JANUARY 1958 ECONOMIC REPORT OF THE PRESIDENT

HEARINGS

BEFORE THE

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

EIGHTY-FIFTH CONGRESS

SECOND SESSION

PURSUANT TO

Sec. 5 (a) of Public Law 304

(79TH CONGRESS)

JANUARY 27, 28, 29, 30, FEBRUARY 3, 4, 5, 6, 7, AND 10, 1958

Printed for the use of the Joint Economic Committee

UNITED STATES
GOVERNMENT PRINTING OFFICE
21111 WASHINGTON : 1958

For sale by the Superintendent of Documents, U. S. Government Printing Office
Washington 25, D. C. - Price $1.50 (paper)

JOINT ECONOMIC COMMITTEE

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

WRIGHT PATMAN, Representative from Texas, *Chairman*
JOHN SPARKMAN, Senator from Alabama, *Vice Chairman*

HOUSE OF REPRESENTATIVES

RICHARD BOLLING, Missouri
HALE BOGGS, Louisiana

HENRY O. TALLE, Iowa
THOMAS B. CURTIS, Missouri
CLARENCE E. KILBURN, New York

SENATE

PAUL H. DOUGLAS, Illinois
J. W. FULBRIGHT, Arkansas
JOSEPH C. O'MAHONEY, Wyoming
RALPH E. FLANDERS, Vermont
ARTHUR V. WATKINS, Utah
BARRY GOLDWATER, Arizona

JOHN W. LEHMAN, *Acting Executive Director*

CONTENTS

PANEL DISCUSSIONS AND INDIVIDUAL WITNESSES IN ORDER OF APPEARANCE

STATEMENTS AND EXHIBITS

ADDITIONAL INFORMATION

JANUARY 1958 ECONOMIC REPORT OF THE PRESIDENT

MONDAY, JANUARY 27, 1958

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

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

The committee met at 10 a. m., pursuant to notice, in room P–38, Senate District Committee room, Hon. Wright Patman (chairman of the committee) presiding.

Present: Representatives Patman, Bolling, Talle, Kilburn; Senators Douglas and O'Mahoney.

Present also: John W. Lehman, acting executive director; James W. Knowles, economist; Norman B. Ture, economist; and William H. Moore, economist.

Chairman PATMAN. On January 20, the President transmitted his economic report to the Congress and the report has been referred to this committe for study, as provided by the Employment Act of 1946. Under that act, the Joint Economic Committee is to advise the Congress on or before March 1 with respect to the main recommendations contained in the report.

We have already announced the committee's plan for hearings and, without objection, I will insert in the record at this point a schedule of hearings agreed upon and which I released on January 21.

(The schedule referred to follows:)

CONGRESS OF THE UNITED STATES JOINT ECONOMIC COMMITTEE

CHAIRMAN PATMAN ANNOUNCES HEARINGS ON THE PRESIDENT'S ECONOMIC REPORT

Representative Wright Patman (Democrat, Texas), chairman of the Joint Economic Committee, has announced plans of the joint committee to hold 10 days of hearings, commencing January 27, on the President's economic report which was transmitted to Congress yesterday.

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 * * *."

At its meeting on January 13, the committee approved a plan for hearings as set forth in the attached schedule of witnesses and subjects with lists of questions intended to suggest the content rather than limit the particular hearing.

JOINT ECONOMIC COMMITTEE

WRIGHT PATMAN, Representative, Texas, *Chairman*
JOHN SPARKMAN, Senator, Alabama, *Vice Chairman*

HOUSE OF REPRESENTATIVES	SENATE
RICHARD BOLLING, Missouri	PAUL H. DOUGLAS, Illinois
WILBUR D. MILLS, Arkansas	J. W. FULBRIGHT, Arkansas
——— ———	JOSEPH C. O'MAHONEY, Wyoming
HENRY O. TALLE, Iowa	RALPH E. FLANDERS, Vermont
THOMAS B. CURTIS, Missouri	ARTHUR V. WATKINS, Utah
CLARENCE E. KILBURN, New York	BARRY GOLDWATER, Arizona

JOHN W. LEHMAN, *Acting Executive Director*

HEARINGS ON THE PRESIDENT'S 1958 ECONOMIC REPORT

DATES, WITNESSES, TOPICS, AND SUGGESTIVE LISTS OF QUESTIONS

January 27 (Monday), 10 a. m., Senate District Committee Room (P–38): Council of Economic Advisers (executive session):

Raymond J. Saulnier, Chairman, accompanied by
Joseph S. Davis, and
Paul W. McCracken, members.

1. What are the levels of employment, production, and purchasing power needed in 1958 to carry out the objectives of the Employment Act?
2. What are the current and foreseeable trends in employment, production, and purchasing power?
3. What assumptions with respect to prices, national income, personal income, corporate profits, and the like, underlie the President's Economic Report?
4. Are these assumptions consistent with those in the President's Budget Message?
5. How will the recommendations set forth in the President's Economic Report contribute to achieving the objectives of the Employment Act?

January 28 (Tuesday), House caucus room, 362 Old House Office Building, 10 a. m.—Panel: Economic Outlook for the Coming Year:

1. What is the outlook for labor force, hours of work, and productivity in comparison with long-run trends?
2. What are the likely trends in receipts and expenditures of Federal, State, and local governments?
3. What is the outlook for business fixed investment; for residential construction; for inventories?
4. What is the outlook for consumer buying of durables, nondurables, and services?
5. What is the outlook for prices?

Labor Force, etc.:
Ewan Clague, Commissioner, Bureau of Labor Statistics, Department of Labor.

Government Demand:
Louis J. Paradiso, Assistant Director and Chief Statistician, Office of Business Economics, Department of Commerce.

Housing Investment and Demand:
Miles L. Colean, consulting economist, Washington, D. C.

Investment Demand:
Douglas Greenwald, chief statistician, department of economics, McGraw-Hill Publishing Co.

Inventories and Consumer Demand:
Myron S. Silbert, vice president, Federated Department Stores, Inc., Cincinnati, Ohio.

International Trade and Investment:
Edward M. Bernstein, consultant, formerly Director, Research and Statistics Department, International Monetary Fund.

Agriculture:
Oris V. Wells, Administrator, Agricultural Marketing Service, Department of Agriculture.

January 29 (Wednesday), 10 a. m., House caucus room, 362 Old House Office Building, 10 a. m.—Interpretation and policy implications of the current outlook:

1. What factors account for the apparent slowing up in the rate of investment in plant, equipment, and construction?
2. How significant is this slowing up to short-run stability?
3. What, if any, evidence is there of existing or threatened overcapacity in plant, equipment, commercial construction, and housing?
4. What, if any, changes in governmental economic policies are called for in the year ahead in relation to investment prospects and plans?
5. What would you regard as the proper division of labor between tax policy and monetary policy as instruments of economic stabilization during the coming year?
6. Can fiscal and monetary policies stem any prospective deflationary trends?

Gerhard Colm, chief economist, National Planning Association.
James Duesenberry, professor, department of economics, Harvard University.
Walter D. Fackler, assistant director, economic research department, United States Chamber of Commerce.
Martin R. Gainsbrugh, chief economist, National Industrial Conference Board.
Jewell J. Rasmussen, professor, department of economics, University of Utah.
Stanley Ruttenberg, director, department of research, American Federation of Labor and Congress of Industrial Organizations.

January 30 (Thursday), House caucus room, 362 Old House Office Building, 10 a. m.—Invited panel: Organizations:

Agriculture:
The National Grange.
The National Farmers Union.

Business:
National Association of Manufacturers.
Committee for Economic Development.

Labor:
American Federation of Labor and Congress of Industrial Organizations.

February 3 (Monday), room 457, Senate Office Building, 10 a. m.—The Federal Budget:

Percival F. Brundage, Director, United States Bureau of the Budget.

1. What are the major changes in expenditures and revenues contemplated in the President's budget for fiscal year 1959?
2. What assumptions with respect to prices, national income, personal income, corporate profits, and the like, underlie the President's budget?
3. What commitments extending beyond fiscal year 1959 are contemplated by the budget?
4. How will these changes in the budget affect the economy in the year and the years ahead?

February 4 (Tuesday), room 457, Senate Office Building, 10 a. m.—Invited panel: Organizations:

Agriculture:
American Farm Bureau Federation.

Business:
Chamber of Commerce of the United States of America.

Labor:
Railway Labor Executives Association.
United Mine Workers of America.
National Independent Union Council.

