me to see how its basic powers can be effectively employed to this end so long as the Nation's banking machinery is a hodge-podge of some 52 different jurisdictions, laws, and supervisory agencies; so long as approximately half of the banks of the country are subject to uniform central banking regulations and half are not; so long as these multiple agencies—State and Federal—with their differing philosophies, dividing and conflicting policies, dominate the banking picture.

The subject of other credit agencies such as the savings and loan institutions should also receive study and consideration. For all practical purposes they are free of Federal taxes and have become serious competitors of the commercial banks for savings deposits by reason of being able to pay higher interest rates. This is an unjust and unsound competition because the commercial banks are required to pay Federal income taxes the same as any other corporation. Such an inequity should be corrected by Congress passing legislation to close this tax loophole.

There are numerous other credit agencies, such as the huge consumer finance companies, the mutual savings banks, the land banks, the farm credit agencies, the Government lending agencies in various phases of the housing field, the small business administration, and many other credit institutions.

In the light of the general banking and credit situation I think it is not only extremely important, but urgent, that the Congress appoint a most competent and objective monetary commission with instructions to study and investigate the entire private and public structure of banking, and I mean including the Federal Reserve and other similar agencies, and other credit institutions together with the effect of their operations upon the economy. The commission should recommend such legislative action as may be necessary to create a banking and finance structure adequate to perform all of the financial and credit requirements of a rapidly growing and dynamic economy in such a manner as will best contribute economic stability.

I want to take this opportunity to bring to the attention of this committee what I believe is a mistaken concept of the debt-management policy. That is a little aside from monetary but it influences monetary policy. No matter what the economic situation may be the Treasury seems to think that it should lengthen the maturities of the public debt. I do not agree with this philosophy. I do agree however, that during periods of inflationary pressure, so far as possible Government financing, either refunding or new issues, should be placed outside of the commercial banks. Conversely, during credit contraction or recession, an effort should be made to increase the holdings of Government securities by the commercial banks.

In the first case, the money supply would be decreased, whereas in the other case the money supply would be increased. Commercial banks in their purchase or sale of securities perform an entirely different function than that performed by nonbank investors. The one expands or contracts the money supply, the other merely puts to use or withdraws some of the existing supply of money.

I believe it would be much sounder debt-management policy if only Treasury bills and certificates were eligible for purchase by the commercial banks. (However, a certain percentage of the savings deposits of commercial banks should be permitted to be invested in long-term Government bonds.) That should be related, of course, to mortgages in which you put savings funds. You couldn't put the savings in both of them. Such a policy would also facilitate the Federal Reserve System in carrying out its monetary and credit policy. Longer term obligations of the Treasury should be available only to the nonbank investors which largely represent the true individual and institutional savers.

I believe that a real division is necessary between the obligations which the Treasury desires to be purchased by the nonbank investor out of savings or excess funds, and those which are to be purchased by the commercial banks for the purpose of creating new funds and thereby adding to the money supply. I do not believe that any of the commercial or money-creating banks of other countries are permitted to purchase long-term Government securities. The reason for this seems to be that a clear distinction is made between the securities they desire to be placed with the real investor and those to be placed with the banks for the purpose of expanding the money supply. It is true that there are some funds held by corporations and other nonbank investors who desire to invest them in short-term Government securities such as may be eligible to the banks. There is no objection to this.

There is every indication that the Government will have a substantial cash budgetary surplus during this calendar year, possibly as much as $3 billion. This amount could be increased by making further cuts in the Federal budget which I believe should be done. It is my understanding that by the end of fiscal 1957 the cost of routine Government programs will have expanded about 28 percent in 4 years, so there should be room for some reductions. With this prospective budgetary cash surplus and the further possibility that the gross national product for 1956 will be around present levels (when it should be at least $10 billion more than that to sustain production and employment) I believe that if this situation develops, economic policy would call for a tax reduction on individual incomes as a stabilizing force to help offset the decrease in automobile and housing production and any other deflationary pressures.

Chairman Douglas. Mr. Eccles, may I ask you to clarify your thought? You say that "if this situation develops." What situation? An increase of $10 billion?

Mr. Eccles. No; if the situation is where the national income does not exceed the present income. In other words, what I mean is if we don't get the additional dollars, $10 billion, why, then the tax cut would be justified.

Chairman Douglas. Well, Secretary Humphrey, in his statement to us, assumed that the national income for calendar 1956 would be at approximately the same level as the latter part of 1955. So you say that——

Mr. Eccles. That is not enough. The national product for the latter part of 1955 was approximately $400 billion. It was less than that for the quarter. I think it was $390 billion.

Chairman Douglas. $397 billion.

Mr. Eccles. Yes, $397 billion. If that is going to continue to be the income for the entire year 1956, in a growing and dynamic economy, it isn't sufficient because, as I pointed out earlier, there must be a growth in the national product at stable prices of 3 to 4 percent a year if employment and production is going to be maintained.

And what I am saying here is that with the prospective budgetary cash surplus, if there isn't a growth in the national product, taking the year as a whole, a tax reduction on individual incomes, I think, would be called for as an economic—proper economic policy. That is what I am trying to say here.

Chairman Douglas. Secretary Humphrey assumed that there would not be any appreciable Government surplus because he assumed that the national income would not increase beyond the level of the last quarter.

You are saying that if the national income does not increase and there is a big governmental surplus——

Mr. Eccles. I am speaking of a cash surplus.

Chairman Douglas. You are speaking of the consolidated——

Mr. Eccles. That's all that counts so far as the effect on the economy is concerned. It is the cash surplus, what the Government takes out in all forms and what they put back. If they take out more than they put back, why, it leaves that much less in the hands of the public and that has a deflationary effect.

In the last 25 years we have gone far toward bringing about a more equitable distribution of the goods and services which are produced. In 1929 the highest 5 percent of income recipients received 34 percent of the national income. This has been cut in half since that time. The poor are getting fewer and the rich are getting poorer relatively. I believe this trend has gone about as far as it can go if we expect to maintain capitalistic democracy with its individual incentive.

However, I believe there are some unstabilizing developments appearing in our economy as a result of the trend toward monopolistic powers on the part of big business and big labor organizations. We have seen during the past few years a rapid increase in the cost of construction of all kinds including hosiery and consumer durable goods, while the prices of farm products to the farmer have been going down. These increased prices have been brought about in part by adding the increased wages and fringe benefits of labor to the cost of production. In many cases the public who do not get the increases that certain labor groups have secured are being deprived of their share of increase in the standard of living.

The benefits of increased productivity should be shared by all of the people and not only by powerful minority labor groups, who are able to enforce their demands for higher wages and other benefits and by business concerns who are usually able to add increased costs to their prices. If this trend continues it will sooner or later bring such an increase in some prices that many of the public will be priced out of the market because of the great disparity between their income and that of the organized labor groups.

If all of the unorganized workers, including the farmers, received the same increases and benefits that the organized groups have been receiving, a further price inflation would be inevitable, even though there were substantial unemployment and idle facilities. This would be due to the rigidity which is developing in the wage and price structure. If the present situation between organized labor and big business is permitted to go unchecked it can prevent what should be over the years a continued increase in the standard of living of all our people.

To curb either inflationary or deflationary developments is always in the best interests of the country. But to take the necessary action soon enough is seldom popular, especially on the inflationary side. In this country the fiscal and monetary authorities must receive the support of Congress and the voters if they are going to be able to live up to their responsibilities. Therefore, it is most important that the public have a broad understanding of the role which these authorities must play. This committee is performing a most valuable service providing a better public understanding of the complex problems involved.

I have great confidence in the continued growth of our economy. What will happen in the next 10, 20, or 30 years I am sure will amaze all of us if we could only foresee these events. I believe we should plan for new records in almost every field of activity without fearing that our increasing prosperity will lead to an economic collapse.

Chairman DOUGLAS. Thank you very much, Mr. Eccles. The questioning will begin today by the junior members of the committee and; therefore, I might call on Congressman Kelley.

Representative KELLEY. Mr. Eccles, in regard to the statement you made about the inflationary effect that organized labor has as compared to the big corporations, monopolistic corporations: Do you really think that the increased powers of the labor organizations have as much influence upon the cost of living and upon the inflationary effect as business monopolies?

I am thinking of the $1 billion net profit of the General Motors Corp. Why couldn't some of that be handed back if they were so interested in the public welfare, handed back to the consumer?

Mr. ECCLES. Well, I am thinking of the overall picture rather than any specific situation. I am thinking in terms of what I call a disequilibrium that may be developing between the various groups. I am sure it is apparent to all of us that the organized labor groups, at least many of them, have had increased pay, including fringe benefits, which have been much more rapid than certainly the increased cost of living, and also I would say the increased productivity over the economy as a whole, not particularly true in any industry.

Now, speaking of a particular situation of General Motors, although General Motors possibly could have absorbed without any increases in the prices of their product——

Representative KELLEY. They always take it as an excuse. When there is an increase in wages or increase in fringe benefits it is taken as an excuse by many corporations to raise the price of their product, whether it is necessary or not.

Mr. ECCLES. That is right.

Representative KELLEY. And increased productivity seems to more than justify increased wages for labor.

Mr. ECCLES. Well, that may be true in some particular institutions but it seems to me that it may be well to have some of that reflected in lower prices rather than higher prices. We always get the increased productivity and higher prices, instead of lower prices.

Representative KELLEY. As an excuse——

Mr. ECCLES. Right. That is the problem I am trying to bring to the attention here and I think it is an extremely important one and a serious one, looking to the future.

Representative KELLEY. The increase in the market price of the goods manufactured is not justified as a general rule by an increase in wages. If there is a slight increase in the price of the product due to wage costs, it is doubled or tripled and then the excuse is the increased wages justified them.

Mr. ECCLES. Competition, of course, should have some influence on that. I admit that it doesn't always have. In a high state of prosperity, the demands are such that it is easy to add increased wages and benefits to the prices.

Thinking of the General Motors situation, where they have almost half the market, if they didn't add some of the increased wages and fringe benefits to the prices, what would happen to the independent motorcar people? Whereas even after these independent companies add them to prices, they have to pay the same as General Motors. They still have great difficulty in selling their cars in competition.

Representative KELLEY. Another thing that appears out of line to me is the fact that the net income of General Motors last year was twice as much as the revenues received by all the large labor organizations. Twice as much—for one company. When they use the argument that there is a great danger of monopoly of labor organizations, I just can't see it, not as compared to the power of large corporations.

Mr. ECCLES. The earnings, of course, of corporations and the depreciation they take go a long way to provide the capital that is necessary for the new investments that they make; so that it is important, it seems to me, that we don't do anything that is going to reduce the savings to a point where they are inadequate to take care of the capital that is required for housing; for new plan and facilities, to take care of an ever-increasing population as well as an increased standard of living. All that requires that savings are adequate in relationship to consumption and the growth of our population and corporate earnings. Retained earnings are a very important source almost a primary source of the savings that they use for their expansion.

Representative KELLEY. Well, I don't think there is much danger in a monopoly of labor organizations at this stage, but I think there is a danger of monopoly of business organizations.

That is all, Mr. Chairman.

Chairman DOUGLAS. Mr. Curtis?

Representative CURTIS. Thank you, Mr. Chairman, I want to say, first, that I enjoyed Mr. Eccles' presentation very much. It raises a lot of intriguing questions in my mind.

Going back to your quotation from your views in 1934 that you expressed on page 1:

> Personal security can be had by too few people through individual effort and savings alone. The average man's security is no greater than the stability of the economy in which he is a participant. The social problem is not whether there would be Government planning in our interdependent economy; planning of some sort is a prerequisite of survival.

And, of course, I think most people would subscribe to such a statement. The question, then, becomes, of course, how this planning is to be done; how much of the planning would be done by the Federal Government, for example, and how much could be done in the private-enterprise system. Isn't that a fair comment?

Mr. ECCLES. Well, my concept of planning has always been one of using the powers of the Government in a functional way rather than in a direct controlled manner, such as the use of monetary and credit and fiscal and debt management policies.

Now, there are, of course, other actions that the Government has to take and did take as a result of the depression. When there was a complete reform of the mortgage market as a result of the Federal Housing Administration, that made it possible to increase the number of homeowners because of long-term lower rates, so that the monthly payment was such that that was part of the Government planning program.

Representative CURTIS. Let me ask you there——

Mr. ECCLES. But the Government didn't build the houses or loan the money.

Representative CURTIS. That is what I wanted to stop and ask, whether you regarded that type of Government power regulatory or moving in directly?

Mr. ECCLES. I have always been opposed to moving in directly except as a last resort, and I think that if the job is done well we can avoid the direct intervention, generally speaking, and certainly I think that moving in directly tends to get away from a system of democratic capitalism.

Representative CURTIS. I would suggest, sir, in my own mind—and I am not arguing the pros and cons—but it would seem to me that the techniques that the Government employed in FHA and VA in the housing industry amounts to directly moving in, as opposed to regulatory, which the Federal Reserve System would have, because that is direct loans.

Mr. ECCLES. Well, they didn't move in with direct loans; they set up a mechanism that made it possible for the existing private credit agencies to advance the credit on the kind of terms that I think the economy needed for housing.

That is quite different than if the Government itself goes out and borrows the money or loans the money so the individual owes the money to the Government.

Representative CURTIS. Like RFC?

Mr. ECCLES. That is right. That is a very different matter.

Representative CURTIS. It is a matter of reason, all of this. Now, one of the subcommittees of this committee held hearings this December on the economic effect of our tax structure, and one conclusion I came to was that one reason Federal monetary—fiscal—policies, taxation, and so on, have the power that they have today is because of the extent to which the Federal Government has moved in to our private economy.

Now, I wondered if you would agree that the Federal Government has in the past two decades for example, moved into our economy to a marked degree.

Mr. ECCLES. They have in a regulatory way. I would like to give you a few examples.

Representative CURTIS. Let me pause just a minute, just to clarify this. And in regulatory, would you include the FHA techniques?

Mr. ECCLES. That is right.

Representative CURTIS. Now, we would disagree on that. At least, I get your point.

Mr. ECCLES. The SEC—Securities Exchange Commission—was set up.

Representative CURTIS. That is regulatory, I agree with you. I could not agree that FHA mortage is regulatory. I think that is moving directly in the insurance business, for example.

Mr. ECCLES. It may be. You can say so is social security moving into the insurance business.

Representative CURTIS. I certainly do say it. Yes, sir.

Mr. ECCLES. Now of course, I feel that actions of that sort are essential in order to provide the individual security.

Representative CURTIS. Well, sir, I might argue the thing on that but for the present, I don't want to argue whether the Government should or should not. I am simply pointing up what the effect has been and whether indeed, the Government has not done that.

Mr. ECCLES. Well, the overall distinction I would make is that the means of production should be left to the private field. The

Government should not move in as a competitor, to the private business or individuals. It may find that it is necessary to set up certain agencies, certain financial regulations or mechanisms in order to accomplish certain things and of course, matters of that sort have been going on for a good long while. We go back to land banks. The Federal Reserve System itself is a lender of money to the private bank system, yet you cannot say that the Government therefore has gone into the lending business. It was necessary.

Representative CURTIS. They have gone into the insurance business, though.

Mr. ECCLES. Well, in what sense?

Representative CURTIS. Well, in other words, they have taken the risk and spread the risk which technique is being done by private enterprise in many economic fields. Maybe I can illustrate my point by referring to the grain futures market. There is private enterprise, through the mechanism of insurance, I will describe it as taking a risk out of the price of grain from companies, for example, that have to buy large quantities of grain and don't want to get into that further economic area of trying to estimate what the price might be.

Mr. ECCLES. It was necessary to stabilize the market, to do that; just as Federal Reserve undertakes to stabilize money and credit.

Representative CURTIS. At this point, I am not trying to argue why and wherefore. I am trying to see what the situation is. In other words, there is an economic service being performed.

Mr. ECCLES. That is right.

Representative CURTIS. It can be performed by private capital formation or, as in other instances, it has been performed by Government capital formation. I simply want to recognize what the situation is, then to argue.

Mr. ECCLES. I think to the extent it can be performed by private, it should be performed by private; but I don't think that FHA or your veterans loan program could have been performed by private agencies. Certainly, there was never any indication at the time that we developed that program. We got the most violent opposition to the whole scheme by all of the insurance companies and all of the savings and all of the commercial banks and the FHA program was only brought about over the opposition of the private agencies.

Representative CURTIS. I see my time is up, sir. I will be back later.

Representative MILLS. Mr. Eccles, you stated in your paper that the overall monetary policy pursued last year, in your opinion, was one of restraint, did you not?

Mr. ECCLES. That is right.

Representative MILLS. How would you characterize the current overall monetary policy? As one of restraint? Or one of ease?

Mr. ECCLES. Well, it certainly is not one of ease. I would say it is one of restraint. Let me put it this way. During the year, the restraint was a graduated process. It has been a couple of months now since the Federal Reserve has undertaken any further restraints, so I would say it is one of marking time; the restraint that was put into effect is still in effect.

Representative MILLS. Let me ask you now, with respect to the action of the Federal Reserve in reducing its holdings of Government securities during the 4-week period which ended, I think, on February

2, by $1 billion. Is that not an action in the direction of restraint?

Mr. ECCLES. No. No. That was merely offsetting the currency expansion that always takes place in the fall of the year, November and December. The Federal Reserve provided reserves to the banks during that period to offset the currency that went into circulation. As that currency has come back since the end of the year, the action of the Federal Reserve is merely to neutralize it. They neutralized the monetary condition when the currency went out. They have been neutralizing it as it came back so that I would say that operation is one of neutrality, to prevent what would have been an exceedingly tight policy during December and an exceedingly easy policy during January, if it had not been for the Federal Reserve operation in the open market.

Representative MILLS. I think in response to a similar question yesterday, that Chairman Martin agreed or suggested that it might be an action in the direction of restraint. The record will reflect his direct answer but that was my interpretation of it.

Mr. ECCLES. Well, if the volume of returned currency was less than the amount of bills which were sold, then it would be restrained; but as I understand it, the bills that were permitted to run off were in very close relationship to the return of currency. I have not followed the exact bills, but I understand that is so.

Representative MILLS. Do you interpret the action then as having no relationship to any feeling that may have existed or not existed that inflationary forces were still in existence?

Mr. ECCLES. That is right.

Representative MILLS. I am trying to understand as best I can, Mr. Eccles, the need for relationship between monetary policy and tax policy.

Now, you suggested in your paper that there might come a time during this calendar year when it would be advisable to reduce taxes, namely, when we see that our gross national product is not increasing over the gross national product in the last quarter of 1955; and you stated that there might be a deficit in needed growth of some $10 million. Would you think that Congress should first act in the field of tax reduction in that instance, or would it be better to act in the field of monetary policy, if the monetary policy itself is one of restraint leading up to that period?

Mr. ECCLES. I would certainly feel if the unemployment was increasing, and if what we call production is leveled off and it is apparent that the inflationary pressures generally are no longer existent, that the first move would be in the direction of some easing of the credit situation. If loans are going off—the loans by banks which would indicate some change in the money supply—then action should be taken by the monetary authorities. Their operation, of course, is flexible whereas the matter of taxation is a pretty long drawn-out process.

There is also the question of the amount of tax reductions and kind of tax reductions, and it is a much slower process and certainly, I would not at the moment advocate an immediate reduction in taxes, but I do think within the next few months we are going to be able to see what the trend of the situation is, and these trends don't change rapidly. If the trend is one of complete leveling off instead of growth, then I would think something ought to be done to the tax-payment.

Representative MILLS. Chairman Martin advised me that he could not tell me whether the present overall monetary policy was one of restraint, neutrality, or ease; that I would have to reach my own conclusions on that point. I do have opinions as to what the overall monetary policy is. I think at the present time it is one of restraint. Now, can you conceive, or can anyone as far as that matter is concerned, conceive that a situation can arise during this calendar year in which good Federal policy would dictate continued monetary restraint and tax reduction as well?

Mr. ECCLES. No. No. I don't think so.

Representative MILLS. Are we headed in that direction? That is my point. Following a policy of restraint in credit controls, that brings about in the mind of the average person the desirability or greater necessity for tax reduction, so that the Congress is then placed in the political position of having to take action on tax reduction to ease the situation resulting from the Federal Reserve's not having acted promptly in discontinuing restraints.

Mr. ECCLES. Well, I think you have got to consider them together, and certainly any program of tax reduction that would create a deficit is not called for. I am not proposing that at this time.

Representative MILLS. I understand.

Mr. ECCLES. Now, a tax reduction that certainly does not exceed the budgetary surplus would be neutral so far as the effect of the Government is concerned, as it is today. A tax program that adds to the budgetary cash surplus of the Government in itself is a restraint on the economy and is certainly anti-inflationary, and a tax program of that sort is certainly in harmony with a restrictive monetary policy.

Now, I would not say that an easy money policy or an easier money policy was called for at this particular time. I think the policy that the Federal Reserve at the moment is pursuing is the correct one. I do feel that an easier money policy certainly would be called for if there was an indication that the overall growth of the national product had stopped. But, likewise, a policy of tax reduction would be indicated, certainly tax reduction sufficient to neutralize the Government's operation in the monetary field. Today, the Government budgetary surplus has the effect of a restrictive policy. In other words, it is in harmony with the monetary restrictive policy.

Representative MILLS. I have just begun to pursue the point. I see my time has expired.

Mr. ECCLES. Does that answer your question?

Representative MILLS. Yes.

Senator FLANDERS. Mr. Eccles, I have a number of questions to ask, and I will try to make them short in the interest of getting as many in as possible.

If you will refer to page 7 of your testimony at the paragraph beginning at the top, the question:

> Since the recession of 1954, which was brought about in my opinion by too restrictive monetary and debt management programs, in the first half of 1953 * * *.

Now, do you give no weight at all to the very great reduction in governmental spending during that period? Was not that sufficient to bring about a recession in business? For instance, in the fiscal year 1954, the security expenditures diminished by $3,400 million and in the following year, on appropriations made in 1954, the expenditures decreased by $6,300 million.

Mr. ECCLES. Well, I am sure that the fiscal policy would be a very important factor.

Senator FLANDERS. Would you not rather criticize the monetary and debt management policy or fiscal policy as the basic cause of that recession?

Mr. ECCLES. Well, I am perfectly willing to put part of the responsibility on the fiscal if that is the point.

Senator FLANDERS. Yes; but was not the original cause of the decrease in expenditure by the Government the great decrease in the durable-goods industry, and those are the ones that were affected by the decrease of the Government expenditures in defense?

Mr. ECCLES. Yes, but I think that that is only an increased reason why the restrictive monetary policy that was put into effect was not justified; that you had two very, very deflationary forces. You had the big reduction in Government spending and hence the public deficit and then, in addition, that was also supplemented by a very restrictive and tight monetary policy, and the combination certainly brought a pretty rapid downturn. There was great concern, and I think it was somewhat unjustified, in the first period of 1953, that a real inflation was developing and the monetary authorities as well as the fiscal moved very rapidly with real force and effect.

Senator FLANDERS. Well, I hope you will give some weight to that tremendous decrease in Government expenditures which was augmented in the other parts of the budget, of the expenditures of 1954, by a $6,500 million decrease—well, by a $3,100 million decrease in other expenditures. That must have had some effect.

Mr. ECCLES. Yes.

Senator FLANDERS. Now, the next point I wish to bring out, at the bottom of page 7 you say that the increase during the year was compensated, or the lack of increase, by the use of velocity of existing funds.

I am remembering that when I was a part of the Federal Reserve organization as president of the Boston Bank I tried to get your economic group over on Virginia Avenue interested in the question of velocity and found a complete lack of interest. I am glad to see, sir, that you pay some attention to it in this document.

Mr. ECCLES. Well, I paid attention then. You were possibly talking to the experts. I was just a layman.

Senator FLANDERS. All right. On page 8, I notice—I just simply notice—your feeling that the Reserve Board should have the authority to selectively control consumer and mortgage credit. That is the point you are making.

Mr. ECCLES. That is right.

Senator FLANDERS. And that is something to be considered. Now, on page 9, you speak of the conflicts which have arisen in the past and may occur in the future between debt management and monetary policy.

Do you think that those conflicts are inherent in the situation?

Mr. ECCLES. Do you mean at the present?

Senator FLANDERS. Well, no; I mean inherent.

Mr. ECCLES. Yes, I think so.

Senator FLANDERS. By inherent, I mean they will always be present.

Mr. ECCLES. Yes, I think so.

Senator FLANDERS. And yet, a good monetary policy and good debt management are both desirable.

Mr. ECCLES. They are necessary to get results.

Senator FLANDERS. Do you think that a system of checks and balances is involved?

Mr. ECCLES. I don't think so. I think that they are not checks and balances at all. I think they are part of the same parcel.

Senator FLANDERS. Well then, you do not think the conflict is inherent.

Mr. ECCLES. Well, let me put it this way: I am not one of those who believe that the Federal Reserve System can have complete independence from Government. I think that it is an agency of Government primarily; an agent of the Congress; an independent agent rather than a department; a part of the administration. But as a practical matter, a very practical matter, it is rarely in a position to enforce its will over the will of the Treasury; over the will of the Government. The mandate would, it seems to me, put it in the position of much greater strength to influence the Treasury. The central bank people can resign in protest. They can undertake, maybe, to enforce their will over the Treasury, as was done in 1951; and the White House, for that matter, at that time. They were able to enforce their will in 1951 but it was only possible because they had such strong support from the Congress and from the public. Ordinarily, that would not be true. We had an unusual situation there, and it had been going on for a long time, where the Federal Reserve was contributing against their will to the inflationary situation, and when they refused to pay prices any longer, they were able to get by with it because the Congress supported them and the press supported them and the public supported them.

Now, they would not get by with it without the support of Congress and the public.

Senator FLANDERS. Mr. Chairman, my time is up. I will have to take up my other brief questions on the second round of the half-mile track.

Representative BOLLING. I pass.

Chairman DOUGLAS. Representative Talle?

Representative TALLE. Thank you, Mr. Chairman. I am glad to see you again, Mr. Eccles.

Mr. ECCLES. I am glad to see you, Mr. Talle. You are one of the familiar faces of the Banking and Currency Committee of the House.

Representative TALLE. Well, I think all of us on that committee remember with satisfaction and gratitude your numerous appearances before it.

For a number of years, with rather little success, I have tried to point out what happens between the farmstead and the grocery counter; that long road that leads from the farm to the housewife's kitchen; and how competition is very active on the farm, and next in order of activity, in retail merchandise. The word "rigidity" in your statement brought this to my mind. It is my feeling that all along the way, after a product has left the farm, there is rigidity in the price structure. Investigation could show the relative part that each rigid item plays in the total picture—but to change that rigidity into flexibility in the cost-price squeeze appeared to me to be beyond the possibility of practical achievement.

Do you choose to discuss that, Mr. Eccles? Maybe I better put it this way. I realize that the great difficulty there is to bring flexibility into that long road of rigidity. Therefore, it seems to me we are compelled to introduce some rigidity on the farm, or we are in difficulty.

Mr. ECCLES. I think the classical economists, of course, like to think in terms of the free market, both domestically and internationally. The question of free trade as against tariffs enters into that picture, as we all know. We have found that one form of rigidity tends to call for or create another. You cannot have, certainly, complete freedom on the question of prices with rigidity in wages for the very reason that fully 75 percent of the entire cost of everything—75 percent of those prices are labor in one form or another, public or private. So that if you are going to make the entire labor structure rigid, that is, minimum wage, the union rigid wage structure, you cannot very well have very much flexibility in the price structure. You get competition, but there are many smaller concerns that, as we know, are forced out of business in a really competitive market, because their profits are such that they cannot stay in business. Certainly the farmers have been taking a beating the last few years, while the other elements in the economy, particlarly organized labor groups, and business generally speaking, have been profiting. And certainly our consumer index figure would not have been as stable if it had not been that the farm population has been absorbing the increases in cost that have been taking place throughout the country, as a result of increased wages and profits.

Now, what to do about the farm problem is certainly a subject by itself, and I don't want to get into it at this time. It is a most difficult one, as I am sure you all know who have studied it, because so much of it is being done now on a mass-production basis and on a very profitable basis whereas the average farmer is having difficulty. How to help that element in our economy without making the operation a vast production, I don't know. It is quite a problem.

Representative TALLE. I agree with you, Mr. Eccles. It surely is quite a problem. Thank you for your statement and your subsequent comments. I won't take any more time, Mr. Chairman.

I would like to compliment you on your statement, sir.

Mr. ECCLES. Thank you.

Vice Chairman PATMAN. I want to comment first, on your statement about the open-market committee, which was able to get by with its plans in 1951, to take the support out from under Government bonds, because it was supported by Congress and the public.

Mr. ECCLES. The majority.

Vice Chairman PATMAN. And there was one thing you did not add. It happened to be the low point of the popularity of the Executive. In other words, the popularity of the Executive was low.

Mr. ECCLES. That is why we got the support of Congress and the public.

Vice Chairman PATMAN. That is one reason you had. I agree with you. Normally, that would never happen again.

Mr. ECCLES. I think the mandate in here would have given great strength to the Federal Reserve if they had had much more specific——

Vice Chairman PATMAN. I know that you presented the mandate before, one time.

Mr. ECCLES. I think you voted on it in the House in 1935.

Vice Chairman PATMAN. All right. I agree with what Mr. Mills told me a while ago, that it looks like a scheme. It looks like the program is designed now to put on all restraint and hard money in order to create a climate or an atmosphere that will be conducive to a later tax reduction. In other words, tighten up things to the extent to where the argument "We have to have a tax reduction in order to bring the country back" will be irresistible. I think that was done in 1953. I think it is in the cards right now. Of course, that is just my opinion.

Mr. ECCLES. The tax reduction was made in 1954.

Vice Chairman PATMAN. I know it was but the situation in 1953 created the climate for it.

Mr. Eccles, do you believe we should have a regulated Government bond market? Do you think we should have a market that has more supervision over it?

Mr. ECCLES. Well, no. No; I don't think that. I think the market should largely be permitted to reflect the monetary and credit situation.

Vice Chairman PATMAN. I do too but what I am talking about, is that in the stock exchange, you have supervision through some publicity. You know something about what is going on. In the bond market, you don't know what is going on.

Mr. ECCLES. Well, except the Federal Reserve statement has got to be published each week so that you know at the end of the week. You don't know what is done each day but you certainly know at the end of the week and I think it would be inadvisable to publish it every day.

Vice Chairman PATMAN. I won't press the point. I have a few matters here to bring up. I have to be on the floor at 12.

Now, the Open Market Committee is composed of 12 members. Of course, they have tremendous powers, as you have often outlined.

Mr. ECCLES. They have powers—great monetary powers. That is right.

Vice Chairman PATMAN. That is right. More than any other on earth. You don't deny that?

Mr. ECCLES. I would deny it, yes. I think the powers of the 12 men on the Open Market Committee are certainly limited.

Vice Chairman PATMAN. But the Federal Reserve Board has the responsibility and an obligation that the Open Market Committee itself does not have although they are a part of the Open Market Committee.

Mr. ECCLES. That is right.

Vice Chairman PATMAN. The Open Market Committee has nothing to do with discount rates and changes in reserve requirements.

I wonder if the Open Market Committee, particularly those five people who represent the private banking interests, are jealous of those powers.

Mr. ECCLES. Their salaries are fixed by the Board and their appointment can be vetoed by the Board.

Vice Chairman PATMAN. I know their salary is fixed by the Board. It is pretty high, which is all right. I would like to see the Board's salary fixed, too. I was not talking about that.

Mr. ECCLES. I am sure the Board would like to hear that.

Vice Chairman PATMAN. Of course, I have another verse to that. I want to go into some other things. While we are passing on that salary, it looks like the only way we will get consideration of certain things that were done in 1935, I consider, for emergency purposes and for use during the emergency, which have remained upon the statute books, would be to look into the whole question. It should be reexamined and reevaluated in the light of what has happened since that time; so I think that we should look into the whole question when we are looking into the question of their salaries. The Open Market Committee has that tremendous power, and I think it is the most powerful group in the world.

Why did you have different reserve requirements for the different banks in the beginning, Mr. Eccles, like at the New York banks, and the Central Reserve city banks, and the country banks.

Mr. ECCLES. I don't know.

Vice Chairman PATMAN. I looked in your book for that. I could not find it.

Mr. ECCLES. That was a condition, of course, that existed long, long before my time.

Vice Chairman PATMAN. We have had it for practically 100 years.

Mr. ECCLES. That is right.

Vice Chairman PATMAN. I think I know. You had no central bank. The money market banks, where the gold was largely held—when we operated under a gold standard—were the Central Reserve sources and banks outside of the money market could carry their legal reserves in these Reserve city banks. As a matter of fact, they were required under the National Banking Act and under the various State laws, to carry a certain portion of their deposits, either in currency or in reserves, with the Central Reserve or the Reserve city banks. That was, of course, in the absence of there being a Federal Reserve System. I have always felt that all banks of deposits should be members of the Reserve System; if they want to carry additional reserves elsewhere, to facilitate their operations, that is another matter.

Will you pardon me, Mr. Eccles. I have to go. It is 12. There are just two brief answers I would like to have, if you can give them briefly.

One is, do you believe that the Open Market Committee can function as well in Washington as in New York?

Mr. ECCLES. I think so.

Vice Chairman PATMAN. And the other: State banks have substantially the same benefits of the Federal Reserve System as member banks, although they do not belong to it.

Mr. ECCLES. I would like to say the Open Market Committee can function in New York as well as in Washington, too. I don't think the locale makes too much difference.

Vice Chairman PATMAN. I see; but it can function here as well as in New York?

Mr. ECCLES. I think so.

Vice Chairman PATMAN. Thank you very kindly, Mr. Eccles.

Mr. ECCLES. Thank you.

Chairman DOUGLAS. We have the practice of dividing the time equally between the majority and the minority.

Senator FLANDERS. The chairman has not had his time.

Chairman DOUGLAS. The chairman is very glad to give up his time in order that the members of the minority may have the time.

Representative CURTIS. Thank you, sir.

Well, now, in order to pick up the line of questioning that I was pursuing, I am going to pick up a specific recommendation that I believe you made, Mr. Eccles, on page 9, that the Federal Reserve have authority over the expansion of mortgage credit as well as housing mortgage credit and consumer installment credit.

Now, I would pose this question. Doesn't the Federal Government have considerable control right now over mortgager credit through VA; FHA; the savings and loan institutions, and so on? Do you think that the Federal Government needs more control than what they have right now?

Mr. ECCLES. Well, I think the responsibility for expansion and contraction of the money supply should be in one place. Now, I feel that the housing agencies which regulate the mortgage terms do not have the same responsibility that the Federal Reserve has.

Representative CURTIS. But they do have power to get to the specific point though, which is regulation of the amount of credit in the housing field. They really have more power.

Mr. ECCLES. They do. They have that; and I think the Federal Reserve adopted a restrictive monetary policy. It was long after that before anything was done with the housing agencies, and then the restriction was pretty minor in relationship, I think, to the credit needs. The way the Federal Reserve got at the matter, of course, was making an overall type of money policy, so that it finally reached the mortgage markets to the extent that GI and FHA mortgages were selling in the market for as low as $93 and $94 and $95, and builders were able to sell mortgages at those prices and still make a profit on their operations. But the buyers of the houses were paying not only the 4½ percent interest and the payments called for but they were paying for the discount.

Representative CURTIS. That is correct.

Mr. ECCLES. And that increased the cost of the houses.

Representative CURTIS. Yet, to illustrate the techniques that were available in the Federal Government, they were able to actually stave off the building of veteran houses in St. Louis, through a technique of just not granting loans if there were any restrictions against the land. They insisted that for their loan to be granted, restrictions must be on for sewage. For 2 months, there was a standstill on the development of VA housing. The reason I mentioned this is I am trying to point out the distinction that I think exists basically between the Government as a regulatory organization, such as you are suggesting, and Government which is actually in the economic endeavor itself, as I tried to suggest it is in the housing industry, through the techniques of the FHA, VA, and lending institutions, whether you call it direct lending, or whether it is an insured type of lending. They are actually in the business; so that when they change a policy, they can immediately, if they are in it to any great extent—and I submit they are in the housing industry—they can actually change the whole complexion of the home construction field.

Now, that is the point I am getting at—the distinction.

Mr. ECCLES. They don't change it through their refusal to lend money. They change it through making regulations for private agencies who would not loan money in accordance with their regulation.

Representative CURTIS. The point is, they are using the regulations because they want to close down credit, and they certainly use these other devises for that purpose. At least, I am suggesting they do.

Mr. ECCLES. I think that is a pretty rare situation because I don't think there was much credit closed down the first half of last year.

Representative CURTIS. We have the same techniques employed in the savings and loan institutions. I happen to be on the board of directors of a small one in St. Louis. Very effectively, the bank at Des Moines cut down on the amount of lending that these agencies could do by shutting off their normal supply of borrowings, which was, I say, normal and routine. They just shut it off.

Mr. ECCLES. That helps.

Representative CURTIS. It cuts down the amount of lending in a tremendous way and immediately.

Mr. ECCLES. Of course, the home-loan bank would have to go to the money market and sell its securities in the money market, where the Federal was trying to stop the growth of credit, so that at that particular point, it was continuing with the Federal Reserve policy. The difficulty was that it was not cooperating, and neither were the housing agencies in general cooperating with the Federal Reserve restrictive monetary policy. I am certainly not advocating that any authority be given to the Federal Reserve which would cause the elimination of these regulatory agencies. These regulatory agencies are essential. There was a time when we had what was known as regulation actions for the purpose of restricting mortgage credit that the Federal Reserve had. The Federal Reserve has had in the past both the powers to regulate consumer credit and also the power to regulate mortgage credit. So it is not a new thing, and that did not substitute for the housing agencies.

Representative CURTIS. Don't you think, though, that of course, there is a private control exercised on the amount of consumer and mortgage credit?

Mr. ECCLES. There is some but not enough.

Representative CURTIS. In other words, you do not agree.

Mr. ECCLES. The consumer credit terms, as we know, in the past year have gotten excessively liberal.

Representative CURTIS. I don't know whether I would agree with your adjective. I respect your viewpoint. You say excessively liberal. I felt for years in the housing industry that they were pretty stupid in their approach on home financing and I still don't think that they are—and I notice you say so, too—not liberal enough. I am inclined to think so too, and I am talking about it from the standpoint of a good, conservative loan.

Mr. ECCLES. I know; but that is semantics; I did not make myself clear.

The consumer credit terms have been too liberal in that the buyer has received—been able to buy goods in numerous instances with no downpayment, with a long period of time in which to pay.

Representative CURTIS. Yet, let me get your words here, you say too liberal. What do you mean by too liberal. Do you mean too liberal for what? Good economics or what?

Mr. ECCLES. It is certainly too liberal for good economics and the number of home buyers and the number of automobile buyers would have been reduced had the terms been more rigid.

Representative CURTIS. Yes, but——

Mr. ECCLES. You would have lessened the number of buyers by having larger monthly payments.

Representative CURTIS. My time is up but I do want to pursue this one last point. Suppose the economics of the situation were good, to have that? We would have no buyers with a bad economic situation.

Mr. ECCLES. Well, all right.

Representative CURTIS. Or if these were loans that would not be repaid.

Mr. ECCLES. Well, you accentuate the inflation and you accentuate the deflation. In a time of full production and employment, you encourage purchasing either on homes or consumer durable goods, by increasing the liberal terms, and it works against what I term economic stability just as I indicated in this paper. I think during 1955, there was possibly housing construction and automobile manufacturing that should have taken place in 1956. I think we would have been a little better off to have had fewer homes built in 1955 and fewer automobiles sold and maybe a little more in 1956.

Certainly, somebody is going to have to pay for the increasing cost of houses and consumer durable goods when you get such an excessive demand due to extremely easy credit terms. If prices of commodities generally, including labor, were not going up, as they were during the past year, then you would not be concerned about the number of homes and consumer durable goods that you sold. Certainly, I would like to see reserved to a period of recession, the exceedingly easy and favorable terms. If you are going to build houses at any time with no downpayment, it should be at a time when the buyer of the home is going to get his money's worth, when you have unemployment and surplus goods, surplus materials. When you have the opposite, which has been true during the past year in the entire construction field—I think the overall cost of construction has gone up in the last 18 months at least 10 percent—during that period, certainly credit terms should have been used as a factor to restrain that inflationary situation that was taking place in the construction field, and it was not. The Federal Reserve could only reach it as they did, slowly and indirectly; and I don't know whether they would have reached it then except I think the administration did do something about the housing field but it was a little late in coming.

Representative MILLS. Mr. Eccles, would you give me the benefit of your thinking as to what our economic problem for the remainder of the year may be? Would our problem be one of forces of inflation, forces of status quo, or forces of falling off in business activity?

Mr. ECCLES. I don't have a peach stone or any special insight into what the future may hold in store in the economic field. The material available nowadays is, of course, very extensive from not only Government agencies but from private agencies and it is a question, I suppose, of interpreting the statistics that are available and there are some disagreements with reference to what is predicted. I think with wise or timely use of monetary fiscal powers, that 1956 can be a very satisfactory year. I think that inflation can be held in check and I think likewise, that the excessive consumer credit and housing mortgage credit that has been extended during the past few years has made an increasing burden upon the problem of stability in 1956. That together, of course, with this accumulative farm problem. The problems are more difficult for 1956, I think, than they have been before and that is why I say that I believe if the Federal Reserve had had powers to deal with these selective credit controls, they could be held a little more responsible, and could, I believe, have done a better job not during the past year necessarily but could do a better job over a term. I don't think we can think of the operation of the economy in terms of a year. You don't divide the economy upon calendar years. It takes long-range planning because the private economy does not move quickly. The plans are made for a year, or 2 years, or 3 years, ahead of time. It is very important that private business get confidence that economic stability is going to be maintained; that we do have a dynamic economy that is going to grow every year.

Now, that would certainly, I think, tend to make for stability.

Representative MILLS. I ask this question because of some of the statements you made in response to questions asked previously, but primarily, because of your observations on page 13 of your prepared statement.

At the bottom of page 13, you call attention to the prospect of a cash budget surplus.

> With this prospective budgetary cash surplus and the further possibility that the gross national product for 1956 will be around present levels (when it should be at least $10 billion more than that to sustain production and employment) * * *.

Then you tell us if that happens, that you believe the economic policy would call for tax reduction on individual incomes as a stabilizing force, to offset the decrease in automobile and housing production and any other deflationary pressures.

I was trying to find out whether you thought those deflationary pressures are not present.

Mr. ECCLES. They certainly are present in the field of housing and the automobile production field and we are, of course, getting caught up in certain other fields. The backlog of orders will become less. Certain prices such as scrap iron are going down. I think they are getting caught up on the copper situation. The steel backlog is not what it was. The trend, the top, it seems to me, of the boom has certainly been reached not only here but in other countries. The same thing is true, I know, in several of the countries of Europe, Japan, and elsewhere; so that is an indication that we could have a recession, certainly, and whether we will, I don't know. There is an indication that the purchase of equipment by industry and new factory and commercial construction is in a very high level and the present plans are they will continue to be for the next year.

The same thing is true of course, in public—aside from the Government—in the city, county, and State expenditures. There are plans for large expenditures. As to how much of that would develop if the downturn should eventuate, I don't know.

Representative MILLS. What I am concerned about, Mr. Eccles, is this. If there are those deflationary pressures now in existence sufficient to justify it, you are recommending to this committee that sometime this year there should be tax reduction. I wonder then if you would advise me whether or not you feel that the present, overall money policy is in keeping with our needs.

Mr. ECCLES. Well, I think the present monetary policy is in keeping because I don't know at this time, whether or not the referred to tax reduction is justified. I think that we could very well wait here for a month or two to see what the trend is.

You usually get after the first of the year a downturn. It is seasonal. I don't think at this time that you can foresee the extent to which that downturn may continue or the extent to which it may go the other way. I think it is early. I think that the policy of the Federal Reserve in watchful waiting for the moment is possibly a correct policy and I think that the question of what to do in this tax picture is also something that could be deferred for a few months.

Representative MILLS. I am disturbed also, over the suggestion made in the President's Economic Report endorsed by the Chairman of the Board of the Federal Reserve, that the Congress undertake a study leading in the direction of further controls over installment credit. Suppose we were to decide, after that study, on the basis of what happened in 1955, as you recommend on page 9 of your prepared statement, that we give the Federal Reserve Board authority to encourage or curtail the expansion of housing mortgage credit; consumer installment credit; and so on.

What is the psychological effect if we have these deflationary pressures on at the present time, or even a study or even the passage of stopgap legislation that might be instituted in the future upon installment credit?

Mr. ECCLES. I don't believe there would be any. I think if the Board had those powers, those standby powers, that it would be no more serious than the powers that they now have to control the overall credit picture. I think it may add confidence, rather than do the opposite.

Representative MILLS. Well, I have no question about the fact that the Federal Reserve Board can restrict and have a strong effect upon an inflationary situation, but yesterday, I pursued a series of questions with the Chairman of the Federal Reserve Board. What can the Federal Reserve Board do in the direction of encouraging housing construction when once there has been a reduction in new starts? What can the Federal Reserve Board do through monetary policy to eliminate or partially eliminate these divergencies in prices between agriculture and industry? What can the Federal Reserve do in other respects to stimulate; and I found in his answers very little hope that would lead me to believe, if we gave standby controls on consumer credit, that the Federal Reserve Board might be able to do something to stimulate in the field of installment buying or that they might be able to do something in the field of housing mortgages, to stimulate.

Now, do you think it could provide such a stimulus?

Mr. ECCLES. I think the Federal Reserve could do something in both of those fields without these controls. I think the controls are needed to stop too much stimulation if it should develop. I think that the Federal Reserve, by adopting an easy-money policy, can certainly start the credit wheels operating again and I think with the credit wheels operating, that in itself would tend to give some further stimulation to the housing field, unless the market is so fully saturated that there are no buyers or even no downpayments; and I think that is one of the difficulties that has developed as a result of the easy credit we have had.

What I am talking about, is these standby powers, so that over the long-range picture the Federal Reserve can do a better overall job on the whole question of economic stability.

Representative MILLS. I know my time is up. My questions are largely the results of the statements that you had made, that we were in our present difficulty in 1956 with respect to housing because of too liberal trade in 1955.

Mr. ECCLES. That is right.

Representative MILLS. Therefore, if we are to have as many new starts in 1956—if we are to supply and sell as many automobiles in 1956 as we did in 1955, we don't accomplish those results as a result of imposing greater credit controls at the present time.

Mr. ECCLES. I don't think we should, or possibly could, sell as many automobiles in 1956 as we did in 1955. I think we actually borrowed in 1955 from 1956, and in the housing field, we possibly did likewise. I believe—we would only be building up trouble for 1957 if we pushed the sale of housing and automobiles in 1956, as we did in 1955. I think that the tax reduction is a very important factor in the picture and I think there are other fields, aside from housing and automobiles. Road construction is one.

We know road construction is extremely necessary before we get many more automobiles on the highway, or there is going to be no place to run them. And the easier-money policy can help to maintain automobile and housing construction at desirable levels if you get a too rapid falling off.

Representative MILLS. Of course, when you impose controls, you affect people in the low brackets and the middle income brackets largely, do you not?

Mr. ECCLES. You protect them; I think you protect them.

Representative MILLS. I know but you affect their standard of living.

Mr. ECCLES. No, you don't.

Representative MILLS. By depriving them of those things they might otherwise get on credit.

Mr. ECCLES. No.

Representative MILLS. You don't affect the standard of living?

Mr. ECCLES. I think the standard of living——

Representative MILLS. Pardon me. Let me express my thought. They come to the employer and the Government and say they want a higher wage or a reduction in taxes to compensate for that loss in their standard of living; and either that, or else they want an increased take-home pay. They want one or the other device, in order to make that new downpayment that is required under your new installment credit procedure, so it works in a vicious circle, as I see it.

Mr. ECCLES. Well, I think you are just only building up trouble for them. You are not helping them by getting them in debt.

Representative MILLS. I agree with you on that point. You never should help a man go in debt.

Mr. ECCLES. Reduced taxes would help him, if that is possible, certainly; or increased pay if it does not add to prices would certainly help. But giving them easier terms and getting them into debt beyond what they are able to sustain, I think is doing them a disservice instead of a service.

Representative MILLS. I agree. Sometimes debts become very onerous. When we help somebody get into debt, we do a disservice to them.

Representative CURTIS. I just have a final comment. On page 11 you make a recommendation with which I am very much in accord. You say:

> In the light of the general banking and credit situation, I think it is not only extremely important, but urgent, that the Congress appoint a most competent and objective monetary commission with instructions to study and investigate the entire private and public structure of banking and other credit institutions together with the effect of their operations upon the economy.

I agree with that wholeheartedly and I will include in credit institutions, all of this insurance and reinsurance that the Federal Government has moved into; and I will add, also, that not only in light of the general banking and credit situation, but in light of the Federal tax take. Take our present Federal tax structure and its effect upon private capital formation. This study needs to be made. I simply wanted to comment on your recommendation and add my own comments to that. Thank you.

Chairman DOUGLAS. Thank you very much.

I will only make one comment that has been brought to my mind by the remarks of Congressman Talle.

Congressman Talle suggested to me the importance of an impartial, scientific study of production, income, cost, prices, and distribution of a number of goods, to which I would add woods and timber; and second, a similar study in the field of distribution of other products more durable in nature, to see what groups have been benefiting the most from the increased productivity which has occurred and what groups have been benefited least, or suffered. I make this for the record because it seems to me this is the type of study the committee might very profitably engage in when these hearings are ended.

Thank you very much.

(Whereupon, at 12:35 o'clock, p. m., the joint committee adjourned, to reconvene at 10 a. m., of the following day, Thursday, February 9, 1956.)

JANUARY 1956 ECONOMIC REPORT OF THE PRESIDENT

THURSDAY, FEBRUARY 9, 1956

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

The Joint Committee met, pursuant to recess, at 10 a. m., in the Old Supreme Court Chamber, United States Capitol Building, Washington, D. C., Hon. Paul H. Douglas (chairman) presiding.

Present: Senators Douglas (chairman), and Sparkman.

Representatives Patman (vice chairman), Bolling, Mills, Talle, Curtis, and Kelley.

Also present: Grover W. Ensley, executive director, and John W. Lehman, clerk.

Chairman DOUGLAS. The hour of 10 o'clock having arrived, the committee will come to order.

I think an explanation is due to the group and to the witnesses and fellow members of the committee. It has been our custom to have the official witnesses on a given subject testify first and the nonofficial witnesses testify later. Therefore, it may seem somewhat unfair to have a nonofficial witness, Mr. Lincoln, testify first, and Secretary Benson later. Unless there be continued charges of unfairness from the Republican members of the committee, I think I should say that we offered Secretary Benson a chance to appear first, but it was not convenient for him to come today.

So in order to suit his convenience we postponed his appearance until tomorrow. So I hope the record will show that we tried to give Secretary Benson the usual courtesy extended to all official witnesses.

We are very glad indeed to welcome Mr. Murray Lincoln this morning. He is president of the Cooperative League of the USA, and president of many other organizations, including CARE.

I always regarded Mr. Lincoln as one of the most distinguished citizens of this country, and of the highest type of character and public spirit, and also an extremely hardheaded and competent man as well.

So we are very glad indeed to have you, Mr. Lincoln. We appreciate your taking the time and trouble to come.

Mr. LINCOLN. Thank you, Senator. What do I do? Just proceed to read my formal statement?

Chairman DOUGLAS. Yes. That will be fine.

STATEMENT OF MURRAY D. LINCOLN, PRESIDENT, COOPERATIVE LEAGUE OF THE USA, ACCOMPANIED BY ROBERT A. RENNIE, DIRECTOR OF RESEARCH, NATIONWIDE INSURANCE COS.

Mr. LINCOLN. My name is Murray D. Lincoln and I am from Columbus, Ohio. I understand that today I am to discuss the President's Economic Report, and specifically that section devoted to the problems of agriculture.

At the present time I hold the following offices: President of the Cooperative League of the USA; president of CARE; president of the three Nationwide Insurance Cos.; trustee of the National Planning Association and of the International Cooperative Alliance. From 1934 to 1942 I was a member of the board of directors of the American Farm Bureau Federation. I was a delegate to the first United Nations meeting on goods and agriculture held at Hot Springs in 1943; and I have been on various Presidential committees such as rural credit, education, and the like.

Also, I am engaged, with partners, in farming a thousand acres—dairying and growing grain. I mention all this, only to give you some idea of the experience and background on which I will base this presentation.

First, let me say that I regard it an honor and privilege to appear before you. But I want you to realize that I am fully aware of my limitations. I have no panacea to recommend, because I do not think there is one. And I do not underestimate the difficulties which face you as Members of this Congress in attempting to arrive at practical steps for the improvement of the agricultural segment of our economy, and at the same time to stay within our traditional concepts of freedom and free enterprise. I have great sympathy for the Members of this Congress who must continue to come to grips with this problem.

I have spent my whole life in agriculture, farm organizations, and industries connected with agriculture. As a result, I have arrived at certain opinions. In order to conserve the time of the committee I would like to set forth as succinctly as possible some of my beliefs and recommendations relating to agriculture as it affects both farmers and consumers.

THE PRESIDENT'S ECONOMIC REPORT

That part of the President's report having to do with the problems of agriculture seems to me to be factual and perceptive. The President says:

> It is imperative that we strengthen farm programs on the basis of a realistic appraisal of the present situation.

With this I heartily agree. I also agree with his statement on page 51, that—

> the first and most pressing problem requiring the attention of Congress is the continued decline of agricultural income.

It seems to me, too, that the report is particularly helpful in reminding us that part of our present problem of surpluses derives from the stimulation agriculture was given during the last two world wars.

DEPRESSION DANGER

I have an uncomfortable feeling about the present situation. It reminds me too much of what I went through during the twenties as secretary of the Ohio Farm Bureau. I saw then, as I see now, the steady decline of farm income while other incomes stayed high or went higher. I listened then to the argument that because farmers represented a relatively small part of our population it didn't make too much difference what happened to agriculture. I heard highly placed folk say that it was impossible to have a decline in our economy.

You gentlemen, I am sure, remember as I do, what President Coolidge said on the very eve of our greatest depression—

> The country can regard the present with satisfaction and the future with optimism.

Well, we know now that President Coolidge was wrong and that what was happening to agriculture in the twenties was only a forerunner of what was to happen to our whole economy in the thirties.

Too much of what is happening today has the look and the sound of where I came in thirty-odd years ago. And in all sincerity I say that unless we find the answer to today's farm problem now, based on my experience, our whole economy will again be depressed as it was in the thirties. I am afraid the process may already have started, with hogs down to 11 cents and farmers' incomes still dropping.

FARMERS PROSPEROUS ONLY IN WAR PERIODS

Reviewing my own experience as it relates to our farm problems is not always a pleasant thing for me, for these problems not only seem to suggest impending economic depression, they are also associated in my mind with something worse, and that is war. From the history of this century, I can't escape the impression that the farmer is really prosperous only just before, during, and just after a war. Other folks may enjoy prosperity in peacetime. But apparently not the farmer. It is hard for me to believe that we must have war for the farmer to prosper. Yet this is exactly what the record seems to say.

But war has never been a real solution. And it seems obvious now, at this critical point in human history, that civilization cannot withstand another war. All this makes it imperative that we find our solutions where they really belong—in a world at peace.

AGRICULTURAL RECONVERSION A NATIONAL RESPONSIBILITY

The President's report, as I have affirmed, rightly attributes part of our current agricultural distress to wartime speedups in production. Logically, then, part of the adjustment we are now trying to work out should be charged to the cost of war—just as we charged up the costs of reconversion in industry.

I think, further, that we must accept the proposition that the whole economy should pay part of the cost of developing and keeping our agricultural plant in shape for emergencies, just as the whole economy stands the cost of building airplanes and guided missiles and maintaining airbases around the world. We willingly pay the costs of military preparation even though we fervently hope the things we are paying for will never have to be used. I make this point also because too often we hear statements that what the farmers ask for is unreasonable. I am thinking in particular of the recent article in Harper's magazine—now somewhat in evidence in the Congressional Record—entitled "The Country Slickers Take Us Again."

Chairman DOUGLAS. By the way, Mr. Lincoln, is it true that, as the author of the article indicated, the farmers of Iowa now ride around in Cadillacs?

Mr. LINCOLN. I am not saying that some do not have them or that they should not have. But I think that the record proves that a very, very small percent, Senator, have them.

Chairman DOUGLAS. What about the Ohio farmers?

Mr. LINCOLN. I haven't seen many of them, sir, in all my 30 years of traveling around. I wish they were in a position to have them.

One of my associates has just said that Wallace's Farmer made a survey of Iowa farmers and found that only four-fifths of 1 percent had Cadillacs. More than half the farmers owned cars in the lower 3-car class, and the average car was 5 years old.

The CHAIRMAN. How many years old?

Mr. LINCOLN. Five years old.

Chairman DOUGLAS. Do you think the Harper's article "excellent"?

Mr. LINCOLN. I think what I have just said indicates that I have some serious questions, sir.

Chairman DOUGLAS. Do you think that ghostwriters are a sort of pernicious influence in Washington? What do you think about ghostreaders?

Mr. LINCOLN. There are probably some of both in the audience, Senator, and I would rather stick to my prepared text.

Chairman DOUGLAS (continuing). Or ghostreaders that do not read?

Mr. LINCOLN. (No response.)

Vice Chairman PATMAN. Mr. Chairman, may I ask him a question there?

Chairman DOUGLAS. Yes. Congressman Patman has been very assiduous in attendance, and has sacrificed his other duties, really, to be present at these meetings. But there is another meeting that he must go to.

I wonder, Mr. Lincoln, if you would be willing to let Congressman Patman ask a question.

Mr. LINCOLN. Surely.

Vice Chairman PATMAN. I just have to go into the Banking and Currency Committee this morning on a matter that I just cannot miss.

But about this country "slickers" business, do you not think that Mr. Benson did this country a great disservice when he incited the city consumers against the farmer, and after he got through inciting the city consumers against the farmer, then he turned to the middlemen in order to turn both the farmers and the city consumers against them, and say, "Now, he is the goat; he is the guy that is getting too much. I think that the farmer should get his profits out of the middleman".

Of course, we know that rugged competition is such that you do not get much to help the farmer there. So a great disservice was rendered, and particularly in this.

I have known the time when Members of Congress from the loop in Chicago and right in the middle of New York City, representatives here in the Congress, had better voting records for the farmer than a lot of Representatives from farm districts, because they had sold their people on the correct theory that the farmers had to be prosperous in order for them to be prosperous, and therefore, higher prices were justified, maybe one-half cent on a loaf of bread. So I think that was a great disservice on the part of Mr. Benson.

Do you have that chart, Mr. Ensley?

I want to invite your attention to a chart that I have, just briefly, showing the parity ratio and farm prices and interest rates.

Now, if you will notice, it is not down to date. It lacks 1 year. But it shows March 4, 1951, when the Federal Reserve Board and the Open Market Committee declared their independence. The chairman and I do not agree on this 100 percent. He has one view and I have another. But I am presenting the information that I believe will be helpful to you. If you will notice, when interest rates commenced to go up, farm prices began to go down. And if you were to bring that chart right down to date, you will find that it has continued that way ever since March 4, 1951.

Of course, there were minor ups and downs, like in 1954, when the banks were selling and buying securities for tax and profit purposes. But if you would bring that right on down to date you would see that farm prices have continued to decline as interest rates increased, and I think for the obvious reason that between the farmer and the consumer you will find the processor, the manufacturer, the people who package the materials, the transporter, the railroads, the trucks, the telegraph companies, the telephone companies, and all the services that go into it, and the distributor, on down to the consumer, each had to pay that higher interest. The only one that they can take that out of is the farmer. He is the only unprotected one. So his price has got to decline in order to take care of that increased interest rate to the consumer.

Then going back to the farmer, from the iron ore and the barge, the transporter, the steel mill, the fabricating plants, and then the manufacturers of agricultural equipment, transportation companies and the distributor down to the farmer, they have added on that interest rate at each point. So the farmer has paid it both ways. He is the only unprotected one in the whole lineup.

Therefore, interest rates, I think, have been 90 percent of the cause of the farm decline, and the interest rate, Mr. Lincoln, has been deliberate—I mean, the increase.

When President Eisenhower was being sworn in here at the Capitol on January 20, 1953, the Federal Reserve right then was increasing the rediscount rate. Three or four of the district banks had already increased it, some increased it that day and some increased it the next. It was already in the cards. They were increasing the rediscount rate and getting ready for a higher interest rate.

This interest rate increase was deliberate. And I cannot conceive of people charged with the duty of protecting the public on interest rates and protecting the taxpayers, deliberately causing interest rates to go up. But last fall, commencing particularly in the summer of July 7, 1955, there was $1,500 million in bills due the Treasury every week, for 13 weeks.

Well, the Treasury, instead of just selling $1,500 million worth of bills to pay current bills, sold deliberately and added $100 million each week, and Mr. Humphrey admitted that that had a tendency to increase interest rates. Mr. Martin, Chairman of the Federal Reserve Board, admitted to me here day before yesterday that it tended to increase interest rates. And there they were for 13 weeks deliberately increasing interest rates and causing that short-term rate to go up from about 1.3, when it started, to about 2.2 when it was over, nearly 100 percent in 90 days' time, deliberately, and on purpose.

Day before yesterday we had a bill on the floor of the House from the Committee on Appropriations, and one of the recommendations in that report was that we increase the budget $200 million this year just to take care of that increase in short-term interest rate, which has been disclosed to have been deliberately done.

It is that sort of thing, I think, that hurt the farmer more than almost anything, Mr. Lincoln. And I just wanted to invite it to your attention, because I know you are a thorough student and have a fine staff and fine organization and means of communication with the people. I hope that you give it some thoughtful study. If you find it a valid argument and a good one, I hope that you see that it is disseminated.

Mr. LINCOLN. I will do as you suggest, Congressman Patman. I think the chart on the falling parity ratio is most significant. In all of our business operations, our economists tell us to look at the trend. I saw in the paper where the Congressman and Secretary Humphrey had some argument as to who is the most pessimistic.

Vice Chairman PATMAN. That was the chairman, Senator Douglas.

Mr. LINCOLN. Senator Douglas. I did not get just who was on what side.

You can say today that maybe I am overpessimistic, but again I say, look at the trend, on the parity ratio.

Vice Chairman PATMAN. Yes, sir. But that movement at the end of 1954, was strictly a profit-and-loss situation causing the lines to go down temporarily. But if the chart were brought up to date, you would find the trend all the same.

DISAGREE WITH REMEDIES

Mr. LINCOLN. With the things that I have mentioned above, I think the President's report and I are in substantial agreement. But when it comes to the solutions for agriculture proposed in the report, and with what they imply, I am afraid I must take exceptions.

To begin with, I say emphatically that we will never find a way out of our dilemma by going down the road we're on. But I respect the motives and the efforts of the many people, both in Government and out, who have worked many years on the programs now in use. But at the same time, I believe we need desperately to about-face—and let me explain why.

ABUNDANCE NOT AN EVIL

I cannot accept the premise that our vast surpluses of agricultural products and other things are an unmitigated evil. On the contrary, I think that the ability of this country to produce an abundance of food and fiber is one of our most priceless assets. Our unique contribution to western civilization has been the discovery that, through the organization of science, industry, and resources, a relatively small number of people on farms can produce enough food and fiber to supply the entire population.

This achievement has enabled people to leave the farms and go into industry where they have produced the necessities and conveniences that have brought us such a high standard of living. Clearly, then, as I see it, our problem is not that we have learned to produce too much, but we haven't yet found constructive ways to use what we produce.

ABOUT-FACE ESSENTIAL

As I see it—and, of course, I can be wrong—about-face involves finding ways and means by which we can literally shift our entire economy—its procedures, its programs, and its policies—from those based on scarcities to those that are based on plenty. In other words, we need to learn to live with plenty—something that no people of any country has ever been required to do. Living with plenty means we have to do the opposite of much that we do now.

Now we plan not to use our resources. That is what we did when we killed little pigs and plowed up cotton and wheat. That is what is now planned in the soil bank which adds up to not using our acres. To live realistically with plenty takes an opposite course. That course would guide us toward plans under which we would use all our resources intelligently, with the goal of satisfying all the real needs and desires of people—everywhere.

SCARCITY DEVICES DEEPLY IMBEDDED

Planning to live with plenty will be most difficult. Scarcity devices are deeply imbedded in the warp and woof of our economy. Every economic segment uses them; business with its monopolies; its fair-trade laws; its tariffs; its trade agreements openly and not so openly arrived at; labor with its featherbedding—its closed shop—its limits on workers' productivity; and agriculture with all the devices just mentioned, and more too. Many of these devices of scarcity have been written into laws.

I readily agree that up to now, in the years of scarcity, some of these devices have been justified. Many believe they are still needed. I do not share that belief. The reason I differ is because I believe that for the first time in history we stand on the threshold of plenty. The age of abundance is here—a revolutionary forward movement in the prospects of mankind.

We now know that plenty is possible if we can solve the key problem—how to develop this abundance on all fronts and distribute the plenty democratically, so that all get its benefits. The knowledge of how to produce abundance is in the hands. I think we have most of it in this country, but it is in other countries, too. Now we have got to lead in finding how to distribute it.

PRODUCTION FOR CONSUMPTION

We are here today, or I am here along with others, considering the problems of the farmers and the food he grows in this age of plenty.

The sole purpose of production is consumption. Food is produced by farmers but it is consumed by everyone. The purpose of production is perverted when farmers grow for warehouses, not for consumption. We must abandon producing food for the Government loan instead of for the housewife. We must work out ways and means by which we can get all people all the kinds and amounts of food they need and desire. Throughout the world people reach first for the breadbox—and they do it before they reach for the bullet box, or even the ballot box.

FOOD IS THE BASE

Food enters into almost every economic and social problem. It is the most important trade commodity. Food is of prime importance in determining the health of a people. And food concerns every person alive. Therefore, no wonder food is a most important matter of national policy.

Because this is true, I believe that only as we discover and work out a satisfactory national food policy which starts with the needs of people—will we ever find a satisfactory answer to our farm problem.

STOP—LOOK—LOOK INTO

This brings me to my first specific suggestion—and this deals with an essential which the President's report has seemingly omitted. The report does say:

> The decline in gross farm income has been accompanied by an even sharper decline in net income.

That is right, and I will have something to say about that later.

But to me, as significant as this, if not more so, is the unmentioned fact that the farmers are today getting a smaller percentage of the consumer's food dollar than at any time since 1940—and here is where I believe we ought to put up a sign: STOP—LOOK—LOOK INTO.

FARMER GETS LESS OF CONSUMER DOLLAR

In 1955 the farmer received only 41 cents of each dollar spent for food by the consumer. A further decrease is in sight for this year. Before we adopt and write into law more scarcity devices—or at least while we are doing that—why don't we see what might be done to lower the cost of things which farmers buy and which go into his cost of production, and at the same time see if we cannot cut the cost of distribution so consumers will pay less for food?

This twilight zone—the difference between what farmers get and what consumers pay, in my opinion, cannot be explained away by saying that 59 cents of every dollar spent for food all goes to satisfy housewives' demands for services and packaging.

Several times bills have been introduced into Congress for an investigation of this dark corner but there has always been too much opposition to get a thorough investigation. I last worked with former Senator Gillette in this connection. It is a fact that all subsidies take money out of all taxpayers and that fact has often made me wonder why—with all that wide participation that we have—no farm program enacted has ever disturbed the middleman's take, no matter how big it gets.

ARE SAVINGS POSSIBLE?

This is the situation now. Consumers spent $75 billion for domestically produced food. Out of this farmers get less than 20 percent net, while the processing and distributing industries—the middlemen—take 60 percent, or $45 billion and the suppliers take $16 billion.

If what we are looking for is (*a*) to boost the low level of farm incomes and (*b*) to get more and better food to more people at lower prices, we ought to find out, just as impartially and fairly as we can, if savings in this distribution pattern could not help to accomplish both ends.

THE SUPPLIERS CALL THE TUNE

And if we are trying to find out where food costs can be cut for the benefit of farmers and consumers, let us have a hard look to see what the farmer does with the money he gets for the food he sells. Of the $30 billion he receives, he spends approximately $16 billion to purchase machinery, gasoline, fertilizer, and other supplies. Remember, we used to produce our own power with a lot of acres supplying the food for horses and other animals. Now we buy most of it.

Are the prices which the farmer pays for these necessities out of line? Everybody knows they are high and that they have been rising. If they are too high—because of monopolies, price-rigging, or any other such scarcity devices—the farmer is not only paying the piper but the consumer is carrying an extra price load because, just as the Congressman said, the extra price load, the costs are pyramided straight through from the implement factory and back to the mine, to the neighborhood supermarket.

TWENTY-FOUR MILLION FAMILIES MUST WATCH PENNIES

It adds up—when costs of raw materials for farming are high, costs of food cannot be low. If there is monopoly or inefficiency among middlemen, consumers must suffer. A good many people—living alone or in families—are priced out of the market for the foods they want and need. One family of every eleven in our country has an income of $1,000 per year or less. Eight million families—1 in every 5—get $2,000 or under. To this group and to the 18 million families in the $2,000 to $5,000 bracket, high food prices are obvious deterrents to the increased food consumption.

CALL FOR AN INVESTIGATION

For the good of the farmer who can so ill afford to have his diminishing income chiseled away further; for the good of the consumer, who buys less than he or she wants to or needs because prices are high; for the good of all of us, as taxpayers, who in the last analysis pay the bills for farm subsidies and others; for the good of the entire economy which I think is in danger of being dragged down eventually in the morass of farm depression—I propose that Congress immediately undertake a full-scale investigation of the true situation among food middlemen and farm suppliers. Let us get the facts and let those facts determine our actions toward creating a national food policy.

Let us remember that the suppliers and the middlemen are as much in the business of food production as are the farmers. And all must be included in a single policy, and, of course, all of them have got to be treated fairly.

LIVING ON LACK OF EXPENSE

The farmer desperately needs benefits right now on the income side. I think you will all agree on that. I think I can illuminate his condition by an experience of mine of many years ago. My first job, after I got out of college, was as an agricultural county agent back in Connecticut. I remember asking one of the first farmers I met back there what his source of income was. He said, "Young man, we don't have a source of income, we just live on lack of expense."

That is not so funny when you see what is happening right around us. Lots of farmers are doing just that—living on lack of expense. If you want to see how that works, take a small farm worth $10,000. One of my relatives owns such a farm in Massachusetts, and I know what happens to him. He owns the farm outright. If he didn't, he'd be paying $600 interest on a mortgage each year, or for the use of his capital. But he is living on that item of lack of expense. To keep up his place with needed repairs and improvements, he should spend at least the same amount—$600. But he doesn't because he can't afford to. Instead he lives on that item of lack of expense.

So it goes—and as he lives on lack of expense, the farmer becomes less and less a customer. He is headed for disaster because he is in the same position as the small groceryman whose family gets along by eating the groceries off his shelves.

PERPETUAL MOTION DOWNWARD

The farmer can't solve his problem by living on lack of expense. We all see that—so he tries to get his income up in other ways. Like almost any other farmers, I know firsthand about some of those other ways. When the price of milk dropped in 1954, or just previous to that, we felt it pretty quick. Well, I answered that reduction in my income by putting on more cows and deferring necessary expenditures. And I ask, what else can a farmer do when he is faced with the cost of equipment going up, fertilizer going up, and most other things going up? What more can he do to meet those increased expenses? I never could figure that out.

What else can a farmer do but produce more to try to get the same amount of money as before? This is perpetual motion downward, and it always ends the same way—with breadlines knee deep in wheat.

GOVERNMENT NOT THE WHOLE ANSWER

What to do about the situation? The Government definitely has a part to play—an important part, but not everything. Farmers can—with Government help—do much to help themselves. In saying this I do not mean to say that farmers have not been trying to help themselves. I think that farmers have done as much, if not more, proportionately, than other groups in our society. But they can do much more. They can do this through cooperatives. Cooperatives are designed to operate at the exact cost of the service which they are set up to provide.

Were cooperatives to function—in an integrated structure—from the source of machinery and feed through delivery of the processed food to the consumer, price spreads would shrink, farmers' income would improve, and consumer purchasing power would gain.

That kind of cooperative structure would embrace more than farmers alone; it would also include part-time farmers—an ever-growing group of people who encompass city work and a rural way of life, workers in the mines, mills, factories, warehouses, and retail stores, businessmen and consumers—to the benefit of all.

Here, I believe, is one way to a true solution of our dilemma. This solution is past the pilot-plant stage. Groups of farmers alone, as well as farmers and consumers together, have in many places through cooperatives actually demonstrated that they can increase income for farmers while they lower food prices for consumers.

MORE FOR THE FARMER—LOWER CONSUMER PRICES

I have just seen a report of a cooperative in Waukegan, Ill. It is not a new venture. It is 34 years old, so it is past the experimental stage. This cooperative belongs to 8,000 consumers who buy from it and to the 60 farmers who supply it with milk. The farmers, because they are small in number, have proportionately a larger percentage on the board.

Both producers and consumers share in the savings. The farmers get a 1 percent premium on their annual milk sales, which were about $1 million last year, when the consumers get a 3-percent patronage refund on the across-the-board purchases. Now that is a tiny cooperative, but it shows what can be done. Carried over on the same basis to the $75 billion of food sales, a 3 percent patronage refund to consumers would put 2¼ added billion dollars in the pockets of consumers. And 1 percent more for farmers would give them $300 million on their $30 billion gross of food sales, or an additional 3 percent more on net income.

INTEGRATION UPS SAVINGS

What I am talking about in Waukegan is a combination only of farmers and consumers. What is required are cooperatives in each stage from the production of machinery and feed through the delivery of processed food for the consumer. If as much as 5 percent or $2¼ billion were to be chopped off the cost of processing and distribution while 5 percent more, or $800 million, were to be taken off the cost of farm supplies, the 2 items added together would equal 22 percent of what farmers now get for all their labor and all their use of the land.

There are a lot of things, gentlemen, that I have left out of this statement. But in our 30 years of experience, in all its phases, we have done a lot of things to find out what can be done with cooperatives. I think I can now say with all the positiveness that anybody needs to have, that this sort of thing can be done successfully if applied on a big enough scale.

TRUE FREE ENTERPRISE

I understand free enterprise to mean that people— and not Government—do most of the job of creating and moving the goods and services in this economy. That's what I am talking about. In the case of agriculture, the cooperative is the machinery by which the goods and services can be most efficiently moved into use. Because the co-op is owned by its users, it is machinery that functions for them as such—without profit. That is where we get into a lot of semantic trouble. But the savings created by this nonprofit machinery go to the owner-users and become their profit in the form of increased income. And, of course, they are the ones that pay the taxes. This, I submit, is in the very best tradition of American individualism and free enterprise.

STATISM

Of course, it is of paramount importance that we all lend our best efforts to maintain a free democratic society. Voluntary effort, such as that of cooperatives, goes out the window with the coming of any form of statism.

Last week down here in Washington we had our CARE mission chiefs from all over the world and others who were with relief organizations that are working in this same area, and I cannot help but be impressed with the necessity of people being untiring in their efforts to make a free society work in the interest of all the people.

The one fear I have about our own society is that we will be less than vigilant and less than willing to pay whatever price is demanded of us in terms of effort, participation, conciliation, and all the other things to weld a virile body politic and economic.

We must be able to adapt our society not only to the present-day opportunities but also to satisfy the questions of those who with apparent sincerity believe that, because of the complexity of the present-day world, people cannot solve their problems through the democratic process. These are reasons why I urge you to consider the value of cooperatives in this crisis.

PROVING VALUE BY TEST

Most of what I say here about cooperatives comes out of my own experience. During my 28-year tenure as executive secretary of the Ohio Farm Bureau, our first big test came in the aftermath of the depression of 1920–21. One development in these early twenties was the cooperative purchasing of fertilizer. Similar developments in feed, petroleum, and farm supplies brought home to Ohio farmers the economic value of the cooperative idea. Over the years it saved them many millions of dollars.

Now, granted we have not solved all of the problems yet, and when, by 1926, farmers faced the problem of the high cost of auto insurance on the farm, they were again ready to tackle it the cooperative way. We knew nothing about the insurance business then, but we did know the farmers needed, wanted, and deserved farm rates instead of city rates. We went ahead and set up our own companies, and soon we were offering people auto insurance at a saving of up to 40 percent.

In the first 9 months of that depression year, 1932, our insurance business showed a net gain of 33 percent. And, as some of you know, we now have over 2 million policyholders and assets of approximately one-quarter of a billion dollars, and we started with $10,000 in capital.

Now, one of the best examples of how cooperative action—with the help of Government—brought improvement in the farmer's standard of living is the story of our Ohio rural electric cooperatives. Prior to 1935, only 18 percent of the farmers had electricity. This is one story that I think is of tremendous significance. Let us grant that everybody was sincere in what they did. But the utility companies thought the farmers would never use enough power to warrant the building of those lines. And I doubt if the farmers could have ever joined together to set up those cooperatives without the Government getting back of them.

We would not have dared to tackle it. And no source of credit then available would have loaned the farmers the necessary money. So we had to get Government help. What we did, of course, was to set up our own cooperatives, and we cut the cost of electricity right bang in two. We eliminated the connection charge. Of course, we made a market for things that we could not have foreseen at that time, such as washing machines and other electrical appliances. As a result, nearly 100 percent of our farms are electrified and the power rates all over the State have declined.

Now, we have no monopoly of cooperatives in Ohio, because there are thousands, large and small, helping farmers and consumers all across the United States. But one of the most interesting new developments is in New York State where the farmer members of the National Grape Cooperative Association are now acquiring ownership of the facilities of the world-famous Welch Grape Juice Co.

The transfer of ownership will take place next year under an agreement signed in 1952. The grape growers will then cooperatively own the great Welch plant. With expanded membership and rising sales, the income and living standards of these farmers will increase substantially. In fact, they already have.

As the Welch people point out, "This will enable more people to enjoy a real participation in ownership and profits. It is free enterprise at its finest."

Chairman DOUGLAS. That is Mr. Kaplan?

Mr. LINCOLN. That is Jack Kaplan; yes, sir.

In my opinion, this transition to cooperative ownership now taking place in New York State sets a pattern capable of widespread application. I favor this method because I strongly adhere to the principle that the people who produce a product—particularly a consumer product—ought to participate in control and ownership of the company whose existence is made possible by that product. And may I add here, a lot of people are afraid that we are going to take over all business. Well, anyone who is in an administrative position as I am does not want all those worries. But I do think we need to have pilot plants to show what can be done.

This is the advantage I see from cooperatives: When Mr. Kaplan owned the Welch Co. by himself, let us say he earned—as he did—$1,500,000 from its operation. Because of his income status, most of the earnings were properly taken away from Mr. Kaplan by the Government in taxes. These taxes were then redistributed to the farmers through the different farm programs. But through the ownership of the Welch plant, the farmers will get that money directly. They will get such a price for their grapes that they will not need a lot of these farm programs.

In this connection, I have just seen some testimony by Mr. Jack Jennings of the Cooperative League before the Subcommittee on Mergers of the House Judiciary Committee. He stated that the profits of the three largest dairy companies in 1954 were equivalent to the average cost of the Federal farm program over the last 20 years.

I think those are the kind of figures we need to have brought out, not that we are pointing the finger at anyone, but because we are facing a basic problem which I think may finally affect the whole economy. I am sure that if we get together, there is enough for everybody to do.

So I believe this cooperative pattern, widely spread, can raise farm incomes and reduce food costs. In recent months I have had talks with many of the biggest financiers and businessmen of this country, and I have found amazing agreement that something ought to be done in this direction.

AN AMERICAN SOLUTION

This way—through cooperatives—of solving the food problem has significance for all Americans. It is in cooperatives that you find equality and full mutual confidence in control. It is in cooperatives that you find an absence of compulsion of minorities. And, of course, that is what we are doing in some of these scarcity programs. There is no other form of legal institution that I know of that a large body of people can use that is so constituted that control cannot be diverted from the purpose of benefiting a lot of people to the benefiting of a few.

The cooperative even protects people against themselves, because of the legal provision by which they must of necessity distribute earnings, not on the basis of stock ownership, but on the use of the institution. This makes for more economic benefit to the individual member, and at the same time strengthens the democratic process.

Now, gentlemen, if anybody else has an idea for a better kind of legal institution that meets all these qualifications, I wish they would trot it out. I will support their attempt—because I do not present cooperation as a cure-all, but because I am concerned with the future of democracy and our economy, and I feel we should pool our efforts and join in determining what can be best for the majority of the people and not what contributes to our own selfish individual or group interest.

Now, I have tried to outline here the distinguishing characteristics of what voluntary cooperatives do. There are other things that cooperatives don't do that are just as important. They do not become class bound or state bound, or should not, and this avoids—if cooperatives are properly developed—the danger of rule by Communist collectivism, feudal dictatorship, or statism of any kind. Cooperatives merit Government help because the goals of cooperatives are also important national goals.

PROPOSES NEW FINANCING AGENCY

To achieve these goals, I propose what I think is my most important suggestion. I propose a Government auxiliary agency such as REA or the old RFC or the present FHA with its guaranteed loans. This auxiliary would promote and assist in the financing and setting up of cooperatives for groups of Americans who desire to undertake cooperative action in food or other fields. It would make credit available on a perfectly normal business basis—and this is necessary because credit in adequate amounts is not available now from established financial institutions including the Farm Credit setup.

I think we have got another perfect example of the REA situation here. You have got to be big in this whole question of distribution and manufacture in order to be effective, and I do not think farmers by themselves, because they do not have the same access to credit markets as other groups, because they constitute a large number of individual ones, can ever do it by themselves.

Yet I am sure money invested in this area would give a good return. If you have time and the inclination to go into it, I think we can show you the many places we have done it in our own organization. For example, we have been in feed, we have been in fertilizer, we have been in oil, we are in housing, we are in finance, we are in insurance—and I say categorically that there is not a field that we have yet discovered where there cannot be savings made for the consumers and the producers.

The only thing that I cannot see clearly is just how, without help of our proposed Federal finance agency, we can organize on a big enough scale to be really effective, and to have some influence on price levels, both to and from the farmer.

The present crisis has developed need for emergency action. And I grant you, Senators and others, that we cannot jump into this new field overnight. We have got to stop where we are and get over to it gradually. But again looking at that chart and what we see and what we hear, the GI's are now beginning to have trouble.

Now, maybe we loaned them too much money. I do not think so. But we just see these little evidences of what I saw again in the twenties that culminated in real trouble in 1929.

That is why I emphasize that we ought to get cooperatives organized in these emergency areas before we are in real trouble.

From a governmental standpoint, you can say, You cannot have more credit, and things like that, but when the consumers of other potential borrowers make up their mind that they are not going to borrow or use credit to buy, that is something that nobody can influence.

So I think we need, before we get into trouble—and I hope we never do—to take some of these actions in the farm and cooperative field.

I sometimes get into a lot of trouble around the world by saying that in none of our companies did we ever start out to make money, but we ended up making more money than most of the people that started out to make it. In my opinion, the difference is that it belonged to the people who owned us, rather than to Murray Lincoln or a few of us, who might very much like to own the corporations that I now have something to do with.

You cannot have such profits as are now being piled up and going to a relatively few people, and not have them come out of the great body politic and the consumers and the farmers.

Chairman DOUGLAS. Mr. Lincoln, did you notice the annual report of General Motors?

Mr. LINCOLN. Yes, sir.

Chairman DOUGLAS. As I remember it—you can correct me if I am wrong—the profits of General Motors before taxes amounted to $2½ billion.

Mr. LINCOLN. Yes, sir.

Chairman DOUGLAS. And this was equal to one-quarter of the net income of approximately 5 million American farmers. Am I correct in that?

Mr. LINCOLN. I did not see those exact figures, but they sound correct.

Now, again, that does not mean, Senator Douglas, that we are against the profit system, but what I think is even more important than even the profit system, is to maintain and strengthen a democratic system. And again I put emphasis on the fact that this is the time to do some of these things, and not wait until we are in more trouble.

EMERGENCY HELP TO FARMERS

There are certain other things that it seems to me we ought to be looking into.

I think that we should have emergency loans available to save farm homes in danger of foreclosure. That means a farmer who ought to be saved: a farmer who has a knowledge of farming and enough land to farm efficiently. I do not think we are ever going to get a system where you can save everybody, because economically I am assuming that more and more people over the years will go off the farms. However, this ought to be a reasonable process. No one should be required to leave the land without having more attractive opportunities elsewhere.

Many young farmers, especially GI's, are in danger of losing their homes this year unless emergency action is taken.

A special program to modernize or replace farm homes is needed. Farmers, as I pointed out earlier, cannot set aside money needed for this in too many cases, and the Federal housing aid discriminates against farm homes, which lag far behind city housing.

There is another great market for water systems and bathrooms and everything else, and I am sure you all have the figures to prove the difference between the farm living—not that it is not a lot better than it used to be—and what we expect to consider reasonable in urban places.

Understanably, farmers today have little money available for capital investment. And I notice recently that bankers, city people, and others are just beginning to be concerned about the farmer's decline in purchases.

Now, on replacements and purchases of necessary equipment, farmers should be given somewhat the same deal that industry enjoys: the opportunity to amortize the price of equipment over its expected life.

Now, this came to me the other day when we were investing some of our funds in—what do we call it?—equipment trust certificates?

Mr. RENNIE. Yes.

Mr. LINCOLN. They enable a railroad to get equipment which it can amortize over the entire life of the equipment. The average farmer has got to pay for a machine that may last him 20 years within 2 or 3 years. As a rule, the dealers also want a 50-percent cash downpayment. Again I believe that is one way to help farmers in this emergency, because there is going to be a lot more equipment that we want the farmer to buy. I think we ought to find out if we cannot extend the time in which he could pay for it. It has worked on everything else. We have extended the credit on houses, automobiles, and on most consumer goods.

Some parts of the Nation—such as the Great Plains—are in greater need than others. Maybe they need special treatment—not only, however, of a kind to alleviate their distress. Importantly they need it also in the form of incentives which will encourage more of them to shift their land out of wheat into more needed crops or into conservation reserves. This same situation exists in some cotton areas. The President's recommended soil bank will be of temporary help in this regard. But the Government might also make a contribution by taking out of production the millions of acres which it owns and has leased to farm operators or to stockmen. I strongly recommend that this be done immediately, but I am assuming, Mr. Chairman and gentlemen, that that is one thing that you cannot get done. I have asked for some figures, and found out that there are 403 million acres of Government-owned land, of which almost three-quarters is used for grazing or farming.

I would say that these people that are leasing them now, of course, ought to be helped to shift. Also why doesn't the Government buy up whole farms and whole blocks of marginal land? If you go across the country and take land out of my farm and your farm, you are going to take some good land out that perhaps is more economical in its production cost than some other land.

I am assuming politically you could not get this done easily, gentlemen, but it sounds to me a lot more reasonable than when you have got to go through to see that I take out 10 acres and that I live up to my agreements, and do not graze it or do not do something else. But at least it looks to me reasonable that if we could just take out of production those acres that the Government now owns, it might help some.

Senator SPARKMAN. Mr. Lincoln, do you have a breakdown of that 403 million acres?

Mr. LINCOLN. Yes, sir.

Senator SPARKMAN. I wonder if you could give us that briefly.

Mr. LINCOLN. Total, 403 million acres. The Defense Department has 14,323,000——

Senator SPARKMAN. What I really was interested in was what kind of crops.

Mr. LINCOLN. Agriculture, 141 million; Bureau of Land Management, 178 million. We tried to find that figure, Mr. Senator, but so far as we could find out, this is the only thing, because we had that same question come up ourselves. On the federally owned land now in grazing districts, there are some 2,225,000 head of cattle, and a large number of sheep. In 1950 there were, I believe, 290 million acres of Federal land being grazed and 4.3 million being farmed. Some of this is Indian land, but almost a million acres of Defense Department civil land is farmed.

Now, if those cattle could be transferred to some other land, it could help our surplus problem. I grant you there are a lot of difficulties in getting that adjustment. But it does seem reasonable that rather than go through with the present proposals of taking land out of each farm, if you could take out large blocks of substandard land, it would be more economical to do in the long run. But I fully appreciate all the implications that you have there, Senator, in terms of its political feasibility.

Of course, you are from a cotton State. With the development of new grasses, I look upon the South as one of the great coming areas in the production of animals, because of your weather and everything else. Formerly we did not know how to take care of the ticks and other problems. Now we have worked out all those problems scientifically.

It seems to me that we ought to shift some land out of cotton and into something we want more urgently. At the same time, we should take the cattle off of areas where, as you know, it takes 25 acres to maintain each head of cattle.

The CHAIRMAN. If you look into it, I think you will find that the eight Mountain States, where most of this Government land is located, which have a population of only 5 million people, have 16 United States Senators.

Mr. LINCOLN. I am fully appreciative of that. But, gentlemen, what I am trying to say is what appears ought to be done. I fully appreciate that your problem is to harmonize what ought to be done and what you can get done. And having been down here before, I fully appreciate what you are up against.

But some day, gentlemen and Senators, you have got to face economic facts. Some day you have got to face them. And in the long run, I believe the best politics is based on the best economics.

Chairman DOUGLAS. I have been trying to do precisely this.

Mr. LINCOLN. I know you are.

Chairman DOUGLAS. But on silver and on wool and on beets and on irrigation and all these projects, one runs into the terrific political power of this group, particularly in the Senate.

Mr. LINCOLN. That is right.

Chairman DOUGLAS. And this cuts across party lines, I might say.

Mr. CURTIS. Mr. Chairman, they represent people out there.

Mr. LINCOLN. Surely, they do.

Mr. CURTIS. I thought they did.

Mr. LINCOLN. And it is a different period of adjustment that, of course, is very involved. But economically, it looks as though we have got to make some adjustment, as I see it. We cannot continue to do some of the things we are doing.

Mr. CURTIS. It is the economics of those people that we are concerned with. That is where political power comes from.

Mr. LINCOLN. Yes. And that is where you have got to find some other form of payment during the adjustment period. But again this is only one of them, Mr. Chairman, that I recommend.

Distress does exist in some degree over all rural America. We should provide more technical training for farm youth and encourage local industries. There must also be help by which farmers might get monetary assistance if they wish to enter new lines of work.

But not all farmers do badly. In fact, some get an inordinate amount of Government help. And some get really big money for growing crops, not for consumption, but exclusively for sale to the Government. And we need more equitable distribution of price supports and income benefits.

In 1953, 1.9 percent of the farmers received 25 percent of the price-support income benefits; 7.1 also got 25 percent; and the entire remaining 91 percent got only 50 percent. In California, as we understand it, in 1953, the 5 largest cotton growers got an average of $649,335 each. Certainly that proves the need for legislation which would put a dollar limit on the amount of Government benefits going into any one farm or farming unit. And this is in line with the sound recommendation of the President's farm message.

Recently in one of our big potato areas, I found out that they had shifted the variety of potatoes to one that would produce the most, not the one that the market, these French fryers, or others really wanted, simply because they were producing them largely for the warehouse.

Again in line with the President's message, relieving farmers from paying gasoline and sales tax, I think will help conserve a little of the farmers' income.

And in making a transition to a more rational system, we cannot pull out the only true underpinning which the farmer has now, largely price supports.

But I think, however, we can legislate a changeover in the price-support pattern so that consumers are not penalized by the fact that farmers continue to get the benefits.

And the system of direct production payments as now being used on wool I think should be considered for all commodities so that crops can find a place in the market where they will be consumed instead of stored. So far as I know—and I am no economist—we have never yet had a time when everything produced would not move into market at a price.

Are we right on that?

Mr. Rennie. Yes; at a price.

Mr. Lincoln. Now, maybe there are some areas in some localities where some crops would not.

So to me it is a question of finding out how to get it done, and then find out how to get the farmer a reasonable return for his labor and his investment.

Representative Talle. Perhaps it would be best if you modify that and say, "at some price."

Mr. Lincoln. Yes.

Representative Talle. At some price?

Mr. Lincoln. Yes, some.

Representative Talle. That is right.

Mr. Lincoln. Surpluses.

The overhang of surpluses, I think, must be reduced and I think we are all concerned with it. However, I am not sure that anybody knows just how big the surpluses are or what they consist of. In any discussion of surplus, we ought to deduct from consideration those carryover socks which are necessary as reserve to maintain an ever-normal national cupboard. And only when that deduction is made will we really know the size of our surplus.

FEED OUR OWN NEEDY

The next place to look is really right inside the United States of America to see who needs mode food. And no American, we think, should lack a good diet at the time when we have these farm surpluses.

Mr. KELLEY. Mr. Chairman, I would like to compliment the gentleman upon that statement.

Chairman DOUGLAS. Sir?

Mr. KELLEY. I would like to compliment the gentleman upon that statement, that the next place to look is right inside the United States to see who needs more food. No American should lack a good diet at the time when we have farm surpluses.

I was on a subcommittee that looked into low-income families and we found that we had inadequate diets when we had surpluses stored up in granaries.

Mr. LINCOLN. That is true.

Mr. KELLEY. That is all.

Mr. LINCOLN. But the cost of food should be charged to national welfare, not agriculture. A food stamp plan of the kind used in the late 1930's is needed and, I think, should now be enacted. Incidentally the food stamp plan will work internationally, because it does not interfere with commercial markets or with producers in other countries. It is used only to feed those who could not buy anyway. We should help other countries install their own food stamp plans, if for no other reason than to get rid of some of our own surpluses.

BUILDING NEW INDUSTRIES THROUGH NEW USES

Another form of surplus disposal which meets both producer and consumer goals is available in subsidized new uses for surplus foods for strictly commercial purposes. This subsidy is comparable to aiding an infant industry by tariff protection, which is an old familiar subject here in Congress. The idea is that the infant industry should eventually grow up and become self-supporting. The utilization of skim milk provides one example. Bread is a cheap food but one that is incomplete in the nutritional sense.

Chairman DOUGLAS. If we could retain the wheat germ in flour, wouldn't it be a very good food?

Mr. LINCOLN. It would add to it. But I think the experts tell us that that is the difficulty in the baking process there, because of that. But I agree with you that whole wheat and coarse grains are nutritionally better. But I am no dietition.

Chairman DOUGLAS. It seems to me that one of the great tasks in research, in breakthrough and development, is to develop a method of grinding wheat which retains the wheat germ without rancifying the oil of the wheat germ, and I believe such a process has been found. It has been found in my own State, as a matter of fact, in Morris, Ill. But it is being bitterly opposed by the big millers, whom I hear have control at the Department of Agriculture.

Mr. LINCOLN. I did not know that, sir. But I think this is a whole area that needs to be looked into.

I only quote this item on skim milk as one example of the potential expansion of the use of food. The addition of skim milk powder to a staple food like bread is a convenient means of getting high quality animal protein into the diets of everybody. Up to 6 percent of skim milk powder can be added, we are told, to bread dough without altering the baking process. Even if only 1 percent of skim milk powder is added, as much as a third of the total United States surplus could be consumed in India alone. Of course, we favor research into other such methods for use at home and abroad.

Now, a lot is being done, for which we are thankful, but we think more ought to be done.

A SHIELD FOR THE VULNERABLE

We ought also to expand to the utmost—for the good of our people, young and old—school-lunch programs and nutritional aid to folks in hospitals and other institutions. I think other States and perhaps the Federal Government might adopt direct distribution of surplus foods to people on relief as is now done in the State of Pennsylvania and is just being introduced into New York.

Distribution by charitable groups can be increased to the benefit not only of the hungry inside this country but the hungry everywhere. As CARE and religious and other groups have proved, distribution of surplus for charitable purposes has international as well as national application.

Chairman DOUGLAS. Mr. Lincoln, you have been in charge of CARE ever since it started?

Mr. LINCOLN. Ever since it started 10 years ago, yes sir. And did you see the newspaper yesterday?

Chairman DOUGLAS. No.

Mr. LINCOLN.

Italy is swept by hunger riots.

Now, again, I do not think any of us knows in full detail what to do, but it seems to me that when things are going like that in a country where I understand we put a good deal of money, sir, to try to help the democratic process, something needs to be stepped up there.

Mr. CURTIS. That is what we are trying to do.

USE UNITED NATIONS FOR SURPLUS DISPOSAL

Mr. LINCOLN. You know, the most important of the ways to dispose of our surplus internationally is through the use of the United Nations, because when we use the United Nations, we at once gain friends and avoid charges of dumping by producers in the recipient and other exporting countries.

FOOD AS CAPITAL

Arrangements which push immediate disposal of foodstuffs under conditions which also promote economic development are opening up as most important. This is using food as capital and is twice blessed; by moving surpluses into immediate consumption and by contributing at the same time to the creation of stronger and wider markets in the future. We should, I believe, encourage this whether done bilaterally or multilaterally. We should also encourage food-as-capital dispositions through nonprofit agencies to nonprofit groups in hungry lands. And we have had some experience in that area, Mr. Chairman.

EXCHANGING SHIRTS FOR BREAD

The picture of a cotton producer wanting for bread in one country while a wheatgrower in another country goes shirtless dramatizes the present situation. Exchange of goods would help solve both the problems, but to effect that exchange requires a climate of international trade permitting free movement.

I know that barter alone will not solve the trade problem, since free movement of food and fiber is restricted by action of many individual governments. The United States has placed import quotas on certain dairy products, cotton, wheat and feed grains. Wherever possible we should let our bars down in return for getting other countries who have blocked United States trade in food and fibers to drop their quantitative import controls and currency exchange restrictions. Anything that does not hurt other countries which we can do to increase trade, we think, ought now to be done, including the acceptance of foreign currencies for surplus.

COMMUNISM PART OF PROBLEM ABROAD

This foreign situation is an inevitable part of the total food and farm problem we are facing. I don't think the Government will ever overcome communism for people; you must put people in a position to solve that problem themselves by helping them to develop what we call a free society and to organize it so that it produces the kind of benefits that people want, whether we wholly agree with their process or not. I don't think we can ever impose our particular brand of society on them, nor do I think we should. All we should do is so conduct ourselves that they are helped to see the benefits of the good things we do and to avoid the errors we have made. That is why I think we should seek ways and means of using our surpluses in such a way as to help hungry countries get enough food so that more of their people can come out of agriculture and into industry.

That will get them on the road to the production of the same kind of abundance that over the years we have sweated out. I think we can use food as capital. Not so much to give it to them as to lend it to them, just as we have done amongst ourselves and in many areas of the world. We need to do much more along this line and not to tie these things to the necessity of military requirements.

PARITY INSURANCE

Wherever we pick up this problem of surpluses—abroad or at home—we find it thorny and difficult. Permanent solutions are hard to agree on and take long to institute. Temporary solutions have flaws. Now, in full understanding of this I want to make a suggestion which, it seems to me, warrants your attention.

I would like to propose a program of parity insurance. The plan would work like this: At the beginning of each crop year the farmer would be offered an insurance policy by the Department of Agriculture which would assure him the difference between the free market price for his products and a definite parity price.

Chairman DOUGLAS. Are you suggesting 100 percent of parity or X percentage of parity?

Mr. LINCOLN. Sir, it would be X percentage. That would be a decision for Congress to make.

Actuarial principles would be applied: the greater the need for the product, the lower the insurance premium; the greater the risk of oversupply, the higher the premium. In this way the output for each commodity would be kept in line with consumer needs. Commodities would go into the free market, benefiting the consumer through lower prices and reducing the necessity for surplus storage.

Gentlemen, I am not going to be too specific about the plan for parity insurance at this time. Obviously, there are many policy questions that we have not had the time to properly think out, although we have advised with a good many people, and to date I would say that everybody we have talked with—not too many, I would say—thinks that it is an area that we ought to look into if we are going to continue this kind of program. And if you are interested, we would be pleased to work out the details with yourself and your staff.

UNIVERSAL PUSH FOR WELFARE AND SECURITY

But the ultimate answer lies in intelligent planning and in an ever-expanding economy. Every rise in domestic purchasing power gets more food used. For this reason I place the highest value on full employment policies, social security, old-age and welfare programs. These, along with the growth of self-help organizations such as cooperatives, will raise farm income by putting a floor under purchasing power.

DISPLACED FARM PRODUCTS—NOT DISPLACED FARMER

The prospects of some crops—wheat and cotton particularly—are permanently impaired, as we see it—maybe we are wrong—until we can find new uses. The farmer who continues to place his main reliance on these displaced farm products is always in danger of becoming a displaced farmer. Farm policies which encourage growing these or other crops for warehouses are failing. Called for now, we think, is an accent on policies which, while they protect the farmer's rights to a fair share of the national income, also result in getting more food to more people at lower prices. Living with plenty means displacing poverty and not displacing farmers.

I thank you for your listening.

Chairman DOUGLAS. Thank you very much.

There are certain business matters which the committee should consider. I am going to declare a recess, therefore, of the committee and ask the members to join me "behind the arras" here, where we can discuss certain matters of a confidential nature. At the conclusion of our business meeting, we will then resume the open hearing.

Mr. LINCOLN. Do you want us to go out?

Chairman DOUGLAS. I wish the members of the committee would take the memorandum which we have prepared.

We will reconvene here at the conclusion of our business meeting.

(The joint committee reconvened at 11:45 a. m.)

Chairman DOUGLAS. The committee will come to order.

Mr. Lincoln, will you resume the stand.

Mr. Lincoln, you devoted the major portion of your statement to the efficacy of cooperation and asked for further Government assistance in starting or promoting cooperatives.

You are, of course, aware that organizations in the country such as the National Tax Equality League and certain members of Congress are urging that cooperatives already have too many tax advantages, and in particular these organizations wish to have subject to taxation the surplus not credited to any individual member reinvested in the business by the cooperative. This supposedly would put them on a par with the profits of corporations prior to reinvestment.

I wonder if you would make a comment on this contention of the National Tax Equality League.

Mr. LINCOLN. Senator, that question, of course, always comes up. It is an involved question, but my best answer to that is that no corporation pays any tax, either cooperative or any other kind. It just collects it from the consumer. I mean, it has got to be that way. It cannot be any other way.

Now, you can argue from now until doomsday as to how much you take here, here, and here, which I think that argument is.

Well, in the final analysis it is the individual that pays, as I see it—and I think the economists will back me up in it—all taxes. All forms of corporations are just tax collectors.

Now, with the cooperatives, the reason we say it is nonprofit is that we pay all the profits back to the individual and he pays the tax. And we think that is where the tax rightfully belongs.

Chairman DOUGLAS. You mean it emerges as income tax?

Mr. LINCOLN. I do not know of any corporation that cannot go on and do the same thing if they want to.

Chairman DOUGLAS. The tax laws provide for the corporation income tax in addition to an individual income tax.

Mr. LINCOLN. That is right.

Chairman DOUGLAS. So that the surplus over cost received by a corporation is subject to a 52 percent tax prior to the distribution of the earnings in the form of dividends on stock to members. Then the dividends on stock to members are subject to taxation as individual income.

But as I understand it, in the case of the cooperatives, the amounts distributed to individuals are, of course, subject to taxation.

Mr. LINCOLN. That is right.

Chairman DOUGLAS. And as I understand it, the additions to capital out of surplus which are credited to individual's accounts are now subject to taxation, but that the general investment of the cooperative surplus, for the benefit of the group as a whole, but not credited to any one individual, is not subject to taxation.

Am I right?

Mr. LINCOLN. My associate here is Mr. Rennie, formerly an economist with the Federal Reserve Board.

What would you say in regard to that, Bob?

Mr. RENNIE. I think the point that Mr. Lincoln was making revolves around the question of the incidence of the corporation income tax. And to our knowledge no one has held that the incidence of the corporation income tax is on the corporation.

Chairman DOUGLAS. Professor Seligman, of Columbia University, who was regarded as the most eminent authority on the shifting incidence of taxation, used to so hold, on the ground that it was a tax on surplus rather than a tax on margins. The same point of view, as you probably know, was advanced by John E. Hobson, in England, who was not exactly a conservative.

Mr. RENNIE. Well, I am perhaps of a later generation of economists, Professor Douglas.

Chairman DOUGLAS. I imagine I am hopelessly out of date——

Mr. RENNIE. That was not meant.

Chairman DOUGLAS (continuing). Not up with modern thought.

Mr. RENNIE. Professor Musgrave of Michigan, I believe, holds that the corporation income tax is shifted on to consumers, labor, and stockholders.

Chairman DOUGLAS. No. He proposes—he says it is split.

Mr. CURTIS. Yes, that is right; split.

Chairman DOUGLAS. I think he picks out of the air a figure of 30 percent that is passed on, and 70 percent is held. That seems to be on the 50–50 principle, that if we cannot solve an issue, we will award half the child to one, and half the child to the other.

Mr. RENNIE. In those terms, I think we can agree that the question of the incidence of the corporation tax is not one that is settled. And in those terms, the problem cannot be a black or white one. It must be considered in the light of who actually pays the tax. Therefore I think Mr. Lincoln——

Chairman DOUGLAS. In other words, this is a difficult problem which requires further study; is that right?

Mr. RENNIE. Yes, sir.

Mr. LINCOLN. And also, Senator——

Senator SPARKMAN. Mr. Chairman——

Mr. LINCOLN. Could I just make this point here?

Senator SPARKMAN. Yes.

Mr. LINCOLN. I think also most of us have agreed that if there is going to be something done in this area, why not eliminate the double taxation of dividends rather than to try to impose the same kind of thing on other forms of corporations? I think that is the way we ought to go at it.

Chairman DOUGLAS. Then you would have the question of what to do with the reinvested corporate surplus. We are in one of the most puzzling problems of taxation, I may say, Mr. Lincoln. I do not want to pursue it further, except to say that I think it is matter on which we should give some thought.

Senator Sparkman?

Senator SPARKMAN. I just wanted to ask this, not as an economist but as a layman with very little understanding. It seems to me that it would depend very largely on the income bracket in which the owner of the stock of the corporation found himself. In other words, if he were a high-bracket taxpayer, the load would fall very lightly on him. But if he were in the low-income bracket, it would fall quite heavily on him.

Mr. LINCOLN. The one problem we have had with the Welch Grape Juice transaction is that here you pay the farmer $100 or some other amount for the grapes as he brings them in, and then the rest is paid, until we get the thing bought, in the form of a piece of paper, let us say, of $50 a ton. So a farmer that produces 10 tons gets the $1,000, but then he has to take a paper of $500, and he has to pay a tax on that. Actually, he does not get any money on it until we take it up later on.

Chairman DOUGLAS. Wait a minute. Let me make my position clear. I believe that the dividends distributed to members, who on the basis of purchases, as in the case of a consumer cooperative, or in the case of sales as a producer cooperative, should be taxed only as individual income.

Mr. LINCOLN. Individual; that is right.

Chairman DOUGLAS. I want to make that clear. And the problem that arises in my mind is the reinvestment or the investment of the cooperative surplus not credited to the account of any individual member.

Senator SPARKMAN. Under the present tax laws, doesn't the cooperative pay tax on that?

Chairman DOUGLAS. No. As I understand it, it pays taxes only on that portion credited to the account of an individual.

Mr. LINCOLN. This is Mr. Wallace Campbell, Washington representative of the Cooperative League.

Mr. CAMPBELL. The situation is this, that from the gross of the cooperative, you subtract the amount which is paid to the members of the cooperative. The amount so paid is not subject to tax because that is paid back to the consumer in a consumer cooperative——

Representative CURTIS. Paid or credited; right?

Mr. CAMPBELL. Now, any amount which is thrown into reserve, unallocated reserve, is subject to taxes at the Federal tax corporate rate.

Chairman DOUGLAS. Am I wrong then? At 52 percent?

Mr. CAMPBELL. That is right; at the corporate rate.

Chairman DOUGLAS. That is, any amount——

Mr. CAMPBELL. That is thrown into an unallocated reserve——

Chairman DOUGLAS. And not credited to the individual?

Mr. CAMPBELL. And not credited to the individual.

Chairman DOUGLAS (continuing). Is subject to taxation at a rate of 52 percent?

Mr. CAMPBELL. That is right.

Chairman DOUGLAS. I want to thank you for clearing up what is obviously an error——

Mr. LINCOLN. I thought I was sure, but I knew the expert would tell us.

Chairman DOUGLAS. Thank you very much, and I am glad that this has been brushed away, and it shows that one can learn something.

Mr. CAMPBELL. Thank you.

Mr. LINCOLN. Thank you.

Chairman DOUGLAS. I am very grateful for it.

Mr. Lincoln, I was much interested in your proposal that we apply the system of production payments now used on wool—at 107 percent of parity, incidentally—to food products. Later you throw out the hint that some form of insurance be developed for the difference between the free-market price and the given parity price.

I wonder if you would be willing to go a little bit further in that direction.

Mr. LINCOLN. Let me start in and let Dr. Rennie elaborate.

We go on the assumption that we have a problem here of finally running out of storage if we continue to accumulate certain commodities. In the main we think the commodities should go on to the market, and some device should be found to make up the difference.

Now, I think that what you pay (the percentage of parity involved) has got to be arrived at in a study of the specific problem of the wool growers, the dairymen, the grainmen, the cotton growers, and everyone else. That is why I do not think you can be too specific at this time.

But what we think, and the point we tried to make, is that either payments of that sort or this parity insurance thing, that seems to have some validity, would at least be an interim during the time that we are on what we are on—and the farmer we think has got to have some sort of support—and what other program we eventually work out. But we could not be specific, I think, as to what percent of parity you maintain—that is up to Congress—or what the group would agree is a fair percentage.

Would you add to this, Mr. Rennie?

Mr. RENNIE. Yes, sir. I wonder if the committee would care for a somewhat longer statement on the issue?

Chairman DOUGLAS. The chairman's time has expired. I would appreciate it if you would submit a statement for the record.

Mr. RENNIE. We will do that, sir.

(The statement referred to is as follows:)

PARITY INSURANCE

I would like to propose an iterim suggestion to help deal with the problem of falling farm incomes. We must get more purchasing power into the hands of farmers. The farm depression is already infecting the prosperity of farm States and causing trouble in the industries supplying the farm market. In a way, I hesitate to suggest this program, though it may prove to be very popular. I am suggesting it only as an alternative to price supports, not as a long-range solution for farm income. You can't simply stop supporting prices when the farmer is in the trouble he's in now. And our bulging bins, elevators, Liberty ships, and warehouses make it impossible to go on supporting prices, either. To get us out of this dilemma, I make the following suggestion:

Let us modify our present price-support program and institute instead a program of parity insurance. The program would work like this: At the beginning of each crop year the farmer would buy an insurance policy which would assure farmers a definite price for each commodity for that year. This price would give farm famlies an adequate income for their work and for their property. It should also be designed to induce farmers to keep the output for each commodity in line with consumer needs for food and fiber. I am not going to be too specific about the level of these prices, because that, after all, would be a policy question for Congress to decide. As a start, it might be 90 percent of parity for the first year.

The administration of this program would be relatively straightforward. The farmer would be offered a policy by the Department of Agriculture which would promise to pay him the difference between the market price of his production and the assured price less the premium charge for the insurance policy. This premium should vary for each commodity, reflecting the amount of risk involved in paying a definite price for the commodity in question. In this manner, the farmer would be encouraged to plan his production according to the cost of the insurance for each crop. The lower insurance would encourage him to plant crops which were in high demand, the higher insurance to leave those crops alone which were glutting the market.

Parity insurance would get around many of the objections to the present system of price supports. There would be much less storage of surplus crops. There would be no supported markets. There would be no subsidies of export commodities, which now infuriate countries abroad. You would not have the present injustice, where meat and draiymen, for instance, have to sell in a free market, while feeding their livestock at supported grain prices.

Parity insurance would be as workable for perishables as for the durable commodities. It would apply as well to meat as to wheat, as well to eggs, if need be, as to rice or cotton. It would at once get the Government out of the expensive storage and disposal business, give the consumer lower prices, and allow the farmer to estimate his income with fair certainty before he ever begins to plant.

I wish to emphasize that this insurance would be available, but that nobody would have to buy it. In other words, the Department of Agriculture would offer the farmer certain definite prices on each product, at a low but variable premium. If wheat looked like being in oversupply, the premium on wheat might be considerably higher than on, say, soybeans. It would then be up to the farmer to decide whether he wanted to pay the higher premium, to plant soybeans, or to plant anything he wanted and not buy any insurance.

Parity insurance would be integrated with the acreage-allotment and acreage-reserve programs under consideration for basic commodities. It would be written only on the normal yield expected from the land which remains in production after the programs have gone into effect. In this manner, the insurance allotment for each commodity would be divided among farmers in proportion to equitable production goals and would assure a reasonable level of income. It is further suggested that the total insurance payments to any one farmer should not exceed the amount needed to operate efficiently a family-sized farm.

To put an emergency floor under farm prices, I would also recommend that the existing price-support programs be reintroduced at a stop-loss level of, say, 70 percent of parity on basic commodities. Present surplus stocks would be frozen from the domestic market, and would be available for disposal overseas and for emergency reserves in case of need.

I am not envisaging this parity insurance as a self-supporting proposition at the outset. But actuarial principles would be applied to it: the higher the risk of oversupply, the higher the premium; the greater the need for the product, the lower the premium. Parity insurance is presented for your consideration only as an emergency measure, and to help the transition to the long-range program we have previously outlined.

Mr. LINCOLN. We think that parity insurance offers a better solution than the one we have at the present time.

The CHAIRMAN. Mr. Talle?

Representative TALLE. Mr. Chairman, I note, Mr. Lincoln, that you are in favor of a great many things that are being done by the Department.

Mr. LINCOLN. Yes, sir.

Representative TALLE. And I agree——

Mr. LINCOLN. At least until we find a better way.

Representative TALLE. Yes. And I agree with you that those things should be done, and I have been urging the Department to step up those measures, like the school lunch program and many other things that are being done.

Mr. LINCOLN. Yes, sir.

Representative TALLE. You will agree with me that agriculture is highly competitive?

Mr. LINCOLN. Are you saying, within itself?

Representative TALLE. Highly competitive in that a great many people are engaged in the enterprise.

Mr. LINCOLN. Yes, sir.

Representative TALLE. And when they go to the market, they say, "How much will you give?"

Mr. LINCOLN. Yes.

Representative TALLE. On the other hand, when they go to buy their equipment, they say, "How much do you want?"

Now, in that aspect of the situation, "How much do you want," there is a lot of rigidity in price; is there not?

Mr. LINCOLN. Rigidity, you say?

Representative TALLE. A lot of rigidity in the prices of equipment and what the farmer uses in his operations.

Mr. LINCOLN. Yes, sir.

Representative TALLE. In other words, the cost of mining the ore, the cost of processing through several stages—all along the line the costs at one step become price at the next step. And all along the way, there is a lot of rigidity. When you consider transportation, for instance, the rates charged are protected by Government, specifically, by the Interstate Commerce Commission. Labor contracts are protected by law.

From the time that something has left the farm and entered the market in the form of raw material, it goes into a kind of pipeline and at various stages new costs are added, and so finally, by the time it becomes something to be consumed in the housewife's kitchen, there are tremendous additions of costs, and there is rigidity in price all along that long road. And yet on the farm, you have tremendous competition as products are brought to market.

Now, isn't that the basic difficulty?

Mr. LINCOLN. Let us say it is a factor, Congressman. But to just repeat what I have said, we have been in many lines of activity, from the raw products to the farmer. We are connected with groups that are concerned and have investigated and looked into the purchase of companies that go from the market place to the consumer. And as I said before, I have yet to find one of those fields which does not offer opportunities for eliminating some of these rigidities. I think they are handmade, Congressman, and do not "have to be."

I do not believe there is quite as much rigidity, Congressman, as might appear on the surface. Again, that is one of the things I think we have never found out as adequately as perhaps a congressional committee could find out. We should find out whether you are right or not.

May I give you an example? I have just talked with the president of one of our big dairy companies, and he heard that I had been rooting around in this field, and he said, "Now, look, Mr. Lincoln, why are you going into this thing?" He said, "The dairy products are being handled at as low a price as possible, consistent with all our costs."

I said, "Maybe so." But I remember the first cooperative I ever had anything to do with was a milk plant in Brockton, Mass., where we cut the cost of distribution right in two.

And within 15 minutes he was telling me with some pride that they put $100,000 into a plant in a certain area, and within 10 years it was worth $5 million.

My point is that in the processing of the dairy products in that area, which he was in, a cooperative would have had 5 percent returned to themselves on the $100,000 put in, and the difference between that and the value that he himself said the plant was now worth would have gone to either the producer or the consumer, or both.

I could sit here, Congressman, for the next afternoon and give you examples. We have been deliberately getting into different areas, such as oil, fertilizer, feed, electricity, insurance; we are now in housing; we have got the grapejuice example—and in not one, yet, have we failed to find very substantial savings, in line with a decent return on capital, a decent return to management, and in every case we try to pay as much wages as we can competitively. Our great difficulty is to get into them now on a big enough scale to really demonstrate the effectiveness of what we have done.

Representative TALLE. I should have put my question in a different way. I should have broken it up into two parts, one having to do with rigidity and the controls that are employed in the things that the farmer buys, his equipment, and so on; then the other, the competitive aspects of the things that he sells.

Now, it seems to me that you have such a highly competitive situation on the selling side, or the supply side, that the farmer is left rather weak. He buys in a controlled market and sells in a competitive market.

Mr. LINCOLN. That is right.

Representative TALLE. Then my next question is, are you willing to submit to the necessary controls at the farm level in order to achieve the objective—higher prices for farm products?

Mr. LINCOLN. Well, Congressman, I think I cut it out of what I had originally intended to say. But my position has been from the very first, all during the twenties and thirties, on the AFB board and other places that before we do those things that require the submission to control, we ought to find out what we can do in the free market, both to the farmer in terms of supplies and from the farmer to the consumer. We ought to see if we cannot minimize, if not avoid, all subsidies involving controls.

Now, I am not saying that we cannot. And there is a period here where apparently we cannot. But my point is that in the areas that we have gone into, there is ample evidence that there is much that ought to be done and that can be done before we submit to controls and subsidies.

You see the difference?

Representative TALLE. Yes.

Mr. LINCOLN. And I do not believe that we know yet what might be done, and we never will know until we get a much broader application. We must find out what we can do to serve as a yardstick to bring prices down in a perfectly normal competitive way. Apparently it is easier to vote subsidies which automatically require controls than it is to reduce the price spreads under present methods.

And if I interpret the farmers correctly, some of them, not all of them, are beginning to get itchy about these controls, because they see the oncoming fallaciousness of it.

My point is that there are certain rigidities. I think that they are manmade, and many of them can be eliminated.

Representative TALLE. Yes; they are. But I recognize the difficulty. It is just not practical, I think, to remove that rigidity. It would involve difficulties that could not be overcome.

My time is up, but I do want to say that certainly the dairy industry deserves a lot of credit for the improvements that have been achieved within that industry in recent years.

Mr. LINCOLN. Thank you, sir.

Representative TALLE. Thank you.

Chairman DOUGLAS. Senator Sparkman?

Senator SPARKMAN. Mr. Lincoln, first I want to compliment you on this very fine and thought-provoking statement. I think it is a very definite contribution.

I was interested in what you had to say about the need for more cooperatives. I do not know that I understand in just what way the Government can play a part. Do you advocate the Government doing any more than strengthening the credit facilities for cooperatives?

Mr. LINCOLN. Now, again, let us take the REA. I tried to tie it down to that, because that is something I know.

Senator SPARKMAN. Yes; I do recall that you suggested underwriting it.

Mr. LINCOLN. Yes. Now, you remember, I said that the industry did not feel the farmer would ever use the current that some of us felt, having lived on farms, thought would be used.

Senator SPARKMAN. Yes, sir.

Mr. LINCOLN. That is No. 1. Second is the fact that no banking system would have ever had the nerve to lend the farmer the money to get into the utility business. And yet, the farmers needed it and wanted it, and some of us felt that it was necessary.

Now, that is what I say characterizes this distribution problem right now. Of course, the businessmen share the views of this dairyman. They think that they are doing all that rightly could be done from the standpoint of their return on capital and management.

We disagree with that. I think we ought to have an agency similar to REA or RFC, to help local groups of farmers and/or consumers or anybody else to establish integrated cooperatives on a pilot basis. We do not need to do all the business, but to set standards, just as we did with the REA. And I do not think any other group but the Government can do it.

Senator SPARKMAN. But you limited that to food crops, did you not? Did you include fiber, too?

Mr. LINCOLN. Yes, sir.

Senator SPARKMAN. I think your statement said food crops.

Mr. LINCOLN. I would say fiber, because, of course, you are interested in that.

Senator SPARKMAN. You did make the statement that sufficient credit was not available now in the cooperatives. You mean the banks for cooperatives do not have sufficient credit available, or are not using it?

Mr. LINCOLN. You might as well say what you believe. And I was a part, I think, of every credit committee of the AFBF that had anything to do with appearing before Congress to get much of the farm credit system established.

I do not think they are doing as much as they could do.

Senator SPARKMAN. By the way, I had asked Mr. Moore to get me those figures. For the calendar year 1955, I find that the banks of cooperatives had total loans of $527 million, to 1,460 associations, and at the end of the year, December 31, there were outstanding loans amounting to $370 million.

Mr. LINCOLN. Now, Senator, do not misunderstand me. I am all for that.

Senator SPARKMAN. Yes. But the point I am trying to make is, it is your contention that that is nothing like what it ought to be?

Mr. LINCOLN. We have got to go on further, just as the REA helped us find out what to do and how to do it, as well as loan the money, remember.

Senator SPARKMAN. I notice that the collection was $157 million for 1 year.

Mr. LINCOLN. That is a very good record, sir.

Senator SPARKMAN. I presume that it because of the high amount that was used for production loans.

Mr. LINCOLN. That could be. I think this would pay off. What I am saying to you here is that it would be just as good a record as the present farm credit. But you see, that is restricted to agriculture, sir. There is no agency that we as consumers can go to and get any credit. I do not think credit is available, as it ought to be, in order to do as big a job as we have got to do to find out whether we can do it or not. That is the point I am making. I think it would be a very good investment, sir, for the Government.

Senator SPARKMAN. I was very much interested in what you said about the farm housing program. I wish you could give us some specific recommendations, not at this time but after you have had an opportunity to study the question further.

I wonder if you are familiar with the fact that we did have a farm housing program—we have one now on the statute books—but for the last 2 years the Administration has declined to ask for any appropriations, or even the year before that, to use any appropriations.

Mr. LINCOLN. Senator, I think there are a lot of things that we could do if we would make up our minds to do it. Now, I do not know why those things are not being done. Let us take the farm security program. I think that was one of the greatest things we ever had in order to help the little guy.

Senator SPARKMAN. I agree with you. And I think the housing part of it was an outstanding job.

Mr. LINCOLN. It was what we called supervised credit.

Senator SPARKMAN. Yes.

Mr. LINCOLN. It did an outstanding job. But you know the opposition, sir, that there was to it.

Senator SPARKMAN. I have a bill pending now which would extend that, particularly in the rural low-income counties throughout the country.

Mr. LINCOLN. I commend you for it. And put in some provision that makes them do it, Senator.

Senator SPARKMAN. I do not know how we can.

Mr. LINCOLN. Maybe that ought to come from the people themselves. But we try to help.

Senator SPARKMAN. Now, your proposition about purchases for new equipment for farmers, you say they ought to be given the opportunity to amortize the price of equipment over its expected life. Do you mean to have Governmnt credit made available for that, or are you speaking of a needed reform in our banking system?

Mr. LINCOLN. Now, again, take the credit for housing; take REA, and take all the other things we have done. We needed some push. That is why I put in the FHA as a potential model. That was just a guaranty of loans. But in my own experience, in all the years I have been at it—and we are in the machinery business—I say, one of the problems we have is that the farmers do not have the turnover that other people have. This is curious because we are going to have bigger farms. I think the family farm is going to change in its aspects of size, because we are finding out that additional machinery is important.

The farmer has got $163 billion invested in his assets, and he has an 11-year turnover. The suppliers, with $14 billion, have a 1-year turnover. The processors, with $43 billion, have a 1-year turnover.

Anything we could do to help the farmer get whatever new equipment and necessary equipment he needs and avoid high capital outlays I think would help to raise farmers incomes, particularly for the younger farmers. It would also help to produce the food at economical cost. You know the productivity of the farm has been coming up amazingly, and it is going to come up more. While we lend railroads money for 15 years to pay for freight cars, we require the farmer to pay for his machinery—and some of this machinery is costing a lot—in 2 or 3 years. The best I know of is a 3-year payment. And yet he has got to have 11 years in order to turn his capital around.

I am saying that either a guaranty of loans, or another division of the Farm Credit, or some other financing agency is required to solve this problem.

Senator SPARKMAN. Of course, down in my section we feel that particularly keenly because the banking system is geared to production of cotton.

Mr. LINCOLN. That is right, sir.

Senator SPARKMAN. And the farmer finds it virtually an impossibility to diversify and change.

By the way, I may add that that is a feature of my bill, also to carry out the very thing you suggest.

Mr. LINCOLN. Good, sir. I am glad to hear it.

Senator SPARKMAN. Would you recommend with reference to this land that the Government is leasing out to the farmers to work, that perhaps they might profit some from the soil bank by taking it out of production and paying themselves? It does seem rather inconsistent to do both, does it not? The Government, I am talking about.

Mr. LINCOLN. I do both? What do you mean?

Senator SPARKMAN. To pay money to farmers to take land out of the soil bank while at the same time renting the land to farmers.

Mr. LINCOLN. That is the point I wanted to make, sir. We did not include it in our testimony because I was talked out of it by the economists.

I do not see why it would not be a lot sounder to eliminate Government land from production and put the cattle on some other private land. I fully appreciate what is involved. Or the Government could buy up large tracts of land and put it into the soil bank. It would be a fine security. Then with the increase in population or as other needs arise, let the Government put it back into private hands for production.

Senator SPARKMAN. In other words, you appreciate the fact that it cannot be done overnight, but you would advocate the establishment of a policy that would have for its purpose the holding of this land in reserve to be used when needed?

Mr. LINCOLN. That is right. I think it is better than trying to take a little bit from every farmer. The soil bank means taking out some good land that economically ought to be used and perhaps leaving some other land that should not be used at this time. Later on, when food requirements are higher, you can afford to take in lower productivity land.

Chairman DOUGLAS. Would you like to have me arrange a luncheon conference with the Senators from Colorado, Montana, Wyoming, New Mexico, Arizona, Nevada, Utah, and so on?

Mr. LINCOLN. Again, Senator, I preface my remarks by saying what can be done or ought to be done economically, and what might be done is probably your problem, sir.

Chairman DOUGLAS. I would be very glad to arrange such a luncheon if you will come and if they will come.

Mr. LINCOLN. I would not be afraid to put it up to them, because eventually you have got to face some of these things, Senator.

Senator SPARKMAN. While we are talking of these inconsistencies——

Mr. LINCOLN. Senator Douglas, may I say, that is why I did not put it in the script, because I was told that is just what would happen.

Chairman DOUGLAS. I am so hopelessly lost in the Mountain States by making similar, allied suggestions that I am not restrained by reasons of prudence.

Mr. LINCOLN. Of course, the same thing is true about bringing in more land in the irrigation districts, one way or another.

Senator SPARKMAN. I was just going to ask if you had thought of that inconsistency, too.

Mr. LINCOLN. It certainly is inconsistent, sir.

Senator SPARKMAN. That is one that gives me some concern.

All right, Mr. Chairman.

Chairman DOUGLAS. Mr. Curtis.

Representative CURTIS. Yes, Mr. Lincoln.

Incidentally, on that line of questioning of Senator Sparkman, I imagine the farmers are pretty pleased with these new depreciation schedules that were put in the 1954 Tax Code. That helped ease some of that problem that you were discussing on depreciation of farm machinery, and so on.

Mr. LINCOLN. Was that on machinery, or was that on storage?

Representative CURTIS. No. It was on machinery.

Senator SPARKMAN. It was on farm machinery.

Representative CURTIS. It was on machinery, or anything, as far as that is concerned, any capital asset.

Mr. LINCOLN. How long was that for? Was that for 5 years?

Representative CURTIS. What?

Mr. LINCOLN. Was that for 5 years?

Representative CURTIS. No. There were several alternatives. One was the declining balance method. But it was certainly a much more liberal approach to depreciation than previously existed.

Mr. LINCOLN. Well, any accelerated depreciation would help, sir, I think. Let us say that.

Representative CURTIS. That is why I was commenting that a great deal had been done just 2 years along that line.

Senator SPARKMAN. May I ask, wasn't that actually an acceleration for taxpaying purposes, and, of course, it had nothing to do with the paying of the purchase price, and really instead of stretching out the length of time—I beg your pardon—it was to accelerate the depreciation of the machinery?

Representative CURTIS. That is right. It was to accelerate it.

Mr. LINCOLN. Yes.

But you are right. That does not affect the difficulty of buying it.

Senator SPARKMAN. And, of course, it does no good—pardon me.

Representative CURTIS. No. Go right ahead.

Senator SPARKMAN. Of course, it does no good for that little farmer, that may have 8 or 10 children, that has an income of $4,000 or $5,000, or maybe $2,000, on which he pays no taxes.

Representative CURTIS. No; that is very true. It will not help a nontaxpayer. But to the extent that farmers are taxpayers, it would help. And the farming taxpayers derived a great deal of benefit from it, as well as everybody else who was trying to make the economics of the situation more realistic with the accounting system.

Mr. LINCOLN. Yes, sir.

Representative CURTIS. I have been intrigued with your presentation of a co-op method as a form of doing business. And I was just wondering what your ideas are of what the corporate form of doing business is, particularly a public corporation. That is essentially the same economic setup, where you have got a group of people who put together some capital in order to perform an economic function in society and get paid for it.

In fact, I have often thought, and many scholars have advanced the idea, that one of the basic reasons for the great development of this country is the fact that we put into existence the corporate form of doing business, a legal creature.

I think when this country was founded, there were only nine corporations, and the growth of this country came about with the development of the use of this economic legal technique. And I just wondered what you thought the difference was between a corporation, economically, and a co-op.

Mr. LINCOLN. Congressman, I think I spelled it out, and in the presence of a teacher of economics and all these other fellows, I hesitate, because I was trained in animal husbandry—not economics.

But if I understand it, the early economists, like Adam Smith, thought that a lot of little people, each working out their own welfare, so offset and kept each one in balance, so that that would result in the greatest good to the greatest number of people.

Representative CURTIS. Yes.

Mr. LINCOLN. But I do not think—and Senator Douglas, I do not know whether you would share this view or not—but I do not think the early economists ever foresaw the coming of the American corporation. I do not think anybody could conceive that in the early days.

Now, although a lot of good things have happened because of it, I feel sure, I think it has also led us into some troubles.

Representative CURTIS. But I want to confine my remarks——

Mr. LINCOLN. Of course, a cooperative is a form of corporation, sir. The only difference is a few people cannot control a cooperative, and by law it has got to distribute the earnings or savings, or profits—if you want to call them that—based on the use, and not on the stock ownership.

Representative CURTIS. Mr. Lincoln, I wish I could agree with you when you say that a few people cannot control it. You are dealing with human beings. You have got the same technique exactly. You have a corporation like General Motors, owned theoretically by some hundreds of thousands of stockholders, or A. T. & T.

Now, they do not control that corporation.

Mr. LINCOLN. That is the difference.

Representative CURTIS. Now, wait a second. A group of managers controls it, and some of your large co-ops, you have got identically the same thing, where the farmers or the people who are the owners of the co-op are actually owners in name, but as far as control is concerned, it is the group that is managing it. And I am not saying that in an adverse or critical fashion at all.

Mr. LINCOLN. You are right.

Representative CURTIS. I am simply saying that you have the same economic legal technique.

Now, I want to go on to point out one area where I think you have got a distinction which I am very much interested in. That is the fact that in this situation, in developing the co-op, your owners are the people who actually buy the products——

Mr. LINCOLN. And users.

Representative CURTIS. And users of the economic function for which the co-op has been organized. That disappears, incidentally, when you get into oil and a few things.

But it is the same argument I was using and have been using in a little discussion I have been having with Mr. Reuther in the UAW, on the Ford stock. I was pointing out and criticizing them for not availing themselves of the opportunity of making their people owners or part owners of this great enterprise, because the net result would be obtaining what I do see is a possible distinction between co-ops and corporations, but not a distinction in corporations where we do have the workingmen actually stockholders.

And many of our corporations have set up these stock-participation plans. The reason I pointed it out is that economically I do not believe you have got anything that is going to affect the farm problem one way or another very much. I think it is just another technique for human beings for working together, and if there is any economic effect, maybe it is a way we are going to get around double taxation.

Mr. LINCOLN. You are wrong, in my opinion.

Representative CURTIS. Well, where do you disagree?

Mr. LINCOLN. Because we are in both of them, sir. There are some areas, like in our insurance companies and some other things, where you cannot have what we would call a true cooperative.

Representative CURTIS. Most of your insurance companies are mutuals, are they not?

Mr. LINCOLN. They are mutuals.

Representative CURTIS. Well, it is the same thing.

Mr. LINCOLN. That is right.

Representative CURTIS. I am talking about the economic function. It is the same thing exactly.

Mr. LINCOLN. Now, wait a minute. You say—and, of course, I have analyzed this question many, many times, sir—that the A. T. & T., General Motors, and such companies are owned by a lot of people.

Representative CURTIS. They are, the stockholders.

Mr. LINCOLN. I differ, of course, in the definition of ownership. By my definition, control goes with ownership. And what you are talking about is that a lot of people own a share of stock in General Motors.

Representative CURTIS. That is right. And I would say, sir—and here is what I want to direct your attention to for your comment——

Mr. LINCOLN. Yes; but in a majority of cases——

Representative CURTIS. In a large co-op, do you think the individual members of that co-op—say you have several thousand farmers—do you think that they actually exercise control, or don't you think that the real control is in the management——

Mr. LINCOLN. Most certainly, they control.

Representative CURTIS. Which can perpetuate itself, the same way as the management of corporations.

Mr. LINCOLN. No.

Representative CURTIS. Why can't they?

Mr. LINCOLN. Because each individual member has one vote.

Representative CURTIS. So has a stockholder.

Mr. LINCOLN. Neither the manager nor anybody else can have 51 percent of control or 20 percent or something, which you find in most corporations, a relatively small number of people have.

Representative CURTIS. No, sir. I disagree. In your publicly held corporations—take A. T. & T.—there is no stockholding that is as much as one-tenth of 1 percent, I believe.

Mr. LINCOLN. Now, Congressman, I would like to get into a discussion with you on that.

Representative CURTIS. All I am trying to suggest to you is that your distinction between a corporation and a co-op as an economic distinction is not very great, and you are going, as the co-ops continue——

Mr. LINCOLN. We disagree with you.