General:
Federal Statistics Users' Conference.

February 5 (Wednesday) room 457, Senate Office Building, 10 a. m.—The Defense Department Budget and Plans:

W. J. McNeil, Assistant Secretary of Defense (Comptroller).

1. Given the President's budget proposals for defense expenditures, what may be anticipated as to the rate of new contracting and of expenditures especially for "hardware" for the remainder of the current and succeeding fiscal years?

2. What criteria were followed in arriving at the total budget proposed for national defense?

3. What criteria are used for apportioning this total among various programs?

February 6 (Thursday), room 457, Senate Office Building, 10 a. m.—Fiscal Policy for the Coming Year:

William McC. Martin, Jr., Chairman, Federal Reserve Board.

1. What would you regard as the proper division of labor between tax policy and monetary policy as instruments of economic stabilization during the coming year?

2. What is the current policy of the monetary authorities?

3. What, if any, elements exist in the current situation which suggest or might permit a resurgence of inflationary forces in the next 12 or 15 months?

4. If the inflationary forces continue to abate during the year, what program would you recommend as to priority and specific actions in the fiscal and monetary fields?

February 7 (Friday), room 457, Senate Office Building, 10 a. m.—Monetary Policy for the Coming Year:

Robert B. Anderson, Secretary of the Treasury.

1. What would you regard as the proper division of labor between tax policy and monetary policy as instruments of economic stabilization during the coming year?

2. Do you have any recommendations for general or structural revisions in tax policy at this time?

3. If the economic situation made a tax reduction possible or expedient, should emphasis be given to the encouragement of investment or the encouragement of consumption in the current circumstances?

4. What do you foresee as the Treasury's principal debt-management problems in the year ahead?

February 10 (Monday), room 318, Senate Office Building, 10 a. m.—Panel: Application of the Employment Act of 1946 to the Current Situation and Prospects:

1. How significant to short-run stability is the recent slowing up of economic activity? What, if any, are the implications to long-run stability and growth?

2. What, if any, changes in governmental economic policies are called for in the year ahead?

3. What would you regard as the proper division of labor between tax policy and monetary policy as instruments of economic stabilization during the coming year?

4. Can fiscal and monetary policies stem any prospective deflationary trends?

Roy Blough, professor, graduate school of business, Columbia University.

Lester V. Chandler, professor, department of economics and sociology, Princeton University.

John Kenneth Galbraith, professor of economics, Harvard University.

Ralph J. Watkins, director of economic studies, Brookings Institution.

Yale Brozen, professor, department of economics, University of Chicago.

Chairman Patman. Our plan includes hearing from highly expert technicians, from interested organizations and research groups, from Cabinet officers, whose operations seem to bear most directly upon the economic outlook and policy for the coming year. The hearings will conclude 2 weeks from today with a panel discussion, again of experts, from whom the committee will seek advice as to what proper governmental economic policy is called for in the year ahead.

It has not been possible to hold the hearings in precisely the 1, 2, 3 order which we might have preferred, because of certain conflicting appointments and of persuasive governmental reasons. We will have, therefore, to look at the entire package as a product rather than the individual day-by-day hearing.

This morning, in executive session, the committee will hear from the Council of Economic Advisers. After some years of discussion with various of Dr. Saulnier's predecessors as to the relationship between the Council and this committee's hearings, we worked out with Dr. Saulnier last year a procedure which, I think, was quite satisfactory. Today's hearing will be conducted under somewhat the same ground rules that we established last year. The agreement of what I have just called the ground rules for this meeting is as follows: This meeting will be in executive session, with a transcript taken of those parts of the meeting which the Council feels will not jeopardize its position as staff adjunct of the Office of the President. At any point in the hearing, when the Council feels it is entering into an area which threatens to jeopardize that position, it will be given permission to go off the record, with no stenographic notes made.

Members of the committee, appreciative of the Council's position and the cooperative attempt demonstrated by the acceptance of these arrangements, will try to avoid questions which might, in this sense, be embarrassing.

The taking of the record will be resumed upon completion of the off-the-record testimony. The Council will be given the privilege of editing the transcript, and the edited transcript will then be made a part of the printed hearings for the benefit of the committee members, the Congress, and the general public.

The Council will, of course, be welcomed to provide any additional materials or elaborations which it feels would be helpful to the printed record.

I know that all present today hope this procedure will work well. With that introduction, I will call upon Raymond J. Saulnier, Chairman of the Council, asking him to introduce his two colleague members and proceed with any introductory remarks that he may wish to make about the President's report, the work of the Council, or the economic situation, preliminary to questions from the committee.

Dr. Saulnier.

STATEMENT OF RAYMOND J. SAULNIER, CHAIRMAN, ACCOMPANIED BY JOSEPH S. DAVIS AND PAUL W. McCRACKEN, MEMBERS, COUNCIL OF ECONOMIC ADVISERS

Mr. SAULNIER. Thank you, Mr. Chairman. I have with me this morning my two associates on the Council of Economic Advisers, Dr. Davis and Dr. McCracken. We are accompanied, also, by our administrative officer, Mr. Collis Stocking.

I want to say we are delighted to be here and to have this opportunity, my second opportunity, to discuss with you the President's economic report, and I wish to express my full agreement and satisfaction with what you have called the ground rules for these discussions.

It is my recollection that, last year, it wasn't necessary for us to go off the record at any point. And I will do so only in unusual circumstances, because I would like to have a full record available for those members of the committee who are not here this morning.

I might say, also, that I used my privilege of editing the record last year for purely literary considerations only. I think I made no substantive changes in the report. I hope it will not be necessary for me to do so this year.

I want you to know that we are very appreciative of your consideration to the Council in arranging these ground rules. I have no general statement to make about the economic report, or the analysis of economic conditions which is contained in it. Nor have I any preliminary comment on the recommendations which are made there for legislative actions, and which, in my judgment, would promote economic growth and stability. I think we might proceed at once to such specific questions, Mr. Chairman, as you want to raise.

Chairman PATMAN. That is fine, sir. I would like to ask 2 or 3. Then I would be glad, of course, to yield to any other members.

I would like to ask what are the levels of employment, production, and purchasing power needed in 1958 to carry out the objectives of the Employment Act?

Mr. SAULNIER. I believe, Mr. Chairman, that the foreseeable trends of employment, production, and purchasing power which underlie the President's Economic Report, and which similarly underlie the budget message, are adequate, if realized—and, I repeat, if realized—to carry out the objectives of the Employment Act of 1946.

Chairman PATMAN. Does that contemplate a continuation of the same amount of revenue that we have been getting in the past, or does it take into consideration a dip in our economy for the next few months?

Mr. SAULNIER. That takes into consideration an extension, for a time into 1958, of a decline in our economy, which we have seen developing for some months in 1957. However, it contemplates a reversal of that trend in 1958. For the revenue estimates which are set forth in the budget to be realized, and, similarly, for these foreseeable trends to which I have alluded and which underlie the President's Economic Report to be realized, a reversal of that trend is required.

Chairman PATMAN. Could you indicate about how long that dip will likely continue? Half of the year? I am not trying to ask you to indicate specifically. Naturally, we wouldn't expect a person to do that, or be able to do it. But would it be in the first quarter, second quarter, or third quarter of the year that you would expect an upward trend in the economy?

Mr. SAULNIER. Let me try to answer that question, sir, by indicating, in general terms, the course which our economy would have to take if the revenue estimates are to be realized. There is no single course that our economy must take, but it is quite clear that, if the revenue estimates are to be realized, recovery could not come much later than, say, the middle of the year. They do not contemplate a recovery in the first quarter, in which we are currently nearly a third through, and they do not necessarily require, though they do not rule out, a recovery early in the second quarter. On the other hand, they do contemplate a recovery movement being underway in the third quarter, and, most assuredly, in the fourth.

Chairman PATMAN. I would like for other members to have an opportunity to ask questions before I ask the others that I have in mind.

Dr. Talle, do you have questions?

Mr. TALLE. Not at this time, Mr. Chairman.

Chairman PATMAN. Senator Douglas. Senator, in other committees that I am on, we alternate from right to left. Where a Democrat asks questions first, we yield to Republicans.

Senator DOUGLAS. I think that is quite appropriate.

I would like to ask a question about this year's budget. It is now estimated that the deficit will be approximately 400 million. But, exclusive of increased expenditures for defense, what do you think about revenue receipts? Do you think revenue receipts will hold up so that the deficit will be kept down to 400 million?