Representative CURTIS. As the co-ops continue to grow, you are going to have the identical situation that you have with corporations.

Mr. LINCOLN. If you own a share of stock, you go into a meeting of the shareholders, and you will find that either the management or some small group have the control.

Representative CURTIS. In what way do they have the control?

Mr. LINCOLN. Well, because they have stock control.

Senator SPARKMAN. No.

Representative CURTIS. Oh, no; no, sir. I must confess that I think you are wrong.

Mr. LINCOLN. We buy and sell companies. We have done it in the last 2 or 3 years. And I think I know what I am talking about.

Representative CURTIS. All I suggest is that I disagree——

Mr. LINCOLN. With the wider distribution of stock, the smaller the amount you have to own in order to exercise control, because you just cannot get 2 million people——

Representative CURTIS. It comes to a proxy fight, does it not?

Mr. LINCOLN. Yes.

Representative CURTIS. Yes.

Mr. LINCOLN. Now, take a cooperative. Here you are in a little local community.

Representative CURTIS. I am talking about a big cooperative.

Mr. LINCOLN. Yes. So am I, sir.

Representative CURTIS. I am not talking about the little ones.

Mr. LINCOLN. Neither am I, sir.

Representative CURTIS. How many farmers?

Mr. LINCOLN. You have a little cooperative in a county——

Representative CURTIS. What do you mean by "little" how many farmers?

Mr. LINCOLN. Well, anywhere from 100 to 1,000 or 2,000. But you have an annual meeting——

Representative CURTIS. I mean——

Mr. LINCOLN. Wait a minute. And then that group owns the State group, and the State group owns the national one. Now, it is just the reverse when you have a big corporation. The gang up at the top owns the corporation, and all the subsidiaries are parts of the big one up here.

The individual in any really properly organized cooperative—and you cannot organize them any other way—the individual can exercise his own power, and there is no one group, the manager or anybody else, who controls the cooperative.

Now, what happens is, when everything is going all right, that the membership doesn't say much. But you let things go bad——

Representative CURTIS. You might have something like Montgomery-Ward, might you not?

Mr. LINCOLN. Yes, which is all right. I am not saying the other thing is not all right.

Representative CURTIS. I do not want to pursue it any further. We just disagree on our analysis of what happens in a public corporation and whether there is control. Anytime you spread it out among thousands of people, you are going to——

Mr. LINCOLN. One is legal control and the other is individual control. And it cannot be supported legally.

Representative CURTIS. We disagree on a very fundamental observation.

Mr. LINCOLN. All right, sir. And there is room enough for both, Congresman, too.

Representative CURTIS. I am not arguing from that angle. I am trying to bring out the thing into proper perspective, where I do not think that you have got a unique method of human beings organizing and working together.

I suggest we have got something that is pretty similar to what we have experienced before, and is going to be subject to the same problems.

Mr. LINCOLN. We say, legally it is entirely different, sir.

Representative CURTIS. I do not know whether to embark on that. My time is about up.

Chairman DOUGLAS. The Congressman's time has expired.

Representative CURTIS. I will have to cease for a while.

Chairman DOUGLAS. Mr. Kelley?

Representative KELLEY. I have nothing.

Chairman DOUGLAS. I would like to avoid an afternoon meeting if we could, but Mr. Curtis has some more questions.

Representative CURTIS. I will try to get done, if I may. Mr. Lincoln, the thing that frankly disturbed me a little bit in your paper in discussing farm economics—and after all, we are concerned with the economics—was what I thought was your failure to pay attention to the things, at any rate, that I see lying basically, economic factors lying basically behind our farm problems.

No. 1, of course, is the decline in farm income nationally, but that relates to a decline that started in farm income in ratio to national income back in the Revolutionary War days. I think at that time our farm income was somewhere between 80 and 90 percent of national income. It is now down to around 7 or 8 percent.

The important thing, though, of course, as far as individuals are concerned, is the per capita farm income.

Would you not agree that underlying our farm problem is this basic question: Is the ratio of farm income to national income going to continue to decline? I suggest that probably it is, as we continue to industrialize in this society, and if it is, that is a very basic economic feature that we have to pay attention to, which is part and parcel of the decline in farm population. This accounts for the fact that although the farm income may be declining, the per capita farm income may not be.

Also, coupled with that is the increase in productivity, which you have paid some attention to, but not in this basic economic setup. The farmer, due to mechanization, is able to produce a great deal more for his efforts, which is a fine thing, and in industry when we find, due to mechanization, increased productivity, we usually have a decline in the price of the product, because your efficient methods should reflect some of that efficiency.

Now, the query becomes: Is that going to continue?

A third economic and a basic economic fact that I see in this picture is a movement to rural areas of industry, which is indicated in the fact that the income of farmers, now, 32 percent of it, is derived from nonagricultural sources. The farmer, his wife——

Mr. LINCOLN. Higher in some cases.

Representative CURTIS. What?

Mr. LINCOLN. It is higher, I think, in some cases.

Representative CURTIS. Yes. I was giving a national average for 1955.

Mr. LINCOLN. Yes.

Representative CURTIS. Now, is that trend going to continue?

A fourth trend is this business of need for agricultural products.

Now, you pointed out one big area, in horsepower. The farmer used to raise his own horsepower.

Mr. LINCOLN. Yes.

Representative CURTIS. Now he buys it from a factory. And likewise, the fuel for horsepower is changed from oats to gas.

Now, how much continuation of that trend is there going to be?

The trend of larger farm units. And it is a most amazing thing to me to see the way in which, in rural Missouri, the population has declined but the use of the farmland has not. You see vacant houses out there, but the farms are being tilled because one farmer has left and the other has purchased, and we are getting to larger and larger economic units.

Those are important economic factors.

Now, you do pay attention to that by your reference to those figures of 1953. Nine percent of the farmers got more than 50 percent of the price supports; 1.9 percent got 25 percent. Those are figures that I have put in the Congressional Record, incidentally, about 2 years ago, pointing out the number of farmers that were getting annual checks in 6 figures. And that is the reason why I was glad to see you indicate your favor of a dollar limit.

I wanted to ask a specific question in regard to your suggestion of parity insurance, whether you would include a dollar limit in that suggestion.

Mr. LINCOLN. I think you would have to.

Representative CURTIS. I do, too, because my reasoning is further. I think your larger farm units can evaluate the demand that is going to exist for their products and can carry over the fluctuations that occur in their income, and there we can interject the law of supply and demand into this problem of the surpluses which lie at the base of it.

Then, finally, I call attention to something that I believe has not received attention, not only on the farm problem, but in our overall economic problem in America today. And that is the problem of labor. In the 19th century, when we needed more labor, immigration or migration would solve those problems. Your economic problem in one area would be solved by the mobility of labor.

Today that seems to have ceased. The Federal Government in many instances is going in to try, you might say, to keep people in a certain area, to subsidize their staying in that area instead of solving it through the movement of the people. Some people today are even saying that we are reaching a point of economic feudalism in some of these corporations where there are so many benefits given to an employee of a corporation that they cannot afford to move from one corporation to another job. And in the development of feudalism, you can find that there is that emphasis on people staying in the same place that produced it.

Now, those to me are some—I do not know that I have mentioned them all—but certainly the basic factors that go into our consideration of this farm problem. And it is those things that I want to explore a great deal more.

In your statement on page 2, you say that there are people who advance the argument that because farmers represented a relatively small part of our population, it did not make too much difference what happened to agriculture.

Well, Mr. Lincoln, I have heard no one advance such a thing.

Mr. LINCOLN. Well, sir, I have.

Representative CURTIS. Have you? I was going to ask you.

Mr. LINCOLN. I have correspondence from one of the biggest bankers in New York.

Representative CURTIS. Who does advance it, because I honestly have never heard that theory advanced.

Mr. LINCOLN. An economist from one of the big banking houses in New York presented that argument to me, and I think you will find it reasonably widespread. Now, I think it is because they do not understand all the involvements that you have brought out.

Representative CURTIS. I cannot understand anyone making such a stupid statement, as well as unpolitical statement, because it would be like saying that any segment of our economic life is not of significance, because, of course, all segments are significant.

Even the Western States, Mr. Chairman, I think are important economic segments.

Mr. LINCOLN. We disagree with such a statement, and you do, but I point out that the article in Harper's is just another evidence of that kind of thinking.

Representative CURTIS. I have not seen that thinking reach the point——

Mr. LINCOLN. As much as to say that in asking what we think is reasonable—the country slickers are going to take us again. Now, we disagree with that. I think you do, and so do I.

Representative CURTIS. I certainly do. But the comment I was going to make is that I do not believe that that kind of thinking is enough widespread where it has ever reached the halls of either the Senate or the House, because I have heard none of my colleagues on either side of the aisle, whether they represent city districts or whether they represent rural districts, ever express such a philosophy, and I doubt very much if they would.

Mr. LINCOLN. Surely. You are too realistic, I am sure, to do that. But——

Representative CURTIS. No, no. I am talking about my colleagues now.

Mr. LINCOLN. I am, too.

Representative CURTIS. I do not think that they are that unrealistic.

Mr. LINCOLN. I think you will find this out, sir, that certain experts do not appreciate that even though the numbers of people involved are going down, their importance in the production of food and fiber for industry in the world is not going down. In fact, other economists are developing amazingly good evidence along that line. I share your views that part of the problem is created here by the fact that our productivity on the farm is so amazing and that some of these adjustments are going to take place, very naturally, over a long time.

Farmworkers have already come from 85 percent down to 11 percent of the labor force as you say, and now some economists are saying that it will go down to about 4 or 5 percent.

Representative CURTIS. Mr. Lincoln, I want to refer to you to what I regard as some very significant trends, and there has not been much attention paid to that.

In the Economic Report, there is a table, D–16 an page 181, which gives the income of the farm population from 1929 to 1955.

Mr. LINCOLN. What page is that, sir?

Representative CURTIS. That is page 181. And in the eighth column it has, "Per capita farm income from all sources."

I have been interested in the ratios of 1934, which is the first figure that is given—the previous years they did not have—which is $165, in ratio to the figure of 1955, which is $856, showing an increase of 519 percent. Compare that figure to the figure in table D–13 on page 178, which gives us the national per capita disposable personal income in current prices, that is, the third column.

Take the 1934 figure of $411 and compare it with the figure of 1955, and you only see an increase of 394 percent.

So over the range of what we have figures for, from 1934 to 1955, the per capita farm income, even with this dip we have experienced in the past few years, is 519 percent, and the national per capita increase is only 394 percent.

Mr. LINCOLN. Let Mr. Rennie answer that.

Representative CURTIS. Then finally compare the figure of 1940 with 1955, which is getting to more modern times. The increase of farm population is 327 percent per capita, while the increase of personal income of the Nation is only 233 percent.

Now, those are things that I submit, in all this discussion of our farm picture, seem to have been lost sight of. And I think from an economic standpoint they deserve a great deal of attention.

My time is up, I see, Mr. Chairman.

Chairman DOUGLAS. Do you want to reply?

Mr. RENNIE. Congressman, if I may speak to that point. You, of course, are dealing with percentages.

Representative CURTIS. Oh, yes.

Mr. RENNIE. They can be, as you know, very tricky when you are working from different bases. If we take the absolute income of farmers as compared to the absolute income of all people, you get some rather different interpretations.

Representative CURTIS. Wait. Let us deal with it. Do you not believe that the per capita income from all sources is the real test of how well a farm family is doing? That is the point I am getting at.

Mr. RENNIE. Yes.

Representative CURTIS. I am talking about individuals, now.

Mr. RENNIE. Yes, but I think real farm income has to be compared with the per capita income from all sources of people living in urban areas, too.

Representative CURTIS. I think so.

Mr. RENNIE. And in those terms, of course, the per capita income from all sources of farm families is still only a little more than half of what it is of all people. That, from an economic point of view, in terms of purchasing power and in terms of buying the things that our industries are turning out, is the real determinant, I think.

Representative CURTIS. Yes. But the point is that the trend is that that differential is less percentagewise than it was in 1935, because the increase of the farmer has been 519 percent compared to 394 percent. So however you slice it, those are rather simple figures to illustrate trends.

Now, by that statement, I do not mean that we do not have a problem with our farm income. I think we do have. But I think in order to understand the problem, we had better put it in the light of economic trends rather than look at it today, alone.

Mr. RENNIE. Congressman, if I may also speak in terms of another trend, if we compare the increase in dollar income from 1939 to 1955, farmers overall have increased their per capita income only about \$600, whereas the average increase for all persons has been \$1,000.

In other words, the average increase for the country as a whole has been \$400 per person more than the per capita increase of farmers' income.

Mr. LINCOLN. Congressman, you have got to think of where you started from, because you had \$800 in the city and \$165 on the farm back in 1934.

Representative CURTIS. Of course. There are lots of conclusions we all could draw from these. I am simply pointing out a factor that has to be considered in my judgment and should be given its weight. I realize that there are other factors that should bear, too, and I am only pointing out one that I think has been neglected sadly.

Chairman DOUGLAS. Senator Sparkman?

Senator SPARKMAN. Continuing on the line that Congressman Curtis was on, I think, Mr. Lincoln, if I understood you correctly, you brought out a point that I wanted to bring out, that a lot depends on the base from which you start.

Mr. LINCOLN. The figures show it here.

Senator SPARKMAN. And is it not significant, too, that whereas for the country as a whole, and certainly the nonfarm workers over the last several years, that line has continued to go up, but in the case of the farmer it has been coming down?

Mr. LINCOLN. It has been coming down. I would say so.

Senator SPARKMAN. Now, there is just one other point that I want to mention very briefly, and that goes back to your plan of insurance, parity insurance, I think you called it. It intrigues me.

But don't you think that a great deal of warehousing is going to be necessary for orderly marketing?

Mr. LINCOLN. Yes. We put two restrictions in there. I think we have to have what we call an evernormal granary, or a national cupboard. We appreciate all that. I think more of that storage space——

Senator SPARKMAN. The thought I had in mind was this. Certainly, under the present plan that we have for a price-support program, the commodity is placed in a warehouse which allows orderly marketing.

Mr. LINCOLN. That is right.

Senator SPARKMAN. Now, it seems to me that if there is a weakness in the parity insurance, it is that it would have a tendency to turn loose the crop on the market all at once and, furthermore, it would give an incentive to those who control the market I am thinking now principally in regard to cotton, but I presume it would apply to every farm commodity—the farmer has little control over the market. Others do. And certainly the bringing of the crop into the market all at once, plus the incentive to these people, knowing that it is not going to be stored, that it is not going to be put in Government loan, it seems to me it would have a depressing effect on the market.

Mr. LINCOLN. Senator, we meant to imply in our proposal that there would be need for an ever-normal cupboard. We recognize the need; as least we meant to recognize it. And, of course, I would add a provision for orderly marketing. Parity insurance would apply to amounts over and above such storage needs. I think you have got to recognize that.

Senator SPARKMAN. One thing that has got to be kept in mind in reference to the support program, or the warehousing, is that if the mill does not want to pay the proper price for the cotton, the farmer can put it in a warehouse.

Mr. LINCOLN. That is right.

Senator SPARKMAN. If he is paying the price, the farmer will sell to him rather than put it in a warehouse.

Mr. LINCOLN. Not deprecating what you said, I think that is a very pertinent question.

Senator SPARKMAN. I think that it is something that would have to be thought out very carefully before the program.

Mr. LINCOLN. Yes.

Senator SPARKMAN. Thank you, Mr. Chairman.

Chairman DOUGLAS. Thank you for coming.

Mr. LINCOLN. Thank you for the privilege, sir.

Chairman DOUGLAS. There will be no hearing tomorrow, because the Secretary of Agriculture finds that he will be unable to come. However, we are most hopeful that the Secretary of Agriculture will agree with the committee that his personal views are of great importance to this committee under its responsibility to Congress and to the country in carrying out the Employment Act.

We hope that he will make every possible effort to appear in person before us in the very near future.

The next meeting will be on Tuesday, February 14.

(Whereupon, at 12:05 p. m., the joint committee recessed to reconvene at 10:10 a. m., Tuesday, February 14, 1956.)

JANUARY 1956 ECONOMIC REPORT OF THE PRESIDENT

TUESDAY, FEBRUARY 14, 1956

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

The Joint Committee met, pursuant to recess and subsequent postponement, at 10:10 a. m., in the Old Supreme Court Chamber, United States Capitol Building, Washington, D. C., Hon. Paul H. Douglas (chairman) presiding.

Present: Senators Douglas (chairman) and Sparkman.

Representatives Bolling and Talle.

Also present: Grover W. Ensley, executive director, and John W. Lehman, clerk.

Darrell Coover, legislative assistant to Senator Barry Goldwater.

Chairman DOUGLAS. Gentlemen, the hour of 10 o'clock having come and passed, I think we will convene.

I am very glad indeed to have as our witness this morning Mr. Oscar L. Chapman, formerly United States Secretary of the Interior. I am very glad indeed to welcome you, Mr. Chapman.

I think before you testify that I should make a statement about the alteration of the program. Secretary of the Interior Douglas McKay, who was scheduled to testify on Monday, February 13, was unable to appear then because of illness. The meeting of the committee to hear Secretary McKay, therefore, has been postponed until the morning of Friday, February 17.

Ezra Taft Benson, Secretary of Agriculture, who was scheduled to appear last week, was unable to do so, and he has stated that he will testify on the morning of Tuesday, February 28.

The panel of economic interest and research groups will be heard tomorrow morning, Wednesday, February 15.

Mr. Chapman, we are very glad indeed to have you here.

STATEMENT OF OSCAR L. CHAPMAN, FORMERLY SECRETARY OF THE DEPARTMENT OF THE INTERIOR OF THE UNITED STATES

Mr. CHAPMAN. Mr. Chairman, I appreciate this oportunity to appear before your committee. It is my wish in reporting to you in response to your invitation on the economic state of our natural resources, to be both realistic and factual. Where I speak out against certain current resource performances and policies, it is in the hope that the Congress having heard will reverse these trends before they bring down on us inescapable punishment.

I am not an alarmist. However, my studies and the cold facts of our natural resources show that this high resource plateau on which I believe our society rests firmly, while still strong, is somewhat eroded. It can be preserved if our leaders demonstrate positive purpose and program and respect our established national policies.

This is serious business with me. It could not be otherwise. After four decades in which I have witnessed world convulsions and wars from various vantage points from enlisted man in the United States Navy to United States Secretary of Interior primarily responsible for executing resource conservation and development programs according to law, I have reached certain conclusions. I believe they are appropriate for your information and consideration, Mr. Chairman.

The natural resources with which this country was uniquely blessed and which have, do, and can sustain our chosen way of life, are our only real national wealth.

Without any claims whatsoever to military competence, it is obvious to me that eventually the fate of this Nation in the world struggle that commands congressional attention rests on the strength of our economy. This fate, in turn, rests on an economy which is securely anchored in our natural resources.

We have proved that to ourselves the hard way in the two greatest wars of history. In our eager desire for planes and tanks and ships and materiel we learned again and again that to possess such essential finished products we had to have the raw materials—iron, steel, oil, kilowatts, coal, aluminum, food, timber—in other words, the natural resources themselves.

We got them. With booming steel guns we sailed to victory on a sea of oil under a canopy of power produced aluminum planes. We tapped our treasure trove of resources as need demanded, as indeed we should have done, and survived. But what I am trying to bring into perspective is that we survived on and by our natural resources.

While it is easy to dramatize the role of our resources in time of war, it is even more peritnent to fix that role in the peace and prosperity we now enjoy and seek to preserve. It is the care, conservation, husbanding, and utilization of those natural resources that has made possible our standard of living that is the envy of the world today. Those same resources make possible the defense of our way of life.

Therefore, since the inception of our Government, Congress naturally and properly has taken an intense interest in protecting the public interest by writing the rules for our resources utilization.

In our early colonial days of plenty, with a virtually unexplored vastness of resources stretching westward to the Pacific, that was not too difficult a task. As the country filled up with people, it became more of a problem, but our leaders, regardless of partisanship, rose to the need and hammered out a set of principles now embodied, I hope, everlastingly in our statutes for the development and protection of our resources. Many of these statutes, but not all, are among the thousands of laws administered by the Secretary of the Interior. So, while occupying that office I have become familiar with their intent and purpose.

I might add I also am a firm believer in their basic philosophy of providing for a dynamic expanding American economy.

Likewise, that experience revealed to me that skyrocketing populations—and our present 166 million Americans are officially forecast to become 200 million in less than 20 years—inevitably impose a multiplying burden on our resources. Consequently, the never-ending struggle to possess or control them for private profit must inevitably become even more intense and violent. And that brings us to the situation with which this committee and this Congress is confronted in considering this annual economic report.

We still remain a land of plenty, it is true today, but our resource ramparts have been breached. We are the people who chew up our resources faster than any other people on earth. Thus, in seeking to fulfill our demands, we have recently passed from the "have" to the "have not" side of the ledger among the nations in many important categories of our natural resources.

Where we once fueled the rest of the world from our advanced oil economy, our position has reversed. Every 24 hours of last year we imported an average of 1,250,000 barrels of crude or heavy oil into this country. This was an increase of 18 percent over 1954 just to keep ourselves going. I do not cite this growing importation as evil, for I am one who is happy to see some part of the requirements of our oil-dependent economy met from overseas instead of further depleting our increasingly valuable, limited and irreplaceable domestic reserves regardless of how large they may be. But why, in the face of this clear warning of growing importation, do we fail to protect our own economic future in the gasoline age? Why do we tolerate fumbling with our own conservation laws? Why do we abandon our successful Federal synthetic liquid fuel demonstration program that certainly would have stretched out our oil independence for generations?

Perhaps a few figures will bring this petroleum situation in sharper focus. During the peak of our World War II demand, I believe it was during a period in 1945, our total daily demand was 6.2 million barrels per day. Of this amount about 4.4 million barrels went for civilian use of all kinds. Based on experience in 1955 and estimates for 1956 it appears that our peak demand will reach 8.7 million barrels per day this year. But note, of this, 8.3 million barrels will be for civilian needs. Thus 10 years after the war, with population increased, faster planes, more oil using machines, et cetera, we have practically doubled our civilian demand. And yet we have let slide our synthetic liquid fuels program.

It is later than we think in the natural resource world.

Oil is not the only absolutely vital resource in which the United States has passed from the "have" to the "have not" category. We have recently made that shift-over in iron, which we now import in growing quantity as the ore map of the world is shifting. The place of steel in our civilization is well stated by a Senate Committee on Small Business of the 81st Congress which declared flatly:

> The power to govern the distribution of steel is the power of life and death in the economic world. The way in which it is exercised determines which businesses grow and which do not, which industries expand and which do not, which States and regions prosper and which do not * * *.

Thus this power to govern the distribution of steel as it has been exercised, has brought us from being the world's leading exporter to 1955 when our requirements forced us to import 24 million gross tons of high-grade iron ores. Our iron ore imports nearly trebled in the past 5 years.

In fact, we have likewise turned the corner from the happy boulevard of the "have" nations into the blind alley of the "have not" nations in many elements that are the very vertebra of our metallic backbone. The United States remains both the greatest producer and greater user of metal in the world. Let it be here recorded—although it may have been omitted from the economic report before you—that our American metal economy has become dependent on imports. This includes such vital metals as bauxite, copper, lead, manganese, nickel, cobalt, fluorspar, zinc, antimony, zirconium and a host of others.

Senator SPARKMAN. You omitted chromium. Did you do that purposely?

Mr. CHAPMAN. No; I did not do it purposely, Senator. If I were listing them all, there would be more than 45 different items that would be listed.

Senator SPARKMAN. I noticed it in your mimeographed copy, and I just wondered if there had been any reason for not listing it.

Mr. CHAPMAN. The only reason was that I was saving time and listed what I considered just a few examples, because if I listed them all, there would be more than 45, which we are on the short side of, that are vital and critical, and listed as critical by the Defense Department.

Speaking of zirconium, again may I ask, why do we close down our experimental demonstration plants on zirconium when we are just attempting to get started in that, to establish our production in this country?

Some metals such as tin we never had. There are lots of natural resources vital to our welfare which I will not even mention. Other of vast importance, such as farm-produced food, I will leave to be reported on by better qualified witnesses you have available.

The drive is still on to slash our remaining forests, though we have never gotten ourselves 100 percent on the sustained-yield basis for our sawtimber. The resource in our national parks, other than the recreational service to which Congress dedicated them, are rich prizes in the game of grab. So, too, the resources in the other kinds of reserves established by you. The push on them will inevitably increase with the pressure of increasing humanity and its needs. So let us be on guard to preserve and protect them for the coming generations.

I wish to conclude this short report on the state of our natural resources with a somewhat more detailed accounting of where we stand and where we seem to be going with two absolutely vital sources with which I have had much responsible experience—water and electric power. None of us can imagine sustaining our way of life without a continuing and driving development of these resources. But the sad story is we are neglecting them, sometimes shamefully, and frequently in betrayal of the national policy and in defiance of the laws passed by the Congress.

In view of your interest in and responsibility for keeping our United States strong, let me, before developing the water and power aspect of my statement, draw your attention to three insufficiently noted programs abroad. While we contract, other nations expand their developmental programs for resources.

India, sometimes referred to as an undeveloped nation, has developed over the years about three times the irrigated acreage of the

United States. That is not a derogatory comparison, for India may need 10 times our irrigated acreage. Nehru's government has undertaken a program of expanding India's water-control works as much in the decade through which we are now passing as had been done in the century prior to India's independence. That's the backbone of India's economic program. They proudly display the dams, canals, and powerhouses under construction or completed to all important visitors.

Now let us look into an area of the world about which much is said, but not in connection with its resource development. I feel I would be remiss in helping this committee to the fullest extent if I did not draw your attention to a little known report published in India which tells in detail about water and power developments in China. Our views about the country notwithstanding I, believe you will agree, our own security demands that we know all we can learn about any country.

And one of the things we can learn is that one of China's projects recently completed is the North Kiangsu Canal. It will provide flood control, aid navigation, and irrigate 4 million acres of land. The canal is 420 feet wide (wider than any in the United States) and 100 miles long.

Now, compare that with Central Valley. Central Valley is 500 miles long from the Shasta Dam to the southern end of the Central Valley project, with canals and different lateral connections.

This and more is told in the report called A Visit to River Valley Projects in China, by Kanwar Sain, chairman of the Ministry of Irrigations and Power of India, of which I have a copy I would like to give the chairman. I do not believe there are more than 2 or 3 copies in the country.

Chairman DOUGLAS. Thank you.

Mr. CHAPMAN. Russia, which is a bigger country with more people in it than ours, also happens to have a water resource development program that may have some comparative interest, though again it is not cited as a model. The Soviet's proclaimed program is to irrigate 70 million acres in 15 years, to buttress its strength by producing food to nourish 100 million more Communists. That would be about three times as many irrigated acres added to the Russian economy in 15 years as the total public or private, Federal or local, irrigation in the United States achieved in the century we have been at the task. It will be my guess that while the Communists will fall considerably short of such a stupendous program in the time scheduled, the water gains to their economy on the basis of the work already accomplished will outstrip ours in the same period.

Look, too, at some individual items in Russia's resource construction program—four hydroelectric powerplants, each of which will spark Russian industry with more kilowatts than our greatest—the Grand Coulee Dam on the Columbia River. The Soviet big four are Kuibyshev Dam that started producing power on the Volga River last month; the Stalingrad plant, and the two largest hydro stations in the world at Bratsk on the Angara River, at Krasnoyarski on the Yenisei River in eastern Siberia which are scheduled to start grinding out their 3-million capacity kilowatts each—half again as much as Grand Coulee—in about 1960.

These overseas facts were not passed on to you in last year's or this year's Economic Report. But I do find in that report some justification in taking your time with such comparisons, for the 1955 edition of the President's Economic Report itself says:

Of all our natural resources, none requires more immediate attention than water * * *

Well, what kind of "attention" is reclamation getting? Just about none. It would be in liquidation if the Congress had not insisted on carrying through some going construction projects and proceeding with some additional ones the administration did not want. The firm figures tell their own tale. The "Hi-Lo-and-Out" figures tell their own tale. The "Hi-Lo-and-Out" figures show a collapse in reclamation construction financing from $336.1 million in fiscal year 1950 to $115.6 million in fiscal year 1954.

The fuller comparison is an average annual reclamation construction appropriation of $194 million in the 8 years of the previous administration—including the Korean conflict cutback as compared with $136 million annual average in the 4 years of the present administration, including the new budget now before the Congress, plus peacetime prosperity, and congressional increase. That is the story of water in reclamation.

And in view of the fact reclamation requires—and gets—full repayment for the Treasury and is about the best investment—not expenditure—our Government makes, no "economy" sloganeering is a logical explanation.

The Army Engineer Corps civil functions is an outstanding water control activity, and it also got the "immediate attention" treatment. The first Eisenhower administration budget knocked it down about $174 million from the previous years. But after a few object lessons, including New England and west coast floods, Congress stepped in to rescue considerable of the Army program, which in the 4 years of this administration averages about $54 million annually under the annual level of the prior 8-year averages.

The TVA story of suffocation by financial attrition is so well known it can be documented in capsule form. The preelection administration campaign promise to support TVA was first implemented by the initial Eisenhower budget that cut the agency's total in fiscal year 1954 to $188 million from the $336 million of the previous year. In the same period, the provisions for starting new generating capacity fell from 2,784,000 kilowatts to 360,000 kilowatts, and has since vanished entirely.

TVA not only got "immediate attention"—it got the shock treatment.

Those are the three big United States water programs—if you can now call them programs. My belief is that this administration has no firm water program. President Eisenhower seems to share that belief, for in reporting to you in the state of the Nation message last month he said he wished to "reemphasize the critical importance of the wise use and conservation of our great natural resources * * * water in particular * * *." He went on in a fashion that strangely reveals the differences between promise and performance to say: "The need for a development of our water resources is such that we must make faster progress without delay * * *" and that, "A comprehensive legislative program for water conservation will be submitted to the Congress" later—I hope not too little too much later.

On January 17, 1956, President Eisenhower sent to the Congress the report of his Cabinet Advisory Committee on Water Policy. I sympathize with the distinguished Cabinet officers in their endeavor to bring together a maze of reactionary ideas and fit them into the realities of life.

The report in one breath asserts, "There is no single 'national' water problem." Yet it would set up directly under the President a Coordinator of Water Resources "to provide Presidential direction to agency coordination, and to establish principles, standards and procedures for planning and development of water resources projects".

In other words, we would have a Co-ordinator of the coordinators with the result that the layering process, of which there has been vigorous complaint, would be multiplied.

I am intrigued by the proposals that would concentrate authority in "an independent board of review" to analyze the engineering and economic feasibility of projects and report to the President through the Coordinator. I respectfully suggest that this is a far cry from simplification of Government activities in a field so vital to the existence, lives, and prosperity of 166 million people.

We already have the Regional or River Basin Water Resource Committees. They need strengthening. But they should operate through established agencies, not through a new bureaucratic setup.

I favor giving permanent status to the existing Inter-agency Committee, advisory in character, but I can see lack of effectiveness and freedom of expression or action were it dominated by a supercoordinator as chairman, reporting directly to the President.

My observation and experience of 20 years in Government service dealing with water and related resources problems impels me to urge that the Congress take hold of this situation promptly and effectively. The handling of the water problems and policy, and especially their implementation for prompt and effective solutions, should be simplified.

Established agencies in the executive department should be utilized, and given adequate funds to secure and hold the services of top technicians and policymakers.

Let me touch briefly on the saline-water program which I had the honor of initiating as Secretary of the Interior with administration support in 1952. Both the executive department and the Congress must share responsibility for the inadequate approach to converting ocean water into fresh-water supplies for coastal cities, hard pressed for municipal sources for domestic and industrial purposes. The demineralization of brackish water in the inland areas, while carrying a lesser dramatic appeal, is a corollary equally vital to cities, towns, and irrigated agriculture.

The Congress first approached the problem gingerly. It wanted to be shown that economical processes could be developed for transformation of boundless ocean supplies into fresh water. It reduced the budget recommendation from $25 million over a period of years to $2 million. In the first session of the 84th Congress, the House increased this authorization to $6 million. The Senate proposed a $10 million appropriation authorization which was accepted and approved.

I believe the saline-water program offers the most effective means of augmenting the supply of fresh water for the coastal cities and for purifying interior supplies for domestic, industrial, and agricultural uses. Results so far show we are well on our way in developing that program.

Mr. Chairman, there is agreement by all of the water-policy and related committees that the United States is facing a crisis in water. Control of floods and the turning of raging waters by storage into useful purposes like power production or irrigation is too obvious to need emphasis.

The consumptive water requirements of the United States by 1975 will nearly double, the best and most conservative forecasters predict. Municipal and urban domestic uses are expected to increase only 7 percent, and I think that estimate is far too low with our expected increase in population. Direct industrial uses will increase 170 percent and irrigation needs 25 percent. The daily consumption will go from 185 billion gallons per day to 350 billion gallons—an increase of 90 percent.

The floods may get wetter and wider and the droughts drier and dustier, but all we've done about it recently is to talk, pray for rain, watch the fields burn, ship out the livestock, clear out the flood debris, rebuild the inundated cities, plants, and homes. We have the plans. We have the laws. We have the know-how. But we are abandoning the time-tested program of Federal action and responsibility for a "you do it, not me" slogan that isn't doing the job.

I am sorry I can't give you a parallel dollars rundown on other resource developments. I only checked up on water because of the President's report to this committee over a year ago that "of all our natural resources, none requires more immediate attention than water."

Now let us look as realists at another important resource—electric energy. And I am leaving out of this atomic energy, because that is such a new and all-encompassing energy that has yet to be developed.

Here again happily, just as I agree with the administration's statement on water needing immediate attention, I am in total agreement with another administration statement that "it is generally recognized that electric power is one of the most important factors in the advancement of a nation's economy, the strengthening of its security, and the raising of its standard of living." This pronouncement keynoted a recent publication of the International Cooperation Administration when for a moment others were looking at where the rest of the world was going. You won't find it in the domestic economic report of the President before you. But I have a copy of it here that I would be glad to leave with the committee.

You will also not find in either report the fact that in power production and consumption per citizen we are losing out in comparison with other nations. The United States no longer leads this changing world in per-capita power production and use. That's the meaningful figure that compensates for differences in national size and population. For that matter, we no longer lead the Western Hemisphere, or even the nations on this continent, in per-capita use of power.

Norway is way out ahead with 6,340 kilowatt-hours per capita. Canada comes second with 4,780 kilowatt-hours per citizen. The United States is a poor third, with 3,350 kilowatt-hours per American—barely ahead and rapidly being overtaken by Sweden and Switzerland.

Those are the physical facts of life as reported by the United States Federal Power Commission's latest scorecard and confirmed by the United Nations. So the question naturally arises, "How does it happen, and what, if anything, are we going to do about it?" Even if we could forget about the rest of the world, we are not even meeting our own domestic power demands, and our economy is retarded as we fight desperately to double our own power production each decade.

And I am not derogating the accomplishments of private power corporations. They are producing 76 percent of United States power, while only about 14.9 percent of the Nation's power capacity is federally generated and some 9.1 percent comes from non-Federal public agencies such as REA co-ops, municipalities, and public-power districts. All told, the United States produces about 40 percent of the world's electric power, and that figure has recently dropped 3 percent as our lag accelerates.

I don't want you to write off our dilemma simply as a public-private power fight. While we do allow ourselves the suicidal luxury of such a fight—and we are the only Nation that does, while those that top us in per-capita production and consumption (which happen to enjoy extensive public power) just cannot understand what we are brawling about—I am not here just as a public-power advocate. We absolutely require all the kilowatts both public and private power can produce to preserve the national economy in which we are interested.

We are not getting the kilowatts we must have. Our economy cannot expand, as it must, if we abandon public power. One reason is that since 1953 we have been confronted with a deliberate conspiracy to arrest low-cost public power development. The Congress has done considerable to remedy such matters when it saved the TVA momentarily from being cut. And last July it directed that a number of good Federal power projects, all disapproved by the administration, must proceed in the public interest.

The big reclamation ones, Trinity in California and Yellowtail in Montana and Wyoming with which I had much to do, have not started yet. The Hells Canyon proposal, despite endorsement by both House and Senate subcommittees of Congress where I brought it 5 years ago, has undergone executive vicissitudes that make it almost a classic symbol of how not to develop our resources for the service of the people. To compound confusion, the administration is now rushing off hurriedly to expend our substance on a remarkably similar but more expensive proposal for full development of a potential water and power resource known as the Aswan Dam in Egypt which our spokesmen describe as an absolute economic "must" on the Nile, even while they say Hells Canyon Dam would be a peril on the Snake River in the United States. This project will cost $1.3 billion.

So the plain fact of the matter is that by a system of nullification, indirection, and obfuscation, accompanied by a pressure campaign and display of the hucksters' arts such as we have rarely beheld, national power policy and resource development has been and is being reversed regardless of the laws you have passed and you have preserved. And we are paying the economic penalty therefor.

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And I want to say that I am in favor of this Government taking a hand in assisting the Egyptian people in building the Aswan Dam. It is an economic aid that we can afford to help them with.

Facts will come out—and a few might come out in your review of the Economic Report. Just as a starter, if nobody else separates performance from promise this committee might point out that if "the need for developing our water resources is such that we must make faster progress without delay"—that is quoting the President's report—that end is obviously defeated by putting, for example, the Missouri Basic program in our heartland in mothballs by cutting its financing 60 percent from the 1950–51 level down to the 1954–55 level.

Likewise, giving away Hells Canyon to a private corporation for incomplete resource development yielding a quarter of the flood control and less than two-thirds of the kilowatts at double the price Federal development would product, is not the "immediate action" that will bring the country economic prosperity.

I appreciate his opportunity to appear before you. I came in response to your invitation, as I have always come to the Congress, because I know there are things the Congress can do to preserve and buttress our resource base. You have done much already, and in your disposition of the many bills, authorizations and appropriations before you in this final session of the 84th Congress, I am confident you will do much more.

I wish to thank you for your careful attention to this, Mr. Chairman, and if there are any questions, I would be happy to attempt to answer them.

Mr. Chairman, may I make one comment aside from my speech?

Chairman DOUGLAS. Yes, sir.

Mr. CHAPMAN. I have before me here an article from the Baltimore Sun of Wednesday morning, January 25, 1956. It is an article headed "This Dam-Building Era." It gives a brief résumé of all the major dam construction programs of the various parts of the world, including some of our own. That is a most enlightening article, and I would like very much for the committee to have the benefit of it, to look at it, because it is put in context with what we are talking about today.

Chairman DOUGLAS. Would you like that to be made a part of the record?

Mr. CHAPMAN. I would like very much to have it made a part of the record.

Chairman DOUGLAS. That will be done.

Mr. CHAPMAN. Not the cartoon. That is political.

(The article above referred to is as follows:)

THIS DAM-BUILDING ERA

The discussion over who is to finance Egypt's Nile high dam at Aswan has turned the spotlight on that ambitious undertaking. The high dam to be constructed several miles above the present dam at Aswan is described as the world's greatest irrigation and power project. The estimated cost is $1,300 million. The dam is to have a storage capacity 4 times that of Boulder Dam and the impounded water will irrigate 2 million acres.

The Aswan project is only one of many bearing witness that never before in the history of the world has there been such a widespread effort on the part of man to harness the waters supplied by nature and to put them to work bringing arid lands into production through irrigation, providing hydroelectric power for the expansion of industry, and improving navigation.

The projects, completed and planned, in the United States are familiar to everybody. The Tennessee Valley Authority, with its series of dams, reservoirs, and hydroelectric plants, is an accomplished fact. The valleys of the Missouri and the Columbia rivers are in process of development. So keen is the competition for the waters of the Columbia that an international issue has been raised between the United States and Canada. Canada wants to divert part of the flow of the Fraser River, a tributary, so as to keep it on the Canadian side of the border. The Colorado River, the Sacramento and the San Joaquin rivers in California represent still other conspicuous scenes of development.

What is going on in the United States finds expression in many other parts of the world. To this effort the United States has lent assistance through grants by the International Cooperation Administration and loans from the Export-Import Bank. Proponents of Federal development of our natural resources consider it ironic that while the present administration is economizing by cutting down on its participation in domestic projects, it is contributing generously to those in other parts of the world.

Two countries that have ambitious water-control programs are India and Russia. In India, a mammoth undertaking is the Bhakra-Nangal project, in the foothills of the Himalayas in the Punjab, 200 miles north of Delhi. Its main feature is a dam 680 feet high, said to be the second highest in the world. The project includes a hydroelectric plant with a capacity of 365,000 kilowatts, and a reservoir impounding enough water to irrigate 6 million acres, thereby adding 1 million tons to India's annual food supply, 800,000 bales of cotton, 500,000 tons of sugar cane and 10,000 tons of pulse and oil seeds. The total cost is estimated at $357 million.

The Damodar Valley project is a vast undertaking of the Indian Government involving hydroelectric power, irrigation and flood control on the Damodar River, which has seen 27 catastrophic floods in the last century and a half. The first phase of the project includes 4 dams and 3 powerplants; the second phase 3 dams and as many powerplants. The Damodar Valley, lying northwest of Calcutta, is India's most important industrial area.

Another Indian development is the Rihand Valley project in the state of Uttar-Pradesh, southeast of Delhi. Its single dam will store water for the irrigation of 2 million acres and its powerplant will have a capacity of 240,000 kilowatts. In Southern India, the largest river valley project is the Nagarjunasagar, a joint enterprise of the Andhra and Hyderabad governments. Its dam, 387 feet high, will have behind it a reservoir of 9,300,000 acre-feet capacity, capable of irrigating 3,200,000 acres. A hydroelectric plant will generate 75,000 kilowatts. Cost of the first phase of construction alone is estimated at $157 million.

India's neighbors also have their water-control projects. Pakistan has long had one of the largest irrigation systems in the world. Recent developments, either completed or under construction, are the Karnaphuli project in east Pakistan with a dam 2,000 feet long and 140 feet high, and a powerplant with a potential capacity of 160,000 kilowatts to supply power for paper, jute, and textile mills; the Warsak project in west Pakistan on the Kabul River, with a dam 235 feet high and 620 feet wide, impounding water to irrigate 93,000 acres, and a powerplant with a capacity of 150,000 kilowatts; and a third dam at Taunsa, in west Pakistan, with a capacity of 100,000 killowatts.

Under construction in Ceylon is a project 50 miles east of Colombo which involves the developing of the power potential of the Kehelgamu and Maskeliya Rivers. There are to be 2 dams and hydroelectric plants with a total capacity of 150,000 kilowatts and a transmission line to Colombo. Power will be used in processing of rubber and coconut products, which constitute 90 percent of Ceylon's exports. In Burma, the Land and Agricultural Planning Commission has two irrigation schemes on the Irrawaddy Delta designed to reclaim at least 100,000 acres of ricelands.

Much has been heard lately of Russia's offers of economic help to Afghanistan. Less attention has been given to a private American firm, which is already at work there on the Helmand Valley Authority. which includes 2 dams and reservoirs with a total of 2,370,000 acre-feet of storage capacity. The project is being financed, in part, by the Export-Import Bank, exclusively an American agency.

Russia's extensive long-term program of water control is geared to bring 70 million acres under cultivation through irrigation. The Soviets estimate this will provide food for an increased population of 100 million persons. The plans call for three great dams with powerplants larger than any in the United States. The three key plants are, respectively, at Kubischuv on the Volga, with a capacity of 2 million kilowatts; at Stalingrad, with a similar capacity, and at Baratsk, in northeast Siberia, with a capacity of 3 million kilowatts. Kubischuv and Stalingrad have already begun generating. Baratsk is in the planning stage.

In the Near East, the Jordan Valley Authority, under the stimulus of the United Nations, has elaborate plans for the development of the River Jordan, which affects Syria, Lebanon, Israel, and Jordan. At last accounts, the technical work was well advanced, but the bitter politics of the region was holding up construction.

Iran has plans for a 500-foot-high dam at Karaj, 40 miles northwest of Teheran, for power and irrigation. It also will supply Teheran with water. In Iraq, one dam of a series has been completed. The purpose of this project is to divert the waters of the Tigris above Baghdad for flood control and irrigation.

Mention has been made of the high Nile Dam above Aswan. Far to the south at the river's source in Lake Victoria, Uganda, Queen Elizabeth on her last visit to British possessions in Africa dedicated the Owen Falls Dam, a structure 100 feet high and 2,500 feet long. The dam is designed to control the waters of the Nile and irrigate the Sudan.

Western Europe, too, has many projects for expanding production which involve water control. In the Austrian Alps, the Lunersee hydroelectric project will provide more power for the Vorarlberg and Tyrol area and also export power to the Ruhr and southwest Germany; the Reisseck-Kreuzeck project, harnessing small streams and lakes, will generate power for Italy. In France, a series of 23 dams set at intervals along the Rhone River, from its source high up in the Alps all the way to the sea, is under construction. Strictly a French enterprise, it got much-needed initial stimulus from the Marshall plan. When completed, the Rhone Valley development will add greatly to France's productive capacity.

Power projects of various sizes are going on in the Italian Alps, in Switzerland and in the highlands of Scotland. In Sicily, $70 million is being invested in a dam and reservoir at Pozzilo on the Salso River, which will irrigate 75,000 acres, or 1,500 farms, on the Catanian plain, making a much-needed addition to Italy's food supply.

Much activity is found also in the Far East. In Korea, the Hwachon Reservoir, north of the 37th parallel, is being rebuilt and enlarged. Originally constructed by the Japanese, it was severely damaged in the Korean war. It is the major source of electric power in southern Korea. Another Korean project will irrigate 60,000 acres of rice-paddy lands. On Formosa, a large multipurpose dam at Shimen is being planned by the Chinese Nationalist Government. One at Wusheh is being built with American help. Japan, the Philippines, and Indonesia have programs for flood control and irrigation and bringing wastelands into production. Reports from Red China are to the effect that as many as 25 million workers have been engaged at one time on water-control projects on China's elaborate river system.

A gigantic project in the making is the development of the valley of the Mekong River. This river waters Thailand, Cambodia, Vietnam, and Laos. It measures 1,600 miles from its source to its mouth and is greater than the Mississippi. The International Cooperation Administration has appropriated $50,000 toward sending technicians there to study development from the standpoint of irrigation, hydroelectric power, flood control, and navigation.

In Latin America during the last 5 years hydroelectric plants have been completed in Mexico and Brazil. Dams either planned or underway, often with technical assistance from the United States, are found in Brazil, Chile, Ecuador, and Peru. An $18 million project in Peru involves the diversion of a river to irrigate 125,000 acres of new land in the coastal region. Haiti is constructing a multiple-purpose dam on the Artibonite River, 50 miles north of Port-au-Prince. It will be 210 feet high and 1,000 feet long and will impound 300,000 acre-feet of water to irrigate some 70,000 acres of land.

The list is by no means complete. But even with omissions, it serves to give some idea of the mighty effort man is putting forth to reduce the destruction that water uncontrolled, can bring and, instead, to direct it toward constructive uses. F. F. B.

Chairman DOUGLAS. Mr. Chapman, you mentioned the fact that we were proposing to help finance the Aswan Dam in Egypt. I wonder if you have estimated how much United States money is going into foreign water-resources development.

Mr. CHAPMAN. Mr. Chairman, I made some effort to try to bring together some figures that would give us some idea of how much money we were spending in foreign development such as the Aswan Dam. But you will find, as you make the search for it, that it is scattered among about 5 to 6 different agencies dealing in foreign programs. And it was almost impossible for me, as a private citizen, to obtain that without undue labor and work. This committee, I might say——

Chairman DOUGLAS. Do you think it would be a desirable thing for this committee to obtain?

Mr. CHAPMAN. Mr. Chairman, I think it would be most desirable for this committee to obtain the information upon all of our expenditures in foreign countries on resource development.

Chairman DOUGLAS. And commitments?

Mr. CHAPMAN. And commitments.

Chairman DOUGLAS. And negotiations.

Mr. CHAPMAN. Well, all of those go together as a part of the program: What negotiations do we now have underway; what commitments have we made; and what expenditures have we made?

I believe, Mr. Chairman, that that——

Chairman DOUGLAS. I wish the director of the staff would address letters to the appropriate agencies on these matters, including the International Cooperation Administration, the World Bank, the Export-Import Bank, and such other agencies as may be involved.

(The following material was made a part of the record:)

FEBRUARY 15, 1956.

Mr. ROWLAND R. HUGHES,
Director, Bureau of the Budget,
Washington, D. C.

DEAR MR. HUGHES: In considering efforts to develop natural resources of the United States and other non-Communist countries, the Joint Economic Committee has need for factual information with respect to this country's expenditures abroad for this purpose.

Could you supply this Committee with information on the amount of Federal Government expenditures since World War II by various agencies, such as ECA, and its successors, military assistance, the Export-Import Bank, and the United States share of international organizations such as the World Bank, for development of natural resources abroad. If possible, show separate figures for water and power. Would you show a breakdown (1) of loans, and (2) of grants? The figures should show (1) actual expenditures to date, and (2) amounts currently available for expenditures in the future.

We would appreciate this information as soon as it can be obtained.

Sincerely yours,

PAUL H. DOUGLAS, *Chairman.*

(See letter p. 704.)

Mr. CHAPMAN. Mr. Chairman, I think in connection with that, an inquiry to the Bureau of the Budget would be most helpful, because they, after all, do have to scrutinize all of these appropriations and a letter to the budget might bring to you a consolidated picture of it. And I believe that would be most helpful to this committee to have.

Chairman DOUGLAS. Mr. Chapman, you are not opposed to these foreign projects?

Mr. CHAPMAN. No; not at all. I am not opposed to them, but I think the American people ought to know how much they are.

Chairman DOUGLAS. And I take it your point is that if it is important for the American taxpayer to spend money on the development of these resources abroad, it is not wrong for such money to be spent at home for the development of projects such as Hells Canyon?

Mr. CHAPMAN. I certainly feel that very deeply, Senator, that these moneys that we feel for reasons of security and good will and for our own reasons, we are trying to help develop these undeveloped areas—for that reason, we ought to firm up and keep our own domestic national resources program firmer and more solid than we have in the past. I think it is essential that we have to do it.

Chairman DOUGLAS. May I ask you about the program for the development of the River Jordan, upon which Mr. Eric Johnston has been working, and which I understand has been more or less approved by our Government? That is very similar to TVA, is it not?

Mr. CHAPMAN. Very similar in its overall pattern, sir.

Chairman DOUGLAS. It has irrigation features, which TVA does not have.

Mr. CHAPMAN. That is right.

Chairman DOUGLAS. But it is very similar.

Mr. CHAPMAN. That is right.

Chairman DOUGLAS. And this is approved by the American Government for Jordan and Israel.

Mr. CHAPMAN. That is right.

Chairman DOUGLAS. Its prototype, the TVA, is denounced as creeping socialism for the United States?

Mr. CHAPMAN. That is right.

Chairman DOUGLAS. Can you account for this economy of treatment and emotional ambivalence?

Mr. CHAPMAN. It is hard to understand a man's thinking who approves that and thinks it is good, but does not think it is good for our own country.

Remember, too, Senator, that before you launch upon a program for the expenditure of money, usually in these foreign countries—and the same applies within our own States, by the way—you usually have a treaty preceding the expenditures of money, a treaty agreeable to all parties concerned, for the use of the waters of those rivers, so that there will be no arguments after you put your money into it. And in this country, we have river compacts between States, like the Colorado River compact. It took more than 25 years to develop that compact to get the agreement between the States.

And I want to say here, Senator, many of us who think we are strong advocates of natural-resources development often make the mistake of thinking that this is a partisan issue. This is not a partisan issue. Had it not been for the Republican, Hiram Johnson, of California, you would not have had the Hoover Dam. Had it not been for Charles McNary, the Vice Presidential candidate of 1940 on the Republican ticket, you would not have had Grand Coulee.

And I say that in this respect. It was their cooperation and their full support on the floor of the Senate and in committees that helped develop those great projects. They were looking for the development of the West, which is an essential thing to all of us.

Senator SPARKMAN. Would you not include Senator Norris, too?

Mr. CHAPMAN. Certainly. Senator Norris, I think, was one of the leaders. I mentioned those other two thinking of the West, but the TVA—had it not been for Senator Norris, you would never have had TVA.

Senator SPARKMAN. And Theodore Roosevelt?

Mr. CHAPMAN. You go back to Theodore Roosevelt and Gifford Pinchot, in 1912, and go back further to Abraham Lincoln, whom we are celebrating so much these days. I wish they would adhere to his policies more closely.

Lincoln himself established the first real conservation program in our homesteading program.

Chairman DOUGLAS. I wish that my colleagues from the Republican side were here so that they might listen to these glowing tributes which you have delivered to many members of their party. I hope it is now appropriate for me to remark that all of these men are now dead, unfortunately.

Mr. CHAPMAN. That is right.

Chairman DOUGLAS. Now, Mr. Chapman——

Mr. CHAPMAN. I want to say further, Senator, I am going to step out of bounds of what may be, should I say, propriety. You have a member of this committee that I think will go down, and history will accord him a very respectable place for his efforts in conservation and development of the West, and that is Senator Watkins. I think he has worked faithfully and hard for the conservation of the West and the development of its water resources.

Now, I must give credit where it is due. We have not always agreed. There have been many projects that we have differed over.

Chairman DOUGLAS. Now, I was interested in the testimony on page 2 about the synthetic-fuel plant. You had a plant in Missouri; did you not?

Mr. CHAPMAN. We had a synthetic fuels plant at Louisiana, Mo., Senator, that originated in this way. It was first built as an ammonia plant for the military. It was their project. But immediately after the war, they had no more use for the ammonia plant. So Congress passed an act turning it over for operation to the Department of the Interior to carry on experimental work for synthetic liquid fuels from coal.

Now, that project has spent between \$75 million and \$80 million, and they were bringing the cost down each year, for finding the proper way to make liquid fuels, which is petroleum, from coal. And also the synthetic liquid fuels plant that was at Rifle, Colo., which was built by the Government to try to develop synthetic liquid fuel, which is petroleum in this case, from shale oil rock, as it is known generally. That plant had brought the cost even closer, from shale oil, to the cost of petroleum production than the other.

Chairman DOUGLAS. May I ask you, how low had you brought the cost in terms of cost per gallon?

Mr. CHAPMAN. In terms of cost from shale oil, Senator, it was within a fraction—and I mean this literally—within a fraction of the cost of producing regular petroleum.

Chairman DOUGLAS. You mean a fraction of a cent?

Mr. CHAPMAN. A fraction of—less than a cent.

Chairman DOUGLAS. Less than a cent?

Mr. CHAPMAN. Yes.

Chairman DOUGLAS. Now, in cost did you include interest on plant?

Mr. CHAPMAN. Yes, sir. It included every possible thing.

Now, how do I know? I employed one of the most conservative, reactionary concerns in America to make that report for me to the Department of the Interior to analyze the figures of the Bureau of Mines and the Geological Survey to give me the most accurate figures as to what the cost was. Now, that figure does not apply to the synthetic liquid fuels from coal, because they are much wider apart.

Chairman DOUGLAS. What was the difference on coal?

Mr. CHAPMAN. How is that?

Chairman DOUGLAS. What was the difference on coal?

Mr. CHAPMAN. I do not remember offhand just what the difference was in cents. I am not quite sure. But it was a considerably higher difference than it was in shale oil.

Chairman DOUGLAS. Several cents per gallon?

Mr. CHAPMAN. How is that?

Chairman DOUGLAS. Several cents per gallon?

Mr. CHAPMAN. Yes, more than that; more than that.

Chairman DOUGLAS. But you had been making progress in reducing costs?

Mr. CHAPMAN. Each year had brought it closer. Each year there was progress in that plant, and brought it closer. And I am as convinced as I sit here this morning that had we continued this program, instead of releasing several hundred technicians that are hard to find, and continued the program as we had it, you would have had a new source of petroleum fuel in this country, entirely a new use for coal, within the next 5 years, that you will not have now.

Chairman DOUGLAS. This would have been important not only for the country, but very important for the bituminous coal regions?

Mr. CHAPMAN. Oh, very important for the coal industry as such. Remember that coal is one of the largest resources that we have in this country. The problem with it is that we must learn to package it and deliver it in a little different form.

The people in America are not going to carry out ashes any more. They like this other method, and they are willing to pay a little difference in the cost to get it. And we have got to find a way to use it in coal. We have got to find a way to package this coal and sell it.

That was one of the ways we were trying to find. And I am thoroughly convinced that another 5 years would have had the answer to competition.

Chairman DOUGLAS. Mr. Chapman, some 5 years ago I made a trip through the Ruhr, in Germany, and I was struck with the fact that there was almost no smoke in the area in the Ruhr region, which is the center of the coal and steel and iron and chemical sections of Germany. Flowers were blooming in the yards of the railroad stations.

I made some inquiries as to what was happening, and they told me that the Germans many years before had effected a combination between coal, steel, and chemicals. The coal was mined in this region and was used then to fabricate the iron into steel, and the smoke, what was smoke in the United States, was transformed in Germany into coal-tar chemical products, so that the chemical industry developed out of the coal and steel industries.

Mr. CHAPMAN. Yes.

Chairman DOUGLAS. And Germany's very important chemical industries have been built up largely out of the coal-tar products, which in this country have been wasted.

Mr. CHAPMAN. That is right.

Chairman DOUGLAS. Have you any thoughts on that?

Mr. CHAPMAN. Senator, we had some research done in that through the Bureau of Mines. We had never set up a major project on that, as I feel we should have done, to have made a further study. And I do not think the industry has gone as far as they would like to go or should go in determining a use for that smoke that comes from the coal, because I think it could be not only curtailed, but could probably be put to some useful purpose.

Chairman DOUGLAS. Have you thought about the possibility of locating giant powerplants in the bituminous coalfields close to rivers and generating electric power there from coal, with abundant supplies of water for condensation purposes, and then also tying up the chemical industry with the coal and power industry.

Mr. CHAPMAN. Senator, you have almost read a memorandum that I had in the Department of the Interior.

Chairman DOUGLAS. I have not read it.

Mr. CHAPMAN. I say, you almost are reading it to me, almost verbatim, a memorandum that passed between myself and the head of the Bureau of Mines to make a study of that very factor in West Virginia, where I felt that the chemical industry, along with the power industry and the coal use as a base, could be worked out as a combination to a great advantage. And that study was begun but never was completed for the lack of money.

Chairman DOUGLAS. My time has expired.

Senator Sparkman?

Senator SPARKMAN. I think you had something to do also with encouraging the experiments on gasification of coal at the Gorgas coalfields down in Alabama. That was done?

Mr. CHAPMAN. Yes, sir; we did. We initiated those investigations and spent considerable money on determining the gasification of a coalfield. In other words, Senator, you are attempting to extract the gas without mining the coal.

Senator SPARKMAN. That might be particularly adaptable to low-grade coal?

Mr. CHAPMAN. That is right, especially low-grade coal. That was the special purpose for it.

Senator SPARKMAN. As I recall, those experiments were being carried on jointly between the Bureau of Mines and the Alabama Power Co.?

Mr. CHAPMAN. That is right; they were. Private industry has been extremely cooperative in carrying on some of these experiments, but they need a little help to go with it.

Senator SPARKMAN. Do you know the status of that now?

Mr. CHAPMAN. They are still experimenting with another mine that is close to the one they originally started with, Senator, and they are still carrying on experiments with it. The latest report I had was that they felt quite encouraged.

Senator SPARKMAN. Yes; that is my understanding. I have talked at different times with one of the leaders in the experiment down there, and the last report I had was that they were quite hopeful.

Mr. CHAPMAN. Senator, you are talking about a coal reserve in this country. As I said, here is one of the largest resources we have in the whole United States of any natural resource—coal. You turn to our picture on petroleum, and while the petroleum industry had done an outstanding job of discovery and development, of oil and gas in this country—and I must give them credit—they have done a most outstanding job—but even with that, with our population increase and with our increased use of petroleum products in this country, we find ourselves bringing 1,200,000 barrels per day to the shores of America.

I do not regret that, except that in the sense that I regret the fact that we are not doing enough to encourage our own discoveries in America to firm up and make ourselves self-sufficient in case of a crisis for this country.

Now, let me give you a bird's-eye picture of what I mean, we have a total of 32 billion barrels of known reserves in this country. Eighteen billion of that is in Texas. We are producing today, at the approximate figure of 500,000 wells in the United States, producing an average of 11 barrels per day.

Well, you have less than 1,000 wells in the total Middle East, Saudi Arabia, Jordan, Iran, and all the countries around the Caspian Sea; less than 1,000 wells. They produce an average of 6,800 barrels a day, and can produce more if they want to put pressure on them. And one of the wells that was discovered in 1953, brought into being in Iraq, had a base pressure of 150,000 barrels per day, and they have curtailed it, of course.

Now, in Saudi Arabia alone, you have more than 60 billion barrels of known reserves in Saudi Arabia. I will not touch on the others around there. We have the figures for the rest of them. And in the United States, it is 32 billion barrels; the Canadian reserves are negligible, their known reserves, compared with that in Saudi Arabia, but Canada is just beginning in its discovery stage of its petroleum possibilities, and is producing very fast, and Mexico is doing the same thing. Mexico is just beginning really to discover and produce its own oilfields.

We find some encouragement, as they are our good neighbors.

But when you think of the amount of production we carry on in this country, the number of wells we produce and develop, they drill approximately 50,000 wells a year in the petroleum industry in this country, but do not rush out and buy too much oil stock on the basis of that, because only 1 out of 9 ever hits any oil. They drill approximately 9 out of 10 dry wells.

The CHAIRMAN. We have heard about that in recent debates.

Mr. CHAPMAN. Yes; I am sure you have heard a lot of discussion about that. But that is a fact that we have to recognize as a fact in our development here.

Senator SPARKMAN. What did you say our known reserve is?

Mr. CHAPMAN. 32 billion.

Senator SPARKMAN. I thought you used 58 billion at one time.

Mr. CHAPMAN. No; we have never had 58 billion known reserves.

Senator SPARKMAN. 32 billion?

Mr. CHAPMAN. 32 billion.

Senator SPARKMAN. And you say there are 500,000 wells?

Mr. CHAPMAN. 500,000 wells.

Senator SPARKMAN. Averaging 6 barrels a day?

Mr. CHAPMAN. Averaging 11 barrels a day.

Senator SPARKMAN. Eleven?

Mr. CHAPMAN. Eleven barrels a day.

Senator SPARKMAN. Whereas in the Near East, you say they averaged 6,800?

Mr. CHAPMAN. 6,800 barrels a day.

Senator SPARKMAN. And could go more under pressure?

Mr. CHAPMAN. They can go 20 times more under pressure if they want to.

Senator SPARKMAN. Let me say that I appreciate greatly the presentation you have made here. I think it is timely and I think it is something that the American people ought to know more about.

They certainly ought to think more about our dependence upon other parts of the world to sustain us in case of trouble. There is just no escape from that, is there?

Mr. CHAPMAN. No escape. Senator, we have to go to these other countries to get our natural raw materials. Our bauxite is all shipped in, not all, but a lot from Jamaica and other parts of the world, brought here to make our aluminum industry.

Senator SPARKMAN. Do you remember during the war when the submarines invaded the Gulf of Mexico and cut off our bauxite supplies from Dutch Guiana and Jamaica?

Mr. CHAPMAN. I do. That is right.

Senator SPARKMAN. We were confronted with a situation of using up our limited supplies.

Mr. CHAPMAN. Very much so.

Senator SPARKMAN. And I recall at that time, we were told that we had enough high-grade bauxite in this country to sustain us, at the rate we were going then, when we were just moving from the B–17 to the B–29——

Mr. CHAPMAN. That is right.

Senator SPARKMAN. That at the rate we were building planes, we had enough to last us 18 months.

Mr. CHAPMAN. I think that is correct. Your B–29—and I am going from memory here—your B–29 used an average of a thousand gallons an hour, that we were flying over Tokyo at that time. Today your B–36's use 4 times that much an hour. Practically every military machine that has been designed and developed since the war requires an increased use of petroleum fuel. Your jet——

Senator SPARKMAN. And, of course, the use of aluminum has been stepped up, too?

Mr. CHAPMAN. The same thing. The same thing applies there. The use of aluminum has increased.

Senator SPARKMAN. And nearly all of these other scarce, or strategic materials that we use?

Mr. CHAPMAN. That is why I was so disheartened when we slowed down the zirconium experimental plant in Nevada. I felt we needed to carry it further and study it more to find more of the metals that we needed of that kind.

Now, the other thing that the American people are prone to overlook—it is awfully easy for us all to get entertained with a little fight between public and private power. Both sides can choose up very quickly on that and start a big argument. But the basic principle and the basic thing that the American people have to remember is that we need all the power that both groups are able to develop. And when you——

Senator SPARKMAN. By the way, in this ICA report, from which you quoted——

Mr. CHAPMAN. Yes, sir.

Senator SPARKMAN. There are no figures in there relating to the Soviet Union or the satellite countries?

Mr. CHAPMAN. I do not think there are.

Senator SPARKMAN. Do you have any figures on that?

Mr. CHAPMAN. I do not have anything more than I have given here.

Senator SPARKMAN. No more than what you gave, just on these recent figures?

Mr. CHAPMAN. I have, Senator, some figures on petroleum, but they were given to the National Security Council, and I do not think I should give them.

Senator SPARKMAN. We do not ask for that.

Mr. CHAPMAN. Yes.

Senator SPARKMAN. Before I get away from public power, what percentage of the total power production in the United States today is public power?

Mr. CHAPMAN. Only 14 percent is federally produced, and about 9 percent is produced by municipalities and REA co-ops.

Senator SPARKMAN. Yes. I really had reference to the Federal Government. About 14 percent.

Mr. CHAPMAN. About 14 percent.

Senator SPARKMAN. Hasn't it stood at that figure rather consistently over a long period of time?

Mr. CHAPMAN. It has. It has been that way for the last 7 years now, at about that figure. It has varied from 11 to 14 percent.

Senator SPARKMAN. Yes. Now, with reference to these strategic materials, am I correct in my understanding that the great majority of them are located in countries which we usually describe as underdeveloped countries?

Mr. CHAPMAN. That is right; most of them.

Senator SPARKMAN. Does that not emphasize the necessity of our having a vigorous program, something like the point 4 program for those countries, in order to help them develop those resources and to develop a better standard of living?

Mr. CHAPMAN. Something in the form of the point 4 program is ideal for those people, for us to continue our help with them on a good-will basis and to help them, but not only those countries. The Export-Import Bank has loaned money to other nations close to us to develop their dams, and some dams—I have discovered what they were used for—were for the utility companies.

Senator SPARKMAN. I am glad you put in your paper what you did with reference to the development inside India. Do you not feel that with the resources that India has and her strategic location in the world, it is one of the most important parts of the whole globe for us to be concerned with?

Mr. CHAPMAN. I think that the Middle East, Senator, is one of the most vital areas of the world to give every attention that we can possibly give. When the chairman spoke of the Jordan development, I wanted to say that I am strongly in favor of the Jordan development. It ought to be developed for the benefit of those people, but we must not overlook the fact that we are a little bit—I would not say, selfish, but it is through self-interest that we are doing this, and our self-interest is better served if we are a good neighbor and good friend to the people. And we can be good friends to those people.

I would like to see the Jordan development go forward, in spite of the fact that some of the same people who are sponsoring and supporting that project do not support the same thing for us in the United States.

Senator SPARKMAN. Of course, the natural resource program of every nation is important to the economic welfare of that country, and certainly to the strategic welfare of the free world.

Mr. CHAPMAN. Senator, the day of colonial exploitation has passed. Many people will not accept it. But it is passed, the day of colonial exploitation of any country, I do not care how large or how small, because we have learned too much about being good neighbors and decent friends with the people. That pays off so much better than other kinds of treatment.

Senator SPARKMAN. I am sure I have used up my time. But let me ask you one more question relating to public power.

I wonder if you know of any private power operation near a public-power project that has ever been hurt by that public-power operation?

Mr. CHAPMAN. Senator, I do not know of a single private-power company in the United States that has been hurt by public power.

Senator SPARKMAN. Actually, their own business has been stimulated; has it not?

Mr. CHAPMAN. It has not only been stimulated, but the best securities on the market today are the securities of some of the private-power companies. I wish I had the money to own some of the common stock of the Virginia Power & Light Co.

Senator SPARKMAN. I can remember when TVA first came in there was much wailing and moaning that it was going to ruin the private-power companies.

Mr. CHAPMAN. Right.

Senator SPARKMAN. I remember our Alabama Power Co.'s stock was selling at about $50 a share. After TVA got going, it did not take it long to get to more than par.

Mr. CHAPMAN. That is right.

Senator SPARKMAN. And certainly it has been well above par ever since.

Mr. CHAPMAN. Your Alabama company is a perfect example of a company that was not hurt, but helped.

Senator SPARKMAN. And by the way, it established rates very fairly comparable to the TVA rates.

Mr. CHAPMAN. That is right. That is one of the values of these standards, these yardsticks, for these projects that we built.

Senator SPARKMAN. Yes.

Mr. CHAPMAN. But Senator, let us go back one step further on why we went to talk about building a public-power dam. I do not know as I would come before Congress and advocate specifically to build this particular dam if it was for power and nothing else. But when you are spending millions of dollars to build a dam across a river for the protection of floods on that river as a national defense item, why can't you put a cash register on the side of that dam and collect some of the revenues back?

Senator SPARKMAN. I think the Supreme Court has said that you can.

Mr. CHAPMAN. Now, that is the thing I think. I cannot understand anyone who does not appreciate that fact.

Senator SPARKMAN. And particularly when that river may traverse several States which clearly gives to the Federal Government under the Constitution the right to control that river.

Mr. CHAPMAN. That is right.

Senator SPARKMAN. I am sure I have used up my time.

Thank you very much.

Chairman DOUGLAS. Congressman Bolling.

Representative BOLLING. Mr. Chapman, I had to go over your statement very hastily. I am sorry I was late, particularly because of the fact of my personal background. I grew up in the TVA area, and now I have the pleasure of representing an area that does not have that kind of specific regional development.

Senator SPARKMAN. Why don't you be more specific and tell him that you grew up in my hometown?

Representative BOLLING. Yes. I am very fortunate in having not only two fine Senators from Missouri, but being able to count in my personal experience a third Senator from my hometown of Huntsville, Ala.

You mentioned in your statement the Missouri Basin program.

Mr. CHAPMAN. Yes.

Representative BOLLING. What is happening now in my State today reminds me a great deal of what was happening in the Tennessee Valley area at the time I grew up there.

Mr. CHAPMAN. That is right.

Representative BOLLING. We, for example, in the last census had not kept pace in population growth to the effect that it cost us two Members of the House, and if the projections of the Bureau of the Census are accurate today, in 1960, when another decennial census is held, we will probably be cut another Member, or perhaps two.

We are an area which for a number of reasons is going down in population, and I suspect, although I have not studied the figures closely, that this is true to a degree of other States in the Missouri Basin area.

I wonder if you would expand a little bit on that brief comment of yours about the effect of this very drastic curtailment of power development in terms of the overall development of the resources of the Missouri Basin region. As far as I can make out, one of the great reasons why we are not gaining industrially to take up the slack that is caused by our loss in farm population is that we do not have adequate power.

Mr. CHAPMAN. That is right.

Representative BOLLING. We are under a constant threat of floods and drought.

Mr. CHAPMAN. That is right.

Representative BOLLING. I wonder if you would mind expanding on this particular point.

Mr. CHAPMAN. Congressman, I think if I may refresh your memory briefly, there was a program submitted to Congress—I must go by my memory—either 7 or 9 years ago, in which we asked for a program to be developed on the Missouri Basin as a whole, which was a part of an overall comprehensive development of that basin, development with power, and trying to develop the flood controls of the area, all at one time.

Now, without that, what is going to happen to you? As you remember some several years ago, all the officials were flying over there by airplane, flying over the flooded areas, looking at them, and the Corps of Engineers was flying over it with a photographer on every wing of the plane, looking at it, getting pictures.

That was wonderful. I am glad they did. I wish we had done more in the Interior Department, doing the same thing.

But what happened? As soon as the public's mind was diverted for a few moments away from that program, it was most difficult to try to get a sustained program set up, and we did finally firmly set up a Missouri Basin Committee, composed of the different Departments of the Government that dealt in that area, like Agriculture and Interior and the various bureaus that dealt with it.

Now, we wanted to work out a long-range development program for the Missouri Basin, because what is going to happen to you and what did happen to you then is going to happen to you again, just like what happened up in New England. Hundreds of millions of dollars of damage has been done to private property and public property in New England.

Now, if you do not proceed with that program and develop it, you are going to have another flood in that area that will be most devastating.

Now, that is discouraging to business to come to your area to locate a plant. If I were interested in a company, I would not advise them to locate a plant in the Missouri Basin, because it is not a safe investment. It could be washed away or destroyed, or they would pay such a high price for the power that they could not operate, anyhow. And that is what is happening to you today.

The cost of power in that Missouri Basin is too high. And the prospect of damage from floods is so great that your prospects are not good there.

That is what is happening to your population trend. Now, when the program was cut more than 60 percent, what we already had established, it simply meant an indefinite delay for a plan ever to be developed. It takes a long time from the drawing board to the construction and development of a dam, because it has to fit into a major pattern on the river basin.

I believe in river-basin development as a whole, because you get more benefits out of it in the long run, and you get more value for the dollars you spend than haphazardly building a dam here and there just to stop waters for one particular thing.

But if you put it under a pattern and a plan, you get more for your dollar. That is what we were trying to do in the Missouri Basin, and I was very disappointed to see them cut that program.

Representative BOLLING. Thank you, sir. Now, in effect, if I understand Mr. Chapman, and I certainly agree with him, this area of several States which fails to get the advantage of regional development is, under the circumstances that exist in the Missouri Basin, committing a slow form of suicide.

Mr. CHAPMAN. That is exactly what you are doing, exactly what you are doing.

Let me direct you to New England for one illustration. New England thought it was getting along very well, but it happens to have the highest power rate in the United States.

All right. Then the Corps of Engineers came along and had a lot of plans for dams to be built on the rivers in New England. Everybody was for it, including everybody in New England, because it did not cost them anything, and they were perfectly willing to take them.

That is not derogatory to New England. Everybody else in the United States was perfectly willing to take them, too.

But when we started to build them, the administration policy was to put a power unit on the side of that dam, so that what power can be developed from those potential developments should be sold by preference rights to the co-ops and the municipalities first, and, of course, that stopped the development of the dams.

They have not built any flood control dams in New England except in a minor way. They should have ten times as many development programs for flood control in New England as they have.

And I do not blame the Corps of Engineers for this. I blame our public attitude of not bringing the attention of the Congress more forcefully to this situation.

Representative BOLLING. Now, as a matter of cold fact, it has been the evident policy of some private power companies to fight even flood control dams on the theory that if they got such a project approved, it might lead to a flood control dam with power from it.

Mr. CHAPMAN. They are afraid of it, even though under this administration they have been getting the favored nation treatment under the sales of power from these dams.

They are still afraid of it because they are afraid the people might change policies some day.

Representative BOLLING. One other question on a different subject. There was a very extended study by a commission—I think it was the Paley Commission on Natural Resources——

Mr. CHAPMAN. Yes, the Paley Commission.

Representative BOLLING. Do you know of any follow up that has been had in connection with the recommendations or the findings of that commission?

Mr. CHAPMAN. Only in a minor way. There has been some followup. That Paley Commission made an extensive report on our shortages of the materials that we need, in raw materials, in mineral fields. They drew heavily upon that, and pointed out—that is, the Commission—and the report showed that we had 44 different critical materials of which we were short and of which we had to import a part or all from foreign countries.

There has been very little followup on the Paley report.

Representative BOLLING. Thank you.

That is all, Mr. Chairman.

Chairman DOUGLAS. Mr. Chapman, I would like to get your recommendations on a few points.

Do you think the work which we started in Louisiana, Mo., and Colorado and Arkansas should be continued?

Mr. CHAPMAN. Senator, I think it ought to be continued. I think it is little short of suicide on our part not to continue.

Chairman DOUGLAS. Have those plants been discontinued?

Mr. CHAPMAN. They have been discontinued. The Louisiana, Mo., plant has been disposed of to a private company.

Chairman DOUGLAS. That cannot be carried on. The Colorado plant?

Mr. CHAPMAN. The Colorado plant—they have not disposed of the facilities, but they have closed it down, except as to the mining-operation part, which they are studying as a technique for mining.

Chairman DOUGLAS. So that could be resumed?

Mr. CHAPMAN. That could be resumed, and should be.

Chairman DOUGLAS. Have you considered the possibilities of stimulating the extraction of chemical products from coal by both the high-pressure and the low-pressure methods?

Mr. CHAPMAN. Yes. Both of those were under study in the Louisiana plant. You see, they started off principally with the Fischer-Tropsch process, which is a German process. Remember, we brought from Germany after the war several carloads of papers pertaining to their experiments and the work that they had, which have been filed away here in Washington. The Bureau of Mines are making continuous use and study of them. But we found that we had also made considerable progress in our own right, and, combining it with theirs, they were making considerable progress in the Louisiana, Mo., plant.

Chairman DOUGLAS. Not only the extraction merely of oil from coal, but of chemicals from oil?

Mr. CHAPMAN. No; chemicals. Chemicals was one of the major byproducts that made the oil feasible on a proper base.

Chairman DOUGLAS. It would be highly desirable to resume and continue those experiments?

Mr. CHAPMAN. I think they should be, and I think Congress ought to insist that they should be.

Chairman DOUGLAS. Have you gone into the low-pressure process, which, as I understand it, requires much less capital than the high-pressure process?

Mr. CHAPMAN. They had only gone into a study of that in the Louisiana, Mo., plant, and I would not be competent to express an opinion about what success it had.

Chairman DOUGLAS. If these methods could be developed, it could mean a revival of the coal industry, could it not?

Mr. CHAPMAN. Completely.

Chairman DOUGLAS. This is very important to many States, including my own.

Mr. CHAPMAN. You remember, Senator, I had a tentative proposal presented to me as Secretary of the Interior, and I say tentative because it had to be studied from the financing point of view, to develop a synthetic liquid fuels program in southern Illinois, and the parties who had brought together enough land and coal reserves to justify such a large investment, an investment of something like $400 million, were involved in the proposal. That required a quick amortization which the Government could well have afforded, and I would have advocated giving it to them, in order to start a new industry, a brandnew industry. I would have been willing, and felt that it would have been money in the pockets of the Government, to have granted a quick amortization of the $400 million.

Chairman DOUGLAS. Why didn't it happen?

Mr. CHAPMAN. One of the problems they ran into—there were several. First, the amortization program, we could not quite give them as much as they wanted on the amortization program to make it feasible; and second, they ran into some financing problem, apparently—I cannot speak from direct knowledge—but I understand some problem in the financing of the project.

Now, that project called for diverting—it would have been divided about 55 percent for chemicals and 45 percent would have been petroleum, as the end product. And that was done primarily to firm up the chemical industry, which they were interested in.

Chairman DOUGLAS. Do you think that proposal is dead, or could it be revived?

Mr. CHAPMAN. I am afraid it is dormant, to say the least, until they can get some encouragement from the Government to proceed with it.

Chairman DOUGLAS. Do you think it is lack of governmental encouragement which has held it back?

Mr. CHAPMAN. I do not see any hope of it now, but I think the Government should encourage it. I think they should encourage it by making some direct appropriations for it to help it. You are bringing in a new field, bringing in a new industry, that does not exist, and it is worth an investment of the Government to help.

Chairman DOUGLAS. Now, in the discussion of water, we generally speak of the so-called 17 reclamation States.

Mr. CHAPMAN. Yes.

Chairman DOUGLAS. But in my own State of illinois, in the region south of Springfield, we are finding increasingly that the water resources are inadequate. Last year there were over 20 communities of good size in southern Illinois which lacked essential water, and I have had frantic telegrams only this week from a number of communities which feel that their water supplies for town use are giving out. The water table constantly is being lowered.

Do you think that we should pay some attention to the Middle West as well as to the reclamation States?

Mr. CHAPMAN. Senator, the reclamation States were set up and set aside for special treatment to meet a specific problem. But that did not exclude the problems that are inherent in all the other States of the Union.

You have the problem today—when I spoke of the growing population, that means growing industry. The industrial use of water today is so many times greater than we ever dreamed it would be 20 years ago. And within the next 20 years; less than 20 years, already the prognostication by the Bureau of the Census is that we will have 200 million people. We now have 166 million.

It does not take very much of an imagination to see what that means. It means an increased industrial use of water. I do not have the figures before me, but I wish I did, to show you how many gallons of water it takes to produce a ton of rubber.

We did not produce any rubber in this country 20 years ago. We imported it all. We produce synthetic rubber now, but it takes thousands of gallons per ton. It runs into the thousands.

And when you think of the industrial use of the water—and I think of Illinois particularly—the industrial use of water in Illinois is obviously going to increase, and with the St. Lawrence seaway having been developed, or now at least under development, when you eventually reach the port of Chicago by ships from the Atlantic, as you will do, you are going to increase the industrial use of water in the Chicago and the whole downstate area I do not know how many times more than they are now using. Your cities are going to suffer for domestic water.

Chairman DOUGLAS. How would you meet this problem? Would you meet it by a series of local reservoirs in which the Federal, State, and local governments would cooperate in the financing?

Mr. CHAPMAN. Exactly. That would be one of the ways that you could meet that problem, by local reservoirs protecting your flood and runoff waters as much as you can.

Now, so many people lose sight of the fact—they think that you have so much rainfall in the eastern part of the United States that it is very simple. But as a matter of fact, the water table has been dropping in most of the areas of the country, including Illinois.

Chairman DOUGLAS. Mr. Chapman, isn't one difficulty the fact that in the past, the only reputable public use for water has been to promote navigation, and that such water as exists—take the Missouri River Basin, for instance—is largely pledged to promote navigation, which in practice almost never develops.

Mr. CHAPMAN. The navigation on the Missouri has not developed to the point where many of us thought it would develop.

Chairman DOUGLAS. And, as a matter of fact, you have got five-sixths of the water on the Missouri pledged to navigation, have you not?

Mr. CHAPMAN. That is right.

Chairman DOUGLAS. I looked up the figures some years ago, and I found that on the Missouri from St. Louis to Kansas City, which was the first area developed, some 800,000 tons had moved in a given year, of which 500,000 consisted of sand and gravel used by the Army engineers in connection with the Missouri River.

Mr. CHAPMAN. That is right.

Chairman DOUGLAS. And I have sometimes wondered if you repent of that unholy alliance which you made with the Army engineers to develop the Missouri River for the primary purpose of navigation.

Mr. CHAPMAN. You do have to study the navigation question in relation to the uses and the needs for the water in the upper regions.

Chairman DOUGLAS. You see, I ask very embarrassing questions, Mr. Chapman.

Mr. CHAPMAN. Not the slightest.

Chairman DOUGLAS. But you are out of Government now. Do you not think that there is an overemphasis on navigation, particularly on the Missouri? Let us take the Missouri.

Mr. CHAPMAN. Senator, I not only can say that now as a private citizen, I said so as Secretary of the Interior.

Chairman DOUGLAS. I wish you could have convinced your Bureau of Reclamation.

Mr. CHAPMAN. I was not able to convince Mr. Straus of that, but he went as far as he could on that matter. Mr. Straus went as far as he could on that to get anything done.

Chairman DOUGLAS. Now, I am also struck with the fact that the uses of water generally are thought of in connection with arid land. Is it not true that water which is placed upon already fertile land will actually yield a larger increase in crops than if placed on arid land in the upper valleys, particularly?

Mr. CHAPMAN. It is conceivable that there are circumstances where that could be true.

Chairman DOUGLAS. Isn't this the thesis of Paul Sears, now at Yale, who is supposed to be a very eminent geographer?

Mr. CHAPMAN. Yes.

Chairman DOUGLAS. He wrote an article which was published in the Annals of the American Academy a few years ago showing that we could increase crops much more in Illinois and Missouri and Indiana——

Senator SPARKMAN. And Alabama.

Chairman DOUGLAS (continuing). And Alabama, with a given expenditure, than in the upper Colorado, or Wyoming or Utah, and so on. Do you not think perhaps that in developing the water resources of the country some consideration should be given to the Middle West?

Mr. CHAPMAN. The Middle West and the East. Just as much attention is needed in the Middle West and East as it is in the West.

Chairman DOUGLAS. Would you recommend that the jurisdiction of the Bureau of Reclamation, then, should be enlarged to move eastward of that longitudinal line which is now drawn?

Mr. CHAPMAN. I agree, Mr. Chairman, that the Corps of Engineers and the Reclamation Service should be a joint operation, and I think it ought to be.

Chairman DOUGLAS. And that they should cover the country?

Mr. CHAPMAN. They could. They do now, separately, one, one-half, and the other one all over. The flood-control program of the Corps of Engineers is not restricted to any particular States, while the Reclamation Service is.

And I want to correct what may have been a misimpression about Mr. Straus. Mr. Straus was not the father or the advocate of the shipping business on the lower Missouri River.

Chairman DOUGLAS. No. I know that.

Mr. CHAPMAN. No.

Chairman DOUGLAS. But there was the joint approval of the so-called Pick-Sloan plan for the Missouri.

Mr. CHAPMAN. Oh, yes; we just had to come to some agreement to get something done. And if we get part of this done, I would be very happy.

Chairman DOUGLAS. With five-sixths of the water pledged for navigation?

Mr. CHAPMAN. Then we could later move for a better development of the water. Let us develop the other part. Get some of the dams built first.

Chairman DOUGLAS. Now, I have noticed that people from the Mountain States, and I think in the Bureau of Reclamation, are very enthusiastic about irrigation.

Mr. CHAPMAN. Oh, yes.

Chairman DOUGLAS. I would like to ask you this question: You say the loans are repaid?

Mr. CHAPMAN. They are.

Chairman DOUGLAS. Are they repaid with interest or without interest?

Mr. CHAPMAN. Usually without interest.

Chairman DOUGLAS. Without interest?

Mr. CHAPMAN. Yes.

Chairman DOUGLAS. So that the taxpayer donates the interest?

Mr. CHAPMAN. Just as he donated $200 million to build the Sandusky Swamps, of Ohio, for nothing.

Chairman DOUGLAS. Well, I am not going into that.

Mr. CHAPMAN. It is the same thing. And they dredged——

Chairman DOUGLAS. But it is a donation without interest.

Mr. CHAPMAN. And they dredged the harbor of Norfolk without payment or interest.

Chairman DOUGLAS. We will come to that again. Meanwhile, my time is up. And I can see where my questions will lead me on the next round.

Mr. CHAPMAN. I do see where they will lead you, sir.

Chairman DOUGLAS. Mr. Talle?

Representative TALLE. I am sorry, Mr. Chairman, that other business delayed me until now. I am not prepared to ask any questions at this moment, except the meaning of "obfuscation."

Mr. CHAPMAN. Well, that is a meaning for which the very word itself is explanatory, because it confuses the issue. It confuses the issue, and it has been confused considerably.

Representative TALLE. Thank you very much; that leaves me also confused.

Mr. CHAPMAN. No doubt.

Representative TALLE. Thank you.

Senator SPARKMAN. You mean you are "obfuscated?"

Representative TALLE. Yes.

The CHAIRMAN. Senator Sparkman?

Senator SPARKMAN. Following up on this interest on the reclamation projects—and I have never quarreled with it—I think the full development of our country and all of its resources is highly important, and I can remember very well the remarks of Senator Millikin on the Senate floor, that the Government gets repaid because of the development of the resources and the payment of income taxes from the production on the land.

Mr. CHAPMAN. Right.

Senator SPARKMAN. But I have often wondered what is the consistency of making the reclamation loans without interest and insisting that TVA loans must be with interest and taxes and amortization and all of the other things.

Mr. CHAPMAN. You have got a good point there, Senator. But I would like to stick to the reclamation position.

Chairman DOUGLAS. We should make the TVA standards apply to the rest of it.

Senator SPARKMAN. I must say that our chairman asked that reclamation, or certainly that program, be extended to the East. I do not know whether it is intended to include the South as part of that or not.

Chairman DOUGLAS. It is.

Senator SPARKMAN. But I will say that it is becoming more and more important throughout the South.

Mr. CHAPMAN. That is right.

Senator SPARKMAN. It seems that over the last few years, the whole country has suffered from some kind of shift of water supply, water-table levels, and so forth.

Mr. CHAPMAN. That is right.

Senator SPARKMAN. And this problem of water resource is important to all sections of the country.

I was interested in your remark regarding New England. A few years ago I served on the Public Works Committee of the Senate and was on a special subcommittee to make some kind of preliminary study of the water situation in New England. My recollection is that we came out with the report to the effect that New England possessed the greatest undeveloped power potential in its rivers of any part of the country.

Mr. CHAPMAN. That is right.

Senator SPARKMAN. And as I recall, not a thing has been done about it.

Mr. CHAPMAN. No.

Senator SPARKMAN. A recent move has been made to revive Passamaquoddy.

Mr. CHAPMAN. After spending millions of dollars to start it, and then have it stopped, which has been done.

Senator SPARKMAN. Well, we are waiting for a study to be made, I suppose.

But you do believe that it is of utmost importance that all resources of our whole country be developed?

Mr. CHAPMAN. When we are dealing with this water problem, Senator, it is impractical to divide it by the 100th meridian and say only the 17 Western States, because that happened to be a special treatment of dry, arid lands, which you were bringing into production, because all the new population from 166 million to 200 million cannot live around New York and Washington. Some of them are going West. And when they do, you have got to be prepared to meet them and have business possibilities for them.

And the only way they can start any industrial business in those areas is to have a reasonable cost of power.

Now, if you had not had that, the State of Washington today would never have had the aluminum plants that are paying tremendously fine taxes to the Federal Government. You would not have had the aluminum that we needed in war, had it not been for that.

I can remember the debate on the Senate floor this minute when I was sitting in the gallery listening to several Senators who were saying, "This is nothing but a white elephant," and they called it boondoggling to build the Grand Coulee Dam.

And what happened? They said, "You have no market for this power. Why build such a project? And you have no market for it."

And as a matter of fact, before the last wheelbarrow of cement was poured for that dam, contracts had been signed for the sale of every kilowatt.

Senator SPARKMAN. Do you happen to remember what our aluminum capacity was when we started getting ready for World War II?

Mr. CHAPMAN. I do not happen to remember, Senator, just what the capacity was.

Senator SPARKMAN. I think it was 320 million pounds.

Mr. CHAPMAN. It was way down, far below our needs even then.

Senator SPARKMAN. Do you remember the War Production Board report at that time, saying we did not need any additional capacity?

Mr. CHAPMAN. I certainly do.

Senator SPARKMAN. Do you know what our capacity is today?

Mr. CHAPMAN. You probably have those figures.

Senator SPARKMAN. Well, roughly, I think it is 3,600 million pounds.

Mr. CHAPMAN. That is right.

Senator SPARKMAN. Something like that. And we are still in need of expansion.

Mr. CHAPMAN. The War Production Board got a letter of protest from the Secretary of the Interior on that report, stating that the figures were totally inadequate and in error.

Senator SPARKMAN. I remember very well. I remember going down—I was on the Military Affairs Committee at the time, and it was a matter that we were greatly interested in—I remember going down and having a long talk with Secretary Ickes.

Mr. CHAPMAN. That is right. He wrote the letter, my predecessor. He wrote the letter.

Senator SPARKMAN. That is correct.

Chairman DOUGLAS. Did the War Production Board have a WOC on it?

Senator SPARKMAN. It had many of them.

Mr. CHAPMAN. Lots of them.

Senator SPARKMAN. At that time, we had only one producer of aluminum.

Mr. CHAPMAN. Only one then.

Senator SPARKMAN. Yes.

By the way, you mentioned the great aluminum plants in the Columbia Valley. You know that the first expansion of aluminum was in the Tennessee Valley?

Mr. CHAPMAN. That is right.

Senator SPARKMAN. And it was made possible only because we had TVA power.

Mr. CHAPMAN. That is right, and because of the rates you could charge them.

Senator SPARKMAN. Yes, and the availability of it.

Mr. CHAPMAN. Right; the availability of it. That is what made it.

Senator SPARKMAN. That is all, Mr. Chairman.

Chairman DOUGLAS. Congressman Bolling?

Representative BOLLING. Mr. Chapman, there has been considerable discussion of experimental work with coal as a source of synthetic liquid fuels. I gather that at no time did the Interior ever have any responsibility for the experimental work on artificial rubber.

Mr. CHAPMAN. No, we never had that.

Representative BOLLING. But it seems to me that these two areas are not too dissimilar. They represent an effort on the part of the people to develop a new source of supply for a product that they know that they need. I would be interested in why the difference in point of view, the point of view on the one hand that you and I share, and the point of view on the other hand of the administration, which seems so anxious to get out of such businesses as promptly as possible. What is the motivation?

Mr. CHAPMAN. Mr. Congressman, I think it is a mistake for the Government to get out of all the synthetic rubber business. I think they could properly get out of most of it, but I think they should keep one of those plants for continual use and operation for experimental purposes, if nothing more than that, and keep it for a little security base.

Now, it is easy to understand, I think, why the pressures were not in opposition to the development of synthetic rubber plants, while there is terrific pressure in opposition to the development of synthetic liquid fuels plants from coal. You have got two very powerful economic interests in opposite directions on that.

We had to bring the imported rubber into this country from Malaya at the start of the war, long shipments, long hauls, and at a very high price, as a matter of fact.

Representative BOLLING. Where, however, is the basic difference? In effect, I would gather from your remarks, the oil industry is not particularly anxious to increase their own competition by developing techniques that will make coal sources competitive.

Mr. CHAPMAN. That is right.

Representative BOLLING. But in the same fashion, although with a sightly different approach, what has happened in regard to the rubber plants is that private enterprise involved has not achieved a monopoly, but certainy has what I understand is called oligopoly, by taking over all the rubber plants which served as an experimental yardstick on one hand and as a yardstick for price on the other hand.

Mr. CHAPMAN. That is right.

Representative BOLLING. So that actually the motivation, it seems to me, is not dissimilar in the two cases. In both cases, they are designed to protect the competitive position of the private area as opposed to any competition from any other area. Is that inaccurate?

Mr. CHAPMAN. Well, let me say it this way. Your development of your synthetic rubber was a development out of an absolute necessity for security in the country. We had to have it, regardless of the cost. So the Government obviously was the one to start it, and it did step in, because the cost in the beginning was abviously unusual.

But after having done that, and you have gone through the costly experimental stages, I think the Government should keep one plant at least for yardstick purposes, for a long time. I would not turn it loose so fast. The others could go, but I certainly would not turn that one loose.

Now, when you come to coal, the same thing applies to coal. You could develop coal—and I might say again—when you begin to develop synthetic liquid fuel from coal, who is going to be doing it? You will find that the oil industry will be running it.

They will buy into it. They will operate it. They know it is good business. But they do not want competition just yet. And they will operate it. They have got the technique and the know-how, and they will be operating it.

Representative BOLLING. So the end result is that in either case, the expenditure of public funds develops a new technique, and then it is by and large, under the present situation—it then passes to the hands of private industry for profit?

Mr. CHAPMAN. That is right.

Chairman DOUGLAS. Or is closed down.

Representative BOLLING. Or is closed down. Thank you, sir.

Mr. CHAPMAN. That is right.

Senator SPARKMAN. In the case of the rubber plants, they were bought over, although they were paying about $65 million to $70 million a year profit to the Government.

Mr. CHAPMAN. That is right.

Chairman DOUGLAS. But in the case of the rubber plants, we found that the direct cost of production was about 18 cents a pound, and at 23 cents a pound they were making a profit of around $60 million a year.

Now, natural rubber was then selling for 31 cents a pound.

Mr. CHAPMAN. That is right.

Chairman DOUGLAS. When I last looked at the figures, natural rubber was selling for 44 cents a pound. It is almost inevitable that synthetic will move up. When it does move up, the profits from synthetic rubber will go through the roof.

Mr. CHAPMAN. I think you are right. That is why I would urge that we always keep one good plant for a yardstick measurement of cost and price. It is a good example for them.

Chairman DOUGLAS. Congressman Talle, do you want to ask any questions?

Representative TALLE. No, thank you.

Chairman DOUGLAS. I want to continue this dialogue on irrigation, Mr. Chapman.

Mr. CHAPMAN. Of course, I have never been able to convince the chairman on this irrigation problem. I am sorry.

Chairman DOUGLAS. I know. I think it is a very good subject.

Mr. CHAPMAN. I hope some day I can help to do that.

Chairman DOUGLAS. These irrigation projects do not pay interest. Therefore, the taxpayers subsidize them with interest.

Now, when the figure is repaid, does the money go back into the Treasury, or is it used for more irrigation?

Mr. CHAPMAN. It goes back into the Treasury, but there is a dividing feature of it. A certain percentage of it goes back into the Treasury, and the other is for operating cost, 10 percent.

Chairman DOUGLAS. And how much goes for future irrigation purposes?

Mr. CHAPMAN. Nothing. It is all put into the Treasury. It all has to be reappropriated.

Chairman DOUGLAS. Yes; but is there not a tacit obligation, or a gentleman's agreement, that the Congress will reappropriate the amounts which have been put back into the Treasury?

Mr. CHAPMAN. No; not necessarily.

Chairman DOUGLAS. But isn't there an O'Mahoney Act to that effect?

Mr. CHAPMAN. I don't think so.

Chairman DOUGLAS. What?

Mr. CHAPMAN. I don't think so.

Chairman DOUGLAS. Would you be willing to supply a memorandum on that point?

Mr. CHAPMAN. Yes; I will. Let me give you a memorandum on that.

Chairman DOUGLAS. I have listened to the debates when we have gone into this matter, and I have found that when we have tried to get hold of this money, it has been said that it is the policy that it should be reappropriated. In practice the taxpayers do not get it, but it is used for further projects.

Mr. CHAPMAN. No. It goes into the Treasury, and it is reappropriated.

Chairman DOUGLAS. But it never is used to meet other expenses of the Government; it is simply used to finance further irrigation projects. Is that not true?

Mr. CHAPMAN. That may be just a matter of bookkeeping. I do not know. But it is not a matter of requirement here.

Chairman DOUGLAS. It is very interesting that proposals for irrigation always refers to this kitty that is on hand with which other developments can be financed.

Mr. CHAPMAN. Let me give you a memorandum on that point.

(Mr. Chapman subsequently submitted the following:)

CHAPMAN & WOLFSOHN,
Washington 4, D. C., February 16, 1956.

Senator PAUL H. DOUGLAS,
Chairman, Joint Committee on the Economic Report,
Senate Office Building, Washington 25, D. C.

MY DEAR CHAIRMAN DOUGLAS: When I appeared before your committee last Tuesday, February 14, you raised a question regarding the reclamation fund (p. 832–3 of the transcript). I agreed to clarify the matter in a memorandum and this letter is for that purpose.

The source of funds for the reclamation program which you were seeking to identify, and concerning which you asked me to give this statement, was undoubtedly the reclamation fund in the United States Treasury. I was slow in not recognizing quickly in the general questioning the fund you sought to identify.

The reclamation fund is a segregated fund in the Treasury of the United State which was set up under the original Reclamation Act and which is only one source of funds for the present reclamation program. The fund was originally composed of proceeds realized by the United States from the exploitation of its natural resources in the 17 reclamation States, and it was devoted to the further development of resources in those States. Originally it came from the sale of public domain lands, mineral leases, and more particularly oil leases on Federal lands. Later the revenues produced by reclamation projects themselves were added to the reclamation fund. By various acts of Congress, this fund was established. It can be made available for reclamation development only through the appropriation processes of the Congress for specific reclamation projects. The control of the fund is entirely within the authority of the Congress. In the thirties the Congress added appropriations from the general revenues in the Treasury to those of the reclamation fund. I have no doubt that it was this fund that you had in mind in our discussion.

Further to clarify the record, I think I should say that all reclamation expenditures are not repayable without interest. It is true that under the reclamation law the Congress has decided that funds advanced for irrigation must be repaid in toto without interest. But in the power phases of reclamation the funds are repaid in toto with full interest at the average rate that the Treasury fixes for long-term financing.

It was a pleasure to report to you and your committee on the natural resources program in which all of us are so vitally interested.

Sincerely,

OSCAR L. CHAPMAN.

Chairman DOUGLAS. Now, Mr. Chapman, I want to ask you another question. I do not want to browbeat you, but I want to ask another question.

You spoke in glowing terms of the upper Colorado project, I believe.

Mr. CHAPMAN. Yes.

Chairman DOUGLAS. Are you acquainted with what the acreage costs of irrigation are in the upper Colorado?

Mr. CHAPMAN. Yes; I am.

Chairman DOUGLAS. Including interest, they range from $800 an acre in some cases to $2,300 an acre.

Mr. CHAPMAN. That is right.

Chairman DOUGLAS. Now, the richest land in the country, which is just north of Bloomington, Ill., at the time we started to make these appropriations, came to $650 an acre. And here we were spending from $800 to $2,300 an acre on land from 5,000 to 8,000 feet in altitude, where the growing season is limited to not more than 90 days, and where the chief crops will be hay and apples.

Now, do you think this is an economic use of resources?

Mr. CHAPMAN. Senator, you are coming to this point, that the most feasible and the most profitable projects have obviously been already appropriated and developed. You are coming close to the margin.

Chairman DOUGLAS. That is right. It is the Imperial Valley, the Central Valley, and so on.

Mr. CHAPMAN. That is right.

Chairman DOUGLAS. That is correct.

Mr. CHAPMAN. You are coming close to the margin now where it may be unfeasible, for certain projects may have been turned down because of that factor. But take the upper Colorado River as a whole, Senator. You have a program that calls for the next 20 years there, and it will take the next 20 years before you develop this along the plan that has been presented by this administration or by the previous administration.

Chairman DOUGLAS. Yes. But the acreage costs of the irrigation features of this project are fantastic. And for the expenditure of one-tenth the amount per acre in added water for the lands of the Middle West, we could get 4 to 5 times the crop.

Mr. CHAPMAN. If that were the only factor that was considered on this project, I would say that obviously you should not do it. You should go back to the land you are talking about. But that is not the only consideration. You have to consider the whole development of the area as a whole.

Chairman DOUGLAS. Well, the question is whether that is an economic application of capital and labor.

Mr. CHAPMAN. By the time you get the next 40 million people in the United States, as I told you this morning, 166 million now and 200 million within less than 20 years, you have got to put them somewhere. That will be feasible then.

Chairman DOUGLAS. I love the Rockies and I like the desert. They are very pleasant places. But I had not thought that we should so arrange the economy of the country that we would settle large numbers of people on top of Pikes Peak or that we should engage in the growing of bananas in the valley of the upper Colorado River.

It would seem to me that by increasing the yields per acre in the already fertile sections of the country we would support the increased population better than by consigning them to the arid deserts of the midmountain region.

Mr. CHAPMAN. I think, Senator, by the time this increased population that I speak of arrives, your 20-year program will not have been finished, in the first place, and by that time your acreage costs will be more reasonable in your mind.

Chairman DOUGLAS. I do not expect to see land in the Bloomington area go up to $2,300 an acre.

Mr. CHAPMAN. No.

Chairman DOUGLAS. And if it did, it would be more fertile than the land in the upper Colorado. I am also struck with that ~~fact~~ that on the one hand here we are proposing to withdraw 40 million acres from cultivation in the soil bank, and yet the irrigation enthusiasts are constantly pressing us to put more land in cultivation in the West. We are going to have our acreage in Illinois reduced by a tenth, probably, and this is better land than the land in the upper Colorado. And yet we are putting land in the upper Colorado into cultivation and withdrawing it in Illinois and Iowa and Indiana and Wisconsin and Missouri, Alabama, and so forth, and so on.

Do you not think that we should form a group of States to protect ourselves from the power of these 17 irrigation States which have dominated the Congress and the Senate for so long?

Mr. CHAPMAN. Probably these 17 Western States would join you, because we know you will agree with us.

Chairman DOUGLAS. I have never seen them do it.

Mr. CHAPMAN. We know you will agree with us when we get to this.

Chairman DOUGLAS. No. I really cannot see any real intellectual basis, Mr. Chapman—you will forgive me for saying so—for your argument. If you strip it down, this is a wasteful expenditure of public funds.

I like you as a person very much, and in most other respects I agree with you, but I regard this as an aberration—a professional and geographical aberration.

Mr. CHAPMAN. If it were not for the fact that we are developing a whole region for the benefit of the whole United States, I could agree with your position.

Chairman DOUGLAS. Why not develop Illinois, Iowa, Alabama, and Indiana and Missouri for the benefit of the United States?

Mr. CHAPMAN. Illinois is getting so overcrowded, and her land is overused already. That is the trouble.

Chairman DOUGLAS. Oh, no, indeed. We have great areas which could be developed. We would increase the cultivation per acre and enable more people to live on a 160-acre farm if we had more water.

Mr. CHAPMAN. Let me show you——

Chairman DOUGLAS. But you see, we listen to the soft and melodious voices of you people and vote away public resources which are ultimately used for our own destruction.

Mr. CHAPMAN. Let me show you how I am trying to help the State of Illinois.

Chairman DOUGLAS. And such a web is spun about us that we are not really conscious of what is being done to us.

Mr. CHAPMAN. But let me show you how my efforts have gone toward helping the farmers of Illinois. If you would develop the

Hells Canyon project, where we could get power to produce and develop the phosphate beds of Idaho, you could enrich the soil of Illinois three times what it is today; that is why I am trying to help you.

Chairman DOUGLAS. You know that I have supported Hells Canyon.

Mr. CHAPMAN. Oh, surely.

Chairman DOUGLAS. I have been a supporter of these low-cost public power projects. As a matter of fact, in 1948, when I campaigned for the Senate, I took a map of the country downstate, and I mentioned Idaho phosphate, and I put my finger on the spot I said was a logical one for the development of a power project, because it was close to the phosphate. And believe it or not the spot was on the Snake River.

Mr. CHAPMAN. That is right.

Chairman DOUGLAS. I did not know it was Hells Canyon, but my finger lit on Hells Canyon. That is a "natural." And I am for that. And I have supported the Columbia River development. But I object to this irrigation business, and I hope we can get fewer of those projects.

Now let us pass to the things we can agree upon.

Mr. CHAPMAN. Give us 20 years of irrigation, and we think we can prove to you that you are wrong.

Chairman DOUGLAS. No. I think that you are wrong.

Mr. CHAPMAN. We think that you are wrong.

Chairman DOUGLAS. Let us pass to another subject. We are together on Hells Canyon. Have you looked into Niagara at all?

Mr. CHAPMAN. What?

Chairman DOUGLAS. Have you looked into Niagara?

Mr. CHAPMAN. Yes, sir.

Chairman DOUGLAS. I spent 4 days on the Niagara and St. Lawrence, and I was greatly impressed with this fact; namely, that at present Canada is getting 300,000 kilowatts of power that under the treaty belongs to us.

Mr. CHAPMAN. Right.

Chairman DOUGLAS. Secondly, Canada is getting these 300,000 units from 3 small power projects at the foot of the Canadian Falls, where the drop was only 100 feet. If we had developed that, we could take the water through a canal and drop it down 300 feet some place below—300 feet——

Mr. CHAPMAN. That is right.

Chairman DOUGLAS. And develop 900,000 kilowatts.

Mr. CHAPMAN. That is right.

Chairman DOUGLAS. So that we would get 900,000 more kilowatts and there would be a total of 600,000 more kilowatts developed.

Mr. CHAPMAN. Yes.

Chairman DOUGLAS. And we would still preserve the scenic beauty of the falls by an interior lake which would store up water during the vacation season, the Canadian tourist season and ours, and release it during other periods.

Mr. CHAPMAN. That is right.

Chairman DOUGLAS. Now, do you not think it is important that Niagara should be stressed?

Mr. CHAPMAN. Niagara should be stressed.

Chairman DOUGLAS. Why is it that all the talk is about the West and not about Niagara?

Mr. CHAPMAN. Senator, I have testified——

Chairman DOUGLAS. We people vote for the western projects, but when the kissing takes place, we are always left out.

Mr. CHAPMAN. Senator, as Under Secretary of the Interior and as Secretary of the Interior, I testified before the Senate and the House committees five times on the St. Lawrence and the Niagara project. My testimony is in the full, complete printed record of the Senate and House, both.

Chairman DOUGLAS. I am very glad you did. But why is it that we do not seem to get the support from our western colleagues on these projects that we give them on their projects?

Mr. CHAPMAN. Well, sir, I could not even get the support of the New England people on that project.

Chairman DOUGLAS. I think that is true.

Mr. CHAPMAN. Now, what I want to do is to develop that 600,000 extra kilowatts that we are talking about, but I did not want to turn it over lock, stock, and barrel to the private utilities of northern New York.

Chairman DOUGLAS. I agree with that.

Mr. CHAPMAN. I want to create a demand for the New England area.

Chairman DOUGLAS. So there are another 100,000 more at the International Rapids on the St. Lawrence.

Mr. CHAPMAN. That is right. I wanted to put it into a New England group, so that——

Chairman DOUGLAS. How about New York?

Mr. CHAPMAN. And let New York come into its share with the rest of them, but not give it all to New York.

Chairman DOUGLAS. Yes.

Mr. CHAPMAN. Now, New York, under the present plan, has whatever the development is—they have it. They have already appointed this power authority, and they have turned it over to the five utility companies.

Chairman DOUGLAS. Oh, no; I must protest. I do not think they have done that.

Mr. CHAPMAN. What do you mean, they have not done it?

Chairman DOUGLAS. No. I think not. Their plans are for public generation. The question as to whether it is to be sold at the bus bar or not is a question to be decided between Governor Harriman and former Governor Dewey.

Mr. CHAPMAN. That is right. They will take it to the bus bar all right. But whom they are going to sell it to and at what price is the point.

Chairman DOUGLAS. Well, Mr. Chapman, I wish you would devote some of your great powers and continue to devote some of your great powers, in getting more water for the Middle West, and also in getting more power developed from Niagara, and somewhat abate your enthusiasm for water on high mountain valleys along the Colorado.

Mr. CHAPMAN. I shall do all I can for it.

Representative BOLLING. Mr. Chairman, I should say that you are correct, that one of the differences between the reclamation area, the

Mountain States, and the Middle West is that the Middle Western States have never been able to agree from town to town on development projects, and in the Mountain States, they have.

Chairman DOUGLAS. They have a much greater degree of cooperation. That is true.

Congressman Talle?

Representative TALLE. Mr. Chairman, Mr. Chapman, are you familiar with the 1955 year book on agriculture entitled "Water"?

Mr. CHAPMAN. The 1955 agriculture yearbook?

Representative TALLE. Yes.

Mr. CHAPMAN. I am not particularly familiar with it. I have seen it.

Representative TALLE. I thought it was a timely book, because certainly water is so extremely important. I am familiar with the disadvantage of too little and I am also familiar with the disadvantage of too much.

I realize that too much of a good thing is bad.

Mr. CHAPMAN. Right.

Representative TALLE. A glass of water is fine when you are thirsty, but if your basement is full, that is bad.

Mr. CHAPMAN. That is right.

Representative TALLE. Now, I have found during my service that it is rather difficult to get attention to some of our smaller problems.

Mr. CHAPMAN. Yes.

Representative TALLE. You are familiar with the 9-foot channel of the Mississippi?

Mr. CHAPMAN. Yes.

Representative TALLE. That elevated the waterway 2½ feet. Of course, that cannot be done without having some effect on the banks and the lands adjacent to the stream.

Mr. CHAPMAN. That is right.

Representative TALLE. In northeast Iowa there is a river flowing into the Mississippi, and because of elevation of the water level, siltation has filled that tributary from the point where water empties into the Mississippi to a distance of 7 miles upstream. It is growing worse. More and more fertile acres are being flooded. Crop losses are heavy in that fertile valley.

The fact is that almost every year floods ruin the crops there, and the remedy would not be too costly. It is a relatively small project. It is very small compared to this vast plan that you have for the Western States. Yet it is extremely difficult to get any attention to some of these smaller projects.

Anything you can do to help me to get some action will be appreciated. I am holding that invitation out to all Members of the Congress and everybody in the administration. I am happy to report that some progress was made last year and 2 years ago, but that channel should be reopened promptly and the farmers thereby saved from crop losses.

Mr. CHAPMAN. Congressman, may I make a comment on that?

Representative TALLE. Yes.

Mr. CHAPMAN. I presume from what you are saying that you have an area there that quite often becomes inundated with water to the great destruction of your crops and other things.

Representative TALLE. That is right.

Mr. CHAPMAN. There are two ways where the Federal Government could, and I think should, step in to help on those things. The Agriculture Department itself has the authority under the law to build small, little head dams, with the smaller streams, up to, I think it is, a $50,000 limit. I am not certain whether that limit was raised to $100,000 or not. But they could build a lot of small head dams in that area that would protect you.

But beyond that, the Corps of Engineers could also build a little larger dam if it was across one of the main streams that touches that valley or that area, and there is no reason why it should not be done as a plain, simple investment for the American people as a whole, because when you destroy, in the valley area that you are talking about, its usefulness for the people, you are hurting the economy of the whole country, and not just those people.

Representative TALLE. That is right. And it is not a difficult matter. It is merely reopening the channel that once carried the water. Now the water fans out over several thousand acres of fertile land.

Mr. CHAPMAN. Yes.

Representative TALLE. The siltation now extends 7 miles. Of course, it will be longer and longer as time passes if remedial work is not done, and more costly.

Mr. CHAPMAN. That is right.

Representative TALLE. The remedial plans are good. The engineers will open the channel, we hope.

Mr. CHAPMAN. That is right.

Representative TALLE. Then Agriculture, through the watershed conservation program will see to it that it does not happen again. I refer to siltation of the channel.

Mr. CHAPMAN. That is right. That is a good way to approach it. And I think it is hard to focus attention long on, as you say, these smaller projects, but that is not so small. That is an important project.

Representative TALLE. The fertility is so rich in that valley.

Mr. CHAPMAN. That is right.

Representative TALLE. After all, the rich soil from all the hills for 125 miles up the way is there.

Mr. CHAPMAN. That is right. It is the richest soil in the whole county there.

Representative TALLE. That is right.

Well, I know there are good reasons for the big enterprises, but a good share of my time is spent, and I think properly, on some of these smaller projects.

Mr. CHAPMAN. That is right.

Representative TALLE. They mean a lot to quite a few people, taken all together.

Mr. CHAPMAN. That is right. It means a lot to all of us.

Representative TALLE. Thank you, Mr. Chapman.

Mr. CHAPMAN. Thank you.

Chairman DOUGLAS. I have no further questions except a word of admonition to the witness.

I think that undoubtedly the chief reason for what I regard as the overextension of irrigation comes from the great political power wielded by these comparatively small States in the mountain area. The 17 States, or the 14, if you exclude the 3 Pacific Coast States—and perhaps you could narrow that down and exclude Texas and Oklahoma, to 12, rather thinly settled States—have 24 Members of the United States Senate.

Mr. CHAPMAN. That is right.

Chairman DOUGLAS. And they naturally push for development.

Mr. CHAPMAN. That is right.

Chairman DOUGLAS. And if I have seemed somewhat harsh, Mr. Chapman, in my characterization of your policies, I recognize that as Secretary of the Interior, you have to operate in a real world, and that the political power of these 12 States is enormous. I am very frank to say that I do not suppose any Secretary of the Interior can really stand up against it. I do not suppose that any candidate for the Presidency could stand up against it.

But I do hope that the facts may be recognized and that the Middle West, the South, and the East may realize the great neglect that has been visited upon them, and that we may taper off these expenditures for the semiarid, high-altitude areas and begin to put the water where it is most needed.

So I hope this will develop into a matter of national policy.

I think you were a fine Secretary of the Interior.

Mr. CHAPMAN. Thank you, Mr. Chairman.

Chairman DOUGLAS. But one man cannot stop those things alone. I only hope that if you become Secretary of the Interior again, as I hope you will, that if you are compelled to yield, you will yield reluctantly and not enthusiastically.

Mr. CHAPMAN. Senator, in all consciousness, I must be frank with you. I am a private citizen, but I want to say to you that while I was in the Department of the Interior in the various capacities, I did not yield to the pressure of the West. I helped join the pressures of the West, because I believed it. I believe in its development, and because I believe those people are looking with a vision to the future to prepare that section of the country for this coming population that we are going to get.

Chairman DOUGLAS. I am very sorry to hear that, and I shall continue to labor for the redemption of your soul and the clarification of your mind.

Mr. CHAPMAN. Thank you, Senator.

(Whereupon, at 12:05 p. m., the Joint Committee recessed, to reconvene at 10:10 a. m., **Wednesday, February 15, 1956.**)

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JANUARY 1956 ECONOMIC REPORT OF THE PRESIDENT

WEDNESDAY, FEBRUARY 15, 1956

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

The Joint Committee met, pursuant to recess, at 10: 10 a. m., in the Old Supreme Court Chamber, United States Capitol Building, Washington, D. C., Hon. Paul H. Douglas (chairman) presiding.

Present: Senator Douglas (chairman), Representatives Patman (vice chairman), Bolling, and Talle.

Also present: Grover W. Ensley, executive director, and John W. Lehman, clerk, Darrell Carver, legislative assistant to Senator Barry Goldwater.

Chairman DOUGLAS. We will come to order.

We have with us today 10 representatives of economic interest and research groups participating in a panel discussion on the President's Economic Report.

In our communications with these gentlemen and the organizations which they represent, we indicated that in the interests of fairness and to allow time for questioning and informal discussion—not merely between the participants and members of the committee, but also between the participants themselves—and that each participant will be given 7 minutes at the outset to summarize the salient points in his testimony.

Each participant is also welcome to submit a longer statement for the printed record. I will ask a member of the committee staff to raise a card when the participant has used his 7 minutes. I think that will be sufficient, although the Chair also has a gavel to enforce the delicate hint which the raising of the card may convey.

We are much obliged to all of you gentlemen for coming, and we know that this has been done at a considerable personal sacrifice. I want to express my appreciation for your presence and for the care that you have taken.

Our first witness this morning is Mr. Stanley H. Ruttenberg, director, Department of Research of the American Federation of Labor and the Congress of Industrial Organizations.

Mr. Ruttenberg.

STATEMENT OF STANLEY H. RUTTENBERG, DIRECTOR, DEPARTMENT OF RESEARCH, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

Mr. RUTTENBERG. Thank you very much, Mr. Chairman.

I do have a longer statement, and I should appreciate its being inserted into the record. I will try to summarize it as I proceed, but I will also read the first page and a half, which is a summary.

I should like to express the appreciation of the AFL–CIO to the committee and its members for this opportunity to appear before you today. President Meany regrets that a meeting of the AFL–CIO executive council prevents him from being here himself.

A few general remarks about the report would be in order before discussing several specific issues.

I am disappointed in the report. To me, it is an example of an extremely limited, timid, and narrow use of scholarship and technical competence. There is no examination, in the report, of the basic economic trends that affect the long-run development of our economy. Neither is there an examination of foreseeable trends in the levels of employment, production and purchasing power, as required by the Employment Act. Nor does the report comply with the act's specific requirement that it set forth the levels of employment, production and purchasing power needed to provide economic conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing and seeking to work.

The failure to carry out these requirements of the Employment Act is not only a great disappointment, but it indicates a disregard for the original purposes of the act.

The deficiencies of the report are many—in scope and conception.

1. There is no statement of full employment goals for 1956 or the period ahead. Nor is there any looking forward, in terms of human needs and of the manpower, natural resources, and policies required for meeting those needs by private groups and Government.

2. In the lengthy and self-congratulatory review of the recovery from the 1953–54 downturn, there is considerable discussion of monetary policy, but no discussion of the contribution of the stabilizers, such as unemployment compensation, that have been built into the economy in the past 20-odd years.

3. The report does not contain an examination and evaluation of recent and foreseeable labor force growth and productivity—the generating forces, within the economy, that make continued economic growth both possible and necessary, if we are to avoid stagnation and declines.

4. Although national security is an issue of prime importance, there is no examination, in the report, of the ability of our economy to meet our national defense needs and foreign-aid requirements, and the means by which those needs can be fulfilled if these programs are expanded.

5. While there is generous and general language about steps to strengthen the foundation of future prosperity, the suggested programs—and budgetary provisions—are, for the most part, both inadequate and halfhearted. Major limitations of a budgetary nature are imposed by the report on human welfare programs and public services, rather than the potentialities and limitations of a growing economy to meet these needs; great reliance is placed on State financing of welfare and public service programs, despite constitutional and legislative hurdles in most States that mean the programs cannot get underway.

These deficiencies reveal a fear of adequately examining issues—whether in the short run or long run—that may be troublesome. It would appear from the report that one should not be concerned about unpleasant matters, such as a possible tapering off of economic activity in 1956, the needs of millions of low-income families, the possible social disruption of the introduction of automation, the requirements for much expanded public services, or the possible need to step up national defense and foreign aid programs.

From this point on, Mr. Chairman, I have discussed the general downturn and recovery of 1953–54, laying emphasis upon one important fact—that is, that the report continually discusses the successes of the administration in stopping the downturn and causing the recovery mainly by its intelligent use of monetary policy.

As important as monetary policy may be in this picture, however, other important factors which were responsible for the decline and which really helped to cause the upturn which followed the decline were not discussed in the report. I am specifically referring to the role of unemployment compensation, old age pensions, retirement programs, the strength of the wage stabilization movement in preserving the wage structure, and the farm program, which, in spite of the decline in farm income, put into the hands of farmers some several millions of dollars during the 1954 period of recovery.

Then I discussed, beginning on page 6, the general terms of the pickup. Here basically two important elements are related: disposable personal income, during the period of 1954–55, increased by 6 percent, while at this same period of time, consumer debt—including personal debt, instalment buying for automobiles, et cetera, and debt relating to the purchase of 1- to 4-family housing dwelling units, increased by 18 percent.

Now, I am not complaining particularly about the rise in debt. However, the statement does point out that basically this rise in debt, which is three times as great as the rise in personal income, can cause serious disruption in the economy and will cause serious disruptions in the future unless something is done, not to cut back credit, but to supplement disposable income, so as to give the credit base some substantial support.

Then I discuss the general outlook for 1956 and refer specifically to the fact that if we are to have full employment in the year 1956, we must have a gross national product in the neighborhood of about $415 billion by the fourth quarter of this year. It does not appear from the program recommended by the administration that we will attain that goal by the end of this year.

I specifically recommend what we in the AFL–CIO consider the important programs that are necessary to attain this level of full employment in 1956. We suggest, beginning on page 14, tax revisions—not tax cuts, but revisions in the tax structure which would give aid to the low- and middle-income individuals. We recommend the closing of loopholes such as the dividend and depreciation provisions of the 1954 Revenue Act, and others. Revenue raised from the closing of these loopholes can be more than enough to offset the cut in taxes that would be necessary for low- and middle-income individuals. Then, specifically, we urge aid to distressed communities, with particular reference to the bill which Senator Douglas introduced, I think, S. 2663——

Chairman DOUGLAS. Yes.

Mr. RUTTENBERG (continuing). And call attention to a very interesting point: In the Economic Report of 1954 the President, in his statement, specifically said that this was a local problem, but, in his report of 1955, he has decided to say that, "The fate of distressed communities is a matter of national as well as local concern." We note this improvement in outlook with considerable pleasure.

Then there is discussion of the farm-assistance program.

My time is up. Let me just conclude by saying that the programs for the whole area of human needs—education, hospitals, houses, and roads—should be considered not in terms of budget limitations, but in terms of the allocation of natural resources and the growth of our economy. This is extremely important.

Thank you, Mr. Chairman.

Chairman DOUGLAS. Thank you very much. And we will have your statement, as a whole, printed in the hearings, Mr. Ruttenberg.

(The prepared statement of Mr. Ruttenberg, in full, is as follows:)

STATEMENT OF STANLEY H. RUTTENBERG, DIRECTOR OF RESEARCH, AFL–CIO

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5. While there is generous and general language about steps "to strengthen the foundation of future prosperity," the suggested programs—and budgetary provisions—are, for the most part, both inadequate and half-hearted. Major limitations of a budgetary nature are imposed by the report on human welfare programs and public services, rather than the potentialities and limitations of a growing economy to meet these needs; great reliance is placed on State-financing of welfare and public-service programs, despite constitutional and legislative hurdles in most States that mean the programs cannot get underway.

These deficiencies reveal a fear of adequately examining issues—whether in the short-run or long-run—that may be troublesome. It would appear from the report that one should not be concerned about unpleasant matters, such as a possible tapering off of economic activity in 1956, the needs of millions of low-income families, the possible social disruption of the introduction of automation, the requirements for much-expanded public services, or the possible need to step up national defense and foreign-aid programs.

THE 1953–54 DOWNTURN AND RECOVERY

"To derive from recent experiences useful guides for the future," the report states, "we must first analyze the processes that led to that achievement" (of economic recovery in 1955). The report's analysis, however, is one-sidedly partisan and, in many respects, simply superficial.

Its overemphasis on monetary policy results in a distorted view of the downturn and of the pickup. Its reliance on individual statistical indexes is unworthy of a serious economic analysis. For example, we all know that the downturn started about mid-1953 and was gathering force by the end of the year. But the report states that "already in the fall and winter of 1953, some signs of emerging recovery became visible." Evidence of such signs of recovery is given: "Stock prices, which are an imperfect but nevertheless significant indicator of business sentiment, began rising in September and approached the year's highest values before the year ended."

There is no indication here that this index of stock prices may have moved up for reasons completely aside from any issue of recovery—such as the elimination of the excess profits tax at the end of 1953, the rapidly rising productivity of most blue-chip corporations, the faith of wealthy families in the Eisenhower administration's ability to push through Congress a special tax cut on dividend-income, the overwhelming reliance of corporate enterprise on internal financing that results in a very small net addition to available common stocks. If there were time, one could indicate numerous examples of this type of meaningless or questionable preoccupation with individual statistical indexes that are reported to be imperfect but nevertheless significant indicators of something or other.

Any real analysis of the downturn and recovery would have to examine the important economic role of the trade unions and of economic and social welfare legislation—a task which the report somehow manages to avoid. In an editorial statement on January 28, 1956, Business Week magazine declares that a major "reason to expect less violent fluctuations in the economy is that we have learned to let the stabilizers work in our favor. Today we would expect, and permit, the automatic stabilizers to offset 30 to 40 percent of a decline." These important built-in stabilizers were completely ignored in the report. Let us look briefly at their effect on the economy in the 1953–55 period.

During the downturn, trade union strength and collective bargaining prevented widespread wage cuts, such as had occurred during most previous declines; indeed, many unions were able to achieve wage increases. As a result, the straight-time average hourly earnings of workers in manufacturing industries actually rose from $1.71 in 1953 to $1.76 in 1954; the gross average hourly earnings of building construction workers increased from $2.48 to $2.60. Collective bargaining prevented a sharp drop of workers' income and helped to bolster consumer markets, despite layoffs and reduced hours of work.

As economic activities declined after mid-1953, unemployment doubled from 1.6 million in 1953 to 3.2 million in 1954. Wage and salary income from gainful employment in private industry declined. But the increase in unemployment did not result in an immediate collapse of the incomes of unemployed wage and salary earners. Unemployment compensation, despite inadequacies, provided some measure of income to the unemployed and their families. Unemployment compensation payments rose to offset part of the decline of total wages and salaries.

Trade union strength and collective bargaining protected the incomes of workers fortunate enough to remain at their jobs, and thereby prevented a possible sharp decline in total wage and salary income. The unemployment compensation system, however inadequate, went into operation to offset part of the decline that occurred. Consumer income was protected and consumer markets were prevented from shrinking.

	Unemployment	Wages and salaries in private employment	Unemployment compensation payments [1]
	Million	*Billion*	*Billion*
1954	3.2	$162.4	$2.3
1953	1.6	164.8	1.1
Total	+1.6	+2.4	+1.2

[1] Total payments under State, veterans', and railroad unemployment insurance programs.

Other Government insurance programs, adopted under the New Deal and Fair Deal, gave added strength to the economy's consumer sector. Federal and State Government payments under the various social insurance programs—unemployment compensation, retirement, disability and survivors' programs—pumped a total of $9.7 billion into the economy in 1954, over $2.1 billion more than in 1953. (The net effect, however, was somewhat less than $2.1 billion, because social-security contributions were increased, effective January 1, 1954.)

Payments under various Federal and State insurance programs [1]

1954	$9,645,507,000
1953	7,539,541,000
Total	+2,105,966,000

[1] Unemployment compensation, retirement, disability, and survivors' insurance programs.

Other Government programs were also operating in a similar fashion—cushioning the effects of declining incomes. Government payments to farmers, for example, were several million dollars greater in 1954 than in the previous year. All told, Government programs pumped into the hands of consumers in 1954 considerably over $2 billion more than in 1953. The net effect of the offset to the decline in income was that consumer income was strengthened and consumer spending was bolstered.

Union-negotiated pension plans provided additional incomes for retired workers. Health and welfare plans that are part of collective-bargaining agreements likewise provided some incomes for workers and their families who were ill or in other distressed circumstances.

An additional factor that added strength to consumer income and consumer spending in 1954 can be found in the income tax. First, the progressivity of the Federal income tax means that if a family's income declines, its income-tax payments decline, too; this has a small bolstering effect on consumer after-tax personal income. Secondly, the reduction in the personal income tax, effective January 1, 1954, under the terms of the Revenue Act of 1951, had the effect of adding some additional strength to consumer buying power, although only a small percentage of the tax reduction was concentrated in low- and middle-income families.

Thus, due largely to the operation of these built-in stabilizers, personal income, generally, did not drop sharply during the downturn. Consumer spending held up, despite the decline in Government expenditures and business investment. The downturn was not anywhere as sharp as it would have been in the absence of built-in stabilizers. It was trade union strength, collective bargaining and social-welfare legislation that bolstered the economy's consumer sector during the downturn and provided the basis for the sharp rise in consumer spending and consumer-related activities in the latter part of 1954 and 1955.

The upturn since September 1954 has been rapid. But the gross national product in 1955 (in constant dollars) was merely 3.5 percent greater than in 1953. This rate of economic expansion in 2 years, is considerably less than what is required to sustain the long-run health of the economy under full employment.

The pickup from the 1953–54 decline, however, is worthy of more serious and less politically partisan analysis than it receives in the report.

Between 1954 and 1955, the gross national product rose $26.9 billion. The major factors behind this increase in output were (1) a rise of $15.9 billion in consumer spending for goods and services, especially for consumer durables, backed up by a $6.1 billion rise in outstanding consumer credit; (2) an increase of $3.1 billion in nonfarm residential construction; (3) a $6.2 billion change by businessmen from inventory cutting in 1954 to inventory building in 1955.

The consumer sector of the economy—that had been bolstered by the built-in stabilizers—was the driving force behind the upturn. The rise in personal consumption expenditures and in residential nonfarm construction accounted for 70 percent of the $26.9 billion increase in gross national product. This surge of consumer spending helped to bring about the rebuilding of business inventories and a resumption of the rise in business investment. Why the surge in consumer activities?

Consumer income did not collapse during the downturn and consumers felt optimistic enough after mid-1954 to buy new-model automobiles, homes and other consumer goods with cash and credit. The administration eased housing mortgage credit—a measure that stimulated housing construction. And the early start of production of 1955-model automobiles—with its impact on the steel, rubber, glass, and other related industries—touched off a sharp pickup in consumer buying and in general economic activity.

FIGHTING THE PHANTOM OF INFLATIONARY DEMAND

The extension of credit has been an important factor in this rise in consumer spending; 37 percent of the increase in consumer spending for goods and services (excluding new homes), between the last 3 months of 1954 and the same period of 1955, was accounted for by the rise in outstanding short-term consumer debt.

Personal debt has been rising much faster than after-tax personal income. In the year between 1954 and 1955, total outstanding personal debt—short-term debt, plus mortgage debt on 1- to 4-family homes—rose 18 percent, while disposable personal income increased approximately 6 percent.

The administration's "remedy" for this condition has been its usual policy of tilting with the windmill of inflationary demand, which administration leaders apparently always see before them. As early as December 1954—with unemployment at 4.5 percent of the labor force—the administration started to move toward a general "hard money" policy, designed to combat phantom inflationary demand pressures. In July 1955, FHA and VA reduced the maximum maturity of home mortgages from 30 years to 25 years and raised the minimum downpayment requirements for the purchase of homes under programs of these Government agencies.

The general "hard money" tight-credit policy has contributed to a decline in new housing starts, which moved down from an annual rate of about 1.4 million in the early months of 1955 to a rate of 1.2 million in the last 4 months of the year. It has also contributed to the rising profits of the banks and other lenders.

Underlying this policy, there seems to be a fear of full employment—an effort to maintain unemployment at something considerably above 2 percent of the civilian labor force. Even during the 1954 downturn, with unemployment at 5 percent or more of the labor force, we were told that the unemployment condition was essentially an area problem, rather than a matter of national concern. It may well be that in the opinion of many administration leaders, an unemployment rate of even 3 percent—a rate which we never achieved in 1955—is much too low.

There is a significant difference between a general "hard money" policy, such as the administration has followed since late 1954—as it did in early 1953 when it contributed to bringing about the downturn—and a policy of restraints and controls over specific markets. The increases in margin requirements for stock purchases, in early 1955, were justified—and they were much belated—because of the sharp rise in stock prices after the fall of 1953. The stock market boom, however, did not justify a general "hard money" policy that preceded specific restraints on that market by more than a year.

The bulge in consumer debt last year does have its dangerous aspects. But the potential danger did not arise from an economywide threat of inflationary demand, when unemployment fluctuated as it did in 1955, between 3.2 and 5.3 percent of the labor force. It has not required a general "hard money" policy to restrict national economic activities. The possibility of danger arises if the debt cannot be sustained—if after-tax personal income this year should falter or decline.

A continued rise in after-tax personal income is required to sustain last year's large increase in consumer debt and to maintain further increases in consumer spending during 1956. Government policy should be aimed at increasing the level of after-tax personal income, not at restricting the general level of economic activities.

WAGES AND PRICES

There is an apparent confusion in the report and in the administration's policies over the subject of real and imaginary inflationary pressures. Although the report deals with supposed inflationary demand and anti-inflationary monetary policies in some detail, it sidesteps any discussion of the specific and real 3.5 percent rise in the wholesale prices of industrial goods during the last 6 months of 1955. This significant increase—an average rise of six-tenths of 1 percent per month—is described in the report as "not large for a period of high prosperity."

This confusion over real and imaginary inflationary pressures, I should think, requires an examination by this committee, since it is an issue that is basic to the stability and growth of our economy. Inflationary pressures may be limited to specific markets—as the stock-market boom during the general 1953–54 downtourn, and they may arise from increasing unit profit margins in administered price markets, rather than from excessive demand. But let us look at the recent trend of wages and prices.

An examination of wage and price movements in the recent period before June 1955 should underscore the fact that real wages can move up, without the necessity of significant boosts in living costs. In the 2½ years, from 1952 through June 1955, real average hourly earnings in manufacturing industries increased 11 percent. In that period the consumer's price index moved up 1 percent, from 113.5 in 1952 to 114.4 in 1955 and the wholesale price index for industrial products moved up 2 percent from 113.2 to 115.6.

	Real hourly earnings in manufacturing industries (in 1954 dollars)	Index of consumer prices [1]	Index of wholesale industrial prices [1]
June 1955	$1.88	114.4	115.6
1952	1.69	113.5	113.2
Percent increase	+11	+1	+2

[1] 1947–49=100.

In an economy whose man-hour output is rising as rapidly as it is in the United States, there is no sound reason why the price level should not remain relatively stable, along with increases in the real earnings of wage and salary earners. We know, however, that the price level has moved up—during most of the post-World War II years—in response to forces that have no relation to labor costs.

If the administration were seriously interested in price movements rather than in dealing with the bugaboo of general inflationary demand, then the President's Economic Report should have analyzed the movement of prices in the various sectors of the economy. In that event, the significant rise in industrial prices in the last 6 months of 1955 would have been discussed in the report.

PRICE BOOSTS DESPITE RAPIDLY RISING PRODUCTIVITY

Ever since the administration took office in 1953, it has voiced fears about inflationary dangers. If we take this period of time, 1953–55, we would find that man-hour output in manufacturing industries rose approximately 10 percent, according to estimates of Bureau of Labor Statistics' economists. The decline in unit labor costs, flowing from this rise in productivity, should have permitted both a substantial increase in the real hourly earnings of manufacturing employees and some declines in the prices of industrial products.

Real hourly earnings of workers in manufacturing industries rose 6 percent between 1953 and 1955. During this period, there were improvements in fringe benefits, which may have brought the gain in real hourly earnings and fringe benefits up an additional percentage point, to 7 percent—considerably less than the 10 percent rise in man-hour output. Unit labor costs in manufacturing industries, therefore, declined substantially between 1953 and 1955.

The inadequate increase in real hourly earnings—by comparison with rising man-hour output—left ample room for substantial reductions in the wholesales prices of industrial commodities. Instead, these prices rose 3 percent between 1953 and 1955. By the end of last year, industrial prices were greater than the year's average, and were still rising. It is apparent, on the face of it, that this increase in prices cannot be justified on the basis of labor costs.

	Index of man-hour output in manufacturing industries (estimate) [1]	Average hourly earnings of manufacturing workers in 1954	Wholesale price index of industrial products [2]
1955	110	$1.89	117.0
1953	100	1.78	114.0
Percent difference	+10	+6	+3

[1] From an address by Ewan Clague, Commissioner of Labor Statistics, before the National Industria Conference Board, Jan. 20, 1956.
[2] 1947–49=100.

A question that should be pondered by an inflation-fearing administration is: Why did wholesale prices of industrial commodities rise 3 percent from 1953 to 1955, when real hourly earnings plus fringe benefits in manufacturing industries increased only about 7 percent, in comparison with a 10 percent rise in man-hour output?

If these price increases resulted, to any significant extent, from shortages of specific types of goods, then it would indicate a need for some industries to increase their productive capacities. The report, however, is not helpful on this score, since it evades any projection of full employment goals. Had the report indicated estimates of required production levels to sustain full employment in 1956 and in the years ahead, it could have provided, at least, some guideposts to business leaders of the indicated capacity needed for the stable growth of the national economy under full employment. What is the estimated requirement of steel capacity, for example, needed to sustain full employment in 1956 and in 1960?

In any case, it seems clear that the price increases in industrial commodities between 1953 and 1955 are largely the product of administered prices by corporate giants in many basic industries. In farm products, textiles, and apparel, where there is a relatively high degree of price competition, there were small price reductions between 1953 and 1955. In rubber, metals, and metal products, where giant corporations dominate the markets, wholesale prices moved up rather sharply. And in chemicals, wholesale prices rose by a small amount, despite very rapid increases in productive efficiency, in an industry dominated by huge firms.

[Wholesale price indexes [1]]

	Farm products	Textiles and apparel	Rubber and rubber products	Metals and metal products
1955	89.7	95.3	143.8	136.6
1953	97.0	97.3	125.0	126.9
Percent difference	−7.5	−2	+15	+7.6

[1] 1947–49=100.

In most of the basic manufacturing industries, there is no counterpart of the retail discount house to provide price competition for giant enterprises. Prices move up, usually, not in response to increases in labor costs, but rather, in order to raise unit profit margins. The major cause of these price boosts is not inflationary demand—as administration leaders prefer to see it—but the desire to increase unit profit margins and the ability of huge firms in many industries to do so. The pressures on the price level are not so much from the demand side as from the producer side, in those industries where a few dominant corporations occupy a commanding position in the markets.

The increase in unit profit margins has contributed to the rise in the profits after taxes of all United States corporations. From $17 billion in 1953, the after-tax profits of all United States corporations rose to $21.5 in 1955. For manufacturing corporations, the rate of return of after-tax profits on stockholders' equity (net worth) rose from 10.7 percent in 1953 to 12.2 percent in the first 9 months of 1955, the latest date for available information.

Rather than fighting phantom inflationary demand pressures, why does not the administration propose to cope with the real problem of administered prices in most of our basic manufacturing industries? Wage-price-profit-investment relationships are basic factors in our economic system. They are too important to be ignored or sidestepped.

THE OUTLOOK FOR 1956

The report states that "it is reasonable to expect that high levels of production, employment, and income will be broadly sustained during the coming year, and that underlying conditions will remain favorable to further economic growth." An estimate of how much growth we can expect in 1956 is missing from the report, however, as well as an estimate of how much expansion would be required to sustain full employment.

The President's budget message is based on a continuation of output and income levels at about the rate of the fourth quarter of 1955—a condition that would mean stagnation and rising unemployment. There is an inconsistency between the President's Economic Report and his budget message; one implies a small amount of expansion in 1956, while the other implies no growth at all. This inconsistency requires a satisfactory explanation, which has not yet been forthcoming from the administration.

There are downward moving forces in the economy at present—automobile production, homebuilding and a probable slowing down of inventory accumulation—as well as encouraging signs in other sectors. There is a likelihood that the general level of economic activities will taper off, and, perhaps, there may be some decline. In any case, the prospect for the year as a whole, from present indications, is for a small amount of expansion, if any, from the level reached at the end of 1955. But in the fourth quarter of 1955, when the gross national product was at an annual rate of $397 billion, there were 2.3 million unemployed, or 3.5 percent of the civilian labor force.

To sustain full employment this year, the gross national product should be at an annual rate of approximately $413–$415 billion in the fourth quarter—up about $16–$18 billion from the $397 billion rate of the fourth quarter of 1955. Although this is a conservative estimate, it is quite a bit above the rate of output that most observers expect will be attained on the basis of current trends.

In the year, from 1954 to 1955, the civilian labor force rose from 64.5 to 65.8 million—an increase of 1.3 million. This rise was considerably greater than normal, although it probably represented a makingup, in part, for the smaller-than-normal increase during the 1954 downturn.

If the increase in the labor force, this year, should be approximately 600,000 to 700,000—or about the same as in 1954—it would take an increase in gross national product of about 1 percent to provide employment opportunities for entrants into the job market.

To reduce last year's unemployment toward a level that more nearly approaches full employment, it would take an additional increase in gross national product of about one-half of 1 percent.

If the economy is to adjust to a conservatively estimated 3 percent rise in man-hour output—less than in recent years—an additional increase in gross national product of about 3 percent would be required.

In other words, it would require an increase of about 4.5 percent in gross national product, this year, to attain full employment. This estimate is conservative—based upon less-than-normal increases in productivity and labor force.

Although a rise of approximately 4.5 percent in gross national product is required to sustain full employment in 1956—and this estimate may prove too conservative—it does not appear from present trends that anything like this degree of expansion will take place, without special public and private efforts.

TAX REVISION

One essential step by the Federal Government, I believe, would be an early revision of the individual income tax to reduce the tax burden on individuals, with special emphasis on cutting the burden on low- and middle-income families. Such revision is needed to make the tax structure more equitable, as well as to raise consumer purchasing power.

Should a stepup in national defense and public services require an increase in Federal Government revenue, priority should be given to closing the tax loopholes through which wealthy families and corporations escape from paying their proper share of the tax burden. The special tax reduction on dividend income and tax depletion allowances are examples of such loopholes in the Federal tax structure that should be closed.

AID FOR DISTRESSED COMMUNITIES

Another required step of importance is a comprehensive and practical Federal program of assistance to distressed communities. In January 1956, the Labor Department listed 83 communities in which unemployment was 6 percent or more of the labor force—19 large labor market areas and 64 smaller areas. The major responsibility for rehabilitating these communities is a Federal one. To rely on State financing of the largest part of any assistance to distressed communities, as the administration proposes, is to make it impossible for a significant program to get underway within a short time. The problems of State financial conditions—and the constitutional difficulties involved in State fund raising—are well known to the administration.

The administration is to be commended for its much-belated recognition of Federal responsibility for assistance to distressed communities. The President's Economic Report last year failed to present an assistance program, despite campaign promises made in 1952. Instead, it declared that "a large part of the adjustment of depressed areas to new economic conditions both can and should be carried out by the local citizens themselves."

This year, the report announces that "the fate of distressed communities is a matter of national as well as local concern." Although some progress in the administration's thinking is indicated, the proposed program is inadequate in terms of suggested Federal funds and it relies to an unrealistic and impractical extent on the States.

Any program of assistance to distressed communities must be coordinated by the Federal Government and based largely on adequate Federal grants-in-aid, if it is to get off to an early and meaningful start.

FARM ASSISTANCE

The continuing decline in farm income is another area that requires early attention this year. The net income of farmers declined $5.2 billion between 1951 and 1955.

The decline in farm income means poorer sales in rural areas and fewer jobs in agricultural implement firms. Between 1951 and 1955, about 30,000 jobs in farm equipment companies were lost. Wage and salary jobs in the agricultural implement industry, according to the Bureau of Labor Statistics, declined from 187,200 in 1951 to 157,100 in the first 9 months of 1955, the latest date for available information.

The agricultural situation will have a depressing effect on the national economy this year, if early measures are not taken by the administration and Congress to bolster the farm sector of the economy.

MEETING HUMAN NEEDS

There has been altogether too much emphasis, in recent years, on statistical indexes of economic achievement, with hardly any examination of the social objectives of economic growth. Statistical indexes of past economic performance—and projections into the future—have their relative importance in economic analysis. But they are tools and not ends in themselves. The purpose of the national economy is not to provide the basis merely for upward moving lines on graphs. The function of our economic system is to serve the welfare of the American people and of the Nation, within the limits of our manpower, ingenuity, and natural resources. Social and moral considerations have a proper and important place in economic policy determinations.

The social objectives of economic growth receive brief but well-stated attention in the report. The President's report declares:

"The incentives to work, to save, to invest, and to venture must be protected and enhanced. Monopolistic tendencies must be curbed. * * * Sound improvement of our systems of social insurance must be continued. The encouragement of homeownership and the clearance of slums must be extended. Maladjustments in agriculture * * * must be corrected. Those communities which * * * continue to be burdened with extensive unemployment must be aided. Remaining pockets of relative poverty * * * must be reduced. Provision for schools, highways, and medical facilities must be substantially increased * * * we must * * * strive to make up for the neglects of the past."

This fine statement, however, is followed by inadequate and halfhearted proposals, that could accomplish only a minute fraction—over many years—of what the President himself declares should be done in the field of human welfare and public services.

Stringent budgetary limitations are imposed by the report on much-needed human welfare and public service programs. Such programs—and the social needs that make their fulfillment urgent—are approached in the report from the pennypinching viewpoint of an accountant's profit-and-loss balance sheet. The report fails to discuss the great capacity of the national economy for meeting human welfare and public service needs through economic growth and possibly some shifts in resource allocation. There is no indication in the administration's economic analysis and inadequate proposals that the limitations on social welfare and public service progress the limitations of resource allocation in an expanding free economy—not the limitations of a budget. With this Nation's remarkable capacity to produce, there can be no sound reason for failing to make substantial progress in peacetime in the field of human welfare and public services.

Another excuse for avoiding meaningful proposals to meet the Nation's welfare and public service needs is the administration's reliance upon the States to do most of the required tasks. In the light of substantial constitutional, legislative, and financial hurdles in most States, reliance on State programs and State financing means that substantial progress in these matters will not be made for many years, if ever.

A rich and expanding economy makes it possible to make significant progress in meeting the backlog of welfare and public service needs. Such programs can be gotten underway, without long delays, if the desire and the will is present to do so. What is required is Federal leadership and guidance from the executive and legislative branches of Government—not general rhetoric, followed by inadequate program proposals.

No one is proposing that we solve all our welfare and public service problems in 1956. The needs that have accumulated over the years—and that expand with a growing population—are too great. Substantial forward strides, however, can and should be taken.

1. Low incomes

Despite the general improvement of economic and social conditions during the past 20 years—and the expansion of the national economy since the end of World War II—the problem of low-income families persists. According to the Census Bureau, there were, in 1954, 20,914,000 American families and unrelated individuals with annual incomes of $3,000 a year or less—over 40 percent of the total number of 51,557,000 families and unrelated individuals. This is a human problem affecting millions of men, women, and children. It is a national problem that requires positive measures.

A more detailed breakdown of the prevalence of low-income families in 1954 shows that 13,313,000 families, or 32 percent of the total number of 41,934,000 families (excluding unrelated individuals) had annual incomes of $3,000 or less. At current prices, this large number of families with incomes of less than $60 a week certainly should be a matter of national concern. Indeed, 9,330,000 families, or 22 percent of the total, had incomes of $2,000 or less in 1954.

Of the 9,623,000 unrelated individuals who supported themselves in 1954, two-thirds, or 6,220,000, had incomes of $2,000 or less. The incomes of almost 4½ million unrelated individuals were under $1,000.

There are a multitude of causes of low family income, including unemployment, substandard wages, the financial hazards of physical disabilities or catastrophic illness, shamefully low incomes from submarginal farming, the prevalence of distressed areas, inadequate retirement provisions for aged people, and inadequate educational opportunities. A many-pronged attack on this problem is needed.

The President's Economic Report, however, begrudges last year's congressional action to raise the Federal legal minimum wage to $1 an hour. As for the need to extend coverage of the Fair Labor Standards Act to millions of low-wage workers not now protected by the law, the report states: "By setting the minimum at $1 per hour instead of 90 cents, it has become more difficult to widen the coverage without causing serious economic disturbance in certain areas and fields of activities."

Action by this session of Congress to extend the coverage of the minimum wage law and to workingmen and workingwomen in retail trade, laundries, hotels, restaurants, large-scale farms, and other unprotected trades and services would be one long step toward lifting income levels and living conditions of low-income families. These families are in much greater need of Government assistance than stockholders, for whom the Government obtained special tax privileges.

There is also need to adopt a measure to provide disability insurance, under the social security system, to workers temporarily or permanently disabled, instead of compelling them to wait for OASI benefits at the age of 65. The OSAI-eligibility age for women should likewise be reduced below the present 65 years of age requirement.

There is urgent need, too, for a comprehensive national health insurance program to provide some measure of protection against the financial hazards of illness.

These are a few of the steps required to improve the living conditions of 13 million low-income families and several additional millions of unrelated individuals, whose incomes are too low to provide adequate living conditions. The forward advance of the American economy makes it possible to move ahead in the elimination of abject poverty and poor living conditions from our midst.

2. Education

A survey of school facilities in 1951 revealed that 33 percent of our school buildings were unsatisfactory in terms of structure, location, safety, or sanitation. Approximately 1 out of 5 schoolchildren were housed in buildings rated as unsatisfactory. This situation is not improving and inadequate school facilities have become widespread.

According to estimates of the Department of Health, Welfare, and Education, there was a deficit of close to 300,000 classrooms in the fall of 1955. In addition, there is the need for new school construction to offset the obsolescence of aging school structures and to meet the needs arising out of increased school attendance.

This sad condition of woefully inadequate educational facilities will remain until we can get a bold program of Federal aid for school construction—something considerably more than the administration has recommended.

School structures are only one part of the social deficit in the field of education. There is an urgent need, too, for thousands of qualified teachers in the Nation's school system.

Efforts should be made to improve teachers' salaries and working conditions and State scholarship programs should be increased to enable qualified students from low-income families to go to college for teacher-training. A Federal scholarship program is needed, too, to assist students with ability to receive higher educations.

3. Hospitals and health facilities

According to an article in the May 1955 issue of Public Health Reports, the United States needed 1,926,600 civilian hospital beds in 1955. There were only 1,275,072 beds in existence, of which 176,257 were listed as unacceptable on the basis of fire and health hazards. The deficit of civilian hospital beds in 1955 was 838,745. The need is greatest in mental hospitals and chronic hospitals.

The need, according to this survey, "is substantially greater in low-income States" than in high-income States. Without a continuing program of Federal aid for hospital construction, the deficit of civilian hospital beds will never be met, especially in those States whose needs are greatest.

There is inadequate information at present on the state of other health facilities such as diagnostic and treatment centers, nursing homes, and rehabilitation centers. It is generally agreed, however, that there is a deficit of such facilities. Programs by the local communities and States, as well as by the Federal Government, are needed to bring our health facilities up to the requirements of the American people to maintain their efficiency and to expand them in terms of a growing population and increasing medical knowledge.

4. Housing

In 1950 there were, based on the decennial census of housing, some 15 million substandard dwellings—urban, rural, and farm. About 4½ million of these were in need of substantial repair and modernization. But over 10 million required replacement.

Progress since 1950 has hardly begun to improve this condition. In addition, there is an annual loss of dwellings due to fire, disaster, and obsolescence. A growing population and the increasing number of families necessitate additional new housing.

The housing backlog has built up over many years—during the 1930's and the war years. It was not until 1949 that the 24-year-old 1925 record of 937,000 new nonfarm housing starts was overtaken by our first million new-home year. The higher rate of new housing starts since 1949 has made only a small dent in solving the shortage of adequate housing.

Our goal should be 2 million new urban, rural, and farm homes each year to supply adequate dwellings for American families—500,000 a year to replace substandard units, 100,000 annually to replace losses, and 1,400,000 yearly to meet the needs of additional households.

Upper-income families and some middle-income families can obtain adequate housing under private and currently prevalent financing terms. To meet the housing needs of the majority of middle-income families, a Federal program of stimulating private and cooperative housing construction is required.

The housing needs of low-income families can be met only through a program of public housing. The present trickle of public housing—less than 20,000 nonfarm housing starts per year in 1954 and 1955—cannot even begin to meet a minute portion of the housing needs of low-income families.

In terms of housing requirements, a measure of the administration's limited viewpoint can be seen from its request to authorize a paltry 35,000 units a year. Although Congress increased this amount last year by 10,000 units, even if the total number of authorized units were built each year, the housing needs of low-income families would hardly be lessened as a result of population growth and obsolescence. A public housing program of 200,000 units a year is required to begin to solve the housing problems of millions of low-income families.

The Nation's housing needs require a coordinated Federal program of stimulating private and cooperative construction of dwellings for middle-income families, urban redevelopment and a much-enlarged program of public housing for low-income families.

There are many additional needs that should be met in the years ahead—in road construction and maintenance, for example, and in the conservation and development of our national resources.

An economy as large and productive as ours can go a long way toward meeting these and similar needs. The efforts to do so need not and should not be based on partisan politics. What is required is leadership and guidance that should be forthcoming from the executive and legislative branches of our Federal Government.

CONCLUSION

In summary:

1. The report fails to comply with the requirements of the Employment Act, by omitting an examination of "foreseeable trends" in the level of economic activities and by omitting any estimate of employment, production, and purchasing power levels needed to attain full employment in 1956 and the period ahead.

2. The report's analysis of economic developments in 1953–55 ignores the important contribution of the built-in stabilizers—trade union effectiveness and social welfare legislation.

3. The 3.5 percent real increase in gross national product in the 2 years, 1953–55, is less than what is required for the long-run health of the national economy under full employment.

4. A continued rise in after-tax personal income is required to sustain last year's large increase in consumer debt and to maintain further increases in consumer spending.

5. Although the report deals at length with the phantom threat of inflationary demand—in an attempt to justify a general "hard money" policy—it avoids any discussion of the 3.5-percent increase in the wholesale prices of industrial goods during the last 6 months of 1955 and the increase in unit profit margins.

6. The report indicates that a small amount of economic expansion is expected in 1956. The President's budget message, however, implies no economic growth this year and rising unemployment. The administration has thus far failed to present any adequate explanation of this apparent inconsistency.

7. To attain a level of full employment, the gross national product should expand approximately 4.5 percent in 1956—considerably more than is expected by most observers.

8. Economic measures that should be taken this year include tax revision to reduce the tax burden on low- and middle-income families, a program of Federal assistance for distressed areas, steps to bolster farm income, extension of coverage of the Fair Labor Standards Act to millions of low-wage workers who are not now protected by the law, improvements in the Social Security Act to include payments for disabled workers and reduced retirement-age requirements for women.

9. The report's brief but well-stated recognition of the importance of meeting social welfare and public service needs is followed by inadequate and half-hearted administration program proposals. The administration's suggested programs are stringently limited by shortsighted and pennypinching budgetary considerations. It is essential that Federal programs to meet the Nation's vast needs in the field of social welfare and public services get underway—a rich and expanding economy, in peacetime, can take substantial, forward strides toward meeting those needs.

Chairman DOUGLAS. The next witness is Mr. Don Mahon, Secretary of the National Independent Union Council.

Mr. Mahon.

STATEMENT OF DON MAHON, SECRETARY, NATIONAL INDEPENDENT UNION COUNCIL

Mr. MAHON. Mr. Chairman, my name is Don Mahon. I represent the National Independent Union Council, as executive secretary, and the National Brotherhood of Packinghouse Workers as president. My home is in Des Moines, Iowa.

We are primarily concerned with the Economic Report of the President, and these hearings before your committee, because of the serious effects the role of Government is exerting on those who constitute the membership of small unions. It is important, in this respect, to consider their interests on a basis comparable with the small-business enterprises and the small farmer with whom we all have so much in common.

Our experience results from actual participation as a representative of many of the more than 2,500 independent unions in this country. Our national council is primarily a cooperative organization as the name indicates. Our recommendations result from the suggestions and citations received from our associated unions.

A survey of this evidence shows an existing trend that threatens the security of these smaller labor organizations as well as the small farmer and the local businessman. If this trend is permitted to continue, without restriction or proper safeguards, their continued existence in this country will be very seriously endangered. Many will be entirely eliminated.

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By thus removing the healthy competition that small enterprise alone can offer, the American worker, the farmer, the businessman, and in fact every citizen, will be subjected to more monopoly control of his daily life. The eventual result will be dictatorial control comparable to other countries where there is only one big company and one big union, both controlled exclusively by the state. In that situation there is no personal freedom. Competition, as we know it, would be rank treason. We want no part of that system. We believe the same applies to most Americans. Therefore, we request protection in these earlier stages of such monopoly.

PROPOSED LEGISLATION TO ASSIST AND PROTECT SMALL ORGANIZATIONS

It is important that these urgent needs of small organizations, and unrecognized groups, be given fair consideration and protected by legislation. To accomplish this purpose, we cite House Resolution 25, as an example, as introduced by Congressman Cunningham of Iowa, as the beginning. If adopted, it would provide machinery for Congress to use when considering and solving this growing problem. This resolution would provide for a committee that would give independent unions, and others with related problems, the same consideration now afforded to small industry by the existing Committee on Small Business.

LEGISLATION TO PROVIDE FOR ADVISORY COMMITTEES

Legislation that would require the proper establishment and use of appropriate advisory committees in the administrative branch of our Government is necessary. To be most useful, such committees should be composed of representatives from various viewpoints. Thus, both large and small organiaztions could participate.

This would certainly be in the best interests of all concerned since the smaller groups constitute a very substantial segment of our society. Such action is particularly necessary with respect to the Department of Labor.

At present, the Labor Advisory Committee is composed solely of two representatives of the AFL–CIO. Little recognition, and no representation whatsoever, has been given to the smaller unions. As a result, the representatives of the claimed 16 or 17 million membership of the major federations are permitted to be the unchallenged spokesmen, in the Department of Labor at least, for the total of approximately 65 million nonagricultural workers in this country. Our figures are based on recent reports released by the Secretary of Labor. This policy is very discriminatory and obviously penalizes small unions. It is certainly contrary to the stated policy regarding minorities, if they are so considered.

It is common knowledge that there is a strong movement now growing among the ranks of organized labor, as well as within the great agricultural industry, because of dissatisfaction with existing conditions. These movements are resulting in the formation of new organizations in labor, especially among the skilled crafts, as well as among farmers and small-business men in various areas. This action results from dissatisfaction with the trend toward monopoly by the giant corporations in industry. The monopolistic tendency of the major labor federations is illustrated above in the Department of Labor, and elsewhere—also, the gradual elimination of the small independent farmer, whose numbers are still legion but rapidly diminishing.

We call your attention to these facts because there is still time to take corrective action, as suggested. Protection of the rights of these independent units in business, labor, and agriculture will require that this legislation be enacted soon in order to be more effective. These small units constitute the lifeblood of free enterprise and freedom of association. To join, or not to join, organizations of our own choosing should still be an inalienable right. Exercise of such rights has always been the bulwark against the totalitarian system. It is the best guaranty of the contination of our free way of life.

The National Independent Union Council, and its associated unions, have a community of interest with all other small groups such as we have mentioned, in this respect. These interests are directly related to the everyday life and welfare of most American citizens. Their continued protection requires due consideration. For that reason we petition your committee to recommend adequate legislation to protect these smaller groups and individuals who, in the case of labor, represent more than two-thirds of the working force of our Nation today.

SOCIAL-SECURITY AMENDMENTS

To cope with urgent personal problems facing many workers, and especially those who are disabled or seriously crippled, it is most essential that positive action be taken with respect to amendment of the existing Social Security Act. Under the existing law a disabled worker gets nothing until age 65. Many disabled persons, who have been injured in industrial accidents or otherwise, do not even survive until eligible to receive benefits. Provisions covering underage widows, of those entitled to social-security payments, is unrealistic. It should be corrected to provide for their protection until the qualifying age is corrected.

HIGHWAY IMPROVEMENTS

We endorse and recommend a sound plan to build more and better highways. The principle of expanding these important facilities should be acted upon in a realistic manner. Prompt and comprehensive planning and action is necessary in view of our rapidly increasing population. Certainly the granting of subsidies for such worthwhile purpose can be much better justified than in many cases where now being practiced.

The President's report blames low incomes on low productivity and irregular employment. We call to your attention the fact that constant introduction and application of new machines and methods in industry require constant apprenticeship training and on-the-job instruction in order to keep our working forces, and the resulting economy, strong from this standpoint.

A comprehensive educational program for displaced workers would be a practical step toward solution of that problem. Provisions to protect older workers, as well as skilled craftsmen, from the reductions in wages and employment, resulting from such automation is very necessary. This situation is nationwide and will eventually affect all of our society. Now is the time for action on it.

I thank you, Mr. Chairman.

Chairman DOUGLAS. Mr. Mahon, I am told that your report took exactly 7 minutes, no more, no less. It was evidently very carefully timed.

Mr. MAHON. Thank you, sir.

The CHAIRMAN. We want to thank you for that.

The next participant is Mr. E. L. Oliver, economic adviser to the Railway Labor Executives' Association.

Mr. Oliver.

STATEMENT OF E. L. OLIVER, ECONOMIC ADVISER, RAILWAY LABOR EXECUTIVES' ASSOCIATION

Mr. OLIVER. Mr. Chairman, while what I have to say is said as economic adviser to these railway labor unions, which represents approximately 1 million railway workers, I should like to make it clear that it is in no fashion a statement of policy of those organizations. They are interested in the President's Economic Report from two different standpoints:

First, as workers they are interested in the general situation in the United States; and secondly, they are specifically interested in the transportation situation, dealt with in the report.

While the report constantly insists that the objective of the Government is maintenance of a free competitive enterprise system without Government interference, the fact is that it does show that the Government has exercised and proposes to exercise influence on economic affairs largely through the management of money and credit.

In recounting what has happened within the last 2 years, the report specifically says that the recession of 1954 was one of the shortest on record, and states the recession in production and employment as indications of that fact.

But when you compare the situation that developed during those 2 years with past and comparable recessions, the facts do not seem to support that claim. We have had such recessions, midcycle recessions, many times in American history. The most comparable ones probably are those of 1924, 1927, and 1949.

As a matter of fact, the recession in production in 1954 was greater than in any one of those years, and the decline in employment was much greater than that which the report indicates. The recession was not shorter. It was not less severe than those other midcycle recessions.

Chairman DOUGLAS. I remember that Wesley Mitchell, who was a great student of business cycles, published a book in the summer of 1929 in which he said that the term "economic depression" would soon disappear from the economic vocabulary, and would be replaced by the term "recession."

Mr. OLIVER. I was noticing the other day, Mr. Chairman, that Sumner Slichter's book on Modern Economic Society, referring to the declines in 1924 and 1927, called them both depressions, so that as a matter of fact the choice of the word is immaterial. The fact is that there are two different kinds of recessions, the major and the minor, and this one was substantially, at least, as great and as long-continued as the comparable recessions of midcycle periods in earlier years.

The statement that employment declined only 2½ percent derives from the overall employment. As a matter of fact, factory employment declined 10 percent in the recession, and railroad employment dropped 19 percent from July 1953 to February of 1955.

Moreover, employment did not return to the prerecession level until June of 1955, indicating a 2-year duration rather than the 12 months that the report claims.

The next check on the efficiency of these measures is with respect to current conditions. Actually, there has been a very sharp change in the indicators upon which the report relies as measures of economic health within the last 2 or 3 months. The drop of production in automobiles and the very great decline in housing starts indicates that we are not in as healthy a condition as was thought.

Moreover, the claim that the constant level of prices over the last 3 or 4 years is a guaranty of stability is in conflict with what happened during the period 1925–29.

Prices during that period were stable, and it did not constitute any guaranty at all that we were not in for a serious depression.

Alternatives to these credit policies have been available to the Government throughout this period. The low income among wage earners, which in the report is mistakenly attributed to low productivity, is largely due actually to low collective-bargaining power, or no collective-bargaining power. That condition could have been very largely corrected, and to a large extent could still be corrected, by higher legal minimum wages and by better protection for collective bargaining, with the repeal or amendment of existing antilabor legislation, and with positive steps to prevent unfair competition between localities for the migration of industries to low-wage areas.

Farm income and purchasing power could have been raised in 1953, 1954, and 1955. And those measures together would have constituted a much better foundation for economic prosperity than the credit policies and the management of money that was actuallv followed by the administration.

Coming now to the matter of transportation, Mr. Chairman, the report has only two references to this problem. The one is that in which they propose an integrated highway transportation system, and the other is that in which they refer to the Cabinet transport policy.

The Cabinet transport policy consists almost entirely of a proposal to free competition among various transportation agencies. It is true that somewhat freer competition and a complete overhaul of the rate structure would be very helpful, but in the long run this wide-open competition would almost certainly be suicidal. It would certainly be more destructive than constructive in any case.

The railroads now are very seriously hampered by lack of equipment. In October of 1955 they had an average shortage of 22,000 cars per week. Now, that is significant in itself because the railroads also have approximately half a million cars that are overage, and many of them should be retired. The shortage, then, needs to be added to these bad-order and overage cars as a measure of the deficiency in equipment of American railways.

The Cabinet report relies only on net income, which it is hoped will be produced by this wide-open competition, at some time in the future to restore that equipment. Now, that is very dangerous, not alone from the standpoint of normal industry in the United States, but also from the standpoint of the national emergency in which we are now.

The report prefaces everything it says by referring to the continuing threat of Communist aggression. If there is any danger of war whatsoever and any need of preparation for it, certainly transportation ought to be at the core of any such preparation.

Our railroads handled last fall traffic at a level of about 12 percent below that of 1943. So we need to be prepared, and instantly prepared, to handle at least 12 percent more traffic. That means the car shortage would be in the order of 200,000 if we had to meet a war emergency tomorrow, and if we have to meet it, Mr. Chairman, it is not going to be with 2 or 3 years' preliminary warning as it was in the last 2 great wars.

The transportation industry needs to be prepared to go into peak activity on instant notice, and it is far from such preparation.

The administration's proposal for the transportation industry is absolutely futile from the standpoint of putting it in the condition even to handle current traffic, let alone that which would have to be handled in the event of a war emergency.

The effect of the policy followed by the carriers has been that even when revenue was high, they have not maintained and certainly not developed their equipment, and they have not maintained their roadbeds and structures. They have instead laid off equipment and maintenance-of-way and structural forces in great numbers. Those men are still unemployed.

The railroads, when they had the revenue, did not build up their car supply.

Now, in other countries, Mr. Chairman, the need for keeping transportation at peak efficiency in order to serve all other industry and various social and political purposes, has led to Government ownership. We in the United States, railway groups as well as everyone else, do not like Government ownership. The railway group does not like it, and I think no one else likes that prospect.

But as a substitute for it, we cannot simply leave the railroads to suicidal competition, but must adopt positive Government measures to make sure that the transportation industry fills the peacetime and the wartime needs of the country.

I want to thank you.

Chairman DOUGLAS. Mr. Oliver, I noticed you prepared two statements, an abbreviated statement, which you primarily followed in your oral presentation, and a longer statement.

Mr. OLIVER. Yes.

Chairman DOUGLAS. Do you want the longer statement printed in the hearings?

Mr. OLIVER. If you will, please; yes, sir.

Chairman DOUGLAS. That will be done.

Mr. OLIVER. I want to thank the committee on my own behalf and that of the association for the opportunity of coming here.

(The prepared statement of Mr. Oliver, in full, is as follows:)

STATEMENT OF E. L. OLIVER, ECONOMIC ADVISER, RAILWAY LABOR EXECUTIVES' ASSOCIATION

My name is E. L. Oliver. I am associated with Mr. O. David Zimring in the Labor Bureau of Middle West, with offices here and in Chicago. I appear here as economic adviser to the Railway Labor Executives' Association, an organization which includes 20 standard national railway labor unions, and represents 1 million railway employees. It should be understood, however, that the comments I wish to make upon the President's Economic Report are in no sense statements of the policy of those railway labor organizations.

Railway employees are concerned with the subject-matter of the President's report generally, as it bears on the problems of all American workers, and more specifically as it bears upon the transportation industry. I should like to address myself to the report from those two separate viewpoints.

With respect to the general economic situation in the United States, the report enunciates some basic principles, and against their background recounts recent developments and describes present economic conditions. The first of those principles is that Government should exercise a minimum of influence on economic affairs, a restatement of the old adage "that government is best which governs least." As a secondary and perhaps corollary principle, the report expresses the belief that such influence as is exerted by Government should be directed toward "strengthening competitive enterprise," or "expanding the scope of free enterprise."

These principles, or rather slogans, will be almost universally approved in the United States. But the words will carry very different meanings to different groups. Those who most use the slogans seem to assume that if every economic group were left free to use any means at hand, to gain its ends in conflicts of interest with other groups, the resultant free-for-all would automatically bring a happy solution to all our economic problems. Experience long ago proved the fallacy of that assumption. The limitations placed on free enterprise have resulted from the demonstration that completely free private enterprise is self-destructive, with the more powerful and less scrupulous economic groups using methods that take away the freedom of others. Unregulated competition would end competition, and establish monopoly, in large segments of our economic life. It has become accepted that Government must not only provide the general legal framework within which free competition does its fighting, but also that Government must intervene to prevent unfair and destructive tactics in the clashes of economic interests. Apart from such negative influences, the Government has continuously acted in various ways to aid different economic groups and interests.

The administration, in the current Economic Report of the President, makes clear that it has repeatedly interevened in economic affairs not only to control business generally, but also to influence various specific industries in different ways, during the past 3 years. Differences of opinion over the report will therefore not be so much as to the desirability of preserving and strengthening free private competitive enterprise, but rather as to which economic practices should be restrained and which encouraged, which groups should be aided by Government, and what means should be used by Govenment to carry out its purposes.

These questions of national policy are of greatest national concern in those areas where the clash of private interests has the greatest and most widespread effect. Among the areas of such special concern must be included the determination of farm prices, the fixing of wages and working conditions of labor, and the relations between large and small business. In each of these areas, a large group of individuals only partially if at all organized must bargain with great, powerful corporate organizations. The bargaining power of the great corporation in most such contacts is overwhelming; past administrations have recognized the need for counteracting this unbalance of economic power, in part at least, through the original Wagner Labor Relations Act, the Fair Labor Standards Act, support of parity prices for farm products, and other similar legislation. In their opposition to such legislation, representatives of the more powerful economic groups have construed free private enterprise to mean first, that the Federal Government should stay out of the bargaining between these corporations and their employees, their farm suppliers or consumers, and their small-business suppliers or outlets; and second, that the Government should use its fiscal power—particularly that of taxation—and its control of American natural resources so as to give maximum direct aid to the great corporation interests.

On the other hand, many representatives of wage earners, small-business men, and farmers appear to feel strongly that freedom in competitive private enterprise can be achieved and maintained only if Government is vigilant in protecting the weaker and restraining the more powerful economic groups. The farmer, buying and selling as an individual, may consider himself something less than free from domination, the wage earner, where unorganized and prevented by superior power from organizing, cannot consider he is enjoying economic freedom; the small-business man, bargaining on a "take-it-or-leave-it" basis with a giant corporation, has a very narrow, if any, margin of economic freedom. From the standpoint of these groups, private enterprise must be freed, and kept free, from domination by the great corporations.

The current Economic Report of the President, excusing governmental intervention in economic affairs as due to "the demands of modern life and the continuing threat of Communist aggression," lists 10 administration policies. Two of the 10 express in different language the administration's past action and continuing intention to control economic affairs through the manipulation of money and credit. Elsewhere in the report it is clear that the administration exercises, or proposes to exercise, through these and related fiscal means, a determining influence on the stock market, on home construction, on purchases of automobiles and other durable goods, on hard-pressed farm populations, on blighted industrial areas, on the protection of small business and—apparently—on highway construction. These specific points where credit is to be eased, tightened, or otherwise adjusted are in addition to the general effect on all economic activity of Government management of the whole credit structure.

Governmental management of money and credit has been used, to some extent, ever since money was first developed. General control, especially for purposes of financing Government activity, had been understood and practiced for centuries. But the application of such control to specific points in individual industries for particular purposes is by no means so well established or well understood as to justify the reliance placed upon it in the report. The proposal to continue this "banker technique" and to extend and intensify its use, requires an analysis of the results thus far obtained.

Those results and the claims made for them can be separated into two segments—the recession of 1954, and the condition confronting the Nation in 1956.

The report refers to the Federal Government's "capacity to moderate" and "recent success in moderating economic fluctuations." It speaks also of the 1954 recession:

"The economic contractions, one of the very briefest and mildest in the entire history of business fluctuations, was over. It had lasted about 12 months during which total output declined 3 to 4 percent, while employment declined 2½ percent and personal incomes after taxes actually increased."

That combination of claims should be checked with the available data.

The indicators of economic activity cited in the report included not only total output, employment, and personal incomes after taxes, but also business-failure liabilities, production of nondurable goods, average workweek in manufacturing, and new orders for durable goods. The longtime trend in American economic activity is of expansion, across all periods of recession and boom. Any one period of recession, or contraction, therefore, cannot be said to have ended until economic activity reaches the level attained before the recession began. On that basis, the accuracy of the "12 months" claimed duration of the decline can be tested.

The seasonally adjusted index of industrial output in the United States stood at 137 in May and July of 1953; the index did not reach that figure again until May of 1955, when it was 138. Employment was 63.7 million in July and August of 1953; employment was not that high again until June of 1955. In February of 1955 employment was within 100,000 of the low for the recession. The high point in personal income (before taxes) was in July and October of 1953; that figure was first exceeded thereafter in October of 1954. Significantly, the 1953 high point in wage, salary, and other labor income—$207.8 million—was reached in July, and not passed again until March 1955. Liabilities in business failures were at their low in January 1953; they reached their peak in March 1954, and in 13 of the next 21 months were above the corresponding 1953 month. The index of non-durable-goods production was at its 1953 high in May; the recession, starting in June, brought a low of 112, in December 1953, with the May level not reached again until March 1955. Nondurable goods fluctuate more or less erratically. New orders for durable goods were at their 1953 high in January; in 5 of the first 6 months of 1953, they were over $12 billion. The 1953 high was not reached again until March 1955. The average workweek in manufacturing was at its high in March 1953—41.1 hours. The average did not reach that figure again until October 1955.

Only by considering that the recession was over when it reached its low point could the statement in the Economic Report (that it had lasted about 12 months) be reconciled with the facts reported by Government agencies. It is even more difficult to reconcile the statement that "output declined 3 to 4 percent, while employment declined 2½ percent." The decline in industrial production from July of 1953 to July of 1954 was more than 10 percent (by the seasonally adjusted index of the Federal Reserve Board). The decline in total nonagricultural employment was 3.8 percent, because of increases in finance, service, and Government forces, but unemployment increased by 100 percent. Total employment in manufacturing declined 10 percent, from July 1953 to July 1954. Part-time employment increased over the same 12 months. In terms of the hours worked by production workers, the actual drop in manufacturing employment was 12 percent. The number of railway employees continued to decline until February 1955, and was then 19 percent below July 1953.

The next question is the comparison of these actual figures, resulting from the administration's efforts at "moderating" the recession, with other such periods in our history. Recessions, as distinguished from major depressions, occurred in 1924 and 1927, after the First World War, and in 1949. Comparing each of these years of recession with the preceding year, factory employment dropped 7 percent in 1924, 2 percent in 1927, 6 percent in 1949, and 7 percent in 1954. Industrial production dropped 6 percent in 1924, 1 percent in 1927, 7 percent in 1949, and 7 percent in 1954. Duration of the recessions can be judged only on monthly data, and then with reservations. But there is no reason whatever to believe that the 1954 recession was either shorter or less severe than other midcycle contractions in economic activity.

Coming to the current economic situation, the wisdom of the type of measures used to "moderate economic fluctuations" should be tested against present and immediate future conditions. Many of the Indicators cited in the President's report as evidence of the 1955 upturn have now been reversed. Housing starts, as of November and December 1955, were 15 percent below the same months of 1954. Manufacturers' inventories, declining in 1954, began definitely to rise in 1955, and by November were at the high level of mid-1953. Durable goods inventories were within 1 percent of the 1953 peak. Automobile production has declined sharply in 1956; January production by the Big Three was 6.7 percent below 1955, one of them having cut 21.1 percent below last year. February production has been cut again; employment in the industry has dropped correspondingly. One of the big producers has laid off more than 20 percent of its total force, and has reduced the workweek of a large part of the remaining force to 4 days.

Whether or not these changes presage a new recession in 1956, it is clear that serious problems are ahead. Figures now available show what was accomplished by the credit shot-in-the-arm method used by the administration in 1954 to stimulate economic activity. Low downpayments and long-term installment credits did stimulate buying, particularly of homes and of durable goods. Installment credit extended in each month of 1955 was higher than the corresponding month of either 1952, 1953, or 1954. The total of outstanding installment credit, in November, was $27.2 billion—comparing with $22 billion in November 1954, $21.9 billion in 1953, and $18 billion in 1952. Financing of home construction on the same low (or no) downpayment basis, with longer term payments, brought an extreme expansion of mortgage credit; nonfarm mortgage recordings of $20,000 or less, in the 600 areas for which data are available, increased from $20,706 million in the first 11 months of 1954 to $26,295 million in the same months of 1955.

Stated simply, the economic boom of 1955 was largely the result of mortgaging future buying power, and investing in homes and durable goods on exceptionally easy credit terms. The process of increasing mortgaging of such future income obviously has a narrow limit, and reaching of that limit must not only bring a halt to the process, but must also affect adversely future sales in the period when installment and mortgage payments will be made.

These now obvious shortcomings in the methods used to stimulate business in 1954 and 1955 might have been clear to ordinary foresight at that time. Credit stimulation may have been good for General Motors, in the short run; but other and more fundamental measures, available to the administration, would have been more stabilizing and more fundamentally sound for the country as a whole. That is not to say that credit management is not a good instrument of Government policy, but rather to indicate that it must be distinctly secondary to maintaining and developing current purchasing power of the greater groups of Americans.

Alternative measures were available to the administration, by which the purchasing power of American consumers would have been substantially increased. Before discussing them directly, some comment should be made on the reference in the report to low-income groups. Recognizing the existence of such groups, the report says:

"But the basic cause of low incomes has always been low productivity, irregular employment, or both."

This statement needs to be compared with the actual facts on low income. Using average weekly factory earnings as the criterion, as does the economic report, November 1955 earnings by States varied from $50.46 to $99.56. Confining the comparison to States on the Atlantic seaboard, of similar industrial composition, the range in the 3 principal New England States was from $64.91 to $82.56; by contrast, the range in the South Atlantic States of North and South Carolina and Georgia was from $54.10 to $57.41 per week. Average hourly earnings in the 3 New England States were $1.63, $1.74, and $1.92; in the 3 South Atlantic States, $1.31, $1.33, and $1.39. These differentials have widened—southern rates are relatively lower—by 15 cents per hour since 1950. A bad situation is becoming steadily worse. With 52 weeks of employment, the annual difference between the high New England State and the high South Atlantic State at November 1955 weekly wages would be $1,250.

This difference is not all, nor perhaps primarily, geographical; it is a well-known fact that workers in the New England area are far better organized than in the South Atlantic. Studies by the Department of Labor indicate that wage rates of organized workers normally run 10 to 20 cents above those of unorganized workers; the pressure of nonunion competition is also a restricting influence on wage rates in union establishments, especially where collective bargaining is undeveloped.

These wage differentials must be considered in the light of industrial relocation in recent years. Employment in manufacturing in the United States increased by more than 2 million—about 13.5 percent—from 1950 to November 1955. Employment in the 3 New England States, Massachusetts, Rhode Island, and Connecticut increased by only 3 percent—and in the 3 Southeastern States of North and South Carolina and Georgia by 14.3 percent. Industry has migrated, either by relocations or by shifts in volume of production, from the unionized, high-wage areas of the Northern States to the nonunion, low-wage areas of the Southeast.

The suggestion that these migrating industries are opening new plants in the Southeastern States with obsolete equipment has no basis in fact. Productivity of these plants, and these workers, is not low; the low wage is due to the inferior bargaining power of southern workers. The remedy is to raise that bargaining power; two obvious methods might be followed. The one is to increase the minimum wage, the other is to develop legal safeguards for collective bargaining rights so that these unorganized workers may form unions for their own defense.

Returning now to the general question of alternative courses which the administration might have pursued instead of or in supplement of credit manipulation, two of the greater low-income groups—farmers and wage earners—should be considered separately.

First with respect to wage earners. The legal minimum wage, which is to become $1 per hour in 1956, might well have been placed at that level in 1953, and at a higher level in 1955. The direct increase in purchasing power in the hands of the lowest income group in manufacturing alone would have been a half billion dollars a year, at $1 per hour, and an additional billion dollars at $1.25 per hour. The indirect effect, on wages paid by industrial competitors, would have been very great, but cannot be estimated. Action by the Federal Government to forestall vicious antilabor legislation in the States would have facilitated labor organization, and further raised labor incomes. This step, which could have been accomplished by repeal or amendment of the Taft-Hartley Act, was easily within the power of the administration. It might well have been part of a general program designed to check the unfair competition between cities and States for location of industry. Apart from the effect on labor purchasing power, and, through that, on general economic progress in America, these measures would have been strictly in line with the professed desire to protect "free competitive private enterprise."

These clearly practical and desirable alternatives to the exclusively banking technique, in the direction of expanding sales to wage earners, could have been accompanied by measures to raise the purchasing power of farmers. There is great controversy over which is the better method to protect the farmers from the effects of their defenseless bargaining position. At the very least, however, the measures now being advocated by the administration could have been put into effect in 1953, 1954, or 1955. If they had begun to have, 2 or 3 years ago, the effect now being expected for them, the buying power of American farmers would have been substantially higher. Parity prices, for example, would have meant $5 billion of greater farm income in 1954 alone.

This combination of measures, even without governmental action to expand construction of housing, schools, and highways, would have provided a solid, continuing, and expanding market for American industry. There is reason for believing that both were promised, before the 1952 election. There is also reason to believe that these measures, if followed instead of the 1953 restriction of credit, might have averted and would certainly have mitigated the 1954 recession. By contrast, the high-pressure installment selling of durable goods especially seems deplorable. The banker point of view, which has apparently dominated administration policy since 1953, might well be leavened by direct concern for the economic status and well-being of American farmers and wage earners. The record 1955 profits of General Motors and other automobile manufacturers is small comfort to the automobile worker now being laid off.

TRANSPORTATION POLICY

Turning now to references to transportation in the report, the major recommendation has to do with the development of an integrated highway system, and the adoption of measures in a previously formulated Federal transportation policy. These proposals, and any alternatives, must be analyzed against the background of the industry, its history and its needs.

The special significance of the transportation industry has long been recognized, both in economic thought and in Government policy. Usually considered among the public utilities, the industry has been treated as an exception or at least a special case in the application of the general principle of "free competitive enterprise." In the United States, the industry has been closely regulated for 70 years, in almost all financial and operating details, including labor relations. In other industrial nations, the same economic and social factors have led to government ownership of the railways, and their operation as a part of national policy.

Although holding to the general principle of a minimum of governmental control, the United States Government has gone even beyond its detailed railway regulatory program in times of national crises. It was found necessary to take over and operate the railways during the First World War; during the great depression, a Federal Coordinator of Railways was given extraordinary powers under an Emergency Railroad Transportation Act; during the Second World War, drastic control of transportation was maintained under the Office of Defense Transportation. In each of these three crises, the Nation had time to permit a partial failure of transportation, especially of rail transportation, and the relatively leisurely improvement of transportation facilities to meet the emergency. In each of the war crises, also, there was time for the development of American military and naval strength after fighting had actually begun between other nations.

"The continuing threat of Communist aggression," in the words of the President's report, holds no prospect of allowance for such an easygoing readjustment if war does come again. That danger of sudden, all-out war, is recognized in our specific defense preparations. The transportation industry, and especially its railway section, must be able immediately to operate at top capacity and efficiency; no other link in the defense of the Nation so closely approaches the importance of the actual Armed Forces. The President's report might well have inquired into the ability of the railways to meet such an emergency, especially since—unlike munitions plants—top transportation efficiency is also a peacetime necessity.

The demands that may be made upon the railways can be roughly estimated from the requirements at the peak of World War II. Revenue ton-miles of freight hauled at the war peak—October 1943—were 65¼ billion; in October 1955, the roads hauled 58½ billion ton-miles. Disregarding industrial growth since 1943, the carriers should at least be able to carry 12 percent more traffic than was transported in October. But, in fact, they were severely taxed to take care of the peacetime traffic of 1955, only slightly above that of 1952.

One especially serious defect is in the supply of freight cars. From February 1, 1954, to October 1955, the freight cars owned by class I railroads decreased by 75,000. The car shortage in October, to handle the traffic then being offered, was 23,000 cars. Nearly 40 percent of the cars are over 25 years of age; replacement requirements within the near future have been estimated at 500,000, and it has been stated, on governmental authority, that defense requirements in the event of war would require 100,000 more cars than peacetime traffic.

Here, clearly, is a critical situation which calls for specific and immediate remedial action. For peacetime as well as for defense needs, car building facilities should be devoted at once to filling car requirements. The President's report refers to this matter only in passing, and by mention of the previous transportation recommendations. The sum and substance of those recommendations is that the railway carriers should be freed from some of the present regulation, in order to permit free competitive enterprise to bring about the necessary reorganization and reequipment of the industry. This haphazard, almost happy-go-lucky reliance on longtime correction by automatic competitive forces of an immediately critical situation is a dangerous substitution of slogans for constructive thought and action.

The transportation policy referred to in the report assumes that a reasonable railway income will lead to correction of all shortcomings. The President's Economic Report itself says that the carriers "had been hard pressed for years," and forced by low earnings to reduce capital outlays. The railways' net income before depreciation and retirements in 1952, 1953, and 1954, had been atl alltime peaks. Car retirements, and future needs, should have been clear. But in all of these years, car construction in railway shops, and cars ordered outside, were far below productive capacity and below car requirements. Railway car building and maintenance forces were cut heavily, in 1953 and 1954. High net income alone will not induce the railways adequately to reequip, if we may judge from past nonperformance. The railways will not reequip when current revenues are not high, they cannot reequip for heavy traffic after traffic becomes heavy, or for defense needs after war begins. The longtime program of car construction to meet even present needs will not be undertaken without much more direct governmental action.

Among the many less directly beneficial effects of compelling railway-car construction would be the rebuilding of shop forces. The railways, entirely apart from replacing retired cars and building for expanded needs, did not even maintain their existing cars during recent months of heavy traffic. Efficient railway operation in peacetime, and preparation for any defense emergency, should dictate that shop equipment and employees be available and used to maintain rolling stock in the best possible shape. With railway traffic at or above 1952 and 1953 levels, the railways in 1955 employed 75,000 fewer employees in maintenance of equipment—a decrease of over 20 percent, while shippers were diverting traffic from the railways because good-order cars were not available. Loss of the services of these men is an impairment to both normal and defense operations.

The railway equipment situation is critical, but it is by no means the entire story. The railways have publicly asserted that heavy additional expenditures should be made in improving roadbeds, yards, signaling systems, station facilities and structures. While these needs are urgent, the carriers are following wasteful personnel policies, undermining their human assets as they have been undermining their physical assets.

With adequate car supply and rehabilitated way and structures, the traffic capacity of our existing railway system is practically without limit.

If our international position is serious, of which there is little doubt, the United States Government should act now to place the railways in condition to handle any emergency that may arise. The Government should direct that the industry be put on a defense basis at once; priority of materials for construction of freight cars and other equipment should be assured, railway maintenance forces should be put to work immediately to rehabilitate and improve railway equipment, ways, and structures; any proposed abandonments in service or roadway should be judged from the standpoint of service requirements in the defense crisis.

Apart from such defense needs, however, the transportation industry deserves much more careful attention than has been given by the present administration. Our economic development illustrates in every part of the country the close relationship between transportation, and the location, costs, and even techniques of other industries. Transportation service, as well as rates, largely determines community and industrial growth. For that reason, both rates and service have been regulated in the interests of "free private competitive enterprise."

Commercial intercity freight traffic in the United States increased by about 60 percent per capita from 1940 to 1953. Railway traffic per capita increased by over 33 percent in the same period. The total volume of intercity freight traffic rose by nearly 100 percent in the 13 years. The dependence of the Nation on the railways and other transportation facilities is thus greater than ever before.

The Economic Report of the President calls for an "integrated network of safe, controlled-access highways, to relieve existing congestion and to provide for the expected growth of motor vehicle traffic." Nowhere in the report, nor in the transportation policy to which it refers, is there recognition of the need for an integrated transportation system, excepting in the professed belief that unleasing railway rate competition will result in some distant future in a redistribution of traffic with each kind of carrier handling that for which it is best fitted.

Substantial rate revision, for all types of carriers, is long overdue. But to leave that revision to the carriers, with their competitive interests the controlling consideration in a wide latitude, would be to make a multitude of scattered and conflicting adjustments of both rates and service in place of that expansion and integration which the situation demands. So far from being a plan for efficient, correlated service, the proposed policy is a blueprint for wholesale suicide.

American railways are now an "integrated highway system," of 225,000 miles of controlled-access roads; the system represents an investment of $28½ billion. In peace as in war, the railways are the real backbone of national transportation; if there is to be any policy of "integration," it can be successful and efficient only if built around and upon the railways. Imminent improvements in power and other technological changes will increase rail advantages over highway transport; railway costs now are less than one-fifth the cost of highway freigh traffic.

Federal Coordinator of Transportation, Joseph B. Eastman, reported, 22 years ago:

"Rail and highway are naturally supplemental to rather than competitive with one another. The fields in which, from the standpoint of service and economy of operation, one is superior to the other, barely overlap. There is a large amount of traffic now moving by highway which can be moved more economically and serviceably by rail. Upon the other hand, there is an equally large amount of traffic which is moving by rail which can be more economically handled by highway. * * * Coordination as a supplement to modernized service and tariffs would result in the exchange of this tonnage so that there could be returned to the rails at least 10 million tons of long-haul traffic now moving by highway, and there should be diverted to the highway an equivalent amount of short-haul tonnage now moving by rail."

In the intervening years, the short-haul traffic has gone to the highways, but the long-haul traffic has by no means been returned to the rails. Rather has a vast amount of the new long-haul business gone to the highways, overcrowding them with traffic which should be moving by low-cost, high-speed rail routes. As a result the burden upon the Nation's highways has unduly increased, and the problem of maintaining them, and of their safe use by passenger vehicles and short-haul trucks, has continually become more serious.

As a preliminary to the planning of an integrated highway system, there should be careful study of the appropriate place of highway freight transportation in a generally integrated transportation system. Rail-highway coordination, through such developments as pickup and delivery by the railways, and the "piggy-back" hauling of truckloads by rail, will require a tie-in between the two highway systems. All such types of interchange, including the possibility of railway ownership of highway facilities for initial or final movement of less-carload freight, should precede decisions on highway expansion or reconstruction. If the administration has come to the conclusion that Government should so far plan its action as to develop an "integrated highway system," there is no reason not to plan for railway expansion and development.

Part of any such plan should be an effort to stabilize railway employment. Seasonal fluctuations, especially in maintenance employment, are unnecessarily expensive, and work great hardship to the railway workers. Drastic cuts in forces from one year or month to the next, as revenues fluctuate, are equally inefficient and injurious. The furloughing of tens of thousands of experienced railway workers, and payment to them of unemployment compensation, is a regular occurrence now with the simultaneous hiring of tens of thousands of inexperienced new employees. Railway employees have advanced proposals for correcting these situations, but have thus far had little indication of cooperation from the carriers; Government might well include some concern at least for these employee problems in formulating transportation policy.

Chairman DOUGLAS. I appreciate your coming.

The next witness is an old friend, Mr. Thomas Kennedy, of the United Mine Workers of America.

STATEMENT OF THOMAS KENNEDY, VICE PRESIDENT, UNITED MINE WORKERS OF AMERICA

Mr. KENNEDY. Mr. Chairman and members of the committee, I propose to discuss only those parts of the Economic Report of the President which have a relationship to the coal industry.

In the letter of transmittal of this report to the Congress, President Eisenhower on page 1 made this observation: Some groups of people have not, however, enjoyed a full measure of prosperity, and we must keep that fact before us as we build for the future." I represent and speak for one such group in communities in the jurisdiction of the coal industry where surplus unemployment or depressed areas are the rule rather than the exception.

Page 61 of the report deals with the matter of helping local communities reduce unemployment, and it is pointed out very properly in the report that this is a matter of national as well as local concern. And I think, as indicated by Mr. Ruttenberg, this is a step in the right direction.

The area assistance program referred to in this section of the report, however, does not reach into the heart of the unemployment situation.

I might say, Mr. Chairman, that last Friday at Wilkes-Barre, a subcommittee of the Senate presided over by Senator Neely, in hearings in Johnstown, Pa., and in Wilkes-Barre, held hearings at which time we went into this situation very carefully, especially with reference to the bill introduced by Senator Douglas and others, as well as the House bill introduced by Congressman Flood.

In this report, with respect to the purchase and alteration of existing facilities, we believe that the Government might be able to do something here with respect to the restoration to production of idle mines in the bituminous and anthracite coal regions. And I refer to one example in particular.

The Anthracite Hazleton shaft colliery of the Lehigh Valley Coal Co., which employed approximately 800 men with approximately 1,000 employees in the overall picture, was drowned out during the recent Hurricane Diane. The pumps were lost and the mine is now idle and has been idle since last September. This was the basic industry in the city of Hazleton, Pa., with a payroll of about $3.5 million per year. The coal company claims it does not have the money to dewater this mine and have operations resumed.

Well, we shopped around Washington, without results, following the hurricane to find out if any branch of the Federal Government could do anything to put this mine back in operation, because the company had no insurance to cover this disaster. And we were unable to find any agency of Government that would attempt to take care of this situation.

In many of the surplus labor sections unemployment compensation is rapidly being exhausted. The Economic Report suggests that unemployment compensation is the bulwark for sustaining purchasing power. These payments generally run for a period of 26 weeks. It seems to us it would become a greater bulwark if these unemployment compensation payments were made for the duration of the period of unemployment or until such persons were eligible for Federal security payments.

Table D, page 186, of the Economic Report gives figures on the age bracket and average duration of unemployment compensation payments. From these figures we get the fact that in 1946 we had 141,000 persons with a duration of unemployment over 26 weeks—those were insured employes—while we had in the last quarter of 1955, 239,000—or an average for the year 1955, of 335,000 individuals affected by unemployment over the 26-week period. These people might be classified for employment purposes as being liquidated. And we point out, or I point out in the statement, that surely there is room here for the Federal Government in conjunction with the States, if necessary, to take care of this situation by the payment of supplemental unemployment compensation for the period of idleness beyond that provided by the various States.

Then I go into the question of international trade, imports, exports, tariffs, and so forth, and I call attention of the Congress to the fact that in 1954 the dumping of residual, or waste oil from Venezuela on the eastern seaboard displaced 30 million tons of coal, mostly bituminous. The figures for 1955 indicate that 36 million tons of coal were displaced by the dumping of Venezuela waste oil. I again call to the attention of Congress that this waste oil is coming, not from a free country, such as is referred to in the Economic Report, but from a country where labor is in chains and where advocates of democracy and justice are refugees from their own country.

Evidently, our Government is very anxious to support Venezuela, as indicated by a recent statement issued by Mr. Flemming on behalf of the President's Advisory Committee on Energy Supplies, in which he asked the oil companies, in view of the recent cold winter, if they required the importation of more residuals up until next April. And the fact remains that we have enough coal to take care of all of the needs of the Nation without any importation of this waste oil in through our eastern seaboard.

To solve some of the problems in the coal industry we should have a national fuel policy which would put each of the fuel industries in its proper competitive position.

And I might say, Mr. Chairman, that there is pending in the Senate a resolution originally introduced by Senator Myers and kept alive during each session providing for such a national fuel policy.

Then I recommend stabilization of the coal industry itself, especially the anthracite, and that the dumping of waste oil should be stopped.

An intensified research program for greater uses of coal should be built up by the Government, and our exports of coal to Europe and Asia, with ocean freight rates established on a stable basis, and unemployment compensation should be paid beyond the period provided for in the various State assemblies.

Thanks very much, Mr. Chairman.

Chairman DOUGLAS. Thank you very much, Mr. Kennedy.

The next witness is a distinguished citizen from my own State, Mr. Charles B. Shuman, president of the American Farm Bureau Federation.

STATEMENT OF CHARLES B. SHUMAN, PRESIDENT, AMERICAN FARM BUREAU FEDERATION

Mr. SHUMAN. Thank you, Mr. Chairman.

The American Farm Bureau Federation appreciates this opportunity to comment on the President's Economic Report and related special messages. While the bulk of our comments will be directed toward the President's recommendations on agriculture, we also desire to comment briefly on some of the President's other recommendations which are of particular importance to our members, either as farmers or as citizens.

The economic report is a valuable document as an analysis of current trends in our economy, a report of Government activities which affect the economy, and a collection of useful economic statistics. The nature, scope, and number of recommendations included in this report, however, seem to us to indicate an undue reliance on Government activities as the way to economic prosperity.

We emphatically agree with the philosophy expressed on page 95 of the report to the effect that, as important as governmental activities and policies are—

> we must never lose sight of the fundamental truth * * * that the lasting prosperity of our Nation depends far more on what individuals do for themselves than on what the Federal Government does or can do for them.

Taken as a whole, the recommendations in the economic report seem to us to advocate far more governmental intervention in economic affairs that we believe this philosophy warrants. It is worthy of note that our present agricultural difficulties are largely the result of mistaken governmental policies of past years. Since we got into these difficulties through governmental action, further governmental action will be necessary if we are to have a chance of getting out of them. It should be fully recognized, however, that ill-considered legislation could make our present farm difficulties worse instead of better.

Now I will just try to comment briefly on some of those points that are in the complete text of our statement.

On the recommendations on the soil-bank plan, the American Farm Bureau Federation has for 3 years recommended to the Congress the principles of the soil-bank plan. And we are glad that the President saw fit to endorse one type of soil-bank plan. We have two major exceptions to his recommendations.

One of them is that while we agree that Commodity Credit stocks should be used as a way of compensating farmers for participation, we would restrict the release of these Commodity Credit stocks under the provision in our recommendation to a reasonable amount of what otherwise would be produced on the underplanted acreage.

Then the President's recommendation for a soil-bank program omits one major feature which we consider to be essential to a sound program. This is a section in our plan which provides that farmers shall be required to place soil-depleting cropland in the soil bank in an amount equal to a percentage of the land they currently are devoting to price-supported crops as a condition of eligibility for price-support loans.

This would have the effect of channeling into the soil bank some of the acres that currently are being diverted from controlled crops.

The unrestricted use of these diverted acres is working a hardship on producers of uncontrolled commodities, including livestock and dairy products.

Then we would like also to comment on the President's recommendation that Congress consider eliminating corn allotments, by saying that the present corn allotment program is not working. In 1955, with an allotment of 49 million acres, production was 56 million acres in the commercial corn area And as a result of large supplies, the Secretary of Agriculture has been forced to cut the 1956 commercial area allotment to 43.3 million acres.

In view of this sharp cut from the acreage actually grown in 1956, the Farm Bureau believes that a reduction in corn acreage is more likely to be achieved through participation in the soil bank than through continuation of the allotment program.

We would recommend suspension of the corn allotments, and the adoption of a program to permit a vote by farmers in the fall of 1956 as to whether or not to continue allotments with mandatory price supports or do away with allotments with the discretion left to the Secretary.

We are, however, in more agreement with the President's soil-bank recommendations than with those of the Senate Committee on Agriculture, and particularly call attention to the fact that if the recommendations of the Senate committee dealing with the return to 90 percent of parity price support and the dual parity provisions would prevail, that it would nullify all the good that could come from the soil-bank approach.

The President's message recommended that Congress consider authorizing the sale of limited quantities of Commodity Credit wheat of less desirable milling quality for feeding purposes. The administration bill proposes an annual limit of 100 million bushels on such sales. We are opposed to the dumping of surplus wheat into the domestic feed market. Feed producers already have been forced to share their market with producers of such controlled crops as cotton and wheat, since the acres diverted from these crops have largely gone into feed production.

We agree with the President's emphasis on the importance of continuing and expanding agricultural research. We believe, however, that the allocation of new research funds proposed in the President's budget should be changed so as to make a larger part of the total increase available to State agricultural experiment stations and a correspondingly smaller amount available to Federal research agencies.

We are strongly in favor of the President's recommendations that legislation be passed to relieve the farmer of the burden of Federal taxes in the purchase of gasoline used on the farm. At the same time, we believe that the Federal tax on motor fuel ought to be completely repealed and that this field of taxation ought to be left to the States, for the reasons that, first, the States should assume a major responsibility for financing and expanding highway construction.

If strong and responsible State governments are to be maintained, it is imperative that we leave some responsibility to the States.

Secondly, the States can assume the major responsibility for financing. Financially the States are better able than the Federal Government to take care of the highway financing.

Third, the State governments are assuming the responsibility at the present time. There has been a remarkable increase in highway construction in the last few years.

Fourth, the increased expenditure by the Federal Government is certain to bring wtih it additional controls by the Federal Government over the decisions that now are made by State governments.

On Federal aid to education, we do not believe that Federal grants for public elementary school construction are necessary or desirable except in school district which are experiencing severe financial burdens as a result of Federal projects. We maintain that the control, administration, and financing of our public-school system must remain identified with the smallest unit of Government capable of satisfactory performance.

The Farm Bureau strongly supports the active use of monetary and fiscal policies to maintain a relatively stable general price level as a means of providing a favorable climate for economic growth, high employment, and rising productivity. We are somewhat dubious, however, with respect to some of the Government's present and proposed operations in the credit field.

We note, for example, that the maximum maturity of mortgages that are eligible to be insured or guaranteed by the Government was reduced from 30 to 25 years in July and then restored to 30 years in December. It may be appropriate to change the maximum period for which the Government will guarntee mortgages from time to time. However, such frequent changes in the permissible length of mortgages the Federal Government will guarantee seems to us to represent an effort to exercise an undue degree of control over the activities of the construction industry.

We are rather doubtful of the wisdom of the President's suggestion that this authority for regulation of consumer credit be reestablished on a standby basis. While a case can be made for the regulation of consumer credit, we are fearful that this power might be used to exercise an undesirable degree of control over individual industries.

As a general rule, we believe that the Government should concern itself with the overall supply of money and credit, and the prevention of credit abuses, rather than to try to artificially stimulate or retard individual industries by credit regulations.

The Farm Bureau believes that in the present state of the economy, debt reduction should have priority over tax reduction. We therefore agree with the President that under present conditions there should be no tax reduction which would have the effect of unbalancing the budget.

We are in general agreement with the President's recommendation for action to promote a greater international flow of goods and capital. This is of particular importance to agriculture, with the existing surplus situation and our current capacity for high-level production.

We appreciate very much the opportunity to appear before the committee.

Chairman DOUGLAS. Thank you very much, Mr. Shuman.

(The prepared statement of Mr. Shuman, in full, is as follows:)

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION

The American Farm Bureau Federation appreciates this opportunity to comment on the President's Economic Report and related special messages. While the bulk of our comments will be directed toward the President's recommendations on agriculture, we also desire to comment briefly on some of the President's other recommendations which are of particular importance to our members, either as farmers or as citizens.

The Economic Report is a valuable document as an analysis of current trends in our economy, a report of Government activities which affect the economy, and a collection of useful economic statistics. The nature, scope, and number of recommendations included in this report, however, seem to us to indicate an undue reliance on Government activities as the way to economic prosperity.

We emphatically agree with the philosophy expressed on page 95 of the report to the effect that, as important as governmental activities and policies are "we must never lose sight of the fundamental truth * * * that the lasting prosperity of our Nation depends far more on what individuals do for themselves than on what the Federal Government does or can do for them." Taken as a whole, the recommendations in the Economic Report seem to us to advocate far more governmental intervention in economic affairs than we believe this philosophy warrants. It is worthy of note that our present agricultural difficulties are largely the result of mistaken governmental policies of past years. Since we got into these difficulties through governmental action, further governmental action will be necessary if we are to have a chance of getting out of them. It should be fully recognized, however, that ill-considered legislation could make our present farm difficulties worse instead of better.

AGRICULTURAL RECOMMENDATIONS

Soil bank

The most important proposals in the Presidents' recommendations on agriculture relate to the establishment of a soil bank. We in Farm Bureau were happy that the President saw fit to endorse the soil bank—an idea which we have been advocating for more than 2 years. We agree with the general outline of the administration's soil-bank proposal, however, on a number of points we find that it falls short of the policies advocated by our members. We agree that producers of controlled commodities should be encouraged to help bring about a more rapid reduction in existing surpluses by voluntarily underplanting their allotments in return for payments in the form of negotiable certificates drawn against CCC stocks. We would, however, restrict the release of Commodity Credit stocks under this provision to a reasonable amount of what otherwise would be produced on the underplanted acreage.

We also support the establishment of a plan to take other land out of production for periods of not less than 3 years in return for annual payments based on the productive value of such land. We believe that producers should be encouraged to take such payments in such a way as to correspondingly reduce CCC stocks of the commodities that otherwise would be grown on acres thus placed in the soil bank.

We favor the prohibition of harvesting and grazing of land placed in the soil bank. Such a provision is vital to protect the interests of livestock and dairy producers.

We feel it is essential that eligibility for payments under the soil-bank program be made conditional on a finding by the Secretary of Agriculture that the rights of tenants have been protected on an equitable basis.

Land placed in the soil bank should be eligible for agricultural conservation program payments for practices actually performed and future ACP programs should place major emphasis on the encouragement of conservation practices on the soil-bank land.

The President's recommendations for a soil-bank program omit one major feature which we consider to be essential to a sound program. This is a section in our own plan which provides that farmers shall be required to place soil-depleting cropland in the soil bank in an amount equal to a percentage of the land they currently are devoting to price-supported crops as a condition of eligibility for price-support loans. This would have the effect of channeling into the soil bank some of the acres that currently are being diverted from controlled crops. The unrestricted use of these diverted acres is working a hardship on producers of uncontrolled commodities, including livestock and dairy products. The reward for taking land out of production under this phase of our proposal would be eligibility for price support; however, producers agreeing to place such land in the soil bank for 3 or more years would also be eligible for annual payments.

It is not our intention to make this requirement applicable in 1956 to crops sown before the enactment of the proposed legislation or to any crop for which marketing quotas are in effect as the result of a referendum conducted prior to the enactment of such legislation. This part of our program, however, should be put into effect for corn in 1956 as a substitute for corn acreage allotments. In this connection we note that the President has suggested that the Congress may wish to consider the possibility of eliminating corn acreage allotments.

The present corn allotment program is not working. In 1955, with allotments of 49 million acres, production was 56 million acres in the commercial corn area.

As a result of large supplies, the Secretary of Agriculture has been forced to cut the 1956 commercial area allotment to 43.3 million acres. In view of this sharp cut from the acreage actually grown in 1956, the Farm Bureau believes that a reduction in corn acreage is more likely to be achieved through participation in the soil bank than through continuation of the allotment program. We are also recommending that producers in the commercial corn area be offered a chance to vote in the fall of 1956 on whether they want to continue with allotments and mandatory price supports of 75 to 90 percent of parity or go to a program of no allotments with the Secretary of Agriculture determining the level of price support on the basis of avoiding undue fluctuation in corn prices without encouraging uneconomic production.

Limitations on farm program participation

The bill submitted by the Department of Agriculture to carry out the soil-bank program provides that no annual payment to any 1 person with respect to land in any 1 State shall exceed 5,000. Since the primary objective of the soil-bank plan is to dispose of surpluses and balance production with demand, we oppose proposals to limit the amount that any individual producer may earn or receive under the plan.

The President also asked that Congress "consider placing a dollar limit on the size of price-support loans to any 1 individual or farming unit." We believe such a limitation would be unwise and wrong in principle. While it is quite likely that the proposed limitation initially would be established at a rather high level there is every probability that once established any such limitation would be progressively lowered and that it eventually would prove extremely restrictive.

Most of the crops for which price supports are important are under marketing quotas. Producers who violate these quotas are subject to severe cash penalties running to well over half of the market value of the excess production. It is a little difficult to see how we can continue to enforce marketing quota penalties on large producers, if we are going to limit the amount of commodities they may place under price support, or to see how such programs would work if all of the large producers were exempted.

A limitation on the amount of price support loans would tend to encourage the artificial division of farms, place a ceiling on opportunity in agriculture, and force small farmers to produce for the Government rather than the market. The real problem is not the size of the loans that are being made to individuals, but the fact that the Government has been attempting to fix the prices of a few crops at profitable levels for the past several years. Our real need is to get the farm program on a sound basis where everyone will be producing primarily for the market rather than for a Government price support loan. Our recommendations on price support and the soil bank program are designed to move in this direction.

Feed wheat

The President's agricultural message recommended that Congress consider authorizing the annual sale of limited quantities of CCC wheat of less desirable milling quality for feeding purposes. The administration's bill proposes an annual limit of 100 million bushels on such sales. We are opposed to the dumping of surplus wheat into the domestic feed market. Feed producers already have been forced to share their market with the producers of such controlled crops as cotton and wheat, since the acres diverted from these crops have largely gone into feed production. Accordingly, we believe that the release of wheat stocks into the domestic feed market in any one year should be limited to such quantities as the Secretary determines to be a reasonable estimate of the wheat or other feed grains that would have been produced on acreage withheld from production under the soil bank plan.

Quantity allotments

The President recommended that Congress consider replacing acreage allotments on cotton with quantity allotments and the possibility of extending this approach to other marketing quota crops. We doubt the wisdom of this proposal. To begin with, we doubt that it would be politically feasible to keep poundage or bushelage quotas in effect without substantial relaxation in the event that farmers, due to favorable weather or other factors, exceeded their quotas on a widespread basis by any appreciable amounts.

Suppose the Department of Agriculture had issued poundage quotas for 10 million bales of cotton in 1955 instead of acreage allotments which, according to the law, were supposed to result in the production of 10 million running bales, but which actually resulted in production of 14,400,000 bales. It would be argued that farmers should not be penalized for the bounty of nature; that it would be wasteful to leave excess cotton in the field; that this would throw cotton picking labor out of work; that farmers must have some kind of advance to pay picking and ginning costs on the excess; that many cotton producers need income from their excess cotton due to hardships caused by such things as drought, reduced production of other commodities, or lower prices for such commodities; and that farmers are not in a position to store the excess without a support program.

In the case of wheat, bushelage quotas inevitably would lead to a multiple-price system under which overquota wheat would be dumped into domestic or foreign markets at cut-rate prices.

Research

We agree with the President's emphasis on the importance of continuing and expanding agricultural research. We believe, however, that the allocation of the new research funds proposed in the President's budget should be changed so as to make a larger part of the total increase available to the State agricultural experiment stations and a correspondingly smaller amount available to Federal research agencies.

HIGHWAYS

We are strongly in favor of the President's recommendation that legislation be passed to relieve the farmer of the burden of Federal taxes on the purchase of gasoline used on the farm. At the same time, however, we believe that the Federal tax on motor fuel ought to be completely repealed and that this field of taxation ought to be left to the States.

We are opposed to the President's proposals for a major expansion in Federal spending for highways for the following reasons:

1. The States should assume the major responsibility for financing an expanded highway construction program. If strong and responsible State governments are to be maintained, it is imperative that we leave with State governments the responsibility for performing those functions which they can perform. Otherwise governments are likely to become mere administrative agencies for the Federal Government.

2. State governments can assume the major responsibility for financing highway construction. Federal money is not free money. It is paid for with taxes. State governments are just as capable of levying the increased taxes to pay for an expanded highway construction program as is the Federal Government. Financially, State governments are in far better shape than the Federal Government, as evidenced by the fact that the total indebtedness of the 48 State governments at the end of the last fiscal year for which information is available was only $9.6 billion.

3. State governments are assuming responsibility for an expanded highway construction program. Total highway expenditures have increased from $2.8 billion in 1947 to $7.2 billion in 1955. This is about as sharp an upward trend as we will ever find in our economy. Almost all of these additional funds have been provided by non-Federal units of government, since Federal highway appropriations have been only $300 to $700 million per year during these years. It is to be expected that this upward trend in non-Federal expenditures for highways will be continued through further increases in the number of vehicles on which registration fees are paid, an expanded use of gasoline on which State gasoline taxes are paid, and increases in State registration and gasoline taxes. In 1955 alone, 14 States increased their gasoline taxes.

4. Increased expenditure by the Federal Government is certain to bring with it additional control by the Federal Government of decisions heretofore made

by State governments. For example, most of the bills in the Congress provide for Federal regulations of hours and wages on all federally aided highway construction, Federal restrictions of the weight and length of trucks which may be used on the highways (which are the property of the States), and exercise of Federal right-of-way and limited access authority. Other restrictions overriding State laws may be anticipated once the precedent is established.

FEDERAL AID TO EDUCATION

We do not believe that Federal grants for public elementary school construction are necessary or desirable except in school districts which are experiencing severe financial burdens as the result of Federal projects. We maintain that the control, administration, and financing of our public school system must remain identified with the smallest unit of government capable of satisfactory performance.

FLOOD INSURANCE

We do not have a position at this time on the President's recommendations for a joint Federal-State flood indemnity program. We would like, however, to raise a question with respect to this proposal: If Federal and State governments are to undertake a program of "indemnifying flood victims on losses to real property, business inventories, and household effects," will it not be necessary for the Federal and State governments to regulate construction in flood hazard areas and otherwise require potential flood victims to take certain precautions against losses?

REGULATION OF CREDIT

The Farm Bureau strongly supports the effective use of monetary and fiscal policies to maintain a relatively stable general price level as a means of providing a favorable climate for economic growth, high employment, and rising productivity.

We are somewhat dubious, however, with respect to some of the Government's present and proposed operations in the credit field. We note, for example, that the maximum maturity of mortgages that are eligible to be insured or guaranteed by the Government was reduced from 30 to 25 years in July and then restored to 30 years in December. It may be appropriate to change the maximum period for which the Government will guarantee mortgages from time to time, however, such frequent changes in the permissible length of the mortgages the Federal Government will guarantee seems to us to represent an effort to exercise an undue degree of control over the activities of the construction industry.

We are rather doubtful of the wisdom of the President's suggestion that authority for regulation of consumer credit be reestablished on a standby basis. We do not question the fact that there have been some abuses in the extension of consumer credit, particularly in the automobile industry. We recognize also that such abuses can have an unsettling effect on the economy. For example, easy credit undoubtedly helped to push automobile production to a record level last year, by borrowing from sales that normally would have been made this year. As a result, production and employment in the industry rose to a level which apparently cannot be sustained this year. While a case can thus be made for the regulation of consumer credit, we are fearful that this power might be used to exercise an undesirable degree of control over individual industries. This fear is strengthened by the President's recommendation that both the size and the maturity of home repair and modernization loans which may be insured by the Federal Housing Administration be increased and his comment that this "would permit a liberalization of terms if and when some stimulation of the construction industry becomes desirable."

As a general rule, we believe that the Government should concern itself with the overall supply of money and credit and the prevention of credit abuses—rather than to try to artificially stimulate or retard individual industries by credit regulations.

THE FEDERAL BUDGET

The Farm Bureau believes that in the present state of the economy debt reduction should have priority over tax reduction. We, therefore, agree with the President that under present conditions there should be no tax reduction which would have the effect of unbalancing the Federal budget. The day when the present heavy burden of taxation can be lightened can be hastened if the Congress will insist on strict economies in all Government functions and at the same time avoid approving unnecessary new expenditures. In the meantime, we would like to see the reduction or elimination of the excise taxes which affect agricultural production and distribution costs, including—for example—the 3 percent tax on freight charges.

PROMOTING INTERNATIONAL FLOW OF GOODS AND CAPITAL

We are in general agreement with the President's recommendations for action to promote a greater international flow of goods and capital. This is of particular importance to agriculture. With the existing surplus situation and our current capacity for high level production, agriculture desperately needs larger foreign markets. Accordingly, we favor the simplification of United States customs laws and regulations; the proposal to extend the lending authority of the Export-Import Bank beyond June 30, 1958; ratification of the agreement to establish an organization for trade cooperation; and consideration of a revision in the corporate tax rate on income from investments abroad with comparable treatment for individuals who invest abroad. In connetcion with this latter point it is our understanding that the President's recommendations deal only with the taxation of corporate income from foreign investments.

We also favor continuation and improvement of the technical assistance program, but believe that greater emphasis should be given to the development of resources and industries which will complement the economies of other nations rather than to give primary emphasis to agricultural development. We believe that economic aid on a grant basis seldom accomplishes its intended purpose, but instead tends to weaken our economy as well as that of recipients. Accordingly, we recommend that monetary grants to foreign countries be replaced by loans on a basis which will assure the opportunity to repay the United States in goods or services.

In conclusion, I again want to express appreciation for the opportunity to discuss the economic report with you.

Chairman DOUGLAS. Mr. James G. Patton, who was to testify this morning, has found it necessary to be in Denver at an executive meeting of the Farmers Union. He will, therefore, not be present this morning, but he has submitted a statement for the record, which will be printed at this point.

(The prepared statement of Mr. Patton, in full, is as follows:)

ECONOMIC REPORT OF THE PRESIDENT FALLS SHORT OF ADEQUACY

Statement of James G. Patton, President, National Farmers Union

President Eisenhower's Economic Report appears to view the greatest problem of the 1956 economic outlook to be too rapid growth of the economy. In my opinion, probable further drops of farm family income and increased unemployment resulting from too slow a rate of growth and the administration's widespread application of sliding scale farm prices are the major economic problems of the year ahead. I hope I am wrong. But farm family income in 1956 should be at least $4 billion higher than the Department of Agriculture now predicts. I wish I could share the President's rosy view of the trend of economic affairs. But I do not and cannot unless this Congress acts, much more resolutely than the President has recommended, to raise farm family incomes by $4 billion in 1956 and to provide for at least a 6 percent expansion of the national economy in 1956 over 1955.

The President's Economic Report, also, falls short of adequacy because it does not, as is clearly called for by the Employment Act of 1946, make any projection of national economic goals either for the year ahead or for the short run future as to the production, consumption, and income required to maintain a maximum level of employment in our free enterprise economy.

The Economic Report makes no projection of prosperity budget for farmers income but simply reiterates the arguments in favor of the sliding scale idea and urges adoption of the President's completely inadequate recommendations included in his message on agriculture, parts of which have since been withdrawn under strong pressure from Senators of his own party.

The Economic Report speaks (p. 54) of carryovers of farm commodities as "Huge * * * far beyond liberal estimates of desirable reserves." Yet the report presents no statement or tabulation for the different commodities as to what would constitute a "desirable reserve."

The report admits (p. 56) for the first time officially, that sliding scale farm price policies were put into effect as rapidly as the law allowed; beginning for most crops, milk, and livestock products in 1953.

The report, also, repeats the untrue contention that farm income fell because of operation of the firm supports provided by law for a few commodities for 1953 and 1954 by the Cooley-Young-Russell law.

The report does not admit, what everyone who has studied the situation knows, that there was an increase in acreage and production of every farm commodity to which sliding scale price policies were applied except those for which acreage allotments or marketing quotas were in operation.

But even more important than its repetition of the, by now discredited, arguments in favor of the sliding scale is the failure of the report to project any constructive and positive program whereby farm family income in the United States will be raised to the level specified by the Agricultural Act of 1948, and as promised by the successful 1952 candidate for President: A full parity of income so that farmers may earn by their labor, property ownership and management per person family incomes equivalent to those that can be earned by people in other walks of life.

Since the Economic Report does not project a forceful dynamic program to restore farm family income to its proper level, I am attaching to this statement my own analysis of the situation and my own recommendations of what should be done. I hope you will consider these along with the inadequate recommendations included in the Economic Report. I request that the attachment be included in the record of these hearings.

Also attached is a brief listing of the farm legislative proposals included in the Economic Report and a brief notation of our position relative to each. I request that this brief list be made a part of your record.

If a comprehensive full parity family farm income protection along the lines of the program recommended in attachment A should be enacted into law and administered faithfully to make it work in the national interest, I feel sure that it would not be a drain on the Treasury, would raise farm family income by at least $4 billion in 1956, and by making retroactive full parity production payments on 1955 crops and 1955 sales of livestock and products, would cut farmers in on some of the record national prosperity in 1955 in which they did not share.

I appreciate having this opportunity to express my views concerning the inadequacies of the 1956 Economic Report.

(Attachment A)

Farm Family Income Must Be Raised

Complete Statement of James G. Patton, President, National Farmers Union

Why We're Here

Farm income is at depression levels. The Economic Report should have suggested effective ways of improving that deplorable situation.

Farm family income is down by almost one-third from 1952. Hog prices in December 1955 were only 50 percent of parity. Cattle prices continue at a level below 60 percent of parity in many areas of the country. Grain sorghums, oats, corn, rye, barley, cottonseed, and many other farm commodities hover at only 60 percent of a fair price.

Net incomes of average farm families have dropped drastically. In the midst of widespread national prosperity, farm families are having forced upon them the heavy hand of dire poverty.

The Measure of Our Duty

Farm families are severely suffering, economically.

Yet over 20 million men, women, and children in the United States do not have enough food for good nutrition, because they lack the purchasing power to buy it.

Those are the two major dimensions of the Nation's most critical economic problem that brings us here today in concern and anxiety.

WHAT DID IT?

Sliding scale farm price programs, lack of sufficient credit adapted to family-farm needs, and the historically chronic adverse terms on which farm families must trade with big industry have combined since 1952 to force nearly 400,000 farm-operator families off the land and to turn practically all of rural America into a depressed area. The recent farm depression imposed by official Federal policy has been loaded on top of large pockets of longstanding rural poverty which resulted from and were allowed to persist primarily because of insufficient family-farm credit and farmers' chronically adverse terms of trade.

NOT FARMERS ALONE

Not farmers alone but all the people and institutions of the community and trade area suffer from narrow economic opportunity and inadequate standards where farm-family incomes are too low. Farm income is the primary source of economic activity in rural America. The profits of small business in rural America are low and falling because farm-family income is low and falling. Salaries that public servants, professional people, clerical employees, and other white-collar workers can earn in rural America are low and stay low because farm-family income is low and falling. Wage rates of hired workers are low and stay low in rural America because farm families' incomes are low and falling. Public institutions and services in rural America are unable to maintain adequate standards because farm families' incomes have been low and are falling.

As sure as night follows day, farm depression and rural depression become translated into increased unemployment and depressed national income.

FUTURE FOOD AND FIBER SUPPLY

During these years, farmers are able to produce a continuing abundance of food and fiber for the Nation's current needs. In fact we are producing slightly more than consumer dollar demand will take at fair prices to farmers.

Yet in only 20 years the United States Bureau of the Census believes that we shall have 228 million people in the United States, 62 million more in 1975 than now, an increase of nearly 40 percent. Almost 1 additional plate to fill for each 2 being filled today. To fill those 62 million additional plates will require a tremendous expansion of national farm production.

May I remind the committee, the average age of America's farmers is dangerously close to 60. And current low prices and income-earning opportunities are not much incentive to keep a new generation of farmers on the land. Is it wise national policy to take a chance that we may have to few farmers to produce the food needed by 228 million people in 1975?

May I remind the committee, also, of what happens to the farm equipment and buildings, to the soil and water resources when farm income is depressed? Farmers are forced to mine their soil and wear out their farm plant to cover family living costs and stay out of bankruptcy courts. Is it wise national policy, with our rapidly expanding population, to promote and force the rapid depreciation and erosion of our farm-production resources?

NEED TO RAISE FARM INCOME

The demands of national best interest in future food supplies and maintenance of maximum economic growth, as well as the demands of economic justice to farmers coincide to speak eloquently that we must move rapidly to raise farm income. In 1955, farmers suffered severe depression in the midst of national prosperity. We can and should make up for that. The official Department of Agriculture prediction is for a still further drastic drop in farm income in 1956. We can and should prevent the drop and raise farm incomes to a full parity level.

Let us not try to mislead farmers into believing that "bargain" sales of Commodity Credit Corporation farm commodities and further reduction of allotted acres of four crops will do anything to solve the central problem of low farm income. The only solution to the problem of farm income is to repeal the sliding scale and substitute for it a fully adequate level of farm income protection and price supports.

MANDATORY 100 PERCENT OF PARITY

The administration has shown no willingness nor indication to raise price support levels above the prices that would prevail in the so-called free market. The only available remedy now is specific mandatory legislation that will require them to maintain returns or prices for the family-farm production of all farm commodities at 100 percent of a fair parity price.

A FAIR PARITY PRICE

National Farmers Union continues to urge the repeal of the so-called modernized or rollback parity-price formula in existing law. It should be replaced by a formula giving farmers a return for the increasing productivity per hour of human work in farming that will enable farm families to earn an income from their work, management, and property ownership comparable to those incomes that can be earned by people in other walks of life. And specifically we point out the immediate need (1) to set aside the transitional formulas that go into effect this year for the first time, and that will still further reduce parity prices in the years immediately ahead, (2) to restore the so-called parity-equivalent price for manufacturing milk to at least its pre-Benson relationship to the parity price for all milk; and (3) to provide parity prices for the secondary feed grains on a feed value equivalent to corn at 100 percent of the 1955 formula.

May I point out that the Benson manufacturing milk formula, the transitional formulas, and the so-called modernized formulas, can only work to heap more hardship upon farmers whose prices have already been allowed to drop too low.

EVERY FARM COMMODITY IS BASIC

Who is there among us who would be willing to say that the ranchers who raise cattle are not as good, some way, as those who market wool from sheep; that hog raisers are not as qualified American citizens as sugarcane and sugar beet growers?

Who among us would be willing to assert that any commodity is not basic to the family that produces it to try to make a living? How can any of us say that wool and sugar should be supported above 100 percent of parity but all other commodities should be relegated to the economic basement?

May I say again that what we're talking about is what we are going to do as a nation to raise farm-family income substantially above the lamentably low level to which it has fallen and to which it is now expected to fall further in 1956.

To do that we cannot confine our income protection and price support efforts to a small list of a few commodities. Our provision for an adequate program must cover 100 percent of parity income protection and price support for all the commodities farm families produce.

ONE HUNDRED PERCENT OF PARITY

If we write a correct parity-price formula as a way of determining a fair price to farmers, let us not try to convince ourselves, or anyone else, that farmers, alone among the population, should be asked to accept some partial percentage of the fair price all of us have asserted in the formula to be just and right.

PRODUCTION PAYMENTS

As I pointed out to your committee in June 1955, the price-supporting methods authorized in existing law have gross disadvantages and weakness when they must be used as the exclusive means of protection of farm-family income. I shall not take the time of the committee to repeat my testimony on these.

However, I do urge you now to include in the proposed legislation an authorization for the Secretary of Agriculture to use production payments and that you direct him to use them in workable combination with the price support methods already authorized.

MAKE PARITY PRODUCTION PAYMENTS ON 1955 HARVESTS

Farm families suffered severely in 1955. Almost everyone else in the country was enjoying the highest personal and corporate incomes in the history of the world. I urge that you direct the Secretary of Agriculture to make parity level production payments on 1955 crops, and on milk, butterfat, poultry, eggs, and livestock products sold in 1955. This will help to cut farmers in on a part of that prosperity.

FAMILY FARM ELIGIBILITY

The maximum eligibility of any one family unit for Federal farm-income protection and price supports should be limited to the maximum production of a fully adequate family farm, with the upper limit defined as a farm unit of not greater than a size where an average operator family performs the bulk of the labor and management required for production.

The limitation should not be set so low that any bona fide family farm is excluded from full eligibility for income protection and price supports. Nor should it be set so high that unfair competition against family farms by industrial agricultural production units is encouraged.

Any farm unit operated by a family or a group of two or more families, including industrialized units, should be eligible for 100 percent of parity-income protection and price support on all the commodities they produce up to the specified limit for each family or farm unit.

PRICE REPORTS AND INCOME PROTECTION FOR FARM TIMBER PRODUCTS

A significant share of the family income of farm operating families in a large geographical crescent extending from Minnesota through Wisconsin, New England, New York, Pennsylvania, Maryland, Virginia, the great Southeast, and extending into Louisiana, Arkansas, Missouri, and eastern Texas and Oklahoma is derived from the cutting, hauling and sale of farm forest products. As things stand today these farmers are required to sell their timber and its products into a largely monopolistic market that has been very largely insulated from supply and demand forces.

The Department of Agriculture does not now publish price reports on these important farm timber products as it does on wheat, cotton, corn, cattle, and hundreds of other farm-produced commodities.

I recommend that you authorize and direct the periodic gathering, tabulation, and publication of accurate price reports on farm timber products.

To provide a source of income protection for that part of farmers' income derived from timber and its products, I recommend that the legislation relating to agricultural marketing agreements and orders be amended to authorize their use by farmers who sell timber products harvested from their farms.

EXPANDED HUMAN CONSUMPTION OF FARM ABUNDANCE

Just as the needs and opportunities of our times demand the repeal of Adam Smith ideas of the so-called free market for farm commodities, so do they call for the repeal of John Smith ideas of who shall have enough to eat and wear.

We are living in an age of plenty. We should not, and we need not, allow the condition to continue where over 6 million families and 2 million individuals, unattached to a family, are unable, because of lack of income, to buy all the food they need for good nutrition or enough fiber products for an adequate standard of well-being.

To remedy this situation and to augment the money demand for farm commodities, I strongly urge the adoption of the following direct-action consumption expanding programs:

Adoption of a nationwide food allotment stamp plan along the lines of pending food allotment and food certificate bills.

Expansion to all schools of the national school-lunch program now serving less than one-third of the schools; and doubling of the average Federal contribution per pupil per day.

Improvement and expansion of the fluid milk for schoolchildren program to provide free at least two half-pints of milk per child per day and pay local school district administrative costs.

Adoption of a credit program to encourage modernization and improvement of perishable farm commodity terminal markets along lines of a pending bill that has been referred to your committee.

Adequate nutrition standards for the Armed Forces and veterans hospitals, penal institutions, hospitals, and other public and private nonprofit agencies by means of commodity donations or food subsidies.

EXPAND EXPORTS

Much of the proposed legislation required to greatly expand exports of farm commodities is under consideration by the Senate Committee on Foreign Relations. Therefore, I shall confine my statement here to those phases that come under the cognizance of your committee.

We continue to urge the renewal and expansion of both the funds and purposes of the Agricultural Trade Development and Assistance Act. The appropriation authorized for title I (soft currency sales) should be raised to at least $1 billion per year with the appropriation under title II (for donations) raised to at least $600 million per year.

The purposes for which soft currencies and donations of commodities may be made should be expanded to include their use to promote and facilitate the establishment of nationwide systems of universal free general and vocational education in countries not now having them. The Administrator of the International Cooperation Administration has stated that illiteracy and low educational standards are major handicapping factors against more rapid economic development and higher living standards in many areas of the world. I know this to be true from my own studies and observations in many of these countries.

RENEW AND EXPAND BRUCELLOSIS INDEMNITY PROGRAM

The existing brucellosis indemnity program should be expanded and its termination date extended. The full burden of rapid elimination of this disease should not fall upon milk and butterfat producers whose family incomes have already been cut nearly in half by sliding-scale price-support policies.

RECOMMENDS CONSERVATION ACREAGE RESERVE

We are opposed to the soil bank as recommended by President Eisenhower and as explained by Secretary of Agriculture Benson.

First, we do not believe that production and marketing controls of any kind should be used to reduce carryover. Existing supplies of any commodity should be placed in a national safety reserve completely insulated from any effect upon prices in the market. Planned current production for any year should not be set that year below expected domestic consumption and exports, augmented by programs mentioned earlier, that will return parity rewards to farmers in a full-employment economy.

Secondly, phase 1 of the soil bank is not designed to improve farm prices and income but will aid only in selling a part of Commodity Credit Corporation owned stocks at bargain basement prices into the usual channels of trade. As far as being a program to help farmers' income, phase 1 of the soil bank is nothing more than a wheelspinning exercise in futility. This is true whether the scope of the program is a dollar a year or $3 billion a year. The farmers agree not to produce a bushel of wheat or a bale of cotton and Mr. Benson takes a bushel or bale out of his stock and sells it.

Third, phase 2 of the soil bank proposed by President Eisenhower is only one-third as large as it needs to be if it is to be effective in helping to raise farm-family income. In addition to the vast conservation values, the major farm-income benefit of the conservation acreage reserve introduced by Senator Humphrey in the Senate and by several Representatives on the House side and approved by National Farmers Union is: That for each 1-percent reduction in total United States farm production that the plan is effective in bringing about, the 1-percent cut will have a tendency to raise prices received by farmers by about 6 percent.

Prices received by farmers in December 1955 in a full-employment economy would have to be raised by 25 percent to put them where they ought to be. This indicates a needed production cut in 1956 of at least 4 percent from 1955. To obtain this size cut in marketings would probably require an acreage drop in the neighborhood of 8 percent. To do this would mean that about 30 million acres of cropland and an equal acreage of pasture should be placed into a conservation acreage reserve and not used for commercial production in 1956. This is a total of 60 million acres instead of the 25 million proposed by the administration.

The administration's soil bank phase two proposal apparently contemplates an average per acre payment of only $14 ($350 million divided by 25 million acres). In our opinion, this proposed payment is too low to effectuate the purposes of the voluntary conservation acreage reserve we have proposed.

Secretary Benson agreed before the committee last week that the per acre payments should equal slightly more than the net income per acre the family could earn by using that acre for commercial production. His statement omitted land ownership costs, taxes, and other land charges which would have to be covered by the payment in addition to net income.

And in addition, Secretary Benson's statement left unsaid a very important consideration. The main question is the net income to be covered is that earnable at what level of parity? The present low 60 to 80 percent of parity to which farm prices have been allowed to drop or at the 100 percent of parity level where they ought to be? Obviously the difference is quite important to farmers' net income. The difference is of more than 40 percent in the size of payment per acre.

We fully support the recommendations: (1) That the conservation acreage reserve be completely voluntary, and not cross-compliance in disguise; (2) that adequate protection for tenant operators be incorporated in the program. This we feel should take the form of requiring that the reserve contracts be made between the Secretary of Agriculture and the farm operator whether he be owner or tenant. The tenant can then make his customary deal with his landlord. No landlord would be eligible to participate who had reduced the number of tenants on land owned by him. And (3) the prohibition of haying and grazing on reserve acres to forestall the development of new competition against milk producers and cattle raisers whose incomes are already much too low. Augmented payments for small- and low-income farmers should be incorporated in the legislation.

Moreover, completely adequate criteria should be written into the legislation to provide full protection to consumers from misuse of the device to bring about artificial food scarcities.

Taking these considerations into account, we recommend that phase 1 of the soil bank not be enacted and that phase 2 be improved and expanded into a fully effective voluntary conservation acreage reserve. Our current calculations indicate a need for $1 billion for conservation award payments and $500 million for the augmented ACP program or a total of $1.5 billion per year. My recommendation is for about $100 million less Government expenditures than the administration's total figure. But it will be at least three times as effective in raising farm family net income.

And concern for raising farm net income, gentlemen, is the main reason we are here today.

I hope you will seriously consider and adopt these suggestions we have made.

ALL OF RURAL AMERICA IS A DEPRESSED AREA

All of rural America including the long-time distressed areas has been depressed and is in grave danger of becoming permanently distressed.

The simple facts of the already serious and growing depression in the rural area are quickly told.

There was a 70 percent drop from 1952 to 1954 in the profits of small manufacturing corporations which are much more prevalent in rural areas than large corporations whose profits increased by 21 percent. Corporate income after taxes of wholesale and retail corporations which are relatively more prevalent in rural areas dropped by 3 percent from 1952 to 1954 while corporate income of industrial corporations increased by 6 percent.

FALLING FARM FAMILY INCOME

Net income of farm operator families dropped from $14.9 billion in 1952 to $10.6 billion seasonally adjusted annual rate in the third quarter of 1955. This was a drop equal to one-third of the current farm income level in 3 years.

This drop in net farm family income did not result from soaring farm production expenses as certain loud and loquacious sliding scale advocates have tried to imply in recent speeches. Actually annual farm production expenses dropped from $22.8 billion in 1952 to an annual rate of $21.9 billion in the third quarter of 1955.

$4.7 BILLION DROP IN FARM GROSS INCOME

Net farm family income dropped in spite of lower production expenses, because realized gross farm income dropped by $4.7 billion from $36.9 billion in 1952 to $32.2 billion in the third quarter of 1955. Here is a basic measure and cause of depression in rural America. In 1955 farm families had $4.7 billion less to spend to buy production goods from local merchants and cooperatives and goods and services for family living. Retailers in rural areas of America had $4.7 billion less sales, than they would have had if gross farm income had been maintained at the 1952 level. These retailers had $4.7 billion less from which to pay taxes, hire employees and place orders with wholesalers, and correspondingly less profits for use of their own families who purchase from other local retailers and professional people.

Aspersions have been cast the last few years upon the efficiency and productivity of family farmers as if to imply this was the cause of falling farm income. The truth is the drop in gross farm income from 1952 to 1955 occurred in spite of an 8 percent increase in farm output.

SLUMP IN PRICES RECEIVED BY FARMERS

Farm gross income fell from 1952 to 1955 not because of a failure in farm efficiency but because prices received by farmers for the products they produce and sell suffered a 19 percent drop from 1952 to October 1955. Not decreased production nor increased production expenses but the drastic drop in prices received by farmers is the immediate reason that gross and net income of family farmers fell. Falling prices of farm commodities is the direct reason that all rural America is an increasingly depressed area and is rapidly becoming a universally distressed area.

SLIDING SCALE PROGRAM BROUGHT PRICE DROPS

Owing to the adverse terms of trade under which farm families must deal with the rest of the economy in the absence of a specific farm income support program, farm income and farm prices are made in Washington. In October 1952 before it was known that sliding scale advocates would be victorious in the election in early November of that year, prices received by farmers stood at 100 percent of parity. Immediately after the election farm prices dropped below parity and on inauguration day stood at a few points above 90 percent of parity where they could have been held under existing legislative authority. Instead of holding the line at not less than the 90 percent of parity level authorized by law, the administration placed the sliding scale program into operation dynamically and progressively.

The falling farm family incomes of the last 34 months are a direct result of the progressive application of sliding scale farm price support policies. This process was initiated with cuts in the support levels of feed grains and oil seeds of 5 percent with subsequent cuts each year since. The total cut in support levels for these commodities now has reached a disastrous degree. Support levels have been dropped for barley from $1.22 in 1952 to 94 cents in 1955; for oats from 78 cents to 61 cents; for rye from $1.42 to $1.18; for grain sorghum from $2.38 to $1.78; for flaxseed from $3.77 to $2.91; for soybeans from $2.56 to $2.04; and cottonseed from $67 per ton to $46 per ton. All of these price cuts by the administration reduced farmers' gross income lower and lower each year for the producers of these commodities. These prices and income cuts were on top of the relative poverty of more than half of these producers whose family incomes in 1952 were less than $2,000.

On April 1, 1954 the support level for milk and its products was dropped by 17 percent, from 90 to only 75 percent of parity. This action alone translated itself into a 40 percent cut in net family income of producers of manufacturing milk. Again this was a very heavy cut to impose upon milk-producing farm families, almost two-thirds of whom had incomes in 1952 of less than $2,000.

During the period since January 1953, no price support action at all was taken by the Federal Government to stop plummeting egg and poultry prices, which dropped to postdepression lows in the fall of 1954. No effective price support action at all was taken to stop the drop of beef cattle prices from the 90 percent of parity level authorized by law that prevailed in early 1953. To the contrary, the average level of prices for beef cattle was allowed to drop to less than 70 percent of parity. The price received by farmers for hogs has been allowed to drop during the past year from $19.70 per hundredweight to $14.50, national averages. And no price-support action has yet been initiated even though the price of hogs was down to only 69 percent of parity in October 1955. The meager pork purchase program announced in late October will add not more than 33½ cents per hundredweight to the low prices of hogs in the next 10 months, less than 2 percent of parity price.

Now in 1955, even the prices of basic commodities have been put on the sliding scale. For example, the support price for wheat was dropped from $2.40 per bushel in 1954 to $2.08 in 1955, and a further cut in 1956 to $1.81 per bushel under the Agricultural Act of 1954 has already been announced by the Secretary of Agriculture. In 1956 corn will be dropped to $1.38; rice to 75 percent of parity; cotton to 80 percent of parity and parity itself for these commodities is being cut by 5 percent.

SO-CALLED FREE MARKET WEIGHED AGAINST FAMILY FARMERS

Economic history of the past 45 years for which statistical evidence is available indicates that free market terms of trade are adverse to farmers at all times except in those few years when the total national economy grows by 10 percent or more above the previous year. In all other than such exceptional years, farm prices and incomes will fall unless a firm and adequate farm income protection program is kept in operation. When sliding scale price policy was placed into operation farmers were placed increasingly on the untender mercy of the disadvantaging forces of the so-called free market.

The adverse trade conditions of family farmers bear very heavily upon them. Almost all family farms today are commercial farms. They must buy almost 90 percent of the machinery, and supplies used for farm operation and modern farm living. They sell over 89 percent of what they produce. The terms they trade on make a big difference in the standard of living the family is able to earn.

The prices of things that farmers buy, both production and family living items, are retail prices like the prices all consumers pay. These retail prices, and the wholesale prices behind them, are administered-prices—prices set by manufacturers, money-market bankers, railroad companies, and others, on the basis of their ability to withhold supply to maintain the set price. Experience has shown that these prices paid by farmers and consumers rise fast enough in periods of inflation. However, experience has also shown that the prices paid by farmers for things and services they must buy from nonfarmers do not drop very much even in periods of economic stagnation. This is because manufacturers and the others, protected by tariffs and corporation laws and Government commissions, can hold down production and maintain price, partly, because of the small number of firms in each industry. They can do so profitably because overhead fixed costs are a small proportion of total costs, thus enabling them to make large cuts in cost as a result of reduced production.

On the other hand, there are about 3½ million farmers selling in competition with each other. None of them controls a significantly large enough share of the total market to raise prices received by withholding supplies from the market. Nor have they been able successfully to band together voluntarily to do so. Moreover, unlike the industrialist, a farmer's fixed costs are a very high proportion of total costs. He cannot reduce costs much by curtailing production. Operating alone the only out for the individual farmer is to produce more as long as he can to raise gross income by increasing volume of sales. The increased supply resulting from 3 million farmers each doing this causes a very large drop in prices received by farmers. The nature of demand for food and clothing is such that a small percentage increase in supply or decrease in demand will cause a six times greater percentage drop in prices received by farmers.

Coupled with these adverse terms of trade for farmers is the tendency for improved farm technology to cause farm production to increase faster than population and improving diets even if special governmental consumption expanding measures are put into effect.

With family farmers under these adverse terms of trade, sliding scale price policies brought farm price drops which in turn lowered gross and net farm family incomes and were the immediately cause of the developing depression in rural areas.

MEXICAN LABOR IMPORTATION CONTINUED

Although the number of unemployed in the United States increased from 1.7 million in 1952 to 3.2 million in 1954, the program to import cheap farm labor from Mexico for employment on larger-than-family farms was extended. While this program provides an inadequate minimum wage requirement for imported Mexican labor, United States citizens who work in large industrialized farm units are not protected even to that inadequate extent. Efforts to extend coverage of the United States minimum wage law to industrialized agricultural production and processing concerns was successfully resisted.

EFFORTS TO CUT FARMERS' HOME ADMINISTRATION

The only agency of Government set up to serve as a "yardstick" family farm credit source, particularly for low-income farm families, is the Farmers' Home Administration. Although the Congress fortunately refused to go along fully, the Administration has each of the 3 years it has been in office recommended a cut in loan authorizations for that agency. Funds requested for farm and home management technical advisory and other services were cut from $29.4 million used by that agency in 1952–53 to $24.5 million.

Local farm and home management advisers of Farmers' Home Administration were cut from $2,203 in 1952 to $1,500 in 1954.

Moreover, in the early spring of 1955, the rate of interest on disaster loans made by that agency were raised by administrative action from 3 percent to 5 percent. Although Congress later reversed this action, farmers' incomes were severely reduced in the interim.

CROP INSURANCE PROGRAM WEAKENED

The adverse effects of sliding scale farm price policies and of farm credit restrictions were made even more grievous and painful by actions taken by the Administration to raise premium charges and reduce coverage of the Federal crop insurance program. The program was completely removed from counties and crops where most needed the past 2 years.

FARM DEPRESSION GROWS AND GROWS

The outline of farm depression is simple and clear.

1. National economic policies of the past 36 months did not provide for or allow a sufficient national economic growth rate to prevent falling farm prices and income in the absence of a firm farm income protection program.
2. Instead of firm farm supports, the sliding scale policies were placed in operation.
3. Average prices received by farmers dropped by 19 percent from 1952 to 1955.
4. Consequently gross farm income dropped by $4.7 billion in spite of an 8 percent increase in physical volume of farm markets.
5. Consequently net farm income dropped by 29 percent.
6. Unless currently scheduled sliding-scale farm-price plans for 1956 are reversed a further drop in farm family income in 1956 is certainly to be expected.

CHRONIC RURAL POVERTY

The recently growing farm depression brought on by inauguration of sliding-scale farm-price-support policies has compounded an underlying problem of persistent rural poverty in areas where the basic disabling farm factors of insufficient family farm credit and farmers' disadvantageous terms of trade have resulted in long-existent pockets, communities, and areas of persistent and debilitating rural poverty. Your subcommittee made a thorough study of these distressed rural areas in 1949 at which many witnesses, including a representative of the National Farmers Union as well as the then Secretary of Agriculture, presented complete and clear data describing the nature and size of this problem of chronic rural poverty in people, institutions, communities, and areas. Exhaustive analyses of 1950 census data bearing on this problem have been published. More recently the Department of Agriculture has submitted a complete report to Congress, based largely upon 1950 census data.

Limited data that have been published from the 1955 census of agriculture indicates that this problem of abject poverty among full- and part-time farm operator families still existed in 1954 in some areas and in an even greater relative degree of poverty than in 1949.

CHANGES IN CHRONIC RURAL POVERTY SINCE 1950

Published official data are not yet available to make a complete analysis of the size and character of the chronic poverty among family farm operators in 1955. However, publication of census tabulations for Arkansas and some other States provide some basis for assessing the trends.

The number of low-income part-time farms in Arkansas dropped from 26,713 in 1950 to 20,104 in 1954. The number of commercial farms with gross sales of products of less than $5,000 fell by almost one-third, from 97,500 to 67,200. This occurrence would indicate progress, if large numbers of these families had climbed to higher income status.

Comparison of census figures for 1954 with 1950 for number of family farms with gross income from sale of products of more than $5,000 indicates that very little if any of such a hopeful trend did occur. The number of farm units in Arkansas with sales of products between $5,000 and $25,000 per year rose by only 4,400 for 1950–54.

At least 30,000 or more low-income full- and part-time farm families in Arkansas did not climb to a higher farm income status but left farming entirely.

Over the same period of years the number of farm production units with sales of more than $25,000 almost doubled.

NOT DUE TO ELIMINATION OF SHARECROPPER SYSTEM

Nor were these trends due to the elimination of the sharecropper plantation system of farming in bottom-land areas of the State. The number of sharecroppers in Arkansas dropped by less than 6,000 from 1950 to 1954 and in the latter year there were still 23,000 sharecroppers in the State. For other tenure groups the drop in numbers were:

Seven thousand fewer crop-share tenants, 1,000 fewer part-owners, 2,000 fewer cash tenants, and 16,000 fewer full owners.

Altogether there were 10,000 fewer nonwhite farm operators and nearly 30,000 fewer white farm operators in Arkansas in 1954 than in 1950.

TEXAS SHOWS SAME TRENDS

In Texas, for which 1955 census data have also been published, there was practically no increase in the number of farm units with gross sales of more than $25,000.

However, the number of Texas farms with gross sales of less than $5,000 dropped from 141,000 to 112,000, while the number of farms with sales between $5,000 and $25,000 dropped from 72,500 to 57,100.

The number of tenant farmers in Texas dropped by 24,000 and the number of full-owner operators dropped by 14,000.

The same trends indicated by these Arkansas and Texas figures are also mirrored by 1955 census figures that have been published for Oklahoma, Wisconsin, Minnesota, Montana, Kansas, Colorado, North and South Dakota, and Tennessee.

This admittedly incomplete data suggests that the size of the problem of chronic farm poverty has primarily been reduced not by improved status on the farm. Rather there is less farm poverty because so many poor farm families have been forced off their farms.

I do not object to farm families wanting to move to the city. What I do object to is their being forced by economic circumstances to do so. There is an important distinction between these two types of outmigration in agriculture.

This is the place where the growing farm depression of the past 3 years intertwines with chronic farm poverty. Sliding-scale farm policies have reduced chronic farm poverty by driving family farmers off the farm into towns to get city jobs or go on public relief rolls.

To the extent that these families who have been forced off their farm have found improved economic opportunities, this is, perhaps, progress; but to the extent that urban insecurity and low urban income are substituted for rural insecurity and low income, this is retrogression.

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MIGRATORY FARM LABOR

Probably the most abject area of rural poverty in America is on some of its richest and most productive farmlands. I invite the attention of your subcommittee to the report of President Truman's Commission on Migratory Farm Labor. I shall not here attempt to repeat the description included in that report of the very severely limited economic opportunity, low wages, and poor living and working conditions of these 1 million workers whose extremely weak bargaining power makes them a chronically distressed and disadvantaged class in American agriculture.

May I point out, however, that the ability of industrial-agricultural managers to exploit its migratory hired labor is a disadvantaging factor not only for the unfortunate 1 million workers involved but also to the 4½ million families who operate full- and part-time family farms.

SOLUTION NOT SIMPLE

You have asked me to comment on promising avenues along which we may expect to find solutions to the twin problems of farm depression and chronic farm poverty. I deeply appreciate your giving me the opportunity to do so.

There is no simple panacea that will cure the twin problems of the growing farm depression and chronic farm poverty. What is required is a broad comprehensive full-parity family-farm income-protection program for family-farm operators supplemented by extension of minimum-wage legislation and the protection of collective bargaining and other protective labor legislation to hired farm laborers and by repeal of the foreign farm labor importation subsidy law.

I have tried to indicate in the preceding sections that the root causes of both chronic rural poverty and of the growing farm depression are—

(1) The adverse terms of trade and weak market bargaining position of family-farm operators and hired farm labor; and

(2) The lack of sufficient available credit adapted to family-farm needs.

Only a major nationwide, comprehensive program that will correct and overcome these basic conditions will bring any substantial improvement in the conditions of 4½ million full- and part-time farm-operator families and 1 million migratory farm laborers who suffer from chronic poverty and bring a substantial reversal of the growing general farm depression.

NATIONAL FARMERS UNION FULL-PARITY FARM-INCOME PROGRAM

Recent proposals of the administration to step up research and extension of educational efforts among low-income farm families are laudatory as far as they go. But it will take more than research, additional assistant county extension agents, and exhortations of conventional credit agencies to correct the problem of spreading rural poverty in America.

The following is a brief outline of specific steps I feel are the minimum that must be done if rural poverty is to be eliminated in America instead of being further augmented as is being done by existing Federal farm policies.

I. Establishment of a yardstick family farm loan agency.

II. Expand human use and demand for farm commodities.

(a) Domestic consumption expansion:

1. Expanding full-employment economy.
2. National food allotment or stamp plan.
3. Expand school-lunch program to all schools.
4. Federal financing of 2 half pints of milk per school child per day.
5. Credit program to encourage improvement of terminal markets for perishable farm commodities.
6. Better terminal market inspection of perishables.
7. Provide more nearly adequate nutrition standards for public institutions.

(b) Expanded exports:

1. Additional international commodity agreements.
2. International food and raw-materials reserve.
3. Expand Agricultural Trade Development and Assistance Act.
4. Expand point 4 program of assisting free-world economic growth and development.
5. Continue and use Reciprocal Trade Agreements Act.

6. Trade adjustment aids to United States industries, communities, workers, and farmers injured by tariff and import quota reductions.

7. Customs simplification.

III. Fair trade for farmers.

(*a*) Enactment of mandatory farm price supports for family farm production of all commodities at 100 percent of a fair parity, using production payments as well as loans, purchase agreements, and purchases as methods of support.

(*b*) Expand Federal crop-insurance program.

IV. Keeping supply marketing in balance with augmented demand.

(*a*) Establish conservation acreage reserve.

(*b*) Revise and extend marketing quotas.

(*c*) Marketing agreements and orders.

YARDSTICK CREDIT AGENCY FOR FAMILY FARMERS

The Farmers' Home Administration should be immediately transformed into a fully adequate yardstick family farm-loan agency by enactment of improved farm-credit bills that have been introduced in the Senate by Senators Sparkman, Kefauver, Kerr, and Humphrey (S. 1199 and S. 2106) and in the House by Congressmen Wright Patman (H. R. 4300), Polk (H. R. 2174), Lester Johnson (H. R. 2410), and Knutson (H. R. 3784), or a new bill incorporating their features.

The credit needs of family farming are tremendous and growing. Credit should be available at the times needed and its terms and conditions should be adapted to characteristics of farming as a combined business and way of life.

Much of the credit needs of family farming can be and are being met by loans obtained from private individuals and such credit institutions as banks and insurance companies. Farmers themselves can meet many of their credit needs cooperatively through the institutions of the farm credit system and through organizations of credit unions and similar institutions. Altogether, it should be expected that these sources should supply the great bulk of the credit needs of family farmers. However, inasmuch as all of these institutions must obtain their funds from commercial money markets and conduct their operations along traditionally conservative financial lines, they find themselves unable to perform the entire farm credit job.

Such institutions find it difficult to pioneer in the meeting of newly recognized or newly emerging farm credit problems. They are not set up to use their credit resources to meet the high-risk needs of severe disasters and emergencies, economic or natural. They cannot afford to participate in credit operations when a relative high intensity of technical assistance and loan servicing are required to render loaning activities essentially sound from a strictly financial viewpoint. Moreover, all of these private individual and corporate and cooperative institutions have a market tendency in the absence of outside stimulation to become traditional custombound, and increasingly restrictive in their credit policies.

There is nothing morally wrong about this nor even economically unsound. It just means that the legitimate interests of family farmers require a separate supplemental and yardstick credit operation. This can best and most efficiently be supplied to the Nation by the Federal Government. Such an agency should have the legal authority and sufficient funds to meet all of the family farm credit needs not filled on reasonable terms by private cooperative and other corporate lending agencies.

This is more than a problem but includes that of enabling young farmers to get started in farming, of enabling low-income farm families to broaden their economic opportunities and earning power, of helping the victims of disaster situations to rehabilitate their operations. It is a need that extends across the board to other and more fortunate family farmers as well as those named. Such an agency would stand ready to meet any legitimate farm credit need not met by existing private agencies on reasonable terms. The agency would both make direct governmental loans and would insure loans of private lending agencies.

To meet this need National Farmers Union continues to urge adoption by Congress of legislation to establish a Federal Family Farm Loan Agency that will serve in a yearstick capacity to make available to family farmers all types of required credit adapted to family farm needs in appropriate amounts on reasonable terms where the family is unable to obtain such credit from established private sources.

The need for expansion of yardstick family credit is particularly severe in areas of high-risk farm production, in areas characterized by a high proportion of extremely low-income farm families, and to help beginning farmers to get established on fully adequate units.

For each of the latter groups particularly and for certain other situations, adapted credit must be combined with the intensive type of farm and home management technical assistance that formerly was a major part of the loan servicing of Farmers' Home Administration and its predecessor agencies.

Provision of such yardstick family farm credit would eliminate one of the major causes of rural poverty and farm depression.

FAIR BARGAINING POWER FOR FARMERS AND FARM LABOR

The other important element of the program needed to abolish rural poverty and to enable farmers to pull out of the depression into which they have been pushed by the sliding-scale program is a series of programs to even up the scales of bargaining power so that family farmers and farm laborers will be assured of fair treatment in their economic relations with big industry and big business. In my opinion, this means the inauguration of a full parity family farm income protection program and special protective legislation for hired farm labor.

INCOME PROTECTION FOR FAMILY FARMS

National Farmers Union continues to urge the enactment of laws requiring the Government to use production payments and price support loans, purchase agreements, and purchases to maintain the returns per unit of commodity of the family farm production of all farm-produced commodities at 100 percent of a fair parity price.

Parity price.—Parity for any farm commodity should be figured as the return per unit of the commodity that would give farm families who produce it an opportunity to earn the equivalent income and purchasing power that can be earned by people in other occupations in an expanding full employment economy.

Family farm volume protected.—An individual farm family would be eligible to obtain payments and price support protection on their sales only up to the maximum volume of a family farm.

Methods of support.—Price-supporting Government purchases of commodities would be used only where required to relieve temporary seasonal market gluts and where either the commodity can be economically stored from year to year or where specific useful noncommercial outlets are in sight for the commodities purchased. Price supporting purchase agreements and nonrecourse price support loans would be used to even out seasonal patterns in prices, prevent gluts at harvesttime, and to maintain orderly marketing and market stability. Government purchases, unrelated to the income protection program would also be used where needed to develop and maintain the national safety-reserve, strategic stockpile, or ever-normal storehouse of food and fiber commodities. But primary reliance for commodity income support would be placed upon use of compensatory production payments direct to farmers to make up the margin by which market prices received by farmers fell below the parity level for that commodity.

Crop and livestock insurance.—Farm commodity production payments and price support programs protect farmers against unfair economic hazards resulting from their weak bargaining power in the market. They do not help at all in case of livestock loss or if a crop is a failure because of drought, flood, insects, or other natural disasters.

To fill this need, National Farmers Union urges adoption and rapid expansion of the Federal crop insurance program. Its provisions should be expanded to farm livestock. The fundamental idea of this program is that Americans never do sit idly by as their neighbors in another part of the country are subjected to great loss and destruction due to natural causes. Billions of dollars of relief funds in past years have been expended to overcome the suffering due to drought and such after they happened. The idea of crop insurance is that people in the Nation, by paying the administrative and experimental costs of such a program, enable farmers through the annual payment of premiums to insure themselves against the income loss due to natural hazards. And thus reduce the future need for special disaster relief expenditures.

MAINTAIN EXPANDING FULL EMPLOYMENT ECONOMY

National Farmers Union supported the original enactment of the Employment Act of 1946. We continue to urge that the Federal Government utilize its program and resources to promote maximum employment, production, and purchasing power and foster free competitive enterprise and the general welfare.

Farm people, we believe, have a uniquely significant interest in the development and maintenance of an expanding full employment economy. Economic history of the last 45 years, clearly indicates that farm family incomes fall in any year when the total national economy grows by less than 10 percent per year.

This history also shows that in years when less than 2.5 percent of the labor force was unemployed the farm parity ratio averaged 105. When between 5 and 10 percent of the labor force was unemployed, the farm parity ratio averaged 91; and when more than 20 percent were unemployed farm parity ratio was only 71.

Marketing quotas.—Even with the demand-expanding programs and the conservation acreage reserve in full operation, fluctuations in weather and export demand and erratic rates of growth of improved farm technology will bring about temporary maladjustmnets for individual farm commodities.

To protect against the hazards of these developments and to enable dairy, egg, chicken, and livestock producers to utilize the same principle, National Farmers Union urges that the authority for farmers to make use of marketing quotas be extended to the producers of all farm commodities.

The national marketing quota for any commodity would be set at a volume of sales by farmers equal to expected total United States consumption, as augmented by the programs discussed above.

Each individual producer family would receive a pro rata share of the national marketing quota, expressed in bushels and pounds rather than acres, except for tobacco and peanuts based upon the following:

(1) His sales in past 3 years in relation to total marketings;

(2) Progressively heavier percentage cuts for families with larger volumes of sales;

(3) No farm family would be reduced below a realistic minimum quota;

(4) The individual marketing quota would be assigned to the farm operator rather than the land and would be transferable.

The individual producer would be free to produce and sell as little or as much of the commodity as he desired. If he chose to stay within the quota assigned to his family, he would be eligible to receive production payments and obtain price-support loans and purchase agreements. If he chose to sell more than his assigned marketing quota, he could do so by selling all of his marketings at the market price and paying a stabilization fee or penalty on his overquota sales.

Adoption of the marketing quota system for any commodity would be, as now, determined by secret ballots in a referendum. Quotas would be adopted only if two-thirds or more of the producers, voting in the referendum, approved.

Inclusion of adequate minimum quotas in the allocation to individual farm families and utilization of the progressive graduation scale of the percentage cut from the 3-year base are important protections for low-income farm families in the operation of marketing quota programs. The minimum individual family quotas provided in existing quota programs for wheat, cotton, and rice are much too small for this purpose. None of the existing quota programs except the one for sugar provides for larger producers taking heavier cuts than small producers.

IMPROVED STATUS AND BARGAINING POWER FOR MIGRATORY FARMWORKERS

The 1951 Report of President Truman's Commission on Migratory Farmworkers recommended a large number of measures required to improve the lot of such workers.

All of those should be adopted. The protection of the minimum wage law should be extended to those workers. They should be protected in their right for collective bargaining the same as any other hired workers. Employers should be required to provide at their own expense sanitary comfortable living conditions and safe working conditions. Hired child labor on corporate and industrialized farms should be prohibited by law.

To help prevent the further growth in the number of factories in the field, care should be taken by Congress to see that the 160-acre limitation is included in every law authorizing a land reclamation project and the executive branch should be watched carefully to see that this requirement is not breached in administrative practice.

The Mexican farm labor importation law should be repealed.

SUMMARY

Federal actions needed to rehabilitate our depressed rural economy and to abolish rural poverty needs to be composed of a complex of specific phases discussed above that will eliminate or overcome the three major forces that cause these conditions:

1. A firm adequate family farm income protection program is needed to replace the existing sliding scale farm price support program to even up the now very weak bargaining power of family farmers in the so-called free market.

2. A firm Federal regulatory program to protect and improve the bargaining power of hired farm labor; and

3. A "yardstick" family farm loan agency should be set up to overcome the currently debilitating scarcity credit, adapted to family farm needs, particularly low income farm families.

In all phases of these programs, care needs to be taken to insert specific proposals that will increase their services to small farms and will not contribute to expanding the number of larger-than-family farms. Provisions such as the following:

(*a*) Authorization and appropriation of adequate funds to the "yardstick" credit agency to enable it to employ farm and home management technical advisory workers to work with borrowers who need that assistance.

(*b*) Eligibility of any one family for pro uction payments and for price support loans and purchase agreements should be limited to the maximum production of a fully adequate family farm.

(*c*) Those farm family members who desire to obtain part- or full-time off-farm jobs should be provided special vocational training and job-finding assistance in an expanding full employment economy.

(*d*) Special provision should be made in administration of the national food allotment stamp plan when one is adopted to see that low income farm-operator families and farm laborer families are made eligible for participation.

(*e*) Special efforts should be made to expand the school lunch program and the school fluid milk program in low-income rural areas.

(*f*) Special legal protection should be written into any conservation acreage reserve that is adopted to be sure that tenant or sharecropper families cannot be evicted by their landlords as a result of operation of the program; to keep the program completely voluntary to the individual farm family; that a limit of not more than $2,000 be applied to reserve payments.

(*g*) In the operation of marketing quotas, an adequate minimum for each participating family should be provided and the required cut from the base should be a progressively greater percentage as the volume of base sales increases.

[Attachment B]

LEGISLATIVE PROPOSALS IN PRESIDENT EISENHOWER'S FARM MESSAGE

1. Soil bank, 2 parts, acreage reserve and conservation reserve: National Farmers Union recommends threefold expansion of part 2; opposes part 1.

2. Repeal section 304 of Public Law 480: No National Farmers Union position.

3. Consider possibility of taking corn off list of basics: National Farmers Union opposes.

4. Exempt home-used wheat from marketing quotas: National Farmers Union supported last year.

5. Sell some CCC wheat for feed: National Farmers Union opposes.

6. Increase number of States in noncommercial wheat areas: National Farmers Union supports.

7. Extend marketing quota exemption for durum wheat: National Farmers Union opposes in existing form.

8. Change official price-support cotton grade from seven-eighths inch to 1 inch: National Farmers Union opposes now.

9. Replace acreage allotments with "quantity" of poundage and bushelage quotas: National Farmers Union favors, except for tobacco and peanuts.

10. Eliminate rice as a basic: National Farmers Union opposes.
11. Eliminate minimum national acreage allotment for peanuts: National Farmers Union opposes.
12. Extend Sugar Act: National Farmers Union supports.
13. Expand fluid milk for school children program to $75 million per year: National Farmers Union supports at least this much—figure should be $200 million to $225 million.
14. Dollar limit on price supports: National Farmers Union favors.
15. Repeal Federal excise tax on farm used gasoline: National Farmers Union favors.

Chairman DOUGLAS. We are very glad indeed to have the master of the National Grange, of which I was a member some 50 years ago, and am very glad indeed to welcome Mr. Herschel D. Newsom.

STATEMENT OF HERSCHEL D. NEWSOM, MASTER, THE NATIONAL GRANGE

Mr. NEWSOM. Mr. Chairman and Mr. Vice Chairman, we are pleased to have this opportunity, and like some of my predecessors, we have confined our comments here to the subject in which we have most interest.

The National Grange, and for the most part I believe American farmers generally, yield to no other Americans in understanding full well that a vigorous state of health in the total American economy is a definite prerequisite for the economic health of American agriculture. In recent weeks and months we as farmers have begun to be encouraged at the increasing realization—even though it is somewhat belated in our opinion—on the part of Government and on the part of many people in other segments of our total American society—that relative stability and prosperity in American agriculture is a desirable, if not an essential, part of a healthy total American economy. There is likewise increasing understanding that American farmers are not sharing equitably in the economic progress of this great Nation.

I should like to say, Mr. Chairman, that the first major point that I want to make before this committee is that an increasing productive capacity in agriculture, not only in this country but throughout the world, is really a process—and it may seem trite to restate this kind of thing here, but sometimes I think we fail to recognize that some people have taken too many things for granted so long that they do not understand the importance of the situation.

I am trying to say that as productive efficiency in agriculture is increased, we tend to liberate other people for other pursuits, and that is a major factor, as all of us know. Perhaps we need to restate that that is a major factor in a rising level of prosperity and improved living standards.

It is this liberation, that has been brought about by agriculture, that can benefit all society everywhere. But before these benefits of such liberation can be realized in any full measure, many domestic and world problems must be solved.

It is noteworthy that some of us in agriculture find ourselves compelled on certain occasions to raise serious question as to the wisdom of our foreign political and economic policy. And I say, Mr. Chairman, very frankly, that I have been much concerned with the seeming necessity of finding a great deal of criticism of our own State Department, for example, because they cannot approve dumping of farm products on the foreign market at the expense of taxpayers, when under our present program, that is the only way we can maintain a legitimate portion of the world's market for American farmers.

I think it is high time for us to look at our own farm program that is generating that kind of situation, instead of continuing to confine our attack to the State Department. As a member of the International Development Board, I have been distressed to find out that some of our own farm contemporaries are beginning to criticize a long-term program in technical assistance to try to stimulate the productive capacity and thereby develop the purchasing power of people elsewhere, because, after all, it is increasing the volume of commodities that our Government has taken off of the market here to try to support income.

What I am trying to say to you briefly is that I think it may be high time for all of us to carefully analyze the real, legitimate function that price support can serve. Frankly, we have been trying, first of all, to force a realization that this price support practice of ours must be redefined in terms of present-day conditions.

Next week, Mr. Chairman, you and your colleagues on the floor of the Senate of the United States will be engaged in what we think is, for the most part, a pretty fruitless sort of debate. One of the major sources of debate in next week's session of the Senate is going to be over the relative merits of the so-called high, rigid supports, or 90 percent program, versus the provisions of the act of 1954. And I say to you very frankly and firmly, although I hope charitably, that the emotion and the fervor on each side of that argument are not justified, because neither alternative is going to be worth very much in terms of longtime raising of farm income.

What we are trying to say, Mr. Chairman, is that we think that at least in the case of our export crops, we must analyze the proposition that we have got to redefine the function of price support in order to keep it from getting ourselves into everlasting conflict with programs that would otherwise be sound if they were not generating problems in our agricultural economy and forcing more and more——

Chairman DOUGLAS. On this question of price supports, I take it that you have the same position that Mercutio had in Romeo and Juliet. "A plague on both your houses." Is that right?