Mr. SAULNIER. We have given a good deal of thought to this question, Senator Douglas. We have satisfied ourselves that this estimate of budget receipts for the fiscal year 1958 is a reasonable estimate. Whether it will be borne out in the end by the facts will depend mainly on what has happened in calendar 1957. But not entirely so. To a degree also, it will depend on what happens in the first half of calendar 1958.

Senator DOUGLAS. Take the approximately 10 or 12 billion dollars which we collect from excise taxes, what would you say about the probable collections from the excise taxes during the first half of calendar 1958?

Mr. SAULNIER. Well, that of course in turn will depend upon what happens to——

Senator DOUGLAS. Would you expect a shrinkage?

Mr. SAULNIER. What happens to manufacturers' sales, and to consumer sales.

Senator DOUGLAS. Wouldn't you expect a shrinkage?

Mr. SAULNIER. Let us take retail sales first——

Senator DOUGLAS. Of course the Federal excise taxes, as I understand them, differ from the State sales taxes in that the State sales taxes are taxes on retail turnover but the Federal taxes are excise taxes imposed on manufacturing, the output of goods from the processing plants, and so on.

So that I don't think retail sales are as germane as volume of gross receipts or gross output by processing concerns.

I think I am right on that.

Mr. SAULNIER. As I understand these things, your statement is a correct one, but may I add this? While the tax is a manufacturers' tax, and not paid by the retailer, there is a very close connection between retail sales and manufacturers' output. That connection is such that one's expectations concerning retail sales would be governing as regards your expectations of what might be collected from a manufacturers' tax.

Senator DOUGLAS. It certainly ought to be an accepted fact, so far as retail sales of automobiles are concerned, that they in the first month of 1958 have fallen very much below what was estimated by automobile companies. I mean that has been one of the disappointments of this year: that the new models have not caught on, so to speak. Retail sales are down—that, even though production has been cut, stocks are accumulating by approximately 50,000 during the course of a month and that there is no immediate prospect of a reversal in the automobile field now. So that, with lessened output, I would expect that the receipts from the manufacture of automobiles would greatly diminish; wouldn't you?

Mr. SAULNIER. True, retail sales of automobiles in January are substantially below retail sales of automobiles in January one year ago.

Senator DOUGLAS. Production is below.

Mr. SAULNIER. And production is below.

Senator DOUGLAS. Therefore, tax receipts would be below?

Mr. SAULNIER. You are perfectly right, excise collections will—I can't cite the figure—be reduced.

Senator DOUGLAS. What about passenger travel on railways and so on, isn't that diminishing?

Mr. SAULNIER. I can't speak, sir, with knowledge of the figures for passenger travel. This is affected very much by commutation, and I expect that that has not declined to the extent that industrial production has.

Senator DOUGLAS. What about telephones and telegraph?

Mr. SAULNIER. And carriage of materials.

Mr. DOUGLAS. Telephone and telegraph?

Mr. SAULNIER. Again I can't cite the specific figures, but I would not expect to see a substantial decline there.

Senator DOUGLAS. Durable consumer goods other than automobiles, radios, television sets, electric refrigerators, and so on?

Mr. SAULNIER. They are down as compared with a year ago. But the trend is not sharply downward at this point.

Senator DOUGLAS. You are operating on figures which are from 6 to 10 weeks old. What has been happening, I think—the figures come out in February—I think you will find that the drop between December and January has been very marked.

Mr. SAULNIER. May I ask, sir; the drop in retail sales?

Senator DOUGLAS. No, no, in production.

Mr. SAULNIER. In production?

Senator DOUGLAS. Yes.

Mr. SAULNIER. Well, we have some weekly indications of production. We carry these in the Economic Indicators.

Steel production, for example, is down over December.

Senator DOUGLAS. Most decidedly.

Mr. SAULNIER. Down over December.

Senator DOUGLAS. Fifty-six percent of capacity.

Mr. SAULNIER. Let me, if I may, sir, most respectfully, warn all of us against the capacity figures. Broadly speaking, production is down in January over December. I would expect to see the Federal Reserve Board index of industrial production down again in January.

Let me say also, sir, contributing to the general viewpoint that you are developing here, that it is our feeling that retail sales in December, which after seasonal correction were generally regarded as having been higher than retail sales in November, were probably somewhat lower.

Senator DOUGLAS. Lower in December?

Mr. SAULNIER. That is correct.

Senator DOUGLAS. Lower in December than in November?

Mr. SAULNIER. Yes.

Senator DOUGLAS. Normally, of course, December is the period of boom.

Mr. SAULNIER. I refer to sales after seasonal correction.

Senator DOUGLAS. I see, yes.

Mr. SAULNIER. The fact seems to be that people in recent years have been spending an increasing proportion of their year's expenditures, retail-store expenditures, during December. So that a proper seasonal correction is one that must be adjusted year after year. We discovered this fact from some new studies that were made of seasonal adjustments. And on the basis of this kind of adjustment, which is still really only in the experimental stage, on the basis of this kind of an adjustment, it would appear that December sales were down after seasonal correction.

Senator DOUGLAS. I am trying to bring out this: Aren't you really being too optimistic in your belief that revenues are going to hold up? To the degree that you are, receipts from excise taxes will be down? And while it is true that the income tax and corporation tax payments will in the main be based on calendar 1957, which is over with, there will be some payments on current receipts, current income.

I am sure your faces would be quite red if on the 1st of July, the 6th or 7th of July, instead of a deficit of 400 million, which you endorse, which you are now endorsing, you have a deficit of over a billion or 2 billion; that would be quite an error.

I want to say if your face is too red on this point——

Mr. SAULNIER. If my face is red at that time, sir, it will be red not because of an unrealized statistical estimate, but rather because our economy has not shown the recovery which I think it will.

Senator DOUGLAS. Well, in all these things it is very important not to let hope control judgment too much, just as we can err with excessive pessimism, so you can err with excessive optimism.

I suppose the party in power always errs with excessive optimism; the party out of power tends to err with excessive pessimism. But the economists are supposed to move without optimism or pessimism, but with cold realism.

I am wondering whether you have not adulterated your cold realism with a good shot of optimism.

That is all, Mr. Chairman.

Mr. SAULNIER. One of the comforting implications of optimism in these matters is that by and large, optimism about the future encourages one to do the things that will help make the optimistic expectation come true.

Senator DOUGLAS. In other words, by blowing on the thermometer, you raise the temperature.

Mr. SAULNIER. Not at all, sir. These questions about revenues to be raised 18 months ahead are matters about which there can be fairly wide differences of opinion. All I am saying is that when you make your judgment as to what figure seems to you best within that range, that if you do lean toward the optimistic view, you may be encouraged in certain respects to do things that will help your optimism to be realized.

Senator DOUGLAS. There may be something to that. That is Coué. He was a French psychologist who said that every day in every way, I am getting better and better, and that this would make you better—autohypnosis.

Mr. SAULNIER. I was not referring to Dr. Coué, I assure you.

Chairman PATMAN. I understand you to say that if we have this goal and we are optimistic, that we will try to reach that goal. Is that the correct understanding of that?

Mr. SAULNIER. That is part of what I had in mind, sir.

Chairman PATMAN. Of course not depending on that entirely?

Mr. SAULNIER. No indeed. There are other very important considerations. And let me point out, Mr. Chairman, that the estimates in the budget document of excise tax collections for 1958 are in fact below the actual collections for 1957. It may be that the 1958 collections will be lower than they have been forecast here. Nobody can be altogether sure what that outcome will be.

Chairman PATMAN. Mr. Kilburn, would you like to ask a question?

Representative KILBURN. If I understand what you just said to Senator Douglas, isn't it true that a great deal of business activity is based on what people think is going to happen in the future? In other words, if businessmen have confidence that things are going to hold up and everything, they will expand their plants and they will do a lot of things that they would not do if they thought things were going to go down?

Mr. SAULNIER. Yes, indeed.

Representative KILBURN. So that public confidence in the future enters into the picture that you just outlined.

Mr. SAULNIER. Indeed it does. The confidence of business people and the confidence of consumers. But I would hasten to add that my remarks are not to be interpreted as meaning that you deliberately put forward an unduly optimistic statement because you think that this will be somehow conveyed to the public and encourage them to do things that will help make the optimism come true. On the other hand, we are not masochists and we feel no compulsion to put forward excessively pessimistic forecasts.

Senator DOUGLAS. Well, may I say, Mr. Chairman, that since the Chairman of the Council properly disavows being a masochist, I am going to disavow being a sadist.

Representative KILBURN. When you estimate the budget deficit at about 400 million, does that contemplate, for example, a raise in postal rates?

Mr. SAULNIER. The budgetary outcome for fiscal 1958 is projected with the postal deficit that is implied by the present level of rates. The fiscal 1959 budget, on the other hand, is projected with that roughly $700 million deficit eliminated.

Representative KILBURN. Well, I am for raising the postal rate, but I was wondering if that is in the estimate. It seems there are quite a lot of presently uncertain factors that will control the amount of the actual deficit.

Mr. SAULNIER. There are a great many factors that control it. This is one of them.

Chairman PATMAN. Mr. Bolling——

Representative BOLLING. Dr. Saulnier, what is your estimate of the rate of real growth from 1956 to 1958 in productivity in economy—growth, taking out inflation? The 2 years?

Mr. SAULNIER. Let me be sure I understand what you are asking. You refer to the growth between——

Representative BOLLING. The 2-year period, 1956 to 1958.

Mr. SAULNIER. The 2-year period, 1956 and 1957.

Representative BOLLING. Yes.

Mr. SAULNIER. Well, we have these figures in the Economic Report. If I properly understand the figure you wish, it is the average percentage increase in these 2 years of GNP, in constant prices.

Representative BOLLING. Yes.

Mr. SAULNIER. Dr. McCracken can read those figures out of the Economic Report here.

Mr. MCCRACKEN. In 1957 prices gross national product in 1956 was 430.3 billion. In 1957 gross national product was 433.9 billion. That is an increase of 3.6 billion, or slightly less than 1 percent. This is after adjustment for price changes.

Representative BOLLING. Now, is there a table which would indicate what the annual average rate of growth has been in the last 4 years?

Mr. SAULNIER. No; there is no table but rates of growth can be calculated readily from table F-2 on page 118 of the appendix, where we give gross national product in constant 1957 prices, from 1929 to 1957. The calculation you have in mind can be made very simply from the first column of that table.

Representative BOLLING. That would work out to be about what, about 3 per annum on an average?

Mr. SAULNIER. What years are you taking, sir?

Representative BOLLING. Four, five, six, and seven.

Mr. SAULNIER. 1954, 1955, 1956, and 1957.

It is around 3½ percent.

Representative BOLLING. Around 3½ percent. Well now, I am going out on my favorite subject, which is perhaps a little far afield on this, but it seems very crucial. You are probably familiar with the fact that this committee has had the legislative reference service to do 2 studies in the last 3 or 4 years, 1 that was reported in January of 1954 and 1 in the spring of last year. The first one on the comparative growth in the Soviet bloc versus the free world bloc and the second one on the comparative growth between the United States and the Soviet.

The more I read these and the more I studied them, the more concerned I have gotten. My question is: Do you feel that, in terms of a long-range economic competition, that our growth, leaving out for the moment the question of full employment and so on, has been satisfactory to meet that competition?

Mr. SAULNIER. Well, now, you perhaps have observed that in the economic report this year, a discussion is directed to the question of economic growth, and to economic growth as a goal of public policy.

You may have observed the paragraph on page 3, which I would like to read.

Although the rate of economic growth that is best suited to the Nation's capacity and requirements can not be stated precisely, the low current rate would clearly be unsatisfactory as a continuing condition. We must always

be alert to question the adequacy of the rate of economic growth and to consider whether further encouragement and incentives are needed and, if so, how best to provide them. Yet we must be constantly on guard against resort to measures which might provide a spurt in activity at the cost of impairing the long-run health of the economy.

Representative BOLLING. What would some of those measures be, those suggested in the last sentence? What is the kind of thing that would impair our long-range growth that might be advocated in a current recession?

Mr. SAULNIER. Measures that had the effect of promoting inflationary developments in our economy might well do that.

Representative BOLLING. This, of course, leads us off into an important subject or related subjects. Do we now have adequate tools in the anti-inflation problem? It would seem to me that some of the steps that I believe have had an effect on our current situation, popularly known as tight money, were perhaps carried too far, and that they didn't succeed particularly in controlling inflation, although, of course, this is a guess. It might have been much worse. Although it was still pretty bad. Some of us think that these measures had something to do with bringing about the situation where we are today because they were carried too far.

Back to the question: Is it your opinion that we have adequate tools to meet inflation?

Mr. SAULNIER. Our means for controlling inflation, while far from perfect, are a good bit more adequate than our means for stimulating a resumption of economic growth, once our economy has started to contract.

Representative BOLLING. This brings us to what seems to be a crucial value judgment. If we are in a long-range competition with Russia on productivity—if that is the right word to use—what then would be the value judgment as to which is more important, a precise and absolute control of inflation or adequate growth?

Mr. SAULNIER. You have posed a very difficult question, and it is precisely because we regard it as a critical question at this time that the first chapter of the President's Economic Report is devoted to a discussion of economic goals. We have there set forth the thought that we have not just one economic goal; we have a number of them. We want a rate of economic growth that is adequate to our national needs, both for defense and for the improvement of living. Second, we want a rate of economic growth that is reasonably steady over the years, that doesn't go ahead jerkily. Also we want a reasonably stable price level, and we are very serious about seeking a stable price level. And, finally, we want to do all of this within an institutional framework in which there is a minimum of intervention into the affairs of business concerns and individuals.

Now, these goals can at times be conflicting, one with one another. And, indeed, I think you will find a phrase in the Economic Report in which there is a reference to these "sometimes conflicting" objectives. At the moment, as I see it, the inflationary pressures in our economy are greatly diminished over what they have been. For me, at this time, the paramount objective is to achieve a resumption of economic growth, which I think can be done by proper policies, and without necessarily a resurgence of inflationary forces.

On the other hand, the report is clear, I hope, in indicating that what we want is a resumption of economic growth in real terms, and not merely an expansion in terms of money values. If it is my duty to report next year as Chairman of this Council, I don't want to come back here and say, "Well, all we have to report is higher price tickets on an unchanged volume of real output." This is, as I see it, the central economic question of our times.

Representing BOLLING. It is likely to remain the central economic question for some time.

Mr. SAULNIER. I agree, sir, it will remain the central question for some time. I am one of those optimists—I think not a foolish optimist—who believes that the forces that make for growth in this country are tremendously strong. And I expect that over the years ahead economic resources will be constantly under pressure and thus will be continually in danger of an upward movement of prices. What we must solve as a nation, is how we can achieve that economic growth without price inflation.

Representative BOLLING. But the growth comes first as a goal. What we have to do is devise the techniques to have growth without price inflation. But we must have the growth?

Mr. SAULNIER. I resist having to choose from among this set of economic goals. In any case, one would have to make that choice, sir, on the basis of a hypothetical situation which I would want to define pretty carefully.

Representative BOLLING. Let me make myself clear. I happen to be one of the ones who still thinks you can control inflation with the proper policies. But I don't think we have, or use, all of the tools. I am sure there is a wonderful argument on this but nobody has ever convinced me that, when you raise the cost of money generally and at the same time lower downpayments and monthly installments in, say, the automobile field, so that the individual actually pays less on a monthly basis after the money is tighter than he did before; you do not still have a built-in type of inflationary impetus there. I may be wrong, but I have listened over the years to everybody concerned with it, and a number of them have said that they didn't feel we had adequate tools to control inflation, yet.

But it seems that when you come to a choice as to which is the more important goal—growth or the control of inflation—in the light of responsible estimates that, except for services, the Soviet may reach our level of production in 10 years, and in the light of charts based on conservative estimates of Soviet growth and optimistic estimates of our own growth, indicating that they will catch us in 1980 or 1985, makes growth the absolute essential for the economy.

Senator O'MAHONEY. I am sorry that the meeting of the Judiciary Committee and the conference with the head of one of the big automobile companies made it impossible for me to be here through the beginning of your testimony. I find this report extremely interesting. I was particular impressed with what you were saying as I came in the last time about "growth in real terms." Now, what do you mean by that?

Mr. SAULNIER. I mean growth in terms of actual physical goods and services.

Senator O'MAHONEY. That is what we want.

Mr. SAULNIER. That is correct, sir.

Senator O'MAHONEY. Do we have a budget and a program that will produce that result?

Mr. SAULNIER. I think, sir, that the policies which we are currently pursuing and which are contemplated here in the economic report, if carried out by appropriate legislative action would give us a resumption of economic growth. And let me add, sir, that if I felt they were inadequate to that, I would be among the first to call for bolder measures.