Mr. NEWSOM. So far as this argument between the provisions of the act of 1954 and the high-level support is concerned.

In my prepared statement, Mr. Chairman, beginning at the bottom of page 4, we restate here for this committee what the Grange believes with respect to price-support levels, namely that they must be determined with due regard to the supply of the commodity in relation to demand therefor, and second, with due regard to price levels at which competitive products are moving into commerce. And that applies to competitive uses for feed. It applies to competitive fiber in the cotton problem, and so on.

Three, provisions of any international agreement relating to a given commodity to which the United States is a party.

Four, foreign trade policies of friendly exporting countries; and

Five, other factors affecting international trade in such commodities, including exchange rates and currency regulations.

What we are simply trying to say, Mr. Chairman, is that price supports in themselves are not effective insofar as farm income is concerned.

I have only one other point that I want to make, and it will take only about 30 seconds, and that is that we have reasonable enthusiasm about the monetary and fiscal policy as farmers. But we have grave misgivings as to what that may mean in terms of the cost of the increased capital that American farmers are having to lay out now to replace lost manpower in agriculture.

The University of Illinois, Mr. Chairman, for example, has produced figures to show that it takes from $45,000 to $50,000 capital investment to provide a job in agriculture. I do not know exactly what the figure would be in my own area, but it will take a substantial amount of capital to replace every worker that we lose out of agriculture, even though we are in accord with the objective of some of these programs. We think that should have the attention of this committee.

Thank you.

Chairman DOUGLAS. I notice on page 5 that you state:

> We recognize clearly that the adoption of those principles would force the use of some other instrument or mechanism to support the income of those families whose income is from such production.

Do I understand, therefore, that you favor some sort of income protection or income support?

Mr. NEWSOM. That is right, Mr. Chairman. I did not want to involve this committee too far in some of our controversies and differences with my friend here on the left, but our wheat certificate program, which will be introduced next week in the Senate, is a sample of the type of thing that we are talking about when we want to permit the price to exercise its traditional function, and then we want to find some mechanism that will give income support in the American primary market, which is the only place we think we have a right to get it.

Chairman DOUGLAS. Do you have an amendment drafted?

Mr. NEWSOM. Yes, sir.

Chairman DOUGLAS. Would you submit it for the record?

Mr. NEWSOM. Here.

Chairman DOUGLAS. Yes.

Mr. NEWSOM. Frankly, I will tell you, it is the Carlson bill, Senate bill No. 1750, which was introduced by Senator Frank Carlson, of Kansas, and four other Senators last summer.

Chairman DOUGLAS. Thank you very much.

Mr. NEWSOM. You are welcome.

(The prepared statement of Mr. Newsom is as follows:)

STATEMENT OF HERSCHEL D. NEWSOM, MASTER, THE NATIONAL GRANGE

Mr. Chairman, Mr. Vice Chairman, and members of the committee, the institution and practice of having the executive branch of our Government prepare and present a comprehensive appraisal of our total economic status must be utilized by all of us to compel a diligent analysis of our own respective positions in the total economic evolutionary processes of which we are wittingly, or unwittingly, a part.

The National Grange and for the most part I believe American farmers generally yield to no other Americans in understanding full well that a vigorous state of health in the total American economy is a definite prerequisite for the economic health of American agriculture. In recent weeks and months we as farmers have begun to be encouraged at the increasing realization—even though it is somewhat belated in our opinion—on the part of Government and on the part of many people in other segments of our total American society that relative stability and prosperity in American agriculture is a desirable, if not an essential, part of a healthy total American economy. There is likewise increasing understanding that American farmers are not sharing equitably in the economic progress of this great Nation.

Even though there is wide diversity of opinion as to what an appropriate yardstick might be in terms of labor income, of workers in agriculture—in terms of return on invested capital or in terms of parity or relative purchasing power of the products of agriculture compared with some other given period—there is relatively widespread agreement that farm income is low and that farmers are actually caught in an increasingly serious cost-price squeeze. This simply means that we are lagging behind in this procession of progress.

As farmers we are proud of our record of production. In the matter of providing the agricultural necessities for an expanding economy our achievement is noteworthy. We are increasingly concerned that many well-intentioned efforts to protect or raise farm income have failed to take into account the fact that the increased productive capacity of American agriculture is really the basis of our rising standard of living and improved civilization.

Surely it goes without saying that without an "agriculture"—that is to say a skillfully and scientifically organized and operated business of production, processing and distribution of food and fiber, as we know it today, in contrast with that which is known in the rest of the world—there would be no civilization as we have it in this 2d half of the 20th century. Man would still be roaming the earth in quest of food without a chance to settle to a sedentary form of society, and with little or no energy left over for the so-called pursuits of life. Civilization and the culture of today are largely the results of man's liberation from spending all his energy in the search for edible plants. This liberation was brought about by agriculture, or domesticated crop production. Before the benefits of such liberation can be realized in any full measure, many domestic and world problems must be solved.

It is noteworthy that some of us in agriculture find ourselves compelled on certain occasions to raise serious question as to the wisdom of a foreign political and economic policy which, from our own point of view, often seems to be in direct conflict with the matter of adequate or expanding markets for our own American farm production.

For example, we have seen some pretty effective condemnations of programs to aid in the economic development of the production potential of peoples elsewhere when that production potential may be, or in some cases is currently being, translated into increased competition for market of certain commodities of which our own Government is now storing sizable quantities in an effort to protect farm income in this country. Some of us have had seeming cause for serious criticism of policies of our own State Department which deny American farmers the maintenance of some historic market level for our natural and normal export crops. It is time for us to recognize the fact that to attempt to market our products in the world through export subsidy—by having American taxpayers, through the United States Treasury, paying the difference between market prices and United States support prices—as a permanent program is certain to meet with the objection of other nations, and must therefore have the concern of the American State Department.

These and other paradoxes should compel us to analyze most vigorously our own policies and the appropriate role of our own Government, in view of recent economic achievements and progress and currently changing political and economic circumstances. We should analyze many current proposals which seemingly are predicated on the theory that we can improve farm income by drastically reducing farm production. We would call the committee's attention to a statement in the President's message of transmittal of this economic report in which he says, "The basic cause of low income is low productivity, irregular employment, or both."

In order that we may not be misunderstood, the Grange has long advocated some measure of land rental or "soil bank" program to promote adjustment, and we are attempting to support the principle of legislation now pending. Our point here, however, is that to blindly attempt to reduce production to eliminate surplus without analyzing the real cause of the surplus—without understanding the fact that we are perpetuating policies which deny markets of the world to

American farmers, and deny the world its economic right to the efficiency and skill and the productive capacity of American farmers—is to destroy human opportunity and retard progress.

Next week the colleagues of the Senators of this committee, perhaps even some of you yourselves, will be engaging in an impassioned and emotional debate over the relative merits of so-called high rigid price supports versus the provisions of the Agricultural Act of 1954. It is our honest opinion that the debate will be fruitless and the result of this particular argument will be of little, if any, consequence to American farmers. The Grange does not support a fixed-price program. Either alternative in this particular argument will result in fixed prices. The so-called flexible program as embraced in the act of 1954 has so little flexibility that it achieves no good results. Indeed, those of you who are forced to vote on this question are given a very poor choice.

This is what I mean by saying we must analyze our own policies and positions in terms of real economic progress. We must understand that although price of the products of American agriculture has a very definite effect on the income of farmers, that price alone is certainly not the sole factor in farm income.

It is not my purpose here to plead the case of the Grange philosophy insofar as farm program is concerned. It is, however, my purpose to advise the members of this committee that the Grange is diligently seeking to eliminate the basic cause of some of the conflicts mentioned above. We must not forever be in the position of feeling compelled to condemn a foreign policy that would be sound if it were not hurting us, without analyzing the proposition that there may be some other factor that compels such a policy to hurt us. We must not willingly get into a position where we condemn programs that increase the productive capacity, and eventually the purchasing power, of potential customers of all of us around the world, when really our own obsolete farm program itself may be the real impediment. In short, we must be prepared to compete effectively—on the basis of efficiency—in the markets of the world. Finally, we must recognize that our own markets here in the United States are in many cases not only the best, but the only markets available to American farmers.

This is why the Grange is pleading that in the case of our export crops price-support levels must be determined with due regard to—

(1) The supply of the commodity in relation to the demand therefor;

(2) Price levels at which competitive products are moving into commerce;

(3) The provisions of any international agreement relating to a given commodity to which the United States is a party;

(4) Foreign trade policies of friendly exporting countries; and

(5) Other factors affecting the international trade in such commodity, including exchange rates and currency regulations.

Thus we would assign price supports a different function than that of being the sole or major instrument of trying to support farm income.

The Grange believes that in the case of natural or normal exports, such as wheat, cotton, and rice, the United States is forced to make a choice between shrinking its production of these commodities to a diminishing market, as we continue to make place for expanded production elsewhere in the world, or to following the above principles in determining the level of price support. In fact, experience has proven that the former course will not only shrink markets but will tend to channel an increasing portion of total production of these export crops through the price-supporting agency except in periods of emergency.

We recognize clearly that the adoption of those principles would force the use of some other instrument or mechanism to support the income of those families whose income is from such production.

The point we are trying to make with this committee is only that much of the above-mentioned conflict can be resolved by modification of our farm program.

There is another matter to which we respectfully call the attention of this committee. American agriculture is very definitely going through a rather substantial adjustment program and process. The Grange approves and supports the rural development program. The Grange is grateful for an intelligent management of monetary and fiscal policies that have given stability to the value of our American dollar. Our organization recognizes that the rate of transfer of rural Americans to urban occupation and employment is a natural and desirable product of our improved efficiency and production capacity in American agriculture. We respectfully solicit the understanding of all our fellow Americans, however, of the fundamental proposition that lost manpower in American agricultural revolutionary processes requires the investment of sizable quantities of increased capital in our farming structure. These amounts vary across the country. I am reliably informed that in my own midwestern area it takes somewhere in the neighborhood of $45,000 or $50,000 of capital investment to provide full-time agricultural employment per capita. It is obvious that it takes a very substantial capital investment to replace lost manpower.

This fact becomes increasingly important in that as monetary and fiscal policies of America may tend to influence the cost of credit during this adjustment process when farm income may not finance such increased cost. The Grange is weary of having to ask for special favors for American farmers, but we submit that we may all need to be most diligent in our efforts to hold down the cost of credit in agriculture during this period of time when it may at any given period be necessary to increase reserve requirements, or the cost of money in the total economy, in order to safeguard the value of that money. We would, of course, hope that we may be effective in bringing other measures to pass which would eliminate the cause of that disparity which compels us to ask this kind of possible concession to agricultural people.

We pledge to this committee our most vigorous efforts to try to further develop and promote the kind of policies in government, as well as in agriculture, that will be able to take full advantage of the high purchasing power and the rising living standards of the rest of America. Coupled with an effective program of making world markets available to American farmers on a competitive basis which will not be in violation of our own Nation's economic and political policies internationally, such policies and such farm programs will tend to achieve a satisfactory and equitable place for American farmers in a healthy and expanding economy. We will try as vigorously as we can to achieve this objective in time to prevent or eliminate the possibility of declining farm income and falling rural purchasing power from impairing the whole economy.

Chairman DOUGLAS. Dr. Schmidt, you are an old friend. We are very glad to welcome you here, representing the chamber of commerce.

Mr. SCHMIDT. Thank you, Mr. Chairman and members of the committee. We appreciate the opportunity.

STATEMENT OF DR. EMERSON P. SCHMIDT, DIRECTOR OF ECONOMIC RESEARCH, CHAMBER OF COMMERCE OF THE UNITED STATES

Mr. SCHMIDT. I believe this month marks the 10th anniversary of the passage of the act which created this committee and the Council of Economic Advisers. If time permitted, it might be better to take a 10-year backward look than a single year, but that is not practicable at this time. We have done a little of that in our prepared statement, which I assume will be printed in the record.

Chairman DOUGLAS. That will be done.

Mr. SCHMIDT. There has been some criticism of the failure of the Council of Economic Advisers in the President's Report to set targets in terms of employment, GNP, et cetera, for the year ahead. This matter of setting targets is a very treacherous and dangerous thing. Let me give you one illustration.

From December 1954 to December 1955, the civilian labor force increased from 63.5 million to 66.6 million, or 3.1 million. A year earlier, the average labor force, from 1953 to 1954, increased by only 700,000, that is, roughly 25 percent of the increase in the labor force of the past year.

Now, who is wise enough, whether a member of the staff of this committee, or a member of the committee or of the Council of Economic Advisers, to have foreseen this remarkable behavior of the labor force?

A year ago, those who set targets before this committee in its hearings, in general discussed a figure for GNP substantially below what actually took place, again indicating how treacherous this business of setting targets is.

Therefore we have a good deal of sympathy with the President and the Council of Economic Advisers in their reticence in setting these kinds of goals.

Now, regarding the report itself, we think the economic analysis is of a very high order. It is perceptive. It is keen. It is sensitive to the forces that are in operation in the country.

The only objection we have is that the Economic Report has become a kind of catchall which repeats much of what is in the state of the Union message, in the budget message and in a number of other messages. We think it might be more productive if the Economic Report stuck to the key essentials, which is what I am attempting to do in my outline of the statement, and generally if the Senate committee would stick to them—essentials which Mr. Kennedy and Mr. Shuman have mentioned—essentials in our economic policy which are so basic to our growth and progress and economic stability.

This committee and the Council would have more than they could do if they simply attempted to do a good job in that rather limited field. And if those jobs are well done, the rest of the economy will tend to take pretty good care of itself, by and large.

The policies recommended in these general fields, on credit, and so on, we think have been admirable as has been the performance of the Council. A great advance was made, we believe, when an advisory board was created which has membership from different departments and bureaus and which meets weekly and gives an opportunity for the entire administration to coordinate this program.

In my main report, I outlined most of the issues in terms of the degree to which they support or endorse the free market. It might be well, for example, if this committee, and the Council each year made an inventory of the areas in which the free market has been restricted either by private action or public action, and secondly, the areas where the market has been freed and liberated.

If we did that, I think the basic purpose of the act of strengthening free enterprise, would be greatly enhanced. An annual inventory of that type would be excellent.

The report mentions the importance of competition and the enforcement of the antitrust laws. We are very strongly for that. Similarly, the relaxing of the control on transportation is on the right side.

The simplifications of the customs regulations likewise would tend to free somewhat the international market and would stimulate export and import trade.

On the other hand, the fixing of minimum wages, is a backward step in terms of the philosophy of the free market, and consumer credit controls likewise should be viewed in that same regard.

We have had considerable discussion of the nature and the importance of the money market. I think this committee would be rather well advised to make a thorough study of what has really happened to the financial institutions in this country and the money market.

There has been a growth of both public and private financing to the point where the Federal Reserve System, through its monetary controls, is possibly less and less effective. And I think one of the reasons that people begin to think of such things as selective credit controls is because the general credit controls have been diluted through the hothouse growth of separate compartmentalized money markets.

For example, last summer the Congress fixed the interest rate for loans for college dormitories at 2¾ percent. Now, I can appreciate the humanitarian motive there. But the Treasury now is simply deluged with requests for these cheap loans, and the private money market is no longer financing to any substantial extent the dormitories for colleges and universities.

It would be very worthwhile, Mr. Chairman and members of the committee, if you could have a complete study made of what I believe would turn out to be scores and perhaps hundreds of independent money markets, or compartmentalized money markets that have been created in this country by numerous acts of Congress or administrative rulings.

Vice Chairman PATMAN. Money, what?

Mr. SCHMIDT. Money markets; separate money markets, that is, loan markets. I am told by the Treasury, for example, that the difficulty of meeting the demands for these college loans is tremendous, and the loans could run into hundreds of millions of dollars over the years ahead. And private money market would no longer finance the bond issues for building those dormitories in colleges.

That has been done in market after market, and I think this trend may continue. The President's report recommends another new money market be created for elderly people. Now, again, a very noble and humanitarian motive, but he recommends especially favorable terms for this particular purpose.

In conclusion, we think that the report lacks an adequate reflection of the recommendations of the Hoover Commission and the Kestnbaum Commission on what could be done in that direction.

Mr. Hoover has said that possible savings would run to $5.5 billion, not over the first year, but that over a period of years the rate would be that much per year if the recommendations were adopted. And this would pave the way for earlier and highly desired tax reductions.

Thank you.

Chairman DOUGLAS. Thank you, very much.

(The prepared statement of Dr. Schmidt is as follows:)

STATEMENT OF DR. EMERSON P. SCHMIDT, 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, a federation composed of 3,200 State and local chambers of commerce and trade associations with an underlying membership of more than 1.7 million businesses.

We appreciate the opportunity to review the President's Economic Report. Its analysis of recent developments and the current state of the economy are sharp, perceptive, and seem to us accurate. The general economic philosophy and policy positions on the whole are clearly stated, even though there are some departures and deviations from the basic American philosophy of limited government, a free market economy, and maximum individual responsibility of the citizen.

The inclusion of a host of detailed recommendations and proposals for legislation in the Economic Report on a vast array of issues detracts somewhat from the central issues facing the Council. The report would be most effective if its discussion were confined to the economics of basic issues.

1946 EMPLOYMENT ACT ANNIVERSARY

This month marks the 10th anniversary of the passage of the Employment Act of 1946 which provided for the President's Council of Economic Advisers and the Joint Congressional Committee on the Economic Report. With 10 years of history, has this act justified itself? Perhaps a brief appraisal would be in order.

A minority of individuals and organizations are still skeptical. In part, this skepticism is a carry-over from the original version of the bill as introduced in 1945. At that time, the growth and progress of our economy were not foreseen and some people in Washington were still struck by the "mature economy" thesis and the view that our economic system was stagnant and unresponsive to human need. Some felt that the bill of 1945 would have created a superplanning bureau, paving the way for overall tight economic planning and control from Washington.

Even if the law had not been passed, some such agency as the Council of Economic Advisers would probably have come into being. Today, the United States Central Government is a "$75 billion industry." While the White House and the weekly Cabinet meetings provide some coordination of decision and policymaking, obviously something more was needed. Each Cabinet member's primary concern is with his own particular jurisdiction. The same is true of the heads of independent agencies and bureaus. With the Central Government collecting some $75 billion annually, spending a similar amount (about $65 billion net) and, at the same time, having to manage a debt of over $275 billion and concern itself with credit and monetary policy and with multibillion-dollar lending and loan-guaranteeing activities, the impact of all these upon our economy is, inevitably, of enormous proportions.

The Council of Economic Advisers, in theory at least, is nonpolitical and is a nonoperating agency. Its study, research, and advice as concerned with the Government's own "housekeeping" is its great value. Correct policies may help foster conditions favorable to private economic growth and the stability of the value of our money and of the economy, as we pointed out in our study, Can We Depression-Proof Our Economy?

In 1953, Preident Eisenhower recommended a reorganization of the Council and the establishment of an Advisory Board on Economic Growth and Stability. Ten divisions of the Government now have Cabinet or other high-level officials on this Board, including the Council; Agriculture; Commerce, Health, Education, and Welfare; Labor; State; Treasury; Federal Reserve System; Bureau of the Budget; and the White House. Interagency staff groups are on call by the Board. Possibly some of the other lending and loan-guaranteeing agencies should be represented on this Board since they deal in billions of dollars. The Board meets weekly. It publishes no minutes and issues no releases. This has helped to keep it out of politics.

This Board provides an official agency which attempts to get the benefit of the experience and thinking of key Government departments and bureaus within the administration. It provides checks and balances. Prior to the establishment of the Board, the Council was viewed, at times, as a stepchild or an interloper. But the establishment of the Board has helped to give the Council more prestige. This has added weight to its recommendations and better internal responsiveness.

Over the 10-year period, the Council of Economic Advisers has had some rough going. Not only did different members of the Council have rather divergent views on proper economic policy, but considerable diversity in views existed concerning the proper public function of members of the Council. Some wanted to be in the thick of the political battle. Others felt that the members of the Council ought to be objective analysts and exercise a passion for anonymity.

Obviously, the President must have advisers in whom he has confidence. These advisers must be in reasonable sympathy with the President's general economic and political outlook, but at the same time avoid being yes-men. "Speak out boldly within the halls of the Executive, but prudently elsewhere," expresses this well. Above all, if they are to be of most influence and use, they must not lose the respect of their colleagues in the academic and business world. Therefore, they must avoid the crash of political battles. This does not mean that they must be recluses. They can participate in public discussions of technical questions, make speeches and publish professional articles of analytical character. But they should not publicly become partisan party hacks if their work is to command the respect of both political parties and the public.

THE JOINT COMMITTEE

The Joint Congressional Committee on the President's Economic Report is required by law to evaluate the annual report. Many individuals who supported the bill as finally passed, or favor it now and see a place for the joint committee, feel that it ought to be nonpolitical and should serve the members of the House and Senate in an objective way on a limited number of problems dealing in general with economic growth and stability.

The joint committee has held hearings each year on the Economic Report and on a wide variety of subjects—stimulated perhaps in part by the vast array of issues covered in the Economic Report. These hearings have added a considerable volume of useful literature. Whether the joint committee findings and recommendations receive the attention which they deserve from other committees of the Senate and House is difficult to judge.

Within the United States we have today less fundamental political and economic divisiveness than in any other major country. Americans are widely agreed on a number of key essentials, such as high-level employment, the sanctity of private property, free competitive enterprise, the importance of the profit system, and sharing the benefits broadly through the natural workings of that system among all groups within our economy. Growth and stability are on the tongue of all students of our society. Conflict between means and ends, although present, is less rampant here than it is abroad.

But here we have a few essentials on which all or nearly all of us can agree. If the joint committee adheres to these essentials in its hearings, releases and studies, it could, over a period of time, deepen the prestige and influence of its findings with the other members of the House and Senate.

MEANS

The emphasis which the Economic Report places on freedom of enterprise, initiative, innovation, venture capital, and profit motive is admirable—although there are a number of deviations from these basic concepts.

The social importance of the free market, while recognized, is taken too much for granted without the explicit elucidation it deserves. For this reason, we would like to stress the importance of explaining the nature of the free market, its function and its social usefulness.

The threat of market interference and price control are ever present in any democracy; sometimes the threat is general, sometimes piecemeal, step by step. The Province of Quebec, for example, has just adopted an involved scheme of newsprint price control. Some of the Latin American countries have taken similar action with other commodities. General price rollbacks are being discussed by several legislatures throughout the world. Thus, in parts of the world, symptoms are treated instead of causes. A high official of the International Monetary Fund recently stated that much of the rest of the world takes cues from the United States in these policy areas.

Within our own country there is a disposition at times to resort to Government price controls as an easy way out. Agriculture is not the only example. Just last year a labor leader urged the joint committee to investigate prices on a broad front right after he had secured "the largest wage package increase in history." Government lending and loan-insurance programs frequently specify some predetermined interest rate—a form of price fixing.

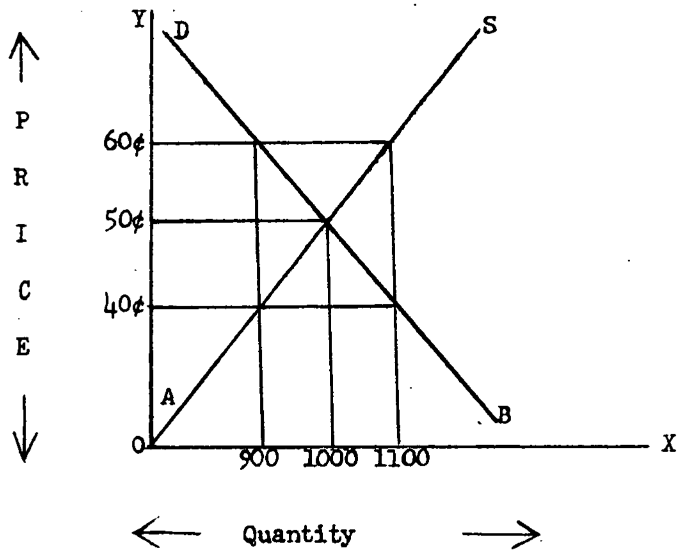
Price controls and artificial price supports are likely to lead to shortages and gluts, respectively, and a host of legislative and administrative headaches. No doubt the members of this committee are aware of this, but perhaps the danger of displacing the free market can be made more vivid by an illustration.

Let us suppose that the number of pounds of copper demanded and supplied in a local market are shown in the figure, along the horizontal axis—OX. The price is represented along the vertical axis—OY. DB represents the demand at various prices and SA the supply.

At the free market price of 50 cents per pound, 1,000 pounds are sold in this market each day. This is the equilibrium free market price. At very high prices demand would be relatively low. At low prices, say below 40 cents a pound, the demand exceeds 1,100 pounds in this market each day.

If by law a ceiling or maximum price of 40 cents per pound is fixed in this market, trouble starts:

(*a*) At the price of 40 cents, the supply offered by sellers will be only 900 pounds.



(*b*) But at this new low price consumers will demand 1,100 pounds as can be seen by noting where the demand curve crosses the 40-cent price level.

Obviously, the price tag fixed by Government is not bringing about a equilibrium price. Demand exceeds supply.

Producers, furthermore, at this depressed price may reduce extraction and refining. High cost producers may drop out. And since every producer is marginal in part of his output, all producers in time will tend to reduce their output. Then their losses may be minimized. That is, each company tends to expand production until the last dollar expended on production just brings in another dollar of receipts. At the artificially depressed price it now finds that losses occur, so output is reduced. Shortages then arise. Scarcities become almost inevitable. Fabricators and manufacturers, now figuring that copper is a bargain, will study ways to substitute it for other metals and materials.

This shows why price ceilings, rent control, and other interferences with the important equilibrating functions of the free pricing system may cause more troubles than they solve, although shifts in supply and purchases are instantaneous, taking time to come about.

On the other hand, let us suppose that for political or other reasons the Government decides to put prices 10 cents above the free market level, to 60 cents per pound. The demand line, DB, crosses the 60 cents price line at 900 pounds per day.

But the producers at this higher price are encouraged to offer more product, 1,100 pounds, as shown by the supply line, SA. Production, fabrication and scrap metal collection under a higher price is now more profitable. Output will tend to expand.

But demand at this higher price is less than supply. So, the Government, if it wants to make the artificial price stick, must do something to stimiulate demand for copper by foreign aid, by putting copper in storage, or it may have to set up a bureaucracy to establish and enforce copper-production, and copper-marketing quotas. Perhaps higher tariffs or even import quotas will be suggested.

In a free market, the free market price is the only equilibrium price—where supply and demand are equal. Rationing in the case of ceiling-price fixing may be attempted in what amounts to an effort to establish an equilibrium price, or in the case of artificial price lifting, attempts may be made to invent or create new demand or to cut out some production—but whose? Under what conditions? What of the compliance and enforcement problems?

But such action drives producer and consumer groups into politics, generates feelings of unfairness depending on whose ox is gored, and finally may drive a citizenry into hostile, opposing camps warring against each other.

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Prices must be controlling rather than controlled if productive resources are to be used in the way consumers desire and our human and other resources are to be employed most constructively.

The plight of agriculture illustrates clearly what happens when the free market is displaced as the guide to production. The accumulation of unmanageable surpluses, the decline in agricultural exports and the drastic decline of prices of farm products and the income of farmers, while due to many factors, is heavily conditioned by the fact that we have done so much to prevent the price system from allocating resources and guiding production.

For example, while we had a billion bushels of wheat in storage, we have actually been short of certain types of high-grade milling wheat. A New York Times story headlined "Paradox Plagues Coffee Industry," went on to say "Although an overall surplus is indicated, mild types are in tight supply" (Feb. 12, 1956).

High-support prices reduce the incentive to reallocate resources. In the search for solutions, some people suggest a two-price system for cotton and grain under which we would charge domestic consumers one price and ship surpluses abroad at a lower price. The State Department opposes this for fear of alienating further the agriculture producers in other lands. The Economic Report points out that in 1954–55 over 40 percent of our cotton exports were moved under special programs, including the Export-Import Bank loans. And in the case of tobacco, "increasing proportions are moved under special export programs" (p. 57). Again the report points out, "The moderate rise in our total agricultural exports from the low of 1952–53 is more than accounted for by subsidized sales, sales for foreign currencies, sacrifice sales, and donations."

Again we are told, "increasing proportions of gross and net farm income have come from the public Treasury. In spite of this, farm income has declined and many farmers have continued to be subject to tight restrictions" (p. 58).

The report says that in considerable part, "These are consequences of price supports that are out of line with market conditions and of production restraints that do not work well."

Even under the proposed soil bank program, the report points out that in order to insure that "the increased acreage in protective uses will not lead to expansion of forage-consuming livestock, it has been recommended that grazing be prohibited on the land put into the acreage reserve and, for a specified period, on land retired from crop production under the conservation reserve program" (p. 60).

While the President is to be commended for putting these forthright comments into the Economic Report, advantage in general is not taken of the timeliness in spelling out the lesson which such market interference teaches. The colossal problems of administering all the market interference farm programs are overlooked. The compliance problems raised by them are seldom discussed.

Therefore, we would urge the joint committee, in its report, spell out in detail the important role of the free market in our society. The maladjustments which occur when Government programs and Government bureaus try to set aside the functioning of the free market should be examined minutely.

OTHER MARKETS

Fixing minimum wages under the Wage and Hour, the Walsh-Healey, and Davis-Bacon Acts, in spite of their humanitarian appeals, all represent market interferences—all have their human costs. The proposed expansion of legislative intervention in these matters should be questioned.

In addition, the complex and burdensome proposals for curbing merger activity seem unwarranted. Vigorous enforcement of antitrust violations is essential to maintaining a competitive economy as the Economic Report points out. But penalizing "bigness" or mergers, per se, could work against competitive forces, rather than for them. A new hurdle might face anyone thinking of launching a new business, if he knew that some Government bureau might stand in his way should he decide upon a merger.

On the other hand, the recommendation for relaxing bureau control of the transportation industry in the face of the marked growth of substitute transportation facilities is a step in the right direction.

But the suggested Government program for reinsurance of catastrophic illness risks is a further step toward bigger government and possibly socialized medicine. The growth of private benefit plans has been phenomenal and if any pooling of risks is essential, it can easily be done by private reinsurance companies which have experience in such activity, providing no antitrust obstacle is in the way (p. 69–70).

The suggestions to simplify customs valuation and administration should enlarge the free market and stimulate freer and more trade.

DEPRESSED AREAS

Discussion of Government assistance to depressed areas makes no mention of the possibility that some areas may be entirely unsuited to productive activity—mined-out regions, high-cost coal sections, or former lumber areas. In such cases, the most profitable step for unemployed workers may be relocation in other areas. The proposed program in no way would encourage this trend and, in fact, would probably discourage it. There should be no reason why that trend should not be allowed to continue where economic recovery is basically uneconomic and impossible, while, at the same time, industry could be brought in to other depressed areas whose difficulty is more temporary.

In many, perhaps most, depressed areas, economic revival can be achieved. However, as the report notes, "major responsibility in planning and financing the economic redevelopment of their communities must remain with local citizens." Furthermore, any Federal program must recognize that some areas may not be economically sound places for productive activity. The taxpayers as a whole must not be called on to sustain those areas in an uneconomic way, for, again in the words of the report, "projects that generate only temporary employment do not help a community * * * and may even worsen its predicament" (p. 61).

But how would a Government bureau resist demands for aid regardless of basic conditions? Indeed, in those areas where the plight is greatest, the pressures for United States Treasury help might build up most strenuously—thereby again introducing a new type of market interference and help perpetuate that which it intended to relieve.

THE MONEY MARKET

There is a market for money as there is for commodities. The Founding Fathers wrote into the Constitution that Congress shall have power to "coin money, regulate the value thereof." Undoubtedly, there must be some type of centralized control over money and the money supply. But such control leaves considerable elbow room for private financial institutions and individuals to operate within those controls.

One of the important objectives of the Employment Act, in addition to promoting productive employment and economic growth, should be stability in the average price level. Such stability can be attained without fixing individual prices. The Government is to be commended for the high degree of general price stability which has been attained in the last few years. The decline in agricultural products may, however, obsure the rises in other prices.

Recent above average or normal growth in consumer credit has induced the President to recommend that the Congress and the executive branch study consumer credit control. This recommendation presumes that general monetary policy does not reach a particular sector of the money market.

There are some students who believe that this alleged defect of effective general credit control is, in part, due to the growing tendency to compartmentalize the money market. With this have come unequal regulation of and restraints on different types of financial and credit institutions and varying interest rates and terms among the innumerable Government lending and loan guaranteeing programs.

Older economics books talked about the interest rate, with some recognition for variations in rates due to degrees of risk and length of loan. Today, however, we hear no discussion of the interest rate. We talk about many different varieties of interest rates. A growing number of the variations are due to institutional arrangements that have been established. The Economic Report apparently would add one more compartmentalized lending rate. Thus, it is recommended that "the National Housing Act should be amended to authorize insurance under especially favorable mortgage terms for apartment projects built by nonprofit organizations for occupancy by elderly persons" (p. 68).

This would create, apparently, another compartmentalized sector of the money market. Added to dozens of other similarly compartmentalized markets, such as loans under FHA and VA mortgages and a whole series of different types of loans to farmers, cooperative agencies, and a host of others, would create still another money market.

In July, Congress fixed a rate of 3¾ percent for United States Treasury loans to build college and university dormitories. The rate had been 3¼ percent. Under the new low rate, the United States Treasury is being deluged with demands for loans. This could involve hundreds of millions of dollars—funds which should be borrowed in the private capital market. But here is another case of a compartmentalized money market.

Apparently when the RFC was established, effort was made to avoid creating a compartmentalized money market since the law specified that Government loans were to be made if loans were not available at prevailing rates. But then it dawned upon some bureau people that this might put the RFC out of business. So, apparently without much discussion or public awareness, a new phrase, on reasonable terms, was substituted for prevailing rates. The Hoover Commission Task Force on Lending Agencies quotes the earlier task force report as follows:

"On June 30, 1947, a change was made with respect to the requirement that credit not be available to RFC borrowers from ordinary sources at prevailing rates. Under the law which became effective on that date, the Corporation was empowered to make loans to any borrower who could not obtain credit from other sources on reasonable terms" (p. 15).

This multiplication of interest rates might bear further inquiry particularly by those who are concerned with the effectiveness of general monetary control and wish to avoid detailed regulation of personal and business affairs.

A growing dynamic economy with varying shifts in demands and interests is bound to develop a multitude of different types of financial organizations and institutions. Those which spring up spontaneously and survive do so because they perform a socially useful function in channeling savings and credit where needed.

However, it seems that the host of institutions fostered by Government legislation, Government bureaus, and Government programs provides for varying degrees of preferred markets and, therefore, complicates the money market.

To some extent this reduces the potency of general credit controls lodged with the Federal Reserve System. It is interesting to note, for example, that from the end of 1945 to the end of last year, total loans and investments (other than Treasury security holdings) of commercial banks grew 2.9 times, while those of mutual savings banks grew 3.8 times, life insurance companies 3.4 times, savings and loan associations 5.7 times.

From the end of 1951 to the end of 1954, the holdings of residential nonfarm mortgages in commercial banks increased $2.9 billion. In the same period, the holdings in mutual savings banks increased $4.6 billion and those in savings and loan associations, $10.6, and the rise for life insurance companies was $6.1 billion.

Installment credit from the end of 1945 to the end of 1954 increased by $20 billion. The commercial banks accounted for nearly $8 billion, but finance companies and others over $12 billion. In the first 10 months of 1955, installment credit increased about $4.5 billion and the commercial banks accounted for $1.5 billion and all other sources for $3 billion.

These noncommercial bank credit and lending institutions perform highly useful functions, but some observers believe that the unequal regulations, varying tax treatments, etc., of some of our financial institutions is, in part, responsible for the growing complexity of the money markets. Effective coordination of these various special markets become virtually impossible and they sometimes work against one another.

And this is an area that might well command the attention of responsible authorities in both Congress and the administration, before additional new segregated or compartmentalized, specialized lending and loan-guaranteeing agencies are established by the Congress or the administration.

All of the foregoing relates to our concern for the preservation of the free market and its important function as the primary motivating force and directing device of our economy. Also, it goes to the heart of the proper function of the Government in conducting its own affairs and monetary and fiscal policies so as to foster growth, stability and high employment.

Each year, it might be well for the Economic Report to prepare two lists of areas; first, the area in which the free market has been expanded and second, areas in which the free market has been constricted, either by private or public efforts. If we really mean to strengthen voluntary individual and group effort, some such annual inventory would constitute a useful benchmark.

DEVOLUTION AND DECENTRALIZATION

This year's Economic Report has much less to say on getting the Government out of business than was the case last year. Under the heading "Fostering competitive enterprise," no mention is made of the contribution that can be made by getting the Government out of business-type activities (pp. 76–79).

A little progress has been made in eliminating some business- and commercial-type activities of the Government, particularly in barge lines and synthetic rubber. In some cases, the activity has simply been dropped. In others, the facilities have been sold to private owners. We commend the progress that has been made in this direction, but this effort needs to be strengthened. For the year ahead, we hope that the Joint Committee will lend its prestige to greater efforts in this direction. This will strengthen the free market sector of our economy and, at the same time, expand the tax base.

Similarly, there is a lack of attention in the Economic Report to the Hoover Commission and its 350 recommendations, as well as the recommendations of the Kestnbaum Commission.

Hundreds of business executives, academicians, and others gave of their valuable time and experiences to both the Hoover and Kestnbaum Commissions and subgroups of them with the thought that a careful review not only was required but would lead to aggressive action to reduce the size of the central government, to restore many governmental functions to the State and local governments and to create a better division of tax sources between the central government on the one hand, and the State and local governments on the other.

That the Economic Report has very little to say on these matters is regrettable.

The accompanying table shows some of the potential savings estimated by the several Hoover Commission task forces and, in one case, that of lending agencies by the Commission itself:

Budget and accounting	$4,000,000,000
Depot utilization	253,000,000
Federal medical services	290,000,000
Lending, guaranteeeing, and insurance activities	200,000,000
Overseas economic operations	360,000,000
Paperwork management—pt. I	255,000,000
Paperwork management—pt. II	33,300,000
Personnel and civil service	48,500,000
Real property management	185,000,000
Special personnel problems—Department of Defense	388,800,000
Subsistence (food and clothing)	400,000,000
Transportation	151,500,000
Use and disposal of Federal surplus property	[1] 2,000,000,000

[1] For the first 4 years; thereafter, $1,000,000,000 per annum.

Several of the task forces did not make any dollar estimates of the savings that could be obtained under their recommendations. The above figures, it should be stated, however, involve some overlapping. Mr. Hoover stated that when duplications were eliminated, the savings would be in the neighborhood of $5½ billion. It would take some time, to be sure, to obtain the full effect of these savings. Even though the exact figure may be in dispute, it is widely agreed that savings running into several billion dollars are possible, paving the way for earlier desirable tax reductions. Perhaps equally important would be the greater efficiency and effectiveness of the National Government which would be achieved by these carefully and expertly drawn proposals and recommendations.

TAX REDUCTIONS

With regard to balancing the budget and debt reduction, we commend the position of the administration. We also agree, nevertheless, with its view that taxes are too high. But so long as upward price pressures are general, debt reduction is particularly important.

If the growth of the economy envisaged in the Economic Report occurs and if substantial further progress is made in effectuating the Hoover Commission recommendations, and utmost economy efforts are made, the possibility of a tax reduction is good.

We would recommend these simultaneous adjustments for fiscal 1957:

1. Reduction of individual income-tax rates across the board in such a manner

as to reduce the tax burden by $1.7 billion, with special attention to smoothing out the hump in progression which occurs in the middle-income brackets.

2. Reduction of the corporate income-tax rate by not less than 2 percentage points—cost $800 million.

3. Reduction of the Korean excises by $500 million.

CONCLUSION

The administration of monetary and fiscal affairs, including debt management, as outlined in the Economic Report command widespread commendation. The economic analyses carried on in Government departments, bureaus, and the Federal Reserve are of a high order. The purposes of the Employment Act and economic growth as well as stability apparently have been taken with the utmost seriousness.

Although all sectors of our economy have not shared fully in our prosperity, our national income jumped from $240 billion in 1950 to $322 in 1955 (of which about 10 percent is inflation) although preliminary estimates of corporate net profits last year are actually a shade below the 1950 level. Compensation of employees rose from $154 billion to over $221 billion in this same period—an increase of $67 billion. From 1954 to 1955, national income rose by more than $22 billion, while profits increased by $4.5 billion—all at almost constant prices.

In general, policy decisions have been as good as the available facts and situations called for. Critics can use hindsight, but, in fairness, policymaking must be judged by what was known and knowable when decisions are made. Conflicting pressures and advice have to be weighed and balanced.

We are fortunate to have such an able team of analysts and policymakers. Our progress with stability has not been the result of haphazard chance.

Chairman DOUGLAS. We are very glad to have with us Mr. J. D. Zellerbach, who is chairman of the board of trustees of the Committee for Economic Development. We are, indeed, glad to welcome him.

STATEMENT OF J. D. ZELLERBACH, CHAIRMAN, BOARD OF TRUSTEES, COMMITTEE FOR ECONOMIC DEVELOPMENT

Mr. ZELLERBACH. Mr. Chairman and members of the committee, I am grateful for your invitation to appear here today and present the views of CED on the Economic Report of the President. My general statement is followed by an appendix summarizing our views on specific recommendations of the report insofar as CED has previously studied the various subjects and formulated opinions about them.

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. Two recent policy statements on subjects discussed in the Economic Report—highways and agriculture—have been distributed to members of the joint committee. I would like to have the summaries they contain included in the record.

In general, the report's description of economic developments is comprehensive and informative. And it expresses a sound and constructive philosophy about the role of Government in our predominantly privately managed economy.

The 10th anniversary of the Employment Act is a good time to take stock and to look ahead.

The CED, which tried to contribute to the formulation of the Employment Act, is convinced that the act has proved its usefulness over the past 10 years. Our generally high level of prosperity, of course, has been caused by a great many factors. But the Employment Act did crystallize our national determination to maintain high employment. And it recognized that freedom, economic expansion, and growth, and governmental action where necessary to facilitate such growth, are quite compatible. Certainly the work of the Council of Economic Advisers and of this committee has contributed much to more intelligent consideration of economic issues by the executive and legislative branches of Government and among the public.

But as the Economic Report so aptly points out, we cannot afford complacency based upon the experience of the past. As we look toward the next 10 years' operation of the Employment Act, we should address ourselves to certain broad problems which are likely to affect our economic growth and the maintenance of high employment levels in the future. I should like to mention four such problem areas where, in my judgment, the Nation needs the most competent and penetrating long-range economic analyses that can be provided.

First, our future population growth is of great significance not only quantitatively but qualitatively. We need organized analyses of the changing age structure of the population and its probable effect on the size and character of our work force. Such population factors could possibly bring about inflationary pressure with attendant increasing real costs. Thus we need an appraisal of the economic effects of more people in relation to basic resources.

Second, we must face the realistic economic problems involved in the requirements for economic growth on the one hand, and the need for adequate national security on the other. It may well be that the most significant economic fact about 1955 was not the achievement of new production records, which should be expected to occur with some regularity, but the upturn in defense expenditures.

Large budgets and high taxes affect the rate of our economic growth; yet that very growth is an important ingredient of national security. Thus, we must be able to assess the probable future economic costs of adequate national security. It is not conceivable, for example, that we may face the necessity of a larger share of our living standards taking the form of guided missiles and submarines rather than automobiles and schools.

A third problem area involves the necessity of continuing foreign economic assistance, particularly to underdeveloped areas. Such assistance is a cost to us in terms of our substance. Yet I firmly believe that our long-run national interest requires a substantial foreign-aid program for as many years ahead as we can now see.

CED's research and policy committee will issue tomorrow, February 16, a policy statement on aid to underdeveloped countries. Copies will be supplied to members of the joint committee if desired and I would like to have its summary included in the record.

Still, the magnitude of this program must be realistically appraised in terms of other national objectives, the cost to our Nation and the effect of our economic growth. Such economic assessments could help provide a firmer base for long-term governmental action which is essential to economic development projects abroad, and which is further necessitated by increased competition from the Soviet bloc in this field.

Fourth, we need a serious appraisal of the problems and benefits of rapid technological changes. There is, for example, the proposition that the aging structure of our population could require automation to maintain a rising standard of living. There is also concern that automation could bring serious shortrun problems of unemployment, based on displacement and inadequate skills. Yet, technological improvements are probably our principal offset to possibly higher real costs attributable to the size and kind of labor force we may have in the future and to the rising demand for raw materials and supplies. And more rapid technological development may well help resolve the potential conflict among rising defense expenditures and increased foreign aid, a rising standard of living, and the requirements for economic growth.

These four problem areas illustrate the kind of further contribution which the Council of Economic Advisers and this committee could make to national policy and public understanding by longer range analyses of major economic problems.

I respectfully suggest that this somewhat broader frame of reference would be both appropriate and useful in the decade ahead.

Thank you.

Chairman DOUGLAS. Thank you very much, Mr. Zellerbach.

I noticed you have attached several appendices. Which one of these would you like to have printed in the proceedings?

Mr. ZELLERBACH. We would like to have printed in the proceedings the three-page appendix to my oral statement, the summaries of the policy statements that I have distributed on highways and agriculture, and the summary of the statement on foreign aid which I shall send up tomorrow when it is ready.

Chairman DOUGLAS. Thank you very much. Without objection these materials will be included.

(The supplements to the statement of Mr. Zellerbach referred to are as follows:)

VIEWS OF COMMITTEE FOR ECONOMIC DEVELOPMENT ON PROPOSALS CONTAINED IN 1956 ECONOMIC REPORT OF THE PRESIDENT

(Outline follows arrangement of Summary of Recommendations on pp. 99–102 of Economic Report, but omits items not studied by CED)

I. PROMOTING AGRICULTURAL READJUSTMENTS

Statement by CED's Research and Policy Committee, Economic Policy for American Agriculture, presents program similar in many respects to recommendations of Economic Report. The main differences are:

(*a*) Greater emphasis by CED on renting whole farms in order to provide greatest opportunity for voluntary movement out of agriculture.

(*b*) Greater emphasis by CED on retiring least-productive land.

(*c*) Greater emphasis by CED on adjusting prices to normal free market level as essential element in long-run solution.

(*d*) CED recommendation for establishment of Agricultural Stabilization Board, with Secretary of Agriculture as Chairman, to formulate major policies within statutory limits.

II. HELPING LOCAL COMMUNITIES REDUCE UNEMPLOYMENT

CED favors this program with the objective of helping communities to become self-supporting.

III. LIFTING INCOMES BY RAISING PRODUCTIVITY

CED supports rural development program, has not studied the other specific proposals under this head.

IV. IMPROVING THE ECONOMIC STATUS OF OLDER PERSONS

CED favors extension of coverage of Federal old-age and survivors insurance, has not studied other proposals.

VI. PRESERVING SOUND FEDERAL FINANCES

(*a*) CED favors tax reduction in 1956 if consistent with balancing cash budget at high employment. Recent budget message suggests that some tax reduction may be consistent with this principle, but further review of expenditure, revenue and economic outlook is desirable before decision is made.

(*b*) CED favors larger increase in debt limit to provide room for borrowing in event of recession or other emergency.

IX. ENLARGING PUBLIC ASSETS

CED has recommended a program for accelerated modernization of the Nation's highways, with priority for the Interstate System. The Federal share of the costs should be financed within a balanced budget and should be paid for by user charges (gasoline tax, etc.) over a period of about 20 years. (See Modernizing the Nation's Highways, Policy Statement of CED's Research and Policy Committee, January 1956.)

CED recommends review of State and local debt limits, not only to permit current expansion of construction but to permit continuation of work in case of recession.

CED has not studied the other proposals under this head.

XI. PROMOTING THE INTERNATIONAL FLOW OF GOODS AND CAPITAL

CED favors liberalization of United States tariff policy, reduction of barriers to trade other than the tariff, and simplification of customs procedure. CED would favor revision of the peril-point and escape-clause provisions to permit their use only to prevent hardship rather than injury. (See United States Tariff Policy, November 1954).

CED favors expansion of United States Government investment in underdeveloped areas on a selective basis as explained in Economic Development Abroad and the Role of American Foreign Investment, to be issued February 16, 1956.

XII. INCREASING THE STABILITY OF OUR EXPANDING ECONOMY

CED favors an increase in the coverage of unemployment compensation and an increase in the amount and duration of benefits in those States that are significantly below the standards of the leading States. CED has not studied the other proposals in this section.

Modernizing the Nation's Highways

SUMMARY

There is a need to step up the rate of construction on the Nation's highways. On this everyone agrees.

The precise extent of this need can only be determined by balancing benefits and costs on a project-by-project, road-by-road basis. It is imperative that highways be carefully planned and constructed to be sure we get a dollar's worth of road for every dollar that is spent. It seems clear, however, that even with careful planning the units of Government concerned will face a serious financial problem in meeting highway needs. Even the more conservative estimates show needs exceeding the yield of our present sources of highway funds in the years ahead plus a generous allowance for growth.

The committee believes that there is justification for Federal participation in highway financing provided that it is strictly limited:

(1) Any increase in the present volume of Federal highway grants should be applied exclusively to the 40,000 miles of main highways, urban access roads and urban bypasses designated as the "Interstate System." The Federal Government should be authorized to assume up to 80 percent of the costs of any improvements on this system.

(2) The current $700 million in annual grants from the Federal Government for other roads and streets should not be increased.

Aside from financial aid, Federal responsibility in highway programing should be confined strictly to a collaboration with the States on the designation of the Interstate System; to the establishment of minimum construction standards on federally aided roads; and to the testing and development of road building materials and techniques. All actual construction, maintenance, and policing should continue as State and local government functions.

The most difficult problem of highway policy is deciding how the costs of modernizing them should be apportioned among all the categories of persons who benefit in one way or another from improved highways. Everybody benefits where improved highways facilitate national or civil defense or where they promote interstate commerce and the general economic growth of the country. But those who use the highways derive special benefits in the form of time saved and operating costs reduced.

On balance and as a practical matter the committee recommends that both State governments and the Federal Government charge highway users for most of the costs of highway improvements. User charges impose the costs of highway construction where the greatest benefits lie. At the same time with an adequate highway system highway users will get in return for increased highway-user payments a greater value in terms of increased special benefits.

Receipts from special charges on highway users should be used to improve highways and not be diverted to nonhighway purposes.

At the Federal level the committee is unable to find any acceptable alternative to a continued primary reliance on the Federal motor-fuel taxes for highway financing. No other single user charge measures with comparable precision the extent of a highway user's use of the highways. No alternative user charge offers as efficient a means of collecting a large revenue.[1]

To minimize inequities among highway users, Federal motor-fuel taxes should be supplemented in certain cases where special categories of highway users cause special costs in highway construction. If at all practicable, the use of motor fuel off the highways—on farms, in boats, in airplanes, etc.—should be exempted from Federal motor-fuel taxes.

The committee recognizes that some inequities are unavoidable in relying mainly on motor-fuel taxes for the financing of the Federal share of highway improvements. The committee believes, however, that there are fewer inequities involved than would be involved in alternative sources of revenue.

Th committee does not believe that Federal highway user taxes should be set to finance the Federal share of highway improvements on a "pay as you build" basis. The Nation appears to face a catching-up period of accelerated highway construction to be followed by a decline in Federal spending to some new annual rate—perhaps more than is being spent now but less than is needed during the next decade. If this is the prospect, "pay as you build" financing out of user charges does not seem either fair or wise.

What is needed is a financing program which will spread the costs of highway improvement more evenly over those who use the highways not just while they are being built but over the years of their useful life. The Federal Government should set motor-fuel and other highway-user taxes so that total highway-user revenues and total construction costs over a reasonable period, say 20 years, will be balanced. For a program of the size estimated by the Federal Bureau of Public Roads this would entail an increase in the Federal gasoline tax of 1 cent.

Under this arrangement the Government will pay out more for highway construction during the catching-up period than it will take in from highway-user charges. Later on there will be a surplus of highway-user revenues over construction costs. The deficiency in the initial years poses a problem: it can be covered either by borrowing from the public against the day when highway-user revenues are in surplus; or by collecting more nonhighway taxes during the catching-up period than would otherwise be necessary.

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[1] See footnote by Jay E. Crane and M. J. Rathbone on p. 14.

In choosing between these alternatives, the committee was guided by its belief that highway expenditures, like all Federal expenditures, should be related first and foremost to a consistent budget policy. CED for some years has advocated a stabilizing budget policy—a policy of setting tax rates so that the Government's cash expenditures each year are balanced at a high level of employment. This policy precludes Government borrowing at high employment except in cases of serious national emergency.

We recognize that there may be a case for making a distinction between "capital" and "current" expenditures in Federal budget policy. Highways can be regarded as long-term assets or capital items and, if a decision is made to finance capital expenditures of Government by borrowing, the highway program should be handled in a manner consistent with this decision. But in the absence of such a decision the committee does not feel it would be wise to make special provisions for treating highways differently from other expenditures in the budget. Budget policy is much too important to be decided by what is convenient at the moment for one particular expenditure.

The committee consequently concludes that temporary deficiencies in highway-user revenues should be made up out of other, general revenues. With constant tax rates and at high employment Federal revenues will increase each year about $3 billion as a result of growth of the national income. Only a small part of this increase would be used for highway expenditures under the program we propose. The major part will be left for other expenditures or tax reduction.

Then, if highway-user charges, adjusted to an accelerated construction program, are kept in force until total highway revenues and total construction costs have been balanced, more general tax reduction will be possible after the catching-up period than would be possible otherwise.

Insofar as it is possible to generalize, the states should also rely primarily on highway-user charges to finance their highway improvements. States should confine borrowing for highway improvement to cases where a significant temporary bulge is indicated and where the debt can be written off in a reasonable period of time with the yield of highway-user charges.

Tolls are an appropriate way for States to finance certain sections of the highway system where construction costs and benefits to users are exceptionally high. Under some conditions there may be justification for retaining toll charges after the specific debt incurred has been extinguished. The question of whether or not toll roads should be eligible for Federal aid should be restudied to see if a system can be worked out which is equitable to the Federal Government, the State governments and the highway users.

Traffic congestion in major urban centers deserves special consideration. A general highway program can ease the urban problem somewhat if it provides new bypass highways around urban centers. But the long-run solution to urban traffic congestion requires much more than this. Indeed, it requires much more than new and improved roads and streets. Involved are all the possibilities of traffic engineering and the problem of the different modes of mass transportation.

All highway users are now paying the costs of our inadequate highway system—in waste of time, inconvenience, fuel consumption, and accidents. These costs exceed the costs of improving the highway system. No matter how we divide up the costs of highway improvement, almost everyone will naturally wish that his own share of the costs were smaller. But there are reasonable ways of dividing up the cost so that almost everyone will be better off than if the highway system is not improved—in the sense that his benefits will exceed the cost to him. The search for ideal financial arrangements should not be allowed to delay the start toward better roads.

Economic Policy for American Agriculture

SUMMARY

Behind the complexity and diversity of American agriculture, and the painful symptoms of maladjustment which currently afflict it, the committee believes there are three fundamental problems.

1. *There is too much production of some farm products.*—Wheat is the most troublesome. In response to the needs of World II and the postwar relief period, output increased by almost 50 percent. While output has been cur-

tailed in recent years, it is still in excess of normal peacetime requirements, and further reduction therefore is necessary. There is also a surplus of cotton large enough to require a major reduction of output. Corn and the other feed grains are produced in excess of current needs, but the problem here appears easier to solve; while production should be curtailed moderately for a time, growing demand for livestock products will probably close the gap between unrestricted production and consumption within a few years.

2. *Farmers' incomes are highly unstable.*—Sometimes incomes are unstable because of variations in yields due to natural causes such as the weather and disease. Sometimes fluctuations occur because of variations in demand. These fluctuations are larger than necessary to stimulate appropriate adjustments and they cause serious hardship to farm families.

3. *Many full-time farm families have too few resources to permit a satisfactory income.*—This problem chiefly concerns about 1 million farmers, mostly in the South.

Despite the urgency of these problems, many farmers are in a sound economic position. In particular, the operators of many commercial family farms have incomes roughly comparable to those of nonfarm people, though they have not gained as much in recent years. More than half of farm products as measured by their market value have no price supports at all. Land prices are back to their peak levels of 1952, and the farmers' debt situation is generally sound.

The economic good health of large sections of agriculture is due in great measure to the high general level of activity in the United States during the past 15 years, and to the steady decline in the farm population during that period. Over the past 5 years about 1 million persons a year have been leaving agriculture, the workers in this group finding other occupations. This trend must be continued if we are to solve the underlying problems, because farmers increase productivity more rapidly than consumption of food is increased.

The basic defects of high price supports as a solution to agriculture's troubles have been revealed by experience. High supports encourage excess production, which leads to acreage allotments and marketing quotas. But farmers eventually succeed in increasing output even on the smaller number of acres allotted them, and surpluses become unmanageable. In addition, it is doubtful whether high price supports actually increase net income per farm family over a period of years. It is clear that they do not contribute much to relieve the problem of the low-income farmers, since these farmers produce little for market.

A return to a free market for agricultural products is proposed by some. The committee believes free markets generally are the most efficient method of keeping production and use geared together, but experience has shown that farmers suffer unduly from the wide price swings which are characteristic of free markets for agricultural products. Devices to check sharp and temporary price declines should be sought.

Solutions to the basic problems of agriculture should follow these lines:

To determine key matters of policy as far removed as possible from political pressures, an Agricultural Stabilization Board should be set up, with the Secretary of Agriculture as its chairman.

To deal with the problem of surpluses, CED believes it is necessary to reduce the amount of resources, especially manpower, now devoted to production of some crops, and that the community as a whole should help farmers bear the cost of this adjustment. A land retirement program is recommended which will allow some land now in wheat to revert to grazing. It may also be necessary to withhold from cultivation some land now used for cotton and the production of feed crops. At the same time the support prices of wheat, cotton, and the feed grains should be gradually reduced to the level at which production and demand are in balance and some of the surpluses now on hand can be moved into consumption. During this period, it would be desirable to retain acreage allotments and market quotas. The goal at the end of the adjustment period, which would last perhaps 5 years, is to make it possible for farmers to earn satisfactory incomes without depending on Government purchases or production controls.

Greater income stability can be achieved in part through a storage system operated in such a way as to iron out fluctuations in net returns to farmers due to variations in yields. When fluctuations are due to temporary declines in consumption, two courses are possible. The Government may support prices and withhold some stocks from immediate consumption. Or prices may be allowed to seek their own level and Government payments made to farmers to supplement their incomes. Payments would be based on the difference between the prevailing market price and what the price would normally be in a period of high employment and normal yield. More important than the choice of the method to be used in moderating fluctuations is the level at which prices or incomes will be supported. The goal should be to prevent wide or sustained departure from the long-run free market level. Support levels could be determined either by formulas included in the basic legislation, or by the proposed nonpartisan Agricultural Stabilization Board.

The problems of low-income farmers may be alleviated by stimulating trends already in existence. The movement of people out of farming in the South, where the low-income farmers are largely concentrated, has been more rapid that in the rest of agriculture. This movement should be encouraged by increasing the amount of information available about jobs in urban areas. The possibilities of offering financial aid to families who want to move and of encouraging industrialization in rural areas should also be explored. Farmers who remain in the low-income areas should be assisted in obtaining larger farms; for this, special credit arrangements and training in new methods will be required in many cases.

There is no quick and easy way out of our present farm difficulties. But the direction in which we must proceed is clear. The consumer who is interested in efficient production of food and fibers, the taxpayer who has to pay the cost of losses due to high price support policies, the farmer who wants to earn a higher and more stable income, will all benefit from solutions of agriculture's problems on a basis consistent with the fullest development of a free enterprise economy under which all elements contribute to the most efficient use of human and material resources. There is a national responsibility to help agriculture reach such solutions.

Economic Development Abroad and the Role of American Foreign Investment

SUMMARY

The United States has a big stake in the future of the independent underdeveloped countries of the world.

In the short run our security is involved in preventing communism from subverting these countries. If communism is able to organize the manpower and resources of any large number of the now independent underdeveloped countries, the effect on western security, confidence and political cohesion will be serious.

Our major allies, Britain, Canada, the industrial nations of Western Europe and Japan, are heavily dependent for their economic growth and health on expanding trade with the underdeveloped world. Political instability and economic nationalism in underdeveloped countries may well contract trade channels at a time when it is important for the health of the western community that they expand.

In the long run the profound internal transformation now going on in the underdeveloped countries could determine the political shape of the world. The underdeveloped countries may in time evolve free and democratic institutions which express the spirit of freedom and toleration at home and a willingness to cooperate abroad with other countries in the maintenance of world peace. Or, in an attempt to solve their growing problems, some of them may turn to totalitarian rule at home and aggression abroad. At the very least the climate in which western democracy will have to live and grow will be greatly affected by the kinds of societies that finally emerge in the underdeveloped world.

Accelerated economic development can help to protect the American stake in the underdeveloped world in two ways:

First, accelerated economic development itself appears to be a necessary precondition for the things we want to see happen in the underdeveloped world—the rejection of communism, the expansion of trade with the industrial nations of the West, and the growth of democracy.

Second, participation in the economic development of underdeveloped countries is one of the best ways, and sometimes the only way, in which the United States and other western countries can bring their influence to bear on the whole range of developments in the underdeveloped world. It is now one of the main channels through which the West can keep in contact with the peoples of Asia, Africa, and Latin America and transmit to them something of the spirit and values of freedom and democracy.

To accelerate economic development, then, is a desirable American objective in the underdeveloped world. But it is not easily achieved. There are serious problems to overcome. Some of them—a dearth of natural resources or an unfavorable climate, for example—are beyond the reach of policy, ours or that of the underdeveloped countries. Others, however, are amenable in some degree to improvement by the underdeveloped countries themselves and by the United States.

In particular there are three obstacles to economic development which should be of prime concern in American policy:

(1) The shortage of capital

The overall rate of investment in a number of important underdeveloped countries is low in comparison with western countries and with Communist China and Soviet Russia. In India and Pakistan, for example, the present rate is only just sufficient, and in Indonesia it is probably insufficient, to keep national income growing a little faster than population. While the rate of investment in Latin America is higher than in southeast Asia, so is the growth of the population. In consequence, in much of Latin America per capita income is not growing rapidly enough.

One way to meet this problem would be to increase the supply of foreign capital. The underdeveloped countries, excluding colonial territories, are now receiving long-term capital investment funds from the United States and other industrial countries at the rate of approximately $1.1 billion (net) a year. Just how much more they could use effectively is difficult to estimate. Conservatively, it might be as much as 500 to 1,500 million dollars a year more than they are now getting.

(2) The shortage of entrepreneurial and managerial talent

The shortage of businessmen who know how to turn money into new plants and industries and to manage them is a major bottleneck to economic development in the underdeveloped world. The existing business class is typically a class of merchants and traders. In most underdeveloped countries the government has assumed a large role in the promotion, financing and managing of industrial enterprises. But governments, too, suffer from a lack of trained personnel.

Supplying technical assistance to foreign governments is one of the most important ways in which the United States and other western powers can help accelerate economic development in the underdeveloped world. The United States can also, through its foreign investment policy, help promote the growth of a vigorous and socially responsible business class in the underdeveloped world.

(3) The need for balance in economic development

Successful development of an underdeveloped country requires a balanced growth of agriculture and industry. The tendency today in many underdeveloped countries is to go overboard for industrialization programs—particularly heavy industry—at the expense of agriculture, with a resulting waste of economic resources, inflation and foreign exchange difficulties. This danger can be avoided by greater emphasis on agricultural development. In India and Pakistan this is being done by means of village development programs which are also putting new life into the rural village communities. Programs of this kind should be encouraged and supported by American technical assistance and foreign investment.

A balanced growth of imports and exports is likewise necessary for the successful development of an underdeveloped country. Economic development means rising imports. If development is not to be held back, the underdeveloped countries must expand their exports but, in the present world economic environment, this can be a very difficult task. The task is made easier when the underdeveloped country avoids self-defeating nationalistic economic policies such as Brazil's refusal to allow foreign companies to develop its petroleum resources. Some tendency to imbalance between exports and imports is inevitable, however, in times of rapid economic growth and allowance for this should be made in American foreign investment policy.

The techniques which the United States uses to cope with these and other problems of economic development fall into three broad categories: (1) Technical assistance to governments; (2) measures to stimulate foreign investment by American firms and individuals; and (3) programs of public investment, using both intergovernmental loans and grants, and Government loans to private firms.

The existing technical-assistance programs provide very valuable help to underdeveloped countries and arouse little opposition here at home. The committee supports continued and expanded American participation in these programs and believes there should be continuing attention to their quality and their adaptation to the underdeveloped countries' needs.

Less well understood is the rôle of American investment policy in the underdeveloped world.

The progress of underdeveloped countries would be well served if private American investors were willing and able to supply most of the foreign capital the underdeveloped countries could usefully absorb and if the underdeveloped countries were willing and able to encourage large investments from this source. American private participation in commercial and industrial enterprises in the underdeveloped world is an effective way to expedite the transfer of technology and to encourage the growth of entrepreneurship and managerial skills.

However, the current volume of American private long-term investment in the underdeveloped world is only about $500 million a year (net). The amount is small for several reasons. The need of the underdeveloped countries for foreign capital reflects in large part a need for basic economic facilities—e. g., railroads, telecommunications, electric power, roads and harbors. In many underdeveloped countries these fields of investment are not now attractive to private foreign investors. Private foreign investment in the underdeveloped world is also limited by legal and administrative restrictions and by a number of special risks—foreign exchange troubles, the threat of expropriation, and a nationalistic hostility to foreign-business characteristic of many underdeveloped countries.

Through its investment-treaty program, the United States Government is trying to improve the investment climate in the underdeveloped world. The committee believes the Government should continue this program, despite the rather meager results so far achieved. The committee has some doubts about the effectiveness of the United States Government's foreign investment guaranty program but believes it merits a further period of trial.

The committee favors reducing by 14 points the corporate income tax on income earned from investment abroad. Consideration should be given to a greater reduction. Also payment of taxes on the earnings of foreign branches of American corporations should be postponed until the earnings are transferred or repatriated.

The committee welcomes steps taken recently to aid private foreign investment by partnership between private investors and public lending institutions such as the World Bank and the Export-Import Bank. Particularly welcome is the decision to establish an International Finance Corporation, as an affiliate of the World Bank, to invest in private undertakings in association with private investors in underdeveloped countries where sufficient private capital is otherwise unavailable on reasonable terms.

Even after all practical measures are taken to increase private foreign investment, the underdeveloped countries will still need more foreign capital to accelerate their economic progress. The question is, Is it in our national interest to use public funds to help meet this unfilled need?

The committee believes that it is. Considering the importance of the underdeveloped countries to the security and well-being of the western community both in the short and in the long run, the committee believes that an expanded program of public investment in underdeveloped countries is in our national interest.

The program should be selective: it should be focused in the main on critical countries of the underdeveloped world.

The program should be devoted mainly to the creation of basic economic facilities, such as transportation and the development of water resources, in situations where private investors are unable to meet the need.

Loan financing is to be preferred in most instances to grants. The weak foreign exchange position of many underdeveloped countries, however, makes it difficult for them to get dollar loans for development purposes. It is often impossible for them to meet the standards and the terms laid down by the World Bank and the Export-Import Bank.

Accordingly, where the borrowing country's ability to repay dollar loans is already fully committed, loans repayable in the currency of the borrowing country should be used. To avoid undesirable competition with the World Bank and the Export-Import Bank, loans of this kind should be made only where clearly necessary from the standpoint of American foreign policy and after a determination that the established public lending agencies cannot meet the need.

To the limited extent possible, agricultural surpluses should be used as a substitute for either public loans or grants to provide underdeveloped countries with foreign capital.

An expanded program of public investment in underdeveloped countries should be administered by a United States agency or agencies, except in situations where an international approach would clearly be more advantageous. In situations of that kind we favor the participation of the World Bank. To participate effectively in an expanded program, the World Bank would need additional capital contributions from its member governments and authority which it now lacks to make grants and development loans repayable in local currencies.

STATISTICAL APPENDIX:[1] THE FLOW OF INTERNATIONAL INVESTMENT TO UNDERDEVELOPED COUNTRIES

Long-term investment funds have been moving from the United States and Western Europe to independent, non-Communist underdeveloped countries at a rate of approximately $1.1 billion a year, as noted on page 16 above. This figure does not include investments by the European colonial powers in their dependent territories. The capital needs of the dependent territories and the means of satisfying them have not been considered in this statement because they are primarily the responsibility of the European countries.

The following table shows a breakdown of the $1.1 billion figure. The figures are for the most recent representative period for which data on an annual basis are available (see explanations below).

From—	*Annual rate (millions)*
United States mutual-security program	$415
Export-Import Bank (net)	72
Privatel ong-term investment (net)	500
World Bank (net)	98
Western Europe, public and private (net)	50
Total	1,135

Mutual security program.—The $415 million figure represents estimated expenditures for the fiscal year ending June 30, 1956. It includes $162 million of development assistance and $153 million of technical assistance, including the United States contribution to the United Nations technical assistance program. Strictly speaking, that part of the technical-assistance item which pays for technical services rather than for capital equipment should not be included because it is not investment. However, the technical-assistance item also includes funds for capital equipment. Because the line between the two is not easily drawn, the whole amount has been included. The $415 million item includes, in addition to development assistance and technical assistance, $100 million for the President's fund for Asian economic development.

The $415 million item is a part of the $1,681 million of economic aid appropriated under the mutual security program for the fiscal year 1956. This total breaks down as follows (in millions of dollars):[2]

Economic development and technical assistance	415
Defense support	999
Other nondevelopment programs	167
Contingency fund	100
Total	1,681

[1] Prepared by CED research staff.

[2] Data on the mutual security program for fiscal year 1956 are from International Cooperation Administration, operations report, Washington, D. C., November 16, 1955. Sales of surplus agricultural commodities for foreign currencies in fiscal 1956 under sec. 402 of the Mutual Security Act of 1954 as amended are financed out of this economic-aid total. Sales of surplus commodities for foreign currencies in fiscal 1956 under the Agricultural Trade Development and Assistance Act of 1954 are financed under another appropriation. These programs are briefly described on p. 34 of this statement.

Total foreign-aid expenditures in fiscal 1956 under the mutual security program are estimated at $4.2 billion, including the above $1.7 billion of economic aid and $2.5 billion of military aid.

Export-Import Bank.—The figure of $72 million is a net figure in the sense that $77 million of repayments to the Export-Import Bank from independent underdeveloped countries have been deducted from gross disbursements of $149 million. These figures are for calendar 1954, the most recent year for which complete figures are now available.[3]

World Bank (International Bank for Reconstruction and Development).—The net figure of $98 million consists of $102 million of gross disbursements to independent underdeveloped countries, minus $4 million of repayments. These figures are for calendar 1954, the most recent year for which complete figures are now available.[4]

United States private foreign investment.—The $500 million figure includes both reinvested earnings of American corporations operating in independent underdeveloped countries and new direct investments. It also includes a small amount of portfolio investment in Israel. The $500 million figure is an average for the 3 years 1952 through 1954, the last year for which complete data are now available. A 3-year average gives a better picture of the rate of capital movement than do data for a single year, because the rate fluctuates widely from year to year.

The private investment figure is a net figure in the sense that capital repatriated by American corporations operating in independent underdeveloped areas has been deducted from it. This deduction is sizable, amounting to 250 to 300 million dollars a year in the 3-year period 1952–54. Thus, gross United States private investment in independent underdeveloped countries in this period was 750 to 800 million dollars per year.[5]

In arriving at the $500 million figure for United States private investment, no deduction has been made to reflect the inflow of funds for long-term investment into the United States from independent underdeveloped countries. In the 4-year period 1950–54, this inflow averaged about $60 million per year, most of it representing the purchase of American corporate securities by residents of independent underdeveloped areas.[6] Unlike the repatriation of capital by American corporations, this inflow is entirely unconnected with the outflow of United States private investment to underdeveloped countries.

Western Europe.—The figure of $50 million net, annual rate, is a rough estimate for the 3 years 1952–54, based on international balance-of-payments data published by the International Monetary Fund.[7] Private investment by Britain in underdeveloped sterling area countries accounts for most of this amount. It should be noted that this figure refers only to investments in independent underdeveloped countries. It does not include the sizable flow of private long-term investment funds from Britain to relatively developed countries such as South Africa, Australia, and New Zealand, nor investments by the European colonial powers in their dependent territories.

Chairman Douglas. Mr. Robey, we are very glad to hear you. Mr. Ralph W. Robey, economic adviser for the National Association of Manufacturers.

STATEMENT OF RALPH W. ROBEY, ECONOMIC ADVISER, NATIONAL ASSOCIATION OF MANUFACTURERS

Mr. Robey. Thank you, Mr. Chairman, members of the committee.

My name is Ralph Robey. I am speaking here as the representative of more than 20,000 members of the National Association of Manufacturers in my capacity as the economic adviser for that association.

We have filed with you, Mr. Chairman, a brief statement which we

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[3] Source: Export-Import Bank of Washington, Semiannual Reports to Congress for 1954, Washington, D. C.

[4] Source: Data obtained from the International Bank for Reconstruction and Development, Washington, D. C.

[5] Source: Department of Commerce, Washington, D. C., Survey of Current Business, August 1955, p. 16, table 5, and January 1954, p. 9, table 4.

[6] Source: See Department of Commerce, Survey of Current Business, May 1954, p. 12, table 2, and August 1955, p. 12, table 2.

[7] International Monetary Fund, Balance-of-Payments Yearbook, Washington, D. C., 1955.

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would appreciate if it could be included in the record, and in my oral comments, I will touch only on a few highlights.

First I think I should say that in contrast with the opinion expressed earlier, we think that the President's report is quite thorough in its coverage and quite pentrating in its analysis.

In other words, it is our view that this is quite a masterful report and in the best traditions of such type of analysis.

We do not mean by this comment that we gave a blanket endorsement to everything in the report, but we do think that it is a completely adequate analysis of the situation from the point of view of carrying on a worthwile discussion. We will stay pretty close to the document itself, both here and in our longer statement.

It seems to us that a very important point which I believe none of the previous speakers has commented upon is the difference between the near view and the long-term. We do not take any major exception to the analysis of recent trends and the immediate outlook as carried in the President's report.

That does not mean that we would not place different emphasis than they may in that report upon certain points, but the overall picture seems to us to be quite good.

In the long view, which is what we find vitally significant, is where we find more differences. Perhaps we emphasize that a good bit because the association, as a matter of policy, attempts to adopt its basic philosophy on the assumption of a long-term effect of various programs.

Now, the two long-term issues which we give top priority to are public finance and taxation, and secondly, antitrust and monopoly. And we are very pleased, of course, to note that the President's report takes up these two issues ahead of all others, in the chapter on "Building for Future Prosperity."

The association, as you would expect, is grateful for the sweeping gains that have been made in restoring what we like to think is fiscal sanity to the public finance, and it is our opinion that early steps should be taken toward the gradual elimination of the high and discriminatory income tax-rates as a long-term insurance for growth and prosperity of the Nation.

We do not believe, as we spell out in this program in detail, that such steps would be inflationary. Yet, this seems to be the primary reason given in the report for not reducing taxes.

We think the argument of inflation is of a rather transient nature.

On the issue of antitrust and monopoly, it is our feeling that the report does not go far enough either in its broad objectives or in its specific recommendations. It is our opinion—and we have done a good deal of work on this—that there is a great need for major overhauling of the antitrust laws, and we think that this overhauling should consider some degree of control, at least, over the monopolistic aspects of unions on exactly the same terms that apply to business.

Finally, I would like to point out that in certain charts in the President's report there are carried some rather striking implications from the long-term point of view. Charts which show the contrasting trends of wages and profits and consumer spending as against business spending during the past 8 years, I think, have to raise questions in one's mind. I wonder whether these contrasting trends augur well for the long-term growth.

Recently these relationships have been improving, and that gives us some feeling of confidence. But there is still quite an amazing difference in the trends.

Those, Mr. Chairman, are the main points made in our brief statement. You will find that our statement itself is quite brief. We have tried not to burden the committee. We are very appreciative of this opportunity of appearing before you.

Chairman DOUGLAS. Thank you very much, Mr. Robey.

(The prepared statement of Mr. Robey is as follows:)

STATEMENT OF RALPH W. ROBEY, ECONOMIC ADVISER FOR THE NATIONAL ASSOCIATION OF MANUFACTURERS

This statement on the President's economic report is made in behalf of the more than 20,000 member firms of the National Association of Manufacturers in my capacity as the economic adviser of the association.

HIGH PRAISE FOR PRESIDENT'S REPORT

I would like to say that the President's economic report is a masterful and praiseworthy document. It is thorough in its coverage and penetrating in its analysis. The Council of Economic Advisers deserves high praise for the professional quality of its assistance in preparing this extremely valuable and significant report.

The National Association of Manufacturers is grateful to the Joint Committee on the Economic Report for this opportunity to be heard and to go on record, and is keenly appreciative of the very vital and arduous work of this committee bearing upon the most fundamental economic policies of the Federal Government.

THE NEAR VIEW

The President's report records the Nation's economic achievements honestly and fully. Due recognition is given to the many factors and forces that brought about these achievements, both governmental and private. So there is no need to recount them here. (See pp. 6 and 8 of the report.)

Looking back on the recent past, I can say with a feeling of complete assurance that American industry is truly thankful that the Nation has attained unprecedented levels of prosperity without price inflation. The general stability of the price level as a whole has helped to reduce the uncertainties and hazards of both current operations and forward planning, which are so essential to industrial growth and progress.

Looking ahead for 1956 as a whole, I believe that most businessmen agree with the President that "Taking recent developments all together, it is reasonable to expect that high levels of production, employment, and income will be broadly sustained during the coming year, and that underlying conditions will remain favorable to further economic growth."

THE LONG VIEW

However, in contrast to the near view of the recent past and the immediate future, the analysis of the requirements for future prosperity over the long term raises a number of questions, both as to specific recommendations and as to the economic philosophy behind them.

In raising these long-range questions, the National Association of Manufacturers desires only to be constructive and helpful, in the national interest.

The association desires above all to maintain continuing growth and prosperity, with increasing living standards, throughout the years and decades ahead. No policy of expediency will solve this problem. The solution will be found only in the fundamental principles and basic economic policies that have made this Nation the envy of the world.

TOP PRIORITY ISSUES

The first two things mentioned in chapter 4 (p. 72) of the President's report as clear-cut responsibilities of the Government in building for the Nation's long-range prosperity are:

1. The public finances.
2. Outcroppings of monopoly.

These 2 topics happen to be the 2 top priority issues in the 1956 program of the National Association of Manufacturers. Therefore our interest is very great when the President says on page 72:

"A government that earnestly seeks to build for the Nation's long-range prosperity has clear-cut responsibilities. It should administer the public finances with a keen sense of awareness of the impact that the Government's huge operations have on the economy. It should safeguard competition and firmly resist any outcroppings of monopoly" (etc.).

These are the two areas of economic policy which we think are of the utmost importance to future growth and prosperity. I would like to discuss them briefly.

THE PUBLIC FINANCES

Frankly, it is a disappointment to the association that postponement is recommended for the scheduled April 1 reduction in corporate income tax rates. Such a reduction was postponed last year and the year before. However, the association is primarily interested in the long-range value of correcting the tax rate structure of both the personal and corporate taxes so as to eliminate unfair and discriminatory features. A program for accomplishing this result has been submitted to the appropriate committees of the Congress.

Amoung the 6 principles stated in the President's report as the basis for sound Federal finances, only 1 meets with serious question by the association. That is the principle which might be interpreted as yielding to the unsound theory of a flexible or compensating budget—principle No. 3, below.

The six principles are given in pages 72–73, as follows: "Sound management of the Government's fiscal affairs requires the observance of certain fundamental principles. First, the budget should provide adequately for the Nation's security and other urgent needs. Second, all governmental operations should be conducted with prudence and economy. Third, sufficient revenues should be raised to meet the Government's outlays, if not every individual year, then surely over a term of very few years. Fourth, the cost of government should be distributed fairly among taxpayers. Fifth, revenues should be raised in ways that interfere as little as possible with incentives to work, to venture, or to invest. Sixth, the public debt should be managed so as to contribute to stable economic growth."

TAX REDUCTION VERSUS INFLATION

I want to question the arguments in the President's report against tax reductions now. I do this in the interest of getting started on the gradual elimination of the high and discriminatory income tax rates. In this connection the economic arguments play an important part.

The report presents several arguments to indicate that tax reduction now would be inflationary. For example, it is said on page 75:

"Present tax levels are very high and they impose a heavy burden on individuals and business concerns. But in view of existing economic conditions and present budget estimates, an early reduction of taxes cannot now be justified. To add further to our public debt in order to win for ourselves a reduction in taxes, which in the current state of high prosperity might chiefly serve to raise prices, would be irresponsible."

If it is thought that the Government's expenditures are irreducible in view of the latest budget data, I would point out that the National Association of Manufacturers has jus completed a budget analysis indicating in detail where Federal spending could be reduced by nearly $3 billions in the fiscal year beginning a few months hence.

Tax reduction need not mean increased debt, nor higher prices.

Therefore, I think it is economically feasible to lay the foundation now for the early downward adjustment of our high and discriminatory income tax rates. Moreover, the basic and added dynamic growth that would be released by such action would protect Federal revenues against impairment in ensuing years.

OUTCROPPINGS OF MONOPOLY

The President's report properly emphasizes the importance of antitrust measures in a thoughtful discussion which includes such significant observations as the following (on p. 78):

"The maintenance of healthy competitive markets requires that Federal policies for promoting economic expansion and for aiding small and medium-sized businesses be supplemented by vigorous measures for preventing monopolistic practices and combinations.* * * Over the years Americans have wisely viewed excessive business concentration, *or any other undue concentration of economic power*, with uneasiness." [Italic ours.]

Industry is in full accord with such views but is disappointed by the premature and piecemeal approach to new antitrust legislation that has been made in some of the bills recently submitted in an attempt to embody several of the specific recommendations found in the President's report.

What is needed is a major overhauling of the antitrust laws, rather than a program of bits and pieces. And as part of this major task, there is the problem of considering some degree of control of the monopolistic aspects of unions.

This is not to suggest anything more than the thought that union monopolies should not exist, for the same reasons that business monopolies have been banned.

This is a vast problem, with enormous economic implications. It has been given emphasis by a recent union merger which is so large that it directly involves many times more people than all the thousands of industrial mergers of recent years added together.

The overwhelming majority of the working people of America are not members of any union, but they are profoundly affected by unions as an economic force. Therefore they are entitled to protection from any actual union monopoly that may develop as well as from any business monopoly. As a matter of fact, the union members also deserve that same protection—which makes it 100 percent desirable.

WAGES AND PROFITS

The trend of wages and profits as revealed in certain charts in the President's report is worth a second look. There is altogether too much satisfaction expressed as to recent gains, and this can lead to the kind of complacency that the President definitely deplores (p. 11). Moreover, the question of a soundly balanced economy is involved here, and that has an important bearing upon long-term progress.

Charts 10 and 11, on pages 19 and 20 of the report, reveal the trends of wages and profits in the perspective of the past 8 years. The upward sweep of wages over these years is at once apparent. The line showing profits after taxes, however, is roughly horizontal.

Of course there are many ways of measuring these trends, but the report has simply charted the figures in a completely objective fashion. The contrast is rather striking. Without this record, few would believe that total profits are just about where they were 7 years ago, despite the enormous growth of business volume since 1948.

A similar contrast is found between consumer spending and business spending, as revealed in charts 14 and 15 on pages 21 and 24 of the report. In these charts the past 6 years are shown. Consumer spending has surged upward throughout most of the past 6 years. The trend of business spending (i. e., investment) appears to be roughly horizontal, when viewed in this perspective.

MISCELLANEOUS PROPOSALS

The report recommends a wide range of other economic and legislative programs and changes, which are very important but are nevertheless secondary to the problems of fiscal policy and antimonopoly that I have emphasized in this statement. The association has already testified elsewhere, or may soon testify, on many of these subjects.

I may say in general terms that the association will surely raise grave questions as to any new and expanded programs which would unduly extend Federal controls or Federal spending, lending, and guaranties.

A single paragraph quoted from one of our own studies called The Great Illusion may serve to clinch my point here:

"The idea that Federal money is 'free' money—which someone else is providing—leads too many people to accept proposals for Federal aid as the panacea for any and all local government problems. This illusion began during the depression years when various Federal undertakings in the fields of education, welfare, and employment security were justified as temporarily necessary. It was strengthened as these Federal programs became entrenched, were expanded, and finally culminated in the establishment of a permanent new department of Cabinet stature. The structure and concept of the progressive income tax—as a kind of fiscal Robin Hood—was, however, the final convincing touch. And the illusion became an accepted part of popular economic and political thinking."

FUTURE PROSPERITY

In my statement today I have deliberately emphasized those things which seem most essential to future prosperity, for many years ahead. And I have been brief about it. But the President produced the basic answer to future prosperity when he said in two sentences, in his letter of transmittal to the Congress on January 24, 1956:

"Lasting prosperity of the Nation depends far more on what individuals do for themselves than on what the Federal Government does or can do for them. The rate of our economic advance in the years ahead will depend largely on our ability as a people to preserve an environment that rewards individual initiative and encourages enterprise, innovation, and investment."

Chairman DOUGLAS. Congressman Bolling, do you have any questions?

Representative BOLLING. Yes, I would like to ask Dr. Schmidt some questions.

I note that in your full statement you discuss at some length the Council of Economic Advisers and the joint committee, and I see that your statement is essentially the same one, with some deletions, as a statement that appears in Economic Intelligence, the February 1956 issue. In this, your discussion of the joint committee includes a statement to the effect that to date the committee has not developed the prestige within Congress that the Council has developed within the administration.

I would like you to expand on that. That is not in your statement before this committee, but it is in a similar statement which, as I said, appears in Economic Intelligence.

I would like you at the same time to be specific about a footnote which appears on page 2 of a document issued by the chamber, Can We Depressionproof Our Economy? Incidentally, this is a very excellent document in most respects in my opinion. The footnote to which I want to call your attention reads as follows:

The congressional committee and a few freewheeling subcommittees thereof unfortunately have at times appeared to be more interested in the politics than the economics of instability.

I detect a feeling in certain areas that perhaps the joint committee sometimes has had too much influence, and it should be lessened.

Mr. SCHMIDT. Too much what?

Representative BOLLING. Too much influence in Congress, and it should be lessened.

I wonder if these statements were designed to that end and if you would mind being specific about that footnote.

I have here a list of the subcommittees, and since I happen to have been a member of several of them, I am curious to know whether the subcommittees I was on are involved in this freewheeling.

Vice Chairman PATMAN. The vice chairman would, too.

Chairman DOUGLAS. The chairman would, too.

Mr. SCHMIDT. This will take quite a little while, Mr. Bolling, and the committee.

Representative BOLLING. I understand that.

Mr. SCHMIDT. But I had a letter from Mr. Ensley of the staff of your committee along this same line some time ago, and the only reason I have not answered that letter is because it just takes too much time to do the full documentation.

But I would like to read you just a paragraph of a report of the committee of last year. I do not have the report here, but I would like to read you just a paragraph.

Representative BOLLING. First, I need to know what freewheeling is.

Mr. SCHMIDT. Well, it means to my mind a digression very much along the line that I indicated this morning—that I think if this committee devoted its attention to the basic forces that control our essentially free economy, such as fiscal and monetary policy, in which the country still lacks woefully in education, it could make a tremendous contribution to better understanding.

Instead of that, while you do an extensive job you dissipate your energies in the byways. I am a great admirer of the chairman and I give him credit more than, I think, any other man in the United States for stopping the inflationary trend. Maybe that is too flattering, but he knows I feel that way about it.

And I think he had a lot to do with the forces that finally created the accord of March 3 or 4, 1951.

Representative BOLLING. I am glad to have my time used for that purpose. I think the chairman should be praised.

Mr. SCHMIDT. I think there is still a tremendous deficiency in the understanding of monetary and fiscal policy. The Patman subcommittee, I think, issued an excellent report, which was 3 or 4 years ago, very much along those general lines.

Now, it is that kind of thing that I would like to see done.

If you look, for example, at some of the dissents to one of the committee reports on low-income groups several years ago—I cannot remember the exact details, sir—there were some very trenchant criticisms of the statistical basis of that particular subcommittee report. I do not have with me the complete documentation; so I cannot give you a very satisfactory or complete answer.

Representative BOLLING. Do you disapprove of the dissent?

Mr. SCHMIDT. No. I think the dissent certainly raised some questions. I think Sumner Slichter, after the committee's report, published an article in which at considerable length he also took somewhat the same position as the dissent from that subcommittee's report.

Representative BOLLING. In other words, you are saying that the majority of the committee was wrong, and you disagree with them?

Mr. SCHMIDT. I haven't done the kind of detailed work on this that I would want to before criticizing the report in detail.

Representative BOLLING. Is this freewheeling?

Mr. SCHMIDT. It might be.

Representative BOLLING. Then I take it that you had some disagreement with the Subcommittee on Low Income Families which was chaired by Senator Sparkman in the 82d Congress, in 1951–52?

Mr. SCHMIDT. I am——

Representative BOLLING. Do you have more examples? So far you praised the only subcommittee you have mentioned of which I happened to be a member.

Mr. SCHMIDT. I do not want you to take this too personally or too seriously.

Representative BOLLING. I take it quite seriously when a responsible organization puts out the statement which I have read, and which then does not proceed to back it up with facts.

Mr. SCHMIDT. I would be very glad to back it up if I only had a little more time, but I do not have the documentation with me this morning. If you have this committee's report of last year, I would like to read just a paragraph, which I think is very unfortunate.

Do you have a copy of the report?

Representative BOLLING. Last year's report?

Mr. SCHMIDT. Yes.

Representative BOLLING. Do you have that, Mr. Ensley?

Mr. SCHMIDT. The majority report, or rather the general report last year, I thought was quite excellent. I think that was a unanimous report of this committee was it not?

Representative BOLLING. Which one?

Mr. SCHMIDT. The first, whatever it was, 10 or 15 pages of the report last year, which I think was unanimous. Then there is a series of dissents.

Representative BOLLING. Do you disapprove of dissents?

Mr. SCHMIDT. No; just the quality of them, especially when I think they are very bad economics, and also imply a motivation which I think could not very well be proven.

It was that section—maybe a staff member can tell me where it is—in which the monetary policy of the administration was accused of being engineered by Wall Street, or something to that effect. I do not just find it offhand. And I thought that was a very, very unfortunate statement to come from this committee of monetary and fiscal experts.

It should, it seems to me, be on page——

Mr. RUTTENBERG. I wonder whether the difficulty in finding this quote is an indication of the lack of evidence to substantiate the charge made by the chamber.

Mr. SCHMIDT. I do not think so.

Mr. RUTTENBERG. You are having difficulty finding it there.

Mr. SCHMIDT. With a little notice, I would not have any trouble finding it.

As a matter of fact, I referred to it on a number of occasions.

Representative BOLLING. I wish, Dr. Schmidt, you would furnish for the record a detailed statement which supports—your statement—I assume it is your statement for it appears in a document for which I imagine you are responsible—the statement that:

> The congressional committee and a few freewheeling subcommittees thereof unfortunately have at times appeared to be more interested in the politics than the economics of instability.

I would like you to have all the necessary time to furnish the documentation, because I consider that you have made a very serious charge, and I do not think it is accurate.

(Mr. Schmidt did not supply the material in time for inclusion in the printed record. Copies will be available in the committee files when received.)

Mr. SCHMIDT. Here it is. I think I have it here. On page 43, here is the quotation. It is the last paragraph:

> The enormous fiscal and monetary powers of our Federal Government have come under the control and influence of individuals, many of whom have spent their entire adult lives in big banking and/or big business. They have not used these powers for the purpose the Congress intended when it passed the Employment Act of 1946. Instead of being used to promote full employment, maximum production, and purchasing power, fiscal and monetary policies have been and

are being used to promote the interests of the lending and investing classes and a handful of giant corporations at the expense of the farmer, the small-business man and employees.

Now, when you see what has happened, let us say, since 1950, profits in 1955 after taxes were a shade below 1950. Employees' income, not including many fringe benefits, went up $67 billion in that same period. Last year national income went up, I think, $22 billion. Corporate profits went up $4 billion or $5 billion.

The interest component of our economy is substantially less as a proportion of national income than it was, say, in 1929 or 1930, or perhaps 1920.

Yet here the administration is charged with adopting a monetary policy designed to promote the interests of the lending and investing classes and a handful of giant corporations.

I was delighted to see that not all the committee members signed that. But the paragraph happened to irritate me a good deal, because I do not think you could prove it.

And furthermore, if we really mean business on this inflation problem, as the Farm Bureau has so well pointed out, you have got to have at times a tight monetary policy and at times a loose one, and I think the performance of the economy in the last 5 or 6 years, particularly since the accord of March 1951, has been really admirable.

Representative Bolling. Well, Dr. Schmidt, I would entirely approve your right to have a strong opinion on that, but I would be happy to tell you that there is at least one member of the committee who largely disagrees with that view as of now and as of then. I would suspect that there is no legitimate reason or any justification for calling it freewheeling when individual members of the committee state their opinion in supplementary views.

It is perfectly obvious that the opinion could be correct or could be in error. And it seems to me perfectly proper for us to disagree, as we have on occasions on such matters.

Mr. Schmidt. But I would like to see the evidence here.

Representative Bolling. I suspect that I would have to furnish quite a lot of evidence to disabuse you of your view. Now, you are not suggesting that we should have in this statement all the evidence?

Mr. Schmidt. I would like to see a little of it.

Representative Bolling. I think that the facts of the situation constitute evidence, and I would suspect that any fair analysis would demonstrate today that what you say on interest, when you have to go back to 1929 and 1930—and it is obvious you have to go back to 1929 or 1930——

Mr. Schmidt. No. I just don't have with me the detailed figures. Probably I could go back to a much more recent date.

Representative Bolling. It would be perfectly natural for you to take the view you do. But I do not see this as a justification for an indictment of the committee.

Mr. Schmidt. I think the committee has performed a very useful function.

Representative Bolling. You can indict the views of individuals, but I do not see why this supports the position which you take in your footnote to what I described before as an otherwise excellent document.

Chairman DOUGLAS. I think perhaps I might clarify the situation somewhat. The statement which Dr. Schmidt has read and to which he has taken exception was not in the formal report of the committee, but was a statement of supplemental views by four members thereof—

Vice Chairman PATMAN. Name them. We are proud of them.

Chairman DOUGLAS. I was going to say this. I was not a member of this group.

Vice Chairman PATMAN. I was.

Chairman DOUGLAS. But I would like to make the statement that the members of the committee had every right to state their supplemenal views. These views, I am sure, were made in good faith and represented their honest conviction.

Second, while I did not join with them in the complete statement, I think there is a considerable measure of truth in what they said, and certainly they should not be subjected to the sweeping denunciation which has been given to them. While I have faith in the policy of stable prices and have felt that in all probability that as a result of the Federal Reserve ceasing to buy unlimited quantities of Government bonds, the interest rate probably would move up slightly. I did think that the increase of 1 percent at the very outset of the administration was raising the interest rate too fast, too far. And I think it had some effect on the business recession which later set in.

So although I perhaps occupy a middle-of-the-road position, I will say to Dr. Schmidt, in the words of Voltaire, "I will defend to the death the right" of members to express their points of view—in statements like this or statements such as our friends on the right might make.

Representative BOLLING. Mr. Chairman, could I have 1 more minute to say something else?

Chairman DOUGLAS. Yes.

Representative BOLLING. There has been an attempt, I think, and a fairly consistent effort in the last year to indict as political those views which do not happen to agree with those of the administration.

I tried to make the point earlier in this set of hearings that it was perfectly possible for people to disagree on economics and not necessarily be political. This attempt to make everything political which is in disagreement with the viewpoint or position taken by the administration could ultimately have the effect of suppressing all opposition, which would be a poor, poor effect.

Mr. SCHMIDT. I agree entirely with your point of view on that.

Chairman DOUGLAS. Mr. Talle?

Representative TALLE. Thank you.

Mr. Chairman, first I should like to direct a question to Mr. Newsome, and in advance of the question I want to say that I have always found the statements of the Grange to be soberminded, well thought out, and helpful.

Just before coming to this room, I read a statement by the president of one of the meat packing companies in my State, and I have a lot of respect for his ability. He said, according to a news article, that if the marketing of hogs had occurred over a 4-month period, the price would probably have averaged around $17 a hundred.

Would that seem reasonable to you? He added that there was no surplus hogs which surprised me because I thought there was.

Mr. NEWSOM. I do not know that I am prepared to comment very meaningfully as to what the effect on price would have been if the bulk marketings had been spread over a longer period of time, except to say that here again is a very potent illustration of the importance of guarding against the complete throttling of the function of price.

I have in mind an experience that was one of my first experiences in this town as a spokesman or representative of American farmers. I had just come fresh off a farm in Indiana, and ran head on into a proposal to establish a firm ceiling price on hogs or on pork, and I had the opportunity, the privilege, and the honor of pleading with no lesser person than the President of the United States, that to do this thing would completely destroy the orderly flow of pork products to consumers, because I as a farmer had deliberately bred sows to have pigs in February in Indiana, and even though we lost, one particular winter, a number of pigs in February by reason of the severe winter, we still counted on enough price differential on the early hogs on the market to justify repeating that program rather than to retard the breeding process and have the pigs come in April or perhaps even in May, when the weather would be pleasant and pig losses would be less.

So I would say that certainly I agree with what I think the implication of that statement was, that we could have had much less price depression if the production had been marketed over a longer period of time. But I think we have marketings fairly well spread over the calendar now. I am not sure that I understand the purpose of the statement.

Representative TALLE. Mr. Newsom, I hope to get more information on that. The article was brief. It was just a short piece in a newspaper.

It leads me to say this, that I am very glad that some real thinking is being done about agriculture, and I appreciate the statements that you gentlemen have made. And it seems to me that it is a very proper subject for consideration by all Americans who are in earnest about solving problems through light and not through heat.

As you have indicated in your statement, Mr. Newsom, we may have a jolly time here on Capitol Hill in a few days. But the effective solutions will come from sober thinking and not from the tossing around of harsh words.

Mr. NEWSOM. I certainly do not want to be misunderstood. We know that there are a great many very sincere friends of the farmer that are going to be found on either side of this particular argument.

Representative TALLE. That is right.

Mr. NEWSOM. I am only saying that I think the fact that we do have exactly that situation and that this is a repeated debate should compel all of us to recognize that maybe it is the Joint Committee on the Economic Report that is going to have to point to our difficulty instead of our own agricultural committees.

I confess to you that I am a little bit concerned—I am more than a little bit concerned—I am much concerned—at our own inability to get together within agriculture on a program that does point to progress here. And yet, that is exactly what we are guilty of.

Representative TALLE. I am getting a lot of letters these days, naturally, and I am impressed by the differences of opinion, not only among regions in our country, but even as to rather limited localities. Every farm is pretty well a unit by itself. And I did not intend to say that there should not be any differences of opinion about solutions. If there were no differences of opinion about the problem, it would not be an important subject to discuss.

But I did want to say that I am delighted to find that people who are capable of earnest research are engaging in it.

Now, Mr. Chairman, may I toss out a suggestion here? Congressman Bolling and I are very much interested in economic statistics. We have served on the subcommittee from its inception. Other members are interested too. And at the proper time, Mr. Chairman, could we have, say, a quick expression of approval or disapproval of the special analysis which appeared in the President's budget message? In other words, special analysis J in which he gives encouragement now, as he did last year, to the work that we are trying to do to improve economic knowledge, Mr. Chairman. Would that be all right at the proper time?

(See pp. 524, 525.)

Chairman DOUGLAS. Yes, indeed.

Representative TALLE. Then I will stop my questioning now.

Chairman DOUGLAS. Before Congressman Patman begins his questioning, I think in view of the fact that Dr. Schmidt has been asked to submit for the record a statement of the errors in which he believes the committee or subcommittee has fallen, I should include a letter which Dr. Ensley, the staff director, sent to Dr. Schmidt on the 4th of November, calling his attention to this previous statement of Dr. Schmidt, and sending a check list of the subcommittees that the Joint Economic Committee has had over the years since 1947, and requesting Dr. Schmidt in these words:

> Would you check those which you felt were "free-wheeling" and "more interested in the politics than in the economics of instability?"

Dr. Ensley goes on to say that:

> In all cases the reports of these subcommittees have been unanimous, or with only minor reservations or dissents by an individual member or members.

Now, no reply was received to that letter, and on the 9th of January, Dr. Ensley sent a friendly letter to Dr. Schmidt, which I shall also ask be made a part of the record, the last sentence of which was as follows:

> Sometime if you have an opportunity to look over the letter I sent you November 4 you could send me your reactions.

I am told that no reply was received to that letter.

So there has been an effort to find out what ways we have slipped in Dr. Schmidt's opinion, and we do not feel ourselves immune from criticism and would welcome criticism, because we know that we make errors and we are very anxious for self-improvement.

On the other hand, we do not want to be exposed to general criticism unfounded in particulars.

(The letters above referred to are as follows:)

NOVEMBER 4, 1955.

Dr. EMERSON P. SCHMIDT,
Chamber of Commerce of the United States,
Washington, D. C.

DEAR EM: Over last weekend I read your report Can We Depression-Proof Our Economy? Could you send along 14 copies for members of my committee? This is such a good publication, as are your others in this series, that I cannot resist kidding you about the footnote on page 2. While it is true that in earlier years the full committee in its annual report tended to split along party lines, in recent years the committee has submitted unanimous reports with supplemental views which spelled out in more detail fundamental differences within the committee. The body of unanimous opinion, however, has been growing.

I would not take your time here except for that part of the footnote which reads "* * * a few free-wheeling subcommittees thereof, unfortunately, have at times appeared to be more interested in the politics than in the economics of instability." It is this statement that concerns me. For your convenience I have enclosed a list of subcommittees that the Joint Economic Committee has had over he years, since 1947. My researchers tell me that this is a complete list. Would you check those which you felt were "free wheeling" and "more interested in the politics than in the economics of instability?"

I speak with some feeling with respect to the performance of our subcommittees over the years. In every case they were created by the full committee. The full committee was kept informed of the plans, procedures, and scope of the studies, and were invited to participate in the hearings, and did. In all cases the reports of these subcommittees have been unanimous, or with only minor reservations or dissent by an individual member or members. I don't believe there has been a major party line split in any of these subcommittee reports. The reports were made to the full committee.

I have been rather proud of these subcommittee reports and believe they have been significant in laying the basis for improved public policy. But we can always improve; that is the reason I am asking you to check those that did not meet standards that both you and I expect.

As I indicated above, I am only writing because of my high regard for your fairness and my respect for your publications. I am sure your comments will be of interest to members of the committee.

Sincerely yours,

GROVER W. ENSLEY, *Staff Director*.

SUBCOMMITTEES OF THE JOINT COMMITTEE ON THE ECONOMIC REPORT

80th Congress (1947–48):
- 3 Regional Subcommittees on Food Prices:
  - Chairmen:
    - Western—Senator Arthur V. Watkins, Utah
    - Midwest—Representative George H. Bender, Ohio
    - Eastern—Senator Ralph E. Flanders, Vermont

80th Congress (1948–49):
- Subcommittee on Profits:
  - Chairman: Senator Ralph E. Flanders, Vermont

81st Congress (1949–50):
- Subcommittee on Investment:
  - Chairman: Senator Joseph C. O'Mahoney, Wyoming
- Subcommittee on Low-Income Families:
  - Chairman: Senator John Sparkman, Alabama
- Subcommittee on Monetary, Credit, and Fiscal Policies:
  - Chairman: Senator Paul H. Douglas, Illinois
- Subcommittee on Unemployment:
  - Chairman: Representative Edward J. Hart, New Jersey

82d Congress (1951–52):
- Subcommittee on General Credit Control and Debt Management:
  - Chairman: Representative Wright Patman, Texas
- Subcommittee on Low-Income Families (study continued from previous Congress):
  - Chairman: Senator John Sparkman, Alabama

83d Congress (1954):
- Subcommittee on Economic Stabilization:
  - Chairman: Senator Ralph E. Flanders, Vermont
- Subcommittee on Economic Statistics:
  - Chairman: Representative Henry O. Talle, Iowa

84th Congress (1955):
- Subcommittee on Economic Stabilization:
  - Chairman: Representative Wright Patman, Texas
- Subcommittee on Economic Statistics:
  - Chairman: Representative Richard Bolling, Missouri

Subcommittee on Foreign Economic Policy:
Chairman: Representative Richard Bolling, Missouri
Subcommittee on Low-Income Families:
Chairman: Senator John Sparkman, Alabama
Subcommittee on Tax Policy:
Chairman: Representative Wilbur D. Mills, Arkansas
1947: Subcommittee on Questionnaire:
Senator Flanders, Chairman
Senator O'Mahoney
Representative Rich
Representative Hart
Subcommittee to assist staff arrange hearings:
Senator Taft, Chairman
Senator O'Mahoney
Representative Wolcott
Representative Patman
1955: Subcommittee to set up rules for the committee:
Representative Bolling, Chairman
Representative Curtis

JANUARY 9, 1956.

Mr. EMERSON P. SCHMIDT,
Economic Research Department,
Chamber of Commerce of the United States,
Washington, D. C.

DEAR EMERSON: We were greatly pleased, of course, with your Economic Intelligence January number. You will be getting a copy of this report with a more formal thanks from Chairman Mills within the next day or so.

I hope that your arm is feeling better again and that you are back in normal stride. Some time if you have an opportunity to look over the letter I sent you November 4 you could send me your reactions.

With best personal regards,

Sincerely yours,

GROVER W. ENSLEY, *Executive Director.*

Chairman DOUGLAS. Congressman Patman.

Vice Chairman PATMAN. Mr. Chairman, all these gentlemen have made very interesting and certainly thought-provoking statements. I could start at the end of the table here with Mr. Robey and spend the entire time, or Mr. Zellerbach or Dr. Schmidt, or Mr. Newson of the National Grange or Mr. Shuman of the Farm Bureau, to take up all my 10 minutes on any one of them, or Mr. Kennedy or Mr. Oliver or Mr. Mahon or Mr. Ruttenberg.

But Dr. Schmidt brought up something, of course, that demands a comment from me, because I am the senior Member of the four, that signed these supplemental views referred to.

I am ready to defend this statement, and am glad to do so. Let us take the first sentence:

The enormous fiscal and monetary powers of our Federal Government have come under the control and influence of individuals, many of whom have spent their entire adult lives in big banking and/or big business.

All right. Let us be specific. When the gentlemen now in power in the administration, came down here—and I say "came down here"—since most of them came down here from Wall Street—they brought 5 of the 9 directors of the Federal Reserve Bank of New York down here with them. Of course, they were outstanding money and big business experts in New York City. They had the know-how. They knew exactly how to run things, and they have done just exactly as they intended. All right. Their first object was to raise interest rates. Whatever else happened, they wanted to raise interest rates to cure it. To cure everything, they raised interest rates.

Instead of being used to promote full employment, maximum production, and purchasing power, fiscal and monetary policies have been and are being used to promote the interests of the lending and investment classes and a handful of giant corporations—

I emphasize that—

handful of giant corporations at the expense of the farmer—

and I emphasize that, too—

at the expense of the farmer, the small-business man and employees.

All right. Let us see whether or not we were justified in saying that. The Republicans—and, of course, the Chamber of Commerce of the United States is on the brink of being in that category—have been proud of the fact that they have kept the price level stable. All right. They have kept it stable, but they have taken it out of the hide of the farmer. That is the way they have kept it stable. As industrial prices went up, farm prices went down. If farm prices had been allowed to go along with the prosperity of the country, the price level would not have been stable, but the general welfare would have been promoted. It has been stable only by putting farm prices down every time industrial prices went down.

Mr. SCHMIDT. That is not true; they did not "put down" farm prices.

Vice Chairman PATMAN. There was, of course, nothing done to put industrial prices up. They simply sought their own level, and went higher and higher all the time. But farm prices had to go down in order to maintain this stable price level that they are so proud of.

Now the first thing these prominent bankers and businessmen did was to put on a minor recession. It almost ran into a depression before they stopped it. That allowed bond prices to go down, while the banks and investment companies, which I have mentioned bought up those bonds at low prices.

Then this group in power said, "We have now got to reduce taxes." That was a good excuse to reduce taxes. Incidentally, I think they are putting on the same excuse right now for reducing taxes this year in order to restore the country. When bonds went back up, the banks made $300 million in 1954 handling Government bonds. That was 966 percent more than they had ever made before in any 1 year. Now, you can judge for yourself whom they were serving. Not only that. Last year, we will take, for instance, the large corporations of the country, those that were reporting. They had excess, retained profits of $23 billion, that is, after allowing expenses, the cost of operation, wages, taxes, obsolescent depreciation, and a fair return to stockholders. They made the American consumer pay $23 billion more than that. That meant $137.50 for every man, woman, and child in America pulled out of the consumers' pockets of America, in addition to a fair return, distributed to the shareholders.

Just recently they had boldly stated in print—you would think it would be one of those unconversational understandings that we heard so much about—that they are going to raise prices for expansion capital.

Now, that does not seem right to me. One big industry in the United States, for example, says they need higher prices to help pay for the biggest expansion program in years.

While praising the private enterprise system they act at the same time, in a way destructive to the private enterprise system. Under the private enterprise system, you go into the open market and borrow money, and engage in manufacturing or expansion in manufacturing. Here you are making the consumers pay it. It is "costless capital." It does not cost them a penny.

Now, then, 92 percent of the dividends go to not so very many families. We will say 1 million, which is probably a high figure. Every time you take "costless capital" out of the pockets of the consumer and deliver it to these corporations to expand, you are giving it to these fewer than 1 million families. I do not say that in a sense of being a rabble rouser or anything like that. It is just a fact. It is something that is on the books and in the papers. We cannot get away from it.

The United States Chamber of Commerce has never said a word about it, and I do not believe they ever will, because they have defended these giant corporations all the time.

Most of the big corporations are members of the United States Chamber of Commerce and their officers get in there on the policy committees. They stay on these committees. The little man cannot attend. He does not have money to go to these conventions. He cannot be a regular attendant. He does not have someone to step in his shoes and take his place every time a convention of the United States Chamber of Commerce is called.

Now, remember, when they get that costless capital from the consumer and they invest it in plants, they begin to get returns on that investment. That is not right, at all, and it is destructive to small-business concerns. Many of these giant corporations have retail outlets in local communities throughout the Nation. What chance has a local independent merchant—who is borrowing his money from the local bank or in the local market and paying interest on it, in order to stay in business and do business in that local community—with the outlet of the large giant concern across the street that has costless capital to operate on?

That works in the direction of the destruction of the private enterprise system in our country, and I think the United States Chamber of Commerce, if it wants to do its duty in our economy, would take some stand against it and try to stop it. I wonder if you feel that way about it, Dr. Schmidt?

Mr. SCHMIDT. That is a wonderful speech. It took a long time.

Vice Chairman PATMAN. Well, if my time has expired, I will have to give up. You will just have to put your answer in the record.

Mr. SCHMIDT. It will take a long time to set the the record straight.

Vice Chairman PATMAN. It is a great challenge, though, Dr. Schmidt.

Mr. SCHMIDT. 92 or 93 percent of all our members are what the Department of Commerce defines as small business.

Vice Chairman PATMAN. Why, certainly, they are. You are always bragging about that, and I do not blame you. I would, too.

Mr. SCHMIDT. I am not bragging. I am just stating a fact.

Vice Chairman PATMAN. But they cannot have any weight, because they just do not have the power and the seniority and the privilege of attending these meetings.

Mr. SCHMIDT. That is not true. Our policies are made by our organization members, and no organization, whether a trade association or a chamber of commerce, has more than 10 votes in our policymaking. And that is deliberately done to give the small chambers and the small-trade associations a voice at the United States chamber.

Insofar as your general philosophy is concerned, for instance these supplemental views on pages 42 and 43 of last year's report, you miss the primary function of a flexible interest rate policy. The purpose is not to raise the interest rate, but to control bank reserves.

Vice Chairman PATMAN. Now, that does not mean a thing.

Mr. SCHMIDT. Your chairman does not agree with you.

Vice Chairman PATMAN. I am not that naive.

Mr. SCHMIDT. The way you control prices——

Vice Chairman PATMAN. The open market committee controls interest rates, and five of them are interested bankers on that board.

Mr. SCHMIDT. They do not control interest rates.

Vice Chairman PATMAN. Our money prices are fixed in New York in the Federal Reserve Bank of New York, and every member, every employee there, is selected by someone who has been selected by the private banks of New York City.

Chairman DOUGLAS. I am not going to interfere with my dear friend from Texas, for whom I have the highest opinion even though our views on monetary policies are not identical. But I think in fairness Dr. Schmidt, should have a chance to reply.

Vice Chairman PATMAN. That is right, sir.

(Mr. Schmidt subsequently submitted the following letter:)

CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA,
Washington 6, D. C., February 17, 1956.

Senator PAUL DOUGLAS,
Chairman, Joint Committee on the Economic Report,
United States Senate, Washington, D. C.

DEAR SENATOR DOUGLAS: Your statement at the hearings of the Joint Committee on February 15 that you think that I should have the privilege of submitting a written reply to the statements of the gentleman from Texas is greatly appreciated.

It does seem evident to us that he does not have a very clear conception of the nature of the chamber of commerce organization and movement and I hope that the following comment will help to clarify the matter.

While our work and activities go far beyond merely legislative matters, what I have to say will deal mostly with legislation.

Congressman Patman seemed to be under the impression that all of our policies are made at our headquarters here in Washington and that only a few individuals participate in such policymaking, and that the average small-business man has no voice or opportunity to participate.

Under our bylaws, the policy proposals may come from interested individuals, organization members, or national chamber committees and other sources. These proposals are generally thoroughly considered by one or more of our regular or special committees, of which we have more than 30. Maybe 700 or 800 business executives serve on these committees. Most of them have 1 or 2 academicians or professors or other professional people from outside the business sector, because we believe it is important to bring into our deliberations the experience and thinking of scholars and other individuals who are at least one step removed from the responsibilities of business management.

The policies are adopted either by annual meeting vote or by referendum of the organization members.

However, the individual businessman does not vote. The individual business or businessman exercises his voting rights at the local level with the local chamber or through his trade association.

However, no chamber of commerce and no trade association has more than 10 votes. This is a deliberate attempt on our part to be sure that the small organizations can be responsive in making policy. Our policies are sent to our organization members well in advance of the annual meeting and every chamber and every trade association is encouraged to make a thorough study of the policy proposals, many of which have of course originated with one or more individual chambers and, in that way, the delegates that do attend our annual meeting have a through opportunity to reflect local opinion of the main-street merchant, the shoemaker, the watch repairman and any and every business that is represented in the local chamber. Some 92 to 95 of all the businesses within the chamber movement are defined as small business under the definitions of the Department of Commerce.

Furthermore, the national chamber maintains division offices in 6 major cities and district offices in another 17. Field staff men help local and State chambers of commerce and trade associations to arrange and conduct area and regional meetings devoted to national issues and problems. We, ourselves, from national headquarters are constantly organizing meetings on key problems throughout the country. At these meetings, the local businessmen have an opportunity to talk over important current national issues, to ask questions, to explore all sides of the issues and to make suggestions. In the past year, the national chamber sponsored about 3,000 of these local meetings and this type of work is continuing.

We developed a considerable number of leaflets, pamphlets and other tools to help the local chamber in the local industrial and other development work. These tools are concerned with virtually every phase of human welfare at the community level. These tools are the result of much field work, much contact with local problems, and local individuals and are designed to be of maximum usefulness, particularly to the little businessman and the small chamber of commerce and trade association.

Most of the members of our board of directors have come up through the local chamber of commerce, having served on committees, on the board of directors and frequently as president of the local chamber. Most of them are initially contacted and suggested for membership on our board of directors by local chambers. Furthermore, it is the local chambers and trade associations that place their names in nomination and vote on them again. The big corporations do not, as such, vote directly, although they may, of course, like any other member of a local chamber, make suggestions and exercise their membership privileges.

The United States Chamber of Commerce represents all sectors of our economy, including manufacturing, distribution, transportation, public utilities, insurance, finance, agriculture, natural resources, and others. Because of this broad interest base, our policies have to be acceptable not to any narrow sector of the business, but rather to all sectors and, for that reason, we feel that by and large our policies are geared to promote the national welfare and not any particularistic sectional or sector welfare.

Yours sincerely,

EMERSON P. SCHMIDT,
Director, Economic Research Department.

Mr. SCHMIDT. I hesitate to take the necessary time to do so, but I think it is very important to understand that the purpose of a flexible interest rate, as your chairman so brilliantly pointed out in the famous speech that he made in 1951, is to control bank reserves. It is for the purpose of controlling bank reserves and thereby controlling the amount of credit that can be expanded. Wouldn't you agree, Mr. Chairman, with that?

Vice Chairman PATMAN. Reserve requirements would be a perfect way to do that. But they have not been doing it through reserve requirements. They have been doing it through the Open Market Committee and rediscount rates. So it increases the earnings of the banks all the time.

Mr. SCHMIDT. That has not been their primary purpose. Unless you simply want to impugn their motives, if you think they think of themselves as cashing in on their responsible positions. Now, I happen to know a few of them—I think they are as public spirited as any man in this room. Take Mr. Allan Sproul, for example. I have never seen a selfish motive in any of his speeches or his conversation. I think he is interested in——

Vice Chairman PATMAN. I do not impugn his motives, but he is selected by people who have plenty of axs to grind, and they are pretty dull axs, too, for they are always in there getting them ground. He is selected by the private banks of New York. And he is right there in charge of the Open Market Committee. He is part of a system that can be here every day and take new Federal Reserve notes, and trade them for Government bonds and keep the bonds and draw interest on them.

Mr. SCHMIDT. It is a better system than if we had a completely monopolistic, centrally run Government system.

Chairman DOUGLAS. Dr. Schmidt, I think that you should have the privilege, if you wish to take advantage of it, of submitting a written reply to the statements of the gentleman from Texas.

Mr. SCHMIDT. Yes, sir.

The time is very valuable, and one cannot answer all these charges that are made.

Vice Chairman PATMAN. I cannot make them all, either. I had difficulty in finding the time to do that.

Mr. SCHMIDT. But they are a repetition of what we heard before, and I would like to point out, for example, that the business population today is larger per hundred thousand of our population than it was, say, in 1900, and while we very strongly commend the Economic Report's stress on competition and antitrust policy, we think that the idea of freedom of entry is the key to the antitrust policy.

Vice Chairman PATMAN. The idea of what?

Mr. SCHMIDT. Freedom of entry.

Vice Chairman PATMAN. Freedom of entry?

Mr. SCHMIDT. Freedom of entry on the part of anybody to enter in any legitimate business.

Vice Chairman PATMAN. Yes. One uses costless capital and the other has to borrow his. That is not freedom. One makes the consumers pay the expansion capital and the other has to borrow it.

Mr. SCHMIDT. It is the function of competition to discipline the market. And I would like to point out, for example, what has happened to average consumer prices. Since 1939, they have gone up less than 100 percent. Wage rates, not including a lot of fringe benefits, have gone up 200 percent. So I would say that our economic system, regardless of what motives you may impugn, or attribute to specific individuals, our economic system has put on a marvelous performance.

When you can raise wages in the short space of this period from 1939 to 1955 by more than 200 percent, and still raise prices less than 100 percent, it is a marvelous economic system. I think it works in the interests of all groups.

Vice Chairman PATMAN. Well, the banks had a 966-percent increase in profits on dealings in Government bonds in 1 year.

Mr. SCHMIDT. Well, you can always pick a base year and show an increase of that type. You can show almost anything if you choose your statistics.

Vice Chairman PATMAN. Well, those are the figures of the Federal Deposit Insurance Corporation. It is not my figures.

Chairman DOUGLAS. Dr. Schmidt, if you care to, you may reply.

Mr. SCHMIDT. I would like to, but I think these other members of the panel have contributions to make.

Chairman DOUGLAS. Mr. Talle?

Representative TALLE. No, Mr. Chairman. At the appropriate time, I would like to get the panel's comments on improvements in economic statistics, special analysis J in the President's budget message.

Chairman DOUGLAS. Very well.

Representative TALLE. I thought we might have an expression from each one briefly, sir.

Vice Chairman PATMAN. Excuse me, Mr. Chairman. I have to go to the floor.

Representative TALLE. Mr. Chairman, I will restate what I have in mind. The matter has to do with special analysis J in the President's budget. A like analysis was in the budget message last year.

The proposition that is made in the first paragraph of this special analysis is that the President recommends an increase of $3.2 million over fiscal 1956. We on the subcommittee, and I think the entire Joint Economic Committee, are confident that it will be money well spent.

An expression of opinion from you gentlemen of the panel would help the Committee on Appropriations, I believe, in its decision as to this extra money which the President has recommended.

Chairman DOUGLAS. This is in the so-called green budget, and therefore may not be available to members of the panel.

I wonder if they would be willing to study this when they get back to their offices and send in written statements as to whether or not they concur in this recommendation.

Representative TALLE. Mr. Chairman, I will thank the panel in advance for that service.

(Dr. Schmidt raised his hand.)

(The following were subsequently received for the record:)

MEMORANDUM

(Mr. Newsom's reply to Congressman Talle's question on special analysis J.)

The National Grange has consistently for many years been a strong supporter of adequate agricultural statistics. We recognize that census data are essential to the annual agricultural estimates, and we were very disturbed over the attempts to cut out, or curtail, the middecade agricultural census.

Agricultural statistics play a very important role in showing the need for certain agricultural programs. At present we are very interested in the economic situation of low-income farm people. Enough data are not now available.

Our interest extends far beyond agricultural statistics. We are especially interested in the marketing of farm products, including transportation, processing, and distribution. Orderly farm marketing depends a great deal upon adequate knowledge of production, storage, and consumption.

We believe that adequate statistics are the key to finding economic problems before they become festering sores. Also, as we learn more about our economy, we understand its functioning better and it becomes easier to prevent the extremes of instability. We believe that more adequate data on business plans for plant expansion, and even more data on planned consumer expenditures will help maintain prosperity.

WASHINGTON 6, D. C., *February 17, 1956.*

Senator PAUL H. DOUGLAS,
Senate Office Building,
Washington 25, D. C.

DEAR SENATOR DOUGLAS: At the hearings before the Joint Committee on the Economic Report on February 15, Mr. J. D. Zellerbach, Chairman of the Committee for Economic Development, and other witnesses were asked to submit statements on the proposed economic statistical program of the Federal Government. Mr. Zellerbach has asked me to reply on his behalf.

The Committee for Economic Development has not studied the specific proposals for expenditures on economic statistics contained in the 1957 budget. Therefore I am unable to comment on these proposals in detail. I can, however, express CED's deep interest in the maintenance, extension and improvement of the economic statistics produced by the Federal Government.

The businessmen who participate in the work of CED are showing in action their confidence that increased understanding will raise the effectiveness of our economic system. The development of improved statistics in the past 35 years has been a major cause of better understanding of the way in which our economy operates. A large part of the statistical development has come from the Federal Government, and could not have come from any other source.

In our own studies on almost any subject—from highways to tariff policy—we find ourselves dependent upon Federal statistics at every turn. While we often wish that the statistics were better—more complete, detailed, and reliable—we have a high regard for the statistics that do exist.

It is not only the study of policy that is dependent upon economic statistics. To an increasing degree the execution of policy also depends upon statistics. To mention only one example, execution of the budget policy recommended by CED requires the availability of reliable data on the labor force, unemployment, productivity, and the size and distribution of national income.

In several statements, CED's research and policy committee has urged improvement or development of particular bodies of statistics. In one recent statement (Defense Against Recession, March 1954) the committee pointed to the need for prompter information on new and unfilled orders and on inventories and their composition, more accurate, detailed and current savings statistics and a more complete and prompt flow of information from business to Government statistical agencies about the situation and outlook of particular industries. In the same statement the committee recommended investigation of the possibility of improving techniques of surveying plans and expectations and of applying these techniques to new fields.

I hope that the foregoing information will be helpful to you and your colleagues. I also wish to thank the committee for the courtesy shown to Mr. Zellerbach on the occasion of his appearance on February 15.

Sincerely yours,

HERBERT STEIN,
Associate Director of Research.

Mr. SCHMIDT. Our committee on business statistics took a close look at that, and I believe sent a letter to Congressman Bolling in support at least of some of it. Personally, I certainly agree with your point, that you cannot run the Government, you cannot run business, without good economic intelligence, and statistics are the basis for it.

Representative TALLE. Just to be specific, last year, in connection with hearings on housing before the Banking and Currency Committee, it was pointed out by the Administrator that that agency does not have the economic statistics it would like to have, and I said then I would not let that deficiency continue without trying to do something about it.

The President specifically mentions construction statistics in connection with this analysis.

Mr. SCHMIDT. On that particular point I know that we did send a communication to either Mr. Bolling or the Bureau of the Budget or whatever appropriate agency it was, in favor of your idea.

Mr. RUTTENBERG. Mr. Chairman, may I just say that we have studied that part of the budget very carefully. We are in the process of preparing a general statement pretty much in agreement with the recommendations as far as they go and maybe suggesting additional appropriations. We intend to present the statement to the Appropriations Subcommittee at the appropriate time.

Representative TALLE. Now, Mr. Chairman, do I understand, that each member of the panel is permitted, if he desires, to supply a brief statement with reference to this matter that may be printed in the hearings?

Chairman DOUGLAS. They will be very welcome if they care to do so.

Representative TALLE. Thank you, Mr. Chairman.

And I thank you gentlemen for it.

Mr. RUTTENBERG. What is the time schedule on that?

Chairman DOUGLAS. As soon as possible, but we probably should have our report ready by the 1st of March. Therefore, it should go to press a few days in advance.

I would hope that such a letter, if you care to send it, would be addressed to us not later than this Friday.

Mr. KENNEDY. This Friday?

Chairman DOUGLAS. This Friday.

There are just 1 or 2 questions that I would like to ask Mr. Newsom, because he touched on this point, I think, of allowing market prices of farm products to be free and competitively determined, but to provide income supports for the farmers. He dealt specifically with the case of wheat.

I have not had an opportunity to study the Carlson bill; so I would appreciate further information on that. Do I understand that you favor a free market on wheat?

Mr. NEWSOM. Eventually, yes, Mr. Chairman.

Chairman DOUGLAS. Then how would you supplement it? Do you have a supplement to it?

Mr. NEWSOM. We certainly recognize that in the present circumstances we can neither have a free market nor can we have freedom from acreage allotments.

What we propose to do, Mr. Chairman, is to amend the present farm legislation so that in the case of wheat the price will be competitive on the world market and the producers will receive income support. There is a comparable provision in the report of the Senate Committee on Agriculture and Forestry concerning rice. Many of us are working on and are hopeful now of getting widespread agreement on a comparable sort of program in cotton.

Perhaps even for the consideration of this Congress, if there is disposition on the part of Congress to consider it, we propose to amend the law so that the Secretary can use these five basic principles or some comparable principles as I have set out in this testimony to determine the level of price support.

In the case of wheat, for example, it would probably result in dropping the level of price support to——

Chairman DOUGLAS. Then you propose to remove the legislative support of these commodities and replace them with an administrative determination; is that correct?

Mr. NEWSOM. That is right.

Chairman DOUGLAS. And your aim would be to bring the prices of the export commodities in line with the world market; is that correct?

Mr. NEWSOM. Yes, sir; without destroying the world market and without negating international agreements.

Chairman DOUGLAS. But you say that you think this should be supplemented with some form of income protection. Would you describe the income protection that you favor?

Mr. NEWSOM. Yes. Again using our wheat program, because it is the one on which we have worked longest—it is the problem which we have thought prior to just about now was the most severe—we think probably rice and cotton challenge wheat now as being No. 1 problems in agriculture—but, as I say, using wheat as an example, we propose that a certificate would be issued measuring an individual producer's proportionate share of the domestic market, so to speak. I should say domestic market for human food, in the case of wheat.

In other words, the Secretary simply might estimate that perhaps 50 or 55 percent of the 1956 wheat crop could be expected to go into the domestic food market. We believe that we have an economic and moral right to expect American consumers to pay American price levels for that which they consume for food.

Chairman DOUGLAS. It would be a processing tax?

Mr. NEWSOM. It would be comparable to a processing tax; yes, sir.

Chairman DOUGLAS. A processing tax, which would then be distributed to the growers of wheat?

Mr. NEWSOM. That is right.

Chairman DOUGLAS. Now, how much?

Mr. NEWSOM. And we propose that in this time when agricultural income is a very serious problem, that that certificate should reflect the estimated difference between perhaps 100 percent of parity and the probable market price.

Chairman DOUGLAS. For a market price, say, of 65 percent of parity, you would provide the difference between 100 percent of parity and 65 percent of parity in the form of subsidy?

Mr. NEWSOM. Yes; issuing those certificates by merely translating into the present acreage allotment awarded to a producer, which he would still have to have——

Chairman DOUGLAS. This sounds almost identical to the Brannan plan which was proposed for perishables in 1949.

Mr. NEWSOM. Oh, it is vastly different from the Brannan plan, in that the Brannan plan proposed, as I understood it, to support total production at 100 percent of parity, and not just the American-consumed proportion.

Chairman DOUGLAS. For perishables.

Mr. NEWSOM. It was confined to perishable crops. We are talking here in terms about the problem that historically we have about three major crops that normally find a large amount of their market in export markets and in secondary-use markets.

Chairman DOUGLAS. You would broaden this probably to include cotton and rice?

Mr. NEWSOM. Eventually. We have not been able to get agreement, sir, among major groups of cotton people over the past several years.

Chairman DOUGLAS. Now, Mr. Newsom, in Illinois we raise between 40 million and 50 million bushels of wheat, but we grow about 500 million bushels of corn, and we raise large quantities of hogs. Now, what are you going to do for corn and hogs?

Mr. NEWSOM. That is the type of question that has prompted us to believe that you are going to have to face these problems on the basis of the type of problem that the commodity generates.

Chairman DOUGLAS. It does not help us in Illinois and in Iowa, to say what you should do for wheat and cotton. We want to know what you are going to do on corn and hogs.

Mr. NEWSOM. Frankly, Senator——

Chairman DOUGLAS. I think that is a proper question for me to ask you.

Mr. NEWSOM. Good.

I am basically a corn producer, and it is a good question. It is a question with which I have concerned myself a great deal——

Chairman DOUGLAS. What is the answer?

Mr. NEWSOM (continuing). Because much more of my personal income comes from the marketing of corn than from wheat. And that is another reason that I am concerned about this wheat problem.

Actually, when we took so many acres out of wheat production last year, there were a great many of those acres that went into the production of competitors of corn and, frankly, I know some of them that went into corn production itself.

Chairman DOUGLAS. I am still waiting for an answer, Mr. Newsom. I do not want to badger you, but I am interested in what you are going to do in the case of corn and hogs. Then I am going to ask, what are you going to do in the case of beef and soybeans?

Mr. NEWSOM. Well, that is certainly a long program, but we think, frankly, that if you can eliminate this competition with corn that comes from the diverted wheat acres and generated by the proposition that one of Charlie's neighbors in Illinois takes so many acres out of wheat production—he might have produced maybe as much as 20 bushels of wheat to the acre, but he turns around and produces 80 bushels of barley per acre. So he aggravates my problem and Charlie's problem as corn producers rather than helps it.

Now, if by reason of his normal farming practice, he prefers to seed wheat in the remaining portion of that field, even though he would expect to use some of that wheat for feed, or even though perhaps he would be willing to take a competitive price on that wheat, which we propose to safeguard by this lower price-support level that we have tried to define——

Chairman DOUGLAS. I may say that I think the Secretary of Agriculture made a mistake when he removed these cross-compliance features, and I was particularly disconcerted because he did it just before the election of 1954, in which I was a candidate, and it seemed to me that his action had a highly political connotation, despite the constant statements from the Department of Agriculture that they have nothing to do with politics, and sometimes I think the most political of statements are made by those who disavow any political implication.

Mr. NEWSOM. Mr. Chairman, I have no intention of taking issue with the statement that you have made, except that I do want to say to this particular committee that I want us to be very careful about a complete embracement of the philosophy that we can raise farm income by simply cutting American agricultural production to the level of the domestic market and then building a fence around this country so that we will not have any competition from abroad.

And that is the danger of some of this philosophy of depending on simply a soil-bank program or something else that is going to reduce production and then clamp on such rigid cross-compliance that we are just going to hunt other jobs.

Chairman DOUGLAS. I think there is much in what you say. And we shall await with interest your recommendations for corn and hogs.

Mr. NEWSOM. What I am trying to say to you is that—well, you are entitled to them, and we have them—basically, I do not think there would have ever been quite the problem for us as corn producers and hog producers—and I know what it is to raise pigs; I have raised them all my life—if we had not had these futile and unsound attempts to solve our first problems.

You look back at the record of agricultural depressions, and you will find traditionally and always when we come out of a wartime period, we have our first problems crop up in the case of our export crops. Then we try in some futile and unsound way to solve those problems, and we throw cotton acres into melon production and wheat acres into barley production, and so on, and we generate more problems than we solve.

And it is that sort of thing that we want to eliminate and at the same time we want to have American farmers get the right to have access to international markets, and we want the citizens of the rest of the world to have some right to the efficiency of American farmers.

We do not believe that the present fixed price program guarantees either of those.

Chairman DOUGLAS. My time is up.

Congressman Talle?

Representative TALLE. Mr. Chairman, just a question or two to Mr. Shuman.

I wish you well in your important office. Your predecessor, Mr. Allan Kline, is my constituent.

Mr. SHUMAN. Thank you, Mr. Congressman.

Representative TALLE. Just a word about the cost-price squeeze. Now, on the cost side, there is not much the farmer can do, is there, about that, because he goes to the market and asks, "How much do you want?" And his only choice is to buy or not to buy. That is all. If he buys, he has to pay the price, and he has nothing to say about the costs that make up the price. By refusing to buy he may affect the number of units turned out.

Mr. SHUMAN. Mr. Talle, the farmer, of course, is caught in a very serious cost-price squeeze at the present time. I wish the distinguished vice chairman were here, because he made some comments in his rather eloquent and genial speech to the effect that the credit and monetary policies of the administration have been such as to cause farm prices to go down, and that business and industry investors had profited, while labor had been in the same boat, I believe he said, to that effect, as agriculture.