Senator O'MAHONEY. Well, I am happy to hear you say that because I wanted to call to your attention a particular situation which has been taking a great deal of my time since Congress adjourned. After sputnik, the plan was evolved to expand production of war materials and to contract on the development of natural resources. Indeed, when the President's budget came down a year ago, it called for an expenditure of $1,532 million for the entire field of natural resources. On October 1, when the review was issued by the Bureau of the Budget, that item for natural resources development was cut to $1,004 million.

Now, since that time the policy of the Government has been to prohibit any new starts in flood control, conservation of water, and other items of that kind effecting the development of our natural resources. While this is going on, we read in the press that Austria is planning to build some 15 multipurpose dams along the Danube.

We have the reports from Russia that the expansion of multipurpose dams, the conservation of water, the development of power, is one of their principal programs for economic growth.

So it seems that we are putting ourselves in the position of stifling real economic growth in the United States, while Soviet Russia is doing everything in its power to expand economic growth in real terms, economic growth dealing not so much with the production of military-end items, but economic growth dealing with the production of natural resources that are so vital to every objective that we have.

Let me give you an example. I was before some of the officers of the Atomic Energy Commission 2 weeks ago. We were discussing a formal policy statement that had been made by Mr. Jesse Johnson, who was the head of the raw materials branch of the Atomic Commission.

He had announced, as a result of a decision made by the Atomic Energy Commission before sputnik that the Atomic Energy Commission would no longer authorize any more contracts for the refining of uranium.

An examination of Mr. Johnson's report revealed that the State with the greatest amount of uranium reserves in the United States was New Mexico. Some 50 million tons of uranium are registered in the reserve. And they have a very large milling capacity down there. All of which is good.

I have no criticism of it, those facts, but this was a public statement, and in effect an announcement to Soviet Russia that our source of uranium, needed for the intercontinental ballistics missiles and all the weapons we are talking about is within a little 15-mile circle in the State of New Mexico.

Now, the State of Wyoming is second to New Mexico. Its reserves are not more, at the present estimates, than 10 million. New Mexico is 5 to 1 greater. There are uranium deposits not only in Wyoming but in Colorado and in half a dozen other States. These alternative sources need to be and in all prudence should be developed.

This budget policy that is being followed of holding back the conservation of water is defeating the purpose that you have just announced, as I see it, namely, of expanding economic growth in real terms. If my facts were straight, would you agree on that?

Mr. SAULNIER. I was just checking, Senator, some figures I have here on budget expenditures. There is, as you know, a special analysis in the budget, special analysis F on public works expenditures. Now, with all of the reservations that one must make about such figures, which may be affected by changes that have little economic significance, budget expenditures in the natural-resource area show, not a decrease, but an increase as between 1957 and 1958 of roughly $160 million. And they show a further increase as between fiscal year 1958 and fiscal year 1959 of some $40 million. How much of that, sir, is in the field of water resources, I would have to read from the table.

Senator O'MAHONEY. We are not going to settle the budget question or the question of natural resources while dealing with items of $160 million and $40 million. We are dealing here with an overall budget of $72 billion. We are dealing here with what we call mutual security, of what is it—about 40 or 42 billion?

Mr. SAULNIER. You are speaking of the military——

Senator O'MAHONEY. Plus the economic aid and all the rest of it. I want to call your attention, sir, to the fact that in March 1957 the General Accounting Office made a report to the Department of Defense, a classified report, on the waste of expenditures of money from the United States Treasury in military assistance. That report was not presented to Congress until the day before the last session adjourned.

I was fortunate enough to receive a copy of the report. And I found out that although it had been before the Defense Department since March, it was only after sputnik that anything was done. And as of last week, no conclusion had been reached with respect to this particular item as reported by Mr. Campbell—an Eisenhower appointee at the head of the General Accounting Office.

In that report he found that as of the 31st of December 1956 $2,700 million had been committed for the production of military-owned items in foreign countries under an agreement between the United States and these foreign countries by which the foreign governments were bound not to take any profit for the governments or for their agencies. Yet Mr. Campbell reported that he had found instances of those governments taking profits and of their agencies taking profits. I don't need to recite the whole thing. You know it probably as well as I do. Efforts are being made now, fortunately, to curtail expenditures of that kind. But no conclusions have been reached.

My point however is—and I wonder if you don't agree—is that we could easily save much more than 160 million or 40 million to develop natural resources in the United States by eliminating such things as the waste that takes place in military expenditures among the nine nations whom Campbell's party visited.

Mr. SAULNIER. Senator, I don't know of unnecessary expenditures in that area but it would be hard for me to believe that in a budget as large as ours, there is not room for substantial savings. All I wanted to clarify in my statement, Senator, was that as I understand the budget figures, there is no contemplated reduction——

Senator O'MAHONEY. You are talking merely of the figures, sir.

Mr. SAULNIER. Yes.

Senator O'MAHONEY. But there is a definitely new policy to stop new starts. And I referred to uranium merely as an illustration of the natural resources to be found in the arid land States in the whole Rocky Mountain area, the natural resources, mineral resources, which are presently needed and which can be developed if we continue the program that Russia is adopting. We are abandoning the real development of natural resources by stopping new starts, while Soviet Russia and Austria are just launching on the programs of the same type.

Mr. SAULNIER. I am afraid I haven't made myself clear.

Senator O'MAHONEY. You have made yourself quite clear.

Mr. SAULNIER. I just wanted to clarify the record, that actually we will be spending more in fiscal 1958 than in 1957, and still more in fiscal 1959 than in 1958.

Senator O'MAHONEY. You say 160 million more, and 40 million in the next year.

Now, I think that is "peanuts," if you will permit me to use that word, when we are dealing with an overall estimate in the neighborhood of a billion and a half. And that billion and a half is only a fraction of the money we must spend as interest upon the national debt.

Mr. SAULNIER. I am not saying, sir, that this is adequate or inadequate, but merely trying to clarify the record that it is an increasing expenditure. It may very well be that we ought to be spending 2 or 3 times this much. I have no judgment on that.

Senator O'MAHONEY. All right, sir. Let me invite you to make a judgment on it? I am going to invite you and the other members of the Council of Economic Advisers to look into this matter of whether or not we should abandon new starts on programs which will conserve water, prevent it from being wasted into the ocean, and which, when developed, will make more power and will make it more easy to develop the natural resources which we need to establish the growing economy for which you stand. Would you be good enough to go into that?

Mr. SAULNIER. I would be happy to do that. If you will allow me just to point out this. I have at last located the figures on expenditures for water resources and related developments, and I find that there is a contemplated increase in expenditures in this category, though I fear from what you have said that you wouldn't regard the amount of the increase as adequate.

Senator O'MAHONEY. New starts is the thing I am talking about.

Mr. SAULNIER. Yes.

Senator O'MAHONEY. Now, for example——

Mr. SAULNIER. Well, I have taken occasion to look into this a bit. And the fact is that even without any new starts, you will have increasing expenditures, just on the basis of what was started earlier.

Senator O'MAHONEY. Well, let me give you an example, sir. The Congress of the United States, a couple of years ago, authorized the development of the upper Colorado River storage basin. That involves four States, the States of Utah, Colorado, Wyoming, and New Mexico. And when the representatives of the Bureau of Reclamation appeared before the Appropriations Committee in preparation for the propositions for fiscal year 1958, it was planned, and so stated by the representatives, to build in lower Utah, and just an edge into New Mexico, the Glen Canyon Reservoir.

Now this, mind you, stores water into the Colorado River, 1 of the 3 great rivers of the United States, water which has been rushing down the riverbed for centuries, if not thousands of years, digging the Grand Canyon and leaving a desert behind it. This plan for the upper Colorado included not only the Glen Canyon but the Flaming Gorge, the Navaho, and the Curecanti.

There were four projects. Now, as a result of this policy of cutting back that I am telling you about——

Mr. SAULNIER. But not cutting back of expenditures.

Senator O'MAHONEY. Cutting back the new starts. The concentration is all on Glen Canyon. The Navaho Dam is forgotten. The Flaming Gorge Dam is stretched out. And Curecanti is forgotten. And participating projects, of which there were about a dozen, have all been thrown overboard.

Now this, I take it, is regression. It is going backward. It is not developing natural resources. When we know that the cold war with Soviet Russia is going on and that the Communists are building new resources while we neglect them, or go along in a pittering way with a $40 million increase on a vast public resources project, we are just creating the situation where we once again will find ourselves lagging behind the enemy which is conducting the cold war.