Well, of course, these statistics just do not prove that out. One of the major reasons that farmers are in a cost-price squeeze is because our costs are up 29 percent in the last 5-year period.

Now, without any feeling of resentment, because we want everyone to do well, actually the large proportion of these cost increases is due to the increase in the income of labor. I believe 75 percent, according to this Economic Report of the President, 75 percent of all the individual income in the country is to labor.

Now, this is without any resentment at all. It is just a statement of fact, that farm costs are up 29 percent, and much of that is due to increased labor income.

On the other hand, our income has gone down during this period of time. Our prices have gone down and our income has gone down. We are in a cost-price squeeze.

The question you asked is, what can we do about it? We can reduce purchases, perhaps, which would be harmful to business and industry and labor. And we have done some of that.

But actually, our greatest hope is that our income could be turned upward, and that rather than trying to effect the relief for the cost-price squeeze by too much emphasis on the costs, that we have an adjustment in our income level upward.

And that leads me to say that I agree with very much of what Mr. Newsom has said, that actually the policies on price of the Government of the United States and the Congress of the United States have been the major factor in causing farm income to go down.

The unwise continuation of the 90 percent price-fixing program has resulted in the accumulation of surpluses beyond what we have ever had, of course, in the history of the country, and these Government-owned surpluses act as a price-depressing factor on the markets.

The attempt to control production by the use of quotas has caused farmers to use these diverted acres to produce competing crops that have increased feed production and stimulated production of hogs and other livestock products.

We are in a mess which primarily is the responsibility of the unwise action of the Congress of the United States in the matter of price-support policies.

Now, our problem is to get out of this situation as gradually as we can. But the real answer is moving toward greater freedom of prices to determine production and consumption in agriculture.

Representative TALLE. Thank you for your statement, Mr. Shuman.

Mr. RUTTENBERG. Mr. Chairman, may I interject a word, particularly because in Mr. Shuman's response to Congressman Talle's question about the price squeeze, he said that one of the factors was increased labor costs.

I think it ought to be understood that frankly the farmer has been squeezed between the prices which he receives for the product he sells and the prices he pays for the products he buys. But I think it is a fallacy to attribute this increased squeeze to the increase in labor costs.

From specific figures of farm equipment companies, if you want to be specific, or if you take the general economy as a whole, the picture is the same. Productivity advances have been very large. Wage increases have not been as large as the productivity advances. But the price structure of the products produced goes up, and the profits of the companies producing these products increase.

For example, between 1953 and 1955, according to the Department of Labor, productivity increased in manufacturing industries by 10 percent, an average of about 5 percent a year.

Chairman DOUGLAS. That is productivity per man-hour?

Mr. RUTTENBERG. Productivity per man-hour of output, according to the BLS, in a public statement made by Ewan Clague as Commissioner, on January 20, 1956.

During this same period while productivity was rising 10 percent, average hourly earnings of manufacturing workers in constant dollars, increased by 6 percent, while the wholesale price of industrial products increased 3 percent.

Now, if productivity has gone up 10 percent and wages have gone up only 6 percent, there should be no justifiable reason, at all, for industrial prices of manufactured commodities to go up, because they could be offset within the productivity advances. The result has been, however, that prices have gone up, with the consequent effect that profit margins have substantially increased, in automobile companies, in agricultural implement companies and in manufacturing companies generally. These figures of profit margins are available through the Securities and Exchange Commission in their quarterly reports, which show that the stockholders' return on equity in 1953 from manufacturing as a whole was 10.7 percent. By 1955, based on the first 9 months, it was 12.2 percent. Thus the margin return on equity capital has gone up; productivity has advanced; wages have advanced, too, but not as much as productivity.

The result of the squeeze to the farmer grows out of an unnecessary increase in prices. The prices are increased with the excuse that wages are responsible. But, in fact, the effect is to increase the profit margins of the companies involved.

Chairman DOUGLAS. Mr. Ruttenberg, some 20 years ago I started a series, which was never finally published—a portion of it was published in a paper which I read before the Economic Association in 1938—on labor costs per unit of output, which always seemed to be a much better measure than labor cost per hour.

Do you think it would be desirable to have such studies as that continued and followed?

Mr. RUTTENBERG. I think it would be very helpful to have such studies continue. But I hope that the fact that you have failed to complete your paper will not encourage you to retire from the Senate to finish that paper. I hope to see you continue, and let us have somebody else finish that paper.

Chairman DOUGLAS. I still have 4 years.

Mr. SHUMAN. Mr. Chairman, could I make just a one-sentence comment?

Chairman DOUGLAS. Yes, surely.

Mr. SHUMAN. It depends upon the base period or the period of time when you go to dealing in this matter of productivity. I could cite figures, I believe, for 1955, where wage rates went up, I believe, approximately 8 percent and productivity went up 5 percent.

The fact still remains that of the cost of a tractor that a farmer buys, somewhere between 70 and 80 percent is labor. And while both profits and labor have gone up, the major factor involved in the increase in costs of farm-business operations is labor, because labor is three-fourths of the cost.

Now, that is not condemning labor. It is just saying that this is the major factor involved in increases in farm costs.

Now, I would like to recall, too, to a chart which Senator Clinton Anderson prepared, showing the effect of Government pricing policies in agriculture, and I would hope that the Senator might make it available to the committee. He has used it several times in his speeches. It shows that 25 percent of farm-program experience—farm-pricing-program experience—starting with the Federal Farm Board days, there has been no act of Congress that has resulted in farm net income increasing faster or in greater proportion than the total national income. They go along together. There are two times in that history when farm net income has gone down in relation to total national income. One of them was under the OPA price restrictions, when agriculture could not figure ways to get around it as quickly as other people did, and the other was during the period after World War II, when we had the continuation of the 90 percent price supports.

Those were the two times in history, in the recent history of agricultural income, when net farm income has varied from paralleling the total national income. At no time did it increase.

Mr. RUTTENBERG. Mr. Chairman, may I interject once again? I do not want to prolong this discussion, and I am sure Mr. Shuman and I could debate this out at some great length. But I think it would be only fair to point out that although he says net wages increased 8 percent in the past year, actually, they increased on a real basis, adjusted to prices, according to the Economic Indicators by slightly over 5 percent, which is what Ewan Clague has indicated has been the increase in manufacturing productivity over the past year.

Now, in addition, I think the point ought to be fully understood that Standard and Poor's recently issued a report on agricultural-implement companies which showed an increase in return on the sales dollar. I do not think this is the way to measure profit, but using the corporations' methods of measuring profits, the report showed that return on the sales dollar has increased by a third.

Chairman DOUGLAS. How much?

Mr. RUTTENBERG. By one-third.

Mr. OLIVER. Mr. Chairman, there is so much attempt to confuse that situation that I hope it can be made perfectly clear now. For 1 unit of equipment bought by the farmer, for 1 unit of goods bought by any American citizen, the labor cost is going down. Anybody who says to the contrary is trying to mislead the farmer, and I think they have been misled, and I think the juxtaposition in this report, at least in two places, of a statement that labor income has gone up, adjoining a statement with reference to the farm income is an effort—or if it is not an effort, at least it would have the effect—of heightening that misunderstanding.

The labor cost per unit of goods used by the farmer or the American citizen is going down.

Mr. NEWSOM. Mr. Chairman, I do not know that there is too much point to getting into this controversy, except that I am disturbed at one trend that it seems to be taking. I am not sure that my colleague here from Illinois meant to indict wage rates. I will let him speak for himself. I do want to say that when we look at the figures in the recent report from the Department of Agriculture, which indicate that in the last 10 or 11 years transportation costs chargeable against agriculture have increased by 67 percent and that wage costs in all of the food-processing and distribution business of the country have increased by an even 100 percent, I do not mean to infer that that is all bad. And I doubt if the Department of Agriculture meant to infer that that 100 percent increase in wage rates is all bad.

Frankly, I think a very strong case can be made for the probability that that gives us a much better American market.

We are not condemning it. But what we are trying to say, Mr. Chairman, to this particular committee, especially now, is that the American farmer is operating in an American cost structure. We think that measures will have to be found eventually to give that American farmer an American price level at least for the portion of his production that is consumed in American market. And I doubt if our friends in the AFL-CIO will take any sharp issue with our right to make that kind of demand once they understand what it is all about.

But at the same time, if we are going to do that, as we have tried to say a moment ago, in the case of these natural or normal exports, like wheat, cotton, and rice, then somehow we are going to be compelled in our opinion to find a mechanism for doing it without completely denying American farmers' efficiency to the rest of the world and denying the markets of the rest of the world on some reasonable basis to the farmers of America.

And we do not think that we can forever defend doing it with taxpayers' money by export subsidies to the tune of some 65 or 75 cents a bushel on wheat or 8 or 10 cents a pound on American cotton.

The rest of the world just is not going to stand for it, and I think we have got to try to understand, Charlie, that our own State Department is not likely to stand for it, as they have indicated they will not.

Representative TALLE. Mr. Chairman, may I just make one comment in spite of the lateness of the hour?

Chairman DOUGLAS. Surely.

Representative TALLE. Do you agree, Mr. Shuman and Mr. Newsom, and the entire panel, that the farmers' costs are largely fixed costs, costs that he can do little about?

Mr. SHUMAN. In large part; yes. There are, of course, many opportunities for individual farmers to reduce their individual costs, and, of course, that is one of the areas in which farmers are finding much relief at the present time, because they are working on costs.

Representative TALLE. But the cost of equipment and the cost of borrowed money and taxes and depreciation and insurance are most important in his total costs, and he can do very little about them.

Mr. SHUMAN. That is true.

Representative TALLE. So the remedy must lie, then, on the price side. Our work should be on that side, the price side, in the cost-price squeeze.

Mr. SHUMAN. Of course, taxes are not an inconsequential cost to agriculture. Agriculture—I think we can substantiate this—bears more than its proportionate share, considering income, population, or any way you want to, of the taxes of this country, and of the States and the localities, the whole tax structure. So one of the great things that Congress could do to help agriculture would be to help cut the costs of Government.

Representative TALLE. As the tax collector says, real estate cannot be hid. It is an excellent situs for taxation, and it certainly carries its full share and more of the total taxload.

Thank you, Mr. Chairman.

Chairman DOUGLAS. I notice Mr. Zellerbach has come all the way from San Francisco to take part in these hearings. We appreciate that very much.

One question I would like to ask you, Mr. Zellerbach, is about the third point on page 3 of your statement. You favor a long-run national program of foreign economic assistance to the undeveloped areas?

Mr. ZELLERBACH. Yes; I do.

Chairman DOUGLAS. Fundamentally you favor this because you think it is in the American national interest, as an offset against communism, and also because you believe it will develop goodwill in the world, which is an important factor.

Mr. ZELLERBACH. That, plus the fact that many of these underdeveloped countries today are very likely to be sources of raw materials for our economy in the future. And what we need to do is to try to see that these countries are free from Communist control so that they can remain open sources of raw materials.

The other side of the picture is that as these countries develop economically, they then become markets for our products as well. So on the basis of security, on the basis of—and this also applies to security—a source of raw materials, and on the basis of developing a larger export market for our products—on all of these accounts, I think it is of great importance to aid the underdeveloped countries in their economic development.

Chairman DOUGLAS. Do you think that this program should be laid down for a period of years and not merely from year to year?

Mr. ZELLERBACH. That is right, because anyone who has to plan in his business knows that he must have a long-range plan. He cannot plan from year to year. He must have an objective and a plan to get there.

Chairman DOUGLAS. Of course, in order to prevent the administrative branch of the Government from depriving the direct representatives of the people of control over the public purse, the Founding Fathers inserted in the Constitution a provision that an appropriation should not be made for more than 2 years in advance, and, of course, the absence of such a provision as this in Japan, for instance, made the military caste largely independent of parliamentary control.

Do you think that this purpose of a long-range program would be fulfilled by a declaration of intent?

Mr. ZELLERBACH. That would go a long way. I do not think it goes all the way.

Chairman DOUGLAS. You cannot violate the Constitution.

Mr. ZELLERBACH. No.

Chairman DOUGLAS. As a matter of fact, we have been violating the Constitution in connection with miiltary appropriations, and many of us have been perfectly aware of that but have not raised the issue, because we believed that national security was so important. But one of the first efforts in any bureaucracy is—and I say this without any reference to the present group—to make itself independent of the elected representatives of the people and to commit the Government to long-range appropriations which do not require periodic confirmations.

I think this is a hidden danger which we need to guard against, and, therefore, it seems to me that the declaration of intent would probably be the best solution.

Mr. ZELLERBACH. That would go part way. An example of the problem, one that has been in the press, is the question of the financing of the Aswan Dam in Egypt. Now, this may take 10 years or more to complete. How do you go about assuring the Egyptians, who undertake to go ahead with this project, that they are going to have the finances to finish it with? I mean, it is no good unless it is finished. This does raise a problem.

Chairman DOUGLAS. Of course, the banks—the Export-Import Bank, or the World Bank, which is, of course, an international institution—could make long-range commitments. But isn't it dangerous to have Congress sign away its power of review for long range?

Mr. ZELLERBACH. I think that would be true; yes.

Chairman DOUGLAS. Thank you very much, gentlemen.

Mr. ZELLERBACH. Incidentally, Mr. Chairman, a complete report on this subject will be issued tomorrow by the CED, and a copy will be available.

Chairman DOUGLAS. I hope we have that. We will print the summary with the other materials you have submitted.

Mr. ZELLERBACH. Yes; a copy will be available.

Chairman DOUGLAS. I will ask to have placed in the record at this point correspondent between myself and Dr. Arthur F. Burns.

(The letters referred to are as follows:)

FEBRUARY 10, 1956.

Dr. ARTHUR F. BURNS,
Chairman, Council of Economic Advisers,
Executive Offices Building, Washington 25, D. C.

DEAR DR. BURNS: As I will point out in a letter to you shortly, the committee agreed not to transcribe and publish your January 30 testimony before the committee. At the same time the committee agreed that in light of the somewhat conflicting testimony with respect to the internal consistency of the economic assumptions underlying the President's Economic Report and budget, we should seek permission from you to publish the attached colloquy on this subject which took place near the end of your testimony on January 30. I might say that the Republican members present indicated the importance of your permitting the publication of this colloquy. The committee agreed that I should write you this letter and hoped that you woud grant us this permission. You understand, of course, that you are under no compulsion to grant this request.

We would appreciate an answer on this in the next day or so in order that we can proceed with the drafting of the committee's report.

Sincerely yours,

PAUL H. DOUGLAS, *Chairman.*

Mr. ENSLEY. In your judgment, Mr. Burns, is the budget that was submitted, and the Economic Report, and the various parts and components that made them up, internally consistent with respect to assumptions as to economic developments during the coming year with respect, first, to personal income, corporate profits, national income, and price? Were the parts based upon a consistent set of assumptions?

Mr. BURNS. I wish your question were clearer to me than it is, Mr. Ensley. Taking your question as I interpret it, my answer is in the affirmative.

THE CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS,
Washington, D. C., February 14, 1956.

Hon. PAUL H. DOUGLAS,
United States Senate, Washington, D. C.

DEAR SENATOR DOUGLAS: Thank you for your considerate letter of February 10. As for the brief colloquy between Dr. Ensley and myself, to which you refer in your letter, I have no objection to its use by the committee.

I do want to point out, however, that this interchange is so brief that I doubt if it can be of much help to anyone.

Sincerely yours,

ARTHUR F. BURNS.

Chairman DOUGLAS. We will meet again on Friday, when it is hoped that Secretary McKay can be present.

Thank you very much.

(Whereupon, at 12:45 p. m., the joint committee recessed to reconvene at 10 a. m., Friday, February 17, 1956.)

JANUARY 1956 ECONOMIC REPORT OF THE PRESIDENT

FRIDAY, FEBRUARY 17, 1956

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

The joint committee met, pursuant to recess, at 10:05 a. m., in the Old Supreme Court Chamber, United States Capitol Building, Washington, D. C., Hon. Paul H. Douglas (chairman) presiding.

Present: Senators Douglas (chairman), O'Mahoney, and Watkins; and Representatives Patman (vice chairman), Bolling, Kelley, Talle, and Curtis.

Also present: Grover W. Ensley, executive director, and John W. Lehman, clerk.

Chairman DOUGLAS. The committee will come to order.

Vice Chairman PATMAN. Mr. Chairman, I have a statement here I ask permission to insert in the record at the end of the testimony. It is from the credit union, and it is addressed to you.

Chairman DOUGLAS. It will be done (see p. 601).

Mr. Secretary, we are very glad that you have recovered, at least partially, from your recent indisposition, and we appreciate your coming very much. We are very glad to have your testimony.

Secretary MCKAY. Thank you, sir.

Chairman DOUGLAS. Would you like to read your statement?

Secretary MCKAY. Yes, sir; I will be glad to, Senator.

STATEMENT OF HON. DOUGLAS McKAY, SECRETARY OF THE INTERIOR, ACCOMPANIED BY ELMER F. BENNETT, LEGISLATIVE COUNSEL, DEPARTMENT OF THE INTERIOR

Secretary MCKAY. I appear today before the Joint Committee on the Economic Report of the President in response to your invitation, to discuss the subject of natural resources. I appreciate this opportunity to set forth our views in this field and to support the legislative recommendations included in the President's Economic Report.

In highlight, the report finds every evidence of progress and general prosperity. High levels of production, employment, and income are expected to be sustained during the coming year. Underlying conditions are expected to remain favorable to further economic growth.

The report recognizes that some groups of our citizens have not enjoyed a full measure of prosperity and proposes remedies for their plight. These remedies include certain farm programs, an area assistance program to cope with unemployment in some communities, improving the economic status of older persons, insurance against catastrophic illness, and a flood reinsurance and indemnity program.

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I believe that one of the key statements in the President's message is this:

> Today, we believe as strongly in economic progress through free and competitive enterprise as our fathers did, and we resent as they did any unnecessary intrusion of Government into private affairs.

In keeping with this policy, the administration has sought to curtail governmental activities that could be handled as well or better by private enterprise. On the other hand, we have sought just as earnestly to further those programs properly dependent on Federal support and leadership.

A number of factors are recognized as contributing to the strength of our Nation. The mainspring of our economy consists of the qualities of initiative, independence, and enterprise of our American people. The President's report gives evidence that the Government's role in the past several years has stimulated our citizens, our local communities, our businessmen, investors, workers, and consumers, to take the initiative and not wait for the Federal Government to do for them what they can do far better themselves.

The economy of the Nation is dependent in the final analysis upon the physical resource base available to our people. For this reason, the Department of the Interior, which is primarily concerned with the conservation and development of natural resources, plays an important role in the maintenance of our economic stability and growth. In my remarks I shall refer to our activities in the water, land, and mineral fields, and also touch upon our responsibilities with respect to human resources. In addition, I shall mention briefly the flood-control program of the Corps of Engineers, since I believe it will not otherwise be described in these hearings.

In the field of water resources, the scope and cost of the needed development are so vast that on this count alone, all interests must carry their share. Federal, State, and local governments, and private groups and individuals, all have a responsibility. In many cases, non-Federal interests can best carry out needed improvements. In other cases, Federal participation is a necessary element in accomplishing broad national aims.

The Federal 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 are interstate in character, or where they involve the national interest in such fields as flood control, navigation, reclamation, fish and wildlif conservation, recreation, and pollution abatement, and produce many benefits which are not always assessable against the beneficiaries, there is an excellent opportunity for the Federal Government to supplement the enterprise of others in the work of our resources development.

Under the partnership policy of this administration, emphasis is placed on sharing the cost of projects with the groups receiving direct benefits from them. This approach services to multiply the effect of Federal expenditures in the stimulation of conservation and development.

The President's budget message for the fiscal year 1957 carries recommendations for resources conservation and development which are expressive of this policy. Programs for flood control, reclamation, and multiple-purpose water resources development will expand over the 1956 level. In accordance with the policy of encouraging non-Federal responsibility for water resources projects, with Federal cooperation where national interests are involved, the President has supported legislation which would change certain presently authorized Federal projects to partnership projects.

Funds for the Federal share of the Markham Ferry project in Oklahoma were appropriated for the fiscal year 1956, and construction by non-Federal interests of this project and the Priest Rapids project in Washington is expected to be underway in the fiscal year 1957. Work on the Cougar multiple-purpose project in Oregon, begun as a Federal project in the fiscal year 1956, will continue in 1957 on a basis which, under pending partnership legislation, would permit local public interests to install power facilities and assure adaptation of the power features to the requirements of the city of Eugene.

There is no doubt that the present policy of actively encouraging local interests to assume their fair share of power development has been effective. The willingness of local groups to develop their own power sources is evidenced by the large increase in permits and licenses granted by the Federal Power Commission for the construction of hydroelectric projects since the partnership plan of this administration started. The tremendous increase in such permits and licenses, for less than 1.2 million kilowatts in 1951 to more than 5.4 million kilowatts authorized in both 1954 and 1955, is a concrete result of our efforts to reestablish non-Federal initiative in the power field.

The President's budget includes $20 million under proposed legislation to enable the Corps of Engineers and the Bureau of Reclamation to participate, in 1957, in new partnership water developments, such as the Green Peter-White Bridge Reservoir in Oregon, the Bruces Eddy Reservoir in Idaho, and the John Day Reservoir in Washington and Oregon—it is on the Columbia River and touches both States.

The proposed legislation would also authorize the Bureau of Reclamation to assist local organizations by means of loans and grants for small reclamation projects.

Budget recommendations also provide for progress in the collection of basic data on hydrology, topography, and other physical factors needed in the planning and design of water development projects. Investigations of proposed projects and advance planning of authorized projects will go forward at rates which will provide for the orderly development of needed water resources.

Specific recommendations in the Economic Report relating to natural resources, other than those promoting agricultural readjustments which I assume were covered in your hearings on agricultural policy, are discussed briefly as your letter of invitation suggested.

1. The Economic Report recommends an acceleration of work on flood control projects.

The severity of the floods that occurred last year in the Northeast and the Far West has emphasized again the need for protection against the human and economic losses resulting from such catastrophes. Many private groups and individuals, as well as the Federal, State, and local governments, offered prompt and generous assistance to the communities and citizens struck by disaster. Nevertheless, needs of this type should be reduced in the future, and when they arise should be met more systematically. Toward these ends, the Economic Report recommends that the Federal Government accelerate work on practical flood control projects, supplemented by a flood reinsurance and indemnity program.

While public works designed for flood control are primarily the concern of the Corps of Engineers, Interior's Bureau of Reclamation includes in its multiple-purpose reservoirs the maximum economical provision for flood control by storage and river regulation. Shasta and Friant Dams, for example, performed this vital service during the recent storms in California which brought tragic floods to unprotected streams.

A supplemental appropriation has been recommended by the President to enable the Corps of Engineers to accelerate its flood-control program. I am advised by the Chief of Engineers, Department of the Army, that in the absence of Federal works, flood damage on main rivers and major tributaries would approach $1 billion annually. Federal works already constructed serve to reduce this potential damage by about one-half.

The present Federal flood-control program of the Corps of Engineers is of comparatively recent origin, dating from 1928 in the alluvial valley of the Mississippi and from 1936 for the country as a whole. It has been expanded by various flood-control acts of the Congress through the act of 1954, until at present the active flood-control work authorized has a total estimated cost of $9.1 billion. Congress through fiscal year 1956 has appropriated $4.1 billion, leaving about $5 billion required to complete the authorized program. At the current, fiscal year 1956, rate of appropriations, completion of this authorized work would extend over about 27 years.

This program, however, does not represent a complete solution of the flood problem, as current investigations are constantly developing additional practical flood control improvements. The recent act of 1954 authorized new flood control works with an estimated cost of $300 million. And it may be anticipated that further additions to the flood-control program will result from such studies. It is evident, however, that there will always remain some residual of flood damage, even though the potential may be greatly reduced, as it will probably never be possible to eliminate all flood damage within the limits of engineering and economic feasibility.

At the present time the Corps of Engineers of the Department of the Army has reexamined its flood-control program for the New England and North Atlantic areas in the light of the destructive floods of 1955 which caused damage of almost $700 million in those two areas combined. This current acceleration of the flood-control program has been aimed at New England and the North Atlantic area because recent flood occurrences have emphasized the hazard to life and the very heavy physical damage to which those areas are exposed.

Recent floods in northern California, southern Oregon, and in Nevada, caused damages of about $100 million, which would have been doubled without the Federal works now provided in that area.

2. The report recommends authorization of the construction of the upper Colorado River project and other needed water-resource developments.

The upper Colorado River project, which is vital to several States and which involves generation of power, irrigation, municipal water supply, flood control, and other functions, is an outstanding example of the type of project that the Federal Government should undertake. Recommendations concerning this project, the Fryingpan-Arkansas project, three other new reclamation projects, and other needed developments of water resources, were presented in the budget message. The estimated total cost of the five proposed reclamation projects is about $1.1 billion, with 1957 expenditures estimated at $8.6 million.

Justification of these projects is founded on the national interest in providing economic strength to the West and to the Nation through the development of its natural resources. Water resources developments have been responsible for the settlement and stabilization of important areas of our West.

The recommended extensions of this program will bring to other areas the direct and indirect benefits already being produced by the Central Valley project in California, the Columbia River Basin project in Washington, the Missouri River Basin project, the Colorado-Big Thompson project, and others.

These are long-range investments requiring a number of years for construction and an additional period for settlement and development, before attaining a fully productive status. By careful planning, continuation of a moderate program of long-range reclamation development can be directed to the production of nonsurplus crops so long as this problem remains. Ultimately, as population growth, higher dietary goals, and the limiting factor of water available for crop growth combine in the decades before us to tax our agricultural productive capacity, the reclamation program will complement other efforts to meet the food and fiber requirements of our country.

In addition to the specific recommendations, the Economic Report calls attention to the report of the Presidential Advisory Committee on Water Resources Policy, transmitted to the Congress by the President on January 17, 1956. The report is the result of a detailed study of our water problems and of the present powers and activities of the various Federal establishments engaged in water resource development. The policies set out in the report embody a framework within which the Federal Government, with State and local governments and other non-Federal interests, may cooperate to develop our water resources.

The report recognizes fully the responsibilities of the Federal Government for leadership, guidance, and action in this field. At the same time, it recognizes that there are a multitude of water developments which are more appropriate for regional, State, or local activity. The report points out that the principles which recognize water rights as property rights should be accepted, and that determinations as to disposition of water should recognize such rights. It recommends that a study be made under the leadership of the Federal Government in collaboration with the States and local entities with reference to property rights to water and the social and economic development of the Nation and the area.

Set forth in the report is a pattern for the widest possible public participation in water resources projects. Organizational changes are recommended to coordinate more closely Federal and non-Federal activity and to make possible more effective executive guidance.

The intent of these proposed changes is to provide the States and local water-resources agencies a more adequate voice in the planning and development of projects and facilitate joint participation by all of the affected Federal interests. By this type of cooperative effort we should be assured that all possible uses of water are adequately considered.

In summary, may I say that under our policy in the field of water resources, we will encourage State and local responsibility and private enterprise; we will avoid greater demands for Federal investment than our national income will permit; and we will strongly support the Federal Government's proper participation in developing the water resources of the Nation.

The next subject is land resources.

This section of my statement is labeled "Land Resources" because that is the name we use in Interior for one of our three general subdivisions, the second being Water and Power Development which I have just discussed, and the third being Mineral Resources.

I should point out, however, that in addition to our regular land-management functions, Land Resources includes the related functions of recreation, fish and wildlife resources, Indian affairs, and Territories. In a number of ways, these functions have a significant relationship to the national economy.

THE NATIONAL PARK SYSTEM

On February 2, I announced that the National Park Service with the approval of President Eisenhower has embarked on the most comprehensive and potentially rewarding program of protection, improvement, and development in its history.

The program is outlined in a report entitled "Mission 66," which has been submitted to the Congress. The report, prepared by National Park Service Director Conrad L. Wirth and a special staff, analyzes current critical deficiencies in the park system, which is equipped to handle 25 million visitors and last year was overwhelmed by twice that many.

The report sets forth detailed recommendations for equipping the system to handle an expected 80 million visitors by 1966. Revised budget estimates sent to Congress by the President would provide funds to get the program under way this summer. The revised budget calls for $66,238,000 as compared with $45,029,000 appropriated for the current fiscal year.

It will take 10 years to complete the program, because a lot of catching-up must be done before we come abreast of current needs. Furthermore, we do not plan a patchwork, piecemeal approach to the problem.

Benefits of the Mission 66 program will spread far beyond the 181 areas of the national park system.

Of major importance is the provision in this program for the development by 1961 of a nationwide recreation plan aimed at the ultimate establishment of systems of recreational areas and facilities for which each level of Government—Federal, State, and local—will bear its proper share of responsibility. This provides a prime partnership opportunity for keeping abreast of the healthy growing interest of the American people in the great outdoors.

HUNTING AND SPORT FISHING

Public use of the national wildlife refuges, too, is increasing. The refuge areas were used by a record-breaking total of 5,202,260 persons during the year ending June 30, 1955, compared with 4,608,909 for the year ending June 30, 1954. Reports from the various States show that there were 18,580,813 fishing licenses issued during the fiscal year 1954, an increase of nearly a million over the number issued during the preceding fiscal year. Hunting licenses issued during fiscal year 1954 totaled 14,073,386 compared with 13,997,115, for the preceding year. The assumption is justified that increases have occurred in 1955 over 1954.

A substantial amount of money is expended each year by these hunters and fishermen in connection with their sports. Since these expenditures are made for a variety of goods and services, they represent income to countless business entirprises throughout the United States.

The exact amount of these expenditures is not known, but recent surveys by a number of States indicate that more than $4 billion probably was spent on these sports during 1955. For the first time a comprehensive national survey is being conducted by the Fish and Wildlife Service to determine the importance of hunting and fishing to the Nation's economy during calendar year 1955, in terms of time and money. Results of the survey will be available during the summer of 1956.

COMMERCIAL FISHERIES

As far as commercial fisheries are concerned, the per capita consumption of fish increased from 10.8 pounds in 1953 to 11.1 pounds in 1954. Per capita consumption of fish in 1955 is expected to be near that for 1954. However, it must be stated that the per capita consumption was supported by increased imports because of a decrease in domestic production.

Preliminary estimates indicate that the total catch made by American fishermen during 1955 was 4.6 billion pounds, compared with 4.7 billion pounds caught during 1954. A preliminary estimate of the value indicates that the money paid the fishermen for the delivered catch will be about 10 percent below the $360 million paid last year. The value of the fishery products originating from our domestic resources during 1955 is estimated to be $522 million at the processor level, $738 million at the wholesaler level, and $963 million at the retailer level.

The capital investment in commercial fisheries increased by about $8 million in 1955 over 1954.

The productivity of the fishery industries is expected to be increased by the research work presently done under the Saltonstall-Kennedy Act; proposed improvements in skills and in technology, as well as in marketing techniques, if applied by the fishery industries, should have a favorable result on the economy of the commercial fisheries.

The Department endorses the proposal to extend and strengthen the Water Pollution Control Act. In recent years, the increasing pollution in numerous streams throughout the Nation has posed a serious threat to the maintenance of fish and wildlife resources in these waters.

THE PUBLIC LANDS

Our expanding economy is creating added demands for the use and development of the public lands and their resources. Individuals and corporations want to use and acquire public lands for grazing, logging, mining, farming, industry, commerce, residence, recreation, and other purposes. States and counties are showing increased interest in acquiring or using public lands for purposes such as recreation, wildlife, and forest management.

Expanding Federal programs, such as national defense and atomic energy, create demands for large areas. The programs of the Bureau of Land Management are administered to harmonize these needs and promote multiple use wherever possible.

Of special significance are substantial net revenues to the Federal Treasury. Receipts from oil and gas leasing in fiscal year 1955 were $209 million, including those from the outer Continental Shelf. Receipts from timber sales reached about $25 million, mostly from lands managed for sustained-yield. Total cash receipts covered into the Treasury in fiscal year 1955 were about $240 million. Total Bureau expenditures were $14,660,000.

The work backlog of the Bureau of Land Management represents potential net revenues which can be realized only when the cases are processed. Higher work output is being sought through greater work efficiency and larger appropriations. As the program develops, greater net revenues will accrue to the Treasury than would otherwise be the case.

TERRITORIAL RESOURCES

Alaska is a great storehouse of untapped natural wealth in the form of minerals, forests, and waterpower. Tremendous acreages have been placed under mineral leases for oil exploration in Alaska during the last few years by the Bureau of Land Management, and a number of test wells have been drilled.

In the forestry field, the first of what is hoped will be several large pulp mills in Alaska, completed its first year of operation successfully in 1955 at Ketchikan. During the past 2 years, timber sales have been made, or advertised, for large blocks of timber of 3 more major timber-for-pulp-or-paper developments at Juneau, Sitka, and Wrangell. In each case the timber sales are made by the Forest Service and the investment is by private enterprise.

As a sidelight, this one at Ketchikan opened 2 years ago with an investment of $52 million, and mostly uses hemlock, which is not fit for lumber production. After they make the pulp out of it, it is baled like cotton and shipped east to mills to be manufactured into rayon and other synthetics.

Senator WATKINS. Mr. Chairman, may I ask a question at that point?

Chairman DOUGLAS. Yes, indeed.

Senator WATKINS. Is that the mill which was built in the Tongass National Forest?

Secretary MCKAY. Yes, that is right, Senator. It is just out of Ketchikan, it is just 3 or 4 miles out of town. It is the most modern pulp mill I ever saw.

Senator WATKINS. I think we authorized that back in 1947, as I recall.

Secretary McKAY. I think so. It has been a long struggle to get the thing going—$52 million is a lot of money, but it is a beautiful mill; and one thing that struck me about it, in these vats they have in my country they are mostly open. These are retort type. It is mostly a pushbutton thing. It is wonderful what they do with machinery.

Representative CURTIS. Where did the capital come from?

Secretary McKAY. It was private enterprise. Puget Sound Pulp & Paper put up the money, and they own it. They are a subsidiary corporation, I understand, of the American Viscose Corp.

Representative CURTIS. I see.

Secretary McKAY. In the other areas under the general jurisdiction of the Department, there are some resource development activities on a small scale which may be of interest.

In American Samoa during the past year, a tuna-canning factory was successfully placed in operation through contract with a private canning company. This plant permits use of a substantial resource of the neighboring waters, and also provides employment to many Samoans.

The Virgin Islands Corporation, a wholly-owned government corporation, continues its work of stimulating agricultural development on the island of St. Croix. Of greatest interest is its program of constructing small dams to conserve the runoff of water and provide a water supply during the dry season.

On the Virgin Islands, our biggest economic problem is that of water. There are 40 inches of rainfall a year, but it comes in a flash and it runs to the sea. The only way they can have water to use for domestic water is to store it in cisterns, and they even have a special supply of salt water for fighting fires in order to conserve the fresh water. So these are very simple dams we are building down there, with just a bulldozer throwing up some dirt along these canyons, and it has been very effective so far.

I am holding my fingers crossed that if they ever have a terrific flood some day, it will wash them out. However, we don't make money on that Virgin Islands Corporation, I am sad to report. It is concerned principally with sugar mills, and we have not yet been able to put it on its feet.

Chairman DOUGLAS. I notice you do not mention what is supposed to be the most lucrative product of the Virgin Islands Corporation, namely, rum; is that not true?

Secretary McKAY. Yes, sir. And the tourist business isn't bad. Of course, the government is entirely out of the rum business now, Senator. We even sold the label, "Government House." However, the tourist business is improving. That territory down there is 2,000 miles from New York City, it is closer than Hawaii is from San Francisco, but it has not been promoted as well. It has an ideal climate. The hotel there, the Virgin Islands Hotel, St. Thomas, would give you your money back if the mean temperature is not 72 during the tourist months. I am going down there next month—I have to go there once a year by law—if any one of you want to go with me. The law says one board meeting a year shall be held in the territory, so we arranged to hold it in the wintertime.

In line with the Economic Report—this is on improving the Indian economy—in line with the Economic Report of the President, which proposed area-assistance programs for communities experiencing persistent unemployment, the Bureau of Indian Affairs has initiated an economic development program for Indian reservations.

The objective of this program is to provide additional employment for Indian people by encouraging the location of private industries on or near Indian reservations. The natural resources of many reservations are inadequate, even when fully developed, to support the human population at more than a minimum subsistence level. These are quite frequently areas of chronic underemployment for which comprehensive economic development and voluntary relocation programs are essential.

Adult education is a part of this program. The Bureau of Indian Affairs has initiated an adult-education program to provide elementary schooling for adult Indians who missed the advantages of education in their youth and are now handicapped by lack of ability to read, write, speak, or understand the English language. This program is designed to help these people broaden their opportunities for employment and improve the living standards of their families.

MINERAL RESOURCES

Referring now to minerals, metals, and the mineral fuels, few people realize how essential these materials are. We are inclined to take them too much for granted, despite the fact that our mechanized economy could not exist without a long list of metals and could not run without energy obtained from coal, oil, and gas.

We have some of these things in abundance, but we should never forget that we have to find a new ton of iron ore or a new barrel of oil for every unit produced. Actually, the extractive industries must do much better than break even in finding new sources if they are to satisfy the demands of this era of phenomenal economic growth.

Because of the fact that mineral resources are nonrenewable, more and more emphasis is being placed upon methods of conserving them. The term "conservation" has been defined in many ways, but to us the most intelligent concept is that of prudent use, not miserly hoarding which stunts growth.

The Department of the Interior takes the position that wise utilization of our nonrenewable resources can come about only through increased knowledge in the fundamental earth sciences and their technical applications. The actual job of developing and mining minerals is one for private industry, but the Government fits prominently into the picture because of the extremely wide assortment of forces, in and out of Government, that affect the minerals economy. The matter of bringing mineral deposits into production is a long-range proposition that generally must be preceded by a tremendous amount of fundamental scientific research and appraisal.

In this connection, I might say that we took a comprehensive look at our mineral position during the past year and decided that minerals research and development activities within the Department need to be greatly expanded, and I am happy to say that the President's budget for the next fiscal year proposes increases in this direction. If approved by the Congress, these dollar increases will be used to accelerate topographic and geologic mapping activities, to initiate new geophysical and geochemical investigations, and to pursue much needed research in mining and metallurgy.

The Nation is now in a sounder position for meeting its minerals mobilization needs than at any time in history, despite unprecedented growth in minerals consumption and increased dependence on foreign supply. This is because of a joint program of research, stockpiling, and assisting domestic minerals industries. Mobilization needs, of course, are constantly being revised as industry and trade shifts cause changes in supply.

As a whole, the minerals industries enjoyed a prosperous year in 1955. Paced by strong increases in fuels, copper, and iron ore, mineral production in this country jumped approximately 11 percent to a new high of $15.8 billion. Most of this increased value was due to increases in output, although appreciably higher prices for some materials helped.

The bituminous coal mining industry reversed a 7-year downtrend. Actual shortages developed for certain metals in 1955, and a few still persist. For copper, aluminum, and nickel, the Government was able to ease the shortage by diverting to industrial use materials originally destined for the stockpile. In other instances, notably in lead and zinc, it was necessary to accelerate purchases in order to fortify the stockpile position and to stimulate domestic production to levels deemed more satisfactory for mobilization purposes.

There are some trouble spots within the domestic metal mining industry. In most of these instances our resources are of marginal nature, and producers must have some kind of Government assistance if they are to compete in the world market. During the Korean emergency, the Government established programs for the purchase of tungsten, manganese, chrome, and other ores, at prices substantially above normal world commercial levels.

What action should be taken when the present programs end? Each situation must be examined on a case-by-case basis, and we are now in the process of making these studies.

The problem on foreign competition in minerals and metals production will become more pronounced as time goes on. Commonsense tells us that we should not become too dependent upon foreign sources. On the other hand, the security and prosperity of this country is heavily dependent upon international friendship and cooperation. Many of our neighbors and friends count strongly on the production and sale of mineral and other raw materials in order to keep their economies strong. Statesmanship of the highest order as well as good economic sense will be required if we are to keep this vexing problem in proper perspective.

No set formula, for example, can be devised to settle the petroleum supply question to everyone's satisfaction. Imports year by year are supplying more and more of our requirements. Both crude imports and domestic production were up in 1955, and the oil industry turned in another record performance in new drilling.

Further, huge sums of American private capital were active abroad. Our appetite for liquid fuels is enormous, and it is my personal opinion that it cannot be fully satisfied without petroleum imported from friendly foreign nations.

The coal problem is being attacked in many ways. Research in production and marketing has been expanded, and fundamental research on coal utilization continues to be a large feature of the work of the Bureau of Mines. Special projects are underway regarding the unwatering of anthracite mines, in improving production, and in the partial substitution of anthracite for coke in blast furnaces.

Federal assistance to depressed communities is especially applicable to coal-producing communities. We are confident that the major problems of the coal industry can be met by energetic action on the part of the industry assisted by reasonable action by the Government.

Increased success in exploration is necessary is expanding our minerals resources. It is our view that minerals exploration and development in a commercial sense should be carried out by private mining interests, but the Government assists these efforts by extending financial aid in the search for strategic minerals and metals. The Defense Minerals Exploration Administration processes a substantial flow of applications and has already disbursed more than $14 million on a sharing basis. More than a million dollars has been recovered in royalties.

For each $1 million invested by the Government in successful exploration projects, it is estimated that approximately $49 million worth of new potential mineral resources have resulted. The ratio is something like 30 to 1, taking into account the unsuccessful projects.

It is my feeling that the Federal Government can make its major contribution in the research field. The research policy of the Bureau of Mines and the Geological Survey is that of doing the things that the industry cannot readily do for itself, thereby supplementing private efforts.

This policy is illustrated by the recent recessing of the Bureau of Mines zirconium plant after private production was finally started, based to a large extent on Bureau research and production technology, and by similar action in titanium and oil shale pilot plant work. Zirconium is on the threshold of becoming a new industry like titanium, in which hundreds of millions of dollars will be invested.

Perhaps you gentlemen are familiar with the zirconium development which was out in the Albany, Oreg., Bureau of Mines, and they started in a plant and got to the place where they were producing quite a little finished products. Now the Atomic Energy had planned originally, as soon as they got it into the laboratory stage, to get private industry to take it over, so a private contract was entered into about a year or two ago on that basis, so it is an entirely new metal.

During 1955 we dedicated a new Bureau of Mines Rare and Precious Metals Experiment Station at Reno, Nev. Here work will be done on a long list of rare metals which are just beginning to receive attention.

Research elsewhere continued aggressively and successfully in many directions, including, for example: Studies on the treatment of low-grade sources of aluminum, which are widespread in the United States; improvement of light-metal alloys; study of synthetic asbestos; development of a mechanical planer operated by remote control to be used in phosphate mining; and work on special instruments for the study of large-scale caving methods of mining ore.

Examples of research on fuels include the effects of different drilling fluids on the permeability to oil of reservoir rocks; instability of liquid fuels in storage; retorting of oil shale; hydrogenation of coal; and utilization of nuclear energy in gasification of coal.

A helium shortage was met by unprecedented increases in production and productivity. Work is proceeding in the construction of a new plant, but it appears that still another new plant will be necessary soon because of rapid increase in both civilian and military demands.

The industrial safety program for minerals has been extended, as was also research on fire damp ignition, mineral and industrial dusts, explosions and ignitions. A safety campaign to reduce roof-fall accidents has been launched, and safety competitions and associations have been extended appreciably.

The Geological Survey work on topographic and geologic mapping is progressing. The Geological Survey also completed a great many investigations of mineralized areas and on the geological conditions for different degrees of mineralization. Research on methods of geological research and testing continued, with development of several new measures of test criteria and techniques.

The enactment of Public Laws 167, 213, and 359 (84th Cong., 1st sess.) have enabled the Government, before issuance of patent, to manage the surface resources of mining claims and have opened to mining location many areas previously withdrawn for power and water uses. The concept of conservation of mineral resources and their prudent use should continue to provide the Government with a substantial source of net income.

This is an optimistic note on which to conclude a brief account of our stewardship of mineral responsibility. Continuation of these policies should enable the Nation's mineral resources to become a sounder base for defense and to provide for steady growth.

In conclusion, it should be noted that in addition to their economic returns not readily expressible in monetary returns, many resource development programs yield financial receipts of considerable magnitude. These receipts consist chiefly of power revenues, timber sales, and mineral leases on public lands, including the outer Continental Shelf.

In the aggregate, such receipts by all Federal agencies managing public resources are estimated in the 1957 Budget to total $810 million in the fiscal year 1957.

Chairman DOUGLAS. Mr. Secretary, I want to compliment you on the thorough statement which you have made, which reflects a great deal of work, and which we appreciate all the more because we know it was done when you were somewhat under the weather. It is in very pleasing contrast with the rather abbreviated statements which have been made by certain other witnesses before our committee.

There are a number of statements in this report which I most thoroughly approve, and I want to mention them first.

I was much interested in your statement on page 19 that in 1955, the oil industry turned in another record performance in new drilling. This is what I was contending on the floor of the Senate, that the 1954 decision of the Supreme Court had not interfered with exploration for oil and gas; and, of course, when—as was testified many times—one drills for oil, one then finds gas as well.

So I am very delighted to have you, Mr. Secretary, bring evidence to indicate that my contention on the floor of the Senate was correct, and that the contention of Senators Johnson, Fulbright, Monroney, Daniel, and others, was incorrect.

I only wish that this had been available before we took a vote on the 6th of February, and I hope it may cause you to use your influence to get a veto of this measure which is now before the President. That is my first comment.

My second comment is to say that I heartily agree with the announced program for developing the public parks, which I think is overdue, and which are the chief recreational opportunities for middle-income Americans, and which are great sources of beauty and recuperation and rejuvenation. Iam sure that all groups will cooperate most heartily in a program to develop the public parks.

I am also pleased with your statement that you think many types of water resources should be developed by State and local governments in cooperation with the Federal Government. I have felt for a long time that some of the flood control work and that some of the local water reservoirs which are being created, should have their costs shared by the localities, and it should not be entirely dumped on the Federal Government. I think if this were done, the pressure for Federal appropriations might be somewhat reduced; and as a fellow Scotsman, I want to save some money, too.

We might differ a little bit, and I am sure we would differ a little bit, in the application of the partnership project to power problems, but I will pass that over for the moment.

I hope, therefore, you will not regard the following questions which I will address to you as fundamentally unfriendly, but they are points upon which I think we have differences of opinion which should be aired.

The first is on Hells Canyon. Some years ago, I flew at a rather low altitude up the Snake Valley into the very mouth of Hells Canyon, and I think I saw the topography of the valley pretty clearly.

Now, the great advantage of a high dam in the Hells Canyon, as you must be aware, is not merely in the added amount of power which can be generated at that site, but the fact that it will create a larger reservoir of water which, at later seasons of the year, in the summer and fall, can be released downstream, and thus generate additional quantities of power at dams farther down the Snake or farther down the Columbia, so that the total amount of power which would be developed by one high dam at Hells Canyon would be approximately twice the amount which would be developed by the two low dams which you favored and which have been authorized; and the cost will be approximately one-half as great.

I may say that I think not merely the Northwest but the country needs this large amount of low-cost power in the Northwest. I emphasize both quantity and price in this. I may say that we in the Middle West need it, because the cultivation of corn and of soybeans has taken from the soil large quantities of phosphate, which need to be replaced. And in Utah, Wyoming, Montana, and sections of Idaho, we have, I believe, the largest phosphate beds in the world.

We need low-cost power to process that phosphate rock and to extract triple superphosphate, which could then be sold to the farmers of the Midwest.

And so, this is in no unfriendly spirit, Mr. Secretary, but I do want to bring this issue up and express my judgment that the administration has made a great mistake in favoring the two low-level dams rather than the high dam at Hells Canyon.

I will add just one thing before I ask for your comment.

Secretary McKay. Senator, may I express my opinion on that?

Chairman Douglas. Surely.

Secretary McKay. You and I can differ and not be angry or call names. These things should be decided upon engineering and economics rather than on politics and emotions, which have been the fact.

I have been up the river, too, but in a boat, before I ever came to Washington, when I was governor. I came to Washington with an open mind on the Hells Canyon. Some of the other governors were violently opposed to the thing; but after investigation and talking to the engineers, who know more than I do about the thing, I was convinced that the Government high dam is a white elephant.

In the first place, it would cost $350 million at a minimum; you would have to put in a distribution system of powerlines, another $150 million; and the only difference in those two projects, as far as their power is concerned, is the amount of storage space.

The three so-called pigmy dams that some of the people refer to——

Chairman Douglas. Of which only two have been authorized.

Secretary McKay. That is right. But there is another one which can be authorized later.

The 3, the total head, the total height of those 3 dams, is identical with the height of 1 dam, so that gives about the same amount of potential power at source.

Chairman Douglas. At the source, but not downstream. That is the point.

Secretary McKay. I was coming to that, sir.

Chairman Douglas. Yes.

Secretary McKay. There is only 1 million acre-feet storage in the 3 smaller dams, whereas the big dam provides almost 4 million acre-feet; but the trick of the thing is, there is not enough water upstream to fill that reservoir of 4 million acre-feet in dry-water years, and there will be less in years to come, because there are now 75 or 80 dams upstream for consumptive use for irrigation. That is what makes Idaho's economy.

So what is the use of spending all this money when you cannot be sure of filling up the area each year?

And then, the upstream storage is essential. All right. We need a total of about 32 million acre-feet ultimately on upstream storage to make full use of McNary, Bonneville, and the rest of them, but the storage should be built where the water is.

Now, in regard to flood control, Hells Canyon would only take six-tenths of a foot off the Vanport flood. If you want to build flood control, you want to build it where the water is.

It is unrelated down the stream. If you go down Hells Canyon, here comes the Salmon River uncontrolled, not a dam. Then down to the Clearwater, the best dam site on the whole river is just below the Salmon.

It is impossible to build it at this time because that is a salmon spawning stream, and until we have further research on fish biology and are able to protect the fish and get them upstream, they just will not allow us to build it. The Clearwater has a very bad flood condition, so the thing does not make sense, in my opinion, from the engineering standpoint, because there is no sense in a 4 million acre-feet of storage if you haven't got the water.

Chairman DOUGLAS. Well, the annual flow of the Snake, as I remember, is approximately 17 to 18 million acre-feet a year, or approximately the flow of the Colorado. So I think you have the water not only to meet the irrigation needs of southern Idaho, but also to provide for this reservoir.

This is the point I want to emphasize: That storing of this water during the so-called dry seasons could then be released gradually to the succesive dams downstream, and each acre-foot of water which was stored which otherwise would go over the spillways on the dams, further down, could be multiplied 6 or 7 times in the amount of power thus generated.

Secretary McKAY. But the figures being used, Senator, are based upon a full reservoir capacity each year, which is a phony, because they cannot be filled each year because of the dry cycles; and it is going to be worse, because irrigation is expanding by leaps and bounds in Idaho. There is going to be more water taken out of the river.

That is my reason for——

Chairman DOUGLAS. You mean it is really a struggle between the southern Idaho irrigation groups and the northern Idaho power development groups?

Secretary McKAY. That is right, sir. The people, the farmers, in southern Idaho are on my side of this argument, because they have their life savings invested in farms which, before water came, was worth $50 an acre, and now is worth $500, and they will guard with their lives their water rights on those rivers, because it is a question of living or dying.

Chairman DOUGLAS. I think there is no proposal to take from them the existing amount of water.

Secretary McKAY. That is true.

Chairman DOUGLAS. It is a question as to future amounts of water in excess of what they are now taking.

Secretary McKAY. Yes, but these little fellows out there in southern Idaho are afraid of the big Government taking away their water rights if water gets scarce. Just look what happened at Santa Maria in southern California a few years ago.

Chairman DOUGLAS. I read the examiner's report of the Federal Power Commission, and he said that the big dam was economically feasible, but he did not think Congress would approve of it, in which he made a political judgment instead of an economic judgment. And I would say that on the whole, we in the Senate and the House of Representatives should be entitled to make the political judgment, and he should stick to the economic and engineering judgments.

Secretary McKAY. Well, that is not my department, sir, so I cannot cover it.

Chairman DOUGLAS. I know, but I have to go on the basis of what the examiner in the Federal Power Commission said.

Secretary McKAY. Yes; but let me say this: that the law passed by this body provided that the Federal Power Commission decide upon these applications for licenses. That is the reason we stepped aside and let them decide, in accordance with the law, in the Federal Power

Commission. It was reorganized in 1935 and set up under the ground rules laid down by this body, so I think they should be allowed to decide it.

There was—my mind is not working very fast here, but there was some other point you mentioned in here.

Chairman DOUGLAS. My time is up, so I should really not continue. Mr. Talle?

Representative TALLE. I yield to Senator Watkins.

Secretary McKAY. It is a very interesting debate, though, Senator.

Chairman DOUGLAS. I hope it is not over.

Secretary McKAY. Oh, I want to tell you—may I say one more thing?

Congress had the opportunity, before the Eisenhower administration, twice to authorize this dam, and they turned it down. They tried to get it through, and it came up here last year.

Chairman DOUGLAS. It was tied to the Mountain Home irrigation project.

Secretary McKAY. Well, they could have untied it.

Chairman DOUGLAS. I wanted to do exactly that.

Secretary McKAY. One other thing about this multiple-purpose dam. There is not one ounce of water from Hells Canyon that goes to irrigated land. The profits from the hydro will go to subsidize the Mountain Home at about $1,200 an acre, so as to multiple-purpose it is a little overemphasized.

Chairman DOUGLAS. Senator Watkins?

Senator WATKINS. Mr. Chairman, I am very glad that you asked the questions about Hells Canyon. I am one of those Senators who sat in the committee and listened to the testimony, and also read the record when I was not there, on the Hells Canyon project.

We have a situation out in the West which many people in the East and in the humid States do not understand or appreciate. Water is of prime importance. We can provide electricity by other means. We can do many things in developing our area in bringing in other supplies, but water is of prime importance, it is No. 1. Power and fuels and all the rest of them are no good unless we have water, and the water situation is so limited that there is a general doctrine out there that has been accepted, and it is written into the law, that water for consumptive use has a high priority over all other use, for municipal uses, which includes industrial and human consumption, and to produce crops, which means food.

In that Hells Canyon hearing, it was testified that there would be water during the pay-out period, which was estimated to be 50 years for the high dam. But there was no firm testimony that there would be a water supply after 50 years if the possibilities in the upper basin, upper Snake, were fully developed for consumptive use.

The dam was going to cost $350 million, plus another $150 million for the transmission lines. This is an awful lot of money, and particularly is it a lot of money to be set aside if you cannot be sure of your supply for more than 50 years, because the dam and plant ought to operate for at least 200 years.

So if the development in the upper basin area was to be assured for the future, to use what water they could for consumptive purposes, then we had to have some kind of an assurance, not just the statement of the witnesses that there possibly would be water, but we had to have some sort of assurance. Is that not the situation, Governor?

Secretary McKAY. Yes, sir.

Senator WATKINS. We had to have an agreement with the States which were interested in the water up in that area. A compact had been concluded on the Columbia, including its tributaries, and that compact had been signed but not approved and ratified by the legislatures of at least two of the important States, and those States were Washington and Oregon, and they have not ratified the compact to this day; and it was said by the witnesses and the proponents of the measure before our committee that those two States would not ratify. They said there was plenty of water up there.

My question to them was, as it is now to Senatotr Douglas and everybody else, if there is plenty of water there, why don't these two States ratify the compact, which gives some assurance to those people up there that the high priority will be recognized for consumptive use? They have never done it.

They want the Idaho people to take the risk, but they do not want to take it by guaranteeing that they will not take water when the water gets too low, to the point where they have to take it out and the powerplant cannot operate at full capacity.

That is the situation, as I understand it. I think you will comment on that, Governor.

Secretary McKAY. Well, I concur in the expression made by you, Senator.

Senator WATKINS. And I will say now, it was in executive session, but I voted against reporting out that bill for the reason that they had not ratified, among other reasons, they had not ratified that compact. The Senators who were very strong for it were the Senators from Washington and Oregon, pushing that particular one.

The Governor has pointed out, the Secretary, rather, has pointed out the difference in the water supply needed. The low dams required about a million acre-feet, which probably would come within the realm of the supply; but at the same time, as a part of their agreement, it was demanded by the Federal Power Commission that they must give recognition to these prior rights upstream for consumptive purposes.

The other dam, the high one, would take 4 million acre-feet.

The proposition, as it stood before the committee, absolutely violated one of the fundamental principles we have adopted out West—and it is uniform out there—and that is, the consumptive use of water has a high priority, over all other purposes.

You have mentioned, Mr. Secretary, the fact that other proposals had been made. Would you elaborate a little on them? Bills prior to the Eisenhower administration have been introduced for the building of the high dam.

Secretary McKAY. Yes. I did not quite get that, Senator.

Senator WATKINS. I say, you mentioned the fact that proposals or bills had been before the Congress for the building of a high dam in Hells Canyon prior to the advent of the Eisenhower administration.

Secretary McKAY. Yes, sir; twice.

Senator WATKINS. Do you know anything about the details of the proposals which were made?

Secretary McKAY. Well, I don't. I wouldn't care to testify, because I am not sure. But I do know this: One time the bill died in committee, just never got to the floor; and the other time, it was voted down.

Senator WATKINS. Is it not a fact that at one time it had been recommended by the Bureau of Reclamation, but the administration finally pulled the rug out from under the Bureau and the Department, which had recommended the building of that dam?

Secretary McKAY. I do not know, Senator. I could not testify on that.

Senator WATKINS. Well, that is the report which came to me. That is some backstage politics that went on during the time it was before the committees.

Secretary McKAY. I was not here then.

Senator WATKINS. But there was a power need, and there has been a power need in that area, Idaho in particular, which would justify the building immediately of some powerplants?

Secretary McKAY. Yes, sir.

Senator WATKINS. Is that not correct?

Secretary McKAY. Senator, you know they need power all over that country, but the thing which I cannot concur in with some of these people who are for the high dam is the talk about this being the last site. Well, that is ridiculous. There is another right down the river. There is the Mountain Sheep and the Nez Perce, right down the river. It is a dam builder's paradise. You could build a dam any place. So you are not throwing it out of the window.

Chairman DOUGLAS. But would you be for these additional high dams down the river?

Secretary McKAY. Sir?

Chairman DOUGLAS. Would you be for these additional high dams down the river?

Secretary McKAY. It depends on the location, sir. The Mountain Sheep, the original plans were for a high dam, but when you go in there and further study the geology, it was impossible. So they had to substitute two dams instead of one.

And down at Nez Perce, below the mouth of the Salmon River, is a site for a comparatively high dam. Of course, the best storage place in the whole Northwest for firming up the power downstream is Libby, over in Montana, but it backs water up on Canada, and we just have not been able to—they have not been able to make an agreement with them.

Senator WATKINS. I think my time is up for the first round.

Chairman DOUGLAS. Congressman Patman?

Vice Chairman PATMAN. Mr. McKay, I notice that you emphasize the present high levels of production, employment, income, in your statement. You mention also the plight of the farmers. Do you expect them to improve their status.

We have just received a copy of Economic Indicators for February 1956. It is a very interesting publication, and I invite your attention to it, if you have not already seen one.

I notice here that the farmers' income, went down from $14.3 billion in 1952 to $11.4 billion, about $3 billion less, in December 1955; whereas the business and professional income increased from $25.7 billion to $28.1 billion; rental income increased from $9.9 billion to

$10.6 billion; dividends from $9 billion to $13.7 billion, comparing the year 1952 with the last month, December of 1955, in each instance. Interest has gone up tremendously and I think it is one of the principal causes of the farm problem. It has gone up from $12.3 billion to $16.2 billion during that short period of time.

It has been said that the net income per farm has actually been going up, but on page 7 you will notice that the average farm in 1952 was $2,778, whereas the last quarter of 1955 it was $2,060, down about 25 percent or more.

Dividend payments have gone up from $9 billion in 1952 to $12.2 billion in 1955, as shown on page 8.

I want to turn now to something about these farm prices which the chairman is interested in. I am not criticizing the chairman for it, but I think he was wrong in supporting the Federal Reserve Bank in March 1951. Of course, he was honest in his views and convictions, and he trusted the Open Market Committee to carry them out. I know he must be disappointed. The chart on page 23 is very revealing. You will notice March 4, 1951, is a time that is very significant, as disclosed by this chart. While transportation has kept on going up, rents have kept on going up clear to the end of 1955; the price of food items broke the next day—March 4 was on a Sunday—and food prices generally have gone down ever since. Other prices related to farming have also gone down since that time.

But the average for all items has gone up, indicating, of course, Mr. McKay, that as industrial prices went up, farm prices went down, and that kept the price level practically stable, as you will notice.

The prices were practically stable, but the stability was obtained by taking it out of the farmer.

Now, page 25 is even more revealing and significant. This shows prices paid farmers and prices received, and the distance between the lines is getting wider and wider all the time, Mr. McKay. In other words, the prices farmers are paying are going higher and higher, and the prices received have been getting less and less all the time.

The parity ratio broke about March 4, 1951, as you will notice there on page 25, and has been going down ever since.

I think the farm problem is so closely related to the price of money or interest, that the administration should give serious consideration to taking an about-face and, instead of deliberately and—I wouldn't say "willfully," because I do not think people willfully increase interest, but they do deliberately increase interest rates—deliberately lower interest rates, particularly on the wholesale cost of money, and in that way they could help the farmers tremendously.

Pardon my rather extended explanation, but I did want to invite your attention to these statistics.

I want to ask you a question now.

Secretary McKay. Yes, sir.

Vice Chairman Patman. Suppose we have a stream which goes through a fine agricultural section, and also goes through a city. Under this partnership arrangement, as I understand it, the local people have to put up a substantial part. What is that requirement? Do you have a definite amount, or is it fixed according to the facts presented?

Secretary McKAY. There is no fixed amount. The present law, of course, provides that they do not pay anything on flood control dams. I was chairman of a multiple-purpose project in Oregon for 14 years, the Willamette Valley project. I spent 14 years, and nobody ever bought me a gallon of gas and paid my expenses. I am proud of that, because this last flood out there took 7 feet off the peak and saved half of it.

Vice Chairman PATMAN. You will pardon me, Mr. McKay. My time is nearly up, and I would like to get this information if I can.

You say there is no definite amount required?

Secretary McKAY. No. Prior to that time——

Vice Chairman PATMAN. The point I am trying to make, I will be very brief about it, is that the country people do not have much in taxable values, even if they have the power to levy taxes, to pay for improving the land taken for flood controls. The city areas have a lot of taxable values.

Does not his proposal give the city area an advantage in getting the water away from the farm areas? The stream goes through the city, and it goes down through the country, and it helps both the city and the country.

If you permit the city, which can do so because they have taxable values which would justify it, to build a dam and impound the water for industrial or municipal purposes, what is going to happen to these farmers down below who do not have taxable values to be in this partnership.

Secretary McKAY. In the West, you have conservancy districts, where there is no distinction between farmers and city, it is all in one pool. Let them get together.

Vice Chairman PATMAN. I am talking about where they do not go in together. You see, all the city people are not so much interested in the farm area in every place.

Secretary McKAY. Well, they will be if they want to get flood control protection.

Vice Chairman PATMAN. And your idea is to put the whole city and the country in together, and have it for all?

Secretary McKAY. That is right. In a district, you see.

Vice Chairman PATMAN. Suppose a project is just for the city, and they are just taking in a little part of the stream, just enough for the dam to impound the water. Would you say, "No, I can't do that. You have got to go back and make a large district and include the countrysides and agricultural areas?" Would you do that, Mr. McKay?

Secretary McKAY. It is a hard question, sir, because every river basin is different from every other one. The conditions are different.

Vice Chairman PATMAN. I know, but my hypothetical question is not different. You see, it is positive, it is definite. A proposal is submitted to you. It embraces a city and just enough of a stream to have a dam and to impound the water, and they want you to approve it.

Senator WATKINS. Mr. Chairman.

Will the Congressman yield for a question?

Vice Chairman PATMAN. Just one second, and I will yield. I will be glad to.

Now then, it is up here on your desk for approval. All right, the farmers all around, and particularly below it, will be discriminated against, because they cannot get that water if that city gets it. Will you require the application to include the countryside, the agricultural area, before you would approve it?

Senator McKAY. Well, I am not requiring anything. It is us up to the Congress to write the rules.

Vice Chairman PATMAN. Senator Watkins?

Senator WATKINS. I think the matter you have been mentioning about floods comes before the Army engineers, and it is not reclamation and not within the purview of the Secretary of the Interior.

Vice Chairman PATMAN. No; but he discussed it fully.

Senator WATKINS. He brought out some of the general propositions connected with water resources and flood control.

Vice Chairman PATMAN. He is on that water conservation committee. He just made a report January 17. I think it is a devastating report, and I do not agree with the gentleman.

Senator WATKINS. He would not have an opportunity to approve your proposal, because it would not come to his department if it is flood control.

Vice Chairman PATMAN. I am assuming he would say something about it, and he had a lot to say about the report, because he was one of a three-man committee.

Senator WATKINS. That is a special job, because the reclamation comes under the Department of the Interior, but not flood control.

Vice Chairman PATMAN. I want to know what his policy would be if it comes within his power to approve or disapprove it. Are we going to make these people organize districts so the whole section will be served or will you permit a city to cut off so much of the stream as the city needs and create a district, and use the water for their own industrial and municipal purposes, and discriminate against the farmers?

Secretary McKAY. This recommendation was submitted to Congress, this recommendation of the power policy. There were three principal people. They were the Army engineers, Reclamation, and Agriculture. They agreed upon policies.

We will not do anything until Congress changes the law, but——

Vice Chairman PATMAN. Thank you very much for your answer.

My time has expired.

Chairman DOUGLAS. Congressman Talle.

Representative TALLE. No, thank you, Mr. Chairman.

Chairman DOUGLAS. Senator O'Mahoney.

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

Mr. Secretary, I must apologize to you for not having been here when you arrived. I was working on Interior Department matters.

Secretary McKAY. I think that is more important than a speech.

Senator O'MAHONEY. Indian affairs occupy a good deal of my time.

Secretary McKAY. Yes, sir.

Senator O'MAHONEY. I have been glancing hurriedly over your statement, however, and I would like to compliment you particularly on two things: First, upon your favorable comments upon the upper Colorado River project, which has passed the Senate now, as you know, and which is now pending in the House, having been approved by a majority vote by the House Committee on Interior and Insular Affairs. We trust that successful progress will be made in accumulating the necessary votes to pass that bill, and I know we can depend upon the cooperation of the Department.

I see Mr. Bennett sitting by your side. I think it is only fair that I should say that in the Senate we very much appreciate the cooperation we have had from him in various matters.

The second thing I wanted to compliment you about was your reference to the national park system. Our minds seem to have been running in dual channels, because before the Mission 66 report was filed, I drew up a bill providing for a 10-year authorization to improve parks. The two things are identical in purpose, and I assume that we shall have a favorable report from the Interior Department on the bill to which I referred.

It is a bipartisan bill. Senator Goldwater, of Arizona, among others, joined Senator Barrett and me in the introduction of this bill. I feel sure that on the Senate side of the members of the Interior and Insular Affairs Committee know how greatly the national parks have suffered in the past because of the war, and how necessary it is that we go forward with this work of rehabilitation, which is outlined in Mission 66.

The increase in tourist traffic to these parks can be the source of great economic progress throughout the United States because, as you pointed out in your statement, there are a lot of recreation areas in the United States in the National Park System. These areas are scattered all through the United States, and what we do for the parks will be beneficial to all of the United States.

So I make bold to express the hope that a speedy report will be submitted recommending the enactment of our bill on the park system.

Secretary McKay. Yes, sir.

Senator O'Mahoney. Now, with respect to the partnership program which you have mentioned on page 4 of your statement, I confess that there is a lack of understanding in Congress as to precisely what was meant by the Department of the Interior when it talks of a partnership program for the development of water.

Who are the partners?

Secretary McKay. In the case of the first one authorized, it was about 600,000 kilowatts, in the last session, I believe it was. There is a public utility district, the Grant County Public Utility District. And there is another one. We have no views on that at all. That is a local problem. Whether you want your power distributed by privately owned companies or publicly owned companies, it is none of our business in the Department of the Interior.

There is another one that is a publicly owned thing, the Cougar Dam down in Lane County in Oregon. That is the city of Eugene, which is the oldest and most successful publicly owned municipal public power system in the State of Oregon. It has a record of nearly 50 years.

The other case is the Pacific Power & Light, a privately owned company. We are not concerned with it. There is no quarrel in our minds.

Senator O'Mahoney. Then the Department of the Interior, through the voice of its Secretary, wishes this committee to understand that the Department has no predilection to give priority to private stock companies for the development of the water sites in the United States?

Secretary McKay. None whatever, Senator.

Senator O'Mahoney. As a member of the Judiciary Committee, I had the duty last year of presiding over some hearings which showed that the Ebasco Co., with offices in the center of the financial district in New York City, and a lot of investment bankers, who were not themselves holders of the stock of the Northwest utility, set themselves up nevertheless as a stockholders' committee and as such, or under the name of a stockholders' committee, they were engaged in circularizing the stockholders of one of these utilities, a private utility, which they felt ought to be merged with another private utility.

The record was very clear that the letter itself sent out to the stockholders of this company by a committee made up of investment bankers was, in my opinion, a misrepresentation of not only the personality and the stock ownership of the committee, but also the purposes, so that it is very important, it seems to me, in any legislation which may be enacted in the future, to make sure that stockholders in private companies and the public may both be protected.

I am very happy, therefore, to have you say that the Department of the Interior takes the position that it has no business in granting them priority to any type of utility.

Secretary McKay. That is right. I do not consider it is any of my business how the local peopel decide their problems on the distribution of power or any other local issues.

Senator O'Mahoney. Now, your statement says:

The President's budget includes $20 million on the proposed legislation.

This is to enable the Corps of Engineers and the Bureau of Reclamation to participate in these new partnership water developments. Has the legislation been written?

Secretary McKay. I am sorry. Has it been written, Mr. Bennett?

Mr. Bennett. Yes. Two of the three have been written.

Secretary McKay. It has been written. Two of the three have been written, Mr. Bennett tells me.

Senator O'Mahoney. Have the bills been introduced?

Mr. Bennett. The Green Peter and White Bridge legislation has been introduced, and also the John Day legislation, on the House side.

Senator O'Mahoney. Yes.

Mr. Bennett. But it is my recollection that no bill has ever been introduced on Bruce's Eddy yet. I could be wrong.

Senator O'Mahoney. So that of the 3 projects mentioned in this paragraph by the Secretary, bills have been introduced for 2, and the third one, Bruce's Eddy, still remains to be handled?

Mr. Bennett. That is right.

Senator O'Mahoney. Are these bills going to the Public Works Committees in the two Houses or to the Interior Committees of the two Houses?

Mr. Bennett. They have been introduced and referred to the Public Works Committee of the House.

Senator O'Mahoney. Will you give me the citation?

Mr. Bennett. I do not have it with me, Senator, but I could get it for you.

Senator O'MAHONEY. And do I understand that nothing in these bills undertakes to define what a partnership is?

Secretary McKAY. In these——

Mr. BENNETT. That is a litte broad. Go ahead.

Senator O'MAHONEY. I will take the answer of either one of you.

Mr. BENNETT. Taking one of them that I recall reading not too long ago, actually neither one of them was drafted in our Department, Senator; they were drafted by the sponsors of the bill, and we have not commented on the bill yet.

Senator O'MAHONEY. Who are the sponsors?

Mr. BENNETT. Congressman Coon, I believe, is the sponsor of the John Day bill, and Congressman Ellsworth is the sponsor of the Cougar legislation.

Senator O'MAHONEY. Congressman Ellsworth?

Mr. BENNETT. Yes.

Senator O'MAHONEY. I am very happy to have had the Secretary pay a complimentary tribute to the public utilities at Eugene, Oreg., in his own State.

Years and years ago, before I moved to Wyoming, when I was living in Colorado, the city of Longmont was setting a wonderful example by a municipal-ownership plant, and I think that the citizens all through that State were envious of the great results that Logmont had developed for its citizens, first by way of the electric facilities which the municipal ownership promoted, and second, by way of the income which the city received. It was beneficial both to the inhabitants and to the municipality.

Of course, that is many years ago, and things have progressed a great deal since that time. But I remember distinctly how every resident, every home in the town of Longmont at that time—and that was in the second decade of this century, if not in the first—had a free light on the porch over the front door.

Secretary McKAY. They still do.

Mr. BENNETT. I was born there. They still do.

Senator O'MAHONEY. You were born in Longmont?

Mr. BENNETT. Yes.

Senator O'MAHONEY. You have had a good start in public power.

Chairman DOUGLAS. Now that this has become an experience session, I hope that my Republican friends will excuse me——

Senator O'MAHONEY. Oh, do not interrupt me, Mr. Chairman. Let me go back.

Senator WATKINS. I will let you concede that Senator O'Mahoney belongs with us.

Senator O'MAHONEY. My time is up.

Chairman DOUGLAS. We have a village called by the name of Winnetka, north of Chicago, which has the highest concentration of private utility lawyers of any community in Illinois. It also has a municipal powerplant, the proceeds of which are used to reduce the taxes, but not to compete on rates with the private utilities. The private utility lawyers are therefore enabled to reduce their taxes by the municipal powerplant, which is intended for home consumption only.

Now, I do not know whether this Colorado municipality is of that same nature or not.

Congressman Curtis?

Representative CURTIS. Thank you, Mr. Chairman.

Mr. Secretary, first I want to join the other statements in commending this very fine presentation that you have made to the committee. I want to pick up 2 or 3 items, one in regard to the power situation and power capacity.

Now, on page 4 you point out the increase in the amount of kilowatts authorized in the private power field through the licensing by the Federal Power Commission. Of course, that capacity is 1.2 million kilowatts in 1951 to more than 5.4 kilowatts as authorized in 1954 and 1955.

The reason I said that is that you are referring to capacity, because I was looking at the Economic Indicators for February 1956. I turn to page 18, where it shows in one of the columns, electric power distributed, millions of killowatt-hours, weekly average through 1950, beginning in 1950 through 1955, and I was very impressed with the increased amount that has occurred rather steadily through those years, and in particular a considerable jump from 1954 to 1955, and an indication that that is continuing in 1956.

Now, how can you translate, if you can, the capacity figures of 5.4 million you mentioned on page 4 to power distributed? Roughly by 100? Would that do it? Or can you give me any figure?

What I am really getting at is, what has been the increase in capacity in this Nation for production?

Secretary McKAY. This is hydro here, you see.

Representative CURTIS. That is solely hydro?

Secretary McKAY. Hydro, because those are the applications made to the Federal Power Commission. I do not think there would be any connection. The vast majority of power is produced by steam plants over the United States.

Representative CURTIS. I see.

Secretary McKAY. And I do not think——

Representative CURTIS. You would not have those figures?

Secretary McKAY. No.

Representative CURTIS. The reason I was developing this point was that last year there was criticism made of the President's Economic Report, I remember particularly by Mr. Leland Olds, on the basis that there was no suggestion of programs for getting cheap adequate power for our people. And I raised the point at the time that I thought considerable had been said in the report on it, but it just was not through the area of public power——

Secretary McKAY. That is right.

Representative CURTIS. That it was an emphasis on private power, and it looked to me, judging by the figures in the Economic Indicators, that the program that was advanced of trying to get private power to assume more of this burden has been answered in these figures.

Secretary McKAY. It is a rather strange thing that the only two places where there is a shortage of power are where the Government is the dominant factor. That is in TVA and the Northwest. California has had a larger percentage of increase in population, much larger, than have Oregon and Washington. Yet there has been no power shortage. They are practically all private power companies. Shasta Dam is a big one, but——

Representative CURTIS. The thing I was trying to point out, Mr. Secretary, was that I do not believe that it is a question of motives between the public power as opposed to private power advocates. And I happen to be a private power advocate. We both want cheap, adequate power for our people.

Secretary McKAY. That is right.

Representative CURTIS. It is just which system is going to best achieve that result.

Secretary McKAY. My own opinion is that we need power—period. And if we do not get together and use every available means to keep up with it, we are going to be caught short. Right at the present time there is a 116-million kilowatt capacity in the United States, I believe it is, and in just a very few years, in 3 years, we are going to need 350 million kilowatts. So the thing that must be kept up in this country is the source of energy for industry in our vastly expanding economy.

I do not care personally whether it is public or private. We all have got to help.

Representative CURTIS. I wonder, Mr. Secretary, if you could supply for the record the capacity increases over the period, say, of the past few years, just so that we can get that trend.

Secretary McKAY. Yes; I think we can. We will get it from the Power Commission for you.

Representative CURTIS. Thank you.

(The information referred to appears at p. 722.)

Now, I have just one comment. I was certainly very happy to see the treatment that you gave to the recreation industry and the significance of the increased usage of our public parks, because I think as we continue, if we move into this era of automation, we are going to have more and more leisure time for our people. I think that those increases in recreation usage indicate the results of the 40-hour week and also better vacation times for our people. And I think the Government under your administration is very wise in anticipating further increases in this area, it is of great importance, not only economically, but from the point of view of the standard of living of our people.

So I just wanted to make that comment.

Now, I wanted to pick up one final point, and that is in regard to the handling of the various natural resources when they are made available to private interests. Of course, we are aware of the epithets—that is what I term them—of giveaway, and, of course, you can have a give-away of natural resources to a particular interest and it can be done in a way that is unfair to other citizens.

On the other hand, the whole business of getting private enterprise to develop these natural resources, whether grazing lands, minerals, or whether it is this plant that you referrred to on zirconium, the test is whether these opportunities have been sufficiently well advertised so that any citizen or group of citizens would have an equal opportunity to come in and participate and bid to get those.

Now, I wonder if you would develop that point a little more. I know that that must be of great concern in the Department of the Interior, to be sure of your techniques of offering and granting leases and the dealings that you do have with private enterprise. I wonder if you would expand on that just a bit.

Secretary McKAY. Naturally, wherever it is possible under the law, we take public bids. Now, we would not think of selling timber, for instance, without bids, because the sky is the limit on prices these days.

Every time you sell something it brings higher money than before. Now, we have been criticized for the granting of an oil lease down in Louisiana on a game refuge.

Well, the law provides there—the Geological Survey says there is not a known structure. So the congressional law provides that we give it to the first qualified applicant at a price, a leased price per care—I have forgotten—I think it is a very nominal amount per acre, but one-eighth royalty. We have no alternative.

So when they criticize me, they do not know what they are talking about.

But in other places we certainly have to get the highest price possible for the Government. So we have bids always.

Representative CURTIS. Mr. Secretary, do you believe that overall, the techniques that have been provided by the Congress by law and the techniques employed by your department in setting up administrative provisions to carry out these laws are adequate to protect this idea of fairness and equality so that any citizen or group of citizens would have an equal opportunity to participate?

Secretary McKAY. I think so. And if they are not, we can come to Congress and suggest changes, which we have done, and last year Congress changed the Mining Act for multiple use to change some abuses that had occurred. The Mining Act had not been changed since 1872. So naturally there were some abuses.

In early days people were searching for gold in the West. Today the gold is not worth mining, so the timber has become valuable. So we have to recommend changes occasionally. So I think it is pretty good. But after all, we are all human. There are mistakes made occasionally.

Representative CURTIS. Now, one final question, Mr. Secretary. I was very happy, too, to see your emphasis on the need for research and your feeling that that was the area where the Government could probably be of great assistance.

Secretary McKAY. Yes.

Representative CURTIS. I understand there has been a little criticism of an alleged cutback on the liquid fuel research program. I wonder if you have any comments on that?

Secretary McKAY. Yes, there has been criticism but I think it is unjustifiable. Now, during the war, you see, the Government was out to produce synthetic fuels. In Europe and some places they were using charcoal burners on the back of an automobile so that they could run. Fuel was down to 3 gallons a week, as you remember, for civilians.

So they developed a process using shale in Colorado, which is the most successful. It is closest to the cost of natural gasoline. And a process using coal was worked on at Louisiana, Mo., I believe it was.

Representative CURTIS. Yes.

Secretary McKAY. Now, we have gone as far as we can in the laboratory on those programs, and we have shown that it can be done. Now, in Colorado the Union Oil Co. is willing to put in a pilot plant. Well, when it gets down to the place where private enterprise is willing to step in and do the job, then I do not think the Government belongs in there. We belong in the laboratory, the research state.

Now, we can make gasoline out of coal, but it is too expensive. You can get it out of shale much quicker. Now, we have interested private enterprise in coming in and putting their money in this thing. They will drop it if they cannot make money.

Representative CURTIS. In other words, you feel the program is going ahead, but it is going ahead not under the Government, but under private enterprise.

Secretary McKAY. Yes. I do not believe the Government should be in the manufacturing business. But we should help in some of this research work. And then when the time comes that it is ready to go into a pilot plant, if somebody wants to put their money in it, let them go.

Now, this saline water, for instance, is a very good program. We have made progress, but we have not yet come to the point where it is economically feasible. Congress appropriated a lot of money in the last few years, and we have contracts on about eight different types of processes.

I believe that before long we are going to come up with one that will work for domestic water, at least.

Representative CURTIS. I am familiar with that program, and I am deeply interested in it myself.

I see my time has expired.

Secretary McKAY. Excuse me.

Representative CURTIS. Thank you, Mr. Secretary.

Chairman DOUGLAS. Congressman Bolling.

Representative BOLLING. Mr. Secretary, I come from the Missouri Basin area, an area which in some respects is not keeping pace with the rest of the country. Some of us feel that it is an area which will continue to go downhill because of power shortages, because of the lack of area development, water resources, and so on. I would be interested in your comment on the progress of the Missouri Basin program during your administration as Secretary of the Interior.

Secretary McKAY. Well, I must confess that I do not know too much about the Missouri Basin as such. But we have in charge of water and power Fred Aandahl, who was 3 times Governor of North Dakota, and a Member of Congress for a term, and who knows the Missouri Basin forward and backward.

Likewise, Clarence Davis, Under Secretary, who has lived all his life in Nebraska, knows the Missouri Basin.

So if you really want the dope on that, I would suggest that I furnish either Clarence or Aandahl, who can do a much better job than I in answering that question.

Representative BOLLING. I would like a statement from——

Secretary McKAY. Pardon me for interrupting. Most of the main-stem dams are under the Corps of Engineers. You know, it is flood control. We have only a portion of the development in the Missouri Basin.

Representative BOLLING. I would realize that you could comment only on your personal participation. I would be interested in your furnishing for the record, if you would, a comment of the appropriate person in the Department on the program.

Secretary McKAY. I should be glad to do it.

Representative BOLLING. That would cover the program during the 3 years plus of your administration as Secretary.

(The information referred to appears at p. 722.)

Representative BOLLING. Now, I was very much interested in some of the things that were said in the colloquy between you and Senator Watkins. I have always been a supporter of products such as the upper Colorado, and I think I will continue to be, but I am a little disturbed when I gather that the emphasis is going farther and farther in one direction and away from another direction, which I have thought was an important reason for my support. I get the impression that there is more and more emphasis on irrigation of land at the expense of power in the consideration and delivery of these projects.

I have been willing to face my constituents, who have no interest personally whatsoever in the development of the upper Colorado, and say, "Yes, I think we should spend your money for this project because it will increase the strength of the country."

And one of the reasons that I have been willing to do that is because it has included a great deal of power development.

Senator Douglas has made from time to time the point that in our area, an area subject to floods and droughts, there are great quantities of land that would be benefited too if they had additional water supplies.

Secretary MCKAY. Yes.

Representative BOLLING. And my support for projects like the upper Colorado project, and in the whole area of the West, is likewise to be less enthusiastic if I see a situation where vast sums of money are being spent to bring in to production or to improve production of less useful land than that which is in my area, and is not being subject to the same treatment—at the same time giving less and less attention to power.

Now, as I said first, this has not yet shifted me from one side of the issue to the other. But it seems to me that it is an important problem from the point of view of persons who are for such projects, to recognize that those of us from other areas have given their support on the basis of a certain kind of integrated program, not on another kind of integrated program.

Secretary MCKAY. Do you want me to comment on that?

Representative BOLLING. I would like you to.

Secretary MCKAY. This upper Colorado is a multiple-purpose, true multiple-purpose project, and it is heavy with power. There is about 1 million kilowatts capacity in it. It also has flood-control benefits and irrigation.

May I say on irrigation, too, that there is a misconception in some people's minds, because that is not going to bring in crops to add to the surplus existing. A heavy percentage of that is in pasture for livestock and so forth. It is about 75 percent, as I remember it.

Representative BOLLING. Mr. Secretary, I understand that, but I still do not think it answers the basic point.

Secretary MCKAY. There has been no change in the power, because, as a matter of fact, this is a multiple-purpose project that the Government must build or it will not be built, because you have to have power revenues.

Representative BOLLING. I did not limit myself to the upper Colorado, Mr. Secretary. You will remember that I was talking about the whole approach of the West. I am talking really right now about Hells Canyon.

Secretary McKAY. Well, now, in the case of the Missouri—you are from Missouri, are you not?

Representative BOLLING. Yes.

Secretary McKAY. Well, in the Missouri area, if the people want irrigation, we will be delighted to work with them, subject to the approval of Congress.

Representative BOLLING. The basic answer to why I will continue to support the upper Colorado is that I recognize the fact that for various reasons, some of them extremely bad ones in my judgment and some of them not at all reasons that stem from the public interest, the Missouri Basin is split wide open on its development, and you in the West have succeeded in getting together. And I think that is a very fundamental and significant difference. But it still does not change the basic factual situation.

But I do not want to pursue that any further unless you do.

Secretary McKAY. If you look at it, you will find that we have some battles, too, but we usually do the battles in the kitchen instead of on the front porch.

Representative BOLLING. I do not intend to go into the reasons why ours have been on the front porch, and in fact, in the public streets.

Senator O'MAHONEY. Congressman Bolling, will you give me a half second of your time?

Representative BOLLING. Certainly.

Senator O'MAHONEY. Mr. Secretary, can you not say definitely and very emphatically, in fact, pounding the table, that one of the purposes of the Department of the Interior in supporting the upper Colorado River is to develop public power to help pay for that project?

Secretary McKAY. It is a must. It has to be there.

Chairman DOUGLAS. Would Mr. Bolling let me have a little time?

Representative BOLLING. Yes.

Chairman DOUGLAS (continuing). And develop public power at a cost of over twice that of Hells Canyon, which you refuse to develop. I cannot understand how you refuse to develop Hells Canyon, where the cost would only be 2½ mills per kilowatt-hour and insist upon developing the upper Colorado, where the cost will be at least 6 mills per kilowatt-hour. That just does not make sense, Mr. Secretary.

Secretary McKAY. Senator, may I answer that? We would not be advocating the upper Colorado if private enterprise were willing to do it.

Now, this Government, with our debt——

Chairman DOUGLAS. In other words, private enterprise will take the profitable, low-cost development, and the high-cost developments are to be shouldered by the Government and the taxpayers?

Secretary McKAY. Not necessarily. The taxpayers always pay for nonreimbursable——

Senator O'MAHONEY. May I say that I forgot the chairman was here when I made my statement.

Representative BOLLING. Mr. Secretary——

Secretary McKAY. Yes, sir.

Representative BOLLING. This is another illustration of my capacity to stir up trouble.

I have one more question.

Secretary McKAY. Yes, sir.

Representative BOLLING. You said something that I think you would like to revise before it stays in the record. I believe I quote you correctly when you said that you believed that the Government should not be in the manufacturing business.

You were talking about liquid fuels at the time. I presume you would not want your remark to stand in relation to the manufacturing of power.

Secretary McKAY. Well, as a part of the program. Here is the difference. I am opopsed to a monopoly on the part of the government in power. I think everybody should have a chance to develop their own as they wish.

In the Northwest, for instance, we have a Northwest power pool, where all the power developed by local public ownership, private power companies, and Federal, all goes into a pool integrated in the system, thereby increasing the capacity about 500,000 kilowatts. I think it is the finest example of cooperation among all.

But I am opposed to the Government going into a manufacturing business to compete with private capital, taxpayers, if you please. Now, I would be opposed to that.

When the previous administration tried to sell the Columbia Valley Authority to us in the Northwest, I appeared back here in 1949 as Governor and opposed it strenuously, because I am opposed to that sort of thing.

The Missouri Valley had the same thing. That is the difference.

Representative BOLLING. The thing that interests me in this philosophy, which you certainly have a perfect right to have, is this. I find it very difficult to understand where it is in the public interest for the Government, regardless of what the reason may be, emergency of war or otherwise, to spend vast sums of money in research and development and then turn over the product of that public effort to private industry without a fair return on the effort.

The excuse is always given that we did this under an emergency situation. I cannot see where there can be any compromise between the position that you apparently take and the position that I take, which protects the public interest all the way down the line. I do not think there is.

Secretary McKAY. The Government has been in research work long before you and I were born. I think it is a very simple difference of philosophy between you and me, and we are both entitled to our opinions.

I believe this country was built by the climate of opportunity for people, and I believe, as Thomas Jefferson said, if we have to look to Washington as when to sow and when to reap, we shall soon want for food.

I do not believe in all this Government regulation.

The Government can assist by research, as they have always done, but when they get down to where they can manufacture zirconium or synthetic fuel, I do not believe they should be manufacturing it.

Representative BOLLING. You do not believe that there should be a yardstick?

Secretary McKAY. Well, that yardstick is a term that you use on Federal power, or public power.

Representative BOLLING. What is wrong with a yardstick in other areas?

Secretary McKAY. What is wrong with private enterprise?

Representative BOLLING. Nothing; I am all for it. But what is wrong with a yardstick?

Secretary McKAY. Nothing.

Representative BOLLING. All right, sir.

Senator O'MAHONEY. We are in agreement.

Representative BOLLING. We are agreed; as long as it is competitive.

Senator WATKINS. As long as it is a yardstick, and nothing else.

Secretary McKAY. A yardstick.

Chairman DOUGLAS. I would like to have a yardstick applied to the upper Colorado.

Senator WATKINS. We would be very happy to have one.

Secretary McKAY. Yes.

Chairman DOUGLAS. Congressman Kelley.

Representative KELLEY. Mr. Secretary, let us talk about coal for a minute.

Secretary McKAY. Yes, sir.

Representative KELLEY. You made a statement, I think, on page 17, at any rate, somewhere you made the statement that the long-range trend of the coal industry had been reversed after 7 years.

Secretary McKAY. Yes.

Representative KELLEY. Now, the coal industry has had its peaks and valleys for three-quarters of a century, and the long-range trend has been downward. Now, I imagine what you were trying to say to us is that we are coming out of one of these valleys again.

Secretary McKAY. I presume so.

Representative KELLEY. That is correct; is it not?

Secretary McKAY. That is right. In 1953 my first experience here was that the coal business had dropped from, I believe, 660 million tons down to 400, and something. It was in the depths.

Then in 1955 there was an increase of about 18 or 20 percent that year, partially because of the increased industrial activity which called for more coal to generate more electricity in the East, and partially from exports of coal to foreign countries.

But over the long haul the coal business has been depressed because of the dieselization of locomotives and the increasing use of natural gas and oil.

Representative KELLEY. Mr. Chairman, I think it would be good for the record if the Secretary would provide for the record the amount of tonnage each year for these 7 years' production, and also the amount of exportation of coal in each of those 7 years, compared with the peak, which was in the First World War.

Secretary McKAY. With the peak of World War I?

Representative KELLEY. The peak production, I believe, was in the First World War.

Secretary McKAY. All right. We will be glad to do it, sir.

(The information requested on coal production and exports is furnished as follows:)

Production of coal in the United States, 1949–55 [1]

[Net tons]

Year	Bituminous coal and lignite	Pennsylvania anthracite	Total
1949	437,868,036	42,701,724	480,569,760
1950	516,311,053	44,076,703	560,387,756
1951	533,664,732	42,669,997	576,334,729
1952	466,840,782	40,582,558	507,423,340
1953	457,290,449	30,949,152	488,239,601
1954 (preliminary)	392,000,000	27,118,000	419,118,000
1955 (preliminary)	465,000,000	24,922,000	489,922,000

[1] Source: U. S. Bureau of Mines.

NOTE.—The highest calendar year coal production occurred in 1947 when 687,813,731 tons were produced, comprised of 630,623,722 tons of bituminous coal and lignite and 57,190,009 tons of Pennsylvania anthracite.

United States export of coal, 1949–55 [1]

[Net tons]

Year	Bituminous coal and lignite	Pennsylvania anthracite	Total
1949	27,842,056	4,942,670	32,784,726
1950	25,468,403	3,891,569	29,359,972
1951	56,721,547	5,955,535	62,677,082
1952	47,643,150	4,592,060	52,235,210
1953	33,760,263	2,724,270	36,484,533
1954 (preliminary)	31,040,564	2,851,239	33,891,803
1955 (preliminary)	51,241,453	3,152,313	54,393,766

[1] Source: U. S. Bureau of Mines.

Secretary McKay. One other thing I might mention on that. One of the things that made it possible to export some of this coal is the increased productivity through mechanization. The miners are producing now 9 tons of coal a day, and they cannot compare with that in Europe.

Representative Kelley. And they are producing it cheaper than they did in 1947 and 1948, even with increased wages?

Secretary McKay. Yes, sir. So we are able to export a small amount of coal, which is helpful to the industry.

Representative Kelley. I might add to that, compared to England, the production of coal is about 2 tons per man per day, and we have, I think, a little over 9, as a matter of fact?

Secretary McKay. Nine, yes, sir; that is right.

Representative Kelley. I was interested in a statement on page 19. You say—

in the partial substitution of anthracite for coke in blast furnaces.

Now, I do not know how far it has gone, but I do not think that you should take too much credit for that, because what you are saying is that you are substituting anthracite for coke. Coke is bituminous coal. So what you are doing is taking bituminous coal and giving it to anthracite.

Secretary McKay. That is right, sir. But the anthracite coal industry is in bad shape.

Representative Kelley. I realize that.

Secretary McKay. I think there is a future, too—I am not an engineer or a scientist, but we have some good ones in the Bureau of

Mines—I think the future of anthracite will be helped by the utilization of chemical byproducts of it.

Representative KELLEY. That is true. But my primary interest is in bituminous coal. So I do not like to see anthracite come in to take its place.

Secretary McKAY. I see. But my interest is in neither one except as they relate to the utilization of energy. But with the expansion of the steel business, they may have to use some anthracite in lieu of the coke.

But the coal business is still a tremendous business in this country and it is going to continue to be a tremendous business. And we must preserve and protect, as far as possible, all energy needs. That is one of the problems facing the Nation. One is water, and number two is energy, and I do not care whether it is coal, oil, gas, or hydro. It is needed.

Representative KELLEY. Coal is the basic source of energy?

Secretary McKAY. Yes; that is right, sir.

Representative KELLEY. In case the oil industry became near exthe synthetic fuel, the hydrogenation of coal, and retorting of shale had progressed to the point where it would be economically feasible.

Secretary McKAY. From shale.

Representative KELLEY. In case the coal industry became near exhausted or exhausted? Is that correct? We could not compete now with oil?

Secretary McKAY. Gasoline from coal cannot. As I remember, there is about 2 cents difference per gallon in the cost of gasoline from petroleum and that from shale. Shale was a little higher than natural gasoline. But it is getting down so close that one of the oil companies is willing to carry out a pilot plant operation to see how close it could come in a pilot plant from shale.

Representative KELLEY. You mean that private industry is going to try that now?

Secretary McKAY. Yes, sir, a demonstration plant, on shale, that is, and not coal.

Representative KELLEY. Not on the hydrogenation of coal?

Secretary McKAY. No.

Senator O'MAHONEY. May I interrupt at this point?

Representative KELLEY. Yes.

Senator O'MAHONEY. I do so, Mr. Kelley, because I was the Senate sponsor of the synthetic fuel bill. And in that law we definitely wrote a provision that the product should not be sold in competition with private industry. So this is not and never was an attempt to put the Government into private business.

Secretary McKAY. Yes.

Senator O'MAHONEY. I understand that Congressman Kelley and Congressman Saylor of Pennsylvania are both interested in having this experimentation taken up again by the Bureau of Mines.

I want to point out that that original law provided, not for laboratory tests, as the Union Oil Co. apparently proposes to do, but for demonstration plants. The work has not been finished, and I am very regretful that the Department of the Interior has apparently abandoned this work.

If you said what you had in mind when you said that the Union Oil Co. was going to establish a laboratory——

Secretary McKAY. No. I beg your pardon.

Senator O'MAHONEY (continuing). I would like to have you furnish for the record a full statement as to what sort of plant the Union Oil Co. plans to build, how much it plans to invest in it, where are plant is to be built, and what is to be done.

Secretary McKAY. It is not a laboratory, Senator. It is a demonstration plant. Now, you see, the Rifle plant——

Senator O'MAHONEY. What will its capacity be?

Senator McKAY. The Union Oil Co.'s plans for oil-shale development were discussed in an annual statement to share owners by President Reece H. Taylor. This statement was quoted in the Oil and Gas Journal of May 2, 1955, as follows:

> Union's interest in shale oil dates back to 1920, when we purchased our first piece of shale property. Later acquisitions have swelled our holdings to 50,000 acres; and our recoverable reserves are estimated conservatively at 5 billion barrels, more than 8 times our reserves of petroleum. * * *
>
> Although some shale oil is produced and refined commercially abroad, this operation has not yet been proved economically feasible in this country. * * * The 1951 study of the National Petroleum Council * * * indicated that the time for commercial exploitation was very near. Last year Union undertook an independent review of this problem. * * *
>
> We concluded that with present tehcnology, shale oil may well be as profitable as the average investment in finding new domestic crude oil, and that shale oil will become relatively more profitable as the costs of finding crude oil increase. * * *
>
> During the next 2 years, we will build and operate a commercial scale, 1,000-ton-per-day retort in Colorado, confirm and perfect the manufacturing procedure by pilot-plant studies, and develop detailed designs for a full-scale shale-oil plant. * * *
>
> This work will provide us an accurate estimate of capital expenditure and operating costs, and will permit a dependable appraisal of the profit potentialities of this project. If this program yields the anticipated results, and if economic conditions then justify it, we will be ready to undertake full-scale commercial development.

Senator, may I just say this, too: Out there we had a bad situation. You see, we had a cave-in. It was a wide-expansion.

Senator O'MAHONEY. Yes, I am familiar with that.

Secretary McKAY. So we cannot walk away and leave that. We have not abandoned it.

Representative KELLEY. Senator, may I say this, that the demonstration plant was built as a result of the legislation which you sponsored in the Senate and a couple of Members in the House.

Senator O'MAHONEY. In the House, yes.

Representative KELLEY. Some years ago.

Senator O'MAHONEY. That is right.

Representative KELLEY. Yes.

Secretary McKAY. And we have not abandoned that, Senator. We planned on it because we thought we had gone as far in the laboratory as we needed to, but when we had this failure in the roof, we had to go and see what was wrong with it.

Representative KELLEY. That is all, Mr. Chairman.

Senator O'MAHONEY. Mr. Chairman, I want to apologize to the Secretary for having to leave.

Chairman DOUGLAS. Congerssman Talle.

Representative TALLE. Mr. Secretary——

Secretary McKAY. Yes, sir.

Representative TALLE. Thank you for your excellent statement.

I would like to ask you if any tin is being mined in Alaska at the present time?

Secretary McKay. No. There is a tin mine up between Nome and the Bering Straits. I have flown over it in a plane. I sent some mining engineers from the Department up to take a look at it, and there is an effort for some people in Nome to get a bill through this body to help them on their research. They have done some mining, and I am not prepared to answer as of this moment. At one time it looked very good, and at another time it did not look so good. But you never know about a mine until it is explored further.

Representative Talle. In connection with any recent explorations, has the Department discovered any potential nickel supplies within our own possessions?

Secretary McKay. I do not believe so. Now, may I suggest this, that we have a good Assistant Secretary who has spent his life in the mining business, Felix Wormser. That is out of my field. I know nothing about it. It would be just casual.

I would be very happy to have him come down and testify and answer your questions, if you wish.

Representative Talle. Thank you for that offer. The Forest Service comes under your jurisdiction in some degree, does it not?

Secretary McKay. The Forest Service is under the Department of Agriculture.

Representative Talle. Oh, yes, but there is an interrelationship?

Secretary McKay. We have some forests in the O. and C. land cases out in Oregon.

Representative Talle. Yes. It is the appropriation aspect that comes under the Department of the Interior bill.

Secretary McKay. Oh, yes.

Representative Talle. But the operation is under Agriculture?

Secretary McKay. Yes, sir.

Representative Talle. The Forest Service more than pays for itself, does it not?

Secretary McKay. The Forestry Service?

Representative Talle. The sale of timber runs very high?

Secretary McKay. Oh, yes, definitely. And we must preserve some Federal forests on a sustained yield basis, both for the proposition of producing lumber in the future and also for watershed production. The parks do the same thing, where we keep them in the original state. We do preserve the watershed area.

Representative Talle. It is my impression that the Forest Service people are doing an excellent job.

Secretary McKay. Mine, too, sir.

Now, we have hundreds of thousands of acres of forest lands out in Oregon, the land we took away from the railroads when they did not fulfill their agreement, and on that land we harvest the annual growth. That is a sustained yield.

Now, the only people that are doing that are the State of Oregon and the Federal Government in that locality.

In the Northwest there are now about 6 million acres of tree farms by private enterprise. There are more in the South because southern pine grows faster. You see, Douglas fir takes 80 years.

But we must get the forest areas to a sustained-yield basis if we are going to survive a thousand years from now.

Representative TALLE. That is right.

Thank you, Mr. Secretary. Thank you, Mr. Chairman.

Chairman DOUGLAS. Mr. Secretary, I broke into Congressman Bolling's questioning to say that I thought it was extremely inconsistent of the Department to turn thumbs down on a public power project at Hells Canyon, where the generating cost would be approximately 2½ mills per kilowatt-hour, and yet to favor them in the upper Colorado, where the generating cost would be around 6 mills.

Now, I know that at Glen Canyon perhaps the cost would be 4.2 or 4.5. And I will say to my good friend from Utah that I will not shed any blood to defeat the Glen Canyon project.

Senator WATKINS. You will not have to shed blood.

Chairman DOUGLAS. No. It is the upper part that is above Glen Canyon where we find the trouble spots. I am glad that Echo Park has at least temporarily been taken out of the reservoir and power proposals. I hope it stays out and is not later inserted.

But these dams even up above the park have generating costs probably in excess of 6 mills per kilowatt-hour. It just does not make sense to me to develop those projects and not develop the Hells Canyon project.

I think, Mr. Secretary—I am not trying to indict you—but when you said that the Hells Canyon project would be taken by private enterprise, but the upper Colorado would not be taken by private enterprise, what you did, I think, was to indicate a private bias which probably you would not be willing even privately to admit, that you would give the preference to private power.

Secretary McKAY. In the first place, Senator, Congress has never aunthorized Hells Canyon. How are we going to——

Chairman DOUGLAS. Well, if you folks had been willing to help us, we would have gotten it authorized, because it has been the opposition of the administration, which you are perfectly well aware of, which has largely prevented authorization. If you give the word tomorrow that you are willing to wipe out your present action and go for the public development of Hells Canyon, we will get it through.

Secretary McKAY. Senator, the previous administrations for over 15 years were unable to get that authorized.

Chairman DOUGLAS. Well, there are other projects that they were developing, along the Columbia, and Hells Canyon was coming relatively late in the program. They were moving on the main stream of the Columbia before they moved into the tributaries.

Secretary McKAY. It was all a part of the 308 report.

Chairman DOUGLAS. What?

Secretary McKAY. It was all a part of the 308 report.

Chairman DOUGLAS. I know. But you have to take the dams in sequence, and they were working on the Columbia.

Secretary McKAY. Not necessarily. They authorized some in that vicinity. They authorized Ice Harbor, for instance, which is just down the Snake River.

Chairman DOUGLAS. You mean you cannot take everything at once?

Secretary McKAY. No. But they did not take it up the river, as you mentioned. They took one here and then they took another one at Ice Harbor.

Chairman DOUGLAS. That was the general tendency. It was up the river.

Now, let me turn to another point.

Let me come now to irrigation costs, and here I will tangle directly not only with you, but with my good friend from Utah, who in other respects is a most sensible man.

Senator WATKINS. You will finally discover that I am sensible in that respect, too. I will take you out there some day and show you just how it works.

Chairman DOUGLAS. No. I am taking this from testimony before the Senate committee. I believe they have been approved by your Bureau of Reclamation.

Secretary MCKAY. Yes.

Chairman DOUGLAS. You take the average direct costs, excluding interest, per acre, and they would be $952. That is the average. In the central Utah project, there is a direct cost of $1,757 per acre.

Senator WATKINS. How much?

Chairman DOUGLAS. $1,757. That is per acre on equivalent new land.

Senator WATKINS. Your figures are wrong, Senator.

Chairman DOUGLAS. Now, if you include interest, which I think should be included in this cost, because, as you know, the irrigation land is interest free——

Secretary MCKAY. However——

Chairman DOUGLAS (continuing). You get an average cost of $2,142 per acre, and a central Utah cost of $3,953.

And what is the land good for? As you say, pasturage, after you get it. It will not have a value of more than $100 an acre.

Secretary MCKAY. I do not know where those figures come from, Senator.

Chairman DOUGLAS. They come from the report.

Senator WATKINS. Senator, just so you will not be repeating that without having some knowledge on the subject, I was offered $1,000 an acre for some of the land under one of these irrigation projects out here just 2 or 3 days ago.

Chairman DOUGLAS. Where was that?

Senator WATKINS. Out in Utah.

Chairman DOUGLAS. It is not claimed that these projects are to be in high altitudes where the growing season is short and where, as the Secretary directly states, it is to be used for pasturage.

Now, grass is beautiful, and I like it.

Senator MCKAY. Pasturage and hay.

Chairman DOUGLAS. But it is not a high-value crop.

Secretary MCKAY. Pasturage and hay.

Chairman DOUGLAS. Well, exactly. Well, hay is fine, too.

Secretary MCKAY. Alfalfa.

Chairman DOUGLAS. But it is not a high-value crop. That is what they grow up in New England between the rocks.

Now, what you are proposing to do, Mr. Secretary, is to put $1 billion in these projects and forgive interest for 70 years, and pour the money in there to irrigate 132,000 acres of infertile, short-growing-season, high-altitude land.

Now, how can that be justified? How can that be justified by a man who knows the value of a dollar, as I think you like to think you do?

Secretary McKay. Senator, I just cannot agree with those figures.

Chairman Douglas. I gave these figures on the floor of the Senate. They are based on the official figures given in the hearings. If you will look on page 56 of the Senate hearings you will note the new and supplemental acres for each of the initial projects. On page 16 of the Senate report you will note the construction costs allocated to each of these irrigation projects. These figures were provided by the Bureau of Reclamation, itself, and were used throughout the hearings and the debate on the bill. Interestingly enough, they were provided by those who advocate the upper Colorado project. The proponents have hoisted themselves on their own petard. They have never been challenged.

Senator Watkins. I challenge them now. I challenged them on the floor of the Senate. I have challenged them repeatedly.

Chairman Douglas. You have never produced any figures to refute them.

Senator Watkins. All right. I will produce them right now, Mr. Chairman.

Chairman Douglas. You can do it on your own time, Senator.

Secretary McKay. The only thing, Senator, is that the irrigation projects in 53 years in the United States have made tremendous advances to the economy of this country.

Chairman Douglas. Well, now, first let me say that the original irrigation projects in the lower reaches of the rivers I think were good investments, the Salt River valley around Phoenix, the Imperial Valley. I think the Central Valley of California is good. But these are relatively exhausted now.

The projects that are now available are in the upper reaches of these western rivers, in high altitudes, where you cannot get the lush fruit crops and vegetable crops that you can get in the lower altitudes where the growing seasons are long.

Secretary McKay. Senator, you can go up in the high altitudes of Colorado and see the finest melons you ever saw, and all kinds of vegetables.

Chairman Douglas. Are they going to grow bananas up there, then, melons and bananas?

Secretary McKay. Not bananas. Well, they may. Cantaloupes.

Chairman Douglas. I would not say that that is the most economic use of resources.

Secretary McKay. Now, then, another thing. You can go down to Klamath Falls, which is a very high severe climate—I have seen frost in June—and those farmers are very, very prosperous over raising potatoes and barley. You could not buy that land for any $100 an acre or $500.

Chairman Douglas. The testimony of your own experts, reclamation experts, is that this land will not be worth more than $115, roughly, an acre.

Secretary McKay. I would have to see that——

Chairman Douglas. And they are depending on paying out on the power revenues.

Mr. Bennett. That is right.

Chairman Douglas. It is the power revenues that they are counting on to pay out. And the only power project that can pay out is Glen Canyon. The others will not pay out.

You are heaping a vast superstructure on that dam at Glen Canyon.

Secretary McKAY. Are you wanting me to answer that?

Chairman DOUGLAS. Yes; I certainly am.

Secretary McKAY. Well, sir, you do not have all the facts, Senator, because I will defy you to buy any land at $115 an acre on any successful irrigation project in the West.

Chairman DOUGLAS. Not in the lower altitudes. But your people testified, that is all it would be worth.

Secretary McKAY. I would have to see that. I would have to see it some place.

I can show you projects here in the high altitude, in Malheur County, in the Snake River area in Oregon, where the income-tax receipts from those farms alone will amortize that.

Chairman DOUGLAS. Do you think that land will be worth $4,000 an acre?

Secretary McKAY. No.

Chairman DOUGLAS. That will be the cost if you include interest.

Secretary McKAY. I would like to be able to have the Senator answer that, because he knows it so well.

Senator WATKINS. I have got to get on my time first. I tried to a moment ago. I am prepared to do it.

Secretary McKAY. Well, then, I will say I do not know, Senator.

Chairman DOUGLAS. How much time do I have?

Mr. ENSLEY. Two minutes.

Chairman DOUGLAS. I will let Senator Watkins take over and reserve 2 minutes for rebuttal.

Senator WATKINS. All right, sir.

No. 1, I cannot do it in 10 minutes, and you have challenged the whole program. So I now ask that the case for the Colorado River storage project, which I have prepared, be placed in the record at this point.

Chairman DOUGLAS. That will be done.

Senator WATKINS. Thank you, sir.

(The document above referred to follows. A statement by Raymond Moley on the case against Colorado River storage project and participating projects appears at p. 704.)

THE CASE FOR THE COLORADO RIVER STORAGE PROJECT

(By Senator Arthur V. Watkins, Republican, Utah)

I. INTRODUCTION

The Colorado River storage project is necessary to regulate, control, and convey the waters of the upper Colorado River for and to those areas entitled to its use under the terms of the Colorado River compact and upper Colorado River compact.

It is a well planned, economically sound, completely self-liquidating, long-range project designed to provide for the conservation and development of a vitally needed water supply and for a 4-State semidesert area larger than New England.

No other comparable river development program has ever been presented to Congress for authorization backed by the detailed engineering and economic studies and interstate cooperation in its planning reflected in this bill. This project has been under detailed study and investigation for more than 20 years, during which time there have been expended, from State funds and power revenues allocated to these investigations from the Hoover Dam, approximately $10 million.

The Colorado River storage project is the culmination of an overall basinwide program for the total consumptive use of the waters of the Colorado River provided for in the Colorado River compact signed by the seven States in the Colorado River Basin and the Federal Government. The first units of this basinwide plan, beginning with the Hoover Dam, all in the lower basin, have now been completed largely with Federal financial aid.

The Colorado River compact was agreed to by the seven States of the Colorado River Basin and the Federal Government in order to insure an equitable division of the water resources of the Colorado among the several States, regardless of the time of development. It was recognized that the lower basin would develop first because of the greater ease of control and diversion of the water, the need for flood control in the lower basin, the need for an All-American Canal to serve the Imperial Valley, and the proximity of large centers of population in California. During the last 33 years, the lower basin, with the help of Federal funds and the support of the upper basin States, has enjoyed practically full development.

It was also recognized at the time of the signing of the compact that the upper basin, because of its difficult topography, relative inaccessibility and the necessity for major storage for regulation, would develop much more slowly. The signers of the compact in the lower basin, however, pledged their support to upper basin development when such development was ready for construction. That time is now.

Why, then, has so much misinformation been spread about this program and why has opposition to the upper basin development been generated, largely by southern California, in the lower basin?

The explanation is simple, but first one must get a true picture of the situation.

(*a*) The Colorado River Basin is an arid region. The total flow of the river is not sufficient to meet the water needs of the area. This fact was recognized early and prompted the Colorado River compact which divided the waters of the river among the States before it was put to use.

(*b*) The Colorado River is the last major source of water available to the upper basin States (Colorado, New Mexico, Utah, Wyoming).

(*c*) More than 90 percent of the water in the Colorado River system originates in the upper basin States. No water originates in California.

The flow of the river varies widely from year to year and season to season. For example, the flow at Lee Ferry may be as low as 4 million acre-feet in 1 year, and as much as 25 million acre-feet in another year. The flow at Yuma, Ariz., may be as low as 3,000 cubic feet per second during the dry season, and as much as 300,000 acre-feet during the season of flood flows.

To utilize the entire flow of the river, the flow at the points of diversion must be made to coincide with the demand, both with respect to amount and time. To meet this requirement the river has to be regulated, that is, storage must be provided which will make it possible to hold the water during wet seasons and release it during the dry seasons. Long-time holdover storage for river regulation is necessary on the Colorado River because of the wide fluctuations in its flow. Wherever the term "regulation" is used in this discussion it means artificial storage to make the flow of the river coincide with the demand for water use.

(*d*) The Hoover Dam fully regulates the flow of the lower river. A fully regulated, safe supply is available to all water users below the dam.

(*e*) In the lower basin there are many thousands of acres of land for which there is no water within the allocation made to the lower basin by the compact.

(*f*) Water runs downhill. The value of this water resource to the upper basin is beyond measurement because it is renewable. Water is liquid gold.

(*h*) So long as the upper basin States can be prevented from using their water, the lower basin users, who are principally in California and Mexico, will enjoy the benefits from the upper basin's share of the Colorado River.

Therefore, the issue is clear. The Colorado River storage project will make it possible for the upper basin States to use their allocated share of the Colorado River. So long as this project is not built, the lower basin users, principally in California and Mexico, will be the beneficiaries of this great resource in terms of water and hydro power.

Each year that the present unused portion of the Colorado River water allocated the upper basin States is allowed to flow into the lower basin, it means a windfall of roughly $4 million a year to southern California power users, and it gives southern California and Mexico an opportunity to utilize consumptively the waters belonging to the upper basin States.

The following is a brief description of the principal features of the project and sound positive reasons why people interested in economy and sound fiscal governmental policies—a group in which I claim membership—can support the Colorado River storage project.

II. PRINCIPAL FEATURES

1. The Colorado River storage project and participating projects is a basinwide proposal which, when carried out, will provide the facilities necessary for the upper basin States to use their share of the Colorado River water. The proposed basin development is unique and difficult because of topography, distances to be covered, storage to be provided, water exchanges to be made, and power to be developed. It must be planned and built as a basinwide project. This accounts for the large authorization requested, but it must be remembered that it will take 30 to 40 years to complete the works included in this project.

2. The Colorado River storage project and participating projects provides for regulation of the river—storage of seasonal flood waters to make the river's water available for use year round in the upper basin States where 90 percent of the river's water originates.

3. The Colorado River storage project provides water for consumptive use by direct diversion or by exchange, both within and outside the Colorado River basin.

4. The Colorado River storage project provides power as a byproduct, the net revenues from which will be used to help pay the costs of the project.

5. The Colorado River storage project provides regulating and control works and conveyance channels to convey the water to the land, to municipalities, and other points of use.

6. The Colorado River storage project bill, H. R. 3383, provides for the authorization of 4 storage dams, 3 allied hydro powerplants and 11 participating projects to deliver water for use in each of the 4 States. The estimated cost of these units is about $760 million and the construction period approximately 30 years.

7. The Colorado River storage project is self-liquidating. The cost of the power and municipal water features will be repaid with interest. The cost of the irrigation features allocated to the water users will be paid back in 50 years, plus a 10-year development period, without interest. The balance of the cost allocated to irrigation will be paid back from power revenues, all within 50 years. The cost of the interest on the irrigation features during the payout period will be exceeded many times by the new income taxes which will pour into the Treasury from the new wealth created as a result of the construction of the project. After the project costs are repaid, the project powerplants will continue to pour into the United States Treasury many millions of dollars per year.

8. Historical summary of the development of the Colorado River, 1870–1954:

1870–1922

Isolated, limited small projects on tributaries, along banks of main stream and in Imperial Valley of California and Mexico—limited by uncontrolled late season flow and subject to frequent floods which would wash away the diversion works. Water rights acquired under doctrine of appropriation—i. e. "First in time is first in right."

1922

The Colorado River compact was drawn to divide the water resource of the river, prior to its being put to use. The compact provided for total ultimate consumptive use of the water resource, and equitable division of such use among upper and lower basin States and Mexico.

Total consumptive use of the water resource depends upon:

(1) Complete regulation of flow, with long-time holdover storage. Necessary to carry water available during wet years over to dry years and provides for:

(2) Storage of water for consumptive use.

(3) Power, the net revenues from which would help pay for the project.

1922–54 (lower basin)

(1) Construction of Hoover, Parker, Imperial Dams, and All-American Canal under reclamation law. Davis Dam under Mexican treaty.

(2) These provide: (*a*) Storage for regulation and power and water for consumptive use; (*b*) power revenues pay entire cost of storage for regulation and power, and help pay cost of irrigation features.

1922–54 (upper basin)

(1) Investigations to establish plan for development.

(2) Investigation completed in 1950. A feasible project was reported by United States Bureau of Reclamation, and favorably recommended by the Secretary of the Interior, the Bureau of the Budget and the President in 1954.

(3) Construction in the upper basin during the 32 years has been limited to the Colorado-Big Thompson project and a few very small, miscellaneous projects.

(4) Authorizing legislation has passed the Senate (S. 500) and is now before the House (H. R. 3383). This legislation provides for 4 dams and reservoirs to provide for river regulation, holdover storage and water for consumptive use. and 3 allied hydro powerplants for the generation of hydroelectric energy. It also provides for 11 participating projects, to convey water from points of origin to points of use.

And now may I point out some of the reasons why this project should be authorized and built.

III. JUSTIFICATION

1. The project will provide water for municipal, industrial, and agricultural needs.
2. The project will end a deplorable waste of fresh water into the sea.
3. The project will provide for holdover storage.
4. The project is well planned, based on sound engineering design, and the cost estimates and estimates of net power revenues are conservative.
5. The project is a true partnership enterprise.
6. The project is a multiple-purpose development.
7. The project produces power as a byproduct.
8. The project will provide water and power for the industrial development of the area.
9. The project is vital to national defense.
10. The project is an investment of recognized Federal interest.
11. The project users pay all operation and maintenance costs.
12. The project will benefit every section of the Nation.
13. The project will stabilize the river and protect downstream facilities.
14. The project will start the Navaho Tribe on the road to independence and self-sufficiency.
15. The project does not involve the public versus private power controversy.
16. The reimbursable project costs (99 percent of the total) will be repaid by the users of the water and power.
17. The reclamation fund provides ready cash in the Treasury to finance reclamation projects.
18. The project creates a new source of income to the Federal Treasury, not a tax burden on each State.
19. Water rights are established by compact.
20. The project construction period will be at least 25 years.
21. The project costs are reasonable.
22. The project does not add to the agricultural surplus.
23. A discussion of southern California proposals for alternate reclamation in nonarid areas.
24. The contemplated future firm power production at Hoover Dam would not be adversely affected.
25. The real issue—Who gets the water and power?
26. Partnership in reclamation.

IV. THE WATER PROJECT IS JUSTIFIED

1. The project will provide water for municipal, industrial, and agricultural needs. The climate of the Colorado River basin is semiarid to arid. The river is snow fed. It runs high during the snow melting period, and low in the late summer and winter. This project will store the water during wet years and wet seasons, and make it available during the dry years and seasons for all consumptive uses. The project will extend and stabilize the water supply and provide water for the maximum agricultural, industrial, and municipal development.

2. The project will end a deplorable waste of precious fresh water into the sea. The upper basin States are now using less than 2½ million out of 7½ million acre-feet apportioned to them by the Colorado River compact. From 4 to 5 million acre-feet annually are being wasted into the sea, or are being diverted illegally by lower basin or Mexican water users. This water flows through the turbines at Hoover Park, and Davis Dams, after which it wastes into the Gulf of Lower California. The Colorado River compact provides for total consumptive use, and after full development there should be no water reach the sea.

3. The Colorado River storage project will provide holdover storage for regulation of a wild and unruly river. Such storage, above Hoover Dam, also will improve the operation characteristics of Lake Mead, and provide increased firm power generation at any dam which may be built between Hoover and Glen Canyon. More important, the Glen Canyon Dam will extend the life of Lake Mead indefinitely, because much of the silt now building up in Lake Mead will be trapped in the Glen Canyon Reservoir. The holdover storage in the upper basin also will guarantee annual delivery to the lower basin and Mexico of the waters to which they are entitled under the compact and the Mexican Water Treaty.

4. The Colorado River storage project is well planned, based on sound engineering design, and the cost estimates and estimates of net power revenues are conservative. More than 20 years time and $10 million have been expended in engineering and economic studies. These studies were made by the Bureau of Reclamation, in cooperation with the respective States, and took into consideration the total potential basinwide development.

5. The Colorado River storage project is a true partnership enterprise: The proposed development will be carried out under the terms of the Upper Colorado River Basin compact, an interstate agreement entered into by the States of Colorado, New Mexico, Utah, and Wyoming. The irrigation water users will repay the irrigation costs up to the limit of the land and water capability, without interest. The municipal water users will repay the full cost of the municipal water features, with interest. The power facilities will be repaid, with interest, from power revenues. The costs allocated to irrigation, above the ability of the irrigators to pay, will be paid back out of power revenues. Thus all water and power users in the area concerned will participate in the repayment of the project costs.

Public benefits of great magnitude will result from this project. Recognition of these public benefits by the Federal Government is reflected in the provision of interest-free money on the unpaid balance of the construction costs allocated to irrigation. Save for contributing less than 1 percent of the total cost for such nonreimbursable benefits as flood control, the Federal Government makes no other direct contribution, even though the States involved are more than 50 percent federally owned.

The States contributed liberally to the costs of planning. The upper Colorado River Basin Compact Commission has cooperated in the planning of the project and furnished information relating to it. The project has the unanimous support of the four upper basin States, on a bipartisan basis.

6. The Colorado River storage project is a multiple-purpose development: It provides water for municipal, agricultural, and industrial purposes, and power as a byproduct. It will greatly improve the recreational and wildlife facilities of the area. It will provide for flood control by regulation and use of the water. All water uses developed in this project will be subject to the respective State water laws governing appropriation and use.

Although the initial use of the water may be agricultural, in this area of limited water supplies uses may change, with agriculture yielding to municipal or industrial demands under long-established legal priorities. The economy of the area is so closely tied together that the water- and power-users are essentially the same people. Therefore, there is no objection from the power-users to paying an extra price for their power, when they know it is going to help pay for the costs of water, which in turn, benefits agriculture, municipalities, and industry, and contributes to general economic progress in the area.

7. The Colorado River storage project produces power as a byproduct: Falling water represents energy. This energy, when converted into useful forms, becomes very valuable to man. Water is one of the few renewable resources. Therefore, power created from the energy of falling water is in great demand, because there is no recurring cost for fuel.

Hydropower is premium power, because of the ease of making the power output coincide with the demand for power. When the load goes off, the turbine gates close, and the water is put in storage. When the load comes on, the turbine gates open, and the water is drawn from storage. Such an operation is impossible with either thermal or nuclear power. Hydropower will never be put out of business by other forms of power, because of its value for peaking purposes.

The project storage dams are ideal sites for hydropower plants. These dams are necessary to the storage of water and the regulation of river flow. It is good business to utilize them also to convert the energy of falling water to power. This power, when sold at competitive rates in the intermountain area, will produce net revenues which will be used to help pay the costs of the irrigation features and thus make the entire project self-liquidating. After all costs have been repaid, these plants will still be producing power, the revenues from which will flow into the Public Treasury.

8. The Colorado River storage project will provide water and power for industrial development of the area: The upper Colorado Basin States are storehouses of raw materials. Great quantities of coal, oil, gas, oil shale, strategic minerals, nonferrous and ferrous metals, hydrocarbons, and other minerals and chemicals are found in the area. All the raw materials for chemical and fertilizer industries abound in the area. To develop these materials, water and power are required. Both will be available from this project.

It is estimated that 500,000 acre-feet of water will be required to meet the industrial needs of the area in the next 25 years. It will take at least 25 years to develop this water resource.

9. The Colorado River storage project is vital to national defense: In this age of the atomic and hydrogen bombs, most of our centralized vital industries are "sitting ducks." Many could be wiped out in a single aerial bombing or missile strike. Such industries should be dispersed.

New defense plants should not be constructed alongside old ones. When new plants to make steel, scientific instruments, machine tools, processing plants for vital materials, heavy equipment and armaments, are built, they should be widely dispersed, and some of them located in the mountains where they would be hard to find and hit. The Rocky Mountains provide such protected sites, but water and power are needed to make the sites useful. Early construction of the Colorado River storage project, to provide water and power for such industries, is amply justified on the grounds of national defense.

10. The project is an investment of recognized Federal interests: Approximately two-thirds of the total cost of the Colorado River storage project is to be repaid with revenues from power and municipal water features. These costs are fully reimbursable, with interest; hence, for this protion of the project there is no cost to the taxpayer.

The irrigation features of this project will cost approximately one-third of the total. The costs of these features are fully reimburable, but without interest. The estimated average annual cost of these features of the project is $10 million.

The Reclamation Fund, a revolving fund used to finance reclamation projects, is made up of income from the sale or lease of natural resource on the Federal lands in the public land States, including power revenues and other miscellaneous receipts. By June 30, 1954, this fund totaled $848,149,945, plus an unappropriated balance of $88,033,070. This fund is so large that currently more than half the total appropriations to reclamation, and more than all the appropriations to the irrigation features, come from this fund. In 1955 more than $20 million from the natural resources in the upper basin States (Colorado, New Mexico, Utah and Wyoming) were added to this fund.

So long as the average annual appropriation to build the irrigation features of the Colorado River storage project does not exceed the annual contribution to the reclamation fund from the upper basin States, the construction cost of this project represents an investment of all or a portion of the upper basin's share of the revolving fund which is already in the revolving fund bank. Such construction, therefore, would take no tax money out of the Federal Treasury. As far as the irrigation features are concerned, this project pays its way with direct income from water users and the upper basin States and the contribution to the Reclamation Fund, which is made up in major part from the sale or lease of natural resources held in trust by the Federal Government in the said States. The other features of the project are built all or in part with borrowed money for which interest is paid.

11. The project water users pay operation and maintenance costs: Almost all of the river and harbor and flood-control projects are not only largely nonreimbursable but the Federal Government also assumes most operation and maintenance costs. During the next 10 years, the Federal Government will spend more on operating and maintaining these water resource projects than will be required to finance the capital construction costs of the Colorado River storage project, a completely reimbursable project that will require an estimated 30 years to complete. In the case of this Colorado River project, as with all other reclamation projects, the direct beneficiaries (water and power users) pay the capital costs and also the operation and maintenance costs.

This point is not made in criticism of the flood-control and river and harbor programs, as such. I believe that sound projects under these two great programs are just as much an investment in national economic and social progress as the comparable reclamation projects. But in supporting these other programs and appreciating their value, I have been impressed that most water resource studies have recommended that all other water resource development programs be placed on the same basis as the 54-year-old reclamation program, insofar as cost-sharing by beneficiaries and payment of operation and maintenance are concerned.

In this connection. I have also been impressed that the major economic arguments against the Colorado River project have come from California, which not only has received the lion's share of the reclamation appropriations but has also received more appropriations under the general flood control program than any other State.

12. The project will benefit every section of the Nation: Every State in the Nation will benefit from the Colorado River storage project. These benefits are tangible and can be measured. They come in different ways, but the end result is the same—benefit for every area.

Expansion of trade area: Products produced in a reclamation area create new trade through transportation, processing, manufacturing, wholesaling, financing, retailing, and all other processes between production and the ultimate consumer, whether the products be uranium or apricots.

New markets: Net income resulting from reclamation projects is the source of new buying power for goods produced in other areas of the United States. A case study of the Central Valley project in California provides an excellent example of the influence of resource development on retail sales. This project alone resulted in a new market for a million pair of shoes each year, parts of which will be made in Massachusetts, New York, Pennsylvania, and Missouri; for $10 million worth of tobacco products, which will come largely from North Carolina, Virginia, Kentucky, Florida, and Pennsylvania; for 8,000 vacuum cleaners, 8,000 refrigerators, 8,000 washing machines, 8,000 radios and TV sets which will come from many States but largely from Ohio, Michigan, Illinois, Connecticut, New Jersey, New York, and Pennsylvania.

The increased purchasing power of this 1 project translates into an annual market for 15,000 new cars, some from Detroit and South Bend and other cities, but many assembled in California from parts manufactured in Michigan, Indiana, Illinois, Ohio, and Wisconsin; for hundreds of thousands of dollars worth of textiles from New England and South Atlantic States; and for thousands of tires, accessories, home appliances, office machines, and all the assorted products of the day produced in all corners of the country.

Eighty-one percent of the construction costs of the Colorado River storage project will be spent in markets outside the upper Colorado Basin, for the labor and materials with which to build the project. This means that practically every State in the Union will benefit from expenditures resulting from such construction.

13. The project will stabilize the river and protect downstream facilities: The Colorado River carries a heavy silt load which is now being deposited behind Hoover Dam. These silt deposits will ultimately fill up Lake Mead. It is estimated that the life of Hoover Dam, without upstream storage, will be less than 300 years. The construction of Glen Canyon Dam, which provides for 23 million acre-feet of silt storage, above Lee Ferry, will make the life of Hoover Dam indefinitely greater, and will also protect subsequent developments planned between Hoover Dam and Glen Canyon. The storage in Glen Canyon will make feasible power developments in the canyon between Glen Canyon and Hoover Dam. Glen Canyon, therefore, will provide the regulation for future firm power generation, at no expense to the lower basin power users. It will, in fact, be a free contribution worth many millions of dollars.

Extensive headwater holdover storage provided by the Colorado River storage project will add stability to the water supply for the lower basin during extreme drought, because such holdover storage will make it possible for the upper basin States to meet the required delivery at Lee Ferry of 75 million acre-feet each consecutive 10 years in spite of recurring dry years, when the flow at Lee Ferry drops below 7.5 million acre-feet per year.

14. The project will start the Navaho Tribe on the road to independence and self-sufficiency: The Colorado River storage project is the Navaho's major hope for the future—their opportunity to become self-supporting.

The Navahos make good farmers—when they have water. There never has been a food surplus in the Navaho Nation, but always a shortage of food. Hunger and poverty are constant specters among the Navahos. The proposed development will provide food to eat, economic stability, and opportunity for progress.

The Navahos do not ask for charity, but by authorizing the project, the people of the United States will be able to keep some of the promises made to the Navahos in the treaty of 1868.

The average cash income of the Navahos today is about $150 per person per year. The project will raise the Navaho standard of living and provide opportunities for the Navahos to earn their own way.

The project will accelerate the educational program by providing a basis for a more concentrated population.

The project is the least expensive way to provide for long-range rehabilitation of a proud and deserving people.

15. The project does not involve a public versus private power controversy: Ten private power companies serving the upper basin area appeared before the congresssional committees in support of this project. The National Association of REA Cooperatives has endorsed the project. The power from the project powerplants will be sold under the provisions of the reclamation law, which includes the preference clause. There is no Federal subsidy to power in this project. The entire cost of the power features will be repaid with interest. The power will be sold at competitive rates, expected to be about 6 mills per kilowatt-hour at the load centers. This means that the users of power in the area, who are also the water users, will help pay for the cost of the project.

16. All reimbursable costs will be repaid by the users of water and power: The Federal Government, throughout its history, has provided financial aid to public works where such public works would result in public benefits. The earliest aid was given in the improvement of rivers and harbors, ship canals, and roads. Later such aid was extended to flood control, railroads, highways, shipping, airlines, and critical industries. In most of these uses the first costs were never repaid and frequently the operation and maintenance costs were also assumed by the Federal Government. Currently the Federal Government is spending billions on water resource projects (rivers and harbors and flood control), little of which will be repaid and upon which no interest is charged.

In spite of the erroneous and misleading propaganda which has been widely disseminated, the construction costs of the Colorado River project will be 99 percent reimbursed by the water and power users of the area served. The nonreimbursable 1 percent represents a very modest appraisal of other values such as flood control and fish and wildlife protection.

Approximately two-thirds of the total cost of the project represent the investment in power and municipal water features. These costs will be repaid with interest. The one-third allocated to irrigation will be repaid without interest. This is in harmony with national policy which has been in effect for more than 50 years, because the value of the interest is the Federal Government's contribution toward the cost of the public benefits which are many, and recognition of the large percentage of public land in the reclamation States.

With the passage of the Reclamation Act in 1902, a revolving fund, called the Reclamation Fund, was established to finance reclamation projects. The major source of this revolving fund has been and still is the income from the sale of timber, public lands, and oil, gas, and mineral leases and power revenues in the public land States. This fund has been built up to nearly $1 billion, and its annual accruals are now sufficient to finance reclamation investigations and overhead, and to provide more than one-half the construction appropriations for reclamation.

Considering the multipurpose character of reclamation projects, and the fact that the power and municipal features of these projects draw interest on the unpaid balance of the construction costs, it is obvious that the interest-free money outside that in the revolving fund required to finance the irrigation features of the reclamation program is very small. The charges that the Colorado storage project will place a heavy tax burden on other States are therefore completely erroneous.

17. The project creates a new source of income to the Federal Treasury, not a tax burden upon each State: The widely disseminated charge that the Colorado River storage project will be paid for by States outside the upper Colorado River Basin is pure fiction.

The provision of interest-free money from the Federal Treasury for irrigation features of reclamation projects has been national policy for more than 50 years. This is not a subsidy. It is a form of payment for indirect benefits received by the public from the results of reclamation. These benefits are tangible and can be evaluated. During the payout period of a reclamation project, the value of these benefits greatly exceeds the cost of interest on the cost of the irrigation features.

Put in a more recognizable form, let's look at the income tax situation alone, because this revenue goes directly into the Federal Treasury.

First of all, the expenditures for construction become income, which is immediately taxable. H. R. 3383 provides for an expenditure of $760 million. Assume for the purposes of illustration, that the construction is completed in 10 years at $76 million per year. This expenditure, in one form or another, becomes taxable income. The Treasury Department estimates 20 percent is about an average income tax rate; 20 percent of $76 million equals $15,200,000. Out of the $760 million expended for construction, therefore, $152 million goes back directly into the Treasury as a new source of income to the Treasury, which would not exist if the project were not built.