Don't you think that is worth some deep study by the Council of Economic Advisers? I think there is some remnant of the Secretary Humphrey policy there which has got to be overcome. Perhaps you will agree with me, but to me it is clear that if we are going to pay the expenditures which are being asked of us in the budget for defense and military and economic aid abroad, we will have to get income into the Treasury of the United States. While we are increasing our expenditures. we ought also to be concentrating our minds on how to get new income into the Treasury of the United States.

You will agree with that; won't you?

Mr. SAULNIER. Let me say, Senator, that my reference to $40 million was only to the change in expenditures from one year to another. We must not overlook the fact that in the fiscal year 1958, our estimated expenditures on natural resources are $957 million, and that this will increase in the fiscal year 1959 to $1,012 million. I am afraid that my reference to $40 million perhaps suggested that that is what we are spending.

Senator O'MAHONEY. Oh, no; that is the increase.

Mr. SAULNIER. Just the net increase for the year.

Senator O'MAHONEY. Yes.

Mr. SAULNIER. As I say, I am not arguing that that is all the increase should be.

Senator O'MAHONEY. All I am pointing out is this: Even that figure of $1,012 million, assuming that to be correct, is well down at the bottom of the scale of operations of this Government. We are spending $5 billion for agriculture. Or we did last year. We are spending $5 billion for veterans; $7.8 billion for interest on the national debt.

The only category that is lower on the scale than natural resources is the normal functions of government.

Mr. SAULNIER. You and I would have no difference of opinion if we sat down and set up a new scale of priorities.

Senator O'MAHONEY. Now, that is what pleases me to have you say. Now that you have made that statement, I will abandon that subject and ask you to turn to page 41 of the report.

Mr. SAULNIER. I have referred to page 41, sir.

Senator O'MAHONEY. I would like to have an explanation of table 7. This is a table which is labeled "World Industrial Production, 1955–57," which I would like to insert in the record at this point.

(The table referred to follows:)

TABLE 7.—*World industrial production, 1955–57*

[Index, 1953=100]

Country	1955	1956	1957 First quarter	1957 Second quarter	1957 Third quarter	1957 Fourth quarter
			Not seasonally adjusted			
World: [1]						
Including United States	110	[2] 115	119	120	[3] 115	(4)
Excluding United States	118	[2] 125	129	133	[3] 127	(4)
			Seasonally adjusted			
OEEC countries	119	125	130	131	131	[3] 131
Austria	133	138	144	146	147	(4)
Belgium	116	122	127	125	[5] 117	(4)
Denmark	112	111	118	116	113	(4)
France	117	[6] 129	142	143	144	[7] 151
Germany, Federal Republic	129	139	147	148	146	[7] 146
Greece	130	134	142	145	149	(4)
Ireland	108	104	102	104	100	(4)
Italy	118	128	135	137	138	(4)
Netherlands	118	124	130	127	126	[7] 124
Norway	117	122	123	128	128	[7] 128
Sweden	111	114	118	120	119	(4)
United Kingdom	114	113	113	116	116	[7] 115
Canada	107	114	117	115	114	[7] 112
United States	104	107	109	107	107	104
			Not seasonally adjusted			
India	116	126	133	149	(4)	(4)
Japan	117	142	150	164	164	[7] 159
Yugoslavia	132	145	150	165	170	(4)
Argentina	118	117	111	120	[7] 131	(4)
Chile	102	104	95	(4)	(4)	(4)
Brazil	112	112	(4)	(4)	(4)	(4)
Mexico	119	130	(4)	(4)	(4)	(4)

[1] Excluding U. S. S. R. and other members of the Soviet bloc.
[2] Quarterly figures for 1956 are for the world including United States, 114, 116, 112, 119; for the world excluding United States, 122, 128, 122, 130.
[3] Preliminary estimates by Council of Economic Advisers.
[4] Not available.
[5] Reflects July strike.
[6] Average of quarterly figures for 1956 would be 134.
[7] Partial data for quarter.

Sources: United Nations and Organization for European Economic Cooperation (except as noted).

Mr. SAULNIER. Yes.

Senator O'MAHONEY. The first lines relate to "the World." The index, used in the table of course, is for 1953 equals 100. The world, including the United States, gained 10 points on the 1953 index in the period of 1955 to early 1957. Excluding the United States, the world gained 15 points.

Does that mean that we are lagging in industrial production, lagging in the gain, not in total production?

Representative BOLLING. As I understand it, this excludes the Soviet and the Soviet bloc. And it shows that the rest of the world outside the United States, also outside the Soviet bloc, is going forward faster than we are.

Mr. SAULNIER. That is correct.

Senator O'MAHONEY. If you look under the OEEC countries you will find that the following nations are gaining more rapidly between 1953 and 1955 in industrial production than we did. Austria, 133; Germany Federal Republic, 129; Greece, 130; Italy and Netherlands are equal with us, 118. The difference in rate of progress is even more noteworthy if we compare 1953 or 1955 with early 1957.

Mr. SAULNIER. Yes.

Senator O'MAHONEY. Now, that indicates to my mind that we should be concentrating as a matter of economic policy upon stimulating the real growth.

Chairman PATMAN. Look at Canada, also, if you please.

Senator O'MAHONEY. I noticed that. Thank you very much. Canada, 107; United States, 104.

Chairman PATMAN. Notice the last quarter of 1957 in comparison. Canada went up 5 points between 1955 and the last quarter of 1957. The United States stood still.

Mr. SAULNIER. I would remind you, Senator, that in making comparisons of this sort, one must bear in mind the relative positions of various countries in the base period.

Senator O'MAHONEY. Oh, of course. I am just talking about the rate.

Mr. SAULNIER. The United States economy was operating at a higher level of production in 1953, and accordingly the increase as between 1953, which is the base period here, and 1957, is more moderate than the increase for a country which in 1953 was operating at a relatively low level.

Senator O'MAHONEY. My only point is that this table in your report demonstrates that the United States is not gaining in its own production as rapidly as the countries that we are aiding have been gaining.

Representative KILBURN. Would the Senator yield?

Senator O'MAHONEY. Yes.

Representative KILBURN. It seems that in order to be fair we must keep in mind that the United States has always been ahead of every country in production.

Senator O'MAHONEY. That is right.

Representative KILBURN. And if some backward country starts producing from a low base they could probably double their production in a short time, whereas we would have a terrible time doubling it.

Senator O'MAHONEY. That is perfectly true and I acknowledge that, but I say to you, sir, that when we have the Secretary of the Treasury testifying this morning before the Finance Committee of the Senate asking for an increase of the national debt limit by $5 billion, we had better begin thinking about how we are going to increase the income that will flow into the Treasury of the United States out of new wealth, not out of existing wealth, but out of new wealth, if we are going to bear the burden of the world.

Chairman PATMAN. Will the Senator yield to Dr. Talle.

Representative TALLE. I would like to bring up a point here that has been under discussion at at least one international conference, which I attended. The subject for discussion was the stabilization of prices on primary products. I prefer to call them raw materials rather than primary products.

And the argument goes like this: That if you have a country that is dependent, say, on a single export, if there is a serious drop in the price of that export, it can completely upset the revenue of that government, and, therefore, that government can be in a very bad way.

Therefore, let us say, countries in southern Asia and in that area are rather eager for stabilization of prices of primary products.

Now, our view, as expressed by the Government, is this: That we have spent a good many billions of dollars to help those very countries to diversify their economies so that they will not be dependent upon a single export and therefore they can stabilize their revenues through diversification. So in this discussion we should keep in mind that after all, a good many of these countries are starting from the very bottom. And if there is any growth at all, it looks pretty big.

The point of departure is something we should look at when we examine the relative increases.

Senator O'MAHONEY. I am perfectly well aware of that. And I am happy to be able to concur with what you say.

I think we should be very grateful that the productive capacity of the United States is still on top. But only a few years ago we were building more airplanes than Soviet Russia. I was chairman of the Defense Subcommittee of the Senate Appropriations Committee back in the calendar year 1951 and calendar year 1952. And in both of those years I submitted appropriation bills to the Senate which were carried without a single negative vote. I called for a rollcall and in both of those bills we had increased appropriations for air power and for missiles. And the minute the budget became or fell under the direction of Secretary Humphrey, why, we were cut back.

Now, we are in a cold war. And I think it is much more likely that we will be injured in the economic war than that Soviet Russia will launch a shooting war against us. I know it is not our purpose to launch a military war against Soviet Russia, because we don't want to inflict that disaster upon the world.

But if we don't keep up the real economic growth about which Mr. Saulnier testified so favorably when I entered the room—if we don't keep it up, we are likely to fall behind in the expansion of industrial production too. Before I go, Mr. Chairman, I would like to call attention to the statement beginning on page 85 of the report. This is a résumé of the Council's activities.

Principal responsibility of the Council of Economic Advisers is to review and analyze developments in the United States economy and elsewhere in the world and to evaluate their policy implications.

That is fine. I hope you continue to do it. And I hope that perhaps we may be able to work together in including within that survey and evaluation these matters of the development of natural resources to which I have called your attention.

Mr. SAULNIER. I assure you, Senator, that we will make a particular point of looking into those matters.

Senator O'MAHONEY. Now, at the bottom of that page, I read this:

The Council cooperates with the Organization for European Economic Cooperation * * *. During the year the Council prepared a Survey of Economic Developments in the United States for the annual review of the OEEC and materials for response to the United Nations annual questionnaire.

I have not seen that report. And I would very much appreciate it if the Council would make a copy available to me.

Mr. SAULNIER. We will be delighted to send you copies of both of them, sir.

Senator O'MAHONEY. I have been advised by the State Department that a group of officials from OEEC is about to arrive in the United States. They want to confer with the antitrust and monopoly subcommittee of the Senate Judiciary. They want to look into this problem of economic action over here, and what we are doing to preserve the opportunity for new enterprise to come in.

While the conditions before us show a continued trend toward concentration and merger, which in itself is destroying the opportunity for new enterprises to come in. For example, I remember the time when there were more than a dozen automobile manufacturers in the United States. Now there are only five. And two of them are rather tenuous. General Motors and Ford are both establishing factories abroad. I wouldn't say "establishing"—they already have established. And they are manufacturing small automobiles to import into the United States.

The latest figures I have seen were that it is anticipated that between 300,000 and 400,000 of these Eupropean-made small automobiles that don't need the parking space which is taken up by the fintails of the big cars, are coming into the United States.

Now, that is going to hit our economy somewhere along the line. The American Motors Co., which manufactures a small car, is now fortunately in the black. It is making progress. The United States Department of Defense has saved Studebaker only by giving defense contracts to Studebaker. Well, now, it is obvious, you know, I think, that defense spending should not be primarily made for economic purposes. We ought to find a way to strengthen our economy to expand this growth of which you speak, Mr. Saulnier, without spending money for defense of the United States on the mere salvation of some business.

Mr. SAULNIER. I would like to, if I may, Senator, point out that although there is an increasing volume of small cars imported into the United States, we still have a substantial excess of exports over imports.

Senator O'MAHONEY. Oh, yes.

Mr. SAULNIER. And I think we all recognize that if we are going to have the beneficial effects in our economy of an export trade, we have got to do some buying elsewhere in the world.

Chairman PATMAN. Thank you, Senator. Dr. Talle.

Representative TALLE. Mr. Chairman, I would like to turn back now to the subject of economic statistics. I am glad to see that you have taken notice of that in your report.

This is my question: The budget includes a request for increased funds for improving Federal economic statistics. Will you comment on this program, especially on the degree to which it carries out the recommendations presented to our subcommittee on economic statistics during the hearings on national accounts held in October 1957?

Mr. SAULNIER. I will be glad to. As you observe, the economic report this year includes three appendixes on statistical matters.

Representative TALLE. I am happy to see that, too.

Mr. SAULNIER. And they are there for very definite reasons. There is, first of all, a description of our program for improving Federal statistics, a good part of which can be undertaken in fiscal year 1959 if the Congress acts favorably on the budgetary requests that have been made. I will return to that question in a moment. First, let me comment on the two other appendixes, one on the Consumer Price Index. And the other on productivity statistics. Over this last year we have had a great deal of discussion of the Consumer Price Index and the implications of changes in that index for economic stabilization policy. We have also had a good deal of discussion of the relation of productivity gains to wage increases. We thought it would be useful to have set forth in the Economic Report two brief, matter of fact statements of what our statistics are in the price and productivity fields, and what their strengths and weaknesses are.

Returning to the matter of improving Federal statistics, we have taken a very keen interest in that. And we are very appreciative of the work that your subcommittee has done. In the Bureau of the Budget, in the Office of Statistical Standards, a program was developed for improving statistics over a wide range of types of figures. Although it was deemed not possible to give effect to that full program in the fiscal year 1959, budgetary provision was made for approximately half of the program, with the thought that the remainder would be provided for in the next fiscal period. We were happy to have this provision for part of the program. I confess I would have been happier if we had the whole program.

Representative TALLE. May I mention two fields. I mentioned one of them last year. Construction statistics is one field. Farm income statistics is another field. I could mention more. I hasten to say that we do have the best statistics in the world. But we are by no means perfect.

Another thing I am trying to encourage is improvement of statistics in foreign countries. The Ways and Means Committee, for instance, has found that its work would be enhanced if it had available reliable, up-to-date statistics which cover the important aspects of the economies in foreign countries. At three successive international conferences in 1955, 1956, and 1957, I have encouraged improvement in this important field.

And that subject may be discussed at an international conference next summer. At a time like this when correct judgments are so important and also so difficult to make, as you gentlemen on the Council of Economic Advisers well know, it is extremely important to have ample, up-to-date, and significant statistics.

I have only one other question, Dr. Saulnier.

There is a lag, isn't there, between, say, the manufacturer's price and the wholesaler's price?

That is, they don't change simultaneously.

Mr. SAULNIER. They do not, sir.

Representative TALLE. And there is a longer lag, isn't there——

Mr. SAULNIER. Though one would expect wholesale prices and manufacturer's prices to be more closely related in time with one another than with retail prices, in which the lag is rather long.

Representative TALLE. That is my next point.

The lag is much longer between wholesale and retail. And our retailers, of course, are so numerous many of them don't change their prices promptly when they note that the manufacturers are charging more and the wholesalers are charging more, they have their inventory and they tend to sell at the price which they fixed when they bought the goods. Therefore, because of that time lag, I can understand why such a matter as—well, let me drop that now and turn to my question on this point.

We have at the present time a decline in economic activity. But at the same time we have the inflation. We have both, don't we, right now?

Mr. SAULNIER. In the month of November we had a decline in production, declining employment, declining income, and a small increase in the Consumer Price Index. And I can tell you that when I was informed of the increase in the Consumer Price Index, a piece of news that was disclosed around the middle of December when we were engaged in writing the Economic Report, my feelings toward the Consumer Price Index as a guide to economic policy, and those feelings never have been very warm, took a sharp turn in the direction of disenchantment. Here you had the economy in a decline and the Consumer Price Index showing an increase.

Representative TALLE. I remember a year ago in looking at the figures for 1956, the gross national product had increased over the previous year by approximately 5 percent—5 or 5½. And it was pointed out that a little more than half of that was an increase not in goods and services, but in prices. And you and your Council well point out that for 1957 about four-fifths of the increase in the gross national product over 1956 represents increase in prices and not in goods and services.

Mr. SAULNIER. That is correct, sir.

Representative TALLE. That is something to ponder.

Mr. SAULNIER. And something over which we have been very concerned.

Representative TALLE. I am certain you have.

That is all, Mr. Chairman.

Chairman PATMAN. Thank you, sir. Will it be all right for members that can't be here or have other questions they desire to propound to send them to you in writing in order that your answers may appear in the transcript when you can finish with it? Will you be willing to answer the questions we submit?

Mr. SAULNIER. I want to do anything, sir, that will be helpful to this committee. I would just like to say this. My colleagues and I are the kind of people who take writing very seriously.

Chairman PATMAN. Yes, sir.

Mr. SAULNIER. And we ponder long and hard over the written word. And so it involves a good deal of hard work and time on our part to prepare written answers to questions. We want to do this, and we can, if it would be truly helpful.

We have a problem on our hands now in following the economy. We must devote all the time we can to following current economic developments. And I would be unhappy if I found myself diverted into an extensive literary effort.

Chairman PATMAN. I assure you that is not intended. Senator Watkins wants to finish some questions, and I have some. I assure you it will take less time than to have you back here, say, this afternoon. Would you not prefer to do it that way than to come back here?

Mr. SAULNIER. If it is your judgment that it would be helpful for us to do that, then you send them on to us.