A part of this new income would offset the interest on the unpaid balance during the construction period. The offset would be current, so only simple interest would be involved. The net new income into the Treasury during the assumed construction period, therefore, would equal $106,752,000.

At the beginning of the development period, the farm income would start to increase. This new farm income, which did not exist before the project was built, is taxable.

The new income taxes resulting from increased farm income, increase from 0 at the beginning of the development period to an estimated $4,947,000 annually at the end of the development period, and are assumed to remain constant during the 50-year repayment period. For a period of 24 years this new income to the Treasury annually will total less than the simple interest on the unpaid balance, but beginning with the 25th year after full development is reached, the total new income to the Treasury would exceed total simple interest, if applied to the unpaid balance of the construction costs. At the end of the payout period for the last unit of the irrigation features, the cumulative new income to the Treasury from increased income on the farm exceeds the total value of interest on the unpaid balance of the construction costs by $131,811,000.

In this analysis, no credit is given for increased State income or ad valorem taxes resulting from project construction, even though they would be considerable.

This claim for new Federal revenue from reclamation projects is not a theoretical assumption. The facts have been borne out in 50 years of reclamation activities. Typical of economic returns, exclusive of direct crop values, from reclamation projects are these from a sampling of long established reclamation projects:

Salt River Valley, Ariz.: Total cost of project, $24,631,302; cumulative Federal tax revenues attributable to project—$310,700,000 on individual incomes, and $253,100,000 corporation income tax receipts.

Yakima Project, Wash.: Total cost of project, $49,593,890; cumulative Federal tax revenues attributed to project on individual incomes, $239,600,000 and corporation income, $101,800,000.

Strawberry project, Utah: Cost, $3,348,684; current annual tax revenues attributed to project, $1,797,960 to State and local governments, and $4,432,800 to the Federal Government.

New income to the United States Treasury, regardless of the source, reduces proportionately the income taxes required or it provides additional revenue for new expenditures.

Providing interest-free Federal money for reclamation is not a subsidy (nor a taxpayer's burden) for the following reasons:

(1) No interest should be charged because the money for the irrigation costs would come out of the reclamation fund, which comes from the States involved.

(2) The project creates new wealth from which new income taxes, in excess of the value of interest, are paid.

(3) The value of interest may be considered as payment for public benefits.

18. Water rights as between the upper and lower basins are established by compact. Nothing in the pending legislation will impair these rights: The upper basin States are required not to deplete the river at Lee Ferry below 75 million acre-feet each consecutive 10-year period, and, in addition, the upper basin States must carry one-half the Mexican requirements in case of short water supply. The bill affirms these compacts as the law of the river.

19. The project construction period will be at least 25 years: If the project were authorized tomorrow, it would take 2 years to produce planned reports and

contract documents. It is estimated that to construct Glen Canyon, Flaming Gorge, Currecanti and Navaho Dams, will take more than 10 years, and that at least 15 years will be required to fill the reservoirs.

The participating projects will start to deliver water at about the eighth year after authorization, and their construction will string along for about 17 years, even without the customary delays in appropriations. The flow of appropriations will govern, but it is doubtful that more than $30 million per year, on an average, will be available for construction which suggests 25 years as the minimum construction period.

20. *The project costs are reasonable:* The Colorado River storage project is expensive, but so is virtually all water development these days. The Colorado project's costs are increased by the rough topography, large holdover storage requirements, long distances to the points of consumptive use, and the scattered arable land areas involved. The costs, however, are not excessive, because this project provides water for present and future municipal and industrial uses, as well as for agricultural uses. In addition, the reservoirs and dams which are necessary for river regulation and holdover storage are also valuable as efficient power sites.

The generation of electric power from the energy of the falling water as a byproduct of the irrigation project provides revenues which can be used to help pay the cost of the irrigation features of the project. This unique situation places the burden of repayment upon both the water and power users of the area, and no portion of the cost is passed on to those outside the area, in spite of the fact that they do receive benefits.

The per acre costs on the 11 participating projects vary from $210 on the LaBarge project in Wyoming to $794 on the central Utah project in Utah. These costs are spread over a 50-year period, after a 10-year development period, making the annual costs per acre vary from $4.20 to $16, a rather modest annual cost for a long-term water supply.

These costs are reasonable and well within the limits of net increased returns per acre, after water is made available. Fifty years experience on reclamation projects show that the cost of supplying water to the land has averaged from 2 to 3 times the market value of the land and water at the beginning of the payout period. At the end of the payout period, however, the market value of the land is 3 to 4 times the cost of supplying the water. Every acre of land proposed to be irrigated under this project will show an increased net production, after water is made available, greater than the annual repayment plus the cost of operation, maintenance, and replacement. The propaganda arguments against the per acre costs on this project are pure fiction.

Nonagricultural benefits from reclamation projects were cited in the recent Hoover Commission Task Force Report on Water and Power (vol. 1, p. 44) as follows:

"The justification for Federal interest in irrigation is not solely to provide land for farmers or to increase food supply. These new farm areas inevitably create villages and towns whose populations thrive from furnishing supplies to the farmer, marketing his crops, and from the industries which grow around these areas. The economy of eight important cities of the West had its base in irrigation—Denver, Salt Lake City, Phoenix, Spokane, Boise, El Paso, Fresno, and Yakima. Indeed these new centers of productivity send waves of economic improvement to the far borders, like a pebble thrown into a pond. Through irrigation, man has been able to build a stable civilization in an area that might otherwise have been open only to intermittent exploitation."

21. The authorization of the Colorado River storage project will have no effect on the current agricultural surpluses for the following reasons: The basic crops which are under mandatory price support or which constitute the bulk of our surpluses are: Wheat, cotton, corn, tobacco, rice, peanuts. None of these crops, except wheat and corn, is grown in the upper-basin States. Very little wheat is grown on land to be supplied with water and most of this on nonirrigated land, which, when water becomes available, will be diverted into specialty crops or alfalfa and forage, and thus reduce the wheat acreage and production. In Utah—and this is typical of the other upper-basin States—less than 7 percent of farm income is derived from the basic crops which are now under mandatory price supports. The principal crops to be grown on this new irrigated land will be fruits, vegetables, alfalfa, and forage. None of these crops is in surplus, or under mandatory price supports.

The total acreage of new land that will come into production as a result of the project will be small (132,360 acres), and the timetable of construction so long, that the surpluses will have vanished before the area comes into production. For example, elapsed time between beginning and end of construction will be at least 30 years.

It is estimated that 10 years will be required to construct the major storage and control works and the conveyance channels to the participating projects. An additional 10 to 15 years or more will be required to fill the storage dams and to build the participating projects. Experience has shown that it takes about 10 years to fully develop the irrigation practices after water is made available to the area. Therefore, although a few acres will be irrigated annually after about the tenth year after authorization, the project cannot possibly be in full production before about 30 years after authorization.

The principal crops grown in the upper basin States are fruits and vegetables and other specialty crops so important to the American diet (75 percent of the present production comes from irrigated lands in the 17 Western States), and alfalfa and forage.

The upper basin States are deficit areas in the production of livestock feeds. Most of the Nation's feeder cattle are produced in the Mountain States. To maintain the supply of feeder cattle needed to fill the feed lots of the Midwest, sufficient alfalfa and forage must be produced to carry the intermountain area livestock through the winter. As of December 7, 1955, 17 counties in Utah and Wyoming were on drought relief. The upper basin States will remain deficit feed areas until water is made available so that more alfalfa and forage can be produced. The United States Department of Agriculture reports that drought assistance and relief through the loan and feed programs amounted to over $20 million in 1953–54 and over $14 million in 1954–55.

Population is growing at a staggering rate. Estimates for 1975 population vary from 200 to 250 million people in the United States. The President's Materials Policy Commission Report in June 1952 says that the United States will need 40 percent more agricultural production in 1975 than in 1950. The commodity estimated to be in greatest demand by 1975 is livestock—a 49.4 percent increase in total consumption of meat is forecast, and a 41.6 percent increase in beef. Livestock feed and feeder cattle will control the supply, and the new demand will be built up before the Colorado River project can be put into production. A 6 percent increase in vegetables for processing is forecast, and a 37.2 percent increase in fruits other than citrus. The total demand for cereal crops also will be up—wheat only 23 percent—but not to the same degree.

The demands for food and fiber projected by the USDA and the President's Materials Policy Commission cannot be met in the next 20 years. For example, the USDA says we will need 35 million new acres by 1962 to produce the feed necessary to maintain the current per capita meat consumption of 156 pounds. About 17 million of this can be obtained by shifting acreage from wheat and cotton to livestock feed. A part of the balance can be obtained from increased peracre production, but such increases are definitely leveling off. Projecting the period to 1975, when the population will be in excess of 200 million, we will need in excess of 100 million acres of new land in production. Actually, the acreage requirement by 1975 will be greater than 100 million, because each year approximately 1 million acres of farmland are taken out of production for highways, airports, urban development, military, or public buildings. This will amount to 20 million acres by 1975. Erosion and alkali will take out additional acres.

It is not unreasonable to assume that by 1970, when the bulk of the land in the Colorado River storage project starts to come into production, that this country will need the equivalent of 100 million acres of new land. The USDA estimates probably 20 million could be obtained by draining and clearing land in the humid and subhumid areas; hence 10 million additional acres will have to be found elsewhere. This is about the equivalent of 6 million acres of irrigated land, and that is about all the irrigable land left in the 17 Western States.

The Colorado River storage project, as proposed in H. R. 3383, will bring into production 132,360 acres by 1980. The need by then will be 6 million irrigated acres. Therefore, the land brought into production by the Colorado River storage project can have absolutely no effect on the current agricultural surplus. The total new area to be irrigated would be only 0.027 of 1 percent of the total cropped land in the United States and would be used primarily to grow fruit, vegetables, alfalfa, and forage crops, all of which will be in great demand by 1975.

The Colorado River compact apportioned, for beneficial consumptive use, 7.5 million acre-feet of water per year to the upper Colorado River Basin. Of this, more than 5 million acre-feet per year are now unused in the upper basin and without holdover storage in the upper basin these waters flow downhill to become available to the lower basin and Mexico. In both these lower-basin areas the physical facilities are available for the control, diversion, and use of the entire flow of the river. Failure to use the 5 million acre-feet in the upper basin makes it available to the lower basin for the production of cotton, which is now in surplus. Cotton acreage in the lower basin and Mexico has increased greatly, because of the availability to these areas of unused upper-basin water. Here is what has happened during the past year, 1955. Cotton quotas were reduced in California. Cotton growers moved over into Mexico, and, using upper-basin water, produced in 1955 nearly 500,000 bales of cotton.

The acreage in California taken out of cotton was used to grow alfalfa seed, which soon flooded the market and threatens the domestic alfalfa-seed industry. Water belonging to the upper-basin States and not used now in the upper basin is being utilized to produce crops which increase the crop surpluses.

The Colorado River storage project will make water and power available for industrial and municipal development as well as for agriculture. The Colorado River Basin is a storehouse of raw materials. Development of these resources will provide jobs, homes, create new wealth, and add new income-tax pipelines to the Treasury. It is not unreasonable to believe that the increased population resulting from this project will consume more agricultural crops than it produces and this will create new markets for such crops from other areas.

The farm surplus is a current and temporary situation. This country will soon outgrow it. It is inevitable with the rapidly growing population. This country must project its food and fiber needs into the future. It cannot afford to live only in the present with no concern for the future, when it takes so long to develop a dependable food and fiber supply. A few years ago, during the war, there was a shortage of food. Everyone remembers it. The people in the West remember the drought of 1934. Another year like 1934 would wipe out the present food surplus.

The United States has become the greatest Nation on earth because it invested in the future—in the promotion of transportation, communication, agriculture, industry, even to the extent of providing cash grants. It planned for the future. We must continue to look ahead, and 25 years is not too long a forward look. In 25 years we will need all the food the Colorado River storage project can produce, and it will take about that long to bring the land into production. The project must be built beginning now. It cannot possibly add to the current surplus. It is even doubtful that it can meet the increased food demand by the time it is in full production.

22. The reclamation fund: With the passage of the Reclamation Act in 1902, a revolving fund was established to finance the reclamation projects. This fund is known as the reclamation fund. This fund is supported by proceeds from the sale of public lands and timber, and was later augmented by a percentage of the oil, gas, and mineral leases and revenues from the repayment of construction costs of projects to develop the natural resources of the public-lands States.

The Hayden-O'Mahoney amendment to the reclamation law in 1938 provided that all revenues from reclamation projects should be deposited in the reclamation fund, an earmarked fund in the Treasury. In fiscal year 1955, more than one-half the total money appropriated for reclamation projects (irrigation and power) came from the reclamation fund.

Up to June 30, 1954, $936,183,015 had been paid into the reclamation fund. Of this total, $848,149,945 had been expended on reclamation projects, leaving a balance in the fund of $88,033,070 on June 30, 1954.

Up to June 30, 1954, the States of Wyoming, Colorado, Utah, and New Mexico had put into the reclamation fund $178,456,067.

During 1954, these same States, out of public-land resources, put into the reclamation fund approximately $20 million. This is more than enough to have paid interest on the unpaid balance of the cost of the irrigation features of all reclamation projects in those States, including the Colorado River storage project, if its construction had been initiated during that year.

When all the States, except the public-land States of the West, were admitted to the Union, they retained all their land and mineral resources. These resources were developed as taxable private enterprises, or as sources of State revenue. In the western reclamation States, more than half the land and most of the oil and mineral resources on it were kept by the Federal Government. Under these conditions it is no more than right that the proceeds from these Federal resources in the upper-basin States should be used to offset the interest on the money advanced by the Federal Government to build the irrigation features of reclamation projects.

23. A discussion of the southern California proposals for alternate land reclamation in nonarid areas: Wet lands of South, East, and Midwest can be drained and cleared. It is estimated that perhaps as much as 21 million acres might be reclaimed by such action.

The soils for the most part are shallow and infertile from centuries of leaching by heavy rains. Heavy applications of fertilizers will be required annually. These annual costs plus the first cost of reclamation greatly exceed the cost of reclamation by irrigation.

Except for limited areas, the cropping pattern will be limited to a few crops, most of which are in surplus.

If these lands had been attractive for reclamation at the very low costs as claimed by the southern California groups opposing upper Colorado River development, why haven't they been reclaimed before, during the period of agricultural shortages and high prices for agricultural products?

Within 15 years this country will need to have every available acre of productive agricultural land in production including the total irrigable area in the 17 Western States.

Every year the highway, airfield, and urban expansion is taking out of production more available land than is being brought into production. It is reported by the Soil Conservation Service that these withdrawals amount to more than 1 million acres per year. In the 4 upper Colorado River Basin States, 160,000 acres of cropland are diverted to other uses every year.

24. Current power production at Hoover Dam: The contracts for power were based on a rate sufficient to repay the entire cost of the dam and power facilities in 50 years. Power which was considered to be firm and available at all times, regardless of development in the upper basin, is under contract at the rate of 1.34 mills per kilowatt-hour. Power, which is to be available only so long as upper basin is not using its water, is secondary or dump power, and the rate for this power is 0.33 mills per kilowatt-hour.

So long as the upper basin is kept from using its water, the secondary power at Hoover is just as good as firm power, and the southern California users get it for the secondary rate and sell it as though it were firm power. The value of this power, being made with water apportioned to the upper-basin States, amounts to approximately $4 million per year. This is an outright gift to the southern California power users at the expense of the upper-basin States.

From 5 million to 10 million acre-feet of water per year is now going into the sea from the Colorado River. This water is being used to generate power for the primary benefit of California.

With the completion of construction of Glen Canyon and Flaming Gorge Dams, this water which is now wasting into the sea will be used to fill those reservoirs, and later for consumptive uses in the upper basin.

The loss of this power source is one of the main reasons for California's opposition to the Colorado River storage project, in spite of the fact that California signed the Colorado River compact and agreed to a division of the waters of the Colorado River. Planned reductions of firm power to the lower basin as a result of expected upper-basin water diversions are plainly provided for in Hoover Dam power contracts.

25. The real issue—who gets the water and the power: There is not sufficient water in the Colorado River to supply all the agricultural, industrial, and domestic needs of the area.

After all the water of the Colorado River is consumptively used, there will still be thousands of acres of thirsty lands, raw materials undeveloped, and living space unoccupied by people because of lack of water.

To provide for an equitable division of this water resource among the States of the basin, a compact, dividing the use of the water among them, was drawn, signed by each State and the United States.

This compact divided the use of the water between the upper and lower basin, the first 15 million acre-feet equally.

The lower basin (California, Arizona, and Nevada) developed first with the support of the other States and the use of money from the Federal Treasury.

Storage reservoirs, powerplants, control structures, and conveyance channels have now been built, largely under the reclamation law, sufficient to control, divert, and convey all the water of the river.

There are more than 2 million dry acres in the Colorado River Basin of Mexico and 500,000 acres in the Imperial Valley of California waiting for water to make them productive. It would take more water to irrigate these lands than the entire allotment to the upper basin.

An insatiable power market exists in the southern California area sufficient to use all the power that can be generated with all the water in the Colorado River system.

The lower river is completely regulated by the Hoover Dam.

Water runs downhill. If by any means the upper basin States can be kept from using their water, this water will run downhill and southern California and Mexico will get it.

This water resource is literally worth billions of dollars. It is not surprising, therefore, that the southern California opposition is willing to spend hundreds of thousands of dollars to keep the people in the upper basin from utilizing their allocated water.

There is only one issue to this controversy: Who gets the water and the power allocated by compact to the upper basin States?

Failure to authorize this project by this Congress will lend the support of this body to the consummation of the "steal of the century," whereby one Commonwealth, which has become prosperous and powerful as a result of water and power made available through Federal aid from a common river source which was divided by compact, now uses that strength and economic wealth to take, by indirection, that portion of the river resource apportioned to the upper basin by a valid contract which that Commonwealth signed.

26. *Partnership in reclamation:* The reclamation partnership program joins good land and good water with good people. This combination creates new fertile acres, new wealth which will produce food and fiber in perpetuity. In one sense, a nation is only as strong and enduring as its food supply. In another and more important sense, no nation can be strong unless there exists a deep spirituality among its citizens.

Fulfilling the commandment God gave in the beginning "to multiply and replenish the earth and subdue it" is one of the best ways to develop those spiritual forces every nation must have to endure. The good earth is man's best friend. In Proverbs, it is declared, "Where there is no vision, the people perish." The subduing of the earth requires imagination—vision. Let us have that same vision that inspired the Dutch, who reclaim land from the ocean itself, to live their creed that "A nation that lives, builds for the future."

Senator WATKINS. That goes into practically everything you have said, and it will show that you are entirely mistaken, Senator, with all due respect to you as a great scholar and a very lovable man.

I also want to place in the record at this point, in my 10 minutes, the construction costs, allocations, and acreages, Colorado River storage project, and participating projects, prepared and showing, for instance, on the new lands, 132,360 acres, supplemental water supply, 233,930 acres, at an average cost of $491. Those are based on the testimony and the estimates and the reports of the finest engineers in the world, the Bureau of Reclamation engineers, who are sought all over the world to help plan projects.

I ask that that be placed in the record at this point, as well.

Chairman DOUGLAS. Yes.

(The document referred to is as follows:)

THE FACTS ABOUT COSTS—THE COLORADO RIVER STORAGE PROJECT

(Published by Upper Colorado River Grass Roots, Inc., a four-State citizens committee, Box 1512, Grand Junction, Colo.)

DISTORTION NO. 1. OPPONENTS ARE DISTORTING THE TRUTH WHEN THEY SAY THE PROJECT WILL COST FROM $4 BILLION TO $15 BILLION

TOTAL COST—$742 MILLION

The project calls for a series of dams and participating projects on the Colorado River and its tributaries. This is a comprehensive program with all projects considered as a unit.

Here is the cost breakdown on the major dams authorized in H. R. 3383:

Glen Canyon	$379,143,000
Flaming Gorge	57,785,000
Navaho	32,933,000
Total	469,861,000
Other projects (11)	272,089,300
Total	741,950,300

Since this is a comprehensive development which will be constructed as the needs and the economic conditions of the Nation justify, the construction costs will be spread over a period of at least 20 years.

At the present time less than 50 percent of the reclamation budget is financed from the general fund. Most of the money comes from the reclamation fund which receives a portion of the revenues from Federal lands in the Western States. Since 1920 Colorado, New Mexico, Utah, and Wyoming have supported the Federal Treasury with more than $336 million from public lands within their borders.

These costs are accurate.

They show the project is financially feasible.

The project repays its cost directly.

Distortion No. 2. Opponents Maliciously Charge the Project Will Add to the Taxpayers' Burden

COSTS WILL BE REPAID

The project is not a "giveaway." It is a carefully planned business enterprise which will provide the West with needed water and power at the lowest possible cost. Revenues from water and power sales will be used to repay the Government for the original cost of construction. After the costs have been entirely repaid, all revenues will go directly into the Federal Treasury.

The taxpayers actually will profit because in addition to providing future revenues, the project will pay 2½ percent interest on all Federal money advanced to pay for power and municipal water facilities. This amounts to $498,545,000, or 67 percent of the cost of the entire project as provided in the original bill.

Here is a breakdown on the costs:

Power facilities	$457,595,000
(To be repaid in 50 years with 2½ percent interest.)	
Municipal and industrial facilities	40,950,000
(To be repaid in 50 years with 2½ percent interest.)	
Irrigation facilities	231,070,300
(To be repaid in 50 years.)	
Miscellaneous nonreimbursable	7,385,000
(Includes recreation, flood control, fish and wildlife features.)	
Total	[1] 741,950,300

[1] Includes $4,950,000 allocable to purposes of the ultimate phase of central Utah project.

Not included is the very real indirect benefit to be enjoyed by local and Federal governments of a vastly greater tax yield from the developed area, both in added income and increased property taxes.

Thus it can be seen that the project will pay for itself, with interest and eventual profit to the Government.

Distortion No. 3. Opponents Falsely State Benefits Would Be Small and Would Help Only a Few

NEW WEALTH WOULD BE PRODUCED

The project would provide for the orderly development of a vast section of our country fabulously rich in natural resources: uranium, oil, oil shale, natural gas, coal, iron, vanadium, phosphates, and other strategic materials.

Development of this area would provide new jobs, new markets, new opportunities over a long period of time, stimulating the Nation's economy. The end result would be to make the country stronger, richer and more beautiful. Benefits would extend to every corner of the Nation.

The basic question is this: Are we going to plan for the orderly growth of this large section of our Nation, or are we going to restrict its future to its present limits, with continued waste of the rich water and material resources?

Reclamation projects have built the modern West by providing needed water and power on a self-liquidating basis, by helping the residents to help themselves. The Colorado project is in keeping with this progressive policy. It is based upon a sound financial repayment plan; it is needed to prevent continued waste.

Federal tax revenues alone created by reclamation accumulative in 1953 are 25 percent greater than the entire cost of reclamation in our Nation to date.

The cumulative total crop values on all reclamation projects up to 1953 is nearly $10 billion. Reclamation creates wealth which continues to pour tax revenues into the public treasury long after the total cost of the project has been repaid.

Distortion No. 4. Opponents Misinform the People When They Say Only One Area Would Benefit

THE WEST AND THE NATION WILL BENEFIT

Every State in the Nation benefits from projects such as the Colorado River storage project. Much needed water is the catalyst that stimulates our entire national economy.

New income from reclamation projects is an important source of new buying power for goods produced in other areas of the United States. New buying power means a new market for shoes from Massachusetts, New York, Pennsylvania, and Missouri; for tobacco and cotton from North Carolina, Virginia, Kentucky, Florida, and Texas; for household appliances from Ohio, Michigan, Illinois, Connecticut, New Jersey, New York, and Pennsylvania; for automobiles and farm machinery from Michigan, Indiana, Illinois, Ohio, California, and Wisconsin, to name a few.

Reclamation development enlarges the tax base and creates new sources of revenue. A comprehensive analysis shows that tax benefits to the Federal Treasury from the Colorado River project will greatly exceed all interest costs, proving again that this is a sound investment which will reap rich returns for the entire Nation.

Water and power will provide strategic materials for national security. In the event of a military necessity a mountain stronghold, fortified with essential resources, would be available.

Eighty-one percent of the construction costs of the Colorado River storage project will be spent in markets outside the upper Colorado River Basin. This means every State in the Nation will benefit immediately from necessary labor and materials for construction.

The Colorado River storage project provides these benefits—and it pays for itself.

Distortion No. 5. Opponents Seek To Confuse the Congress With Fantastic Attacks on the Project Plans Such as the Recent Unwarranted and Unfounded Attack on Glen Canyon Dam

THE COLORADO RIVER STORAGE PROJECT HAS BEEN CAREFULLY AND THOROUGHLY PLANNED

"The comprehensive basin plan for developing the land and water resources of the upper Colorado River Basin is the direct result of many years of thorough investigation by the Bureau of Reclamation in cooperation with the States of the upper basin, and with other Federal agencies and departments of Government."—Report 1087, House Committee on Interior and Insular Affairs.

Methodical and thorough investigations have been made of historical, geographical, physical, climatic, and economic conditions. Particularly extensive geological explorations have been made of dam and reservoir sites.

It is significant that the Bureau of Reclamation which has planned this project has an international reputation as one of the greatest engineering organizations in the world. Just recently the American Society of Civil Engineers, in a 3-year search for the 7 modern engineering wonders of the United States, has named the Grand Coulee Dam and the Hoover Dam as 2 of these wonders. The Bureau of Reclamation was the only organization to have two projects so honored.

CONSTRUCTION COSTS, ALLOCATIONS AND ACREAGES
COLORADO RIVER STORAGE PROJECT AND PARTICIPATING PROJECTS
(As provided by H R 3383 As Amended by House Committee on Interior and Insular Affairs)

PROJECT will save water now going to waste and will benefit many through power, municipal water, and irrigation uses—NOT just a few people as opponents falsely say.

PROJECT	STATE	[3] BENEFIT COST RATIO	CONSTRUCTION COSTS: TOTAL	NONREIMBURSABLE	Reimbursable Allocations: POWER	MUNICIPAL WATER	IRRIGATION	[7] Repayment of Reimbursable Costs: BY WATER USERS	BY POWER	Lands to be Irrigated: NEW	SUPPLEMENTAL	TOTAL LAND	AVERAGE COST PER ACRE SERVED	% OF ALLOC. PAID BY PROJECT REVENUE
STORAGE UNITS:														
Authorized for Construction:														
Glen Canyon	Ariz.-Utah		379,143,000		363,122,000		16,021,000		379,143,000					
Flaming Gorge	Utah-Wyo.		57,785,000		52,444,000		5,341,000		57,785,000					
Navajo Dam	New Mexico		32,933,000	1,168,000			31,765,000		31,765,000					
Total Storage Units Authorized			469,861,000	1,168,000	415,566,000		53,127,000		468,693,000					
Authorized Subject to Report to Congress and President														
Curecanti	Colorado													
PARTICIPATING PROJECTS:														
Authorized Subject to Supplemental Reports:														
LaBarge	Wyoming	2.3 — 1	1,506,000				1,506,000	495,000	1,011,000	7,970		7,970	189	33
Seedskadee	Wyoming	1.6 — 1	20,944,800				20,944,800	4,785,000	16,159,800	60,720		60,720	345	23
Lyman	Wyoming	1.1 — 1	9,507,600				9,507,600	2,255,000	7,252,600		40,600	40,600	234	24
Silt	Colorado	1.8 — 1	3,020,400	66,200			2,954,200	1,020,000	1,934,200	1,900	5,400	7,300	405	34
Smith Fork	Colorado	1.4 — 1	3,030,300	21,600			3,008,700	1,045,000	1,963,700	2,270	8,160	10,430	288	35
Paonia	Colorado	1.7 — 1	4,418,100	137,200			4,280,900	2,414,000	1,866,900	2,210	14,830	17,040	371	38
Florida	Colorado	1.5 — 1	6,247,400	394,000			5,853,400	1,711,500	4,141,900	6,300	12,650	18,950	309	29
Pine River Extension	Colo.-N. Mex.	2.4 — 1	4,524,300				4,524,300	2,045,000	2,479,300	15,150		15,150	299	45
Emery County	Utah	1.5 — 1	8,879,000	206,000			8,673,000	3,715,000	4,958,000	3,630	20,450	24,080	360	43
Central Utah	Utah	1.4 — 1	[4] 207,939,600	5,392,000	42,029,000	40,950,000	114,618,600	[1] 56,141,000	[2] 141,456,600	28,540	131,840	160,380	[6] 715	65
Hammond	New Mexico	3.0 — 1	2,071,800				2,071,800	370,000	1,701,800	3,670		3,670	565	18
Total Participating Projects Authorized			272,089,300	6,217,000	42,029,000	40,950,000	177,943,300	75,996,500	184,925,800	132,360	233,930	366,290		
Weighted Average													491	42
[5] **Total Projects Authorized by H.R. 3383**			741,950,300	7,385,000	457,595,000	40,950,000	231,070,300	75,996,500	653,618,800	132,360	233,930	366,290		

Total Cost of Project
$742 MILLION
NOT $4 Billion to $15 Billion as opponents falsely say.

SUPPLEMENTAL WATER will be available to help farmer-owners of 233,930 acres now inadequately supplied.

42% of total costs will be paid by direct beneficiaries. Remaining 58% will be paid from Project power revenues.

1 Includes $15,191,000 in irrigation revenues and $40,950,000 from municipal and industrial water users.

2 Includes $32,508,000 of excess power revenues from the Central Utah Project power plants accruing during the irrigation repayment periods of this project.

3 "Benefit-cost ratio" is an analysis of benefits of the project in relation to total costs. In all projects, benefits far exceed total cost.

4 Includes $4,950,000 allocable to purposes of the ultimate phase of Central Utah Project.

5 Cost of Curecanti not included because it is subject to additional planning and investigations.

6 Including Indian lands cost per acre served is $564.

7 Costs allocated to power and municipal water are repaid with interest, including interest during construction.

Reimbursable:
$734,565,300
Total Cost:
$741,950,300
= 99%

PROJECT PAYS FOR ITSELF — 99%
and will NOT add to taxpayers' burden as opponents falsely say.

Cost of Project is $491 per acre, not $4,000 as opponents falsely tell you.

WATER for 132,360 new acres of land under Project from 1963-1982 . . . these acres will be an infinitesimal part of new crop land needed to support increasing population.

F-6603 2-56
1M

Facts on What It Will Do...COLORADO RIVER STORAGE PROJECT...Figures on What It Will Cost.

While these two dams have received the acclaim of the world, they are but the means to an end. The real contribution of the Bureau of Reclamation is the development of the resources of the Nation. Their skill has provided facilities to supply irrigation water to 7.2 million acres of land which annually produces crops valued at $865 million.

The Glen Canyon Dam near the Utah-Arizona border has been subjected to the most exhaustive investigations ever given a storage project—by the same organization that designed and built Hoover Dam and Grand Coulee Dam.

Men of wisdom, with a knowledge of the facts, say "the storage units and participating projects, herein recommended for authorization, together comprise a sound and feasible development from both an engineering and economic standpoint."—Report 1087, House Committee on Interior and Insular Affairs.

Chairman DOUGLAS. You have come well prepared this morning.

Senator WATKINS. Sir, I had to be prepared on it. I have been in reclamation since I was a boy 12 years of age, and I have grown up with it, and I know something of the value of land and water.

I would say to the Senator and to this committee that when you talk about the short growing season up in the higher altitudes, you are talking about areas that do not require nearly as much water per acre to produce a crop of hay or some oats or barley—it requires the same amount to produce a ton of hay up there as it does in the lower areas. You go into the Imperiad Valley, the Coachella Valley and those other areas in southern California, and you truly can grow crops the year round, but you have to have so much water to produce each ton; the more the tonnage, the more water used.

It does not require any more water per ton up in the upper regions, in the higher altitudes, than it does down in southern California. And we do have a lot of range country there that has to have a crop harvested from it, and the only way it can be done is through livestock, and in order to have livestock we must have fodder; we must have hay; we must have some small grains like barley and oats and other things to carry these livestock through the hard winters.

That area furnishes the feeder stock to the Middle West, for Illinois and for Nebraska, Iowa, and Minnesota and other States in the so-called Corn Belt. That is where they get their main supply from.

The cost per acre that you were mentioning here happens to be on 1 small project or 2 small projects in Wyoming. It is not an overall average. In my State, we will grow fruits and vegetables, the finest in the world, from the use of that water. We will actually take wheat out of production from the dry farms and put water on that dry farm area, which then can produce other things that are not in surplus.

We will not increase the surpluses whatsoever of the basic crops on this operation in the upper Colorado storage.

Now, what I have put in the record covers a splendid, I believe, summary of the whole thing. It answers everything you have said, Senator, and I think we can go on from now until the rest of your term, and I do not think you will be able to answer them.

Chairman DOUGLAS. I will answer it immediately.

Senator WATKINS. All right, sir. You go ahead. It will be a snap judgment, just like we have been getting on this Colorado project. And I say that with all due deference to you, Senator.

Chairman DOUGLAS. Yes, sir.

Senator WATKINS. We have never really gotten into the basics on this program to see actually what happens under it. We intend to pay every dollar back. The same people who buy the water buy the power. And we do not care how you bill it, whether you bill it as water and power or just bill it as construction costs. And in these dams we are talking about that you claim are so wasteful, we shall produce power, for instance, at Flaming Gorge—we also will have water stored there to make it possible for us to get water for domestic use, for industrial use, agricultural use—and municipal, I think I mentioned. All of those purposes are included. It is not just strictly agriculture.

As a matter of fact, we never can become a great agricultural State because of the fact that we do not have enough water. We have plenty of land but not enough water. But we have the greatest storehouse of mineral resources probably in the whole United States right in that upper Colorado Basin area, and we will use power and we will use water. The power is not any good to us without the water.

In these dams, Glen Canyon and every one of these dams, we have to store water in order to make our commitments down stream and have water from our own use. The river has to be regulated. The water comes by way of snow, and it melts in a month or two, and we have to store it and hold it over as long as maybe 20 years in order to have a regular supply of water.

All of those things are not fully understood. And when it comes to bringing in new lands, I just want to read you a section from a letter from the Chief of the Army Engineers, or the Assistant Chief, General Itschner, dated November 1, 1955. I asked him about some of these matters and how much land is actually brought in through flood control under the Army engineers. He said:

> This factor applied to the lands affected by the flood-control program which are suited to farming, and which have been, or will be, given from "goods" to "full" protection (25 million acres), gave a new land equivalent of over 8 million acres.

And all the reclamation program from the beginning of time until now, the last 50 years and over 50 years, has only brought in about 7 million acres.

Secretary McKAY. That is right.

Senator WATKINS. We have actually had new acreage added by the flood-control program. It made it possible to have that new acreage, and the farmers there have not had to pay anything for it. It has been absolutely free, as you know.

Chairman DOUGLAS. I am very glad that——

Senator WATKINS. So when it come to increasing the surpluses and bringing in new lands, we are pikers, compared with the other programs. And we pay for it all. Ninety-nine percent of this is completely reimbursable, two-thirds with interest and only one-third of it without interest.

But the same people who buy the power and water will ultimately pay for the whole project costs. And that is more than can be said about the flood control projects of the United States, that run into billions.

Now, I ask also to have this letter from General Itschner placed as part of the record.

I thank you very much for a little more than 10 minutes.

Chairman DOUGLAS. That is all right.

(The letter above-referred to is as follows:)

DEPARTMENT OF THE ARMY,
OFFICE OF THE CHIEF OF ENGINEERS,
Washington 25, D. C., November 1, 1955.

Hon. ARTHUR V. WATKINS,
United States Senate,
Washington, D. C.

DEAR SENATOR WATKINS: Reference made to your letter of October 14, 1955, requesting certain data on the effect of the civil works program of the Corps of Engineers on agricultural productive capacity, and to our interim reply of October 18, 1955. You refer to a statement in part 1, volume 3, of the 1951 Annual Report of the Chief of Engineers that the improvement in agricultural production made possible, or to be made possible, by the Federal flood-control program, is equivalent to the reclamation of 8 million acres of land, and ask for a breakdown of that figure by States and by individual projects. You also ask for similar data applicable to the navigation program.

The agricultural effect of the Federal flood-control program is discussed in section 9 of appendix F of volume 3 of the 1951 report, starting on page 364. It was estimated that the entire program, as of June 30, 1950, provided or would provide varying degrees of flood protection for about 43.6 million acres of rural land, of which about 34 million acres, or 78 percent, received "good" or "full" protection. Of this 43.6 million acres, about 32 million were classed as suitable for farming. Applying the factor of 78 percent to the land suitable for farming resulted in a figure of about 25 million acres as the area on which agricultural production would be increased due to the flood protection afforded, or to be afforded, by the authorized program. It was estimated that when 3 acres are given at least a "good" degree of flood protection there results, on the average, an increase in productive capacity equal to that produced by 1 acre of new land. This factor applied to the lands affected by the flood-control program which are suited to farming, and which have been, or will be, given from "good" to "full" protection (25 million acres), gave a new land equivalent of over 8 million acres.

The report on the civil works program published in volume 3 of the 1951 annual report was prepared in response to a request from the chairman of the Special Subcommittee To Study Civil Works, of the Committee on Public Works of the House of Representatives. Due to the scope of the report, program information presented therein was necessarily limited to summary data which were collected from our various field offices, according to major river basins or regions. Detailed project data and State summaries, such as you request on the agricultural effect of the flood-control program, were not developed and are currently not available. Further, as indicated above, the "new land equivalent" of 8 million acres was developed through application of a factor representing averages and was not based on detailed analyses of all the individual projects comprising the flood-control program.

A considerable part of the increase in productive capacity represented by the 8-million-acre equivalent is attributable to multiple-purpose projects authorized by flood-control legislation. However, the information at hand does not distinguish between the effects of multiple-purpose and single-purpose projects.

You request similar information on the effect of the Federal navigation program. Such information is not available. It can be said, however, that the effect of this program on agricultural productive capacity would be relatively small.

A review of the above-mentioned appendix F will make it clear that the entire increase in productive capacity dealt with therein is attributable to flood protection. None of it would come about as a result of irrigating the lands protected.

I regret that all of the information you requested is not available. I trust, however, that the above, in conjunction with the information set out in appendix F, will be helpful.

Sincerely yours,

E. C. ITSCHNER,
Brigadier General, USA, Assistant Chief of Engineers for Civil Works.

Mr. ENSLEY. You have 2 minutes.

Senator WATKINS. I have 2 minutes?

Mr. Secretary, do you disagree with what I have just been saying?

Secretary MCKAY. I agree wholeheartedly.

Senator WATKINS. You agree wholeheartedly?

Secretary McKAY. Yes, sir.

Senator WATKINS. I have no further questions.

Chairman DOUGLAS. May I say, I am very glad that at last the Army engineers have put on paper the private boast which they have made from time to time, that they have redeemed more land and put more land into cultivation than has the Bureau of Reclamation. I have heard about these statements, but I have never been able to nail them down in print before. And I want to congratulate the Senator from Utah for getting this statement from the Army engineers.

It is a matter of public record, as the Senator from Utah will remember, that I have consistently advocated that part of these flood-control projects instituted by the Army engineers should be paid for by special assessment levied against the owners of the property thus reclaimed, at least half the cost.

Senator WATKINS. I congratulated you on that, and you explained to me that you did not go the full distance; only 50 percent.

Chairman DOUGLAS. Well, if I can get the 50 percent, that will be a lot. I do not know whether the Senator voted with me on that. I was not able to get a rollcall on the measure. He may have stood up with me. But I was almost alone when I stood up on that measure.

Senator WATKINS. I have a bill in now, Senator, that would require them to pay on the same basis that Reclamation has to pay. And I have not found any support anywhere yet.

Chairman DOUGLAS. I will support a bill to provide payments by local groups. I will support that.

Senator WATKIN. Thank you. I have one convert, at least.

Chairman DOUGLAS. I quite agree on that.

Senator WATKINS. I think you are right.

Chairman DOUGLAS. And that is why I said that I think that the Secretary is on the right track in requiring local participation in these matters, and I think these conservancy districts afford a legal means for assessing against property.

Two wrongs do not make a right.

But now to come back to this upper Colorado business, I would like to have placed in the record essential figures to prove the wastefulness of the upper Colorado project which I prepared, both from statements which I have made myself and from official reports. I can say that it is admitted that 132,000 acres will be brought into cultivation, and if this is used for pasturage, it will certainly produce more cattle.

(The matter above referred to is as follows:)

Cost per acre of irrigation projects in the upper Colorado

Project	New land irrigated (acres)	Supplemental land (acres)		Total acres irrigated (2 plus 3)	Total acres irrigated equivalent new land (2 plus 4)	Construction costs allocated to irrigation (hearings, p. 187)	Average project cost per acre (hearings, p. 187)	Cost per acre on equivalent new land acre basis
		Actual	New land equivalent					
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1. LaBarge	7,970			7,970	7,970	$1,673,300	$210	$210
2. Seedskadee	60,720			60,720	60,720	23,272,000	383	383
3. Lyman		40,600	13,533	40,600	13,533	10,564,000	260	780
4. Silt	1,900	5,400	1,800	7,300	3,700	3,282,400	450	887
5. Smith Fork	2,270	8,160	2,720	10,430	4,990	3,343,000	321	670
6. Paonia	2,210	14,830	4,943	17,040	7,153	6,791,600	398	949
7. Florida	6,300	12,650	4,217	18,950	10,517	6,503,600	343	618
8. Pine River project extension	15,150			15,150	15,150	5,027,000	332	332
9. Emory County	3,630	20,450	6,817	24,080	10,447	9,636,500	400	922
10. Central Utah	28,540	131,840	43,947	160,380	72,487	127,354,000	794	1,757
11. Hammond	3,670			3,670	3,670	2,302,000	627	627
12. Gooseberry		16,400	5,467	16,400	5,467	5,727,500	349	1,047
Total	132,360	250,330	83,444	382,690	215,804	205,476,900	537	952

Cost per acre, including interest

La Barge	$210×$1.25= $262.50+ $210= $472.50
Seedskadee	383× 1.25= 478.75+ 383= 861.75
Lyman	780× 1.25= 975.00+ 780=1,755.00
Silt	887× 1.25=1,108.75+ 887=1,995.75
Smith Fork	670× 1.25= 837.50+ 670=1,507.50
Paonia	949× 1.25=1,186.25+ 949=2,135.25
Florida	618× 1.25= 872.50+ 618=1,490.50
Pine River project extension	332× 1.25= 415.00+ 332= 747.00
Emery County	922× 1.25=1,152.50+ 922=2,074.50
Central Utah	1,757× 1.25=2,196.25+1,757=3,953.25
Hammond	627× 1.25= 783.75+ 627=1,410.75
Gooseberry	1,047× 1.25=1,308.75+1,047=2,355.75
Total	952× 1.25=1,190.00+ 952=2,142.00

Chief crops on upper Colorado irrigation project

Project	Acres	Chief crops
La Barge project, Wyoming (hearings, p. 59)	7,970 new; no supplemental	Hay, pasture, small grain, dairy cows, and sheep. Project lands would generally be utilized for support of livestock enterprises.
Seedskadee project, Wyoming (hearings, p. 61)	60,720 new; no supplemental	Hay, pasture, and small grain, dairy cows, and sheep. With project development, the irrigated lands would be utilized primarily for the support of livestock enterprises, particularly dairy cows and sheep.
Lyman project, Wyoming (hearings, p. 62)	40,600 supplemental; no new	Hay, pasture, small grain, dairy cows, and beef cattle. Only grasses for hay and pasture, alfalfa, and some small grains can be produced to any extent because of short growing season.
Silt project, Colorado (hearings, p. 65)	1,900 new; 5,400 supplemental	Alafalfa, small grains, sugar beets, potatoes, dairy cows, and beef cattle. Would increase with late season water.
Smith Fork project, Colorado (hearings, p. 68)	2,270 new; 8,160 supplemental	Alfalfa, pasture, grains, dairy cows, and beef stock.
Paonia project, Colorado (hearings, p. 70)	2,210 new; 14,830 supplemental	Alfalfa, grain, apples, peaches, dairy cows, and beef cattle.
Florida project, Colorado (hearings, p. 72)	New: 900 Indian; 5,400 non-Indian; supplemental: 100 Indians; 12,550 non-Indian.	Alfalfa, grain, dairy cows, beef cattle, largely livestock, some beans, potatoes, and fruits.
Pine River project, Colorado and New Mexico (hearings, p. 75).	New: 14,520 Colorado; 630, New Mexico	Utilized largely for support of livestock.
Emery County project, Utah (hearings, p. 72)	3,630 new; 20,450 supplemental	Livestock, some small farming, 90 percent of area produce hay and grain for livestock.
Central Utah project, Utah (hearings, p. 78)	28,540 new; 131,840 supplemental	Alfalfa, grain, fruit, vegetables, sugar beets, beef cattle, and sheep.
Hammond project, New Mexico (hearings, p. 85)	3,670 new	Alfalfa, corn, beans, barley, dairy cows, and sheep.
Eden project, Wyoming (hearings, p. 87)	10,660 new; 9,540 supplemental	Hay, pasture, dairy cows, and beef.
Curecanti project, Colorado (hearings, p. 88)	Power unit	
Gooseberry project, Utah (hearings, p. 91)	16,400 supplemental	95 percent alfalfa, pasture.
Navaho project (hearings, p. 95)	137,250 new Indian land	Alfalfa, grain, pasture, some fruit and vetegables.
San Juan-Chama project, New Mexico (hearings, p. 96)	225,000 supplemental	Municipal and industrial use.

SUMMARY

Projects reported	16
Stated as being for livestock only—alfalfa, pasture, etc	8
Stated as being for livestock with some vegetable and fruit production	7
Stated as power unit	1

Source: Senate hearings.

Senator WATKINS. The Secretary did not say pasturage alone. The testimony shows, as I brought out in the hearings, that it is not only for pasturage, but in the high valleys like Wyoming, when you get up to elevations around 6,000 feet or 8,500, of course, you have mostly pasturage.

Chairman DOUGLAS. It would be primarily for pasturage. And you on the floor of the Senate said that it was going to be primarily for pasturage.

I have just placed in the record an exhibit which was prepared from the hearings, and from the testimony of E. O. Larson, regional director, Bureau of Reclamation, region 4, on the chief crops, and in every case it was pasturage or hay and alfalfa.

Well, now, this will directly result, of course, in the production of more cattle, which in turn will mean production of more dairy products and more beef, and we are having some trouble in the Middle West, a great deal of trouble, with prices of these products.

So you cannot tell me that 132,000 acres of new land brought into cultivation will not increase the so-called farm surplus at the same time that we are creating a soil bank to take 40 million acres out of cultivation.

In addition to that, 250,000 more acres will receive supplemental water, I have checked the various authorities and they say that that supplemental water would make 1 acre equivalent to an acre and one-third, that is, the supplemental water will create the equivalent of about a third of an acre. So that will be roughly the equivalent of 83,000 new acres added, or a total of something around 216,000 acres.

Now, there was allocated to irrigation $205 million, and this is on page 187 of the Senate hearings. The cost per acre on equivalent new land basis is, therefore, an average of $952, and I again call attention to the cost of central Utah, of $1,757 per acre.

Now, this is interest free. If you add in interest—and I would——

Senator WATKINS. I think you are dead wrong on that. That just cannot be right.

Chairman DOUGLAS. It is well known that the Government cost of borrowing is at least 2½ percent for 50 years.

Senator WATKINS. But this $1,750 an acre for central Utah is wrong.

Chairman DOUGLAS. The figures are from those provided by the Bureau of Reclamation itself and contained in the Senate hearing. For 50 years, that would be 125 percent of the principal, leaving out the compound interest, leaving out the question of interest being compounded, and leaving out the construction period.

Now, that raises the cost to an average of $2,142, and in central Utah, $3,953.

Now, this I want to say is unjustifiable.

Senator WATKINS. If the figures are as you say they are, Senator, they are unjustifiable. But those are not accurate at all.

Chairman DOOGLAS. Well, they are accurate, they are from the Senate hearings and I will have produced the references to indicate that they are accurate.

Senator WATKINS. All right. When shall we debate this further? I would be glad to.

Chairman DOUGLAS. We had better not debate it now, because we want to go to lunch.

Senator WATKINS. I think I can show from the record and the evidence that that is not the case.

Chairman DOUGLAS. We will take this before public opinion.

Senator WATKINS. That sounds like California water lobby statistics.

Chairman DOUGLAS. Now, I resent that. I resent that.

Senator WATKINS. I said, it sounds like those statistics.

Chairman DOUGLAS. No. It is not their statistics. I have nothing to do with the California lobby. I have never owned a single foot of land in California. I have no financial interest in California, no emotional attachment to the lower valley as compared to the upper valley, but I am interested in the country.

Senator WATKINS. I am, too.

Chairman DOUGLAS. And I do not want to see the taxpayers' money wasted, and I know that we in the Middle West have been bled white by the Mountain States for years in the subsidies which they get, in one form or another, and I think I am permitted to defend the interests, not only of the country but of my region.

Senator WATKINS. But what about the 8 million acres under the flood-control program that have been getting subsidies? They do not even pay the principal back, let alone the interest.

Chairman DOUGLAS. What is that?

Senator WATKINS. I just showed you, from the Army engineers.

Chairman DOUGLAS. I agree on that. I think that most of them will be found to be in the lower Mississippi. I am with you on that.

Senator WATKINS. Yes, but——

Chairman DOUGLAS. I am not trying to defend it.

Senator WATKINS. If we have been bleeding you white, what is happening when you get 8 million acres of farmland classified as usable, without any payments back, not a dime?

Chairman DOUGLAS. Well, the lower Mississippi joined together with the Mountain States. You support them on the river projects, and they support you on your irrigation and reclamation projects. And the two of you whipsaw the Middle West and the eastern seaboard. And we are just dumb enough to let you do it.

Someday I hope there is a revolt, and that these conquered provinces will assert themselves.

Senator WATKINS. I have not overlooked the fact—you have, however—that somehow or other we are paying immense subsidies to some farmers that live out in the Middle West. They want price supports on all the farm products we have to buy from them. We have to buy corn and we have to buy a lot of other crops from the Middle West. Somebody is subsidizing those producers. At least, Mr. Benson is being accused of subsidizing them through the acts of Congress which he has to carry out.

Chairman DOUGLAS. Congressman Curtis ought to have a chance.

Representative CURTIS. I have been very interested. I have not made up my mind on the Colorado River project.

Senator WATKINS. Stay around a while, and you will have your mind made up.

Representative CURTIS. Mr. Chairman, I would like to ask one question, or direct the Secretary's attention to some data that the staff furnished me in regard to the subject of the increase of kilowatt capacity in the country.

This is table I from the Business Plans for Capital Spending in 1956, prepared by McGraw-Hill. It says, "For release November 11, 1955." And on table I, headed, "Business plans for capital spending in 1956," they have it by an industry breakdown, and they have electric and gas utilities, and it shows the actual expenditure for capital spending in 1954 of—it is in terms of millions of dollars—$4,219 million; and in 1955, $4,445 million; and planned in 1956, $4,001 million, which shows a decline of around 10 percent in the estimated capital expenditures in the electric and gas utility field.

Now I appreciate that could be in the distributive area, because that is included. But it also might reflect what is happening in the kilowatt capacity.

And I would like to call your attention to that, and if you can in your figures give us what anticipated expenditures there are in the kilowatt capacity area of capital expenditure, because I am looking to establish—if it is, I want to know the situation—whether we are actually increasing our kilowatt capacity.

Secretary McKAY. You want both the capacity in money, or just the kilowatt capacity?

Representative CURTIS. I think both would be helpful, because, of course, if we get more efficient, we could get more kilowatt capacity for less money. So the dollar sign is a very important aspect of it.

Secretary McKAY. We will see what we can dig up on that.

Representative CURTIS. Yes. You know what I am trying to get at. I think the trend is up——

Secretary McKAY. I think so.

Representative CURTIS. As you have suggested. But I want to be sure that whatever economic statistics we have, verify that.

Thank you.

Secretary McKAY. We will produce that, sir, the best we can.

(The information referred to appears at p. 722.)

Chairman DOUGLAS. Thank you, Mr. Secretary.

(The letter of the Credit Union National Association, Inc., referred to at the beginning of this day's session, is as follows:)

CREDIT UNION NATIONAL ASSOCIATION, INC.,
Madison 1, Wis., *February 16, 1956.*

Hon. PAUL H. DOUGLAS,
Chairman, Joint Committee on the Economic Report,
Senate Office Building,
Washington 25, D. C.

MY DEAR SENATOR DOUGLAS: The President's proposal in his economic report, transmitted to the Congress on January 24, 1956, that "* * * consideration should be given to restoring the Government's power to regulate the terms of consumer installment credit" is a matter of special concern to the credit union movement, for whom I speak as manager of the Washington office of the Credit Union National Association. I speak directly for the 14,721 credit unions in the United States that are members of our international organization and their close to 7 million individual members. In this instance I am confident that I speak, in fact, for all 16,923 United States credit unions, which have more than 8 million members.

Credit unions are groups of people who unite in cooperative organizations to pool their savings and use those savings to make each other low-cost loans.

I note that specifically the President is suggesting that a study be made of the problem of consumer credit as it relates to the objective of increasing the stability of our expanding economy. We, of course, would welcome any such study, and would give those making the study full cooperation. We would hope, however, and urge that equal attention be given other phases of our economic processes. And frankly, the testimony of our experience and thought would be strongly opposed to consumer credit controls, under any circumstances that we can foresee.

The credit union movement has been consistently opposed to selective consumer credit controls, because we are convinced that they do not really control the volume of consumer credit to any substantial degree, either in war or in peace, and that they do work a selective hardship on groups least able to bear such hardship.

I shall leave the consideration of general consumer credit control theory to those participating in the hearings on the President's recommendations, and merely indicate our agreement with those who feel there are no substantial benefits to be gained by selective consumer credit controls. I shall address my attention to certain considerations which involve credit unions particularly.

1. Credit union loans are made to the credit union's own members, from funds accumulated by the members. A few credit unions do borrow some bank money to meet a part of their members' loan demand, but this totals very little, and, in fact, for the movement as a whole, members' cash savings exceed members' loans by some $400 million. In other words, credit unions are primarily thrift organizations, and their program as a whole does not involve new money and is not inflationary. To the contrary it tends to stabilize the economy, since it builds up a backlog of potential credit which will be available in times of emergency. And it keeps a constant turnover of members' savings flowing through the banking system.

2. On the other hand, credit union members are drawn from the middle and lower income groups, and credit unions, because of their nonprofit and mutual nature, are particularly able to understand and evaluate and serve the special needs and circumstances of those of their members who apply for loans. Since each application represents a very personal and unique set of needs and circumstances, we have found in our own administrative thinking that we should circumscribe the individual credit committees with as few arbitrary rules as possible. Without question selective consumer credit controls work many individual hardships, which in the final analysis affects the health of the local and the national economy, without, as we have said, any substantial compensating benefits.

3. It should be stressed, too, that consumer credit really cannot be isolated from the other resources of the individual. As we say again and again, thrift is the wise use of one's resources, which includes one's credit. If that concept were more generally understood and subscribed to, almost all of our concern about the effect of consumer credit would be unnecessary. Credit unions do understand this, and they do subscribe to it. For example, if a man needs an operation and feels a special desire to buy a TV set to help him while away the hours of his convalescence (admittedly he is rationalizing here to a degree), and he has only enough cash to pay for either the operation or the TV set, which purpose does he use his cash for, and which purpose does he use his credit for? To really control consumer credit we would have to propose many fewer exceptions than were made in the past, if we allowed any exceptions at all, and I suppose all of us would agree that that would impose intolerable hardships.

4. I think it needs to be said also that selective consumer credit controls do put a premium on honesty, and do put the honest borrower and lending agency at a decided disadvantage. This is of course a common circumstance in all our daily affairs, but it should not be aggrevated by unnecessary and undesirable regulations. I am moved to say further that this point is of particular concern to credit unions. For while I do not by any means claim that we have a monopoly on virtue, the record will show that during the periods of past consumer credit regulation, credit unions as a rule leaned over backward to obey the spirit as well as the letter of the regulation. Certainly no credit union was charged with failure to comply, and we found many cases where credit unions restricted their service beyond the intent of the regulation, because of their sincere desire to

comply. This is not surprising in view of the social and spiritual basis of the credit union program, which is respected by credit union people to a marvelous extent, although not without exception, of course.

For these reasons, the credit union movement is particularly opposed to selective consumer credit controls, and urges the adoption of other answers to problems which appear to call for such controls.

Sincerely yours,

HUBERT M. RHODES,
Manager, Washington Office.

Chairman DOUGLAS. I wish to insert also in the record at this point a summary of business forecasts for 1956, prepared by the Federal Reserve Bank of Richmond, in January 1956.

(The document referred to is as follows:)

Summary of Business Forecasts for 1956 [1]

This summary of forecasts of business activity in 1956 was compiled in order to present a reference file of representative opinions. Publication of this file does not imply acceptance of or agreement with any of the forecasts.

Forecaster and Date	Summary	Gross National Product	Personal Consumption	Business Outlays	Government Expenditures	Personal Income	Housing	Production (FRB Index)	Employment	Prices (BLS Index)
The Guaranty Survey October 1955	"...there still seems...some capacity for further expansion at a pace over and above 'normal' growth...activity will probably continue to move moderately upward for a few more months..."	Might reach $400 bil. before end of 1956.	Rising debt in 1955 may have reduced 1956's sales.						Ceiling may be reached.	Full employment may produce inflationary pressures.
Grover W. Ensley Joint Committee on Economic Report The Com. & Fin. Chronicle October 20, 1955	"On balance, present indications point to a continued economic expansion...into 1956. But there are hazards which could cause a temporary economic adjustment or pause next year before growth is resumed."	Should average $400 bil. in 1956.	Modest drop in durable goods sales, especially autos.	Investment in plant and equipment is strong factor; inventory accumulation cannot last.	Total up $2 billion, mainly in State and local.	Higher wages and greater employment will increase incomes.	Construction probably will level off.			
Roy L. Reierson Bankers Trust Co. The Com. & Fin. Chronicle October 27, 1955	"A tapering off is to be expected in the rate of economic expansion that has prevailed in the past 12 months...We now seem to be at that stage of business upturn where the dangers of excesses are becoming more acute."	"To exceed 1955."	Will continue strong; may be augmented by income tax reductions, up to $4½ bil.	Current rising trend will carry well into 1956.	Federal will remain at present levels, or rise slightly; State and local will continue upward.		Number of starts down slightly, but dollar outlays will be supported.			
Steel October 31, 1955	"In a roaring first half, most lines will 'never have had it so good'...In the second half, a dip--not enough to hurt much..."	$400 bil.	Up $2 billion; appliance sales may rise 10%.	Up, to $30 billion.		$313 billion.	1.2 million starts.	141 average.	Will reach new highs.	Up 2-3%.
F. W. Dodge Survey of 201 Economists November 1955	"With a high degree of unanimity...economists polled...look upon the coming year as one of increased economic activity... However...the major production indicators...will reach a peak at the middle of 1956 and taper off slightly toward the end of the year."	Median forecast, 2nd quarter: $393 billion; 4th quarter: $392 billion.	Median forecast, $255 billion, up 3% from 1st half, 1955.	Median forecast, $29.0 billion.		"Overwhelmingly upward."	Under 1.2 million starts for the year; drop in 2nd half.	143 at mid-1956; drop to 142 by December.		Consumer Price Index up to 157; Wholesale up to 112.0.
Arthur R. Upgren Dartmouth College The Com. & Fin. Chronicle November 3, 1955	Economic activity in all sectors except auto production will increase and push GNP to a new high.	Will go above $400 billion mark.	All sectors will grow.	Spending for construction and equipment will advance.	State and local rising; Federal will rise due to agriculture support for large crops.	Wage and salary increases indicate higher disposable income for six months and perhaps a year.	No decline in expenditures.	Decline in auto production will not be large.		

Forecaster and Date	Summary	Gross National Product	Personal Consumption	Business Outlays	Government Expenditures	Personal Income	Housing	Production (FRB Index)	Employment	Prices (BLS Index)
Bennett S. Chapple, Jr. United States Steel Corp. The Com. & Fin. Chronicle November 3, 1955	"...our forecast calls for a continuation of this year's upsurge in production and demand...at a slower rate during the next six months...and the upward curve (may) flatten out completely during the second half."	$400 bil.; 10% higher than 1953 peak.	Larger share will go for soft goods and services.	More for new plant and equipment and inventories.		Will increase; also savings.	Will decline somewhat.	Consumer durables down.		
Dexter M. Keezer McGraw-Hill Publishing Co. The Com. & Fin. Chronicle November 10, 1955	"...the most compelling reason for expecting some business letdown...is that the economy will be about due for a breather after having maintained a terrific pace..."	Will pass $400 bil. mark by July, but will not go much higher.	Increase in retail sales will be modest.	Inventories will have a neutral effect; total outlays will increase.	Public works spending up $1.5 billion.		Annual rate of 1.2 mil. starts.			
National Securities and Research Corp. December 1955	"Prospective increases in the demand for goods and services by consumers, business and government point to a further expansion of GNP in 1956."	$406 bil. annual total.	Up $9 bil., to $262.5 bil. total.	Plant and equip. up $5.1 bil.; inventories up $3.3 bil.	Federal up $1 billion; State and local up $2.5 billion.	Total and disposable up about 6%.		Will average 143 for the year.	Will total 64.3 mil.; unemployment about 2.7 mil.	Consumer and wholesale both up slightly from 1955 average.
Gerhard Colm National Planning Assn. Looking Ahead December 1955	"...the outlook for 1956 is for further expansion though at a reduced rate--but there is no ground for being complacent about the future."		Purchase of autos and other durables will taper off at a high rate.	Inventory accumulation will continue; capacity will expand.	Total up $3 to $4 billion; surplus in Federal budget.	Some further rise in wage rates; rate of saving will rise.	Sales not likely to rise above 1955 levels; suburban trend still strong.			
Walter E. Hoadley, Jr. Armstrong Cork Co. The Com. & Fin. Chronicle December 1, 1955	"...there is good reason now to anticipate that general business will reach a crest within the next 6-12 months... Very likely some leveling will occur by mid-1956."		Leveling of consumer credit as repayment of debt increases. No major decline in autos.	Inventory accumulation will continue well through 1956.	Expansion in defense, farm support, public works, education expenditures. Possible tax cut late in session.	Higher disposable income due to somewhat lower taxes.	Expansion in "fix-up" will help offset possible slight drop in number of new dwellings.			Will advance rather noticeably in 1st half; average above present levels.
National Industrial Conference Board Forum of Economists December 1, 1955	"...the year 1956...will yield the highest economic activity... ever known. However, the direction of many of the...economic indicators may be either neutral or down toward the close of 1956."	$400-405 billion in 1st half; $405-410 in 2nd half.	Durable goods sales down; nondurable goods up considerably.	Inventory accumulation will continue.	Increase in State and local of $400-500 mil. each quarter; Federal tax relief possible.	Wage increases at least in 1st half.	Starts down 10%, but units will be larger and more expensive.		2.5 million unemployed in 1st half; down to 2.3-2.4 million in 2nd half.	Wholesale Price Index up 1.5 points; Consumer Price Index should be steady but might rise .5 point.

[1] Federal Reserve Bank of Richmond, January 1956.

Forecaster and Date	Summary	Gross National Product	Personal Consumption	Business Outlays	Government Expenditures	Personal Income	Housing	Production (FRB Index)	Employment	Prices (BLS Index)
Gordon W. McKinley Prudential Ins. Co. *The American Banker* December 5, 1955	"The nation's economy will establish another new high in 1956..."	Will reach a rate of $410 bil.	Increase of $11 billion in consumer spending.	Capital spending up $3 billion; current rate of inventory accumulation will continue.	Federal may drop $1 bil.; State and local up $2 billion.	Up more than $13 billion; wage and salary sector up 5½%.	Starts will drop to about 1,150,000 but spending will remain at current levels.		Labor force will grow at smaller rate than in 1955; unemployment may drop still further.	Increased price pressure; consumer prices may "inch" upward.
Newsweek December 12, 1955	A new record for GNP will be established in 1956, but the rate of growth will be slower than in 1955.	Should be above $400 billion; 4-6% rise for year's total.		Total up $4.5 bil.; plant and equipment up 10%.	Total up about $2.4 billion.	Up $11 bil.; savings down slightly; corporate income up $5 billion.		Average 144.	Unemployment down to 2.1 million from 2.5 million in 1955.	
Loren M. Whittington Society for Savings in the City of Cleveland December 13, 1955	Business will be a little better than in 1955, but "much depends upon the continuation of a confident attitude..."	Up 4%, or average around $400 bil.	Market in some durable goods saturated; installment credit will not increase as rapidly.	New plants up about 7%; inventory accumulation will continue.	Federal will remain around $45 billion; State and local up $2 billion.	Up 4% from 1955 average.	Down about 6%.			Consumer prices will remain unchanged.
The Cleveland Trust Company *Business Bulletin* December 16, 1955	"...the margin over 1955 will be narrowing unless the strong rate of advance during 1955 is maintained...At this writing it seems more logical to expect a leveling-off, perhaps before mid-year."	Will approach, and may exceed, rate of $400 billion in 1st quarter; total up 3-4%.	Durables down, but nondurables and services up.	Further rise in equipment expenditures; inventory accumulation through first few months only.	Federal at, or slightly above, 1955 levels; sizeable increase in State and local.	Up 3%; manufacturing wage level and fringe benefits up.	Spending on additions and alterations will not offset drop in new home construction.			Wholesale Index above 112; Consumer Price Index will "edge" upward.
Report on the Business Outlook December 29, 1955	"More business rise, at least during the first half of the year...Gains will be smaller...than the whopping increases we've had in the boom year just ending."	Up 2% from 4th quarter 1955 average, or $405 bil.	Further gain.	Capital spending up 7-10%.	Further gain.	Disposable income up 2%, or $5 billion.	Starts will drop considerably.	Up 4%, or average of 144.	Up less than 1 million; unemployment will not drop.	
Business Week December 31, 1955	"...the chances are that, before middle--perhaps as early as the end of the first quarter--the economy will reach its crest. Thereafter, the year will be one of readjustment..."	Will top $400 bil.; possibly due to rising prices.	Decline in durables, mainly appliances, only partially offset by rise in nondurables and services.	Plant and equipment up 13%; inventory accumulation will taper off.	Federal up $2 billion, mainly in 2nd half; State and local up $2 billion.	Wage rate increase of 1-7 cents an hour; possibility of tax cut.	May be difficult to attain even 1.2-mil. rate.	Index not much higher; near capacity now.		May rise slightly.

Forecaster and Date	Summary	Gross National Product	Personal Consumption	Business Outlays	Government Expenditures	Personal Income	Housing	Production (FRB Index)	Employment	Prices (BLS Index)
U. S. News & World Report December 9, 1955 and January 6, 1956	"Early in the year, business will go on booming...During spring and summer, however, all signs are that activity will slow somewhat."	Rate will be lower, with annual total of $392.9 bil. Second half may drop to $390.5 bil.	Up nearly $6 billion, with drop in durables but increase in nondurables and services.	Capital spending will reach a new high; inventory spending will drop.	Federal will "shade off," but State and local will more than offset decline.	Up $8.8 bil. to $311.4 bil. Average wage rates up 8 cents.	Home building will be major drag in drop in construction expenditures.		Unemployment up 500,000 to 3.2 mil. average.	Consumer Price Index will average 115.1.
Fortune January 1956	"...business this year will be declining...a year of re-adjustment, very mild, but noticeable...by the end of 1956 this high-level readjustment will have been completed."	Up 2%, to annual total around $398 bil.	Rise of about $2-3 billion, due to price increase.	Plant and equipment up 6% to rate of $45 billion in 4th quarter; inventory build-up will slow.	Defense spending will rise slightly; Federal budget balanced; public works spending up $1 billion.	Disposable income up $6 billion; rate of savings will peak in 2nd half, then start to ease.	Starts will total 1.2 million.	Index will drop in four months from 144 to 137, but will remain around 140 average.	Unemployment may reach 4 million, due to rising productivity and growing labor force.	Consumer Price Index up 1% or more; farm prices will level out; rises will halt after mid-1956.
A. W. Zelomek International Statistical Bureau, Inc. The Bulletin of the National Assn. of Purchasing Agents January 4, 1956	"...new highs will be recorded in 1956, despite a lower rate of activity in...automobiles and residential building."	Should average about $400 bil.	"Will be important in attaining a higher average in 1956."	Capital outlays may reach a new, all-time high. Inventory liquidation is likely later in year.	Will be maintained at about the 1955 level.	Should average higher than 1955. "...higher payrolls from increased wage rates."	Decline in new starts "may be offset by higher prices of houses."	"May approximate 142" for year.	"Sustained."	Wholesale up 3%; consumer up 1½ to 2%. "Even agricultural prices should show more stability..."
Lionel D. Edie Lionel D. Edie & Co. American Banker January 12, 1956	Capital expenditures will overcome declines in auto production and housing starts. In 1956 we will "consolidate our gains of 1955, reaching a plateau, and move on along the upper side."	Around $400 billion.	Retail sales up 5% over 1st half 1955; up 2-3% over 2nd half 1955.	Capital spending up 10-15%.	Total will be higher.	Total payroll will be higher.				
Harlow H. Curtice General Motors Corp. Journal of Commerce January 17, 1956	The current year will be one of "intense competition" in the auto industry, but 1956 "should be a record year exceeded only by 1955."	Total above $400 bil.; 4% higher than 1955.	Will continue to increase, from 4th quarter 1955 levels.	Up nearly 15%, to peak of $32 billion.	Defense and all other spending will increase somewhat.	Total and disposable will continue to rise.	Starts should exceed 1.2 million; nonresidential construction up.	Auto production down 12-13%.		

General Opinions Concerning Business Activity in 1956

United States Departments of Commerce and Labor, Construction Review, November 1955

Total expenditures for new building in 1956 are expected to total $44 billion, up 5 percent from 1955's estimated $42 billion. Private nonfarm residential building will drop about 1 percent, but nonresidential will increase 14 percent. Public construction will rise 10 percent, with little change in nonresidential, but with large increases in residential, military facilities, highways, and all other public. "Construction costs are expected to continue to rise moderately. Increased plant capacity and rising productivity will prevent all but minor or spot material shortages. * * * Good business is influencing a continuing uptrend in office building * * * including both the larger structures inside the cities, as well as the branch-type buildings in the suburbs."

V. Lewis Bassie, University of Illinois, New York Herald Tribune, and Business Week, November 1955

The gist of Bassie's position was reported as follows: The United States, after 10 years of postwar industrial expansion, is topheavy with prosperity. A drop in demand for new automobiles and residential building will cause a concurrence of downturns in inventory accumulation and capital spending cycles, and the result would be our first major postwar business recession. Gross national product could drop as much as $25 to $30 billion before 1956 is over. Government anticyclical policies can only moderate, not reverse, the decline.

Leo Barnes, Prentice-Hall, New York Herald Tribune, November 20, 1955

"All the main spending streams in the United States economy will be bigger in 1956 than in 1955. As a result, total national output will cross the magical figure of $400 billion for the first time in history some time next year. * * * Federal spending will be higher in 1956. * * * So will State and local government outlays. * * * Business spending for plant and equipment also is scheduled to jump sharply to a new peak in 1956. With spending by both Government and business up, it is next to impossible for spending by consumers to go down."

John Lintner, Harvard University, Journal of Commerce, November 22, 1955

"* * * overall business activity should continue at about present rates through the end of this year and into the early part of 1956. Business plant and equipment expenditures, other nonresidential construction, State and local outlays and inventory buying will all be strong. Credit restrictions * * * are noticeably retarding the boom, but its momentum will carry through the next few months * * * Mortgage debt and consumer credit * * * rate cannot be sustained for long * * * overall declines will probably be relatively moderate, because of the continuing strength of the underlying growth trends of the economy, the prospect of sizable tax reductions, and the assurance of a quick reversal of monetary policy as soon as the crest of the boom is clearly past."

Charles F. Broderick, Lehman Bros., The Commercial and Financial Chronicle, November 24, 1955

"To summarize these views about the short-term outlook, I believe: (1) That an inventory recession is out of the question in the immediate future. (2) That the inventory recession scheduled for second quarter, 1956, is possible but not probable. (3) That stringency of business credit well not bring the business structure tumbling down on our heads. (4) That consumer debt is not yet out of line with consumer income, though it could become so in the future. (5) that the prolonged decline in the price level of commodities other than industrial raw materials is not the signal for a general economic bust."

Richard Doherty, Television Radio Management Corporation, N. I. C. B. Economic Forum, December 1, 1955

"* * * during the first part of the year 1956, we may anticipate labor demands * * * of 15 to 20 cents an hour, with settlements at approximately 18 cents an hour * * *As far as guaranteed compensation plans are concerned, I do not see any appreciable activity during 1956 * * * We shall find that 1956 will be the foundation year for * * * union leaders to initiate a strong push for so-called protective measures against what they charge are the detrimental future results of automation * * * I don't believe that unemployment is likely to change to any particular degree, possibly by no more than 200,000. If there is a slackening in the pace * * * during the latter part of the year, it will be reflected chiefly in a reduction of the workweek * * * to 40 or 39 hours."

Nathan Koffsky, Farm Income Branch, Agricultural Marketing Service, United States Department of Agriculture, N. I. C. B. Economic Forum, December 1, 1955

"I think that you will find in the first half of the year reasonable stability in farm prices, and perhaps some improvement from the present low levels * * * for the second half of the year, the most important element in the price picture is the changes in price-support levels for major crops that are implied in present legislation * * * If the present law remains operative, a lower level of prices received by farmers will likely prevail in the second half of the year * * * For 1956, given present conditions, there will be some further reduction in farm income * * * there are further acreage restrictions on cotton, rice, and tobacco * * * It is probably unreasonable to expect again, the very high yields of cotton and tobacco that occurred in 1955. These add up to a reduction of something like 2 to 3 percent in gross income. Production expenses may be a little lower * * * But net income may be down perhaps by 5 percent."

O. Glenn Saxon, Yale University, N. I. C. B. Economic Forum, December 1, 1955

"I believe that 1956 will again be the best year in our history—with new records in gross national product, personal income, disposable income, industrial production, and consumer spending. I would expect continuing stability in both the Wholesale and Consumer Price Indexes—with prices of basic raw materials holding firm in the first half year and declining moderately in the second half, while prices of major farm products should stabilize around present levels. I do not expect the second half year to differ from the first half (after seasonal adjustment). In fact, I expect the last quarter of 1956 to be the best quarter of the year."

Bradford Smith, United States Steel Corp., N. I. C. B. Economic Forum, December 1, 1955

"We have never brought ourselves up to a peak of full employment and credit inflation on the basis of rapidly expanding credit and not suffered some kind of a readjustment * * * we are at or near the top of the boom and the next movement is a leveling off preliminary to some sort of a readjustment * * * the kind or readjustment we might be approaching would be on the model of the 1954 recession, but * * * more moderate * * * 1956 in the aggregate is to be as good or even better than 1955."

Ralph D. Paine, Jr., Fortune, New York Times, December 6, 1955

"Sometime during the year—probably about midway through it—industrial production will stop rising and slow down a bit * * * This is not a pessimistic outlook, however, for we also expect 1956 to be the best year yet—in terms of output, income, and almost everything else * * * The paradox is easily explained. Business activity has been rising very fast all through 1955. The subsequent decline will be so much smaller that, for the year as a whole, 1956 will beat out 1955 by 2 or 3 percent" * * * The economic factor that will most limit the rise in business will be debt repayment * * * "So we don't look for consumer spending to rise anywhere near as much as consumer incomes * * *."

Emerson P. Schmidt, United States Chamber of Commerce, Wall Street Journal, December 12, 1955

"The year 1956 may well be our best in history (but) * * * the rate of growth in 1956 cannot be as great as in 1955 * * * some phases of the economy will undoubtedly encounter difficulties." The current decline in agriculture "may continue through 1956 but at a reduced rate. Automobile sales and housing starts are expected to be lower in 1956 than in 1955 * * * These are the major spots that need to be observed and checked. Needed remedial action must be taken in time before serious difficulties arise."

William G. Dooly, Jr., Associated General Contractors of America, Inc., the Commercial and Financial Chronicle, December 22, 1955

"Official estimates of the United States Departments of Commerce and Labor are for a total of new construction * * * amounting to $44 billion, or 5 percent above the 1955 peak. In my opinion the estimate is on the conservative side—insofar as nonresidential construction is concerned. If residential volume continues near the high level attained this year, as has been forecast by both Government and industry sources, new construction in 1956 should exceed this year's highest achievement of $42 billion by more than 5 percent * * * A constant headache for contractors next year probably will be continuing slow deliveries of steel and cement. While both industries are adding capacity, the constant increase in the volume of construction will use up much of the added supplies."

Dwight W. Michener, Chase Manhattan Bank, the Commercial and Financial Chronicle, December 22, 1955

"* * * the momentum of business achieved in recent months seems sure to carry it through the first quarter of 1956 to a new high record * * * There is little doubt but that 1956 is going to be a good year, one comparable with our best year thus far * * * If further business improvement early in 1956 is allowed to generate excessive business enthusiasm, the boom might carry on much further and subject us to greater difficulties later on. Thus, a major question relative to 1956 is not so much 'Will we have prosperity?' as it is 'Can we stand so much prosperity?' "

Stanley Ruttenberg, A. F. of L.-C. I. O., New York Times, December 26, 1955

"* * * (1956) looks like a year of leveling off without any decline in the overall economy. I don't look for a decline but I don't look for an advance at a high enough rate to prevent a rise in unemployment. [There are] weaknesses in the economy, such as overextended credit, the declining farm income and rising profits in relation to wages and salaries." The way to assure adequate growth of the economy would be to cut taxes; set up a road, school, and hospital construction program, and help the farmers. "If we do that we might have sufficient growth to absorb the growth in the labor force."

Edwin G. Nourse, Joint Council on Economic Education, the Commercial and Financial Chronicle, December 29, 1955

"In summary, the flying-saucer characterization of 1956 seems to me to be too good to be true * * * This does not mean crash or depression * * * We should contemplate a possible drop of 15 or 20 percent. Only so shall we be prepared to meet what we may have to meet. We should not be too sure we can get away with it as 5-percenters. We should not count on the magic of 'built-in stabilizers' * * * Private adjustments must be our main reliance, merely backstopped by Government policy. Thus conceived, the disinflationary recession of 1956 can be simply 'the pause that refreshes.' "

Allen H. Temple, First National City Bank of New York, the Commercial and Financial Chronicle, January 5, 1956

"Our expansion phase, which is 1½ years old and still underway, may top off in the fairly near future. We cannot expect the rate to continue. * * * There is no longer sufficient slack available in factory capacity, materials supply, and labor supply to support continuation of the 1955 rate of increase. * * * The prospect * * * is for a long crest or inverted saucer shape * * * a slow rise to a moderately higher top and a probable sideways movement or slow decline after the top could and probably will carry so far into 1956 as to make the year on the whole a slightly bigger year than 1955. * * * The probabilities for 1956 should keep us optimistic. The dangers should keep us conservative."

Hon. Sinclair Weeks, United States Secretary of Commerce, the Commercial and Financial Chronicle, January 5, 1956

"I look forward to a good year * * * when the total figures for the entire year are in, the chances are bright that 1956 will be another record year. The economic outlook is clearly excellent for the first 6 months of 1956. As for the last half, not enough firm facts are at hand now for me to anticipate the pace of business activity. It would not be surprising if, later on, some parts of the economy experienced breathing spells as they adjust from the current extraordinary rate to a more normal rate of growth. Never underestimate the long-haul growth potential of our dynamic economy. * * * Confidence is widespread and the spending rate is high. If both people and Government act wisely, we can have another good year * * *."

First National City Bank of New York, Monthly Letter, January 1956

"At present there are no convincing signs of an early or sharp downturn in business in the aggregate, and many signs that expansion is continuing. On the other had, we cannot long maintain the 1955 rate of growth, which already has us bumping against the limits of materials, labor supply, and industrial capacity. What seems the most likely and desirable prospect is a check to the rise and a period of relative stability. * * * The chief source of strength in early 1956 will be the scheduled increase in business capital investment * * * no fresh stimulus can be expected from automobiles and housing and 1956; they are unlikely to contribute as much support to the economy as in 1955."

Marcus Nadler, New York University, the Commercial and Financial Chronicle, January 5, 1956

"The highly optimistic predictions notwithstanding, the economy will not operate at present levels for many more months. Sometime in the spring of 1956 a downturn of moderate proportions in business activity is likely to take place. Only after business begins to show signs of weakness can one expect a decrease in the demand for credit as well as a change in the credit policies of the Reserve authorities. * * * In general, money rates will follow the course of business, and since I expect a moderate decline in business activity in the spring of 1956; I also envisage a decline in interest rates, especially short-term rates."

Thomas C. Boushall, the Bank of Virginia, the Commercial and Financial Chronicle, January 19, 1956

"As we are told by able private and governmental economists, we in America could find a very satisfying development of our country if it advanced each year by some 3 percent. * * * Instead, we all seem to be frantically at work to see that it expands 10 or 12 percent. * * * The current outlook * * * promises a rate of growth far beyond the desired 3 percent for a healthy sustained growth. * * * It would be well to strengthen the thickness of the balloon's cover (our overall economy) before we blow it to a thinness unrelated to the rising internal pressure. Thus the outlook in 1956 seems to be for a race between our rapid rate of expansion and the essential thickening of our economy's overall cover * * *."

Chairman DOUGLAS. The committee will recess, to reconvene at 2 p. m. in executive session.

(By direction of the chairman, the following letter is made a part of the record:)

UNITED STATES SENATE,
COMMITTEE ON FOREIGN RELATIONS,
February 24, 1956.

Hon. PAUL DOUGLAS,
Chairman, Joint Committee on the Economic Report,
United States Senate, Washington 25, D. C.

DEAR PAUL: On February 17, Secretary of Interior McKay appeared before the Joint Committee and testified, in part, on the Hells Canyon project. I wish to submit this brief letter for inclusion in the hearings immediately following his testimony so that the unreliable statements he made before you will not appear unchallenged.

He said: "I came to Washington with an open mind on the Hells Canyon. Some of the other Governors were violently opposed to the things; but *after investigation and talked to the engineers*, who know more than I do about the thing, I was convinced that the Government high dam is a white elephant." [Emphasis added.]

This and other statements led one wire service to report that Secretary McKay said the high Hells Canyon Dam "doesn't make sense from an engineering standpoint."

These statements are in complete contradiction to Secretary McKay's earlier stated position. In early 1953 he announced that a statement of his and the Interior Department's position on Hells Canyon would be issued on May 5, 1953. That statement said: "We, therefore, find ourselves with a plan to do some very desirable things for the Northwest and we do believe the Hells Canyon project is generally feasible from an engineering viewpoint" (from Interior statement, May 5, 1953, appearing in Congressional Record for May 27, 1953, pp. 5686–5687).

Secretary McKay also stated before your committee: "There is only 1 million acre-feet storage in the 3 smaller dams whereas the big dam provides almost 4 million acre-feet; but the trick of the thing is, there is not enough water upstream to fill that reservoir of 4 million acre-feet in dry-water years, and there will be less in years to come, because there are now 75 or 80 dams upstream for consumptive use for irrigation. That is what makes Idaho's economy.

"So what is the use of spending all this money when you cannot be sure of filling up the area each year?"

On May 2, 1955, Mr. J. R. Riter, the chief development engineer of Interior's Bureau of Reclamation, testified:

"Senator NEUBERGER. Do you see any likelihood that additional upstream irrigation would cause physical depletion of the river and thus cause an inability to fill the dam?

"Mr. RITER. It would cause physical depletion of the river, but the dam and reservoir could be operated recognizing the depleted flows, so the dam could be filled" (Senate Interior Committee hearings on S. 1333, 84th Cong., 1st sess.).

On July 11, 1955, Mr. Riter testified:

"Mrs. PFOST. Mr. Riter, do you see any likelihood that additional upstream irrigation in the Snake River will interfere with the filling of the Hells Canyon Dam?

"Mr. RITER. No, ma'am, because my study of power production is based only on the water that would be flowing at Hells Canyon site *after allowing for upstream irrigation.* There is no conflict" (House of Representatives Interior Committee hearings on H. R. 4719 et al., p. 67). [Emphasis added.)

On the basis of over a year of hearings the presiding examiner of the Federal Power Commission found:

"With ample allowance for all foreseeable upstream irrigation water uses, a dependable water supply can reasonably be expected for the efficient and economic operation of the high dam project during its payout period" (finding No. 116).

And the August 4, 1955, decision of the Federal Power Commission states (p. 14):

"In this connection there was a considerable difference of opinion among the witnesses regarding the average number of additional acres to be irrigated over the next 50 years. Although some effect upon stream flow will result from the addition of new irrigable lands in the basin, *the record clearly* shows that such an effect would not be significant insofar as the power potentialities of the Hells Canyon reach of the Snake River are concerned." [Emphasis added.]

In summary, Secretary McKay's statement that the Hells Canyon Dam is not feasible from an engineering standpoint is contradicted by his own Department's statement of May 5, 1953. In addition it is contradicted by FPC testimony and findings. Further, his false claim that there would be insufficient water to fill the high dam reservoir is contradicted twice by the chief development engineer of the Bureau of Reclamation, the findings of the FPC presiding examiner, and the Federal Power Commission as well.

I will not burden the record with further comment on the Secretary's testimony. The foregoing demonstrates the unreliability and bias of the representations Secretary McKay made to the joint committee.

Sincerely,

WAYNE MORSE.

(Whereupon, at 12:40 p. m., the joint committee recessed, to reconvene in executive session at 2 p. m. the same day.)

JANUARY 1956 ECONOMIC REPORT OF THE PRESIDENT

TUESDAY, FEBRUARY 28, 1956

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

The Joint Committee met, pursuant to recess, at 10:10 a. m., in the Old Supreme Court Chamber, United States Capitol Building, Washington, D. C., Hon. Wright Patman (vice chairman) presiding.

Present: Senators Goldwater, Watkins, Flanders, O'Mahoney; Representatives Patman (vice chairman), Curtis, Wolcott, Talle.

Also present: Grover W. Ensley, executive director, and John W. Lehman, clerk.

Vice Chairman PATMAN. The committee will come to order.

Today we conclude our hearings on the 1956 Economic Report of the President.

Although we had proposed to complete our hearings earlier this month, we are nevertheless happy to have with us at this time the Hon. Ezra Taft Benson, Secretary of Agriculture. Since this committee was organized nearly 10 years ago, it has placed great emphasis on the welfare of the farm economy and the relationship of the agricultural economy to the general economy.

In achieving the objectives of the Employment Act of 1946, the hearings would not be complete, therefore, without this important session today.

We are concerned and I might say alarmed at the decline in farm income in recent years. We are most anxious to hear the Secretary, Mr. Benson.

Mr. Secretary, we are delighted to have you, sir, and you may proceed in your own way. Do you have a prepared statement?

Mr. BENSON. Thank you kindly, Mr. Patman. I do have a prepared statement. It might be in the interest of time if I went through it.

Vice Chairman PATMAN. All right, sir.

Mr. BENSON. Then I will be happy to submit to questioning.

Vice Chairman PATMAN. We will appreciate that and you may proceed in your own way.

STATEMENT OF EZRA TAFT BENSON, SECRETARY OF AGRICULTURE; ACCOMPANIED BY EARL L. BUTZ, ASSISTANT TO THE SECRETARY, ROBERT P. BEACH, ASSISTANT DEPUTY ADMINISTRATOR, OPERATIONS CSS, DON PAARLBERG, ASSISTANT TO THE SECRETARY

Mr. BENSON. Mr. Chairman and members of the committee, most people in the Nation are enjoying unprecedented prosperity. Unfortunately, this is not so for all farmers and farm people. The President's Economic Report states:

The first and most pressing problem requiring the attention of the Congress is the continued decline of agricultural incomes.

Since 1951, farm income has receded while new highs have been established in the nonfarm economy. For sound economic growth, the fruits of our amazing productivity must be widely shared. The President's program for agriculture, if adopted shortly, will substantially strengthen the opportunities for our farm people to share in the ever rising standard of living which our national capabilities provide. It will help add new vigor to sound economic growth.

THE CURRENT AGRICULTURAL SITUATION

Heavy supplies depress farm prices

The huge surplus and our high level of output levy a heavy and growing burden on our farm and ranch people. Our economists estimate that the huge surpluses reduced farm income in 1955 by the staggering sum of more than $2 billion. This is nearly 20 percent of net farm income.

Most of agriculture is staggering under the accumulation of the greatest surplus of farm commodities in the Nation's history. Further, the current level of production of some commodities it outrunning our markets at this time even at prices distinctly unfavorable to farmers. The factors which have contributed to this vast supply burden are well known: wartime price-support production patterns maintained too long for a peacetime economy; the explosive impact of rapid technological changes on farm production; and the rising agricultural output in other countries which has limited our outlets for commodities in greatest supply.

At the beginning of the current marketing year last July, Commodity Credit Corporation investment in farm commodities exceeded $7 billion—the equivalent of more than a fifth of total farm marketings in a year. On top of record stocks, carried over from previous years, farm output in 1955 reached a new high, some 3 percent larger than in 1954. Crop yields rose 9 percent from the previous record—a gain in 1 year equal to the total gain of the preceding 5 years. In addition, the hog and cattle cycles were concurrently reaching their peaks with record or near-record rates of slaughter. During the first half of 1955, prices received by farmers had been fairly stable. The average of all farm prices in June 1955 was at the same level as at the beginning of the year. But under the impact of record output, the price decline, which had been underway since 1951, was renewed. Between June and December, prices received by farmers moved down 8 percent on the average. The sharpest drop came in hogs.

In recent weeks the downtrend in prices has been arrested. According to the Department's latest report on agricultural prices, prices received by farmers in mid-January averaged slightly higher than in December. The hog market, although still low, has made a considerable recovery, especially since mid-January.

High cost structure also contributes to lower farm income

The farmer, with declining prices for the products he sells, faces a high and unyielding cost structure. Prices paid by farmers in mid-January averaged almost as high as a year earlier while prices received were down 7 percent. Further, this apparent stability in farm costs is misleading. It balances out substantial declines in prices paid for feed and feeder livestock—in many instances purchased by one farmer from another—with widespread price increases for products purchased from industry, notably motor vehicles, farm machinery, and building materials. Even for food, the persistent increases in marketing costs have kept farmers, as well as other consumers, from realizing much relief in their food bills despite declines in prices of farm products.

The net result of the tightened cost-price squeeze in agriculture was a drop of about 10 percent in farm operators' total net income in 1955. This is the aggregate for the Nation. In some regions, particularly the Northeast and the Pacific States, farm operators' net income was much the same in 1955 as in 1954. In large parts of the South, incomes were improved in 1955. The major impact of declining farm incomes came in the North Central and Mountain regions.

On a per capita basis, including the income of farm people from nonfarm sources as well as farm income, the decline from 1954 to 1955 was 6 percent. These reductions in incomes of farmers and farm people in the past year come on top of other reductions suffered in every year but one since 1947. That one year was 1951, at the height of the Korean war.

Agriculture is not prostrate and we should not forget that we have had large declines in the past. For eample, in one year, 1949, per capita income of farm people dropped 20 percent. The total decline per capita since 1951 has been 12 percent. Further, despite this reduction, the average farm person in 1955 was about as well off in terms of purchasing power as in 1949. We can point to other indicators—the low rate of farm foreclosures in 1955, the strong farm financial position, the rising trend in land values to record highs—to show that there is a high degree of stability remaining in agriculture. But farm prices and farm incomes are too low, and we must see to it that significant improvement in the farmers' economic position is brought about promptly.

Wartime incentives were continued in peacetime with the apparent hope that they would protect farm incomes. Whatever the purpose, they have obviously failed. The decline in farm income from 1951 until the harvest of the 1955 crops occurred under the old law. In fact, realized net farm income has declined every year but one from 1947 to 1954, all under the old law. That one year was 1951, during the Korean war. Only during recent months has the Agricultural Act of 1954 begun to be operative.

Consumption increasing steadily, but stocks continue to rise

The present agricultural situation, while one of deep concern, has some favorable aspects. The broad base of consumption per person has also shown a significant increase since 1951. As a Nation, we are consuming over 10 percent more food than at the time of the Korean war. This is real progress in developing peacetime uses for wartime production levels. Further, export volume of United States farm products, while still unsatisfactory in relation to our potential in world markets, has been improving materially in the last 3 years. The volume of agricultural exports dropped almost 30 percent from the fiscal year 1952 to the fiscal year 1953. Since then about half of the decline in export volume has been regained. In the current fiscal year, even with reduced demand from abroad for United States cotton, we expect an export volume in total about the same as last year.

To a substantial extent, these gains in expanding markets, particularly foreign markets, reflect vigorous programs of surplus disposal. In fiscal 1955, the Commodity Credit Corporation disposed of over $2 billion of price support commodities compared with a half billion in fiscal 1953. In the current fiscal year, we expect to dispose of 2.5 billion of surplus commodities.

Despite aggressive surplus disposal and growing consumption of farm products, production of some crops has continued out of balance with peacetime needs. For each bushel equivalent sold out of CCC stocks, approximately one and a half have replaced it. The CCC investment in inventory and in price support operations by the end of December has risen to $8.7 billion and it may well be that the statutory authority of $12 billion will need to be raised during the current session of Congress.

By the end of the current marketing year, carryover stocks of wheat are expected to exceed 1 billion bushels. While this is slightly less than at the beginning of the season, it is still more than enough to meet prospective requirements for our product in domestic and foreign markets for a full year. We expect that the cotton carryover at the end of this season will approximate 14 million bales, a new high and also more than enough for a full year's domestic and export requirements. The corn carryover will likely also exceed 1 billion bushels, and the carryover of other feed grains is expected to be a record high. Rice stocks are also at record high levels and increasing. Most of these stocks will be held by or under loan to the CCC. The exception to the rule of mounting surpluses is that stocks of food fats and oils by next fall will be less than half those of 2 years previous, reflecting a better balance in butter production and increased disposition of other fats and oils in foreign markets.

THE PRESIDENT'S FARM PROGRAM

It is clear that the onrush of technology and the productive potential of our agricultural community have outrun the capacity of existing farm programs to decisively and realistically adjust production to present market potentials. Moreover, the surplus problem has been aggravated to the extent that it will remain a barrier to price and income improvement and the effective working of present programs until significant reductions are in view. The President's program amounts to a massive attack to attain the objectives of adjusting production so as to reduce as rapidly as possible the vast surpluses and to insure that such unwieldy stocks are not built up again in the future.

THE SOIL BANK

The heart of the President's program is to adjust production and reduce stocks is the soil bank proposal. The establishment of a soil bank would be in two parts. One part—the acreage reserve—is specifically directed at the surplus crops of wheat, cotton, corn and rice. The target for this proposal is to bring about the reduction of excessive carryovers for these crops to normal levels in 3 or 4 years. Farmers would voluntarily reduce their averages of these crops below their allotments. They would place specific acres into the reserve, receiving in return as compensation, certificates which would be redeemable by the Commodity Credit Corporation. The total acreage involved in this proposal might be from 20 to 25 million acres below 1956 allotments. For the next several years, production would be reduced below consumption rates. Commodities now in Government hands could move to market. This is a temporary program to end as soon as surpluses are brought down to the size of normal carryover stocks.

This is a voluntary program. We have studies underway to determine the rate of compensation to farmers necessary to insure their participation in the acreage reserve. The payment will be generous enough to assure broad participation and effectiveness of the program.

The other phase of the soil bank is the conservation reserve. This is a long-range program. Also voluntary, it would be open to all farmers regardless of the crops they grow. The objective is to shift about 25 million acres from cropland to forage, trees, or water storage. It is designed to take some of our less productive lands out of current use and to improve them for long-range needs. In addition, some of the acres which have been diverted out of wheat and cotton into feed grains would be affected. Thus, we will be moving in on the surplus problem of feed grains caused by the acreages diverted from other surplus crops. For this part of the program, the Government would bear a fair share of the cost involved in establishing suitable cover, up to a maximum amount, that would vary by regions. Further, as the farmer reorganizes his farm along these soil conserving lines, the Government would provide certain annual payments for a period of years related to the length of time needed to establish a new use of the land.

Let me point out that both the acreage reserve and conservation reserve have a strong feature of income insurance, since these payments would be made regardless of crop yields. Also, historic acreage allotments would be protected.

Thus, the soil bank program could take out a total of 45 to 50 million acres of presently used cropland. There would be no grazing on the acreage reserve. Grazing would be prohibited on the conservation reserve for a specified period. We would be taking out as much as one-eighth of our total cropland from current use. We would expect a substantial reduction in crop output in 1956, especially output of surplus commodities, if the tools this program provides are available soon.

Let me discuss for a moment the 1957 budget expenditure estimates included in the President's budget message. You will note that the total budget expenditures for agriculture in fiscal 1957 are estimated at about the same level as in fiscal 1956 despite the inclusion of $400 million to be expended for the conservation reserve of the soil bank. You will also note that the principal offsetting factor is the reduced estimate of expenditures under price-support programs. While the CCC budget estimates were formulated before the soil bank proposals were made by the President, it may be said that they include sufficient to cover the cash outlays under the acreage reserve program. This is based on the assumption that acreage reserve payments will amount to somewhat less than the amount of price support loans that otherwise would have to be made on production from these same acres. I should

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mention that the estimate of the cost of price-support programs can be only a rough approximation at this time depending on the yields and market conditions that are realized during fiscal 1957. Under conditions of further acreage restrictions and the possibility that yields this year will not be as high as the very high yields of 1955, a substantial reduction in price support expenditures would have been anticipated in any event.

This program is designed to increase farmers' net income in 1956 both directly in terms of payments to farmers from the Government and indirectly through the easing of supply pressures on prices.

OTHER PARTS OF THE PROGRAM

The President's program consists of nine points. I have discussed the soil bank which is perhaps the most vital of all. I will mention the others briefly.

The President has proposed measures which will widen and improve surplus disposal, particularly barter opportunities and removal of restrictions on surplus movements to the Communist bloc. This will help move CCC stocks out of the front door while the soil bank reduces what comes in the back door.

Commodity programs will be strengthened to improve price-support operations for individual products, including among other actions, higher price supports for 1956 crop soybeans, cottonseed, and flaxseed, and an expanded school-milk program.

The President proposed that, if the Congress sees fit to enact it, a dollar limit on price supports should be established which will enable our family farms better to compete with huge corporate-type units.

The rural-development program already underway should be enlarged. It will open wider the doors of opportunity for both farm families with incomes of less than $1,000 a year. In brief, this program which is cooperative with other Federal agencies and many of the States, involves research, education, credit, technical assistance, employment information, and vocational training.

The Great Plains program will help promote a more stable agriculture in an area where the risks of farming are great.

The President proposed increases in research which will help us find new crops, new markets, and new uses for our agricultural abundance. A strengthened program of research and education will insure continued healthy progress in our agriculture and result in new horizons for our future.

Credit facilities will be expanded and strengthened to aid in the period of adjustment.

The gasoline tax, now paid by farmers to the Federal Government, would be refunded for purchases of gasoline used on farms.

This program, therefore, is many sided. It attacks not only the supply side of the farm problem but also expands market outlets and eases the cost-price burden in agriculture.

It is obvious that this cost-price squeeze will continue until and unless we can dispose of the surpluses which smother farm prices. But how dispose of them?

No. 1 way is to sell them at home—move the produce somehow into the domestic market in competition with current production. We know what this would do to farm prices.

The No. 2 way of getting rid of surpluses is to sell them abroad. That can be done to a certain extent, and we have been doing it. But to force our surpluses on markets abroad in excessive quantities brings justifiable objections from our allies overseas. To upset world markets and depress world prices stimulates restrictive laws and retaliatory measures against us that hurt American farmers.

No. 3 way to get rid of our surpluses is deliberately to destroy them. This cannot be tolerated; the public will not approve such waste.

There is, however, one other way, the only sound way yet devised, to get out from under the surplus burden and that is to cut down the flow of wheat, corn, and cotton into Government hands. This must be done—soon.

What the President proposed is a direct and effective attack on the surpluses themselves, an all-out operation which we should not ask the Nation to undertake more than once. In this respect it is not a new farm program; it is a means of clearing away the debris of our past programs so that our present program can go forward. This is not a program to empty warehouses so they might be filled again.

The Senate is now debating S. 3183. This bill would in general implement the administration's soil bank proposals. It would, however, also provide for a return to high rigid price supports for the basic commodities at 90 percent of parity, which the administration opposes for many important reasons.

Mandatory 90 percent of parity—

Piles up surpluses, which then depress farm prices and farm income;

Fails to protect 75 percent of our farm production;

Stimulates unneeded output;

Retards wise farm management;

Discourages sound soil conserving practices;

Results in strict production controls;

Shifts problems to other commodities through the diverted acres route;

Distorts price relationships among farm products;

Throttles consumption;

Disturbs foreign trade;

Causes Government to replace the private trade in the marketing of farm products;

Increases the cost of farm programs;

Gives least help to the small operators, who need help most;

Ignores the fact that volume is important, along with price.

If 90 percent of parity were the answer to our farm problems we would have no farm problems. Rigid price supports at 90 percent of parity have been in effect on every basic commodity from the year 1947—which was the high benchmark of farm income—until this fall's harvest. Except for the last few months, the declines in farm prices and farm income have taken place while 90 percent of parity was in effect.

With the soil bank, S. 3183 would strive to reduce our surplus. With rigid price supports at 90 percent of parity, the bill would provide the incentive for increased production and growing surplus. Both programs are costly and, so far as the effect on surplus is concerned, directly opposed to one another. It is time to decide whether we wish to move toward still greater surplus or toward a better balance of supplies and markets. This is the real issue as the Senate debates this bill.

S. 3183 would return us to the use, for four commodities, of old or new parity, whichever is higher. This feature cannot be supported on a basis of equity or economics. Of the 159 farm commodities on which parity prices are computed, 4 would get this special treatment. These four are wheat, corn, cotton, and peanuts. In terms of up-to-date supply and demand conditions—that is, modernized parity—the support levels provided by S. 3183 would be: peanuts, 107 percent; wheat, 103 percent; corn, 100 percent; cotton, 91 percent.

Other features of S. 3183 are objectionable, and should be deleted. One is a provision which would increase the level of price supports for dairy products. The dairy business is making a commendable recovery from the dark days of 1954, when huge stocks of butter filled Government warehouses. Consumption is up, Government stocks are down, and the dairy industry has launched an effective sales and promotion program. To require an increase in the level of price support would return the dairy industry to the very difficulties from which it is now escaping.

There is an opportunity to get constructive legislation for agriculture, this year, if a number of the more objectionable features of S. 3183 can be deleted. Luckily this bill is so drawn that the needful amputations can be achieved without impairing the constructive parts of the bill. The big task, of course, is to persuade the patient to undergo surgery.

How much the administration's proposals will affect farm income in 1956 is hard to judge. We have reaped the consequences of years of unfortunate policies in agriculture. We cannot correct the situation overnight. We should keep firmly in mind that this program is not a temporary alleviation of the distress in agriculture. It corrects the basic ills, and its benefits are cumulative. The program provides a long-range solution to one of the most pressing problems our economy faces.

Let us realize also that in developing a solution for the economic forces that beset the farmer in the market place, our efforts on behalf of the low-income farmer who produces little for these markets should not lag behind. If we are to solve the whole agricultural problem, we must also proceed vigorously in the President's program to help the low-income farmer who has been so long disadvantaged in participating in the Nation's progress.

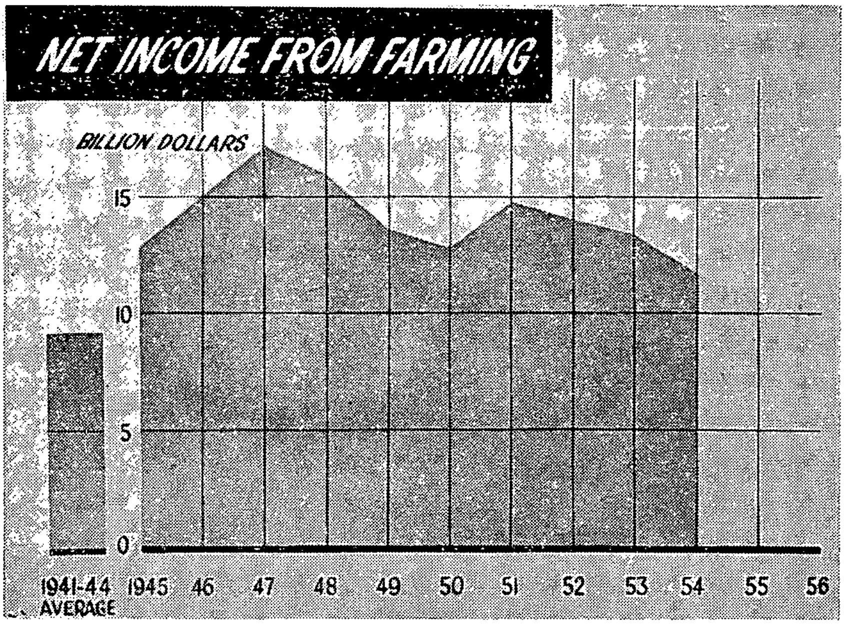
It is no less important, in this period of adjustment in agriculture, that we do what we can to ease the burden of high costs in agriculture. Rigidities in the price structure of the nonfarm economy have increased the cost of items which the farmer must purchase and reduced the share he receives of the consumer's food dollar. In a period of declining farm prices, I cannot be sympathetic with increases in prices of items such as steel and of farm machinery which have occurred in recent months. Nor can I view with detachment the current request of the railroads for a further increase in freight rates which will aggravate the cost-price squeeze on our farms. The economic forces and policies that are contributing to a higher cost structure in agriculture, and in the economy at large, are not only a distinct threat to the well-being of agriculture, but perhaps also to the stability of the economy as a whole.

Vice Chairman PATMAN. Thank you, Mr. Secretary.

I notice you have some charts and tables and, without objection, they will be inserted in the record at this point.

(The charts are as follows:)

EXHIBIT A



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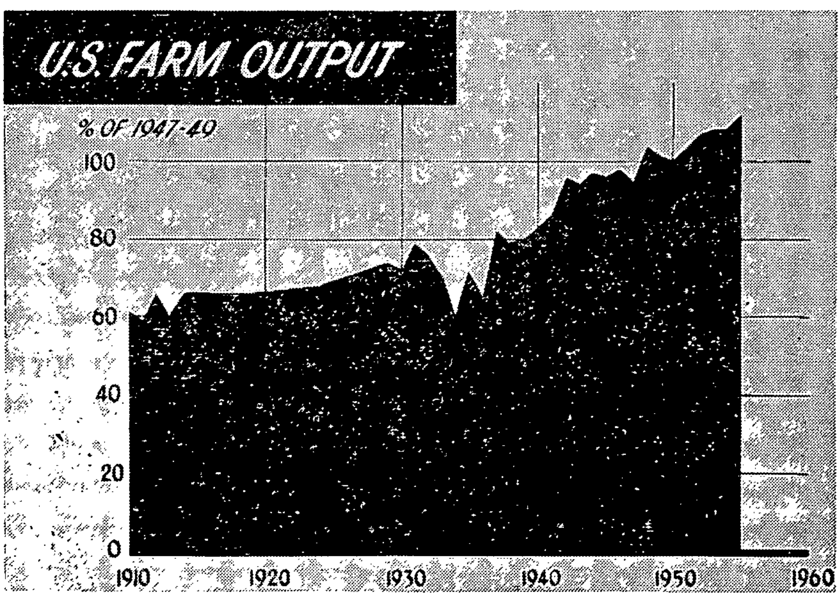

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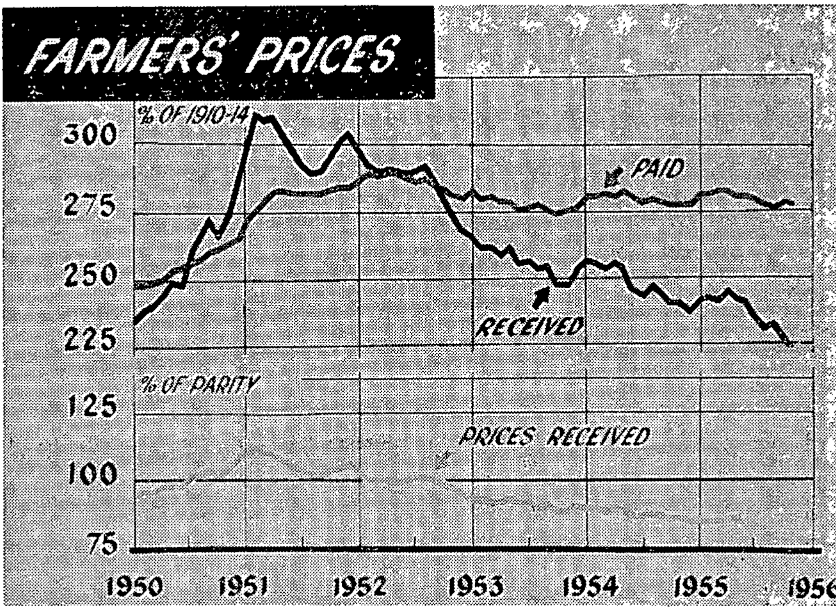

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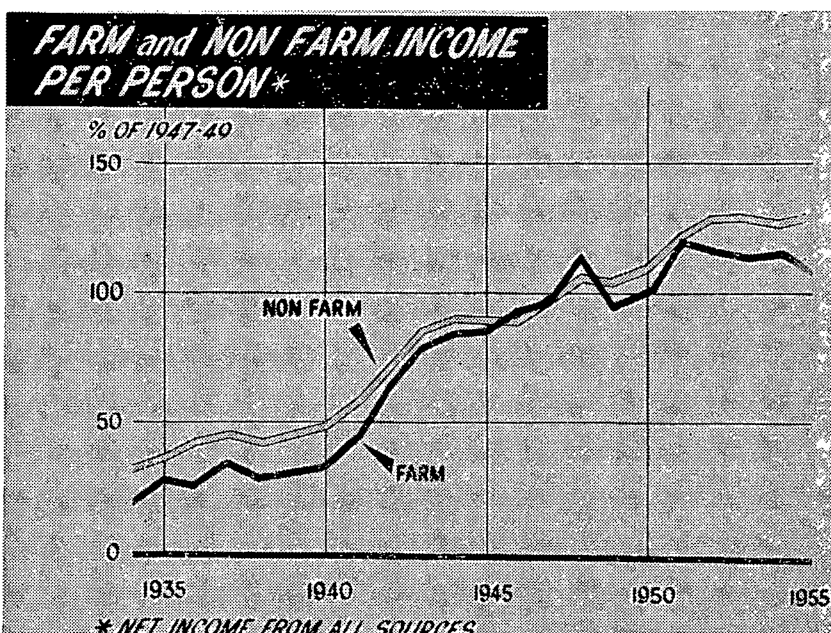

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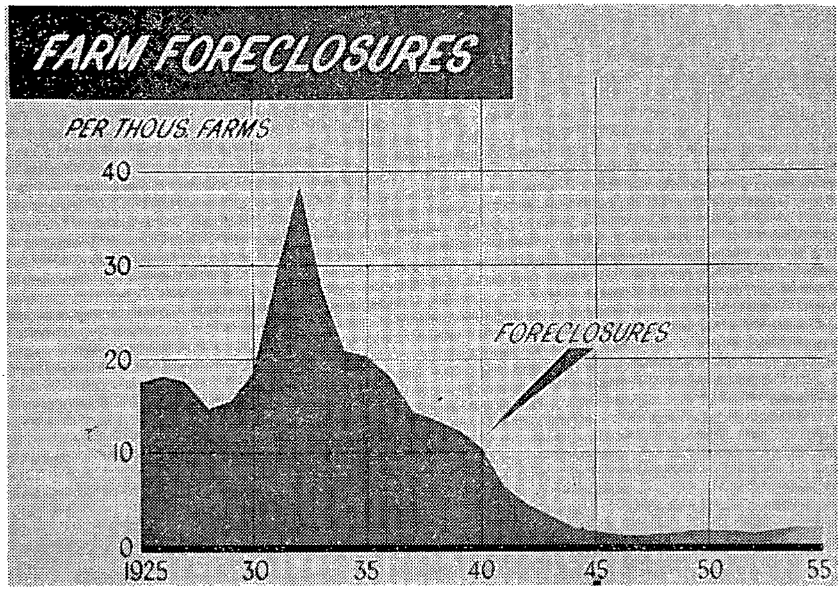

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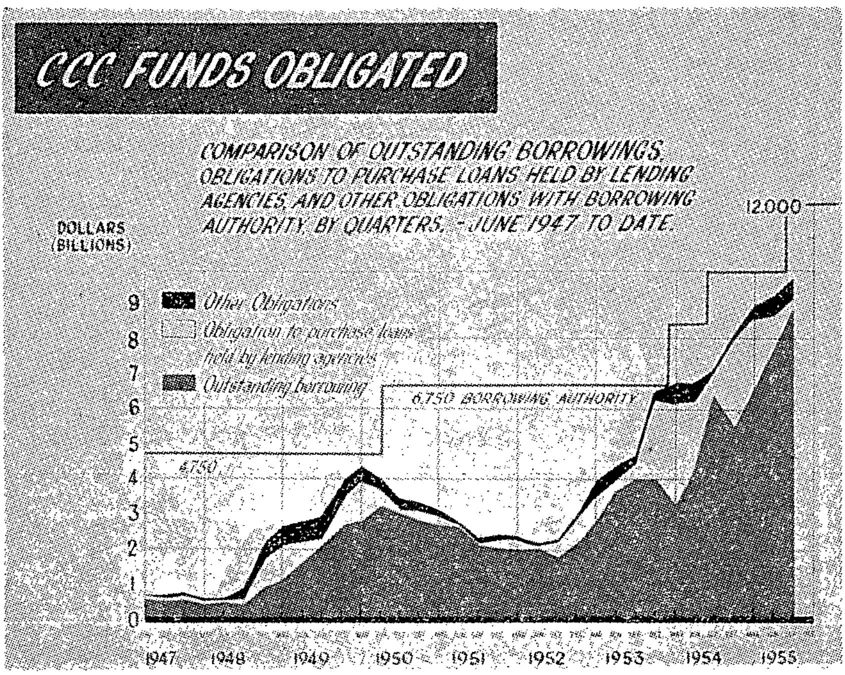

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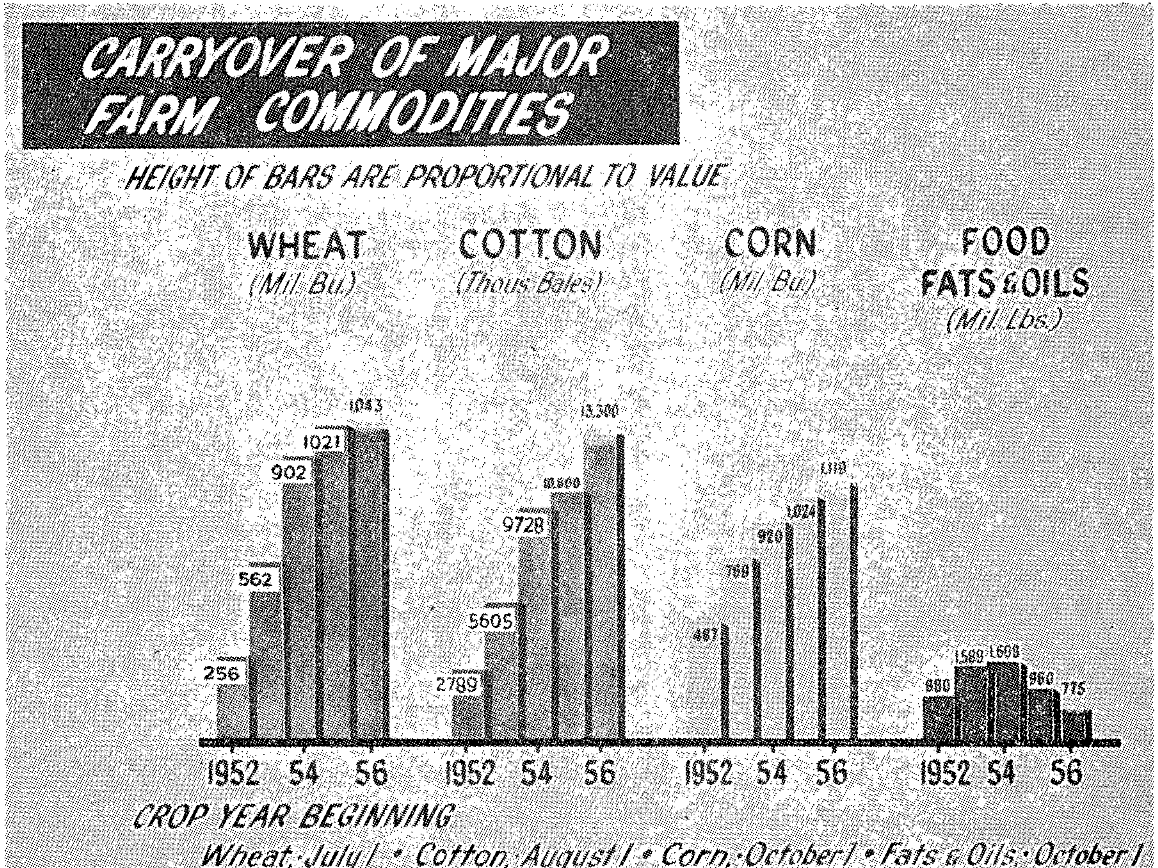
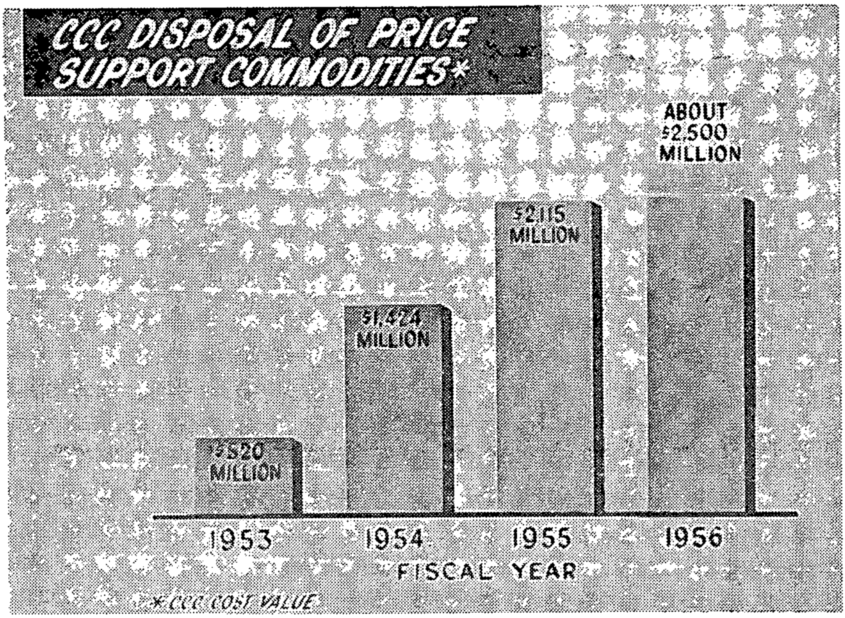

CARRYOVER OF MAJOR FARM COMMODITIES
HEIGHT OF BARS ARE PROPORTIONAL TO VALUE
WHEAT
(Mil. Bu.)
COTTON
(Thous. Bales)
CORN
(Mil. Bu.)
FOOD FATS & OILS
(Mil. Lbs.)
256
562
902
1021
1043
2789
5605
9728
10,800
13,300
487
769
920
1,024
1,110
880
1,589
1,608
960
775
1952 54 56
1952 54 56
1952 54 56
1952 54 56
CROP YEAR BEGINNING
Wheat: July 1 • Cotton: August 1 • Corn: October 1 • Fats & Oils: October 1

EXHIBIT H



Mr. BENSON. I wonder, Mr. Chairman, if I could ask Assistant Secretary Butz to run through those very quickly, very briefly?

Vice Chairman PATMAN. Certainly, sir. I know Assistant Secretary Butz.

Mr. BUTZ. Mr. Chairman, I will try and be brief in the discussion of these charts. There are about half a dozen attached.

The first chart deals with the net income from farming, showing the annual variations since 1941, the average of the war years, 1941 to 1944 was about $9 billion. This reached a high in 1947 of $16.8 billion and then started a decline and has declined every year since then with the exception of the single year, 1951, which was the year of the Korean war. In that year it rose a bit. It has now been in a 5-year decline. It stood in 1954 at approximately $11.8 billion.

We don't know the final figure for 1955 yet but it will be in the neighborhood of $10.6 billion.

The next chart deals with the level of United States farm output. You will notice that except for minor yearly variations the trend has been upward in total United States output, particularly since 1936.

Senator FLANDERS. Is this dollars or volume?

Mr. BUTZ. This is physical volume.

You will notice that during the years we tried to impose production controls we did not succeed in reducing total agricultural output. Even with the stringent controls we had in 1955 on production of cotton, tobacco, rice, peanuts, wheat, and corn, aggregate production increased approximately 3 percent.

The net effect of many of our production controls is not to curtail production but to shift production to other commodities on acres diverted from those commodities under controls. That, I think, is a very important point that should be made. It is very, very difficult, if not impossible, to curtail total agricultural output by the type of program we have been pursuing.

The next chart deals with prices received by farmers and prices paid by farmers, from 1950 through the late months of 1955. The two lines in the top chart show first prices received by farmers. You will observe they have been in a decline since February 1951. You will observe the very steep rise that occurred in the year prior to February 1951. The Korean war started in June 1950. In the 8 months from June 1950 until February 1951 that index rose, as I recall, 66 points. It has since been in an irregular decline, somewhat slower in the last 2 or 3 years than it was the first couple of years following 1951. You will notice the prices paid, however, have tended to remain high. That gap is indicative of the cost-price squeeze under which agriculture is currently suffering.

Those two lines are related to the line at the bottom of the chart which shows the parity ratio of prices received by farmers. That rose to a high of 113 in February 1951 and it has been in a rather steady but gradual decline since that time. It is a 5-year decline.

The situation we are in now is not of recent origin. As a matter of fact, during the first 2 years, 1951 and 1952, the parity index declined a total of 19 points. It has since declined a total of approximately 14 points in the 3 years, 1953, 1954, and 1955. We feel that the decline in that line has been pretty well arrested. As a matter of fact, in the month of January the index of prices received by farmers turned up slightly.

The next chart indicates the per capita income received by people living on farms and people not living on farms. This, I think, is a very important comparison. The first chart that you looked at indicated the decline in total net income from farming. This puts it on a per capita basis and also takes into account the income from all sources whether farm or nonfarm, both for people living on farms and for people not living on farms. As you know, people not living on farms get a certain amount of their income from farm sources, just as people living on farms get a certain share of their income from nonfarm sources. When you put this on a per capita basis you will observe that the two have moved pretty well along together in the last 2 or 3 years. The per capita income of people not on farms has continued to increase while the per capita income of people on farms has remained about constant with a very modest decline in the last year. The reason that the per capita income of people on farms has not declined as has the total income from agriculture is due to the fact that we have constantly fewer people on our farms, a long-time trend as our farms became more mechanized and we produce our total farm output with fewer and fewer workers.

At the present time we have 13 percent of our total population living on farms. Not all of them are bonafide farmers. Approximately 2 million of our total of 5.4 million farms produce roughly 85 to 90 percent of our total commercial agricultural products.

Another reason that per capita income line has not declined is that our people on farms now receive a rather substantial share of their income from nonfarm sources. In 1955 for every $2 received from farm sources by our farm people, there was approximately $1 received from nonfarm sources. Last year, we had a total of some 2 million men and 1 million women living on farms who received the principal share of their income from nonfarm sources. That dollar from nonfarm sources of course is just as good to them, regardless of where it comes from.

The next chart shows the level of farm foreclosures. We have heard a great deal in recent months about the financial distress in agriculture and some people would have you think there is a wholesale wave of foreclosures just around the corner again. As a matter of fact, foreclosures are nearly at an all-time low. They reached a high in the 1930's at an annual rate of 38 foreclosures per 1,000 farms and then they declined sharply. You will notice even during the war years, 1940 to 1945, the rate of foreclosures was substantially above the present rate. As a matter of fact, agriculture in the aggregate is in pretty sound financial condition at the present time.

The total indebtedness of our farmers, both short term and long term is approximately $16 billion. That measures against total assets of our farm plant of approximately $160 billion. That gives us a ratio of debt to value of approximately 1 to 10, which for the industry is a very conservative ratio.

It is true that indivdual farmers may be seriously in debt. The industry itself has a very conservative ratio of debt to assets at the present time.

The next chart deals with the obligations of the Commodity Credit Corporation, the Secretary mentioned in his prepared statement. You will observe at the present time that our obligations run rather high. For 1947 to the forepart of 1950 we had a statutory borrowing authority of $4.75 billion. In early 1950 that was raised to $6.75 billion and continued there until late 1953 when it was raised to $8.25 billion. And then in 1954 it was raised up to $10 billion. Last year it was raised to $12 billion.

As the Secretary indicated, there is a substantial prospect that the Congress may be requested to increase that authorized borrowing authority because of the obligations the CCC will have in connection with the large crops ahead of us and the takeover we still have ahead of us in connection with some crops.

The next chart deals with the carryover we have of specific commodities, especially the four that either are or have been in trouble. The great bulk of the CCC investment is represented by three commodities, that is, wheat, cotton, and corn. You will observe how the carryover at the beginning of the crop year has been increasing for those crops in recent years.

Wheat, for example, increased from 256 million bushels carryover in 1952 up to July 1; last year our carryover was a billion and 21 million bushels. We estimate that the carryover, July 1, 1956, will be a million and 46 million bushels.

The important thing there is that the production has apparently been stabilized but the carryover is still at a very excessive level. In the case of cotton, you will see again how the carryover has been building up at the end of each marketing year. On July 31, or August 1, 1955, we had a carryover of 10.6 million bales because of the very high production last year, an all-time high yield. We anticipate a carryover August 1, 1956 of approximately 13.3 million bales.

In the case of corn, likewise, the carryover has been building up, although in the current year at a somewhat slower rate. On October

1, last year we estimated a carryover of 1.24 billion bushels. Next October 1, based on the production we had last year and the anticipated disappearance this year, we expect a carryover of approximately 1.119 billion bushels.

A somewhat more optimistic picture is presented in the case of food fats and oils. A year ago we had large stocks, particularly of cottonseed oil. During the last year we have disposed of over 1 billion pounds of cottonseed oil owned by CCC and also a rather large quantity of soybean oil and some linseed oil. And our exports of lard likewise are running about 100 million pounds ahead of last year, so that we anticipate on October 1, 1956, our carryover there will be down to 775 million pounds which is not far from the normal figure.

The last chart deals with the disposal activities of the Commodity Credit Corporation. You can observe that we have been moving a lot of commodities through the CCC, in 1953, about $520 million worth; in 1954, almost $1½ billion worth. In 1955, over $2 billion worth and in 1956, the fiscal year ending June 30, we anticipate that we will move approximately $2½ billion worth of commodities through CCC either as direct sales, sales for foreign currency under Public Law 480, barter, or relief donations both at home and abroad. We are moving the CCC commodities very rapidly. The difficulty is that apparently every time we move a bushel out the front door, our price-support activities bring a bushel and a half in the back door.

Vice Chairman PATMAN. Have you concluded, Mr. Secretary?

Mr. BENSON. I think so, Mr. Chairman.

I have wtih me Mr. Paarlberg and Mr. Beach of my staff. If there are questions and I feel they can answer them better than I can, I will feel free to shunt them to them, if that is agreeable.

Vice Chairman PATMAN. I will ask the clerk to keep the time for the members of our committee so we will share the questioning.

Mr. Secretary, I wish you would look at the chart, exhibit A. You will notice the net income from farming began to slide about the early part of 1951. I invite that to your attention because it is my contention, Mr. Secretary, that the high cost of interest has entered into the farmer's problem more than any other one factor.

You will notice that is the time when the high interest barrier was broken and the so-called accord was entered into. Since that time interest rates have fluctuated, usually upward. The cost of money has gone up. That means that farm prices had to go down because the farmer was the only unprotected person between the raw material and the consumer on the one hand and from the processor and the fabricator of the finished products sold to the farmer on the other hand. As the only unprotected person the price of everything he sold had to be lower to offset the higher interest costs accruing between the farmer and the consumer. And everything he bought he had to pay more because of the higher interest included from the raw material to the farmer. I wish you would consider that, please.

Mr. BENSON. You are not thinking primarily of the interest he pays on his mortgage loans?

Vice Chairman PATMAN. I am thinking of the interest that middlemen pay. They are in a position to add it to their price or take it off but the farmer is not. If the interest rate is one-half of 1 percent increase and there are 10 middlemen between the farmer and the consumer and each one puts on that one-half of 1 percent even without compounding that is a total of 5 percent. If, on the other hand, there are 10 middlemen between the raw materials producer and the person who sells, for example, farm machinery to the farmer, and each one puts on his half, that is another 5 percent. Taking the interest on what the farmer sells and what he buys this is a 10-percent difference.

I ask you to consider that.

Mr. BENSON. Interest is only one of several costs. It is an important one, of course.

Vice Chairman PATMAN. It is an important one, I think. I don't think it has been given the consideration which it deserves.

For example, in your chart, exhibit C, you will notice that about March 4, 1951, prices the farmer was receiving began going down and down. That is the time when the interest rates were rising steadily. The interest rates went up and farm prices went down and foreclosures increase. I notice there that there are more foreclosures now than there were in 1949. Aren't there more now than there were in 1955, too?

Mr. BENSON. We could get the exact figures, Mr. Chairman, if you would like them.

Vice Chairman PATMAN. Nearly twice as many, aren't there?

Mr. BENSON. No, I think not, but we could get the exact figures by years, if you want them.

Vice Chairman PATMAN. We will ask that they be put in the record here.

(See below.)

Mr. BENSON. May I comment on your reference to the chart on prices paid and received?

Vice Chairman PATMAN. Yes, sir.

Mr. BENSON. And its relationship to interest. I think probably the interest figure was more pronounced in the top line, prices paid, than in the bottom.

Vice Chairman PATMAN. That would be true if nearly all the commodities were under price supports, but they were not. Not being under price supports, the interest cost was taken out of the price the farmer received.

Mr. BENSON. As a matter of fact, less than one-fourth of the total income from marketings comes from the so-called basic commodities.

Vice Chairman PATMAN. That is right. The farmer was wholly unprotected on 75 percent of his marketings and the bulk of increased interest charges had to come out of his price. That is my contention and I hope you give it consideration in evaluating these economic effects in the future.

Mr. BENSON. The figures show, however, Mr. Chairman, that the 75 percent, the prices for those commodities over a period of years have averaged as high if not just a little higher than those that have been protected.

Vice Chairman PATMAN. I am not questioning your figures at all, but I submit that the farmer is the only one not protected on his prices.

Mr. BENSON. They have just handed me these figures on foreclosures. In 1948 the total foreclosures were 6,000 in round figures. In 1953, 9,600.

Vice Chairman PATMAN. About 50 percent.

Mr. BENSON. About 50 percent.

Vice Chairman PATMAN. Or a little bit more than that.

I notice in your statement on page 10, you say that the President has proposed that a dollar limit on price supports should be established. As you will perhaps recall, I interrogated you about that about a year ago before the Committee on Banking and Currency of the House. At that time you were reluctant to say that you would favor such a proposal, but you do now favor it, do you, Mr. Benson?

Mr. BENSON. The President in his message recommended that the Congress give consideration to this matter. It was not a firm recommendation that the Congress put it into operation.

Vice Chairman PATMAN. In other words, that a study he made of the subject?

Mr. BENSON. A study of the subject; that is correct.

Vice Chairman BENSON. That is quite far removed from a recommendation, isn't it?

Mr. BENSON. Yes, it is.

Vice Chairman PATMAN. Do you recommend it yourself?

Mr. BENSON. Well, I think if we could arrive at some practical level that would protect adequately the family-type operation, the commercial farm, there is a lot to be said in favor of it. Now I know there are differences in viewpoint but there has been among our own farm people a lot of opposition to these very heavy payments running up, some of them, to $1 million.

Vice Chairman PATMAN. I know, but if you were saying "yes" or "no," would you favor it or not favor it, say with a $25,000 limitation?

Mr. BENSON. I think I would be inclined to favor it but I wouldn't want it at $25,000. I think it wold need to be higher than that because we have a lot of family operations that run higher.

Vice Chairman PATMAN. About $25,000 or $30,000?

Mr. BENSON. I do not know what the level should be, Mr. Chairman. I haven't firmed it up in my own mind.

Vice Chairman PATMAN. You do think there should be a cutoff amount?

Mr. BENSON. I think it would be some protection to our family-type farms.

Vice Chairman PATMAN. On page 9 you refer to measures to widen and improve surplus disposal in your dealings with foreign countries in an effort to dispose of some of our surpluses. Do you run into competition there with industrial machinery, or trucks and tractors, or automobiles? Suppose a country needs tractors and it needs also cotton. Who would get priority on that? Would the people selling tractors have more of an inside track using the credit to sell tractors, or would the CCC have just as good a chance to sell the cotton?

Mr. BENSON. I do not know that I can answer that accurately, but I doubt if there has been any group of commodities that have been pushed any harder than we pushed farm commodities in the last couple of years to move them into consumption abroad. As Dr. Butz has indicated, we have sold them for dollars. We have traded them for foreign currencies. We have bartered them for strategic materials and we have used about every means possible. We are asking for one additional broadening device to remove the restrictions under section 304 so that if we saw an opportunity and if it was to our advantage to do so as a Nation, we could trade even with some of the so-called Iron Curtain countries.

Vice Chairman PATMAN. What concerns me, Mr. Secretary, we have three of what can really be called international reconstruction finance corporations, as far as their use and effectiveness is concerned. They are the World Bank and Export-Import Bank and International Finance Corporation.

Mr. BENSON. That is right.

Vice Chairman PATMAN. They are primarily trying to sell something other than agricultural commodities. When they are working with industrial and commercial firms you are in competition in selling your surplus goods, aren't you?

Mr. BENSON. Of course they help us sell some of our agricultural commodities. We found they have been helpful in some areas.

Vice Chairman PATMAN. Where there is a good profit involved, why should an organization be solicitous of the welfare of the farmer and try to dispose of surplus farm products when that limited amount of credit can be used in selling something involving a good profit. Wouldn't you expect the latter?

Mr. BENSON. I think they have not been willing, any of those agencies, to accept foreign currencies. I think that is right, Dr. Butz.

Vice Chairman PATMAN. You think that has been a deterrent?

Mr. BENSON. We have worked out an arrangement direct with the Treasury to handle those foreign currencies where we have accepted them in exchange for surplus agricultural commodities.

Vice Chairman PATMAN. My time is about up and I will wait until later on. Dr. Talle, would you like to interrogate the witness?

Mr. TALLE. Mr. Chairman, first I should like to mention a couple of bright aspects. Number one, I think the President's program, the nine-point program, is by all odds the best that has been brought to the Congress during my service.

Mr. BENSON. Thank you.

Mr. TALLE. Now, a second bright aspect is the fact that I believe more capable, thoughtful people are giving time to this extremely important problem which affects all of our people than ever before insofar as I know, not only in agriculture itself, but capable people in other organizations, nationwide organizations in our country.

There are two hopeful aspects, as I see them.

Now, if I may turn to something else, on page 4, in connection with foreclosures, I think we should perhaps approach that with some care because isn't it possible, Mr. Secretary, that the farmers who are new in the field and who are indebted for costly machinery and so on may decide simply to hold a sale, give the business up, clear the debts and go out of the picture? I would like, in addition to figures on foreclosures, to have comparitive figures on sales, people going out of business.

Mr. BENSON. Farm sales?

Mr. TALLE. That is right.

Mr. BENSON. I believe our records will show that and I think we can put them in the record, if you would like. I am very much concerned, particularly about the young men just getting started in farming and especially the veterans. I went through it in the twenties and I know something about what indebtedness means.

We are out in the area now. Some of our people are holding credit meetings to find out if there is any real need for additional credit, if there is anything we can do to broaden and strengthen our credit program in addition to what we have underway. We have asked them to look into this problem, particularly the need of young people just getting started in farming and especially the veterans.

We will have a more accurate report after these meetings are completed but we will be glad to get the figures and put them in the record, if it is the wish of the chairman and yourself.

Vice Chairman PATMAN. Without objection, so ordered.

Mr. TALLE. Some sales are normal because the field is open; new farmers start and others quit. But some people feel the sales are unduly high in number and I do not know whether they are or not.

(The figures requested are as follows:)

STATEMENT REGARDING FARM TRANSFERS

The rate of voluntary transfers for the year ended March 15, 1955, was 7 percent higher than the rate for the previous year but was lower than for any other year since 1939.

Farmers bought and sold a slightly higher proportion of the farms transferred during the year ended March 1955 than the previous year. Approximately half of all transfers were made between farmers, and nearly 20 percent of the sales were made by farmers to nonfarmers. Farmers bought a little more land than they sold in both 1954 and 1955. The proportion of farmer-buyers who were owner-operators has risen steadily since 1942, whereas the proportion who were tenants has declined.

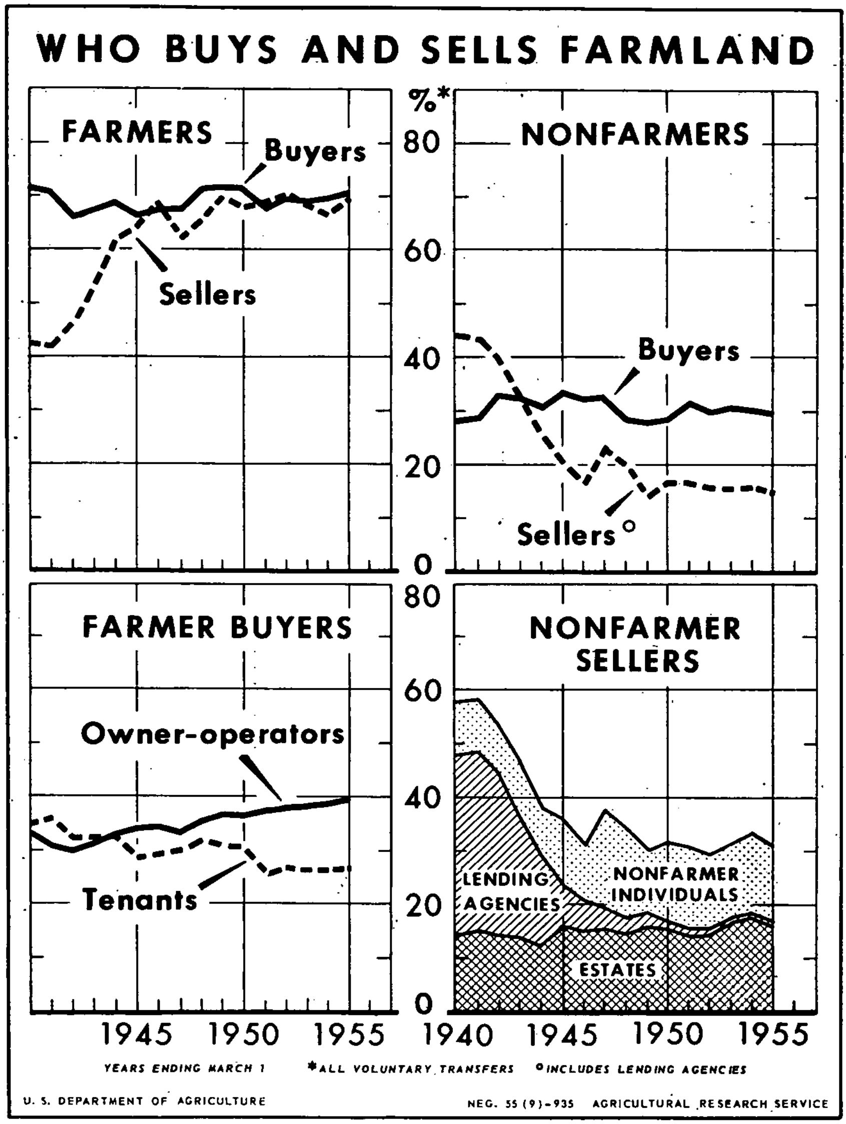
No data are available to indicate the relative numbers of farmer-sellers who continue farming after sale and who retire, or enter other occupations. It is known that a substantial proportion of all transfers in many areas consist of tracts and parcels of land that are detached from one farm and are added to another. The seller continues to farm in most case following such a transfer. It is known also, that farmers, as a group, own more land than they operate themselves—18 percent of all owner-operators in 1950 were renting land to others. Consequently, this group of farmers can sell land without affecting their own farming operations.

Farm real estate: Estimated number of farm transfers per 1,000 of all farms, United States, 1912–54[1]

[Number per thousand]

Year	Voluntary sales	Foreclosures[2]	Tax sales	All other sales	Total
1912	29.9	2.5			
1913	29.6	2.8			
1914	28.0	3.3			
1915	28.3	3.5			
1916	30.9	3.8			
1917	36.7	3.7			
1918	37.0	3.1			
1919	48.8	3.2			
1920	43.4	4.0			
1921	26.3	6.6			
1922	24.4	11.7			
1923	26.1	14.6			
1924	25.5	16.7			
1925	29.6	17.4			
1926	28.3	18.2	5.1	16.9	68.5
1927	26.3	17.6	5.2	16.9	66.0
1928	23.5	14.8	4.7	15.0	58.0
1929	23.7	15.7	5.1	17.0	61.5
1930	19.0	18.7	7.4	16.8	61.9
1931	16.2	28.4	13.3	18.8	76.7
1932	16.8	38.8	15.3	22.7	93.6
1933	17.8	28.0	11.1	21.7	78.6
1934	19.4	21.0	7.3	21.4	69.1
1935	24.8	20.3	5.9	21.9	72.9
1936	31.5	18.1	4.3	20.1	74.0
1937	30.5	14.3	3.1	17.5	65.4
1938	29.7	13.5	3.5	17.1	63.8
1939	30.2	12.6	3.3	16.7	62.8
1940	34.1	10.5	3.4	15.7	63.7
1941	41.7	6.2	3.1	15.1	66.1
1942	45.8	4.4	2.2	14.6	67.0
1943	55.9	3.1	1.8	15.3	76.1
1944	51.5	1.9	1.1	15.2	69.7
1945	57.4	1.5	.8	15.3	75.0
1946	57.7	1.1	.7	16.3	75.8
1947	49.0	1.0	.5	15.4	65.9
1948	40.8	1.2	.4	14.5	56.9
1949	37.1	1.4	.4	13.4	52.3
1950	39.4	1.5	.3	12.8	54.0
1951	37.5	1.5	.5	12.9	52.4
1952	34.3	1.2	.3	11.8	47.6
1953	29.9	1.7	.4	12.0	44.0
1954	32.0	1.9	.4	12.1	46.4

[1] Data relate to the 12 months ended Mar. 15 of the year following that indicated.
[2] Includes foreclosures, assignments, bankruptcies and related defaults.


WHO BUYS AND SELLS FARMLAND
FARMERS
Buyers
Sellers
NONFARMERS
Buyers
Sellers °
FARMER BUYERS
Owner-operators
Tenants
NONFARMER SELLERS
LENDING AGENCIES
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ESTATES
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1945
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YEARS ENDING MARCH 1
*ALL VOLUNTARY TRANSFERS
°INCLUDES LENDING AGENCIES
U. S. DEPARTMENT OF AGRICULTURE
NEG. 55 (9)-935 AGRICULTURAL RESEARCH SERVICE

Mr. BENSON. I am sure, Mr. Talle, you will be interested to know that following a certain program which showed a sale out in your area, I have had several telephone calls wanting to know if there are farms for sale out in Iowa at distressed prices.

Mr. TALLE. The prices are pretty good out there. I mean prices of farmland.

Mr. BENSON. Land values have continued to go up.

Mr. TALLE. That is right.

I want to add that the Farmers Home Administration, of course, is a great help, and I would urge liberalization both as to maturity and rates through that agency.

Now, turning to the cost-price squeeze, that, in my opinion, is the heart of the problem.

Mr. BENSON. That is right.

Mr. TALLE. On the cost side the farmer meets with a lot of rigidity, doesn't he?

Mr. BENSON. Yes; he does.

Mr. TALLE. I don't see that there is anything he can do about that. His only choice when the price of tractors is high is to buy or not to buy. He can't do anything about the price.

Mr. BENSON. There probably isn't enough that he can do, but there are some things that he can do. I think he will continue to become increasingly efficient in his own operations and in the use of the machinery and equipment which he has. Then, in many areas farmers have been able, as you know, to get rather substantial savings through joining together in their purchases. Farmers are generally inclined to sell at wholesale and buy at retail because they buy in small quantities. But by joining together in group purchases and getting volume the farmer ofttimes gets his costs reduced considerably in items he purchases.

In our own State, and in most of the States, farmers have joined together effectively in cooperative organizations, cooperative buying and purchasing in some of their major supply items.

Mr. TALLE. And also in joint ownership of machines like, say, hay balers. That is a possible method, and farmers are taking advantage of it in many places. Some machines are bought by farmers who do custom work for their neighbors, and escape the unduly oppressive overhead in that manner.

Mr. BENSON. Through the Extension Service we are working with farmers in that field as in other fields of reducing their costs of operation.

Representative TALLE. It appears to me that it is necessary to seek solution on the price side. I think that is where the practical remedy must be applied.

The farmer operates under conditions of competition, more freely or more nearly free competition than anybody else. Then, after he has sold his product, that product enters into a kind of pipeline, and from that point on costs are added at various stages all the way to the point where the housewife gets it. There is a lot of rigidity in that situation that is troublesome.

Mr. BENSON. He has that, plus the depressing effect of overhanging surpluses on his current prices for the things he sells; it is a bad combination. That is why we are urging vigorously that we do something rather drastic to get at this surplus situation.

Mr. TALLE. Would it be reasonable, Mr. Secretary, to regard those surpluses as a war cost that should be charged to the Department of Defense rather than the Department of Agriculture?

Mr. BENSON. Mr. Congressman, I have felt, and have so expressed myself on several occasions, that the Government does have a responsibility in helping to bring about this adjustment. After all, the Government and our allies called for all-out production during the war.

Representative TALLE. That's right.

Mr. BENSON. No other group of farmers in the world responded so magnificently as did our own American farmers. They increased their output of the items we called for and the Government offered some incentives to bring that about.

Now, they have continued to produce. The incentives have been continued, too, on some of the items and so I think in a measure, at least, Government policy and Government action and the war must take the responsibility for this buildup of surplus commodities.

Therefore, I think the Government has some obligation to help straighten this thing out and get our agriculture back in balance again. That is why I feel we are justified in supporting a measure that is as drastic as the soil bank, to help bring about this balance between supply and demand so we can give a sound program an opportunity to operate.

Representative TALLE. Mechanization means, of course, that anybody going into the industry will have to spend a lot of money in the form of invested capital. Mechanization would have come in time, anyhow, but it came faster because of the two wars we were in.

Mr. BENSON. That is right, sir.

Representative TALLE. The fact that it came faster makes the problem greater. It involves difficult adjustments that would have worked themselves out quietly and smoothly if the mechanization had not occurred so rapidly. It was not the farmer's fault that his sons were drafted for wars; it wasn't his fault that his hired men took jobs in war industry. It was patriotism all around, but that contributed to the rapid mechanization, did it not, Mr. Secretary?

Mr. BENSON. Yes, it did; very definitely.

Representative TALLE. I think a good case can be made for charging these surpluses as a war cost rather than as a cost of operating the Commodity Credit Corporation in the Department of Agriculture

Thank you, Mr. Secretary.

Vice Chairman PATMAN. The Chair will recognize Senator O'Mahoney.

Senator O'MAHONEY. Mr. Secretary, I am sorry I was not here at the beginning of your paper.

Mr. BENSON. It is good to see you. It is the first time I have faced you since I used to be on the Co-op Council.

Seantor O'MAHONEY. I have watched you on television almost every time you have appeared.

Mr. BENSON. Too many times, I am afraid.

Senator O'MAHONEY. I think you do a pretty good job.

I noticed, however, as I went over your paper, that there were several comments in it which might have been entitled to be placed in the category of political arguments rather than basic arguments.

I do not want to place the blame for the position of the farmer today upon the present administration and I know from my experience that the blame for his position cannot be placed upon Democrat administrations of the past. I have lived through this whole thing. I remember the veto by three Republican Presidents of the farm bill passed by Republican Congresses known as the McNary-Haugen bill. I know that the opposition to do justice to the farmer has come from the industrial areas of our country. That cannot be denied.

The conditions got so bad that failure to help agriculture in the years before 1929 brought about the Great Depression of 1929. The first agricultural program under the Roosevelt Administration was written by former Republications who had left the Republican Party because of their dissatisfaction with its action toward the farmer.

That is the history.

The first act was an emergency act to prevent complete disaster. In Iowa, farmers were overturning milk wagons en route to market because the price was so low. In Minnesota and in other States farmers were threatening to mob the courthouses, and the judges who were foreclosing farms. Happily, all of that is behind us.

I do not want to refer to it more than to place it in the back of our minds.

What I am concerned about is solving the farm problem.

Mr. BENSON. That is my concern.

Senator O'MAHONEY. I think it is.

Mr. BENSON. Certainly.

Senator O'MAHONEY. I think we will solve it best if we will frankly admit the mistakes of the past and examine the proposals that are now presented.

What disturbs me, Mr. Secretary, is the fact that there are fewer farms in the United States today, 1956, than there were at any time since 1890. During the 20 or 25 years or 30 years after 1890, homesteaders were going out to your State and to my State and taking up farms. Since 1946, the Bureau of Reclamation has made 49 landowners. There were 2,167, if I remember my figures accurately, farm units offered for settlement in those 9 years.

The Bureau of Reclamation tells me that 108,000 veterans or more applied for those farms. In other words, there is still a demand by the individual citizen for the family-size farm.

Nobody takes the position except a very few that irrigable acres should not be made available to those who seek them. We are for the family farm. But is it not a fact, Mr. Secretary, that there are more large farms today than ever before, that the little farm is being absorbed?

Mr. BENSON. May I comment on 2 or 3 points you made?

Senator O'MAHONEY. Certainly.

Mr. BENSON. Thank you.

Before I took office, I made a tour around the country and interviewed farmers and farm leaders, businessmen, trying to find out what we could best do to help solve this problem, the thing you referred to, Senator.

Then I asked the president to appoint or authorize me to appoint a commission to study the problem, an interim commission. I selected, as I remember, about 12 or 15 men. I did not ask any of them what his political affiliation was.

Later, the President formalized that by appointing a bipartisan commission of 9 Republicans and 9 Democrats.

In the study of the farm problem in 1953, we had hundreds of people at work; over 500 people took part. All the land grant colleges, including your own institution, had a part in it and not at any time did we ask anyone what his political affiliation was. We tried to attack this thing in an objective, constructive manner as we have tried to do since that time.

This Commission has worked as a team, a bipartisan Commission. They have rendered great service which I appreciate more than I can say.

I think our farm problem generally has been attacked in a bipartisan fashion and I think it should be.

Now, this question of movement off the farms is one that is debated a great deal. There was a time when 80 percent of our people lived on farms in this country.

Senator O'MAHONEY. Right.

Mr. BENSON. I like farm life and I am grateful that my lot was cast on a farm. But because of the increasing efficiency of our farmers, fewer and fewer of them are required to produce the food and fiber for the rest of our population.

I think that in that increased efficiency farmers have rendered a great service to all of our people. As a result of their increased efficiency there are more people free to build automobiles, TV sets, and all the other things that have contributed to our higher standard of living.

I feel that our economy ought to be kept fluid so that farmers can move into agriculture and out of agriculture the same way as people do in other occupations. We should not try to freeze our economy in any particular pattern.

And yet I have always felt that our farm people represent a great safeguard and a great bulwark to the rest of our economy. So I am interested, as you are, in keeping this part of our economy sound or making it as sound as we can.

I did check the records just before I took office and during the two decades just before I came in, there had been a very heavy movement from farms and there has been some movement since. I do not know whether there has been too much or too little.

Our farms have been increasing in size, too; the family farm has changed. The family farm still produces our food and fiber in this country and I think will continue to do so, but the family farm today is larger than it used to be. That is because of this mechanization to which you have referred and to which Congressman Talle has referred.

It may change still further in the future. We do not know.

Senator O'MAHONEY. That, of course, has led to the debate about inefficient farms. I have seen some suggestions in speeches which have emanated from the Department of Agriculture that the small farmer must be prepared to go into the factory and get a job because he cannot live on a small farm. Is that your position?

Mr. BENSON. No; it is not my position. It is not the position of the Department. But we have launched this rural-development program which is aimed particularly at helping to meet the needs of the low-income farmers. We have about a million and a half of them with incomes of less than $1,000. A family cannot live properly on $1,000 and so this program is aimed at helping them with their problem, helping them to make the best use of their resources, and it involves credit. It involves education. It involves vocational guidance. It involves the question of the size of their unit.

It is entirely conceivable there may be cases where 2 or 3 small farmers probably could make 2 farms out of 3, providing 2 economic units and permitting 1 man to go into factory employment. Our whole concern is how can they use the resources to the best advantage to give them the highest possible standard of living.

Senator O'MAHONEY. What will be the effect of the soil-bank program upon the small farm?

Mr. BENSON. Well, as we envision the soil bank it would be entirely voluntary and any farmer can enter into it. He could put part of his farm in or all of his farm in. It would be flexible with a good deal of discretion left to the administrators in the county and at the State level.

We think the county committees will have to operate it, pretty much.

Personally, I would not want to attempt to write or to operate all the details of it from Washington. I think a lot of discretion will have to be placed out in the local communities and in the States.

Senator O'MAHONEY. There is not any doubt that a lot of discretion is placed in the Secretary of Agriculture so that it will be necessary for him to exercise a lot of supervision and I think give most of his time to it.

I went through this bill for the purpose of finding out what was meant by it and I find so many of these delegations of power to the Secretary that I am forced to come to the conclusion that—and this is no different from some of the farm programs of the past—it amounts to a managerial operation of the farms of the United States.

Mr. BENSON. Senator, I do not relish that any more than I am sure you do. I wish there were someway so that the Secretary can be relieved of part of the responsibility and the obligation he has now. I cannot imagine any man wanting to be Secretary today and I cannot imagine any person in the Secretary's position wanting more authority than he has. It almost makes me shudder when I recognize the responsibility that has been imposed in that office down there by act of Congress.

Senator O'MAHONEY. Mr. Secretary, I am terribly embarrased because I have been told that my time has expired.

Mr. BENSON. I am sorry.

Senator O'MAHONEY. I was just getting to what I thought would be an interesting part of your discussion.

Representative PATMAN. You will have another opportunity.

Mr. BENSON. Maybe I can come to your office and we can have a prolonged discussion.

Senator O'MAHONEY. I would like to do it in public.

May I ask for 2 more minutes——

Vice Chairman PATMAN. Is there objection to the Senator's request? The Chair hears none.

Senator O'MAHONEY. I listened to the speech by Secretary Dulles on the Philadelphia Bulletin Forum on Sunday. He quoted from Mr. Khrushchev who had made his memorial speech—it was a very long speech—which the Secretary has interpreted as a change of front by the Communists.

In that speech, according to the quotes that Secretary Dulles made, Mr. Khrushchev said that the people of Soviet Russia were short of foodstuffs.

In the President's message of January 6, I find this statement on page 8. It is the closing paragraph under the heading of "Surplus disposal":

> Present provisions of surplus-disposal legislation permit only dispositions of Government stocks to friendly nations. Opportunities clearly to our interest may develop in the future to sell to countries excluded by this legislation. To enable us to realize on such opportunities, I recommend the repeal of section 304 of Public Law 480.

Public Law 480 is, of course, Public Law 480 of the 83d Congress It was the one that permitted the Secretary of Agriculture and the CCC to sell the surplus to friendly nations.

There has been much opposition to that, particularly by the State Department on the ground that it would upset the economies of friendly nations.

But I observed that the committee in the Senate did not put anything in the bill to carry out the President's recommendation to repeal the exclusion of the sale of surplus products behind the Iron Curtain.

What is your opinion, is it a feasible thing to do?

Mr. BENSON. Senator, I have felt this way: That we ought to have the broadest possible authority to dispose of these surpluses; that if we see an opportunity and it is determined to be to the advantage of this country to do so, we ought to be able to trade, even though it is with a country that may be considered unfriendly if it is to our advantage. Particularly would this be true if we trade perishable items for durable items which we need.

Now, the President's recommendation is that this restriction be removed. This would give us permissive authority. We have had our marketing specialists abroad. They have been visiting in some of these countries, like Czechoslovakia, where the people are friendly even though the Government is not. We found that there are some opportunities for trade in farm products. In fact, we have reason to believe that some of the things we sell to Western Europe eventually find their resting place in some of these so-called unfriendly countries.

The farm organizations, I think, are united in asking that this restriction be removed.

Senator O'MAHONEY. Would the Department recommend that? Does the President recommend it?

Mr. BENSON. Yes; he has recommended the elimination of this restriction.

Senator O'MAHONEY. Would the Department support the amendment repealing that section?

Mr. BENSON. Yes. Yes; we will, Senator.

Senator O'MAHONEY. Has the Department made any effort to find a Member of the Senate who would introduce such an amended bill?

Mr. BENSON. It was in the draft we sent up for consideration of the Committee on Agriculture.

Senator O'MAHONEY. I would like to see that because, frankly, I will say to you that I think a repealer could be drafted in such fashion that if there is, as Secretary Dulles says, an actual shortage of foodstuffs behind the Iron Curtain, standards could be included in the amendment in such fashion that there can be no doubt that the exchange would be for the purposes of peace and not for war. Particularly since we find that as the Government Operations Committee recently revealed, some of our allies have been sending war materials like copper wire and stamping machines and other industrial equipment to Soviet Russia, perhaps we might have an opportunity to use bread and beef and butter instead of bombs in working out this problem of peace.

(The amendment referred to is as follows:)

Section 304 of Public Law 480, 83d Congress (68 Stat. 454) is hereby repealed.

Senator O'MAHONEY. And speaking of beef, I should like to see an amendment to this bill which would enable you to help to reduce the tremendous surplus of cattle in this country by such sales.

To date, the authority, it seems to me, has been somewhat limited and the first sale of beef, I think, was the one you recently made to the Government of Israel.

Mr. BENSON. We made a sale just about 2 weeks ago of 40 million pounds to Israel but we have had earlier sales. I think we made a sale to Spain prior to that time and we have some others under consideration at the present time which we are not now able to announce.

Senator O'MAHONEY. Is the law broad enough for you to carry this on effectively?

Mr. BENSON. Yes; I think so, Senator. I think we have the authority.

Senator O'MAHONEY. No amendment is needed?

Mr. BENSON. No, I think not.

Senator O'MAHONEY. You have all the authority you need to attempt to dispose of beef abroad in friendly countries but not, of course, in the other countries.

Mr. BENSON. Yes; I think either for sale or barter or sale for foreign currencies.

Senator O'MAHONEY. There the difficulty arises that the producer does not get a price which is sufficient to enable him to operate at a profit and purchases are made from the packer and not from the producer.

Mr. BENSON. We are all anxious to see the producer get better prices. Anything that moves part of the volume out of the country I think has a strengthening effect on prices.

Senator O'MAHONEY. Thank you very much, Mr. Secretary; and I thank the members of the committee. I must apologize to them for having taken so much time.

Vice Chairman PATMAN. The Chair recognizes Senator Flanders.

Senator FLANDERS. Mr. Secretary, may I first compliment you on what seems to me to be a factual, reasoned and completely nonpolitical document.

Mr. BENSON. Thank you, sir.

Senator FLANDERS. Starting from there, we will go on.

Senator O'MAHONEY. Senator Flanders and I can debate that on the floor.

Mr. BENSON. I presume you will have the opportunity.

Senator FLANDERS. Mr. Secretary, I am raising some questions whose answers are probably well known to those with more familiarity with the farm program than mine.

Will you look on page 7, please, where you speak of the certificates which would be redeemable by the CCC. What are those certificates? Are they in effect checks for cash?

Mr. BENSON. Yes, they would be redeemable in cash or in commodities.

Senator FLANDERS. Either one?

Mr. BENSON. At the discretion of the farmer.

Senator FLANDERS. And the price would be that at which the commodities were acquired?

Mr. BENSON. It would be related to the cash value of the commodities, I assume, at the time.

Senator FLANDERS. Depending on the market or depending on the cost of acquisition.

Mr. BENSON. Depending on the market, I would say.

Senator FLANDERS. All right.

At the end of that paragraph reference is made to the size of normal carryover stocks. Some suggestions have been made that normal carryover stocks should be recognized and whatever the size of a normal carryover stock may be it should be sterilized and maintained.

Have you any comments to make on that proposal?

Mr. BENSON. Normally, the private trade carries sizable stocks in the pipelines of the country. That is good. It is a safeguard against any possible drastic reduction in production due to the drought or other causes.

It is very difficult, Senator, and I think rather impractical, to attempt to take commodities off the market and sterilize them. They are still there; they still overhang the market. Every producer and every trader knows that sooner or later they are going back into the market. Therefore, they have a depressing effect on prices. That is what is happening today.

As I mentioned, our economists estimate that farm income last year would have been $2 billion more than it was had it not been for present overhanging surpluses.

Senator FLANDERS. All right.

At the bottom of page 9 there is reference to your surplus movements to the Communist bloc. It would seem to me that there is a little problem there, aside from the political problem. There is the economic problem of what the Communist bloc is going to use to pay for these products. Have you any information as to what might be available to pay for these products, from the other side of the Curtain?

Mr. BENSON. No, I cannot say definitely. There may be a possibility of some sales for dollars but most of them would probably be a barter arrangement.

As I say, we have not been selling. We are not permitted to sell to any of the so-called Iron Curtain countries. We are simply asking that the restriction be removed so that if we see a good opportunity we can take advantage of it.

I might say, Senator, that we operate this program through two committees. One is a policy committee. The other is an operating committee. The operating committee is chaired by one of our own Department men and operates in the Department. On that committee the Department of State is represented, as are Commerce and other agencies concerned. So when we move on a sale we move with the united support of the Government agencies concerned.

Senator FLANDERS. Thank you.

Now, on page 10 you refer to the subject which has already been brought up in the second paragraph, huge corporate-type units. The figure of $25,000 has been mentioned or suggested. What proportion of the protected production would be left inside and what outside of price support, the protected production which would be left inside and what outside the $25,000 ceiling. If your figures do not give that take $30,000 or wherever you can base it on. Do you have anything on that?

Mr. BENSON. We have the figures. We have worked them out. These figures are broken down by commodities and show the percentage of the loans today which are in excess of $25,000 for the different commodities.

Senator FLANDERS. Yes.

Mr. BENSON. For example, in the case of barley it is nineteen hundredths—less than 1 percent.

Senator FLANDERS. Corn is a mass production crop.

Mr. BENSON. The largest, wheat, is one-fourth of 1 percent. Above $25,000.

Senator FLANDERS. Wait a minute.

Mr. BENSON. It is relatively small, the percentage.

Senator FLANDERS. You mean that only one-fourth of 1 percent of wheat is raised—does this say that one-fourth of 1 percent of wheat is about all that is raised outside of the $25,000 limit?

Mr. BENSON. This is the number of producers, the number of farmers who took out loans in excess of $25,000.

Senator FLANDERS. But we get no indication from that of the number of bushels.

Mr. BENSON. No, but we can work that out, I think, Senator. I believe we have those figures somewhere. Maybe we can turn to them. I don't have them at my finger tips.

Senator FLANDERS. It seems to me that that is quite important. Among other things, it would be important for the effect on the market of any considerable percentage of the crop that went unprotected. That would be something that you would have to reckon with.

Mr. BENSON. That is right.

Senator FLANDERS. Mr. Chairman, if we can have further information on this I would like to ask that we have it incorporated in the record.

Vice Chairman PATMAN. Without objection it is so ordered.

Mr. BENSON. You want them on a volume basis?

Senator FLANDERS. Yes.

Representative CURTIS. Mr. Chairman, could we have them both dollarwise and volumewise?

Mr. BENSON. Yes, we can do that.

Vice Chairman PATMAN. That will be done.

(The following was subsequently received for the record:)

THE DISTRIBUTION OF COMMODITY CREDIT CORPORATION MAJOR GRAIN LOANS BY SIZE OF LOAN, 1953 CROP

Late in 1954 the Secretary decided to obtain the data necessary to meet requests for information concerning the size of grain crop loans made by the Commodity Credit Corporation. At that time disbursements were still being made on the 1954 crops; therefore it was decided to obtain data for several of the 1953 grain crops (cotton was not included in this exploratory study.)

The Commodity Credit Corporation disbursed a total of $1,939,253,579 representing the total loan value of 1,116,105 loans on the 1953 crops of barley, corn, flaxseed, grain sorghum, oats, soybeans, and wheat. In addition to identifying the recipient of the loan, records of these 1.1 million loans maintained in some 3,000 Agricultural Stabilization Conservation county offices show among other details the amount of loan and the kind and amount of grain under loan. Because of the number of loans involved, somewhat less detailed information concerning individual crop loans in any particular county is maintained in the A. S. C. State offices, and still less detail on individual loans is maintained by Commodity Stabilization Service Commodity Offices, and only summary loan information is available at the Washington level. Specifically, no record is maintained of the distribution of crop loans by size of loan for counties, for States or for the total United States.

The job of transcribing from ledgers to forms suitable for machine tabulation by size of loan over a million loans would have been expensive. Therefore, Department statisticians specified seven samples, one for each of the grain crops mentioned, calling for the transcription and subsequent tabulation of a number of randomly selected loans from the records of a number of randomly selected counties (different sets of counties for different crops). These samples were designed to yield unbiased pictures of the 7 distributions by size of loan. The report thus presents figures similar to those which would have been obtained if all loans had been tabulated.

This report summarizes briefly in tabular form the results based upon these samples of loans. Some discrepancies between the sample estimates contained in this report and the actual total number or total value of loans disbursed are to be expected.

TABLE 1.—*Wheat—Distribution of loans according to size of loan*

Size of loan	Number of loans	Bushels	Value
$0 to $499	125,928	17,206,513	$37,691,011
$500 to $999	148,716	48,260,678	106,344,552
$1,000 to $1,499	97,972	52,797,262	116,484,401
$1,500 to $1,999	62,071	47,487,533	104,395,385
$2,000 to $2,499	44,006	43,398,907	95,322,923
$2,500 to $2,999	24,606	29,564,505	64,833,815
$3,000 to $3,999	30,833	46,708,985	102,498,113
$4,000 to $4,999	19,926	39,230,873	85,947,721
$5,000 to $9,999	26,184	79,452,910	171,245,681
$10,000 to $24,999	9,496	61,634,094	130,731,400
$25,000 plus	1,468	29,715,318	63,437,759
Total	591,206	495,457,578	1,078,932,761
Average per loan		838	1,825
Average per bushel			2.18

TABLE 2.—*Corn—Distribution of loans according to size of loan*

Size of loan	Number of loans	Bushels	Value
0 to $499	17,019	3,989,488	$6,293,720
$500 to $999	61,446	30,830,617	48,192,532
$1,000 to $1,499	64,506	52,787,428	82,214,818
$1,500 to $1,999	47,469	53,518,203	83,562,262
$2,000 to $2,499	32,551	47,772,761	74,657,844
$2,500 to $2,999	22,522	40,301,705	63,130,013
$3,000 to $3,999	25,983	57,804,983	90,463,565
$4,000 to $4,999	12,109	35,187,903	54,934,746
$5,000 to $9,999	10,842	44,707,868	69,913,395
$10,000 to $24,999	957	7,757,213	12,357,165
$25,000+	104	2,302,219	3,575,440
Total	295,508	376,960,388	589,295,500
Average per loan		1,276	1,994
Average per bushel			1.56

TABLE 3.—*Soybeans—Distribution of loans according to size of loan*

Size of loan	Number of loans	Bushels	Value
0 to $499	11,599	1,582,958	$4,017,283
$500 to $999	19,449	5,519,489	14,122,968
$1,000 to $1,499	12,679	6,001,863	15,400,979
$1,500 to $1,999	6,680	4,477,307	11,452,601
$2,000 to $2,499	4,363	3,819,975	9,817,093
$2,500 to $2,999	2,330	2,496,159	6,404,376
$3,000 to $3,999	1,892	2,546,804	6,547,214
$4,000 to $4,999	725	1,297,506	3,327,390
$5,000 to $9,999	746	1,999,360	5,108,484
$10,000 to $24,999	56	384,373	976,860
$25,000 plus	5	74,371	189,982
Total	60,524	30,200,165	77,365,230
Average per loan		499	1,278
Average per bushel			2.56

TABLE 4.—*Grain sorghum—Distribution of loans according to size of loan*

Size of loan	Number of loans	Hundred-weight	Value
0 to $499	9,333	1,145,061	$2,739,488
$500 to $999	7,898	2,409,860	5,795,393
$1,000 to $1,499	4,816	2,521,577	6,013,714
$1,500 to $1,999	2,665	2,011,013	4,792,248
$2,000 to $2,499	1,799	1,729,763	4,167,359
$2,500 to $2,999	1,265	1,457,401	3,563,132
$3,000 to $3,999	1,948	2,868,156	7,004,229
$4,000 to $4,999	1,029	2,010,221	4,834,943
$5,000 to $9,999	1,643	4,904,520	11,863,572
$10,000 to $24,999	401	2,356,176	5,783,510
$25,000 plus	25	427,851	1,002,869
Total	32,822	23,841,599	57,560,457
Average per loan		726	1,754
Average per hundredweight			2.42

TABLE 5.—*Flaxseed—Distribution of loans according to size of loan*

Size of loan	Number of loans	Bushels	Value
0 to $499	19,401	1,586,489	$5,886,172
$500 to $999	17,680	3,326,319	12,344,051
$1,000 to $1,499	9,660	3,092,955	11,478,616
$1,500 to $1,999	4,641	2,093,197	7,786,003
$2,000 to $2,499	2,309	1,348,111	5,014,390
$2,500 to $2,999	1,478	1,057,389	3,941,829
$3,000 to $3,999	1,186	1,060,920	3,944,222
$4,000 to $4,999	552	644,305	2,386,281
$5,000 to $9,999	562	905,511	3,362,395
$10,000 to $24,999	56	198,919	762,966
$25,000 plus	18	134,615	520,361
Total	57,543	15,448,730	57,427,286
Average per loan		268	998
Average per bushel			3.72

TABLE 6.—*Barley—Distribution of loan according to size of loan*

Size of loan	Number of loans	Bushels	Value
0 to $499	12,682	3,320,963	$3,780,360
$500 to $999	10,362	6,414,411	7,376,792
$1,000 to $1,499	5,229	5,596,349	6,468,246
$1,500 to $1,999	1,802	2,768,695	3,178,413
$2,000 to $2,499	1,159	2,205,326	2,563,121
$2,500 to $2,999	891	2,101,275	2,437,680
$3,000 to $3,999	701	2,067,578	2,397,537
$4,000 to $4,999	359	1,399,623	1,615,534
$5,000 to $5,999	518	3,034,396	3,559,516
$10,000 to $24,999	183	2,330,606	2,772,665
$25,000 plus	66	5,041,116	6,364,144
Total	33,952	36,280,338	42,514,008
Average per loan		1,069	1,252
Average per bushel			1.17

TABLE 7.—*Oats—Distribution of loans according to size of loan*

Sixe of loan	Number of loans	Bushels	Value
0 to $499	18,704	7,541,806	$5,641,514
$500 to $999	14,648	13,108,885	9,968,591
$1,000 to $1,499	4,715	7,138,488	5,548,392
$1,500 to $1,999	2,190	4,695,408	3,708,254
$2,000 to $2,499	1,043	2,828,431	2,301,372
$2,500 to $2,999	640	2,080,990	1,732,802
$3,000 to $3,999	600	2,420,593	2,051,685
$4,000 to $4,999	305	1,597,279	1,355,321
$5,000 to $9,999	408	3,176,383	2,763,937
$10,000 to $24,999	59	875,695	814,485
$25,000 plus	10	294,508	271,984
Total	43,322	45,758,466	36,158,337
Average per loan		1,056	835
Average per bushel			0.79

TABLE 8.—*Number of loans, total loan value, and average loan value, 7 major 1953 grain crops*

Grain crop	Under $5,000	$5,000 to $10,000	$10,000 to $25,000	Over $25,000
Wheat:				
Number of loans	554,058	26,184	9,496	1,468
Total loan value	$713,517,921	$171,245,681	$130,731,400	$63,437,759
Average loan value	$1,288	$6,540	$13,767	$43,214
Corn:				
Number of loans	283,605	10,842	957	104
Total loan value	$503,449,500	$69,913,395	$12,357,165	$3,575,440
Average loan value	$1,775	$6,448	$12,912	$34,379
Oats:				
Number of loans	42,845	408	59	10
Total loan value	$32,307,931	$2,763,937	$814,485	$271,984
Average loan value	$754	$6,774	$13,805	$27,198
Barley:				
Number of loans	33,185	518	183	66
Total loan value	$29,817,683	$3,559,516	$2,772,665	$6,364,144
Average loan value	$899	$6,872	$15,153	$96,424
Sorghum:				
Number of loans	30,753	1,643	401	25
Total loan value	$38,910,506	$11,863,572	$5,783,510	$1,002,869
Average loan value	$1,265	$7,221	$14,423	$40,115
Soybeans:				
Number of loans	59,717	746	56	5
Total loan value	$71,089,904	$5,108,484	$976,860	$189,982
Average loan value	$1,190	$6,848	$17,444	$37,996
Flaxseed:				
Number of loans	56,907	562	56	18
Total loan value	$52,781,564	$3,362,395	$762,966	$520,361
Average loan value	$928	$5,983	$13,624	$28,909

TABLE 9.—*Percent of total value of loans taken out by borrowers of specific size, 1953*

Percent of loans	Percent of total loan value						
	Wheat	Corn	Soybeans	Grain sorghum	Flaxseed	Barley	Oats
Smallest ⅓ of loans	8	13	12	6	10	8	10
Largest ⅓ of loans	73	60	63	75	66	75	67
Largest 5 percent of loans	30	17	20	28	22	39	26
Largest 1 percent of loans	12	6	8	11	8	24	11

Senator FLANDERS. Now, on page 10, tell me what the Great Plains program is. I see that phrase over and over again but it doesn't tell me anything.

Mr. BENSON. The Great Plains program is aimed particularly at the problems in the 10 Great Plains States where the climate is somewhat erratic, where we have been having trouble with drought and wind erosion. This is a program in cooperation with the agricultural colleges and other States agencies in that area aimed at better land use and other things which tend to meet the problems of that particular area.

Senator FLANDERS. Is it specified in the legislation as to just the area of investigation covered?

Mr. BENSON. The President sent up a report of a study on this particular area. It calls for some rather small appropriations to help carry it through. As a matter of fact, part of the program is already started, already operating.

Senator FLANDERS. Thank you.

Now, one last remark. I think that as politicians, and I think we are politicians all along the row here, in some sense of the word.

Representative CURTIS. We had better be or we wouldn't be elected.

Senator FLANDERS. That is true enough. I think we have to admit that in spite of the fact that your presentation is not primarily political, that political influences will have some effect on this year's legislation.

Maybe that is. That is an advised statement, made advisedly.

I wonder whether, and it might not be possible in the first session of next year, which is as far removed from political situations as we will ever get, whether we may not tackle this problem on the basis of facts and reason and may I express my belief that many of those who seem to me to be approaching this problem politically underestimate not merely the patriotism but the intelligence of the American farmer. That is my speech.

Vice Chairman PATMAN. Mr. Wolcott.

Representative WOLCOTT. No questions.

Vice Chairman PATMAN. Mr. Curtis.

Representative CURTIS. Mr. Chairman, I would like to pick up where Senator Flanders left off because I think that is exactly what this committee, Joint Committee on the Economic Report, can do. It can get at this farm program from the standpoint of long economic trends to see where we are and try to eliminate the political overtones. There is plenty of opportunity for all of us after we pick up the facts as best we can get them and then argue about them politically.

I might state with regard to your presentation that I essentially agree that it is a very factual one. I do agree with Senator O'Mahoney that there were several instances of political overtones but I can well understand it because you have not been without political attack, have you, Mr. Secretary?

Mr. BENSON. At least I have had my share.

Representative CURTIS. In order to get the balance back after some of the political attacks some have to be answered. This is necessary in order to get one matter on a reasonable basis so we can get at these economic facts. I wish that we would sort of lay out some of the economic indicators that we do have.

You have mentioned one in answering some of these questions: the industrialization of the country. I think back around when this country was formed, 1789, around 90 percent of our population was engaged in agriculture and probably the same proportion of our national income.

The ratio of farm income to national income has declined to where it is well below 10 today, 10 percent today. I think it is 7 percent.

Now, I think as people looking at this broad picture can we look forward to a continuation of that trend or is there going to be a continuation of industrialization of our country. I suspect there is.

If so, there is no political overtones in an observation of that nature.

The second big factor which you mentioned is the mechanization of our farm industry which has enabled us to maintain the farm production even though we have fewer people engaged in farming.

Now, I was very interested in Senator Flanders' line of questioning on this $25,000 ceiling figure. I have used the figure, $25,000, myself. I am particularly interested in knowing dollarwise and volumewise how much or how many would go above the $25,000 for this reason:

I do know some basic figures for 1953: 9 percent of the farmers got over 50 percent of the support money, which would indicate to me that this $25,000 ceiling, if it were $25,000, is going to accomplish 2 things:

One, the program would be considerably less costly; and I am interested in those estimates to know how much less it will cost us. But even beyond that, the thing I am most interested in, it will put the law of supply and demand into the big operator's production. He is the very person who is in a position to estimate what the demand will be for wheat, for example, or cotton, and he is the one who can reduce his production based upon his estimate of what that law of supply and demand is.

Your family farmer is not in a position of doing that, but your big operator is. And I am more interested in that aspect of this dollar limit than anything I can think of because I think anywhere we can intelligently gear the law of supply and demand into this farm production situation and at the same time protect the small farm family, that is what we want to do.

It strikes me that, Mr. Secretary, if your studies were conducted along that line, you might find that $25,000 figure is too high, even though I appreciate there are some farm families that would be basing their economy on something beyond $25,000. Yet I suggest that anything beyond is in an area where they themselves can start doing a little estimating on what the actual demand for their produce might be.

I wonder if you care to comment on that.

Mr. BENSON. We will put those figures in the record so you can have an opportunity to see them. (See pp. 643–647.)

Of course, we do have in some of our other programs a limitation on the amount that goes to any one farmer. We have it in our ACP program, for example. We have limits also in our Federal Land Bank Loans. We will only line up so much and beyond that we will not go.

Representative CURTIS. Mr. Secretary, I put in the Record, the Congressional Record, I think in 1954, some figures that I think were supplied by the Department of Agriculture showing the checks given to farmers for the year 1953 that were in the six figures. I was amazed at the number and I remember one particular operation in Mississippi where the check was $1.6 million for a single farm operation. That is not the kind of thing that I think that this Government wants to support. At least, in my opinion it isn't. Yet that is what we have been doing up to the very present time.

Mr. BENSON. It was with that in mind that the President recommended that the Congress give some study to this problem.

Representative CURTIS. The point I am bringing up now is that I do not want to get into the political overtones of the big guy against the little guy. I am interested in the economics of the situation which would require those who are more in the business end of the thing on an industrial basis as opposed to the farm family, what effect that would have on the amount produced.

In other words, getting back to this law of supply and demand, I think we would find that a lot, we might find part of our solution there.

One other thing. I was interested in this chart on Exhibit C which shows the farm prices paid and prices paid by the farmer and prices received. I was wondering what, how the effect of mechanization might be on those figures. I imagine, for example, as the farmer has used the —eliminated the horses for his horsepower and has had to bring tractors instead that in some way or other that would be reflected in these prices that the farmer has to pay.

What studies do we have on that?

Mr. BENSON. I will ask Mr. Butz to comment on that.

Mr. BUTZ. The composition of the commodities that go into the index of prices paid changes from time to time, obviously, as the technology of agriculture changes. You pointed your finger to one of the important changes. I think the mechanization of agriculture no doubt has contributed to the stability of the index of prices paid. There are a lot of built-in costs in agriculture today that simply cannot be contracted, if you should decide to cut back. You cannot cut off the electricity. The whole farm operation stops. You cannot stop buying gas. In the old days, the farmer raised his own power and his own fuel. Today, they must put out hard cash for it.

Representative CURTIS. As the tractor becomes more efficient, we know that in competition, to compete in the farm area today with other mechanizations, the more overhead has to be spent for that.

Mr. BUTZ. I think that is right.

But, of course, the mechanization of agriculture has resulted in more efficient unit production of our farm commodities than we had a generation ago, as you well know.

Representative CURTIS. That is very true, and yet if you do not have a demand for the increased production that creates the price squeeze we talk about.

Mr. BENSON. May I add one further observation on that point that you mentioned, Congressman?

Mechanization of agriculture has also released about 40 million acres that earlier were used to raise feed for horses and mules. That has been another factor that has tended to emphasize the seriousness of this shift that has taken place.

Representative CURTIS. Fuel for horses. Power now comes from oil wells instead of raising oats.

In these figures on exhibit C, does that reflect the unit prices received of the farmer's crop? Does this reflect in any way what a bushel of wheat brings or a bushel of corn?

Mr. BENSON. It is unit price.

Representative CURTIS. The reason I wanted to be sure that it was, and I thought it was, naturally, just as in industry, as you increase efficiency from mass production your unit costs are expected to go down—your unit sale of the commodity that you are manufacturing. So that is a long-term trend that we can put our finger on, too, I would think if we continue to mechanize a bushel of wheat—it should sell for less. That is a factor, it seems to me, that has been completely disregarded in the discussion of the farm problem to date.

Yet, the way the farm family is able to hold its own is, as we say, through the increase of his production. But even though the unit costs or sale price is less, he produces more and that gets into the basic question of who can absorb his increased production?

Mr. BUTZ. If I may, I would like to comment briefly on that. I think you have touched on a very, very important item in the entire agricultural picture. A good case in point is broiler production, a relatively recent item of agricultural production.

In the last 10 years we have quadrupled our broiler production. In that period we have learned how to raise broilers far more efficiently than we did 10 years ago. The industry constantly moved its product into market at lower and more attractive prices based on lower production costs with the result that the industry expanded tremendously.

If they had had a rigid price support program to freeze the price where it was 10 years ago the industry could never have expanded as it has in the last 10 years.

Representative CURTIS. My time is up.

Vice Chairman PATMAN. Senator Goldwater.

Senator GOLDWATER. Mr. Secretary, I want to join with my colleagues in paying tribute to a presentation that I think is very factual and of great value to the committee and when it is made available to the people of the country I think they will join us in thanking you for this approach.

Mr. BENSON. Thank you, Senator.

Senator GOLDWATER. I cannot help but comment on the statements you make on page 14 when you are discussing the undesirable parts of S. 3183. You say the big task, of course, is to persuade the patient to undergo surgery. I think the big task is to persuade the surgeons to undertake the surgery.

Vice Chairman PATMAN. You have a surgeon who wants the patient to live.

Senator GOLDWATER. If the surgeons want the patient to live they will use the knife quickly and cleanly.

Mr. Secretary, there has been a general overlooking of the fact that this problem of price squeezes, if you want to call it that, this relationship between prices paid and received by the farmer is something new.

I agree with Senator O'Mahoney that we cannot put the blame on either House. The Federal Government was wrong, in my opinion, when it stayed in it too long. I don't think either of us can blame the other on that. I want to review just for the record, before I ask you a question, a chart and figures that go back to 1913. I take it out of the Federal Reserve chart, bank credit, money rates and business, the historical supplement of 1955.

An interesting thing to note is that out of the last 42 years these records have been kept, the farmer has been in an advantageous position in relation to prices paid and received only 13 years, and that of those 13 years, 12 of them have been war years.

Starting back in late 1913 to about the middle of 1914, for some reason that I have not been able ot determine, we did find the farmer receiving more than he paid. Then we go to a period, late 1916 to well up in the 1920's, where he was in that same position.

But from late 1920 up until 1936 where the prices paid and prices received were about equal, he was in bad shape as far as this condition is concerned.

Then we have World War II, starting in 1942. We find the farmers' prices received again going over what he has paid.

In other words, he put—was put into a profit position. That stopped very early 1949. But the same situation began again in the middle of 1950 and continued until late 1952 which were the years of the Korean war.

I wanted to mention that because it might seem to the general public that this situation is something new. I do not have the figures back of 1913. I wish they were available. I wonder if you know if they are available.

Mr. BENSON. This is the beginning of our records on prices paid and received.

Senator GOLDWATER. I have a feeling if we go back to the beginning of the country we will find the same situation.

I mention these things because we are saying today in the Senate and we will see it in the House, a political approach to the solution of the farmers' problem. We will see it from both sides of the aisle.

I am wondering if, in your experience, going around the country to talk to farm groups and talking to businessmen about this, you do not feel or if you feel that it is possible to ever meet on this problem without injecting politics into it?

I do not ask that facetiously.

Mr. BENSON. I know you do not, Senator.

I presume it is reasonable to expect that whenever legislation is involved there is a tendency to have some political overtones and implications.

I have emphasized these past few months the importance of trying to keep this whole thing on a high, bipartisan plane. We have tried to develop the recommendations on that basis.

This National Agricultural Advisory Commission has been our principal tool in helping to develop these recommendations. We have sought the judgment of the farm organizations and other groups and I think the legislation, which has been developed in a bipartisan fashion, will have bipartisan support. At least I am very hopeful that it will.

I think it would be very unfortunate if we should attempt to make a major political issue out of this thing. It is a very serious matter.

Farmers are in distress and they need the very best judgment we can come up with and I would hope whatever is done is done not for political purposes but because it is best for the farmer.

Senator GOLDWATER. I was hoping you would say that because it is clearly evident in looking at this chart and reviewing the figures that go to make it up that the farmer's position has not been improved by the intervention of Federal controls.

On the other hand, there is nothing in the figures to show that they were any better off when they were operating under the laws of supply and demand; and because you cannot blame one or the other, it seems to me that the sound and sensible approach to this is to divorce it from politics if we can and to sit down and recognize that here is a problem which existed for 42 years that we know of.

Take it out of the hands of the Congress, if that is possible, and ask the farmers of the country to assemble and come up with some plans that will work, not just in election year but will work to take this dotted line above the solid line and keep it there.

Senator FLANDERS. Will the gentleman yield for 15 seconds?

Senator GOLDWATER. That is very short for a Senator.

Senator FLANDERS. I am old enough to remember the political campaigns of the 1890's. I remember that one of the goals of agriculture at that time was dollar wheat.

Senator GOLDWATER. That is all that I had, Mr. Chairman. I am sorry that I did not have more questions. I merely wanted to get this in the record.

Vice Chairman PATMAN. Senator Watkins

Senator WATKINS. Mr. Secretary, I am sorry I did not get to hear the first part of your presentation. I have not had time to read it while this debate has been going on but I want to say what I did hear seems to me to have presented a very fine, objective statement and it gives me considerable hope for the future.

I think you are to be complimented on this very able presentation.

Mr. BENSON. Thank you, sir.

Senator WATKINS. I have had some experience in a small way with farming, agriculture. It seems to me that one of the principal difficulties in the agricultural field is the large number of people who do not go into agriculture as their primary objective in the way of making a living but they are part-time farmers. Some of them just like to live on a farm and yet they are classed in the statistics as farmers.

There are many people who have very small acreages and cannot hope to make a living on a small farm. Is it not your opinion that one of the principal problems we have is to take care of that particular group who are listed as farmers and are rather numerous when it comes to voting as compared to the farmers who actually do the production, the major production of farm products?

Mr. Benson. I think that is a very important problem. It points up the danger in trying to group together everyone who produces agricultural commodities and to say that all of agriculture is in distress when as a matter of fact there are quite a large segment that have been doing quite well. There are some who get the major part of their income from other sources.

When I took office, cattle prices were skidding and had been for some months and the first long-distance telephone call I received was from a group of people out on the Pacific coast who wanted to come in and help straighten out the cattle business.

I found they were all in the medical profession. They had seen the farmer making a little money on high-priced cattle so they had gone out and rented feed lots and bought feed and cattle and hired some labor. About the extent of their own participation was to put up the money and to go out on Saturday afternoon and watch the cattle grow into dollars.

Of course they felt the squeeze first.

There is a lot of that.

There is always a tendency for other groups when they see the farmer is making a few dollars, to want to get in, too. Part of it is due to the fact that many of these business and professional men have been reared on a farm and once you get it in your blood you never fully get it out. So they go into poultry; they go into cattle feeding; they go into almost everything hoping they will make some money. They contribute to the increased supplies which help to decrease, to depress farm prices. They are the first ones to holler when things get tough and usually the first ones to get out.

But there is always another group to come in. But there is always one good thing about it; every time they come in and find it is not so easy in agriculture we have a few more sympathizers with the farm problem.

Senator Watkins. We have that perennial fever that seems to affect men sometimes. They think they ought to go into the poultry business. I think in my State we have probably had every man, adult, who has reached the age of 50 sometime or other has had something to do with poultry. They get in and get out in a hurry.

Well, it seems to me that is one of the big problems.

What is being done in the studies that are being made in the economic field to help take care of this situation with respect to these small farmers?

I can illustrate that in the State of Utah, and I am sure you are acquainted with the situation in Utah, I remember our farms don't average more than about 12 acres. That is supposed to have been an agricultural country and is still an agricultural country but during the depression we had about 50 percent of our people on Federal relief. But during the war and brought about by the war was the establishment of the Geneva Steel Co. in an area; now those farmers are getting along. Most of them have work either in the steel plant or growing out of allied and resultant enterprises that have come as a result of that big development and they seem to be getting along fairly well as compared to what they did previously.

In other words, simply could not make it on the average farm of around 12 acres, just almost impossible for them to do so.

What is being done in a study of that type of approach to take care of these areas where people really like to live on a farm? It gets in the blood and most people were reared on the farm, many of us, the leaders of the country, and they want to get back to it.

I am one of those who have had the same experience. I am a small fruit farmer. I love to do it even though practically all my investments are in that particular field. Yet we don't make any money at it.

I would be glad to get your comment on it. What is actually being done in the Department to help us in that?

Mr. BENSON. Senator, as you probably know, we made a study of this small farmer. I think it is the first comprehensive study that has ever been made of the low-income farmer. We have heard a lot of talk about his problem and his need and we have all sympathized with that need.

We undertook a comprehensive study of it. That study was finally approved by the President and was transmitted to the Congress. I think it was during April of last year, if I remember correctly. Some definite recommendations were made in the way of funds which we needed to implement the program. But we started immediately with the program in a number of pilot counties in about half the States of the Union and the program is already operating. It has a number of phases. It is an attempt to analyze the need of the low-income farmer who has received practically no help from the so-called price-support programs. And the objective is how to help him do the thing he wants to do to use his resources to best advantage.

Sometimes it is a credit problem. Ofttimes it is a question of the reorganization of his farm. Sometimes it is a question of combining farms.

Senator WATKINS. By that you mean not just increasing the size of his farm?

Mr. BENSON. Sometimes it is a question of increasing the size of his unit. Sometimes it is a question of helping him to find part-time employment. Sometimes it is a question of training, helping him with vocational training so he is qualified to take employment in other areas. Sometimes it is a question of establishing a new enterprise on his farm, maybe on a poultry unit, fruit unit, vegetable unit.

In other words, the whole objective is to help him use his resources to the best advantage and raise his standard of living. And the program is taking hold in fine shape. We are delighted at the response. The agricultural colleges are cooperating fully. The local county organizations are participating. The farm organizations are in it and we feel very much encouraged. We are hopeful that the Congress will provide the small additional funds we need for it, but, whether we get them or not, we are going to pursue it to the limit.

Senator WATKINS. Have they been requested in the budget?

Mr. BENSON. Yes; in the budget and also when the budget was sent up last April.

Senator WATKINS. What is being done in the way of dispersed industry, the type that can be located in these agricultural areas to make these small-time farmers really successful so they could live on the farm, could have the farm place for rearing of family and their own enjoyment and at the same time make a living. What is being done?

Mr. BENSON. That is definitely a part of the program.

As you know, the Department of Commerce and the Department of Labor are represented on our committee here for the operation and direction of the program. While the program is the primary responsibility of the Department of Agriculture, they are sitting in with us. Among the questions considered are how to help rural people find employment if they desire it, and the question of bringing new enterprises into the community. Ofttimes branches of factories can provide part-time employment for people who want to stay and live on farms and still need to supplement their income.

Senator WATKINS. Incidentally, as we have been told here several times today, there has been more or less antagonism on the part of industry in the past for farm groups. That has been somewhat the history. It occurs to me that industry might do a great deal to help this farm problem if they would get away from some of the big cities with some of their plants and get them out into the country where these people could live on these farms and at the same time be productive in that field.

Mr. BENSON. With our improvements in transportation and so on, there is a tendency now for industry to go to the labor supply and there is not any better labor than we have in these rural communities. And so there is quite a tendency on the part of industry to want to move branches of their industries out into rural areas where they can get a good, solid, substantial source of labor.

So I think the potential is very great and we are working on that line very effectively, I think, at the present time.

It is especially important in some of the Southern States where the problem of the small farmer is probably more concentrated than in any other part of the Nation although there are some areas in practically every State.

Senator WATKINS. Mr. Chairman, are we going to have another turn?

Vice Chairman PATMAN. Yes, sir, we will.

Mr. Secretary, I would like to ask just a very few questions, if you please.

You stated that $25,000 would be too low. Would you name a figure that would be too high?

In other words, so we could know between what limits you would be willing to stand? Would it be $50,000? Would that be too high?

Mr. BENSON. Frankly, Mr. Chairman, I have not firmed up a figure in my own mind.

Vice Chairman PATMAN. Would it be $75,000? Would that be too high?

Mr. BENSON. I don't know that it would. Some of these family operations now where they are fully mechanized handle rather sizable volumes, as you know. You have many of them in your State.

Vice Chairman PATMAN. I am trying to find something in between. Would $100,000 be considered too high?

Mr. BENSON. I think there would be very few over $100,000, certainly.

Vice CHAIRMAN PATMAN. You think that would be too high?

Mr. BENSON. I would think it would certainly be high enough. If we were going to establish a figure——

Vice Chairman PATMAN. I won't pursue it any further than that because somewhere between $25,000 and $100,000 I think——

Mr. BENSON. I would think so but I would want to take a little closer check on the figures and study it a little more before I firmed up any recommendations.

Vice Chairman PATMAN. How much in additional funds are you asking for the rural development program in the budget?

Senator WATKINS. $30 million, isn't it?

Mr. BENSON. May I ask Dr. Paarlberg to comment because he has been serving as secretary of the committee?

Dr. PAARLBERG. It is about $3 million for operating the various programs and about $30 million additional lending authority.

Vice Chairman PATMAN. Yes.

You now have about 1 year's experience under that program, do you not?

Dr. PAARLBERG. Yes.

Vice Chairman PATMAN. How many farms do you actually have on your books or are you actually working with?

Dr. PAARLBERG. We are working in about 30 pilot counties.

Vice Chairman PATMAN. About how many farms are involved?

Dr. PAARLBERG. Well, the program has been launched only last summer and a good deal of work has gone into the development of the program, into the planning stages, the setting up of committees and so forth.

Vice Chairman PATMAN. It is a new program. Would you say 100 farms in all or 1,000?

Dr. PAARLBERG. I don't think we could name a number at this time.

Vice Chairman PATMAN. Will you place in the record a statement including the number of farms that are in the program now and just what you have been doing in the 30 pilot counties? Would you also include the location of the counties, the name of the counties, and just exactly what you do in each county, the extent of the work, the amount of credit that has been used, and the amount of money that has been used in addition to credit?

Dr. PAARLBERG. We will be happy to do that.

Vice Chairman PATMAN. Also what is contemplated in the future if you get the additional money and credit requested in the budget.

(The information requested is as follows:)

RURAL DEVELOPMENT PROGRAM

Rural poverty is one of the most serious economic and social problems faced by this Nation. Even in periods of general prosperity and economic well-being, a significant number of our farm families have such low incomes that they are unable either to maintain a satisfactory standard of living or to purchase the land, equipment, and supplies that would enable them to improve their farming operations and raise their incomes.

Year after year, the number of farm families in this group appears to remain about the same. A recent report of a subcommittee of the Joint Committee on the Economic Report pointed out, "In terms of constant dollars, there appears to have been no appreciable change between 1948 and 1954 in the number of farm families with incomes under $1,000." In nearly 1,000 counties in the United States, more than half the farmers depend mainly on the income from small, poorly paying farms. Although the Southeastern part of the Nation has the highest proportion of small farmers with inadequate incomes, every State in the Nation experiences to some extent the economic debilitation of low productivity and purchasing power among a segment of its farm population.

In the past, education programs, credit, and technical assistance have spelled the difference between poor subsistence farming and an efficient, up-to-date operation for many family farmers. These services, however, have not always been able to reach the very low-income farm family. In addition, improved farming is only a partial answer to rural poverty in many areas.

The most practical method of striking at the roots of rural poverty is a program in which local people have the maximum responsibilty for leadership and are in a position to give overall direction in the use of cooperative Federal-State services, both agricultural and nonagricultural. Rural poverty results from many different conditions, including lack of education and skill, poor health, old age, inadequate farm resources, and few opportunities in trade and industry. These conditions vary in importance and effect from one area to the next. Local farm, business, civic, and church leaders are in the best position to determine the proper kind of program for their particular area.

In essence this is the basic idea motivating the rural development program as projected by Secretary of Agriculture Ezra Taft Benson in his recommendations of April 1955 and as the program is now taking shape in the States. It is proposed to expand and adapt assistance activities Congress has long supported in a coordinated program under the direction of State and local leaders. These activities include special agricultural extension work with small farmer families, research on farm-home management problems in particular areas, credit aid to small farming units, increased technical assistance, aid in the promotion of industry and trades, vocational training in different skills for the young people, and employment services to meet the needs of these farm people.

Because of the extent and diversity of this economic problem and the newness of the projected Rural Development program, initial activity is planned as experimental in scope and nature. Secretary Benson has recommended pilot operations in not less than 50 counties where farming is characterized by a lack of resources, underemployment, and chronic low production and income. Experience could thus be gained for an expanded program in widespread areas of the Nation in future years. Low-income farming arises from deep-rooted economic, physical, and historical causes. Any program to assist people in rural communities to overcome environmental conditions leading to low incomes and join in the prosperity of a growing nation must necessarily be based at first on a continuing and careful evaluation of pilot work in a limited number of counties and areas. The Rural Development program is presently in the initial, planning stages, with preparations going ahead for this pilot county activity.

The extent of interest in this program and determination to make a start toward coordinated rural community improvement are shown dramatically by the large number of States where organization and planning is going forward. In over half the States, organization and discussion leading to participation in the Rural Development program has taken place. State leaders have named a total of 35 pilot counties or trade areas. In 15 States Rural Development committees of representatives from appropriate State and Federal agencies meet regularly to provide general leadership.

This record, made in the past 6 months, is even more impressive when we realize that the Federal Government at present has practically no new or additional resources to put into the program. A supplemental appropriation was made for regular production and subsistence loans by the Farmers Home Administration. In general, however, requests for modest funds and certain new authority, which will permit the Federal Government to cooperate fully in the program, are still before the Congress. These funds would finance special extension work in areas of low farm income, research and technical assistance, employment information and advice for farm people wanting off-the-farm jobs, and necessary administration. Full Federal Government participation will encourage States that have begun organizing for the Rural Development program to step up their efforts and other States to join in the program.

At present almost all activity, outside certain essential administration and information work, is centered in the States. In most participating States, Rural Development committees have selected pilot counties and met with leaders in these counties to organize for pilot programs. County leadership groups are made up of business, farm and civic leaders and the county extension agent's office usually has major administrative responsibility.

Even at this early date, and in spite of the lack of Federal services available for the program, considerable county-level organization has been completed and some preliminary studies on resources have been started. In two pilot counties economic resource surveys had been completed before they were designated as pilot counties. (Attached to this statement are (1) a listing of the pilot counties designated by States, a brief dscription of initial preparations for programs in them, and (2) a table showing funds available to Federal agencies in fiscal 1956 and amounts proposed for 1957.)

Both in Washington and in the States, personnel of the Departments of Agriculture; Commerce; Labor; and Health, Education, and Welfare are cooperating in State planning and organization to the greatest possible extent within the limits of available resources. State activity, taken in entirety, constitutes a solid foundation for the Rural Development program. It shows the determination of State and local leaders to go forward wisely with a long-range program.

Funds requested from the Congress for special Federal assistance in pilot areas during fiscal year 1957 will permit the States to make use of vital special resources in carrying forward plans and organization now in preparation. In addition, we will obtain the practical, worthwhile experience in particular counties that is the product of adequate resources, proper planning, and skilled evaluation.

To a great extent operations and results in pilot areas will determine the course of the Rural Development program. Adjustments will undoubtedly be necessary as we have the benefit of experience gained through cooperative relationships with the States under the program and by means of widely scattered, varied activity at the county level. An increased program in forthcoming years will be necessary in order to step up rural community development and assist a greater number of areas to obtain the benefits of such work. The ultimate objective is to reach all rural areas where the problem of severely low incomes is most serious. The extent of future operations under the Rural Development program will depend on the general economic situation, the intentions and desires of State and local leaders, and as mentioned above, experience gained in the "pilot" stage, which we are now entering.

The challenge in areas of low farm income is to help farm people adjust to changing conditions. This is the purpose of the Rural Development program. Farm people who want to supplement their income with off-the-farm work should have an opportunity to do so; those who want to stay in farming should be helped to improve their operations. Economic progress in areas of low rural income calls for lasting adjustments that can only take place gradually and through the real interest and cooperation of all concerned.

PILOT COUNTIES IN THE RURAL DEVELOPMENT PROGRAM AS DESIGNATED BY STATE LEADERS

Arkansas: Ouachita, Phillips, and Van Buren.—County extension agents have made preliminary plans. The State rural development committee has prepared a suggested procedure for projecting the rural development program at the county level.

Kentucky: Ashland-Huntington, Glasgow, and Bowling Green.—These are trade areas including several counties. A committee has been formed at the University of Kentucky made up of research, teaching, and Extension Service personnel to study organization and methods for rural development and the objectives of an effective program.

Maryland: Garrett.—A planning meeting will be held with leaders of the county early in March.

Mississippi: Covington, Holmes, and Tippah.—Meetings of the county agricultural coordinating councils in these counties have been attended by representatives of the State agricultural coordinating council to assist in formulating rural development program plans. These counties are also among several selected previously for expanded farm and home planning work.

Missouri: Dent, Oregon, and Ripley.—Cooperative farm management research is planned as initial action in these counties.

New Mexico: Sandoval and Santa Fe.—Present work will be expanded to include objectives of the rural development program.

North Carolina: Anson, Bertie, and Watauga.—Meetings of rural development committee representatives and local leaders have been held to discuss the program and its aims.

Oklahoma: Choctaw.—The State rural development committee has named an executive committee having responsibility for planning. A county-level rural development committee has been formed.

Ohio: Monroe.—Local initiative in the county has already promoted resource surveys and other planning for development. An industrial development committee is at work. The State extension service is adding an additional staff member to the county.

Oregon: Marion and Washington.—Special work with part-time farmers who earn most of their income off the farm has been included in the total objectives of the rural development program.

Pennsylvania: Fayette.—The county has an existing industrial and agricultural development committee, and has been the subject of a State university economic study.

South Carolina: Colleton, Edgefield, Florence, Richland, Spartanburg, and York.—Some work on the program will be started using additional personnel in connection with the farm and home development program. State agricultural leaders are planning to concentrate in one county, if additional funds become available.

Tennessee: Grainger, Hardin, and Macon.—A conference on the rural development program was held in mid-February attended by representatives of the State committee and leaders in the three counties. The latter outlined detailed reports on the resource situation in their counties and plans for development.

Texas: Cherokee.—Federal and State agency representatives met February 2 with the county rural development committee to discuss plans. A preliminary study of human and physical resources in the county has been started.

Washington: Clark and Kitsap.—The State extension service plans to carry out some of the functions of the rural development program in connection with farm and home planning in the two counties. Both these areas have a large part-time farming population.

West Virginia: Lewis.—A rural development committee has been established in the county to provide leadership in cooperation with the State committee. Planning meetings at both the State and county level have been held.

ACTIVITIES IN 1956 AND PROGRAM FOR 1957

The following table shows the activities being conducted by Federal agencies under the rural development program, the funds specifically appropriated for this purpose in the fiscal year 1956, and amounts proposed specifically for the program in the 1957 budget. In addition, the agencies shown below, and other agencies, are providing assistance under their regular programs with the problems of low-income areas, to the extent that this is possible within the overall objectives of such programs and the funds available for carrying them out.

Agency and item	Funds appropriated 1956	Specific amounts proposed in 1957 budget
DEPARTMENT OF AGRICULTURE		
Farmers' Home Administration:		
Loan authorization: Production and subsistence loans	$15,000,000	$15,000,000
For farm operating loans to low-income farmers who are unable to obtain needed credit from other sources.		
Salaries and expenses	369,750	369,750
To provide for making and servicing production and subsistence loans to low-income farmers.		
Increases proposed for 1957 (forecast of supplemental estimate based on anticipated enactment of authorizing legislation):		
Loan authorization		15,000,000
For small farm operating loans to low-income and part-time farmers who are unable to obtain credit from other sources. In addition, it is anticipated that necessary real-estate loans will be made from funds advanced by private lenders and insured by the Government, and that such loans will total approximately $6,000,000 in the fiscal year 1957.		
Salaries and expenses		530,000
To provide for making and servicing small-farm development loans to low-income and part-time farmers.		
Loans in connection with the rural development program are repayable over a period of years consistent with the ability of the borrower to repay. Some losses undoubtedly will be sustained. However, the net cost to the Government considering principal losses and interest on funds borrowed from the Treasury, offset by interest collections and insurance charges from borrowers probably will not exceed 3 percent in connection with both the loans made from borrowing authorities from the Treasury and insured loans advanced by private lenders.		
Total, Farmers' Home Administration	15,369,750	30,899,750
Extension Service:		
Fiscal year 1956: Within the funds available the Extension Service is intensifying its educational work with low-income farm families, and is providing leadership in working with other agencies and groups to aid in selecting rural development counties in which work will be initiated to provide experience for broader application of the program.		
Increases proposed for 1957:		
Payments to States		890,000
For establishment of additional cooperative State extension programs in pilot areas to provide special assistance to low-income farmers to improve their agricultural resources and living standards.		
Federal Extension Service—Administration and coordination		35,000
To provide for administration, coordination, and specialized program leadership to assist the States in carrying out the proposed program in selected low-income farming areas.		
Total, Extension Service		925,000
Soil Conservation Service:		
Fiscal year 1956: No funds have been allotted specifically for the Rural Development Program in 1956. However, State conservationists are working with deans of agriculture and heads of other State and Federal agencies in setting up plans for the program, in selecting "pilot" counties, and in developing joint procedures. In the counties selected, SCS technicians are helping to develop local plans and procedures. In this fiscal year the agency will probably make a few special soil surveys and give technical assistance in farm planning to a few low-income farmers over and above those included in the regular program.		
Increases proposed for 1957: Conservation operations		477,600
To furnish accelerated technical assistance to low-income farmers in selected areas as an aid in solving their economic problems.		
Agricultural Marketing Service:		
Fiscal year 1956: A small project is being conducted in 1956 in cooperation with the University of Kentucky. This will involve a field survey in selected low-income areas of the State to ascertain the effects of extension of social security to farmers. It is estimated that this study will cost about $4,000.		
Increases proposed for 1957: Marketing Research and Service—Marketing research and agricultural estimates		262,800
To determine the supply and demand for farm products, and the feasibility of locating agricultural processing plants and auxiliary marketing service agencies in low-income areas ($78,800); and for cooperative field studies or underemployed rural manpower, ways of improving occupational skills, mobility and utilization of health facilities and effects of extension of social security to farmers in low-income areas ($184,000).		

Agency and item	Funds appropriated 1956	Specific amounts proposed in 1957 budget
DEPARTMENT OF AGRICULTURE—continued		
Agricultural Research Service:		
Fiscal year 1956: Farm and land management research being conducted with funds already provided includes (a) analysis of 1955 census and other data to determine nature, severity, location, and extent of low-income farm problems; (b) analysis of experience of FHA borrowers in improving farm income; and (c) appraisal of income improvement possibilities in three local areas. It is estimated that the obligations to be incurred for this work will be approximately $65,000.		
Increases proposed for 1957: Salaries and expenses—Research		404,300
To expand farm and land management research to aid low-income farm families to increase their income-earning capacity ($330,000); and for studies to help farm families in low-income areas improve their living through more efficient use of family resources ($74,300).		
Forest Service: The Forest Service is working in all of the 27 States which include large areas of rural underemployment. While all of the Forest Service program is helpful to farmers in these areas it is making specific contributions through, (1) research on the marketing of forest products; (2) the provision of local employment in national forest timber harvesting and sales; and (3) under the Federal-State cooperative program, the provision of technical forest management assistance to farmers, and efforts of management specialists to bring new forest industries to low-income areas.		
Office of the General Counsel (forecast of supplemental estimate based on anticipated enactment of authorizing legislation)		38,500
For legal services in connection with the proposed program of the Farmers' Home Administration for loans to low-income and part-time farmers.		
Office of the Secretary		19,995
To provide for overall coordination and administration of the Rural Development Program.		
Office of Information		31,400
To provide special information materials in connection with the proposed Rural Development Program.		
Total, Department of Agriculture:		
Direct appropriations	369,750	3,059,345
Loan authorizations (FHA)	15,000,000	30,000,000
FARM CREDIT ADMINISTRATION		
The cooperation of the Farm Credit Administration and the banks, corporations and associations which it supervises includes the following: (1) The Farm Credit Administration will keep Farm Credit district offices informed of plans and developments initiated at the Washington level; (2) the district supervisory offices, in turn, will assist local production credit associations and national farm loan associations in keeping informed of county programs in their respective territories and will encourage these associations to cooperate in these programs; and (3) the associations can assist during the planning stages of the local program and later with loans when proposed farm plans and other aspects are sound and otherwise acceptable.		
No additional appropriations will be requested by the Farm Credit Administration for administrative expenses. Any additional loan funds required in connection with the program will be obtained in the usual course of business through the sale of bonds or debentures in the investment market. These bonds and debentures are not obligations of the United States.		
DEPARTMENT OF LABOR		
Fiscal year 1956:		
The Department of Labor through the Bureau of Employment Security is working in close cooperation with the Department of Agriculture in program development and planning for proposed State and local operations. This activity started in June 1954 and has continued at intervals since that time to the extent that staff time has been available.		
The State employment security agencies are providing assistance to State agricultural agencies and other groups in planning and developing State and local level programs within the limitations of existing staff resources during 1956.		
Increases proposed for 1957:		
Bureau of Employment Security:		
Grants to States for Unemployment Compensation and Employment Service Administration:		
Research		$211,000
Operations		574,000
Total		785,000
Salaries and expenses:		
Research		15,550
Operations		88,850
Total		104,400

Agency and item	Funds appropriated 1956	Specific amounts proposed in 1957 budget
DEPARTMENT OF LABOR—continued		
The Bureau of Employment Security and the affiliated State employment security agencies will work in close cooperation in the development of State programs and will initiate about 50 pilot county programs of an experimental nature that will include the following steps:		
1. An economic survey will be conducted in each county in close coordination with State and Federal agricultural agencies. In some areas such surveys may be carried on as a joint project with both the State Employment Service and State agricultural agencies participating. The survey will provide industry and economic resource data as a basis for future program activities. The economic data will be used in developing a labor market information program for the county.		
2. An inventory of individual workers in the county will be carried on through a house-to-house canvass to determine the worker's skills, aptitudes and personal background information. This inventory will be used in connection with the basic economic data for the area in deciding if local industries may be expanded or new industries brought in and employment in the area increased.		
3. Where necessary a job development program will be conducted outside the local area. This will involve the development and exchange of labor market information between selected outside areas and the survey counties; provision of job counseling and occupational guidance; assistance in planning local vocational training programs; specialized testing and placement services for individual workers and families; and initiation of special labor clearance programs between areas of demand and the pilot counties where workers' skills and aptitudes can be matched with job specifications.		
4. Low income area labor markets will be classified and where a nonagricultural classification of the area already exists, it will be expanded to cover the farm labor market which is not being covered at the present time. This will identify these areas on a continuing basis so that industries planning the location of new plants will be aware of the manpower resources available and can then obtain further data with regard to any particular locality. It will also aid in selecting areas for recruitment of workers needed in labor-shortage areas. In addition, the classification of these areas will be available to Federal and State agencies responsible for programs which can help in alleviating conditions in the low-income areas.		
Total, Department of Labor		$889,400
DEPARTMENT OF COMMERCE		
The present activities of the Office of Area Development, U. S. Department of Commerce, which contribute to the rural-development program involve encouraging State and local organizations, commonly concerned with industrial development only in urban areas, to cooperate with rural organizations in creating rural industry opportunities. The work is being financed in 1956 and 1957 without specific increases in funds for these activities and it is estimated that obligations will be about $5,000 in each year.		
DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE		
The extensive grant-in-aid programs of the Department of Health, Education and Welfare are largely administered by State health, education, welfare and vocational rehabilitation agencies. The problems and opportunities for service in the rural-development program are of special interest to them. Constituent agencies of the Department of Health, Education, and Welfare have held a number of meetings with State agencies to discuss the program.		
Grand total:		
Direct appropriations	369,750	3,948,745
Loan authorizations	15,000,000	30,000,000

Mr. BENSON. Much of it, Mr. Chairman, has been educational work in the preliminary stages where we have meetings with rather sizable groups.

Vice Chairman PATMAN. I know that is important.

Do you consider the interest burden, Mr. Secretary, as worsening the plight of the farmer at this time or have you considered that?

Mr. BENSON. Mr. Chairman, anything that tends to increase the farmer's cost, whether it be interest, price of farm machinery or any other costs in these farming operations, tends to increase the squeeze and to bear down on him in his farm operations; and interest is one of those costs.

Vice Chairman PATMAN. I wish you would give special consideration to that. I do not say it is the whole cost but I think it is one of the greatest contributing factors and I believe if you will look into it thoroughly you will probably agree that there is something to it.

Mr. BENSON. Mortgage loans, Federal Farm Bank Loans are still about 4 or 4½ percent.

Vice Chairman PATMAN. I know, but that is such a minor part. From the farmer down to the consumer, the product necessarily goes through a lot of steps: manufacturer, processors, transportation, factors, brokers, wholesalers, retailers, and if each one adds on increases in interest rates, that is taken out of the farmer. And on what the farmer buys as you go back to iron ore, from the mining to the fabricator, transporter, middle men, into farm machinery, interest is added on at each step. So it is bound to be quite a big factor.

Mr. BENSON. We are, as you know, in the Department putting increased emphasis on this question of distribution and marketing. Through the years past our tendency has been to use much, most of our research funds to increase production, efficiency. We are putting a lot more emphasis on this field of marketing, making that more efficient. Our whole distribution program, we think, can be increased in its efficiency and thereby narrow the spread between farm prices and consumer prices.

Vice Chairman PATMAN. Very fine, but I don't think you can solve the farmer's problem only in that way. I think price has to be considered more.

Mr. BENSON. Certainly price is important.

Vice Chairman PATMAN. Senator Douglas asked Mr. Humphrey, Secretary of the Treasury, recently when he was before this committee: "You do not regard falling farm prices as alarming?"

And Seecretary Humphrey said, "I do not."

The Secretary went ahead and stated:

> I think it is undesirable a thing that we, all of us ought to do everything we can to correct but I think it results from a great many years of practices that cannot be corrected in just a minute.

The point is, do you consider the falling farm prices alarming, Mr. Benson?

Mr. BENSON. I can say, Mr. Chairman, I was deeply concerned when I took office that farm prices had been going down since February of 1951 and I have been concerned since. I do not like to see the squeeze on the farmer. I would like to see his prices improved. I would like to see his costs come down. I am going to do everything that is economically sound and fair to all of our people to achieve that.

Vice Chairman PATMAN. I know, but the question is, Do you consider the falling prices alarming?

Mr. BENSON. That depends on what interpretation you put on the word "alarming." I can say I am deeply concerned.

Vice Chairman PATMAN. Yes sir.

Mr. BENSON. I want to improve the situation.

Vice Chairman PATMAN. Dr. Talle, do you want to ask some questions?

Senator O'Mahoney, any questions?

Senator O'MAHONEY. I was most appreciative of the questions that were asked by Mr. Curtis just before I was called away, with respect to the payments which will be made under this program, and that applies, I think, both to the support program and to the conservation program.

He spoke of statistics showing that about 9 percent of the farms in the United States receive about 50 percent of all the payments that are made.

Now, the converse of that is that 91 percent of the farmers receive the other 50 percent. That is where the great difficulty comes, it seems to me, because the large farms cultivate by far the greatest proportion of the arable land in the United States, and they have the best advantage of modern farm mechanism.

I have wondered whether the Department of Agriculture since its supports the family farm, as you stated this morning in answer to my question, would agree to some sort of a compromise which would get us some legislation without the use of any surgeon's knife, whether it be a veto or a performance upon the floor of the Senate.

A suggestion of this kind; that the small farmers, under 1,000 acres, for example, the small farmers operating such farms, noncorporate family farms, should have 90 percent of the supports and that the flexible supports should be applied only to the large mechanized farms of which Mr. Curtis spoke.

Have you ever given consideration to such a possibility?

Mr. BENSON. I do not know that we have given detailed consideration to it. I am going to ask Mr. Butz to comment on that. We did give some thought to it.

Mr. BUTZ. Senator, that proposal has been made from time to time. I think the net effect of that would be to open the door to constantly increasing pressure to reduce the size of the farm operation that gets the 90-percent support until you get it down to an almost impossible place.

Senator O'MAHONEY. Let me see. Are you not worrying about something that may be difficult to——

Mr. BUTZ. When you say farms under 1,000 acres, you are including an awful lot of farms.

Senator O'MAHONEY. I said that only because I don't have the statistics before me. You have been requested to present the committee with the statistics not only with respect to farms and their acreage but in more detail than would be found in the census figures, detail which comes to the Department of Agriculture because of their long experience and at the same time a schedule of the payments. When payments get into huge sums they undoubtedly stimulate the production. The purpose of this legislation is to prevent the development of surpluses in the future.

One thing is clear, it seems to me, and that is that the family-size farm will produce less than the big corporate farm with all the mechanical aids. What is this pressure you are talking about that would cause the big corporate farm to give up land ownership and split the farm into smaller units? Maybe that would be a good thing.

Mr. BUTZ. I think when the data you have requested are supplied to the committee you will discover that the proportion of our total production produced by corporate farms is really quite small. The great bulk of the agricultural production in America is still by family farms. Some of these family farms have gotten rather large under mechanization.

Senator O'MAHONEY. Isn't it true, as Congressman Curtis cited the statistics, that less than 10 percent of the farms in the United States get 50 percent of the total paid out by the Government? It must be obvious that it is the big farms that are getting most since some of these farms go down to as small as 18 acres and in this bill there is a provision with respect to cotton farms that runs as low as 4 acres.

Mr. BUTZ. I think that is right. However, if you get a farm as low as 18 acres, or with a cotton allotment of 4 acres, 3 acres, or in some cases 2 acres, 90 percent of price supports will not help very much. The problem of such farms is to get an opportunity to produce more.

I gather if you pursue this——

Senator O'MAHONEY. Would it help them at all?

Mr. BUTZ. It won't help them very much because, after all, income is a matter of production times price. It won't help if you throttle down the right to produce as we have in the case of many cotton farms or in the case of many tobacco farmers.

For example in the burley tobacco area, as you well know, we have now a minimum acreage allotment of five-tenths of an acre. Last year, approximately three-fifths of our total individual burley allotments were at the minimum.

There is no reasonable level of price supports that will very much help a man with five-tenths of an acre allotment of burley.

Senator O'MAHONEY. That is true. But I am not thinking now of the very abnormal situation that exists in the areas where cotton is produced. I am thinking of the situation that exists in the States of the West, from west of the Mississippi: For example, in Kansas, and in Iowa, in Nebraska and Utah. We don't have any 18-acre farms through there.

Mr. BUTZ. Let's take wheat as a case in point in the area which you mention where acreage allotments have been distributed based on the 55-million-acre minimum allotment for the United States. Many individual producers in your State, for example, have been cut back to 60 percent of their normal acreage—something like that—from the acreage they used to grow.

Senator O'MAHONEY. What would that normal acreage be? Do you remember?

Mr. BUTZ. We came down from around 75 million acres a few years ago and cut to 55 million. Many individual producers in your State have suffered a cut in their allotment of up to 40 percent, I suspect.

Senator O'MAHONEY. When those farmers, individual farmers, have comparatively small farms, 500 or 600 acres, they suffer more heavily from the cutback than does the giant farm of over 1,000 acres.

Mr. BUTZ. I think that is right.

Senator O'MAHONEY. Isn't that true?

Mr. BUTZ. Yes.

Senator O'MAHONEY. If that is a fact, why can't we confront that fact, because what is happening in many of these Western States is that the farmer is being driven from the farm because we have not solved the problem of adjusting agriculture to the industrial economy; that is our trouble. And I am not interested in a political debate about it. There is the fact.

Mr. Butz. Yes. I think there are two sides to that pair of scissors you are discussing.

Senator O'Mahoney. I am trying to get to the crux of them.

Mr. Butz. The other side is, I think, that we have progressively destroyed our market in many respects by the pricing program we have been following.

Cotton, of course, is a classic example, with synthetics coming in. But even in the case of wheat, we have encouraged production around the world. We have some countries now exporting that used to be importing countries, like France, for example. Also, we have priced a good deal of our wheat domestically out of what was traditionally a feed market.

As long as we pursue that program it becomes more and more necessary to curtail the opportunity to produce. The really basic problem our small farmers face is the opportunity to expand their output if they are efficient and if they are mechanized, which they cannot do under the present restrictions.

Senator O'Mahoney. I am a strong advocate of the principle that a farmer is entitled to live on his farm and do the best he can with that farm, and I would hesitate to support an agricultural program which was aimed at the destruction of the little farmer by driving him off.

All I am asking you to do, Mr. Butz, now, is to help me out, to find out what would be the best way to do that. You might disagree with me. You might have a different line of division. We had no difficulty in doing this in the sugar bill; we did it several years ago. There we adopted a decreasing scale of benefit payments.

Why don't we do it now?

This agricultural bill which I have before me says, in section 205:

> The total compensation paid producers for participating in acreage reserve program with respect to any year's crops shall not exceed $750 million. The compensation shall be paid any producer for participating in the acreage reserve program with respect to any crop of tobacco, shall not exceed $100 an acre.

Now, you have no hesitation in placing the limitation with respect to tobacco crops at $100 an acre. Perhaps we could devise a formula by which we could make the family-size farm a reality.

I picked up a copy of a speech delivered by the commodity editor of the New York Journal of Commerce the other day. This was published in the Journal of Commerce of February 23. He was talking on February 21, and he said:

> The political angle is disguised under the slogan of "agriculture is a way of life" and "perpetuating the family farm." Actually what is being perpetuated, in many instances, is no more than farm slums.

Well, I know of many farms that are suffering and I know many farmers that have been driven off their farms because of the squeeze in which we all acknowledge them to be. And they are not leaving farm slums by any means. They are supporting businessmen and banks in their little rural communities.

Perhaps we can save them by adopting a rational and commonsense rate of payments. And why do I talk about rates, you might ask. This bill we have before us gives to the Secretary—which means to say it gives to you gentlemen in the Department—the authority to deal with rates.

Let me read this language from page 10 beginning at line 14:

> Compensation under this section shall be at such rate or rates as the Secretary determines will provide producers a fair and reasonable return for reducing their acreages of the commodity.

Now, who defines "reasonable return"? Who defines "fair return"?

Mr. BENSON. May I comment on this?

Senator O'MAHONEY. I am not criticizing; this is just a fact, you understand.

Mr. BENSON. This pertains to the payments under the acreage reserve part of the soil bank.

Senator O'MAHONEY. This is different from the support program.

Mr. BENSON. The intention here, of course, is to offer incentives so farmers that will make it worth their while to come in and participate in the program. Obviously, you can't set a flat rate because the income from farm acres varies from farm to farm and from community to community. So there must be some discretion.

Now, the local committees——

Senator O'MAHONEY. Mr. Secretary, the bill is full of discretions.

Mr. BENSON. That is right.

Senator O'MAHONEY. I have lived through a lot of Congressional delegations of power. It disturbs me because it means that we are letting the powers of Congress go to the executive branch.

Mr. BENSON. Senator O'Mahoney, this is the same authorization we have under the ACP program now.

Senator O'MAHONEY. I know it.

Mr. BENSON. We vary the rates. I would be perfectly wiling to be relieved of it, but it seems to me if you are going to get participation you have got to pay according to the productivity of the land you are going to take out. You can't set a flat rate.

Senator O'MAHONEY. May I ask, Mr. Secretary, that you and your staff prepare some such amendment as I have suggested? I may offer it on the floor—to save family-size farms.

Point out all the objections that you want to but see if there is not somebody in the Department who can find arguments to support it.

Mr. BENSON. You are no more interested in the family-size farm than we are, I assure you of that. And this low-income farm is aimed right at the problem that faces our low-income farms but if our legal staff can be helpful in drafting anything we will be glad to.

Senator O'MAHONEY. I have given your your homework.

(The general objections set forth by Senator O'Mahoney are embodied in two bills now before the Senate: S. 2776 by Senator Thye and S. 3027 by Senator Scott. The bills appear herewith:)

[S. 2776, 84th Cong., 2d sess.]

A BILL To preserve the family farm

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 101 of the Agricultural Act of 1949 is amended to read as follows:

"SEC. 101. (a) The Secretary of Agriculture (hereinafter called the 'Secretary') is authorized and directed to make available through loans, purchases, or other operations, price support to cooperators for any crop of any basic agricultural commodity, if producers have not disapproved marketing quotas for such crop, at the levels provided in paragraphs (1) and (2) as follows:

"(1) For tobacco the level of support shall be not in excess of 90 per centum of its parity price nor less than the level provided by the following table:

TOBACCO PRICE SUPPORT TABLE

If the supply percentage as of the beginning of the marketing year is—	The level of support shall be not less than the following percentage of the parity price:
Not more than 102	90
More than 102 but not more than 104	89
More than 104 but not more than 106	88
More than 106 but not more than 108	87
More than 108 but not more than 110	86
More than 110 but not more than 112	85
More than 112 but not more than 114	84
More than 114 but not more than 116	83
More than 116 but not more than 118	82
More than 118 but not more than 120	81
More than 120 but not more than 122	80
More than 122 but not more than 124	79
More than 124 but not more than 126	78
More than 126 but not more than 128	77
More than 128 but not more than 130	76
More than 130	75

"If marketing quotas are in effect, the level of support shall be 90 per centum of the parity price.

"(2) For basic agricultural commodities other than tobacco, support shall be provided through loans or purchases at the levels provided by the following table:

PRICE SUPPORT TABLE FOR BASIC AGRICULTURAL COMMODITIES OTHER THAN TOBACCO

If the loan or purchase would increase the aggregate price support loans and purchases made with respect to all basic agricultural commodities (other than tobacco) produced by the producer during the calendar year to an amount—	The level of support shall be the following percentage of the parity price:
Not exceeding $1,000	100
Exceeding $1,000 but not exceeding $2,000	98
Exceeding $2,000 but not exceeding $3,000	96
Exceeding $3,000 but not exceeding $4,000	94
Exceeding $4,000 but not exceeding $5,000	92
Exceeding $5,000 but not exceeding $6,000	90
Exceeding $6,000 but not exceeding $7,000	88
Exceeding $7,000 but not exceeding $8,000	86
Exceeding $8,000 but not exceeding $9,000	84
Exceeding $9,000 but not exceeding $10,000	82
Exceeding $10,000 but not exceeding $11,000	80
Exceeding $11,000 but not exceeding $12,000	78
Exceeding $12,000 but not exceeding $13,000	76
Exceeding $13,000 but not exceeding $14,000	74
Exceeding $14,000 but not exceeding $15,000	72
Exceeding $15,000	70

For the purpose of this paragraph that portion of any loan or purchase which would increase the total price-support loans or purchases made with respect to all basic agricultural commodities, other than tobacco, produced by the producer during the calendar year to any multiple of $1,000 shall be treated separately from the balance of such loan or purchase. In the case of husband and wife, parents and dependent children, or other family unit residing in one household and recognizing a single authority as the head of the family, not more than one person or group of persons shall be recognized as a producer for the purpose of this paragraph. Price support through operations other than loans or purchases may be made at such levels not in excess of 70 per centum of the parity price as the Secretary may deem necessary. In the absence of action by the

Secretary under section 402 of this Act the 'current support price' of any basic agricultural commodity, other than tobacco, for the purposes of section 407 of this Act shall be 70 per centum of its parity price as of the beginning of the marketing year.

"(b) Notwithstanding the foregoing provisions of this section—

"(1) the level of price support to cooperators for any crop of a basic agricultural commodity, except tobacco, for which marketing quotas have been disapproved by producers shall be 50 per centum of the parity price of such commodity; and no price support shall be made available for any crop of tobacco for which marketing quotas have been disapproved by producers;

"(2) the level of price support for corn to cooperators outside the commercial corn-producing area shall be 75 per centum of the level of price support to cooperators in the commercial corn-producing area;

"(3) price support may be made available to noncooperators at such levels, not in excess of the level of price support to cooperators, as the Secretary determines will facilitate the effective operation of the program;

"(4) where a State is designated under section 335 (e) of the Agricultural Adjustment Act of 1938, as amended, as outside of the commercial wheat-producing area for any crop of wheat, the level of price support for wheat to cooperators in such State for such crop of wheat shall be 75 per centum of the level of price support to cooperators in the commercial wheat-producing area.

"(c) Notwithstanding any of the provisions of this Act, section 2 of the Act of July 28, 1945 (59 Stat. 506), shall continue in effect.

"(d) The provisions of this Act relating to price support for cotton shall apply severally to (1) American upland cotton and (2) extra long staple cotton described in subsection (a) and ginned as required by subsection (e) of section 347 of the Agricultural Adjustment Act of 1938, as amended. Disapproval by producers of the quota proclaimed under such section 347 shall place into effect the provisions of section 101 of this Act with respect to the extra long staple cotton described in subsection (a) of such section 347. Nothing contained herein shall affect the authority of the Secretary under section 402 to make support available for extra long staple cotton in accordance with such section 402."

[S. 3027, 84th Cong., 2d sess.]

A BILL To provide a system of graduated price support levels for cotton and wheat based upon amounts produced

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 101 of the Agricultural Act of 1949, as amended, is amended by redesignating subsections (c), (d), (e), and (f) as subsections (e), (f), (g), and (h), respectively, and by inserting after subsection (b) the following new subsections:

"(c) For wheat, if the total number of bushels produced on the farm is:

	The level of support to the producer shall be not less than the following percentage of the parity price
Not more than 1,000	100
More than 1,000 but not more than 1,500	95
More than 1,500 but not more than 2,000	90
More than 2,000 but not more than 2,500	85
More than 2,500 but not more than 3,000	80
More than 3,000 but not more than 3,500	75
More than 3,500 but not more than 4,000	70
More than 4,000 but not more than 4,500	65
More than 4,500	60"

"(d) For cotton, if the total number of bales produced on the farm is:

	The level of support to the producer shall be not less than the following percentage of the parity price
Not more than 15	100
More than 15 but not more than 30	95
More than 30 but not more than 50	90
More than 50 but not more than 100	85
More than 100 but not more than 150	80
More than 150 but not more than 200	75
More than 200 but not more than 250	70
More than 250 but not more than 300	65
More than 300	60"

SEC. 2. Such section is further amended—

(1) by striking out "(a), (b), and (c)" in the matter preceding subsection (a) and inserting in lieu thereof "(a), (b), (c), (d), and (e)";

(2) by striking out the word "wheat", in the matter preceding the table in subsection (a);

(3) by striking out the words "cotton and" in the matter preceding the table in subsection (b);

(4) by striking out "101 (d) (3)" in the subsection redesignated as subsection (f) and inserting in lieu thereof "101 (f) (3)."

SEC. 3. The amendments made by this Act shall be effective with respect to marketing years beginning in 1956, and succeeding years.

Vice Chairman PATMAN. Senator Watkins.

Senator WATKINS. I have 1 or 2 questions.

Mr. Secretary, can you tell us briefly what is being done in the field of research to increase the demand for farm products, that is, increase the number of crops that can be produced and the uses of farm products so that we will have expanding markets rather than those limited to food and fiber for humans and animals?

Mr. BENSON. One of the President's recommendations called for a step-up in the funds for research purposes. He asked for a 25 percent increase in funds to be used primarily in the fields of expanding markets, developing new uses for agricultural commodities and new crops. Our research work in the Department has been geared in that direction now for 2 or 3 years. But we want to do even more in that field.

This question of narrowing the spreads between farm price and consumer price is in the field of marketing and the developments of new markets. We think the potential is very great. If we could develop a crop, an alternate crop for the Wheat Belt as we did soybeans for the Corn Belt, it would be of tremendous value to that area.

We think there are many opportunities to develop industrial uses for farm commodities.

We have just barely scratched the surface in years past.

So we want to put increased emphasis in that field, broadened markets, a better job, more efficient distribution, new uses for farm commodities and new crops.

Senator WATKINS. Are you making any progress?

Mr. BENSON. I think we are making progress.

Senator WATKINS. We would be interested in hearing about it.

Mr. BENSON. We finished work just the other day on broadening markets for tomatoes, which you are interested in because Utah is a big tomato State. We have developed now a tomato crystal or a tomato powder to which you add water and you have a reconstituted tomato juice. A few months earlier we perfected it for citrus. It has only been a few years since we had recurring surpluses of citrus products. You know, Senator O'Mahoney, we used to be visited by groups that came from citrus States. They had a big surplus. Now we have these crystals for grapefruit, oranges, and lemons. You can ship it anywhere in the world without refrigeration. All you need to do is add water and you have reconstituted orange and grapefruit. It was all done through research.

Senator WATKINS. That was done by the Department?

Mr. BENSON. Yes, sir; these have been perfected within the last few months and we are putting emphasis more and more in those fields where we think there is real opportunity.

Senator WATKINS. Probably the time is not now to go into it further, but I would be interested to know if you are investigating the possible industrial uses, for instance, of the major crops we produce. For example, more uses for wheat? Wheat has been used, of course, for various industrial purposes and sometimes we have abandoned those fields. During the war we used it industrially.

Mr. BENSON. For alcohol and rubber.

Senator WATKINS. Further research in that——

Mr. BENSON. We are continuing our research in that field. So far the difficulty is one of cost. We will have to get our costs down.

Senator WATKINS. This committee has a long-range view. This is the Joint Committee on the Economic Report, and we are looking for a full employment of our productive resources; not this year, not during a political year, but for the next 50 or 75 or 100 years.

Mr. BENSON. Research is usually not very dramatic and is usually a longtime program, as you know. But it does give results. In fact, a good part of the progress we have made in agriculture in the last 50 years has been through research.

Senator WATKINS. Are we making the same progress in agriculture that industrial firms are making in theirs?

Mr. BENSON. No; we are not spending nearly as much proportionately for research as they are in industry.

Senator WATKINS. It would be your opinion if we did that we could probably step up the number of uses for agricultural commodities to the point where we would not have any surplus whatsoever?

Mr. BENSON. I have reached the point where I say that, through research, nothing is impossible. I think the opportunities are unlimited.

Senator WATKINS. I thank you.

Vice Chairman PATMAN. Mr. Secretary, I want to ask you how interest rates are fixed on CCC certificates. Does the Treasury dictate the interest rates you are paying on these CCC certificates?

Mr. BENSON. May I turn that over to Mr. Beach, who is with the CCC?

Mr. BEACH. Sir, the Treasury indicates to us the appropriate interest rate to be borne by the certificates issued. At the present time there are no issues outstanding other than regular cotton certificates that have been issued.

Vice Chairman PATMAN. You accept their recommendations?

Mr. BEACH. Yes, sir.

Vice Chairman PATMAN. Mr. Burgess is the one I assume you have contact with?

Mr. BEACH. Mr. Burgess heads up that group. He is Under Secretary.

Vice Chairman PATMAN. He is the one who suggests to you the rates that shall be charged.

Mr. BEACH. And Mr. Heffelfinger who is Assistant Secretary of the Treasury.

Vice Chairman PATMAN. Now, without objection each member will be allowed the privilege of extending his remarks and including any relevant matter in the record.

Do any of the members have anything to say before we close this session?

Senator O'MAHONEY. Let me say, Mr. Secretary, that I am very much interested in finding out whether you folks in the Department administering the Public Law 480 of the 83d Congress, can suggest any other amendments than the one suggested by the President, which would make it possible for us to dispose of this cattle surplus that we have.

There is a great deal of fear among cattlemen that the present bill reported by the committee is not satisfactory in that there is no sanction to the prohibition which you can levy against a farmer who uses his reserve acres for grazing. There is no provision which authorizes the Government of any State to suggest or certify to the Secretary that grazing is needed and then fortunately it retains for the Secretary the complete jurisdiction to say "Yes" or "No" on the Government's certification but it strikes me that that is a rather poor method. I feel that an amendment would be adopted to the bill which will strike all of that out and provide that land which is reserved in order to cut down other surpluses shall not be used to produce, through grazing, a growing surplus of cattle and that some provisions should be made whereby a person who is injured by that grazing of reserve land, could bring a suit in court to stop it.

Mr. BENSON. We have reached, Senator, as you probably know—we have recommended to the Congress and the President also recommended in his message that there be a prohibition against grazing or harvesting from these acres put into the acreage reserve.

Senator O'MAHONEY. There is a prohibition in the law but no sanction.

Mr. BENSON. We have felt, however, that there may conceivably be an emergency such as the drought you had in your own State last year.

Senator O'MAHONEY. Oh, yes.

Mr. BENSON. If there were crops in the State available to meet the emergency, they could be used.

Senator O'MAHONEY. That could be excepted.

Vice Chairman PATMAN. This prohibition, Mr. Secretary, does that concern or relate to only livestock like cattle where meat is put into the market or does that also include other animals, such as horses and mules?

Mr. BENSON. Any kind of grazing or harvesting from those acres put in the acreage reserve would be prohibited.

Vice Chairman PATMAN. Why should you prohibit them from using it to graze horses on if someone wants to raise horses; why shouldn't he be allowed to?

Mr. BENSON. Other acres which horses would normally graze on could be harvested, adding to the surplus.

Vice Chairman PATMAN. The horses wouldn't.

Mr. BENSON. If they are eating alfalfa, if alfalfa is grown on those diverted acres, there would be other alfalfa hay for sale.

Vice Chairman PATMAN. If the farmer's fence gets poor you can't keep his fence up and the cattle get in there anyway.

Mr. BENSON. I know there is the problem that the gate can be left down and so forth. But when farmers police their neighbors, the local committees have the responsibility. We get pretty good compliance.

Vice Chairman PATMAN. Without objection, the committee will stand in recess subject to the call of the Chair.

(By direction of the Chairman, the following is made a part of the record:)

FEBRUARY 8, 1956.

Mr. ROWLAND R. HUGHES,
Director, Bureau of the Budget,
Executive Office of the President, Washington, D. C.

DEAR MR. HUGHES: During your appearance before the Joint Committee on the Economic Report, I addressed to you a number of questions about the extent to which specific recommendations of the President in his Economic Report had been explicitly provided in the budget proposed for the fiscal year 1957. I appreciate that a completely informative answer to these inquiries may very well require a closer scrutiny of the budget document than you were able to make during the hearings. Accordingly, with respect to each of the following recommendations in the President's Economic Report will you advise me whether a specific provision has been made in the budget? In explicit terms what expenditures with respect to each of these items have been budgeted?

I—(b), (c).
III—(a), (b).
IV—(a), (d).
V—(a), (e), (f), (g).
VII—(f).
VIII—(b), (d).
IX—(d), (e), (f), (g).
X—(b), (c).

I would appreciate your reply to this inquiry by February 14.

Very truly yours,

PAUL H. DOUGLAS, *Chairman.*

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington 25, D. C., February 17, 1956.

Hon. PAUL H. DOUGLAS,
Chairman, Joint Committee on the Economic Report,
Congress of the United States, Washington, D. C.

MY DEAR MR. CHAIRMAN: As requested in your letter of February 8, 1956, I am furnishing additional details in the attachments to this letter concerning the budget provisions for certain recommendations listed on pages 99 to 102 of the January 1956 Economic Report of the President.

In a few cases, the recommendations affect parts of appropriations for which separate expenditure estimates are not available. In these cases, the attachments contain figures on obligations which are shown in the budget document in more detailed breakdowns than expenditures.

A review of the attachments leads me to confirm the testimony I gave before the joint committee that the budget reflects all the recommendations of the President which would affect the balance between budget receipts and expenditures.

Sincerely yours,

ROWLAND HUGHES, *Director.*

ATTACHMENT NO. 1

I. (b) Implement the Great Plains program to promote sounder land use in portions of 10 Western States between the Corn Belt and the Rocky Mountains

The Great Plains program is a comprehensive plan to assist farmers and ranchers to develop for themselves a land-use program which will help them avert many of the hazards that come with the recurring droughts common to the region. Since it involves changes in practices, it is not fundamentally a spending program. In his communication of January 11, 1956, transmitting to the Congress "A Report and Recommendation Relative to a Program for the Great Plains," the President said: "In part, the program is already underway. Other administrative action is now being taken. Certain legislation is needed, as the enclosed report indicates. Appropriation requests to implement the proposed program will be presented to the Congress shortly."

It is anticipated that conservation and credit programs will be intensified during 1956 in this area, and, if possible, these and other programs will be intensified further in the fiscal year 1957. Beyond this redirection and intensification of regular programs, specific increases are planned for the Great Plains program in the 1957 budget. These increases are not shown separately but are included in 3 appropriations and 1 loan authorization, as follows:

Increase in new obligational authority 1957 over 1956

Agency and item	
Agricultural Research Service: Salaries and expenses—to intensify research on water conservation and wind erosion control and to relieve emergency conditions in Great Plains wheat area; and to expand studies on the economic problems of adapting farming to the hazardous conditions of agriculture in this area	$297,000
Soil Conservation Service: Conservation operations—to speed up soil surveys and technical assistance in establishing conservation practices in areas where serious erosion and land-use problems exist, particularly in the southern Great Plains	724,165
Farmers' Home Administration:	
Loans—for additional production and subsistnce loans particularly to assist farmers in reducing the hazards of farming under periodic drought conditions in the area	2,500,000
Salaries and expenses—for making and servicing additional direct and insured loans, including such expenses incident to loans in the area	95,520
Total	3,616,685
Appropriations	1,116,685
Loan authorizations	2,500,000
Estimated expenditures	3,400,000

The proposed soil bank, with its acreage-reserve program to reduce promptly production of crops in surplus, and with its conservation-reserve program to take lands poorly suited to tillage out of crops, will also make a substantial contribution to the solution of the problems of the Great Plains. Other desirable modifications of existing legislation, which, however, would have no appreciable effect on 1957 expenditures, include:

1. Provision for the Secretary to enter into long-term cost-sharing commitments under the agricultural-conservation program to get more land into grass, and
2. Relaxation of planting requirements to maintain base acreage for wheat allotments.

ATTACHMENT NO. 2

I. (c) Take other steps, such as to speed surplus disposal, broaden outlets for farm products, reduce farm production costs, improve farm credit facilities, and expand agricultural research

Expenditure estimates for separate parts of I (c) cannot be made either all inclusive or mutually exclusive of expenditures for other parts because the summary listing in the Economic Report was not in terms of budget categories. However, the items are all provided for in the budget, as noted below. The increases tend to be a minimum rather than a maximum for the separate items, since expenditures primarily for other purposes have a partial or secondary impact on the activities listed.

I. (c) (1) *Speed surplus disposal.*—Combined expenditures in fiscal year 1957 for removal of surplus agricultural commodities (sec. 32) and for the special school-milk program are estimated to be $65 million higher than in 1956. Details are shown below.

Increase in expenditures 1957 over 1956

Items	
Removal of surplus agricultural commodities (p. 405 of 1957 budget)	$40,000,000
Special school-milk program (included in new measures, p. 440 of 1957 budget)	25,000,000

In addition to the foregoing, it is anticipated that substantial amounts of cotton, wheat, dairy products, and other commodities acquired by CCC under price support programs will be disposed of through special sales programs and by donation.

I. (c) (2) *Broaden outlets for farm products.*—Legislation was recommended in the message from the President relative to agriculture on January 9, 1956, to permit sales of Government-owned commodities at not less than support levels plus carrying charges, to permit export of such commodities to countries presently excluded by legislation, and to permit sale of wheat of less desirable quality for feeding purposes. In addition, increased expenditures attributable to broadening outlets are included in budget plans as parts of appropriations:

Increase in expenditures 1957 over 1956

Items	
Agricultural Research Service (For utilization research directed toward developing new or improved uses of crops now in surplus and broadening outlets for farm products.)	$1,475,000
Foreign Agricultural Service (For intensification of analyses of factors affecting possibilities for expanding export markets for United States agricultural products.)	220,000
Removal of surplus agricultural commodities (For strengthening and expansion of foreign-market promotion activities.)	212,000

In addition to the foregoing, it is expected that considerable amounts of foreign currencies available under title I of Public Law 480 will be used for agricultural trade-development programs in 1957.

I. (c) (3) *Reduce farm-production costs.*—A wide range of USDA activities are designed to reduce farm-production costs, including improved credit facilities, electrification, etc. To avoid duplication, only one item is listed below:

Increase in expenditures 1957 over 1956

Item	
Agricultural Research Service (For research to reduce farm-production costs by improvement of crops and livestock and the development of better, more economical, and effective methods for controlling animal and plant diseases in insects.)	$650,000

I. (c) (4) *Improve farm-credit facilities.*—A substantial increase is anticipated in the insured loans of the Department of Agriculture. Since these loans are from private funds, they do not result in Government expenditures. It is now estimated that loans under these programs will reach a level of $80 million in 1956 and 1957, compared with only $47 million in 1955. Also, present estimates indicate that the loan volume of the Federal Intermediate Credit Banks will reach a total of $2 billion in 1956 and $2.1 billion in 1957, compared with $1.9 billion in 1955 (p. M53 of 1957 budget).

In addition, funds are provided in the budget to improve farm-credit facilities in the form of increases for farm-operating loans (see great plains program) and small farm-development loans (see rural development program).

I. (c) (5) *Expand agricultural research.*—Expenditures for research are principally in the budgets of the Agricultural Research Service and the Agricultural Marketing Service. Smaller amounts are in the budgets of other agencies of the Department of Agriculture. The estimated increase of expenditures for research over 1956 is $11.1 million (p. 1154). There is also an increase of $4.6 million for the Extension Service.

ATTACHMENT NO. 3

III. (a) Provide the requested Federal support for the rural-development program to help the low-income farm families improve their earning power

The rural-development program was initiated in fiscal 1956. Funds appropriated in 1956 and specific amounts included in the 1957 budget for the various participating agencies are as follows:

Agency and item	New obligational authority enacted in 1956	New obligational authority recommended for 1957
Department of Agriculture:		
Farmers' Home Administration:		
Production and subsistence loans	$15,000,000	$15,000,000
Salaries and expenses	369,750	369,750
Small farm development loans and part-time farmer loans		15,000,000
Salaries and expenses		530,000
Extension Service:		
Payments to States		890,000
Federal Extension Service		35,000
Soil Conservation Service: Conservation operations		477,600
Agricultural Marketing Service: Marketing research and service		262,800
Agricultural Research Service: Research		404,300
Staff agencies		89,895
Department of Labor: Bureau of Employment Security		889,400
Grand total:		
Direct appropriations	369,750	3,948,745
Loan authorizations	15,000,000	30,000,000
Total obligational authority	15,369,750	33,948,745
Estimated expenditures	13,300,000	31,800,000

ATTACHMENT NO. 4

III. (b) Expand State programs of vocational rehabilitation on the basis of available Federal financial assistance

In the table on page M43 of the 1957 budget, vocational rehabilitation is shown as a separate item, with expenditures of $41 million estimated for 1957, as compared with $37 million estimated expenditures for 1956 and $27 million expended in 1955. In addition to providing for increases in State programs, the 1957 increase also includes special training and project grants to help the States "tool up" for higher production (for detail, see 1957 budget, pp. 673–675).

ATTACHMENT NO. 5

IV. (a) Extend the coverage of Federal old-age and survivors' insurance to self-employed groups and other workers not yet covered, including Federal personnel

Except for Federal civilian and military personnel, extension of OASI would not affect the budget, since OASI is operated through a trust fund.

The 1957 budget of the Department of Defense includes an allowance for the Government's employer contribution to the OASI fund for servicemen in 1957 as part of the cost of additional benefits for members of the Armed Forces (1957 budget, pp. M25, 603).

The effect of OASI coverage for additional Federal civil-service personnel would be to increase the contribution from the Government to the OASI trust fund but this increase would be offset by some decrease in contribution to the civil-service retirement fund (some benefit liabilities would also shift from that fund to the OASI fund). Because of uncertainties surrounding the effective date of the proposed coordination of the OASI and CSR programs, the reallocation of receipts and liabilities between the two programs is not spelled out in the 1957 budget document.

ATTACHMENT NO. 6

IV. (d) Authorize mortgage insurance on favorable terms for apartments built for occupancy in whole or in part for older persons, and permits third parties to guarantee monthly payments in behalf of older persons buying a home under a federally insured mortgage

This recommendation would cause no additional net budget expenditures in 1957, since it merely involves broadening of the terms for privately financed mortgage insurance, and since the initial expenditures for administrative costs will be very small and offset by receipts from premiums and fees.

ATTACHMENT NO. 7

V. (a) Accelerate work on practical flood-control projects

Total obligations of $157 million in 1957 for local flood-control projects and for reservoirs are shown on pages 616–618 of the 1957 budget document. This total represents an increase of $48.5 million over 1956. It includes the following amounts for the accelerated northeast flood-control program:

New obligational authority

[In thousands]

Area	1956 supplemental	1957 budget
Northeast flood areas:		
Planning	$1,586	$1,260
Construction	[1] 1,100	[2] 20,934
Investigations (flood control)	330	620
Areas other than Northeast flood areas: Construction		[3] 5,445

[1] Includes 5 new reservoirs.
[2] Includes 2 new and 2 going local projects, and 12 new and 5 going reservoirs.
[3] Includes 16 new local protection projects.

The total also includes $27 million for projects in the California-Oregon flood areas which had been provided for in the budget even before the floods occurred. Detailed information was not available when the budget went to press on the need for funds to supplement flood-control work in the Far West as a result of the floods. At that time the Corps of Engineers was appraising the flood damage, as was noted in the President's budget message. Such additional funds as may be required following the completion of that appraisal would be provided either by reprogramming funds now in the 1957 budget or from the reserve for contingencies. Judging by experience in the northeastern flood areas, the amount required for the first year would not be great.

ATTACHMENT NO. 8

V. (e) Increase benefits available under the Longshoremen's and Harbor Workers' Compensation Act

These benefit payments are paid by private insurance carriers to whom the employers in the industry pay premiums. Increase in benefit payments resulting from congressional action on this recommendation would therefore not affect any of the Government accounts, hence no expenditure is projected in the 1957 budget.

ATTACHMENT NO. 9

V. (f) Provide nonoccupational temporary disability insurance for workers in the District of Columbia

It is proposed that the Congress enact legislation which would require employers in the District of Columbia to provide nonoccupational disability benefits to their employees either through self-insurance or through premiums paid to private insurance carriers, on a basis that would divide the costs between the employer and the employees. The benefit payments would not affect the Government accounts, hence no expenditure is projected in the 1957 budget.

ATTACHMENT NO. 10

V. (g) Liberalize terms of federally underwritten mortgages on housing for persons displaced by urban renewal or other public projects.

This recommendation would case no additional net budget expenditures in 1957, since it merely involves broadening of the terms for privately financed mortgage insurance, and since the initial expenditures for administrative costs will be very small and offset by receipts from premiums and fees.

ATTACHMENT NO. 11

VII. (f) Increase appropriation for antitrust law enforcement.

The 1957 budget for the Department of Justice (on page 822) recommends an increase from $3,314,000 to $4,265,000 in the appropriation "Salaries and expenses, Antitrust Division, Justice." The total expenditures are expected to rise from $3,396,540 in 1956 and $4,165,729 in 1957.

The budget also recommends an increase for the anti-monopoly activities of the Federal Trade Commission (p. 139). Obligations for this work are estimated to increase from $1,872,600 in 1956 to $2,798,600 in 1957.

ATTACHMENT No. 12

VIII. (b) Authorize 35,000 units of public housing in each of the next 2 years

As stated on page 349 of the 1957 Budget, "A proposed supplemental appropriation in the amount of $750,000 will be required for administrative expenses to be incurred in the administration of an expanded low-rent public housing program under legislation to be proposed at a later date. This amount will be required for the preconstruction work on low-rent public housing projects to be placed under annual contribution contracts."

The $750,000 required for additional administrative expenses represents the only net expenditure due to this proposed legislation which is shown separately in the 1957 Budget. As explained on pages 339 and 340 of the 1957 Budget, the initial financing of preconstruction expenses of new units is by advances from the Public Housing Administration, which has adequate financing availability for the proposed new units. For these advances, therefore, estimated gross disbursements of $47,250,000 and repayments of $41,375,000 (or net expenditures of $5,875,000) have been included as part of the total in Statement A on page 341 of the 1957 Budget. The actual construction of the projects will be financed mainly from private funds and will occur predominately in later years. The payments of annual contributions by the Federal Government will not begin until after completion of construction

ATTACHMENT NO. 13

VIII. (d) Increase the Federal Housing Administration mortgage insurance authorization and put this on a more permanent basis

To continue the general mortgage insurance operations of the Federal Housing Administration, additional mortgage insurance authorizations will be required. (See narrative on p. 328 of 1957 budget.) The minimum amount of additional authority estimated to be required for 1957 is $752.9 million (Schedule C–1, p. 337). This recommendation would cause no additional net budget expenditures since costs will be more than offset by receipts from premiums and fees.

ATTACHMENT NO. 14

IX (d) Extend the Hospital and Medical Facilities Survey and Construction Program for an additional 2 years, and provide Federal insurance of mortgage loans for the construction or improvement of private health facilities

The extension of authorization for the Hospital and Medical Facilities Survey and Construction Program will not affect the budget until after 1957 and, therefore, is not included in the budget. Under the existing authorizations, appropriations of $130 million and expenditures of $83 million are included in the budget (pp. 680–681)

The mortgage insurance item referred to is listed under proposed legislation on page 722 of the 1957 Budget. Appropriations of $10 million are proposed for capitalization of the mortgage insurance fund, with estimated expenditures of $475 thousand.

ATTACHMENT NO. 15

IX (e) Enact a comprehensive and soundly financed program for modernizing the Interstate Highway System

The 1957 Budget includes the present annual level of $175 million exclusively for interstate highways as part of the proposed new obligational authority of $875 million for Federal-aid highways (p. 502). (Estimated expenditures of $800 million for Federal-aid highways in 1957, as shown on p. 478 of the budget, are to liquidate prior-year contract authorizations.) In the Budget Message, the President stated that the proposed authorization of $875 million is included "pending determination of the amounts required for the interstate system." He also said that he is confident that an expanded interstate program can be "soundly financed so as not to create budget deficits." In testimony before your committee, I said, "The new program will be of substantial size, but since it is still under discussion and has not taken definite form, and since it is contemplated that the balance between receipts and expenditures will not be affected, specific amounts are not included in the estimates." Since I appeared before the joint committee, the President and the legislative leaders have agreed to the principle of pay-as-you-go financing through increased taxes on highway users. This is consistent with the Budget recommendation and would not affect the balance in the Budget.

ATTACHMENT NO. 16

IX. (f) Authorize the construction of the Colorado River project and other needed water resource developments

Bureau of Reclamation (proposed legislation, p. M61 of 1957 Budget message)

[In millions]

	New obligational authority for 1957	Estimated 1957 expenditures
New construction programs (upper Colorado, Fryingpan, Arkansas, and 3 other water resource projects)	$20	$8.6
Participating projects (to provide for Federal cooperation with States, local governments, or private groups in the water resource developments)	10	4.4

ATTACHMENT NO. 17

IX. (g) Extend and strengthen the Water Pollution Control Act

The budget includes provision for $3 million in additional appropriations and $2,550,000 in expenditures to finance the additional costs involved in extending and improving the Water Pollution Control Act. Estimates for this program are included with those for several other items of proposed legislation under the caption, "Other Health, Education, and Welfare Programs" in the Department of Health, Education, and Welfare chapter of the budget (p. 723).

ATTACHMENT NO. 18

X. (b) Enlarge the appropriations for the experimental program of the National Science Foundation for supplementary training of teachers of science, mathematics, and engineering

The budget includes $3 million of appropriations specifically for the experimental program, an increase of $2,550,000 over the $450,000 allocated in 1956 to start the program. This is part of a larger activity, designated as "Grants for training of scientific manpower." (1957 budget, pp. 159–160.)

ATTACHMENT NO. 19

X. (c) Strengthen existing programs to encourage higher education

The recommended 1957 appropriation of $6 million for "Salaries and expenses" of the Office of Education is double the amount for 1956, with expenditures estimated to increase from $3.3 million in 1956 to $5.4 million in 1957. This includes funds for expansion of the Division of Higher Education and for cooperative research in problems directly or indirectly affecting higher education. Plans are also underway to finance from funds available in the current fiscal year a special advisory committee to consider the problems which will confront higher education as enrollments continue to increase. (Pp. M48, 671.)

Several other appropriation and expenditure estimates in the budget provide for strengthening programs related to the promotion of higher education. The National Science Foundation appropriations for the graduate fellowship program are recommended to increase $2.6 million under the heading "Training of Scientific Manpower." (1957 budget, p. 159.) The Atomic Energy Commission costs for training programs, both on and off campuses, are estimated at $5.6 million in 1957, an increase of $4.6 million over 1956. (1957 budget, p. 117.) The Public Health Service estimates for medical research and training grants provide for an increase of expenditures from approximately $55 million in 1956 to $77 million in 1957, part of which is for training. In addition, the budget includes under proposed legislation, $3 million of expenditures for advanced training for professional and practical nurses and public health personnel. (Pp. 686–693 and 723.)

IMPLICATIONS OF THE FEDERAL BUDGET OUTLOOK

Remarks of Dr. Grover W. Ensley, Staff Director, Joint Committee on the Economic Report, U. S. Congress; before the Forty-eighth Annual Conference on Taxation of the National Tax Association, Detroit, Mich., October 19, 1955 [1]

Unless the international situation changes drastically, defense expenditures in fiscal 1956 and in the immediate years ahead will continue at approximately current levels, and thus represent a declining percentage of the Nation's growing production and income. Hence, if the economy expands in line with the increase in the labor force and rising productivity, we may anticipate a balanced Federal budget and surpluses on the basis of present tax rates and expenditure programs. This poses important questions of fiscal policy. For example, should a budget surplus be regarded as the occasion for deliberate changes in Federal tax or expenditure policies? What priority should be given to reducing taxes as compared with reducing the national debt or with expanding Federal financial support for education, highways, and similar programs?

On the basis of the present favorable economic outlook, these and similar questions may soon become major policy issues.

Prospects for balancing the Federal budget

A balanced Federal budget for the current fiscal year ending June 30, 1956, now seems possible.

The Review of the 1956 Budget, issued last August by the Executive Office of the President, estimated that Federal expenditures will amount to $63.8 billion in the current year ending next June 30. This is about $1.4 billion more than was estimated by the President last January. The principal increase is $1.1 billion in estimated expenditures for agricultural price supports.

Two factors, among others, could result in higher expenditures in the current year than were estimated last August. First, the estimated total of $34 billion for the Department of Defense in the August Review anticipated there would be savings and economies of $1 billion from projected program levels realized during the year. Recent statements by Secretary of Defense Wilson have indicated that it will be difficult if not impossible to achieve reductions of this magnitude since it is announced policy to do nothing that impairs combat effectiveness. Second, prices of goods and services the Government buys are rising, thus tending to push up the budget total.

The August Review estimated receipts for the current fiscal year at $62.1 billion. This is $2.1 billion higher than estimated by the President last January. The estimate for corporate income-tax receipts was raised $2.2 billion, and the estimated for individual income-tax receipts was revised upward $300 million.[2] These increases reflect improved business. There is reason to believe, however, that receipts are still underestimated because the Treasury's assumptions for both corporate profits and personal income in calendar 1955 are clearly low. Corporate profits before taxes are assumed by the Treasury to average $40.6 billion this year although the average annual rate during the first half was $42 billion. Similarly, the assumed personal income of $300 billion for the current year is at least $2 billion too low.

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[1] The views expressed are those of the speaker and do not necessarily represent the views of the Joint Economic Committee or individual members of that committee.

[2] There are minor partial offsetting reductions in other items from the January estimates.

The August Review estimated the administrative deficit for the current fiscal year at $1.7 billion; it estimated the consolidated cash surplus, including trust-fund accumulations, at $300 million. But it looks now as though Federal revenues this fiscal year could be sufficiently higher than estimated by the Treasury last August, to about balance the administrative budget and to produce a significant cash surplus if total expenditures are held to the August estimate.

Prospects for balancing the Federal budget in 1957 and the next few years are also good on the basis of present tax rates and expenditure programs and continuing prosperity.

It seems unlikely that total Federal Government expenditures can be reduced from the current fiscal year levels during the years ahead. Reductions in defense expenditures below the fiscal 1956 level will be much harder to achieve than the reduction of $11.5 billion made since the end of the Korean War. Present fiscal year expenditures are close to the maintenance level of defense expenditures for the long pull.

Nondefense spending will likely rise moderately on the basis of present programs. In the past 3 fiscal years these nondefense items actually rose in total by about $1 billion, annual rate. Veterans' services and benefits, interest on the debt, expenditures for agricultural price supports, and other expenditures over which the Government has little immediate control, all contributed to this rise. Necessary adjustments in Government pay scales have increased costs. Rising industrial prices are being reflected in the budget as the Federal Government is a large buyer of such goods.

On the other hand, at present tax rates, Federal receipts should continue to rise if the economy continues to expand. Long-run projections at high levels of production and employment suggest the rise in Federal tax receipts should be appreciably greater than expenditure changes on the basis of present programs. Therefore, favorable economic conditions should result in a budget surplus in fiscal 1957 and the years immediately ahead.

Which budget should be balanced?

A search for economic implications of this probability of a surplus in the Federal budget in the years ahead leads to the question: Which budget should be balanced, and when?

A quarter of a century ago the basic thinking on fiscal policy still revolved around the concept of an annually balanced budget regardless of economic conditions. The depression experience of the 1930's led to a considerable shift of emphasis among most fiscal experts away from the annually balanced budget and toward a budget balanced over the business cycle. This meant a compensatory fiscal policy with surpluses in high-employment years and deficits in periods of recession.

There remains the question whether policy should be aimed at balancing the traditional administrative budget or the consolidated cash budget which includes trust-fund accumulations. Today the administrative budget is still the more popular concept. Most economists, however, prefer the cash budget as being more meaningful from a fiscal-policy standpoint.

In recent years, with the growth in size of the Federal budget and with increasing recognition of the complex interrelations between Government fiscal policy and the economy as a whole, there has evolved the concept of basing Federal tax and expenditure policies upon their effect on the balance of the Nation's economic budget—the combined budgets of consumers, businesses, and Federal, State, and local governments. Now the objective of balancing the national economy at levels sufficient for stability and growth has superseded to a large extent the narrower goal of balancing the Federal budget. Senator George has expressed this modern viewpoint, as follows:

"When we return home, our constituents will ask us what budget it was that we wished to balance, and whether it was the unbalanced Federal budget * * *; or whether we wished to have the home budgets balanced, and thus increase the capacity of the American people to purchase the products which can be turned out by our mills and our factories" (Congressional Record, 83d Cong., 2d sess., vol. 100, pt. 7, June 30, 1954, p. 9298).

The Nation's economic budget summarizes the combined budgets of consumers, business, and all levels of government. It includes the incomes, expenditures, savings or dissavings of each of these categories in the economy. Therefore, adjusting Federal tax and expenditure policies so as to balance the Nation's economic budget at high employment and production levels implies that when total demand is deficient, either taxes should be reduced, or expenditures increased, or both. Similarly, if the economy is booming, most industries operating at capacity, and with prices rising, Federal policies should dampen down excesses in total demand by reductions in expenditures, and by increasing or holding tax rates at such levels as will produce surpluses. Fortunately, both the Federal revenue structure and expenditure programs contain built-in features which tend automatically to offset inflationary and deflationary tendencies in the economy.

Fiscal policy aimed at balancing the Nation's economy at high levels of employment and production is in line with a major recommendation of the Douglas subcommittee of the Joint Economic Committee on Monetary, Credit, and Fiscal Policies in the 81st Congress:

"* * * that Federal fiscal policies be such as not only to avoid aggravating economic instability but also to make a positive and important contribution to stabilization, * * *" (Monetary, Credit, and Fiscal Policies, S. Doc. No. 129, 81st Cong., 2d sess., p. 1).

This view was reaffirmed by the Joint Economic Committee under the chairmanship of Representative Wolcott, of Michigan, in its unanimous report to the Congress in February 1954. The committee expressed its belief that a deficit would have to be accepted as an unfortunate necessity when unemployment is appreciable and growing, even though all hoped that deficits could give way to balanced budgets and even surpluses when economic conditions became more favorable. (See H. Rept. No. 1256, 83d Cong., 2d sess., p. 15.)

Thus in 1953–54 when economic activity was declining and unemployment growing, the fiscal policy that emerged from the congressional forum did not focus on overcoming a budget deficit. On the contrary, the Congress reduced taxes and provided other measures aimed at encouraging business recovery. In fact, the tax reductions of 1954, especially those taking effect on the first of that year, were so large that personal disposable income actually rose in 1954 as compared to 1953.

Implications for future policy

If fiscal policy for the coming year is to be based on the need for balancing the Nation's economic budget at high levels of employment and production, commitments to reduce Federal receipts should be deferred until the economic outlook for the coming year is clearer, even though we might now reasonably forecast balance or even surplus in the Federal budget because of the momentum of the current prosperity. The emergence of such a surplus in the coming year should not lead necessarily to the conclusion that it automatically justifies tax reductions. A tax cut next January in the face of a booming economy would be inflationary. Of course, the economic outlook may change as the months pass. In this event, the Congress could move quickly to provide revenue adjustments appropriate to the needs of the economy.

After observing what he called premature talks about tax cuts accompanying the August Budget Review, Congressman Reed, former chairman of the House Ways and Means Committee, stated:

"Today * * * certain inflationary pressures are again apparent. The cost of living has begun to edge upward in the wake of wage and price increases. Consumer credit is at an extremely high level. I have always maintained that, when the economy begins to show signs of lagging, tax reduction is a necessary stimulant and will result in increased revenues. Recent events have proven the soundness of this position. On the other hand, when the economy is operating at record-breaking levels, the inflationary impact of tax reduction should be carefully appraised. Inflation is a more deadly enemy of a nation's security than taxes will ever be" (press release, September 4, 1955).

It should be noted that the emerging balance in the Federal administrative budget is largely automatic and due to the builtin flexibility mentioned earlier rather than the direct result of current deliberate tax and expenditure actions by the Government. This balance will not likely develop as the result of further expenditure reductions by the administration and the Congress, such as took place at the end of World War II and at the conclusion of the Korean conflict. Federal expenditures, as we have seen, promise to be fairly stable from here on, on the basis of present programs. Neither is balance the result of tax rate increases of the kind that resulted in the substantial surplus in fiscal 1951. Rather, as we have said, the improved fiscal position largely grows out of higher Federal revenues resulting from a booming national economy.

The differing nature of the new balance, therefore, does not present as strong a case for as prompt a reduction of total Federal receipts as perhaps was justified in earlier instances of emerging balances when a major concern was one of expanding private demand for goods and services at a time Federal demand was falling rapidly. With total demand for goods and services pressing capacity today, and with little likelihood of reducing Federal demand at any foreseeable time, consistent fiscal policy would apply the surpluses to reducing the $277 billion public debt.

Moreover, we should recognize that devoting a budget surplus to tax reduction may further postpone Federal expenditures designed to meet the needs of our rapidly growing population and our expanding economy. We have been forced by fiscal prudence to hold these programs in abeyance for a decade and a half under the pressure of World War II, Korea, and the cold war. The Nation will, I am sure, continue to recognize the primary importance of defense requirements. We must not, however, lose sight of the fact that while we have had to proceed slowly in developing programs for highways, schools, hospitals, and similar public facilities and services, the need for them has grown at a very rapid rate. The lack of a real school program to match our economic, security, and cultural needs has been characterized a national disgrace. Increasing stability in defense expenditures, combined with a growing revenue base, provides the opportunity for action on this and other programs.

Failure to increase Federal expenditure for these programs would mean that the Federal Government is to assume less and less of its historic and cooperative responsibility, shifting larger shares of the burden to State and local governments. Such a shifting could bring with it retrogression in the standards of public service at a time when our world military, political, and economic leadership calls for strengthening these standards. Furthermore, a shifting to greater State and local responsibility could weaken the Nation's overall tax structure from the standpoint of economic stability and growth. Thus, decisions with respect to Federal tax reduction should be based on a careful weighing of the benefits of such reductions against the benefits to be derived from providing an adequate level of Government services.

Caution with respect to reducing total Federal receipts, of course, does not preclude giving serious consideration to changes in the Federal tax structure including, perhaps, shifts in the distribution of the tax load. The tax structure contains discriminations and inequities at the present time whch call for correction. The possibility that changes may be needed to insure balanced growth in the economy should also be a matter of continuing concern. This December, the Subcommittee on Tax Policy of the Joint Economic Committee, under the chairmanship of Representative Mills, will hold extensive hearings on the relation of Federal taxes and tax policy to economic growth and stability. I believe this will be the most thorough study of the economics of our tax system and tax policy ever undertaken. From this inquiry there should emerge fresh insights into the major directions which tax policy should follow to meet the Nation's growth requirements.

It should be emphasized that the long-run possibilities for Federal tax rate reductions are good. International conditions and economic trends, of course, hold the key. If the world political situation does not worsen and if we have economic growth and price stability, we would anticipate—

"reductions in taxes which would lower the combined total of Federal, State, and local revenues in 1965 [a decade hence] perhaps 15 to 20 percent below the hypothetical yield that could be expected from present Federal tax rates at levels of output and incomes estimated for 1956." (For detailed projections see Potential Economic Growth of the United States During the Next Decade, materials prepared for the Joint Committee on the Economic Report by the committee staff, committee print, October 1954, p. 11.)

I have been talking entirely about fiscal policy. In this area, as in other areas of public policy, we must acknowledge that it is not possible always to be precise, either in timing legislation or in formulating a detailed program best suited to current economic conditions. Furthermore, fiscal policy must be coordinated properly with monetary policy. There is perhaps a tendency to place too much confidence in monetary policy as an effective stabilizer. In the present context we should recognize the danger that overconfidence in the effectiveness of monetary policy could lead to premature and inflationary tax reductions. Awareness of the limitations of both fiscal and monetary policy should incline us toward a complementary use of these tools for balancing the Nation's economic budget in a manner consistent with the economic stabilization and growth objectives of the Employment Act of 1946.

[From Dun's Review and Modern Industry—a Dun & Bradstreet publication]

SURVEY OF BUSINESSMEN'S EXPECTATIONS FOR THE SECOND QUARTER OF 1956

(Based on interviews with executives of 1,523 business concerns between January 3–13, 1956, regarding expectations for their respective businesses. Prepared by Richard Sanzo)

Second quarter of 1956 compared with the second quarter of 1955—What business men expect

	All concerns	Total manufacturers	Manufacturers		Wholesalers	Retailers
			Durable	Nondurable		
Number reporting	1,524	741	342	399	515	268
Net sales: Percent expecting—						
Increase	67	73	75	71	65	58
No change	28	23	20	25	30	33
Decrease	5	4	5	4	5	9
Number reporting	1,349	657	301	356	459	233
Net profits: Percent expecting—						
Increase	50	58	63	54	45	36
No change	44	37	32	41	48	53
Decrease	6	5	5	5	7	11
Number reporting	1,489	734	341	393	495	260
Selling prices: Percent expecting—						
Increase	42	42	46	38	45	37
No change	54	55	51	57	49	60
Decrease	4	3	3	5	6	3
Number reporting	1,502	738	342	396	502	262
Level of inventories:[1] Percent expecting—						
Increase	31	34	39	30	29	25
No change	60	58	53	62	61	65
Decrease	9	8	8	8	10	10
Number reporting	1,502	732	342	390	507	263
Number of employees:[1] Percent expecting—						
Increase	16	22	27	18	12	8
No change	81	75	71	78	85	88
Decrease	3	3	2	4	3	4
Number reporting	----------	675	314	361	----------	----------
New orders: Percent expecting—						
Increase	----------	64	69	59	----------	----------
No change	----------	33	28	37	----------	----------
Decrease	----------	3	3	4	----------	----------

[1] End of Quarter.

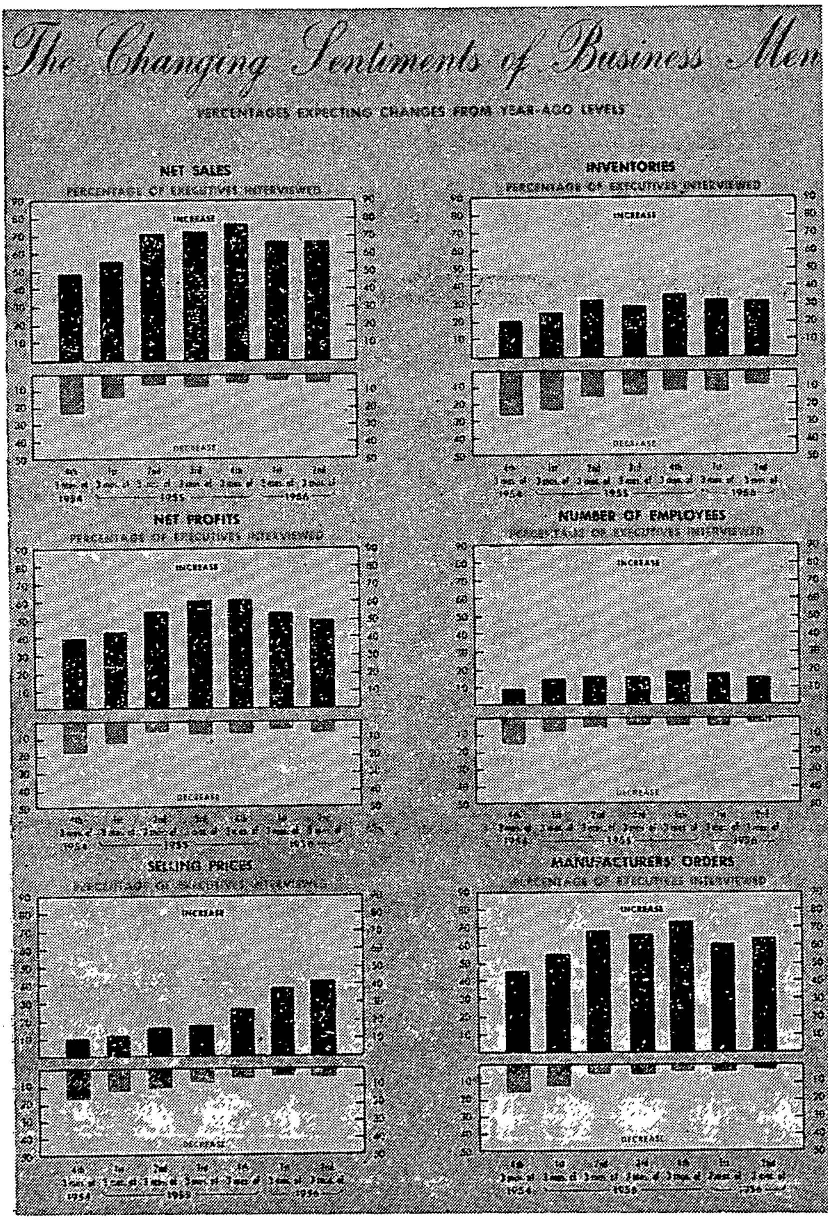
The second quarter of 1956 promises to be an extremely important period from the viewpoint of business activity. Developments in this quarter may very well determine whether or not business will continue to maintain the pace which made 1955 such an outstanding year.

Business executives who participated in the survey of businessmen's expectations for the second quarter of 1956, compared with the corresponding period of 1955, appeared to view the second 3 months of the current year with an attitude of tempted optimism. This observation is based on the fact that the number of those who expected an increase in their net profits after taxes, while impressive, was lower than the number of executives who expected that their sales would be higher than they were in the second quarter of 1955.

These businessmen comprised a random segment of 1,524 of the country's representative larger and medium-sized manufacturers, wholesalers, and retailers. The survey interviews were conducted during the period from January 3 through January 13, 1956. Executives consulted were asked whether they thought the dollar sales of their respective businesses, net profits after taxes, levels of selling prices, size of inventories, and number of their employees would be higher, lower, or show no change for the second quarter of 1956 compared with the second quarter of 1955. Manufacturers were asked to compare the expected direction of their new orders.

Sales trends anticipated by businessmen for the second quarter of 1956 may be reviewed in the light of 3 distinct influences which stimulated aggregate business sales in the corresponding period of 1955. The first of these was the widespread use by consumers of installment terms and charge accounts. The second was the availability of easy terms to buyers of new homes. The third was expanding expenditures for new plants and equipment in industry. Each of these 3 influences had a material effect on the other 2.

If it is true that "people buy what they want rather than what they need," it is also likely that they are bound in their buying by what they can pay for—either now, or in the future. Last year, many consumers, holding boundless confidence in their immediate and future capacity to pay, backed their confidence by going into debt for a great variety of conveniences and luxuries which they wanted, from apparel and household goods to appliances, television sets, furniture, and new cars. By the end of the year aggregate installment and charge account balances were the highest in history.



The evermounting totals of consumer obligations raised concern as to whether or not the economy would become subject to inflationary pressures. At the same time, paradoxically, some fears were raised that consumers might tend to retrench in 1956, while catching up with some old bills. The latter school of thought included those who wondered how much of the buying splurge of 1955 represented a "borrowing" from demand which would normally have been reflected at the retail counters in 1956.

Observers supporting the latter thesis could point to the automobile market, in which record high sales of 1955 models were followed by a rapid accumulation of inventories of 1956 models in the hands of dealers at the turn of the new year.

Meanwhile, what about residential housing, the volume of which was the second highest in history in 1955? Here again, extremely liberal credit terms were a source of crosscurrents in the stream of business. During the year, the large volume of residential construction began to lower the levels of the reservoirs of mortgage credit. Meanwhile, Federal Housing Administration and Veterans' Administration were putting into effect higher downpayment terms and shorter maturities on mortgages they would insure. As the year waned, the rate of residential construction began to decline materially. Recently, FHA and VA have restored the more liberal terms prevailing earlier in 1955, but builder's commitments have lagged to the point where it would be difficult to assume that the rate of residential building in 1956 will equal the 1955 level.

Housing is a market within a market. A new home breeds immediate demand for an almost infinite variety of durable and nondurable consumer's goods. A downturn in housing construction is therefore a factor which businessmen would take into consideration in evaluating the trend of business in the second quarter of 1956 compared with the corresponding period of 1955.

As an offset, there is the third influence on last year's sales levels, namely, industrial expenditures for new plants and equipment. As business sales surged ahead last year, higher demand, the need for paring costs by replacing obsolete machines, and anticipation of the future needs of a fast growing population, caused industry to step up planned expenditures for machinery and buildings. The momentum for these outlays was expected to carry well into 1956 as the year opened.

As businessmen looked ahead into the year in January 1956, they were aware that record numbers of people were being employed, that key industries such as steel, paper, chemicals, construction, and building material were operating at or close to capacity and that the tone of consumer confidence remained resonant. They could also reflect that possible, or actual "soft spots," such as declining prices of farm commodities, lower rates of residential construction, and accumulating inventories of new automobiles represented potential sources of business readjustment.

SALES EXPECTATIONS

In reporting expected sales trends for the second quarter of 1955, manufacturers were more buoyant than wholesalers and retailers.

Increases in second quarter sales were anticipated by 75 percent of the manufacturers of durable goods and by 71 percent of the manufacturers of nondurable goods, compared with 65 percent of the wholesalers and 58 percent of the retailers. Additionally, 20 percent of the manufacturers of durable goods, 25 percent of the manufacturers of nondurable goods, 30 percent of the wholesalers and 33 percent of the retailers believed there would be no change in their second quarter sales, compared with year ago levels. Relatively few concerns forecast lower sales, but the 4 percent of the manufacturers of nondurable goods and the 5 percent of the manufacturers of durable goods and of the wholesalers who held that opinion were outnumbered by the 9 percent of the retailers who foresaw a reduced dollar volume.

ANTICIPATED TRENDS IN NET PROFITS

The January survey reflected a rather interesting contrast between the number of businessmen who looked forward to higher sales, and the somewhat smaller number who forecast higher net profits after taxes, comparing the second quarter of 1956 with the corresponding period of 1955. The contrast seemed to imply that some of the businessmen who expected to increase their sales would also be absorbing higher costs of doing business without a corresponding increase in their gross profit margins.

Manufacturers of durable goods—who would seemingly benefit more immediately from industrial expenditures for new plants and equipment—outnumbered the other groups in their expectations of higher second quarter earnings, compared with the similar period of 1955. Thus, 63 percent of these manufacturers forecast higher net profits after taxes, in contrast with 54 percent of the manufacturers of nondurable goods, 45 percent of the wholesalers and 36 percent of the retailers. No change in the direction of earnings was expected by 32 percent of the manufacturers of durable goods, 41 percent of the manufacturers of durable goods, 48 percent of the wholesalers and 53 percent of the retailers. Among the latter, 11 percent anticipated lower second quarter earnings compared with year-ago levels, while 7 percent of the wholesalers and 5 percent of the manufacturers of both durable and nondurable goods shared this view.

SELLING PRICES

Viewpoints toward the likely trend of selling prices, comparing the second quarters of 1956 and 1955, respectively, comprise another provocative aspect of the January survey.

Since the second quarter of 1955, prices have risen in a number of selected lines, notably metals and goods manufactured from metals.

In the steel and automobile industries wage increases were a motivating influence. However, price increases have also occurred in rubber, cement and building materials, certain appliances, television, and furniture. Another influence which could affect second quarter selling price comparisons is minimum wage legislation, which, effective March 1, 1955, increases the minimum wage of factory workers to $1 an hour. Certain of the soft goods industries will be paying higher wages because of this price legislation, which may result in corresponding changes in their selling prices.

On the other hand, the consuming public is in a mood to challenge vigorously any general movement toward even moderate price increases. Today's massive production, and the intense competition which the availability of a diverse flood of goods engenders, cause retailers to resist price increases bitterly.

The January 1956 survey showed some divergence of opinion toward the trend of selling prices for the second quarter of 1956 compared with levels of selling prices prevailing in the second quarter of 1955. Higher selling prices were predicted by 46 percent of the manufacturers of durable goods—a not surprising prediction in view of the increases in the price of steel and other metals since last summer. Concurring in this opinion were 45 percent of the wholesalers, in contrast with 38 percent of the manufacturers of nondurable goods and 37 percent of the retailers. No change in the level of their selling prices were expected by 60 percent of the retailers, 57 percent of the manufacturers of nondurable goods, and 49 percent of the wholesalers. The small number of businessmen who believed their second quarter selling prices would be lower than they were in the second quarter of 1955 included 3 percent of the retailers, a similar number of manufacturers of durable goods, 5 percent of the manufacturers of nondurable goods, and 6 percent of the wholesalers.

INVENTORIES

Opinions regarding inventory expectations comprise yet another intriguing aspect of the January survey. In spite of the widespread belief among the businessmen interviewed that second quarter sales would be higher in 1956 than in 1955, the majority of the executives expressed the view that there would be no change in the levels of their inventories. The survey showed that 39 percent of the manufacturers of durable goods, 30 percent of the manufacturers of nondurables, 29 percent of the wholesalers, and 25 percent of the retailers expected to have larger inventories; whereas 65 percent of the retailers, 62 percent of the manufacturers of nondurable goods, 61 percent of the wholesalers, and 53 percent of the manufacturers of durable goods thought there would be no change in the levels of their inventories. Lower inventories were expected to be carried by 10 percent of the retailers, the same percent of the wholesalers, and 8 percent of the manufacturers, both of durable and nondurable goods.

NUMBER OF EMPLOYEES

In the final analysis, what and how much consumers will buy is directly related to how much they have to spend, which in turn, is dependent to a large degree on aggregate employment.

From April 1955 to June 1955, aggregate employment rose from 61.7 million to 64 million persons, and remained between the latter figure and approximately 65 million during the remainder of the year. Personal incomes, moreover, were at an alltime high.

Hence, expectations of business executives regarding the number of their employees for the second quarter of 1956 compared with the second quarter of 1955 are quite reassuring. In the aggregate, 22 percent of the executives anticipated having more people on their payrolls, 75 percent expected no change, and only 3 percent expected to operate with fewer employees. More of the manufacturers of durable goods anticipated larger numbers of employees than any other group, and in every group, the number of executives who forecast a reduction in the number of their second-quarter employees, compared with year-ago levels, was nominal.

NEW ORDERS

The outlook for new orders received by manufacturers for the second quarter of 1956, compared with the second quarter of 1955, appeared more encouraging to manufacturers of durable goods than to producers of nondurable goods. Increases in new orders were anticipated by 69 percent of the manufacturers of durable goods, in contrast with 59 percent of the manufacturers of nondurable goods. At the same time, 28 percent of the manufacturers of durable goods and 37 percent of the manufacturers of nondurable goods looked for no change in the levels of their new orders, while 3 percent of the former and 4 percent of the latter thought the levels of their second-quarter new orders would decline, compared with the second quarter of 1955.

FEBRUARY 27, 1956.

Dr. ARTHUR F. BURNS,
Chairman, Council of Economic Advisers,
Executive Offices Building, Washington 25, D. C.

DEAR DR. BURNS: The Joint Economic Committee, in response to your strong insistence, has decided to comply with your request not to produce, either for internal confidential use or for publication, the transcript of your executive hearing with the committee on January 30.

You will recall that in your January 23, 1956, letter in response to my invitation of December 22, 1955, you agreed to testify on the basis worked out last year, namely, at an executive session and with the right to edit your remarks before publication. At the January 30 hearing, however, you strongly expressed the hope that no transcript would be made. After considerable discussion, it was agreed that the reporter would take notes but that, pending a final decision by the committee, the notes would not be typed up. Your letter of February 3, 1956, gave your reasons for believing that the Council should meet with the committee in executive session and without a transcript being taken.

As I have indicated, the committee in executive session on February 9 decided to comply with your request. Therefore, the notes of the meeting will not be typed up for the benefit of committee members, like myself, who were necessarily absent on that date or for committee members to refer to as the need arises in the preparation of the committee's report on the President's Economic Report.

The committee agreed that there is considerable logic to your position that the Council of Economic Advisers should serve the President anonymously. There was a strong bipartisan feeling on the part of the committee, however, that this position is inconsistent with your practice of making public speeches in which you clearly discuss current economic issues and defend the administrations program.

The balance of this letter expresses my own personal reactions to what I believe is an inconsistency in your position. I call your attention particularly to the political speech you made at the Detroit Economic Club on October 18, 1954, 2 weeks before the Congressional election. Among the points you made in that speech were:

"In January 1954 the President presented a comprehensive economic program to the Congress. This program was designed to strengthen incentives and to stimulate enterprise—through a revision of the tax laws, through an enlargement of the credit facilities for housing, through improvements of the highway system, and through a new and realistic agricultural policy. The program was also designed to foster economic stability by extending the protective scope of old age and unemployment insurance, and by giving the President authority to control the terms on which Federal assistance would be provided for housing loans and mortgages."

Even your speech delivered at the Bicentennial Conference of Columbia University on May 26, 1954, was largely political. This is illustrated by the following:

"The new administration moved quickly to rid our economy of direct controls over wages and prices, which were interfering with competitive forces and restricting economic horizons. It made substantial reductions in taxes, so that private citizens may have more money to spend, instead of having the Government spend it for them. It projected a reform of the tax structure and of existing credit facilities, with a view to encouraging business investment, the construction of new dwellings, the modernization of old homes, and the rehabilitation of declining urban neighborhoods. And it has sought to increase the efficiency of labor and capital all around, by continuing to spend more than $2 billion per year on research and development, by extending and improving the highway system and other public facilities required for the growth of the private economy, by encouraging foreign trade and investment, by releasing agricultural resources from the bondage of high and rigid price supports, and by hastening the application of atomic energy to agricultural, medical, and industrial uses."

"The Business Future of America," appearing in the U. S. News and World Report, May 6, 1955, in the form of an interview was also of a political nature. Under large caps "Aim: Welfare of All—," you gave the following response to this question:

"Q. * * * What is your answer to the argument that's made that everything in this present administration is based upon a 'trickle down from the top' doctrine?

"A. As I see it, this administration has striven very earnestly to work for the welfare of the American people as a whole, not this group or that. The extension of coverage and benefits under our Social Security system, the improvements in the unemployment-compensation system, the proposal to raise minimum wages, the programs of slum clearance and urban renewal, our housing-credit policy, and our efforts to prevent further wastage of people's savings through inflation—surely all these programs were designed to aid people with low or moderate incomes.

"* * * The basic aim of the tax legislation last year was to stimulate the expansion of the economy, so that the growth in employment and production would be resumed. * * * Hence both business and personal taxes were cut substantially."

I also call your attention to other speeches and statements you have made, to mention but a few:

- "Economic Prospects and Opportunities," address delivered January 31, 1955, at the National Automobile Dealers Convention, Chicago, Ill.
- "Recent Trends in the Business-Cycle Policy of Government," address delivered June 16, 1955, at the Conference of Pennsylvania Economists, Pennsylvania State University.
- "The Challenge of Prosperity," address delivered October 6, 1955, before the Chamber of Commerce of the State of New York in New York City.

It seems curious that you would be willing to make these speeches for the record and, at the same time, take the position that you could not meet with the Joint Economic Committee with a confidential transcript being taken.

In your February 3 letter you stated that the Joint Committee has ample opportunity to hear spokesmen from the Administration and indicated that when it calls upon a member of the Council to testify, it presumably "wants help of a kind that only trained and well-informed students of economics can give." This is not the case. It is true we benefit from the Council's analyses and judgments as economists, but we have access to this kind of economic counsel from other sources. As you know, we have the benefit of hearing outside business, university, labor, and other economists, as well as economists from the executive agencies of the Government. Then, too, we have our own professional staff which under committee rules "shall be persons selected without regard to political affiliations who, as a result of training, experience, and attainment are exceptionally qualified to analyze and interpret economic developments and programs."

Hearings with the Council of Economic Advisers can serve a unique function. We have need for the overall economic thinking and basic assumptions underlying the President's economic program. Only the Council of Economic Advisers is in a position to give us this information. We get bits and pieces and often inconsistencies when we hear testimony only from the heads of the operating agencies.

As you well know, competent observers have brought to our committee serious charges of inconsistencies of economic assumptions underlying the President's 1956 Budget and Economic Report. Only the Council can clarify these seeming ambiguities.

In the interest of understanding the President's Economic Report and in taking enlightened action with respect to it, a policy of not making a transcript at your insistence is a serious blow to the smooth operations of Government machinery in carrying out the objectives of the Employment Act. I find executive sessions of congressional committees of little value unless a transcript is made to which members can refer when the need arises. The workload on Congress is such that members cannot always attend executive sessions or remember accurately what was said at such sessions.

I would doubt the value of future executive sessions between the Joint Economic Committee and the Council of Economic Advisers, on your basis. This, I think, is an unfortunate turn of events. I hope that future Councils of Economic Advisers will be more cooperative in their relationships with the Congress.

Sincerely yours,

PAUL H. DOUGLAS, *Chairman.*

THE CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS,
Washington, February 3, 1956.

Hon. PAUL H. DOUGLAS,
United States Senate, Washington, D. C.

DEAR SENATOR DOUGLAS: I appreciate the opportunity which Congressman Wright Patman, who presided at the hearings on January 30, has given me to present my views on the problem of testifying by members of the Council of Economic Advisers before your committee.

The paramount consideration must be to promote the purposes of the Employment Act. Both the Council and the joint committee were set up under the act. Close collaboration between the two, under appropriate procedures, is essential.

Soon after the Employment Act was passed, the question arose whether the chairman of the Council should testify before the joint committee. This question has been debated for years. One former chairman of the Council has argued that it would be improper for a member of the Council to testify before the joint committee. Another has argued that members of the Council can serve effectively as spokesmen for the administration's economic policies and should do so.

I have pondered this problem for a long time, both before assuming my present post and since then. It is entirely clear to me that members of the Council must always try to be helpful to the joint committee. I therefore feel that they should respond affirmatively to an invitation to testify before the joint committee. It is equally clear to me that—except in the case of technical discussions such as those of the Subcommittee on Economic Statistics—the testimony should be given at an executive session and without a transcript.

I respectfully call your attention to certain provisions of the Employment Act, which must serve as our basic guide.

Section 4 (c) of the act defines the duties and functions of the Council in some detail. Each of the listed responsibilities links the Council in an advisory capacity to the President. There is not the slightest suggestion in the act that members of the Council are expected to serve as public spokesmen for the President's or the administration's policies.

The language of the act is very explicit as to the qualifications of members of the Council of Economic Advisers. Section 4 (a) of the act states that each member of the Council "shall be a person who, as a result of his training, experience, and attainments, is exceptionally qualified to analyze and interpret economic developments, to 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 to promote employment, production, and purchasing power under free competitive enterprise." Judging from the legislative history of the act, this heavy emphasis on the professional qualifications of members of the Council is not an accident of phrasing. It expresses the plain intent of the Congress that members of the Council should function as professional economists, giving their views on economic problems and policies in an objective, nonpartisan manner.

It would be possible to draw the inference from the Employment Act and its legislative history that a member of the Council should not testify before congressional committees. I do not draw this inference, as already indicated, because it seems clear to me that the two units established under the act—the Council and the Joint Committee—should work together.

But I also hold, subject to the qualification I previously made, that a member of the Council would not be serving the best interests of the Employment Act if he testified at a public session or if he testified at an executive session with a transcript. Under such circumstances a member of the Council would almost necessarily have to appear as an advocate of the President's program, not only in general but down to every detail. Once a member of the Council becomes a public spokesman for the administration, and that is what testimony in print implies as a practical matter, his objectivity in handling economic facts and policies—which is essential to the proper performance of his duties under the law—may be impaired. When that happens, and I am not imagining remote possibilities when I say this, the Employment Act itself is put in jeopardy.

The joint committee has ample opportunity to hear spokesmen of the administration. When it calls on a member of the Council to testify, it presumably wants help of a kind that only trained and well informed students of economics can given. Such help can be best extended to the committee in the informal setting of an executive session without a transcript.

The Employment Act is highly important to our Nation's welfare. The joint committee and the Council must, therefore, work together in a constructive, nonpartisan spirit. It is my considered judgment that the interests of the Employment Act will be best served if members of the Council avoid appearing in the role of political spokesmen before committees of the Congress, and if they respond to invitations to testify before the Joint Committee by doing so in executive session without a transcript.

Let me recall, finally, that this procedure was adopted by the joint committee on an earlier occasion, with members of both parties voting for it. I am not, therefore, recommending a procedure that is novel or without precedent.

I have presented by thoughts on the matter of testimony by Council members, with sole regard to the question of how the interests of the Employment Act may be best promoted over the long future. I hope that this statement will be helpful to your committee.

Sincerely yours,

ARTHUR F. BURNS.

NATIONAL INDEPENDENT UNION COUNCIL,
Des Moines, Iowa, February 17, 1956.

Hon. HENRY O. TALLE,
United States Representative,
House Office Building, Washington, D. C.

DEAR CONGRESSMAN: We take this opportunity to thank you for your consideration at the time of our appearance before the Joint Committee on the President's Economic Report in Washington.

At your suggestion we have again reviewed Special Analysis J of the President's Report with respect to Federal economic statistical programs. We are greatly impressed by the scope of planned activity. However, as result of past experience, we are also greatly distressed with the procedure followed by the United States Department of Labor and its Bureau of Labor Statistics.

Our concern results from the fact that in the past the Department of Labor has almost totally ignored the rights and interest of the members of independent unions. The best illustration of this fact as outlined in our statement is amplified by the fact that the entire personnel of the Labor Advisory Committee is drawn from the AFL–CIO.

This discriminatory policy is also followed by the Bureau of Labor Statistics in its Directory of Labor Unions. By observing this directory you will note that it effectively eliminates from consideration nearly all of the more than 2,500 independent unions in this country. In spite of the fact that nearly every one of these unions is certified in accordance with the Labor Management Relations Act of 1947, as amended, they are not given the recognition freely accorded to the CIO–AFL Unions regardless of size.

Secretary of Labor Mitchell recently released figures indicating that there are aproximately 65 million nonagricultural workers who are gainfully employed in this country. Since the CIO–AFL merger only claims to represent some sixteen or seventeen million, we feel that it is highly improper and discriminatory to disregard the balance of this working force who are represented by independent unions or are as yet unorganized. We find that this policy has been followed in other areas where advisers from the ranks of labor are given a voice. In 1 incident where 36 such spokesmen for labor were chosen, 24 were from the ranks of the AFL and the remaining 12 from the CIO.

We call these matters to your attention because we feel that the money being appropriated to carry on these agencies is from taxes paid by all Americans and should be dispensed on the same basis and with equal consideration and no discrimination.

Any action you can take with respect to improving this policy would be greatly appreciated. It is as a result of the above that we have endorsed and heartily support House Resolution No. 25, as introduced by Congressman Cunningham, of Iowa. It is for purposes of creating a committee, in the House of Representatives, that could function in the interest of independent unions in a manner comparable to that of the Committee on Small Business.

Please contact the writer if we can provide you with additional information or be of service. Again thanking you for your attention to our interest.

Yours very truly,

DON MAHON, *Secretary.*

P. S.—We are pleased to advise that there are a substantial number of independent union members in your district. Our representative for that district is Mr. Harley Mohr, 314 North Walnut Street, Maquoketa, Iowa.

D. M.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,
OFFICE OF THE CHAIRMAN,
Washington, February 20, 1956.

Hon. PAUL H. DOUGLAS,
Chairman, Joint Committee on the Economic Report,
Washington, D. C.

MY DEAR MR. CHAIRMAN: The President's letter transmitting his Economic Report to the Congress under date of January 24, 1956, stated:

"The development of consumer installment credit has been highly beneficial to our economy. However, it sometimes accentuates movements in the buying of consumer durable goods. Although present conditions do not call for the use of any authority to regulate the terms of installment credit, this is a good time for the Congress and the executive branch to study the problem."

The Board of Governors has received from the Chairman of the Council of Economic Advisers a letter dated February 15, 1956, advising that he has been directed by the President to request the Board to undertake a study of consumer installment credit, including the part played by installment credit in the fluctuations of major consumer industries and the general economy and the arguments for and against a standby authority to regulate credit in this field. For your information, I enclose a copy of his letter together with a copy of the Board's reply.

You will note that the Board will undertake a special study of consumer installment credit and is instructing its staff to take the necessary steps to initiate such a study. In view of the interest of your committee in matters of this kind, the Board would appreciate receiving any comments or suggestions that you or your committee may wish to make regarding the special study of this subject.

Sincerely yours,

WM. McC. MARTIN, Jr.

THE CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS,
Washington, February 15, 1956.

Mr. WILLIAM MCCHESNEY MARTIN,
Chairman, Board of Governors
of the Federal Reserve System,
Washington D. C.

DEAR MR. MARTIN: The Economic Report of the President, submitted to the Congress on January 24, 1956, states that "although present conditions do not call for the use of * * * authority to regulate the terms of installment credit, this is a good time for the Congress and the executive branch to study the problem."

In view of the experience of the Board of Governors in administering consumer credit controls and its continuing interest in this area of the credit system, it is natural to turn to the Board for the preparation of a study that could serve as a basis for further discussions within the executive branch.

I have been directed by the President to request the Board to undertake a study that would address itself to the following tasks:

(*a*) Analyze the part played by installment credit in the fluctuations of major consumer industries and the general economy;

(*b*) Appraise the arguments for and against a standby authority to set limits on downpayments and maturities of installment credit, with particular reference to the probable effects of the use of such an authority on (i) general economic stability, (ii) the welfare of individuals and families, especially in the lower income groups, and (iii) business innovation and the growth of the economy.

If the results of (*a*) and (*b*) should point to the desirability of a standby authority, it would be well to carry the study further and consider the range of credit transactions that should be covered by such authority; also, what agency could best administer this authority and the safeguards under which it should function.

It is hoped that the Board will undertake this important study.

I shall, of course, be glad to discuss the scope and time schedule of this investigation with you.

Sincerely yours,

ARTHUR F. BURNS.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,
Washington, February 20, 1956.

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

DEAR MR. BURNS: Your letter of February 15, 1956, states that you have been directed by the President to request the Board to undertake a study of consumer installment credit, including study of the part played by such credit in the fluctuations of major consumer industries and the general economy and the arguments for and against a standby authority to regulate credit in this field.

As you indicate in your letter, the Board of Governors has had responsibility for regulation of consumer credit during 3 different periods over the last 15 years, under authorization from the President or the Congress. It has a continuing interest in this field of credit in relation to its responsibilities in connection with the general credit situation of the country.

In my recent testimony before the Joint Committee on the Economic Report, I stated that there are important arguments both for and against enactment of an auhority to regulate this type of credit, and the Board of Governors is in agreement that a special study of consumer installment credit in relation to economic stability would be timely. I also stated that the Board would be glad to do what it could to facilitate the research in connection with such a study.

Accordingly, the Board will undertake a special study of consumer installment credit and related problems and is instructing its staff to initiate such a study. In this connection, I will be glad to discuss the scope and time schedule of this study with you as you suggest in your letter, and we will appreciate receiving any other comments or suggestions that you may wish to make regarding the study.

Inasmuch as the Banking and Currency Committees of the Senate and House as well as the Joint Committee on the Economic Report are interested in this subject, I am sending to the chairmen of these committees copies of this correspondence, stating that the Board would appreciate receiving any comments or suggestions that they or their committees may wish to make regarding the special study of this subject.

Sincerely yours.

WM. McC. MARTIN, Jr.

NATIONAL PLANNING ASSOCIATION,
Washington, D. C., February 15, 1956.

Mr. GROVER ENSLEY,
Joint Committee on the Economic Report,
Room 23B, Senate Office Building, Washington, D. C.

DEAR GROVER: In accordance with our telephone conversation today, I am enclosing a copy of the National Planning Association's joint statement on "Economic Stabilization under the Employment Act: Past and Future," which was adopted at the annual joint meeting of December 12, 1955, and subsequently circulated to those members of the board of trustees and standing committees on agriculture, business, labor, and international policy were were not present at the meeting. Also, members of the NPA National Council were invited to endorse the statement. The attached list of signers includes both board and committee members attending and not attending the meeting, as well as members of the national council. I would be happy if this statement could be included in the record.

Cordially yours,

GERHARD COLM.

ECONOMIC STABILIZATION UNDER THE EMPLOYMENT ACT: PAST AND FUTURE

A joint statement adopted by the Board of Trustees and Standing Committees on Agriculture, Business, Labor, and International Policy of the National Planning Association at their annual joint meeting December 12, 1955. NPA board and committee members not present at this joint meeting and members of the NPA National Council were invited to endorse the statement. The list of signers includes both board and committee members attending and those not attending, as well as members of the National Council.

On February 20, 1946, the Employment Act became law. On that day it was signed by the President, after adoption by an overwhelming majority of both parties in Congress. The act set a milestone in the development of the responsibilities of Government. Those who contributed in one way or another to the adoption of that act can look with satisfaction upon the record of the past decade. The National Planning Association is proud that it can count itself as one among those whose suggestions have contributed to this basic legislation.

While confirming the fundamental belief in the system of free competitive enterprise, the act also established the continuing responsibility of the Government to "utilize 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 to work." Thereby, we have added the objective of "maximum employment, production, and purchasing power," as the act phrases it, to the other traditional objectives and obligations of Government policy.

After 10 years of experience under the Employment Act, there is no longer any important controversy about the Government's basic responsibility for the promotion of economic growth and stability. Present controversies are mainly concerned with the manner in which this basic statute has been, and should be implemented.

The Council of Economic Advisers on the executive side, and the Joint Committee on the Economic Report on the legislative side, have proven their usefulness in the consideration and coordination of economic policies. An intimate working relationship between the Council and the Joint Committee is very essential for facilitating the process of legislative implementation of a stabilization policy. With tact and consideration on both sides, this should be possible without interfering with the primary duty of the Council as an adviser to the President.

On the executive side, much progress has been made during the last decade in the formulation of programs internally more consistent than those adopted in previous decades. A step in the direction of better coordination was recently taken in the setting up of an advisory board on economic growth headed by the chairman of the Council. Nevertheless, it appears that particularly in the field of fiscal and monetary policies, still further progress in the development of a consistent Government program is needed.

Also on the legislative side, congressional deliberations of economic policies have been greatly aided by studies prepared by the Joint Committee and its subcommittees. Yet, we believe that the legislative committees concerned with economic and fiscal matters could profit still more from the guidance which the Joint Committee, according to the act, is supposed to provide. Nevertheless, the difference is striking between recent congressional debates on economic and fiscal policies and those of 20 or 25 years ago.

The Employment Act prescribed close cooperation between the Federal Government and industry, agriculture, labor, and State and local governments in pursuing the objectives of the act. The Joint Committee has given these groups ample opportunity for presenting their views on general economic and fiscal policies.

We welcome the fact that the present Council of Economic Advisers consults regularly with economists from various universities. In recent years, consultation with industry, agriculture, labor, and State and local government groups has, however, been informal and infrequent. We propose that consultative committees envisaged by the Employment Act be formally set up to meet regularly with the Council at least once each quarter.

For strengthening the work of the Joint Committee and the Council of Economic Advisers, greater continuity in the staff of these agencies would be desirable as a general rule. The effectiveness of the Joint Committee staff in the past can be explained in part by the continuity of service even when the majority in Congress has changed. The effectiveness of the Council, however, has suffered by too frequent change in staff membership.

Policies formulated through the machinery set up by the Employment Act have contributed at times to the adoption of anti-inflationary measures, and at times to the adoption of measures aiding in recovery from a recession. During the last decade, extraordinary factors, such as the postwar inflation and the post-Korean rearmament, affected the level of production and employment. It is significant, however, that the substantial curtailment in defense spending from the 1953 peak resulted only in a mild and short dip in economic activities. Government tax and monetary policies and measures in the field of residential housing finance probably contributed to the mildness of the recession. Furthermore, it must be realized that the indirect influence—the very existence of the Employment Act, the pledge and the readiness of the Government to act when needed—has helped to maintain the confidence of business, consumers, and labor in the economic future and thereby has affected economic growth at least indirectly.

Knowledge that the Government is ready to take necessary steps for economic stabilization has enabled business managers to develop investment plans on the assumption that general market fluctuations would be limited in size and duration. It has enhanced the willingness of labor to accept, and even promote, the adoption of technological and managerial advances. It has increased the propensity of consumers to buy homes and durable goods, trusting that steady jobs and good incomes would enable them to pay for mortgage loans and consumer debts. That the act would help to create confidence in the economic future, and thereby tend to decrease the need for Government intervention, was one of the results expected by those who advocated adoption of a full employment act. This expectation has been borne out by the experience of the last decade.

Looking forward to the problems which must be met during the next decade is, however, more important than expressing satisfaction over the achievements of the past decade. The fact that fluctuations in employment were only relatively mild during recent years does not mean that we can necessarily count on steady growth without any setbacks in the future. It is true that significant structural changes have modified the American economy during the last 25 years. These changes have made the American economy more shock-resistant.

However, we cannot be sure that they have made the economy shock-proof. We still have to face up to the possibility of either inflationary or deflationary pressures and the threat of possible increases in unemployment. It would be folly, for example, to discard accident insurance because no accident has occurred for a while, or to build dams to take care only of floods as they occur each spring and not of those heavier ones which occur at irregular intervals. The next 10 years may possibly present us with at least temporarily unstabilized tendencies of greater forcefulness than were experienced during the past decade.

One of the characteristics of the American economy is a high degree of liquidity, which means that consumers' desire to buy can be backed by easy access to consumr credit, and business' desires to modernize plant and equipment can be financed by available investment funds. This fact, in part, explains the rapid recovery from the slight recession of 1953–54 and the present favorable economic outlook.

However, there is no assurance that consumer and business demand will always rise without interruption, either in the economy as a whole, or in some sectors of the economy. Thus we have observed, for instance, in recent years that agricultural incomes dropped while other parts of the economy expanded. Rapid technological advances require rapid economic expansion and adjustments in jobs and production if temporary or extended difficulties are to be avoided. Therefore, it is essential that the "economic watchmen" set up by the Employment Act continue their work with utmost vigilance, and that measures to be used to counteract heavy fluctuations be held in readiness.

However, it will not be sufficient merely to continue the policies of the past. After the experience of a decade under the Employment Act, some improvements in the machinery set up under that act may now be suggested. A policy designed to promote economic growth, full employment, and price stability requires that it be formulated in the perspective of a number of years, not just a few months, or a year ahead.

The Employment Act wisely made no specific stipulation concerning the time covered in the economic reports. It also left details of presentation to future determination. Ten years ago, there was such uncertainty about the techniques which were then available that the language of the act was deliberately kept vague. After a decade of experience with reports by the Council, the joint committee and studies by private agencies and individuals, the time may have come to consider whether certain additional information should be included in each of the annual economic reports of the President.

We suggest that the reports present each year an economic projection covering the current year and 5 subsequent years. This projection would demonstrate what rise in total production, income, consumer expenditures, business investments and similar data of the Nation's economic budget would be needed under the assumption of a reasonable approximation to full employment. This projection of "needed levels" of employment, production, and purchasing power (to use the phrases of the Employment Act) would give a longer-run perspective for an evaluation of the "foreseeable trends." It would help to demonstrate the problems that may be involved in expanding employment, production, and consumption in line with the growth of the labor force and rising output per man-hour.

The long-range projection should also aid in exploring the extent to which private and public needs could be satisfied by the best use of available resources, both human and material. In addition, it may be useful to supplement the high employment projection by alternative projections based on the assumption of a substantial dip in the years ahead. Such alternative projections may help in the preparation of programs which might be useful in counteracting a possible contraction.

This proposal for a regular 6-year projection of a full employment national economic budget is in accord with a recommendation made by the National Planning Association in a joint statement of December 1954 on budget reform. At that time, the NPA recommended that each budget message presents a budget outlook covering a number of years. This budget outlook should also present estimates of those Government transactions which, like credit insurance and guarantee programs, are not fully reflected in the budget figures proper.

A 6-year economic projection and a 6-year budget outlook covering the same time period and presented at the beginning of each session of the Congress would provide the legislature and the public with the information required for considering the possible need for adjustments in private business plans, in wages, consumer attitudes, and in Government policies in order to promote balanced economic growth in line with rising productivity. These long-run projections which should not be mistaken for forecasts would be revised each year for 5 out of the 6 years covered.

Presentation of a longer-range budget outlook and a longer-range economic projection would tend to bring about a better coordination between the fiscal and other economic policies of the Government. That such long-range estimates are feasible has been demonstrated by the informal experimentation with such methods by Government and private agencies during recent years.

We also wish to repeat a previously made recommendation concerning the congressional implementation of the Employment Act. The National Planning Association's joint statement of December 1954 suggested that the Joint Committee on the Economic Report be reconstituted as a Joint Committee on Economic and Fiscal Policy. This committee would examine both the President's Economic Report, including the long-range projections, and the overall aspects of the budget message, particularly the long-range budget outlook.

Great progress has been made during the last decade by public and private organizations in the improvement of the statistical tools needed for successful operations under the Employment Act. Despite these improvements, businessmen, farm and labor groups, the Government, and the general public need better statistical guidance for their own operations and for an intelligent consideration of private and public policies. We need better private planning by each group to avoid a centrally directed economy. Better planning must be based on better statistical data and estimates. The most obvious gaps exist in estimates of saving and dissaving, of business plans concerning investments, technological advances, and inventories.

We very much applaud the effort made by the joint committee, executive agencies of the Government, and the Board of Governors of the Federal Reserve System in identifying some of the most glaring gaps in our statistical information. We hope that their recommendations will be implemented promptly by using available Federal Reserve funds for additional statistical work which is needed as guidance for monetary and credit policies; by executive agencies through redirecting statistical work along more essential lines; and by congressional action wherever additional appropriations are needed. At the same time, it is hoped that private business and research organizations, which often have pioneered in statistical work, will continue and intensify their efforts.

The American economy has moved within a decade from a $280 billion to a $390 billion gross national product. It is expected to move toward $550 billion 10 years from now (all values expressed in present prices). In such an expansion, not every element of the economy can be expected to grow in the same proportion. Nor can all the needed adjustments be expected to occur promptly and automatically. Adjustments will be needed in private plans and public policies. Measures to promote such adjustments must be based on an early recognition of what the problems are.

The Employment Act has provided us with the machinery which can bring needed actions to the attention of the President, the Congress and private groups. Ten years' experience makes us confident that the job can be done, but it will not be easy and it will require a constant effort of those in public office and in private positions of great responsibility.

MEMBERS OF THE NATIONAL PLANNING ASSOCIATION BOARD AND STANDING COMMITTEES, AND THE NATIONAL COUNCIL SIGNING THE JOINT STATEMENT ON ECONOMIC STABILIZATION UNDER THE EMPLOYMENT ACT: PAST AND FUTURE [1]

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Arde Bulova, chairman of the board, Bulova Watch Co.
Eugene Burgess, visiting professor of industrial relations, University of California
James B. Carey, president, International Union of Electrical, Radio, and Machine Workers

[1] See p. 79 for text of the joint statement.

MEMBERS OF THE NATIONAL PLANNING ASSOCIATION BOARD AND STANDING COMMITTEES, AND THE NATIONAL COUNCIL SIGNING THE JOINT STATEMENT ON ECONOMIC STABILIZATION UNDER THE EMPLOYMENT ACT: PAST AND FUTURE—continued

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MEMBERS OF THE NATIONAL PLANNING ASSOCIATION BOARD AND STANDING COMMITTEES, AND THE NATIONAL COUNCIL SIGNING THE JOINT STATEMENT ON ECONOMIC STABILIZATION UNDER THE EMPLOYMENT ACT: PAST AND FUTURE—continued

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Andrew C. Kuhn, director of personnel, Stop and Shop
Murray Kyger, executive vice president, First National Bank of Fort Worth
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Ordway Tead, editor, Social and Economic Books, Harper & Bros.
Raymond D. Thomas, dean, School of Commerce, Oklahoma A. and M. College
W. V. Thomas, general manager, Wisconsin Electric Cooperative
Willard L. Thorp, director, The Merrill Center For Economics, Amherst College
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MEMBERS OF THE NATIONAL PLANNING ASSOCIATION BOARD AND STANDING COMMITTEES, AND THE NATIONAL COUNCIL SIGNING THE JOINT STATEMENT ON ECONOMIC STABILIZATION UNDER THE EMPLOYMENT ACT: PAST AND FUTURE—continued

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Nathan L. Whetten, dean, Graduate School, University of Connecticut
Elmo C. Wilson, president, International Public Opinion Research, Inc.

CONGRESS OF THE UNITED STATES

JOINT COMMITTEE ON THE ECONOMIC REPORT

MEMORANDUM

AUGUST 31, 1955.

To: Members of the Joint Economic Committee.
From: Grover W. Ensley, Staff Director.
Subject: Report on trip to South America.

As you know, during the period June 24–July 1, 1955, I served as United States delegate to the 29th session of the International Statistical Institute, held at Petropolis, Brazil. Some 260 economists and statisticians from 35 countries of the free world participated. Over 100 scientific papers were presented and discussed. Topics considered included the following: national experience in statistical education, the place of statistics in operations research, national income research, the position of statistics and statisticians in industry, the statistical basis of economic forecasting, population statistics, the application of statistics in physical sciences, biometrics and new developments in sampling. Attached is a copy of my remarks presented at a panel session on the role of government in the national economy, with special reference to its statistical, financial, and economic implications.

In going and coming from the meeting of the Institute I made brief stops at the following points: Caracas, Venezuela; Rio de Janeiro, Brazil; Asuncion, Paraguay; Buenos Aires, Argentina; Santiago, Chile; and Lima, Peru. At each stop I visited with our Embassies and economic missions and local academic, business, and other economists. I was particularly interested in economic trends in these countries and the relationship of these trends to United States programs of trade, investment, and technical assistance. Our economic counsels in these countries welcomed the opportunity to sit in on these discussions.

A great deal has been written about economic trends and problems of these and other Latin American countries. Unfortunately the present state of economic statistics does not permit good country-by-country or year-by-year comparisons of economic conditions. Progress, however, is being made to improve statistics in these countries.

While it is, perhaps, dangerous to generalize, and while developments in each country vary, the following summary seems warranted for most of the six countries visited: (1) acual unemployment is low; (2) underemployment and low productivity, of course, continue; (3) production during the past year and currently is on a plateau, or rising very slowing as compared with the rapid rise during the early postwar period; (4) construction and investment are spotty; (5) agriculture has not been given the needed encouragement; (6) government deficits are alarming and public administration leaves much to be desired; (7) central bank policy is expansionary; (8) balance of payments positions are gradually deteriorating; (9) government intervention and direct control in nearly every aspect of economic activity appear to be retarding rather than advancing development; and (10) prices continue to rise rapidly.

The result of what appears to be unwise and inefficient economic policy is chronic and, by our standards, alarming inflation in most of these countries.

There are important exceptions to these general trends. Peru, for example, enjoys more economic freedom and economic stability than most Latin American countries visited. Venezuela is attempting to increase and diversify agricultural production. Oil revenue in that country is permitting relatively rapid economic expansion, without inflation. Here is a good case of United States private investment which is benefiting the country and the people. Perhaps the success of this cooperaiton could more vividly be shown to other Latin American countries that have been rather reluctant to permit United States capital to enter.

These South American countries would like to increase their rate of national production from the estimated recent and current 1 to 2 percent a year to more nearly the estimated 5 percent per year advance in the years immediately following World War II when world demand for Latin American exports was relatively high. They look to the United States for favorable terms of trade and loans to help in restoring this rate of growth.

While our help is important, major responsibility must rest with these countries' own efforts. In general, however, the governments of the countries visited are attempting through economic controls—fiscal, monetary, and direct—to provide the people with a higher standard of living than the national economies are capable of providing at this time. Those who control the governments know from recent history that they can stay in power only so long as they appear to be helping the masses. Thus the government grants monetary wage rate increases, controls prices of consumer goods and services, provides lavish social security benefits, and experiments in business ventures. The rate of gross investment has declined in the past 2 years.

Solution would seem to lie in fiscal and monetary reform of the most elementary character. Relaxation of domestic economic controls and changed attitudes toward foreign investment could unleash productive developments and result eventually in marked rises in the level of living of the people.

The work of United States missions and of the international organizations have made their mark. Although political obstacles currently prevent or limit the governments from adopting economic reforms, it is important that such assistance be available. Of striking importance has been our health and education assistance programs, and student exchange activities. These programs, perhaps, provide the seeds for eventually improving the political and economic climate in which sound government reform may take place.

It is interesting to contrast the situation today in South America with the period of the rapid economic development in the United States during the last part of the 19th and early part of the 20th centuries. This advance was marked by a reasonably stable general price level. Advances in productivity were reinvested or went to workers, and living standards rose. The pressures for government deficits, paper money, and excessive credit expansion which could have resulted in inflation of the current Latin American variety were fortunately avoided.

PANEL TOPIC: THE ROLE OF GOVERNMENT IN THE NATIONAL ECONOMY WITH SPECIAL REFERENCE TO ITS STATISTICAL, FINANCIAL AND ECONOMIC IMPLICATIONS

Summary statement by Dr. Grover W. Ensley, Staff Director, Joint Committee on the Economic Report, United States Congress, at the 29th session of the International Statistical Institute, Petropolis, Brazil, June 30, 1955

We can all agree on the important role of government in today's national and world economy. We can agree that significant improvements have been made in government programs, and that statistics on economic trends are much better today than before the great depression of 1929. We are especially happy that the speakers this morning are complimentary of the United States Employment Act of 1946—both its objectives and its machinery. Today, thanks in large part to the influence of that act, Government officials—legislative and executive—business, labor, and agricultural leaders, and the public generally are agreed on the need for, and the general nature of action that government should take in combating pronounced inflationary or deflationary tendencies.

My comments will be brief. They are intended to suggest that honest differences of opinion in the United States over procedures and policies do not permit us to idealize the situation quite to the extent indicated, especially by Professor Findlay Shirras' paper. I will concentrate on two points. First, the success of government policy in dealing with the recent recession in the United States; and, second, executive-congressional relationships in the United States and the implications which they have to the dissemination of economic knowledge and understanding.

First, with respect to the 1953–54 recession. The accomplishments of public policy in helping prevent a more serious recession and in stimulating the forces of recovery were indeed impressive by past standards. Government monetary and fiscal programs worked in a reasonably flexible manner in an attempt to offset the decline in Government defense outlays and in private investment. But there are those who believe the economic decline in 1953 was accentuated by restrictive credit and debt management policies. This issue continues to be debated. The monetary authorities themselves have conceded that they were perhaps slow in curbing the boom and may have jammed on the brakes at one point a little bit too tight in the spring of 1953. Furthermore, the large and stimulating reduction in taxes was not entirely attributable to foresight and planning since it was scheduled by act of Congress to take place even before the recession was apparent. A timely cut of $1 billion in excise taxes was passed by the Congress, it is true, but only over executive branch objections.

We have been experiencing genuine recovery during the last year. Production rates have regained the ground lost in 1953–54. Private investment and consumption are breaking new records. But there is still considerable concern with respect to present pockets of unemployment; there are 35 out of 149 major labor market areas regularly surveyed in the United States which still suffer unemployment in excess of 6 percent of the workers covered by unemployment compensation. The labor force has not been expanding as rapidly as some believe it should on the basis of population growth. Agricultural income continues to decline, although at a less rapid rate. Public policy, while correctly concentrating on general economic trends must wrestle with these and similar area and industry problems. Above all, public policy must continue efforts to improve the timing and emphasis to be given in the use of what are now generally accepted measures for combating economic fluctuations.

While public policy has played an important role as a stabilizer in recent years, we must, with some humility, admit that the recession of 1953–54 as well as that of 1949 were overcome quickly and decisively, primarily because of the strong underlying private expansionary forces which were present in our competitive American economy. While I am very optimistic with respect to the economic outlook and public economic policy, we do not want to be lulled into a spirit of complacency.

The second point on which I wish to comment deals with the structure of the United States Government, especially as it has a bearing upon economic knowledge and understanding. Under the United States Constitution, the executive and legislative branches of the Government are separate, independent, and equal. Under this arrangement, the President formulates a program and is looked to for providing the leadership in selling that program to the Congress and to the country. The Congress considers and passes a program. The program enacted may follow the President's blueprint or it may be quite different.

Under the circumstances, it is necessary for the Congress, if it is to proceed intelligently in dealing with the President's recommendations, to know the thinking, the assumptions, and the economic projections underlying the President's program. It is also necessary for the Congress to have statistics and information enabling it to make independent judgment as to the economic outlook and implications of that outlook for public policy. Under our form of government it is unavoidable that these assumptions and projections be made public. There are, of course, certain sensitive areas where information cannot be generally divulged because of military reasons, but in the economic area, data and policy can be and are made public.

It is not surprising, therefore, that when the Employment Act was pasesd in 1946, it called for the President to transmit an annual economic report to the Congress. In writing the act, the Congress was very specific in detailing the nature and content of this report. The report is to contain not merely a recitation of economic events of the past year and a program for carrying out a policy geared to achieving the maximum employment and production objectives of the act, but also specific information as to (1) "the levels of employment, production, and purchasing power * * * needed * * *" and (2) "current and foreseeable trends * * *." The act thus specifically calls for projections.

There is a real question, however, and one which continues to be the subject of debate in the United States, and that is whether the President's Economic Report should contain explicit quantitative statements as to levels of employment needed to carry out the objectives of the Employment Act of "maximum employment and production." A related question is whether or not the President's report should set forth the Executive's views with respect to the economic outlook, or "foreseeable trends," in quantitative terms. Professor Shirras' paper has indicated the technical difficulties involved in attempting to spell out this information in the President's Economic Report. There are understandable political difficulties as well.

The President's annual reports through 1953 set forth such information in summary benchmark form. Details were developed by joint executive-congressional staff consultations and published by the Joint Economic Committee. The Joint Economic Committee has been critical of the President's report in recent years for failing to include a statement on the levels of employment and production needed to meet the objectives of the Employment Act.

These projections, of course, admittedly are prepared for internal use in the preparation of the President's economic program. The Congress, however, can act upon the Federal budget, appropriate funds and levy taxes only if it knows the specific economic assumptions used by the President with respect to the general price level, anticipated corporate and personal income for the coming year. In a parliamentary government such as the United Kingdom, Canada, Sweden, among others, these detailed projections can usually be kept confidential. In the United States, however, they necessarily become the subject of public discussion because of the independence of the Congress.

In recent years, the Joint Economic Committee has looked to the operating executive agencies—Labor, Commerce, Agriculture Departments—at committee hearings for the exposition and development of projections of the labor force, productivity, hours, and the spending plans of governments, business, and consumers. On the basis of this testimony, the committee staff prepares quantitative projections of the Nation's economic budget for the coming year. These are carefully checked with the economists in the executive operating agencies, and with outside economists. Through this process the committee can reconstruct and publish for the benefit of the Congress and the public, the assumptions and projections apparently underlying the President's Economic Report. It can also indicate where it disagrees with the President on the outlook.

One purpose of such projecting analyses is to set forth the nature and magnitude of the adjustments that appear needed to achieve certain objectives and to suggest the implications for the economy if the adjustments are not forthcoming. The projector's task does not necessarily include a forecast as to whether these adjustments will or will not be made.

The word "forecasting" is perhaps unfortunate. While the term "forecasting" describes the work of many private and business economists, it does not adequately describe the type of work that most Government analysts of necessity must engage in. Public endeavors, and some private ones as well, are economic projections of the Nation's economic accounts into the future based upon clearly defined assumptions. These economic budgets or models are not predictions or absolute forecasts. A very good reason why they are not is that their very existence, indeed, the very fact that they are being made at all, may put into operation forces which lead to changes in programs and, hence, in the assumptions. A responsible and objective Government projection covering the next year on the basis of trends, plans, and expectations which shows a deflationary tendency could, and almost certainly would, result in changes in public or private programs having, we would hope, the effect of preventing or softening the decline implied in the original projection. If this happened the economist or agency making the projection ought not to be accused ex post of having been a poor "forecaster."

I believe there are few persons today who would contend that economists have found a royal road to making forecasts of future economic events. But we do not learn in any field by refraining from trying. Some endorse the notion that we do not now know how to forecast in quantitative terms, though we might some day. This resembles the admonition often given by fond mothers to their little boys: "You may learn to swim, but don't go near the water." In a word, such advice amounts to telling economists and policymakers that they should learn how to forecast or make projections because this is essential to policymaking—but that they should not do so by trying to forecast.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington 25, D. C., February 24, 1956.

Hon. PAUL H. DOUGLAS,
Chairman, Joint Committee on the Economic Report,
United States Senate, Washington 25, D. C.

MY DEAR MR. CHAIRMAN: I wish to acknowledge your letter of February 15, 1956, requesting data on United States expenditures for development of natural resources abroad.

I am advised that it will be necessary for the agencies to analyze a substantial volume of material in order that the requested information can be assembled. It would appear, therefore, that it may take us as long as 30 days to provide the information. Please be assured that I shall send you the data as soon as possible.

If you have any further wishes in connection with this matter, please let me know.

Sincerely yours,

ROWLAND HUGHES, *Director.*

(The materials referred to will be available in the files of the committee.)

NEWSWEEK,
New York, N. Y., February 24, 1956.

Hon. PAUL H. DOUGLAS,
United States Senate,
Washington, D. C.

DEAR PAUL: I have been told that Senator Watkins put into the record of the Joint Committee on the Economic Report his statement which appeared jointly with mine in the enclosed booklet. * * *

* * * I would suggest that, if it is possible, you put my own reply to him into the same record.

Cordially yours,

RAYMOND MOLEY.

THE CASE AGAINST COLORADO RIVER STORAGE PROJECT AND PARTICIPATING PROJECTS

(By Raymond Moley)

FOREWORD

A year ago the American Enterprise Association published a booklet written by me and entitled "What Price Federal Reclamation?" It presented facts and conclusions which were the result of several years of observation and study of the various Federal enterprises in Western reclamation States. Included therein was a brief analysis of the Colorado River storage project which, in various forms, was then before Congress and which is now pending in still other forms. My analysis a year ago indicated that under the terms of a bill then pending, which embodied the plans of the administration, the costs would be so excessive as to be wholly indefensible, despite the trick bookkeeping incorporated in the bill and habitually practiced by the Government in reporting such projects.

It was clear that the farmers who would become the unfortunate beneficiaries of the measure could repay only on an average 12 percent of the costs of the original construction, even though under the Government's interpretation of the law they are relieved of any interest charges on the unpaid portion for an indefinite number of years. Figuring not only the burden assumed by the Federal Government in the original construction costs and the interest charges, each 160-acre farm would be subsidized to the extent of $212,000. This, I contended, was an excessive burden to saddle upon the taxpayers of the 44 States who would derive no benefit from the project.

In addition, I noted that this is a strange time indeed to propose the addition of some hundred thousands of acres of productive land, when the Government is seeking means of relieving the burden of surpluses through retiring land from use. The facts which I presented in that study have not been refuted except in a general derogatory manner by some sponsors of the project, blinded to facts by the power of regional interest.

This year Congress and the taxpayers of the Nation are faced by the same general project, but in two proposals which are different not only from those before Congress a year ago, but different from each other. It is my purpose herewith to analyze those two proposals. I feel it proper to state, since my contribution to this booklet follows that of Senator Watkins, that I am not replying specifically to his arguments. I am going to analyze specific legislative proposals, one of which passed the Senate last year and the other of which emerged from the House Committee on Interior and Insular Affairs.

My position as an opponent of both of these bills is exactly what it was a year ago, when I opposed the measures pending at that time. I am concerned with the solvency of the Nation and with the interests of those millions who are called upon to bear, through their taxes, the costs of Government.

I am not directly concerned with the differences which exist among the States that share in the waters of the Colorado River. Moreover, I am only incidentally concerned with the issue of conservation raised by a proposal to build a great power dam in the Dinosaur National Monument. The essential problem of conservation is to conserve the solvency of the Nation and the taxpayers who dwell therein. I may add that it has been food for bitter reflection that so many commentators and others have interpreted this controversy only as a battle to preserve the sanctity of a beautiful national monument and that so few have comprehended the enormity of the engineering folly and financial waste involved. In any event, the Echo Park Dam will probably be eliminated as a means of escaping the protests of the conservationists. That will leave the issue as it should be, a question of the wisdom of the proposal in its entirety.

I shall show in the text that follows that the project, despite the length of time during which it has been discussed, is ill planned in part, and in other parts not planned at all, that it is not self-liquidating, that it would involve an excessive, not to say an incredible cost per acre benefited, that the power aspects are with the possible exception of the Glen Canyon Dam financially infeasible, that in order to manufacture a case for feasibility the bills embody dubious exercises in bookkeeping, and that the national interest demands that the entire proposal should be reviewed by a genuinely independent and competent board.

MAINLY HISTORICAL

Under the famous Colorado River compact, created to some extent through the expert and energetic efforts of Herbert Hoover, Secretary of Commerce, 30 years ago, it was agreed that the water of the Colorado should be allocated between 2 groups of States, with a remainder to be at the disposal of the Mexican Republic. The lower group of States include Arizona, California, and Nevada. The upper group are Utah, New Mexico, Wyoming, Colorado. I believe that it is fair to say that it was assumed at the time that the Federal Government would materially assist each group of States to regulate and store the water of the river thus alloted, in order to stabilize and conserve the water involved, and for consumptive use.

The first report prepared by the Bureau of Reclamation on the upper basin of the river was transmitted to Congress by the Secretary of the Interior in 1947 (H. Doc. 419, 80th Cong., 1st sess.). This plan presented an inventory of more than 100 projects for development in the upper Colorado Basin. It was assumed that all of these could not be built, because they would require at least 25 percent more water than was allocated to the upper basin States. Their enumeration was merely an exercise in imagination by the Bureau engineers and a showcase of selection for the use of congressional representatives from the States concerned.

Later, in 1950, the Bureau of Reclamation presented a more refined plan (the so-called project planning report, H. Doc. 364, 83d Cong.). This plan includes 10 major dams and reservoirs, the hydroelectric capacity of which was estimated at 1,500,000 kilowatts. The reservoirs named would, it was estimated store 48 million acre-feet of water. There would be an indefinite number of water-use projects, some irrigation, some industrial, and others for municipal purposes.

It is important to note that in these various plans and in the subsequent legislative proposals based upon them with only 1 or 2 exceptions the storage units would not directly serve irrigation or other water-use projects with water directly. For the most part the dams proposed—especially the major ones—are exclusively power projects, and the reservoirs which they would create would be used to regulate the flow of the rivers involved. These dams would be dedicated to raising the revenue necessary to build the irrigation and other water-use projects. In short, the connection between such dams as Glen Canyon and irrigation would be exclusively financial.

One of the bookkeeping devices embodied in this plan would be a "basin account," a fund into which all revenues would be poured for use in financing additional projects whenever possible. It is important to note that this "basin account" scheme has never been specifically approved by Congress in an authorizing statute. The cost of the 1950 plan was estimated in 1949 prices at $1,408,189,000. In recent prices (1954) the cost would be $1,620 million.

This plan was held up during the remaining years of the Truman administration. It was halted by lack of approval of the Budget Bureau.

THE 1953–54 EISENHOWER-M'KAY PLAN

Secretary McKay in December 1953 submitted a supplemental report recommending the authorization and construction of 2 dams and storage units, Glen Canyon and Echo Park, and 11 participating projects: Central Utah (initial phase); Emery County, Utah; Florida, Colorado; Hammond, New Mexico; La Barge, Wyoming; Pine River extension, Colorado and New Mexico; Seedskadee, Wyoming; Silt, Colorado; Smith Fork, Colorado; Paonia, Colorado; and Lyman, Wyoming. In addition, Eden, Wyoming, previously authorized, was included for participation. The Secretary also recommended the Shiprock division of the Navajo project, New Mexico, subject, however to a further feasibility report.

In March the Budget Bureau generally recommended the Secretary's program, but threw out the Shiprock-Navajo item. The Budget Bureau asked that the economic justification of the irrigation projects be reexamined before authorization. Bills were introduced embodying the recommended plan, but no final action was taken on them by the 83d Congress.

With the advent of the 84th Congress in 1955, two new bills were introduced, S. 500 and H. R. 3383. The present concern of Congress is with these. They differ in certain respects. I shall analyze and criticize each of these proposals in order.

S. 500—PASSED BY SENATE IN 1955

The bill passed by the Senate in 1955 by a vote of 58 to 23 is an omnibus measure. The Senate committee, as the result of logrolling on a massive scale, added a considerable number of projects to the plan recommended by the Secretary of the Interior in 1954. Instead of 2, it names 6 storage units—Glen Canyon, Echo Park, Flaming Gorge, Curecanti, Juniper, and Navajo. It adds no less than 21 participating irrigation projects to the 12 originally proposed by McKay and the 11 approved by the President in 1954. However, the bill states that the 21 additional projects are authorized subject to the submission of feasibility reports by the Secretary of the Interior and further action by Congress.

This sort of legislation, while it has been done before, is plainly a perversion. If a project is only vaguely justified and needs study and report by the Interior Department, why should it be named at all in a bill? In this case, the naming of the 21 additional irrigation projects and the 6 storage units establishes a moral commitment to the States and communities which would be benefited by these projects and would make further and final action by the Department and Congress more or less a formality. The total estimated cost of the various units named in S. 500 would be $1,658,460,000, of which $782,883,000 would be spent on the storage units. However, in arguing for the bill Senator Watkins and others claim that the money represented in the bill would be only $1,092,999,800.

In a letter to Senator Paul H. Douglas on June 28, 1955, I said of this sort of legislation:

"Clearly this bill was designed by its architects to mean whatever the interested sponsor happened to want it to mean at a given moment. Specifically, it was intended to tell the people in the beneficiary States that they were to have practically every 'particiapting project' their hearts desired, while it was to tell anxious taxpayers in Pennsylvania, South Carolina or Michigan that it was to cost only a billion dollars. To attempt a serious discussion of such a bill would be like trying to anticipate the humors of a coquette. You only know that she will be expensive and that she will never be satisfied."

The essential reason for this characterization was that the bill is and is not an authorization. It contains several different kinds of qualified authorizations. Four storage units seem to be conditionally authorized. Two others must have further study of various sorts and certifications.

THE HOUSE BILL, H. R. 3383

On July 8, 1955, the House Committee on Interior and Insular Affairs reported out H. R. 3383 which differs materially from S. 500. Instead of 6, it would authorize 4 storage units: Glen Canyon, Flaming Gorge, Curecanti, and Navaho. It also contains 11 "participating projects"—the ones originally approved by the Secretary and the President. Most notable is the omission of Echo Park as a concession to the conservationists and to eliminate their strong opposition to the entire project.

However, the bill directs the Secretary of the Interior to complete and submit planning reports on the 22 "participating projects" which were added in the Senate bill to those approved by the Secretary. (See p. 76 for full list of participating projects involved in both bills, with pertinent cost data.)

The House bill is only a bit more covert in its purpose than S. 500. The intent is clearly to open the way to the authorization of all the irrigation projects named in the bill. The provisions of H. R. 3383, as those of S. 500, would set in motion the machinery which ultimately would involve something like a billion and a half dollars in construction costs alone.

H. R. 3383, moreover, provides an across-the-board, arbitrary reduction of the Bureau of Reclamation's estimates by 10 percent. This has no engineering or financial justification, because in all estimates of the Bureau of Reclamation, history shows that the figures are on the low side, often by as much as 50 percent or more. The action of the committee in presenting this phony estimate is purely political. It is intended to misinform and mislead the Congress and the public.

Thus, at this writing the two bills, S. 500 and H. R. 3383, are before the House for action.

WHO PAYS AND HOW

Since the taxpayers in the 44 States which are not beneficiaries of this project are vitally concerned with the problem of how the vast expenditures from the Treasury for these projects are proposed to be repaid, and since proponents of the project assure us that it is 100 percent self-liquidating, I shall give major attention to this problem. The subject of engineering is also involved, but that is of less concern to the taxpayer remote from the scene, and I shall only briefly mention it in what follows.

This project, like practically all reclamation projects during the past 25 years, provides that the revenues from the hydroelectric projects be used to subsidize in part, and usually in large part, the irrigation projects. Moreover, in the cases where there is water for industrial and municipal use, those aspects pay for themselves. The flood control, navigation, and wildlife preservation aspects are nonreimbursable. They are a Federal expense. But in the Colorado River storage project these latter purposes and allocations are negligible.

As I shall show, the main cashbox from which the alleged restoration to the Treasury of the money expended is to come, is the revenue from the power aspects of the project.

The plans for repayment from power revenues in the two bills, S. 500 and H. R. 3383, differ somewhat in detail, but are alike in the patent fact that they absurdly overestimate the capacity of the power units to bear the financial load assigned to them.

Repayment in S. 500 is through a financial gadget known as the Collbran formula. It provides that the net from the power revenues is to be devoted to paying off the costs of the power aspects of the project, the dams, reservoirs, and other essential installations. This, it is estimated, will take about 50 years. After that, the net from the power revenues will be used to pay the 85 percent or so of the irrigation costs without interest, which have not been paid by the water users. The term during which that would be paid cannot accurately be estimated. It is clear from all reasonable assumptions, including the highly doubtful one that there would be any revenues at all, that the time would be 50 years or more in addition, thus bringing the period of repayment far into the 21st century.

The financial plan in H. R. 3383 would use the net power revenues first to pay the irrigation costs, without interest, of course, that the water users cannot pay. It is estimated, quite optimistically to say the least, that this repayment of the 85 percent of the irrigation costs would take about 50 years. Then, and not until then, would the power installations be repaid, with interest. H. R. 3383 provides that the power investment should be repaid within the "useful life of the project," not to exceed 100 years.

The Bureau of Reclamation testified in connection with the initial (1954) plan of Glen Canyon, Echo Park, and 11 participating irrigation projects, that under this plan the repayment would take a little less than 100 years. But at the same time it was stated by the Bureau's witnesses that if more projects were added the period would extend beyond 100 years. With the long list of 21 new projects envisioned in both bills, this would assume that power projects would have to be running at top efficiency for more than a century and a half. This may well be the most absurd implication ever contained in a legislative enactment.

THE CAPACITY OF POWER PROJECTS TO PAY

Among the primary and incorrect assumptions there is the assertion that the assorted power projects, even those contained in S. 500, can pay for themselves. On this point I wish to offer the testimony of a man who first appeared in print on this subject within the month. On January 31, 1956, Robert LeRoy Cochran retired from the Bureau of the Budget. For 11 years he had been a major expert on water and other civil-works projects in that Bureau. He was never called upon to testify, and it can be assumed that his wide advice was not observed by the two budget directors who have been concerned with this Colorado storage project. Mr. Cochran served in the State engineer's office in Nebraska for 20 years, during which he was State engineer for 12. He was elected governor of his State in 1934, 1936, and 1938. He was raised in a reclamation country and has owned a reclamation farm for 40 years. On the basis of this unparalleled experience and his 11-year study in the Budget Bureau, he stated for publication in Newsweek (issue of February 20):

"According to the claims of the Bureau of Reclamation and the congressional sponsors of the project, the cashboxes from which most of the repayment must come are the power installations, the largest of which is Glen Canyon, near the Utah-Arizona border. On the basis of the figures submitted, only Glen Canyon could be justified as financially feasible. Even if the revenues from that one dam were as good as anticipated, they would be entirely consumed in paying the deficits on the other power dams. That would leave nothing at all for the repayment of the irrigation costs during the first 50-year period.

"The analysis presented by the Department was based upon a 50-year period, generally considered to be the useful life of a project. Such a period may be too long in the light of the future potentials of power production from atomic energy and other sources."

The upper Colorado Basin has a boundless supply of energy potential in coal, natural gas, oil shale, and uranium. The steadily increasing efficiency of coal-burning plants, the availability of cheap and abundant supplies of fuel, the increasing cost of building hydroelectric installations, and the remoteness of the remaining good hydrosites from the centers of population are rapidly making hydroelectric power uneconomical. Moreover, not far in the future and well within the 50-year period which seems to be basic in the calculations of the planners of the Colorado storage project, great atomic energy plants will overtake other methods of producing electricity.

At this very moment the immense aluminum industry which hitherto has been drawn to the Northwest because of its supply of cheap hydroelectric power is moving to the Ohio Valley because of the presence of large coal deposits and proximity of its market for finished goods.

The fallacy embodied in a plan which must depend not only upon the useful life of hydroelectric installations for 50 years but upon prices for power based upon present conditions must be obvious to all minds not benumbed by self-interest. For the revenues—highly speculative at best—from installations whose life estimate is altogether overoptimistic—must depend upon getting the same price for power far into the remote future.

It is true that in the hearings on the Colorado storage project in 1954 and 1955 representatives of the area's 10 private power companies were heard and they subscribed to the need for water storage. They also said that the companies represented would buy power generated at the projected power installations. But they qualified their promise by saying that they would take the power at a price comparable to the cost of power from other sources. The sponsors of the bill misrepresent this position of the companies by failing to mention the latter qualification, which is vital. Indeed, with the supplies of coal which are available in the very heart of the region, it is doubtful if the companies can afford even now to pay the price embodied in the estimates.

Moreover, it is not true that the market for the bulk of the power that might be generated would be the very people who would be the beneficiaries of the irrigation subsidy. The economic market for the big producer, Glen Canyon, would be in the lower basin, in Arizona and California. A representative from Arizona has already objected to the proposed power rate assigned to Glen Canyon.

IMMENSE CONSTRUCTION COSTS OF IRRIGATION

Not one single irrigation project in all of the 34 participating projects is financially sound. I show in the tabulation on page 76 the construction costs, the area served, the irrigation allocation per acre, and the percentage to be repaid by the irrigators for every one of the 34. If we consider the original 11 approved by the President and Secretary McKay, the cost for area served on the individual projects ranges from $200 to $800 per acre for construction alone. The water users can repay a weighted average of 17.5 percent. This average is that low because the largest of all, central Utah, is the least feasible.

But these figures of cost per acre fail to represent a true measure of cost, because nearly two-thirds of the acres to be served are already in production and would receive only a supplemental water supply. In most cases this additional supply would be only a few inches in depth per annum, and thus only a small fraction of the amount of water necessary to put arid land into full production. The real cost of putting enough water on an acre of land in this arid to semiarid region would on the central Utah project be over $2,600 an acre.

And it must be remembered that in these figures which I present in this section of my discussion, I am considering only construction costs. I am not considering interest charges on the Government's investment. I shall consider that presently.

Nor do the figures I have presented include another legitimate charge for irrigation. This is the proportion of the cost of building the storage reservoirs, which should be borne by the irrigation projects.

WHAT IS THE LAND WORTH?

As many an unlucky farmer has learned by bitter experience, the real value of his land is not what he has put into it in money and labor. It is what he can get for what he produces. The lands proposed to be irrigated in the Colorado River storage project lie at altitudes of from 5,000 to 7,000 feet above sea level. They are not in tropical or semitropical latitudes. They have a short growing season and are generally capable of producing only forage crops and grains. Land in the region, fully irrigated and improved, brings in the market an average of only about $150 an acre.

THE FANTASTIC NAVAJO PROJECT

In the great propaganda campaign of the sponsors of this Colorado storage project, a colorful feature was certain ceremonial dances by Indians. It must be presumed that these shows were not wholly generated in the minds of the dancers. But considering what is planned in the project for the Navaho Indians in New Mexico, it might be added that there was indeed cause for rejoicing. In this case, however, those who did the dancing would not be required to pay for the music. The taxpayers of 44 States would account for that.

The Navajo project was, as we have seen, rejected by the Budget Bureau in its review of the 1954 version of the plan. It was reinstated in the Senate committee, according to press reports in Utah, at the insistence of a Senator from New Mexico.

As we have seen, the irrigation construction cost per acre of the Navajo project would be $1,530, the highest of all 34 projects. Of this, the Indians could repay at most less than 15 percent. It was testified at the hearings by officials of the Indian Bureau that the project would provide for 1,100 Navaho Indian family farms and that the cost per family farm would be $200,000. The same witnesses testified that the gross—not net—income per family farm would be about $5,000 a year. Since the interest charges alone on this investment per farm would, at 2½ percent, equal the gross farm income, this project would seem to be fair neither to the taxpayers nor the Indians. Certainly there might be a less expensive way to provide for these families. Certainly, according to Secretary McKay, it is not in the true interest of the Indians to keep them in subjection as second-class citizens. And there is no better way to destroy them than to support them in this costly manner. The testimony at the hearings also brought out the fact that there is among informed people grave doubt whether the

Indians themselves want to farm irrigated land or whether they could succeed as irrigation farmers.

THE SUBSIDY IN TERMS OF COMPOUNDED INTEREST

Under the original plans for reclamation created more than half a century ago under Theodore Roosevelt, it was thought wise to give farmers on irrigated land a bit of a lift by relieving them of interest charges on the unpaid portion of the Federal investment. Considering the brighter promise of some of the projects initiated at that time, such as the Salt River development in Arizona, and the fact that the law contemplated repayment in 10 years, this subsidy seemed justified. However, even the projects initiated then failed to pay out, and Salt River only got itself out of debt on the original project in 1955. The cost of large additions to the Salt River project are still unpaid.

When the time for repayment was extended to 20 and then to 40 and finally to 50 years, the interest factor took on formidable proportions. But in the plans for the Colorado River storage project, even that 50-year repayment period now in the law is extended. Under the repayment provisions of the original 1954 plan—Glen Canyon and Echo Park and 11 participating projects—the Bureau of Reclamation estimated the interest subsidy alone to be $1,153 billion, which was more than the estimated construction cost of the whole project. This would amount to $3,150 an acre on the 366,000 acres to be served. If there were to be added the four adidtional storage projects specified for authorization in the Senate bill in addition to the Navajo, San Juan-Chama, and Gooseberry irrigation projects, the corresponding Federal subsidy, using the same method of calculation as that used by the Bureau of Reclamation in the original project, would total $4 billion—more than $5,000 an acre on the 745,000 acres served. So much for the interest subsidy under S. 500.

Under the repayment provisions of H. R. 3383, the interest subsidy on the minimum projects authorized (4 storage units and 11 participating projects) would amount to nearly $2 billion at the end of the overall repayment period of 99 years. However, with the inclusion of the additional projects contemplated for later authorization, the interest subsidy would be at least as much under S. 500, but probably a much greater amount.

However one looks at the financial status of the Colorado storage project, the absurdity of the claim of "self-liquidation" stands out. If we consider the version of 1954, which was approved by the administration for an initial construction cost of about $1 billion, the interest charges at 2½ percent would be $25 million annually. For the larger plan in S. 500, the annual charges would be $40 million. The total annual net revenues estimated by the Bureau of Reclamation would be less than these amounts on the average.

These revenues, assuming that they can be realized, could be used only once. If they are used to pay construction costs, the interest charge would have to be paid by the taxpayers of the Nation. If they should be used to pay interest, the construction costs would have to be paid by the taxpayers.

At this point I wish to present the view of former Governor Cochran as set forth in the interview cited on page 52:

"Q. How then could the costs of the irrigation aspects of the project be paid back to the Federal Government?

"A. A small proportion (about 15 percent of the construction costs alone would be repaid by the farmers during the first interest-free 50 years. While it is proposed that the balance (85 percent) be paid back out of the revenues of the power aspects of the plan, we have already seen that there is no validity in that claim. Payment from that source would not begin anyhow until after about 50 years. By that time, the power features might well be obsolete. It should be emphasized that there appears to be a very serious doubt as to whether any power revenues would ever be applied to the payment of irrigation costs in the upper Colorado Basin. I submit that a proposal to start payment after 50 years on a debt for any purpose is not worth the paper it is written on.

"Meanwhile, because of the high construction costs per acre of the irrigation works and the accumulating unpaid interest, the Federal subsidy would be enormous. Under the ultraliberal construction of the reclamation law by the Department, freedom from interest extends not only through the 40 or 50 years beyond a 'development' period, but indefinitely into the future.

"Something like 90 percent of the irrigation costs (including interest) would be Federal subsidy."

Reclamation Bureau officials and congressional sponsors of this project have a good deal to say about the so-called reclamation fund. This fund is supposed to provide money for this and other projects of the same nature. The inference is that there would thus be little or no charge on the taxpayer.

The fact is that the reclamation fund is largely a matter of bookkeeping. If the money in that fund were not used for unnecessary and uneconomic projects, it could be used to reduce the Federal debt or to reduce taxes.

In the beginning the fund benefited only from the sale of public land. More recently, however, the fund has been kept going largely because there have poured into it revenues from large Federal power projects. However, this money from Federal power projects includes the so-called interest component from those revenues which should properly go into the general fund of the Treasury to repay the interest charges on the Federal investment in power projects.

THE BURDEN ON THE STATES

The concern which each of the 48 States should have in this vast subsidy can be calculated by determining the percent of the Nation's tax burden which each State must normally pay, then by applying that percentage to the sums stated above. The States directly benefited, Utah, Colorado, New Mexico, and Wyoming, pay only 2 percent total Federal taxes. Thus the 44 other States must carry approximately 98 percent of the costs. Assuming a total subsidy of $4 billion, the percentages borne by the States and the amounts involved appear on the accompanying table. I have used in this calculation a list of percentages compiled by the Tax Foundation, a nonprofit research agency.[1]

THE COSTS OF REHABILITATION

Former Governor Cochran in the course of his long service in the Budget Bureau took note of the very considerable costs incurred by the Federal Government in rehabilitating irrigation projects. Since the ditches, gates, and other mechanical aspects of an irrigation project suffer somewhat rapid deterioration, the Federal Government lends a hand without charge to the water users in repairing the damage. In the interview noted above, Mr. Cochran says: "Experience with irrigation projects indicates that after 30 years or so it is necessary in a considerable number of cases to spend further money on rehabilitation. This is another large item of expense for the Federal Government."

Colorado River storage project—Federal cost to be borne by Nation's taxpayers, by States

State	Percent of Federal taxes by States	Federal cost to be borne by taxpayers of each State	State	Percent of Federal taxes by States	Federal cost to be borne by taxpayers of each State
Alabama	1.15	$46,000,000	Nebraska	.85	34,000,000
Arizona	.51	20,400,000	Nevada	.17	6,800,000
Arkansas	.68	27,200,000	New Hampshire	.30	12,000,000
California	9.32	372,800,000	New Jersey	3.60	144,000,000
Colorado	.91	36,400,000	New Mexico	.38	15,200,000
Connecticut	1.74	69,600,000	New York	12.34	493,600,000
Delaware	.37	14,800,000	North Carolina	1.67	66,800,000
Florida	1.69	67,600,000	North Dakota	.30	12,000,000
Georgia	1.53	61,200,000	Ohio	5.90	236,000,000
Idaho	.34	13,600,000	Oklahoma	1.12	44,800,000
Illinois	6.90	276,000,000	Oregon	1.10	44,000,000
Indiana	2.56	102,400,000	Pennsylvania	6.94	277,600,000
Iowa	1.55	62,000,000	Rhode Island	.52	20,800,000
Kansas	1.31	52,400,000	South Carolina	.86	34,400,000
Kentucky	1.27	50,800,000	South Dakota	.33	13,200,000
Louisiana	1.34	53,600,000	Tennessee	1.39	55,600,000
Maine	.47	18,800,000	Texas	4.86	194,400,000
Maryland*	2.56	102,400,000	Utah	.40	16,000,000
Massachusetts	3.19	127,600,000	Vermont	.19	7,600,000
Michigan	4.91	196,400,000	Virginia	1.69	67,600,000
Minnesota	1.74	69,600,000	Washington	1.71	68,400,000
Mississippi	.65	26,000,000	West Virginia	.89	35,600,000
Missouri	2.50	100,000,000	Wisconsin	2.20	88,000,000
Montana	.40	16,000,000	Wyoming	.20	8,000,000

*Includes District of Columbia.

[1] The Tax Foundation has made these compilations of percentages each year for a long time. These percentages were not computed with this particular piece of legislation in mind, but, rather, in line with the Foundation's policy of bringing home to the people of all the States the meaning of the burden of Federal taxation in these years of great expenditures.

I have not taken account of these rehabilitation costs in my analysis because it would be difficult to anticipate their amounts in a generation in which inflationary forces seem to be uppermost. But they would be considerable and they would also be borne by the taxpayers of the Nation.

BENEFIT-COST TRICKERY

Sponsors of the Colorado River Storage project, unable to contradict the plain arithmetic involved in the repayment calculations which I have set forth, fall back upon a speculative hocus-pocus known as "indirect benefits." This sort of thing is a product of the "new" economic thinking which flourished in the 1930's. Out of it came the so-called benefit-cost ratio. While it has no standing in the law, it has been used to a greater and greater extent since 1939 by the Bureau of Reclamation in claiming "economic" as distinguished from "financial" justification of projects.

In simple terms, a "benefit-cost ratio" means a ratio between the various economic benefits alleged to stem from a project and its cost in actual dollars. But in order to have a ratio mean anything, the two items must be comparable. In the usage of the term by the Bureau of Reclamation and the sponsors of the Colorado River Storage project, each side of the ratio is measured by quite different criteria. Hence the ratio is meaningless.

The new and radical social and economic philosophy on which this comparison of the incomparable is based has never been more brazenly stated than in a report of President Truman's Water Resources Policy Commission in 1950:

"Financial feasibility is not the same as economic feasibility * * * For this reason the Commission is recommending that Congress eliminate the requirement that irrigation projects show financial feasibility * * * the principle of full reimbursement has ceased to be useful or necessary. The Government has come to be recognized as an agency for social and economic action which need not follow the rules of the private capital market * * * social benefits and national interests should be clearly differentiated from those for which reimbursement should be required * * * Where the public interest is clearly established, public expenditures to promote it cannot properly be regarded as subsidies * * * The justification for public investment in irrigation is that there are public ends to be attained which the commercial price system cannot reflect."

Such vague terms as "social benefits," "public ends," and "national interests" can have no determination in financial terms. Their projection in calculations of reimbursability raise the question of who is to determine their value. Who is to be the judge? In this case it would be the bureaucrats who would love to spend more and more public money and the representatives of the beneficiary States. They presume to offer their own ex parte judgments. Indeed, their presumption is so great as to tell taxpayers in States far from the scene what they themselves stand to gain in selling more automobiles, carpet sweepers, and baby carriages to families subsidized at the rate of $5,000 an acre.

The Engineers Joint Council, a group including representatives of five of the great engineering societies of the Nation, had this to say of the "benefit-cost ratio" in a statement (Principles of a Sound National Water Policy) issued in 1951:

"(Increases in trade and commerce) have usually been computed on the gross volume of new business without recognition of the fact that there is no benefit to be derived from the mere circulation of money. Actually for such benefits to accrue there must be tangible gains to those who transport, process, and distribute goods to the ultimate consumer, all without increased cost to him."

The conclusion of the Engineers Joint Council, it would seem, must be the consensus of all people who believe in honest and understandable public accounting:

"Direct benefits should be limited to those new and increased values which are definitely measurable. Such tangible offsets to cost, under ordinary business standards, would be limited to the capitalized value or present worth of future net revenues to be derived from operation of the works constructed."

DISSENT FROM THE DEPARTMENT OF AGRICULTURE

In a review of the report of the Bureau of Reclamation on the Colorado River storage project, the Department of Agriculture seriously questioned the estimates of agricultural benefits. Moreover, the Bureau of the Budget, in reporting on the initial project recommended by Secretary McKay, specified that the economic justification of all of the 11 reclamation projects should be reexamined in cooperation with the Secretary of Agriculture.

GLARING MISREPRESENTATION OF BENEFITS

One example of the abuse of the "benefit-cost ratio" is in the Bureau of Reclamation's estimates for the Seedskadee project. It is claimed that there are "indirect" benefits of $638,500 "public" benefits of $313,100, and direct benefits of $614,500. When all these are added and compared with the cost in real dollars of expenditure, a "benefit-cost ratio" of 1.46 to 1 is reached. Thus it is easy to see that if only direct benefits were considered, the "ratio" would betray the unsoundness of the project. Now let us see what these so-called indirect and public benefits are. "Indirect" benefits are "the increase in profits of all business enterprises handling, processing and marketing products from the project and profits of all enterprises supplying goods and services to the project farmers." "Public" benefits are "increase or improvement in settlement and investment opportunities, community facilities, and stabilization of the local and regional economy."

It is difficult to find a proper characterization for an agency employed by the government to serve the interests of the nation which could seriously place a monetary estimate upon such a jumble of indeterminates as this.

The Bureau's estimate on the Hammond project is a benefit of $41.50 per acre per year. The Bureau also estimates that the irrigation farmers on the project will be able to pay only $2.02 per acre per year for water. Thus the "direct benefits" would seem to be 20 times the farmers' ability to pay.

It should be noted that in the recent report of the President's Cabinet Committee on Water Resources Policy, which the President transmitted to the Congress on January 17, 1956, it is recommended that only direct or primary benefits be used in the calculation of benefit-cost ratios and that the evaluation period be limited to 50 years. In contrast, the Reclamation Bureau has included large indirect or secondary benefits evaluated over a 100-year period.

IS MORE CULTIVATED LAND NECESSARY?

Since vast surpluses have not only burdened the economy with subsidies running into billions but have partially darkened the farm economy with a cloud of falling prices, it has been necessary for the sponsors of such reclamation projects as these to invent a means of justification based upon pure speculation of future needs.

The favorite date when they say that the grim specter of famine will come (unless we heed their advice) is 1975. To meet the vast appetite of 200 million people in that year, the Bureau asks that before 1959 there be authorized and initiated the irrigation of 1.4 million new acres and that there be supplementary water provided for 1,711,700 acres now irrigated and in cultivation. For this the minimum construction cost would be $2,110,834,000—a per-acre cost of $700.

I have in my brochure, "What Price Federal Reclamation?" to which I have already referred, shown with abundant reference to authorities in the Department of Agriculture and elsewhere the utterly groundless nature of this claim for more irrigated land, in 1975 or any other year. Here I should like to call attention to another survey made from data gathered by the Soil Conservation Service of the Department of Agriculture. This shows that there now exists on improved farms nearly 21 million acres of good land lying idle in 19 Eastern, Southern, and Midwestern States. This land is neither woodland, pasture, nor publicly owned. It is located in regions where there is plenty of rainfall and, in most States, where the growing season is much longer than in the Upper Colorado region. All that might be needed to bring this land into cultivation would be an expenditure of from $50 to $150 an acre when and if there is need for more food and fiber. The distribution of this presently existing "soil bank" is as follows:

	Acres
South:	
Alabama	823, 564
Arkansas	2, 723, 547
Kentucky	671, 673
Louisiana	2, 487, 300
Mississippi	1, 270, 691
Tennessee	279, 563
Total	8, 256, 338

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	Acres
Southeast:	
Florida	2,037,392
Georgia	972,748
North Carolina	4,264,763
South Carolina	492,309
Virginia	919,307
Total	8,686,519
Midwest:	
Illinois	627,185
Indiana	231,780
Michigan	1,761,390
Minnesota	564,702
Ohio	491,098
Wisconsin	124,133
Iowa	50,759
Missouri	143,249
Total	3,994,296
Grand total	20,937,153

This, I repeat, is a "soil bank" already in being. But with production bursting at the seams on the land already cultivated, this reserve need not be touched for years to come.

Indeed, the necessity now faces the Congress to put more millions into the reserve. This is what is meant by the "soil bank" plan submitted by the President to Congress. That would retire 40 million acres which are now in cultivation. This will mean that between the American people and the famine portrayed by sponsors of more irrigation, these are no less than 61 million potentially productive acres.

Even to consider irrigating the 1,228,000 acres in the Colorado basin contemplated in S. 500 while we are attempting to eliminate 40 million that we don't need is a matter so irrational as to suggest that it could happen only in the mystic land of political legislation the land in which regional and bureaucratic ambitions are paramount and the national interest is forgotten.

But the proponents of this project have apparently convinced some people, including themselves, that the crops to be raised upon these high arid slopes are a very special kind of crops—rare, exotic, never to be in surplus, and highly essential to the Nation's welfare. The reality is that the produce to be raised will be just like the crops that are raised on millions and millions of acres now in cultivation. They are mostly grains, dairy products (from the cattle which eat the forage which is to be raised on the land and which the proponents say is not in surplus), and wool (from the sheep which also partake of the said forage).

ENGINEERING DOUBTS CONCERNING GLEN CANYON

My analysis of the economic and financial aspects of the proper upper Colorado River project presupposes that the Bureau's engineering plans and cost estimates based thereon are adequate. However, it appears that there are physical and geologic problems in connection with Glen Canyon—the major storage unit—which cast doubt on its engineering and financial feasibility.

The geologic formations along the walls of the reservoir pose two problems. First, there are huge formations of pervious sandstone which might cause such large losses of water from the reservoir as to seriously depreciate its conservation value and curtail anticipated power production and revenues. Secondly, there exists along some 50 miles of the reservoir a formation known by geologists as "Chinle shale," overlain by massive sandstone. This Chinle disintegrates into mud on contact with water. Thus when the reservoir fills, the entire mass of Chinle and sandstone overburden would be precipitated into the reservoir—with possible adverse effects on the functioning of the reservoir.

In addition, there is the serious problem of providing adequate protection of the world-renowned Rainbow Natural Bridge. The reservoir as planned would back up close to the arch and endanger this fragile structure of soft sandstone. Thus far, no adequate protective plan has been perfected and there is doubt that the cost of protective features is provided for in the cost estimates for this dam.

Finally, there is doubt as to the adequacy of the plans for Glen Canyon Dam on which the Bureau's cost estimates are based. Comparison with Hoover Dam which is about the same height indicates that a much more massive structure than now planned would be needed to secure a safe dam, involving a much greater construction cost than estimated.

The engineering and financial feasibility of Glen Canyon storage unit remains uncertain until these doubts are resolved.

THE REPORT OF THE PRESIDENT'S CABINET COMMITTEE

Nearly 2 years ago, when the Colorado storage project first became a matter of national concern and the Hoover Commission's task force began to survey the problem of water conservation, the President appointed a committee on the general subject, no doubt to guide him in passing upon the demands upon the Federal Treasury. That committee consisted of Secretary McKay, chairman, and Secretaries Benson and Wilson. Their report, which appeared in December 1955, if scrupulously followed by the administration and heeded by Congress, could do a great deal to rationalize the Government's reclamation policies.

It proposed that State and local governments share the cost of water projects. That is exactly what I would suggest.

It also proposed that there be set up "an independent Board of Review * * * to analyze the engineering and economic feasibility of projects and report to the President." That would indeed be a step toward rationality. It is what many of us have been talking about for a long time. The only advice the President can now get officially is from a bureau whose propaganda in the past has completely discredited any standing it might have for impartiality, accuracy or concern for the public interest and from congressional committees stacked with members from the beneficiary States.

The President's committee also proposed that in setting up reclamation plans and estimates, interest should "be shown clearly as a Federal cost." In short, that all the cards be laid on the table when a project is presented to Congress. Hitherto this charge, which I have shown herein to be immense, has only been given when some Member of Congress has pried it out of the representatives of the bureau.

This interest charge, since it is a vital, not to say the vital element in determining the justification of reclamation projects, has always been hidden as much as possible by proponents. This recommendation of the committee hit a vital spot in the defense of the upper Colorado project. For a Congressman from Colorado, Wayne N. Aspinall, immediately objected, saying that "if they did not favor the elimination of the interest charge immediately after adding it to the cost of construction, there wouldn't be a reclamation project in the United States that would be economically possible." The Congressman in that simple statement has eloquently summarized practiccally all of my argument here and in everything I have written on the subject for years. It is a confession of the utter weakness of the case for this project.

A TRUE PARTNERSHIP

There is a strange claim by some proponents of the Colorado River storage project that they are supporting a partnership plan such as has been advanced as an administration policy in the Northwest. There is no resemblance at all. The party of the first part, the Federal Government, is paying for the entire project and is constructing it. The parties of the second part supply the arid land. I favor, with the President's Cabinet Committee and with the earlier report of the Hoover Commission, a true sharing of the responsibilities in this project.

I have never contended and do not contend now that the four States in the upper basin are not entitled to the share of the water of the Colorado and its tributaries which was specified in the Colorado River compact. Nor do I deny that the Federal Government should build the means to store that water when needed. For the Federal Government by long prescription has assumed the responsibility of regulating the flow of interstate rivers. But this does not mean that the Government should build huge storage dams unless and until needed for water conservation and regulation.

Beyond that, I do not believe the Federal Government has an obligation. The power companies of the region which offered their testimony to the effect that there was a market—at a price—for the power should finance the power aspects of the storage dams themselves and dispose of the power where such storage dams can be justified. That is exactly what the Eisenhower-McKay partnership policy means, as illustrated by the proposed John Day dam on the Columbia River.

Moreover, those cities which are in need of water for domestic purposes should provide the means of getting the water from the storage reservoirs. Finally, those industrial companies which are in the area and which are now so eagerly seeking subsidized water, should provide the means of getting the water for themselves. In short, the Federal Government should provide storage for the water as needed, and the users should go and get it. This would be true of the irrigators who are in need of supplementary supplies and those people—unnamed—who are anxious to try their fortunes on new irrigated land. This could be done through the States concerned if—and this if is very large indeed—the bestowal of water will indeed produce the wealth which proponents of this project claim. So far as the Navaho Indians are concerned, surely a Government which has been engaged for a century or more in caring for and regulating the life of these natives can provide a less expensive way to make them self-reliant than to set them up on farms at a cost to the taxpayer of $200,000 a family.

THE ISSUE IN MORALS AND EQUITY

If the issue were a simple matter of taking from rich States and giving to poor States, there might be a case despite the financial, engineering, and economic factors which I have mentioned. But these are not needy States. Their potential wealth is considerable, and their well-being is reflected in all that they pay for the benefit of the outside world. On the basis of per capita income, they rank with the average among the States.

There is, moreover, a final consideration. It can be shown that the propaganda of the Federal Government for reclamation has in innumerable cases imposed a cruel hoax upon the farmers who attempts to cultivate the land. Indeed, the progressive lengthening of the payout period from 10 years in 1902 to 20 years in 1914 to 40 years in 1926 to 50 years in 1939 has been in response to the cries of distress of the unfortunate farmers and their congressional representatives. Since I have been writing about this subject over the past 2 years, I have received pathetic letters from farmers whose state of affairs has progressively turned to the worse. Despite the immense amount per acre that it takes to put water on arid land, the cultivation of that land and the management of the irrigation itself is a heavy burden upon the farmer. It is time to play fair with these farmers, as well as with the taxpayers of the 44 States in whose interest this discussion of the Colorado River Storage project has been written.

Colorado River storage project—Participating projects

Project	Project construction cost (thousands of dollars)	Total area served, acres	Irrigation allocation per acre	Percentage of irrigation allocation to be repaid by irrigators
1. La Barge	$1,673	7,970	$210	29.6
2. Seedskadee	23,272	60,720	383	20.6
3. Lyman	10,564	40,600	260	21.3
4. Silt	3,356	7,300	450	31.1
5. Smith Fork	3,367	10,430	321	31.3
6. Paonia	6,944	17,040	399	35.5
7. Florida	6,942	18,950	343	26.3
8. Pine River Extension	5,027	15,150	332	40.7
9. Emery County	9,865	24,080	400	38.6
10. Central Utah (initial phase)	231,044	160,380	794	11.9
11. Hammond	2,302	3,670	627	16.1
Total 11 projects	304,356	366,290	[1] 545	[1] 17.5
12. Eden	7,287	20,200	361	20.6
Total 12 projects	311,643	386,490	[1] 536	[1] 17.7
13. Navaho	211,237	137,250	1,530	14.6
14. San Juan-Chama	135,169	225,000	480	25.8
15. Gooseberry	5,761	16,400	350	41.5
Total 15 projects	663,810	765,140	[1] 694	[1] 18.4
16. Savery-Pot Hook	10,814	31,610	340	12.9
17. Dolores	24,633	66,000	370	6.2
18. Sublette	37,099	84,000	430	3.7
19. Fruitgrowers Dam extension	1,690	3,850	440	27.8
20. Bostwick Park	2,634	6,870	380	26.4
21. Dallas Creek	10,330	21,940	470	9.2
22. East River	212	2,750	80	44.8
23. Fruitland Mesa	11,551	19,400	590	9.2
24. Grand Mesa	20,164	25,300	800	.1
25. Ohio Creek	3,402	16,910	200	1.0
26. Tomichi Creek	11,523	27,580	420	.0
27. Battlement Mesa	5,854	6,830	860	11.0
28. Bluestone	3,330	10,875	310	11.1
29. Eagle Divide	3,412	10,875	310	8.9
30. Parshall	11,882	27,510	430	12.0
31. Rabbit Ear	4,733	19,190	250	16.1
32. Troublesome	5,243	13,640	380	13.8
33. West Divide	79,676	65,610	1,220	7.5
34. Woody Creek	178	2,965	60	100.0
Grand total 34 projects	912,170	1,228,845	[1] 633	[1] 14.8

[1] Weighted average.

(The Subcommittee on Economic Statistics of the Joint Committee on the Economic Report after holding hearings on employment and unemployment statistics last fall (November 7 and 8) invited a small number of interested organizations and individuals to comment on the testimony which had been presented by the collecting agencies. The following replies have been received for the record:)

NATIONAL ASSOCIATION OF MANUFACTURERS,
New York, N. Y., January 4, 1956.

Hon. RICHARD BOLLING,
Chairman, Subcommittee on Economic Statistics,
Joint Commitee on the Economic Report,
Senate Office Building, Washington, D. C.

DEAR SIR: This is in response to the invitation of your Subcommittee on Economic Statistics asking for written comments on the materials presented at the hearings on employment and unemployment statistics last November 7 and 8.

My staff has examined the published hearings of Government witnesses on those 2 days, and on the basis of their comments, without reference to any policy committee or to the board of directors of NAM as to the many technical and statistical details involved, I am happy to make a few general observations which might prove helpful.

These Government witnesses have done a praiseworthy and workmanlike job of presenting both the problems and the various efforts and proposals for solving those problems. Although I cannot formally endorse (nor condemn) specific technical points, I do feel that the general result of these hearings should be highly constructive.

The possible added cost of the improvements and changes discussed by the witnesses appears to be uncertain and perhaps defies estimating at this time. For the present I must assume, therefore, that the element of cost will be accorded due consideration in the interests of genuine economy as each step tends to materialize.

Of course the problem of avoiding an excessive burden of paperwork upon industry is also a matter of concern to our association members and this question, too, should receive careful consideration.

I would liketo take this opportunity to mention the matter of statistics on gross changes in the labor force. A brief but significant NAM study of this matter is enclosed for your convenience.

This study is not necessarily submitted as testimony for the record, but rather as a topic which apparently was not discussed by the witnesses last November 7 and 8—even though it has a highly significant bearing upon the subject of employment and unemployment statistics. I do not say this in a critical vein. Actually, the NAM utilized this study and presented a more recent chart (as enclosed) in testimony on automation before Senator Patman's Subcommittee on Economic Stabilization last October 25. Perhaps you, too, will find this material of interest, particularly from the technical statistical standpoint. For example, you may want to consider, if it has not already been done, the feasibility of more frequent reporting of gross changes in the labor force.

Please be assured of my high regard for the work that your subcommittee is doing on these important problems.

Sincerely yours,

KENNETH R. MILLER,
Managing Director.

STATE OF NEW YORK,
DEPARTMENT OF LABOR,
New York, N. Y., January 31, 1956.

Hon. RICHARD BOLLING,
Chairman, Subcommittee on Economic Statistics,
Joint Committee on the Economic Report
House Office Building, Washington, D. C.

DEAR MR. BOLLING: Replying to your letter of January 16, may I say that the published hearings on "Employment and Unemployment Statistics" in my opinion are a valuable compilation of the problems, current status, and contemplated program improvements in the field of employment and unemployment statistics. They also present a number of tables not heretofore available. Both the subcommittee and the contributors are to be congratulated for this excellent document.

It is clear from the testimony at the hearings that the various Federal agencies having responsibility for employment and unemployment statistics are making efforts to improve the data and that they are well aware of defects.

As I said in a recent paper before the American Economic Association, I find insufficient emphasis, however, on the local labor market area as the focal point for further improvements. I am convinced that it is to the local area that we must look for the kind of detailed knowledge that will contribute substantial new insights into the composition and causes of unemployment and how they are affected by variations in the demand for labor.

It should be possible, for example, in areas characterized by various levels of unemployment, to determine what part of the unemployment is essentially temporary or intermittent; what part is represented by persons voluntarily engaged in job shifting; persons who have not obtained jobs because of personal characteristics which employers find unacceptable although apparently qualified in other respects; those who will not take jobs that are available because of such factors as wages, working conditions, and location; those who lack the particular skill or experience required for available openings within the same occupation; and those for whom there are no openings in their occupation. For each of these classes information could be obtained on the economic status of the unemployed and a judgment made from work histories whether they were primary or secondary members of the labor force.

Other respects in which present data are wanting in my judgment include: the lack of authoritative information on where unemployment is located and insufficient detail on the industry to which the unemployed persons were attached. The data give only a partial view of the manpower reserve, since they fail to provide occupation detail and exclude secondary members of the labor force who at the time are not actively seeking work. Duration data present an overall indication of unemployment severity but not of the incidence of unemployment on various groups in the population or the economic impact of unemployment on the wage earner and his family. There is little information about the composition of unemployment in terms of the sources of unemployment; and those data that are available lack precision at critical points, such as the relation of the old, the young, and the female to the labor market.

On the whole, however, I am much encouraged by the present developments and the activities of the subcommittee which have helped to focus attention on this problem and to encourage the agencies in the field to initiate and develop improvement programs. A great deal of progress has been made since the 1930's. There is still a long way to go, but we are beginning to know enough about unemployment phenomena to plan with some confidence.

Sincerely,

ISADOR LUBIN,
Industrial Commissioner.

CHAMBER OF COMMERCE OF THE UNITED STATES,
ECONOMIC RESEARCH DEPARTMENT,
Washington, D. C., January 9, 1956.

Hon. RICHARD BOLLING,
Chairman, Subcommittee on Economic Statistics,
Joint Committee on Economic Report, Washington 25, D. C.

DEAR CONGRESSMAN BOLLING: In reply to your December 27 letter, I am grateful for this opportunity to discuss the testimony on employment and unemployment statistics presented November 7 and 8, 1955, before your subcommittee.

Employment and unemployment statistics are among our most valuable data. They are widely used by business and Government in day-to-day and long-range planning. The subcommittee has rendered valuable service with these hearings by presenting the development and adequacy of statistics in this field.

Last year Congress appropriated over $1 million to improve employment and unemployment data. As revealed in the hearings, the increased funds are now paying off in more reliable and more comprehensive statistics. The census labor force survey is being expanded, permitting greater detail and more reliable data. The Bureau of Labor Statistics is studying characteristics of the unemployed, and securing additional detail in employment, hours, and earnings. These improvements were much needed and provide a more accurate thermometer for measuring the fevers and chills of our economy.

Most statistics are based on samples, and, therefore, include sampling errors. As Dr. Burgess stated: "Users have been urged to evaluate the (employment and unemployment) data in the light of these possible sampling errors. Unfortunately, in spite of these cautions, newspapers and many other users frequently disregard sampling errors and cite and interpret small differences as significant without due regard to the trend over a period of months."

This danger of sampling error is not fully realized sometimes by legislators when considering economic measures. Legislators should exercise discretion and not base legislation upon statistical deviations which may be only sampling errors. Producers of statistics, when preparing reports, should recognize the limitations of their data, and emphasize the possible errors due to sampling.

The 1956 budget recommended improvements in other statistical programs, but these recommendations were largely ignored by Congress. This year Congress should carefully consider improving other economic statistics, particularly in the construction and housing field, where data now collected are woefully inadequate.

The subcommittee has performed valuable service in holding these hearings on employment and unemployment statistics. It should consider similar hearings in other fields, perhaps price and national accounts statistics.

Yours sincerely,

EMERSON P. SCHMIDT, *Director.*

AMERICAN FEDERATION OF LABOR,
AND CONGRESS OF INDUSTRIAL ORGANIZATIONS,
Washington, D. C., March 7, 1956.

Hon. RICHARD BOLLING,
Chairman, Subcommittee on Economic Statistics,
Joint Committee on the Economic Report,
Senate Offie Building, Washington, D. C.

DEAR CONGRESMAN BOLLING: In answer to your request I am enclosing a statement of the American Federation of Labor and Congress of Industrial Organizations commenting on current employment and unemployment statistics.

Sincerely yours,

STANLEY RUTTENBERG,
Director of Research.

Enclosure.

STATEMENT OF AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS CONCERNING EMPLOYMENT AND UNEMPLOYMENT STATISTICS

We have been gratified by the general agreement that there is need for substantial improvement in available data on the labor force, employment and unemployment. Current plans among Government agencies for revisions of these data, however, do not go far enough toward obtaining essential information, as we see it.

A major objective in the collection and presentation of labor-force data should be to provide comprehensive measures of the extent to which the Nation's human resources are being utilized. More comprehensive information on the composition and characteristics of the labor force and its components is needed, as well as additional information on the shifts within the employed group and the shifts into and out of the labor force, as a whole.

Another important objective should be to maintain measures that are sensitive to changes in the utilization of human resources, in order to indicate more accurately than at present any fluctuations in employment and unemployment.

More detailed statements of AFL–CIO views on labor force data can be found in the statements submitted by the AFL and CIO to the hearings on economic statistics, held by the Joint Committee on the Economic Report in July 1954, and to the interdepartment Review of Concepts Committee in July 1955.

An indication of some of the difficulties in currently available labor force data can be found in the broad variation in movements between Census figures on nonagricultural employment and those published by the Bureau of Labor Statistics. Attempts to explain these variations on the basis of differences in concept fail, in our opinion, to reveal the reasons for substantially different movements of the two series. The differences in movements persist and can be found by making month-to-month comparisons that tend to eliminate seasonal changes in dual job holding (BLS counts dual jobholders twice and Census, once).

The following table compares Census and BLS nonagricultural employment data for January 1956 with January data for the previous 3 years.

Nonagricultural wage and salary workers

[Millions]

	Census [1]	BLS
January 1956	48.4	49.5
January 1955	46.2	47.7
Difference	+2.3	+1.8
January 1956	48.5	49.5
January 1954	46.4	48.1
Difference	+2.1	+1.4
January 1956	48.5	49.5
January 1953	47.2	48.8
Difference	+1.3	+.7

[1] Less those employed in private households.

Here, we find a striking difference in movement between the two series. In the year between January 1955 and 1956, the Census figures for nonagricultural wage and salary workers increased 2.3 million while the BLS nonagricultural employment figures increased 1.8 million—a difference of 500,000. Similar differences exist for comparisons with previous years.

Differences in concepts help to explain why the BLS figure for nonagricultural employment for January 1956 is greater than the Census data for the same month. The major reason for this difference is, of course, that BLS payroll information presents dual jobholders twice, while Census interview information presents them once. However, the key problem to which we believe attention should be directed is not the level of employment indicated by the two series, but the striking difference in movements.

Why does Census indicate a 2.3-million rise in nonagricultural employment between January 1955 and January 1956, while BLS indicates a 1.8-million increase? Are we to imply from this variation in movement that there were 500,000 more dual jobholders in January 1955 than there were in January 1956? Are there other possibly more technical reasons to explain the differences that have developed over the past year in these two series?

These marked differences in the movements of Census and BLS nonagricultural employment data require a detailed, analytical explanation and an early effort to reduce them, if not to eliminate them entirely.

An additional peculiarity in recent employment data that calls for an analytical explanation is the consistently high level of agricultural employment—in recent months by comparison with 1954—in a period of declining farm prices, on the one hand, and improved conditions in industry and commerce, on the other hand.

Here are the figures that are particularly striking:

Agricultural employment

[Millions]

	August	September	October	November	December	January
1956						5.6
1955	7.5	7.9	7.9	6.9	5.9	
1954	6.9	7.5	7.2	6.2	5.3	5.3

It should be noted this increase in agricultural employment, as reported by the Census, comes at a time when the Department of Agriculture estimates for farm employment show a drop. For example, the Department reported on February 16, 1956, that 4 percent fewer workers were employed on farms in January 1956 than in January 1955.

In other words, the Census reports show an upward movement during the year 1955 in both agricultural employment and nonagricultural wage and salary workers which seemingly is not supported by the relevant statistics of the Bureau of Labor Statistics and the Department of Agriculture.

These peculiarities in employment data are presented here merely to indicate some of the difficulties with currently available labor force information. They are not presented in any effort to embarrass any Government agency, for we feel that each of the statistical agencies concerned is doing its best to provide the most accurate data possible. Nevertheless, the problems we raise are very real and the cooperative effort of all interested agencies will be required for their solution. They must not be glossed over with defensive explanations.

The coming months present a particularly critical period for employment statistics because the Census Bureau is instituting a major expansion of its sample households for the Current Population Survey. When the previous major change was made in January 1954, several important discrepancies developed between the new and the old statistical series. These discrepancies were particularly serious for the important unemployment estimates. While we have the highest regard for the professional staff of the Census Bureau, we think it valuable for competent statisticians outside the Bureau to examine its technical procedures, particularly during the coming months.

We want to urge the joint committee and its staff to maintain a careful check on the Census Bureau procedures as the new sample is instituted.

It is the hope of the AFL–CIO that the work of the Joint Committee on the Economic Report in calling attention to deficiencies in economic statistics will produce substantial improvements in existing data and in general information available regarding the labor force.

The following material was supplied by the Department of the Interior in response to questions asked during the testimony of Secretary McKay, pp. 537–611:)

UNITED STATES DEPARTMENT OF THE INTERIOR,
OFFICE OF THE SOLICITOR,
March 7, 1956.

Hon. PAUL H. DOUGLAS,
Chairman, Joint Committee on the Economic Report,
United States Senate, Washington 25, D. C.

MY DEAR SENATOR DOUGLAS: At the recent hearing of your committee, at which Secretary McKay appeared, requests were made for certain data relating to increases in electric power capacity and Interior Department progress relating to Missouri River Basin development. The first inquiry was by Congressman Curtis and the second by Congressman Bolling.

We are enclosing herewith the data requested.

Sincerely yours,

ELMER F. BENNETT,
Legislative Counsel.

Enclosures.

Capability additions and cost estimates, 1948–55

Class I Utilities	Capability in Kilowatts			Cost Estimates		
	Federal	Others	Total	Federal	Others	Total
1948	500,000	3,700,000	4,200,000	$130,000,000	$540,000,000	$670,000,000
1949	600,000	4,800,000	5,400,000	156,000,000	700,000,000	856,000,000
1950	700,000	5,100,000	5,800,000	182,000,000	880,000,000	1,062,000,000
1951	1,200,000	6,100,000	7,300,000	290,000,000	950,000,000	1,240,000,000
1952	1,600,000	5,900,000	7,500,000	324,000,000	990,000,000	1,314,000,000
1953	1,700,000	7,800,000	9,500,000	365,000,000	1,220,000,000	1,585,000,000
1954	2,200,000	10,300,000	12,500,000	352,000,000	1,650,000,000	2,002,000,000
1955	3,300,000	9,700,000	13,000,000	700,000,000	1,550,000,000	2,250,000,000

NOTE.—All capability figures have been rounded off to the nearest 100,000 kilowatts. All cost figures are estimates only.

MISSOURI RIVER BASIN DEVELOPMENT ACCOMPLISHMENTS OF THE DEPARTMENT OF THE INTERIOR, 1953 TO DATE

The program of the Department of the Interior for the Missouri River Basin since 1953 has represented a continuation of the policy of multiple-purpose conservation and development of resources. Much of this overall program is a part of the Missouri River Basin project, which was started early in 1946, following authorization in the Flood Control Act of December 1944 of a combined Interior-Army water resources development program for the basin. Subsequent legislation has broadened the scope of this basinwide project. Many units have been built and others have been modified as a result of further investigations but the over-all plan continues to be the conservation, control and use of the natural resources of the region.

Seven bureaus in the Department of the Interior are involved in various phases of the Missouri River Basin program. Program coordination among the Interior Bureaus is achieved through the Department's Missouri Basin Field Committee. The chairman of this field committee also serves as Interior representative on the Missouri Basin Inter-Agency Committee on which the other Federal agencies and the 10 Missouri Basin States are represented.

The accomplishments of the Department since early 1953 are as follows:

1. BUREAU OF RECLAMATION

Appropriations for the Missouri River Basin project have, since January 1953, totaled $129,842,667. During the period January 1, 1953, to December 31, 1955, obligations incurred amounted to slightly over $125 million.

Twenty-five units of the project are now completed or under construction. Since January 1953, the Bureau has started four new units consisting of the Owl Creek and Hanover-Bluff units in Wyoming, the Glendo Dam and powerplant in Wyoming, and the Sargent unit in Nebraska. In addition the Lovewell Dam, a major feature of the Bostwick unit, has been started in Kansas. Funds are also available for the start of two new units in Montana, the Helena Valley unit, and the Yellowtail Dam unit. During this period new authorizing legislation was obtained for four units in the Niobrara sub-basin and for the enlarged Glendo unit.

The Bureau has completed four major storage dams consisting of Trenton in Nebraska; Keyhole in Wyoming; Kirwin in Kansas; and Jamestown in North Dakota; and the Webster and Tiber Dams are nearing completion. The Canyon Ferry powerplant was placed in operation in Montana, supplying 50,000 kilowatts of capacity in the basin. Approximately 1,100 miles of high voltage transmission lines were completed, including the main backbone line connecting the Garrison and Fort Randall plants on the main stem of the Missouri.

New irrigated acreage has been brought in on 6 units totaling 51,000 acres and works for 15,000 more acres will be completed during 1956. Five new repayment contracts have been executed on the Hanover-Bluff, Kirwin, Sargent, Heart Butte, and Owl Creek units, and negotiations are well advanced on the Helena Valley and Ainsworth units. In addition, amendatory contracts substantially increasing the repayment amounts on the Bostwick and Frechman-Cambridge units have been completed.

2. NATIONAL PARK SERVICE

Seventeen reconnaissance and planning reports on the recreation potentialities and benefits of Bureau of Reclamation projects were completed. These reports aid in determining feasibility of projects and in interesting State, local, and other non-Federal agencies in assuming responsibility for administration of recreation features of the projects after their completion.

Ten agreements have been negotiated with State and local agencies since January 1953 for the administration and development of the recreation features of the reservoirs, thereby relieving the Federal Government of this responsibility. These include Estes Park, Col.; Carter Lake, Col.; Horsetooth, Col.; Rattlesnake, Col.; Bellevue Gravel Pit Area, Col.; Cedar Bluff, Kans.; Box Butte, Nebr.; Dickinson, N. Dak.; Jamestown, N. Dak.; and Angostura, S. Dak. In addition to the long-term leases listed above, 12 additional agreements are in various stages of negotiation.

Work performed since January 1953 on recreation planning for the Missouri Basin included the preparation of inventories of existing recreation areas; field appraisal of potential recreation areas, sites and features; study of recreation habits, desires and needs of residents of the basin; the assembly of basic data on the physiography, history and development, economic and social conditions, and geological and biological aspects of the basin; and the study of legislative, financing, and administrative questions in providing facilities to meet recreation needs in the basin. A comprehensive plan for the preservation and development of the recreation resources of the basin is scheduled for publication at the end of 1956.

Development of the basin involves the construction of many water resources projects which will cause the permanent loss of archeological remains. In order to learn as much as possible of the prehistory of the basin, while the opportunity still remained, a program of archeological salvage was conducted. Most of the work was done by the Smithsonian Institution with funds provided by the National Park Service. The Institution carried out archeological surveys in 13 reservoir areas, discovering 513 new sites and making excavations in 84 sites; it also prepared 24 reports for publication and published 4, in addition to numerous small articles. Specimens from the excavations numbering 235,602 were cleaned, cataloged, and processed by the laboratory in Lincoln, Nebr., in addition to numerous photographs and maps.

The Service has cooperated closely with the State park agencies in advising on the planning, development, and operations of their State parks.

Representatives of the Service have also assisted the Corps of Engineers on various occasions in connection with recreation problems at Corps reservoirs.

3. FISH AND WILDLIFE SERVICE

In accordance with the act of August 14, 1946 (60 Stat. 1080), the Fish and Wildlife Service has conducted investigations and written some 80 reports since January 1953 on projects of the Bureau of Reclamation, the Corps of Engineers, the Department of Agriculture, and private projects to be licensed by the Federal Power Commission.

In connection with the potential Garrison diversion unit in North Dakota, the Bureau of Reclamation and the Service have reached an understanding which will make possible the storage of water in the vicinity of the Souris River near the Canadian boundary but without endangering the Lower Souris National Wildlife Refuge. The Garrison diversion unit is expected to provide tremendous opportunity for developing new habitat for fish and wildlife. The Service has been examining some 80 sites with a view to determining their potentialities for incorporation into the development program.

General plans have been negotiated and executed since January 1953 for making lands at seven projects in the Missouri River Basin available to the Fish and Wildlife Service or State fish and game departments for wildlife-management purposes. At an additional five projects, general plans are being negotiated.

Federal refuges have been set up at Kirwin Reservoir in Kansas and Garrison Reservoir in North Dakota. At Garrison, the North Dakota Game and Fish Department will administer part of the lands as a wildlife-management area. Also in North Dakota, considerable effort was expended in protecting the valuable Arrowwood National Wildlife Refuge which was partly inundated by the Jamestown Reservoir.

Since January 1953, trees and shrubs have been planted around eight reservoirs in the Missouri River Basin as partial compensation for wildlife habitat lost through flooding by the reservoirs.

Inventories of wetlands and of permanent water areas in the Missouri River Basin have been completed as a part of a nationwide program for the preservation of wetland habitat vital to the welfare of waterfowl and other wildlife.

Continuing conservation services are provided by operation of 98 Federal wildlife refuges and 10 Federal fish-cultural stations. The Service also administers the program of technical aid and financial assistance to the States of the basin in many of their research and management problems under the Federal aid in fish and wildlife restoration acts. The continuing program also includes fish and wildlife investigations, enforcement of Federal fish and game laws, and cooperation with the States in control of rodents and predatory animals.

4. GEOLOGICAL SURVEY

Water resources investigations.—Ground-water studies were made of the Gallatin Valley and Little Bighorn River Valley in Montana; in the James River Basin of eastern South Dakota; the Box Elder Creek Valley in Weld County, Colo.; Wheatland Flats area, Niobrara and Elkhorn River Basins, Loup River Basin, and Platte-Republican River watersheds in Nebraska; Lodgepole Creek drainage basin in Wyoming and Nebraska. The Federal-State cooperative programs included ground-water studies in the Hettinger, Westhope, Tioga, and Devils Lake area, North Dakota; Clay County, Nebr.; Cheyenne, Rawlins, and Cokeville areas, the Owl Creek irrigation project and, Platte County, Wyo.; and Kit Carson County, Colo.

On surface waters, approximately 640 stream-gaging stations were operated in order to provide information on the quantity, variation, and distribution of supply. Streamflow records prior to 1950 are being reviewed and prepared for publication in a special report. Work was continued in several States on the frequency and magnitude of floods. A report was prepared on the stages and discharges of the highest known flood which occurred in April 1952 on Missouri River and some of its tributaries from Bismarck, N. Dak., to St. Joseph, Mo.; and the Milk River of Montana.

Studies of hydrology in relation to land-treatment practices were continued in the North Creek area near Alzada, the Willow Creek area near Fort Peck, Mont., and the Cheyenne Basin, Wind River Basin, and the Fifteenmile Creek area of the Bighorn Basin, Wyo.

Studies of the chemical quality of surface and ground waters were continued at a reduced rate. During 1954, chemical quality observation stations on surface streams were reduced from 81 to 27. Sediment investigations included 65 daily and 25 periodic observation stations, as well as studies of erosion and deposition in Wind River Basin, Wyo.; Milk River Basin, Mont.; Medicine Creek and Dry Creek Basins, Nebr. Several publications, including water-supply papers and circulars, were prepared during the period.

Topographic mapping.—The program of topographic mapping included active work on 900 7½-minute quadrangles and 50 15-minute quadrangles, covering an area of more than 53,000 square miles, which were in various stages of completion. In 1953, 294 maps of the 7½-minute series were published. In 1954, 226 of the 7½-minute series and 16 of the 15-minute series were published. In 1955 the corresponding numbers were 138 and 5. These maps covered portions of Montana, Nebraska, South Dakota, Wyoming, North Dakota, Colorado, Missouri, and Kansas.

Geologic and mineral resources investigations.—These investigations are designed to increase the knowledge of mineral resources and to provide basic information for cooperating agencies in planning and operating the development program for the Basin.

There were landslide studies in the Fort Randall Reservoir area in South Dakota; studies of glacial geology in eastern South Dakota, northwestern North Dakota, and eastern Montana; general geologic mapping in the Three Forks, Wolf Point, Plentywood, Fort Peck, Great Falls, Big Sandy, and Missouri-Souris areas in Montana; the Pierre, Yankton, and Chamberlain areas in South Dakota; the Missouri-Souris area in North Dakota; the Omaha-Council Bluffs area in Nebraska and Iowa; the Howard County, Republican River, and city of Omaha areas in Nebraska and the Denver and Upper South Platte areas in Colorado. Engineering geology studies of materials in Kansas are in progress and a number of reports have been prepared.

Mineral-deposit studies included phosphate in Montana and Wyoming, tungsten in Montana, bentonite in the Black Hills district of Wyoming, Montana, and North Dakota, chromite in the Stillwater complex in southwestern Montana, and the Boulder batholith in Montana and the Laramie iron range in Wyoming. The Defense Minerals Exploration Administration has several active contracts in the Missouri Basin area on lead, zinc, copper, silver, manganese, tungsten, and various uranium minerals. Regional geologic mapping is underway in Montana. Extensive studies of uranium continue in Wyoming, Montana, South Dakota, and Colorado.

Coal investigations have included the lignite resources of North Dakota; Custer, Powder, Rosebud, Dawson, Richland and Wibaux Counties, Mont.; Golden Valley County and Bowman area, North Dakota; Slim Buttes area, South Dakota; the Spotted Horse coal field in Wyoming; Girard field in Montana; and the Square Butte field in North Dakota. Reports were published on strippable coal and lignite in the Montana-North Dakota area.

Oil and gas investigations have been carried out in the Mission Park, Winifred, Winnett-Mosby, Livingston-Trail Creek, Sumatra-Alice Dome and Cat Creek areas in Montana, and in the DuNoir, Steamboat Butte-Pilot Butte, Lenore, Conant Creek-Dutton Basin, Badwater, Shotgun Butte and Beaver Divide areas in Wyoming. The subsurface geology in the Williston Basin of eastern Montana and western North Dakota was studied and reports are underway.

5. BUREAU OF MINES

In the 3 years 1953–55 the Bureau of Mines has carried on 75 scientific research projects and investigations on an areal or commodity basis that are of particular interest to the Missouri River Basin program. Sixty publications, such as bulletins, reports of investigations, and information circulars, resulted from these projects which covered, (1) coal and lignite, (2) petroleum and natural gas, and (3) minerals and metals.

Mineral resource reports were made for the Cheyenne, Missouri-Souris, Powder River, South Platte River Basin, and Sun-Teton Divisions, and for the north and south fireclay districts of Missouri and the northern Missouri coal district. Other reports were prepared to treat subjects such as the chromite deposits of the Missouri Basin, the utilization of Montana resources in a cement industry; a survey of the phosphate industry in Montana; the aluminous resources of Montana as a potential source of aluminum; the limestone resources within the Wyoming and Colorado portions of the Missouri River Basin; the types, distribution and uses of clays, the occurrences, reserves, mining and processing methods for gypsum; the lightweight aggregate resources of North and South Dakota; a nitrogen industry in North Dakota; inspections to detect heating or "hot spots" in the several million tons of lignite in storage piles at the Garrison Dam at Riverdale, N. Dak.; and assays to determine the carbonization yields of tar, gas, and char from regional coals and lignites.

Research in the basin has been conducted to determine the constitution and properties of coal and the properties of coal products. Preparation studies have included grindability testing, field tests of power requirements for pulverizing, and preliminary tests on lignite agglomeration by freezing and the effectiveness of freeze-proofing additives. There also has been research on process development of drying, gasifying, and carbonizing low-rank coals. Hydraulic transportation of subbituminous coal and lignite has been studied.

Petroleum research has been directed to supplying scientific data that are valuable in planning more efficient production practices. In petroleum chemistry many crude oils of the region are analyzed and reported to furnish basic data about this important resource. Research, much in cooperation with the petroleum industry, also is conducted on sulfur compounds in petroleum, on the decomposition of sulfur compounds by application of heat, and on nitrogen compounds in crude oils and diesel fuels.

Mineral research has included studies such as chromium and chromite refractories, tungsten deposits, aluminum-silicon alloys, the Copper King copper deposit in Wyoming, beneficiation studies on complex manganese-bearing ores, phosphate mining, the separation of beryl and other minerals from pegmatites, and the separation of selenium from seleniferous tuffs which occur in the vicinity of Lysite, Wyo. Core drilling has been conducted to study lead-zinc deposits in several localities within the basin. Reports on about three-quarters of the Bureau's regular research projects have been published in the past 3 years and several more manuscripts are in the final stages of preparation now.

6. BUREAU OF INDIAN AFFAIRS

Irrigation construction development occurred on 6 reservations with an expenditure of $821,784. These funds brought about the development of 5,900 acres for irrigation, constructed 87 miles of canals and laterals, supplied supplemental water for 5,000 acres, provided 18 miles of drainage ditch, and increased storage capacity by 1,700 acre-feet. Substantial rehabilitation work was performed on existing systems.

Missouri River Basin investigations project accomplishments show obligations of $587,028. These funds have provided land ownership determination records for 6,100 allotments; appraisal of lands within taking area of Oahe and Fort Randall; relocation of 450 families; range and soil surveys showing land use capabilities for 1.5 million acres; timber cruise on 60,000 acres; economic and cultural surveys covering 2,900 people; 4 investigational reports completed; over 200 interviews for various studies. The activity was conducted on 9 Indian reservations.

One effect of the Missouri River Basin program is favorably reflected in the increase in public school enrollment of 207 Indian children. In 1953 there were 905 Indian children attending Federal schools and 263 Indian children in attendance in public schools on or near the Fort Berthold, Crow Creek, and Lower Brule Reservations. Reservoir construction has caused the inundation of large areas of Indian reservations, including several Federal Indian schools and numerous Indian family homes. As a result, the number of children in Federal schools decreased to 763 in 1955 while the public school enrollment increased to 470. The decrease in Federal school enrollment has been accomplished despite the increase in school age population.

From late 1952 to December 31, 1955, 2,552 Indians were assisted to relocate through the Bureau of Indian Affairs' voluntary relocation program from the various States within the Missouri River Basin to such urban communities as Los Angles, San Francisco, and Chicago to secure permanent employment. Of the 2,552 Indians, 479 were from the State of Montana, 1,267 from the State of North Dakota, and 806 were from the State of South Dakota.

7. BUREAU OF LAND MANAGEMENT

Two major activities directly related to the Missouri River Basin development program have been carried on by the Bureau as continuing projects. Since January 1953 the Bureau has classified some 4.1 million acres of public lands and a small amount of interspersed patented lands as a basis for resource development, management and land disposals under the public land laws. As a result the Bureau has been able to undertake the sale of isolated and dispersed tracts of public land, the management of which was difficult and costly. It has also been able to make important land adjustments between Federal and State agencies for simplification of administration. Other range improvement and land use programs have been based on the land classification data obtained.

Also since January 1953, cadastral surveys have been made on more than 2 million acres in the Missouri Basin to provide control for Bureau of Reclamation planning and construction projects and for resource utilization and management programs. These surveys give horizontal controls for farm layout, canal, and road locations.

Development of oil and gas leases on the public lands and the location of uranium claims under the mining laws during the past few years have greatly increased the Bureau's responsibilities within the basin.

(Whereupon, at 12:40 p. m., the committee recessed sine die.)

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