Chairman PATMAN. Without objection, each member will be permitted to send questions in. I will ask Mr. Bolling to preside now if he will. I must go to the House floor. Senator Douglas is next on the program I think.

Senator DOUGLAS. I have a point to raise which may seem to be rather aridly philosophical, but which I think is of great practical significance in judging the present situation and what may come out of it. I notice that your analysis, and indeed a great deal of current analysis, is in terms of what I would call equilibrium economics. And it is really based on the assumption that if you move in one direction you set into play counteracting forces which bring you in the other direction, and that the swings which take place are therefore of necessity somewhat moderate. If I may illustrate:

When inventories are run down this creates trouble at the moment. But that leads to a shortage which leads to the firms building up inventories, which increases demand, and so forth, or as another example, that interest rates are lowered during the period of recession, but this stimulates investments, and that counteracts the decline and brings us back into equilibrium.

So ultimately you have an equilibrating force which brings you back to normal rather quickly and without too great fluctuation.

Now, this is classical mechanics. And it is also Emmersonian ethics. I have always thought that Roger Babson was not such a fool as the Harvard boys tried to make him out. And further, according to the theory the action and reaction were equal, because that is really what the line of secular trend was.

But there is another factor, I think, which people who deal with equilibrium economics don't fully appreciate, and that is the impetuous nature of a good deal of life. Climate is not merely an equilibrating force. Climate is an impetuous force. History is an impetuous force. Economic life may be an impetuous force.

To use an example: At times the decrease in employment and in earnings will lead to such decrease in consumption that demand and production and employment will fall off still further which will cause demand, production, and employment to fall off still further again, and that this will cause investment to decrease, which will further decrease production and employment which will aggravate the situation.

And while we have reduced some of these forces of cumulative breakdown by guaranty of bank deposits and some protection by having stock margins and unemployment insurance and so forth, there is still a large element of potential instability in the economy. Therefore, there is a dangerous element in life and in business recessions which it is very easy to disregard.

If I may criticize your report—perhaps it wasn't your job to do it—I don't think it gives sufficient weight or indeed almost any weight, to this factor. I think it is always well to be aware of danger; and to realize that life is not as steady and as assured as we like to think it is. Just as you can, by excessive pessimism and worry, bring about a decline, so by excessive optimism—and I would put equilibrium economics as one factor in this—you can get caught with your trousers down, if I may use an inelegant expression, when trouble breaks out.

I don't know that this calls for any comment. But I do feel that this word of admonition is not out of place.

Mr. SAULNIER. Nonetheless, let me comment on it.

The economic report states that "economic growth inevitably proceeds at a somewhat uneven pace." And we have recognized—I thought adequately—this element of impetuousness or something of the sort to which you are referring, because I think that in our kind of a free economy this is a very important factor. We recognize also that in a period such as we are now in, namely, in the contraction phase of a business cycle——

Senator DOUGLAS. You don't say "recession."

Mr. SAULNIER. I am content to let people put any name they want on it.

Senator DOUGLAS. But you yourself have not used "recession."

Mr. SAULNIER. I have not used recession here.

Senator DOUGLAS. What is the difference between contraction and recession?

Mr. SAULNIER. Whatever difference the people who use the terms want to attach to them.

Senator DOUGLAS. You studied under Wesley Mitchell, didn't you?

Mr. SAULNIER. Yes.

Senator DOUGLAS. He developed the word "recession," didn't he?

Mr. SAULNIER. Wesley Mitchell was devoted to the use of words that carried as clear a quantitative connotation as possible. I think of this as the contraction phase of a business cycle. And I feel no——

Senator DOUGLAS. You would not think it an act against the Holy Ghost to refer to the present condition as a recession, would you?

Mr. SAULNIER. I would not inject the Holy Ghost into any of these deliberations.

Senator DOUGLAS. Would you think it unpatriotic to use the term "recession"?

Mr. SAULNIER. Nor unpatriotic.

Senator DOUGLAS. I am glad to hear you say that.

21111—58——3

Mr. SAULNIER. Now, let me continue, Senator.

We have recognized that in this contraction period there are forces working that are in a sense self-aggravating. And that they tend to be cumulative. This may be classical or mechanical, but this is what I was taught, this is what I understand, and this is what I see all around me.

On the other hand, we also recognize that some developments in such a period help to counteract the cyclical downswing. There are, in other words, two types of forces at work. And we hope, of course, that those making for growth will shortly overcome those that are making for further contraction, and we propose to do everything we can do to make that come about.

Senator DOUGLAS. What is the critical point—or is there a critical point where it becomes apparent that the forces of cumulative breakdown are gaining appreciably over the forces of recovery?

Do you think there is a critical point, or do you have anything spotted in your mind?

Mr. SAULNIER. I think that—well, let me illustrate by housing.

Senator DOUGLAS. No. I prefer that you talk about the economy as a whole, not talk about housing, but the economy as a whole, please.

Mr. SAULNIER. But our economy as a whole is made up of these components.

Senator DOUGLAS. Yes, but that is only a very minor fraction of the total nationl income.

Mr. SAULNIER. I think this will illustrate the point I have in mind. A decline in the cost of money is, other things equal, a factor which, as it develops, tends to bring about an improvement in the demand for housing. But only if that decline in money costs can be brought about before there is a substantial decline in personal incomes can you expect it to have an expansive effect. If it takes so long for money costs to get down that personal incomes decline first, then the expansionary effects of lower money costs will be overcome by the impact of lower incomes, and you may enter into a cumulative downward movement.

Representative TALLE. Housing would be a good illustration, wouldn't it?

Mr. SAULNIER. That is exactly the phase of the economy that I have in mind.

Senator DOUGLAS. Would you pay any attention to the unemployment index?

Mr. SAULNIER. We watch the unemployment index with the closest care.

Senator DOUGLAS. There was unemployment of 5.4 percent in December, seasonal influence eliminated, when 3.4 millions were unemployed. Business Week, edited by Mr. Bell, and which will not therefore be accused of being in league with the dark forces of disorder, now says there are over 4 million. So that that gives you a percentage appreciably in excess of six. If one adds part-time to that—and we have made some computations on the full-time equivalents—it came to about a million in December, and would raise the percentage from 5.4 to 6.7. And part time has increased very much in this last month. Suppose you get, say, 6.2 percent unemployment for January and a 1.4 percentage of part time, this means 7.6 percent in all.

Would you be disturbed by that?

Mr. SAULNIER. I don't have to go through that calculation, Senator.

Senator DOUGLAS. I am trying to be precise.

Mr. SAULNIER. I do not have to go through that calculation to conclude that we are in a situation in which economic policies ought to be directed toward the resumption of economic growth. What your figures will show will depend on a whole lot of assumptions you make in the course of these calculations. But the simple figure of unemployment in relation to the civilian labor force that we can read out of the plainest table on statistics is sufficient for my purposes. I am here today as an expansionist so far as economic policy is concerned; and the Council has for some months been urging policies, and happily seeing them emerge, that will help turn our economy around. Let me say, further, that if we see a chance for the economy to turn around on a course which it seems to us is a reasonable one for it to take, we would be the first to be urging it.

Senator DOUGLAS. No, I would be the first. But I would hope you would be the second.

Mr. SAULNIER. You will forgive me for presuming to take first place. Just let me say that we will be giving speeches where speeches need to be given.

Senator DOUGLAS. In other words, you do not intend to deny the facts?

Mr. SAULNIER. Senator, never for a moment does it occur to me to deny the facts.

Senator DOUGLAS. Congratulations. I hope your example may be contagious.

Mr. SAULNIER. Let me say that this economic report—I think I can say with no fear of contradiction—that this economic report is a very candid account of the development of economic conditions during 1957. There is no attempt here to deny or to avoid the facts.

Senator DOUGLAS. As they do in elementary school, I would suggest that you spell the word "recession" 100 times.

Representative BOLLING. Mr. Davis.

Mr. DAVIS. I wish merely to add that the term recession is used in different places to mean various things—for example, a moderate depression, which is a different thing from a decline, or contraction, which the word recession also means. And in a report of this kind there may be objections to using a word which would popularly be interpreted in a sense different from that intended.

Senator DOUGLAS. I hesitate to quarrel with my former teacher from whom I gained so much. Doctor Davis was my teacher at college. But I would say that if there is misapprehension of what the term "recession" means, it has come from the members of the party which appointed him to high office.

There is no misapprehension as to what recession means among the economists—namely, a decline in production and employment of less than major magnitude.

Mr. SAULNIER. I have been content in this report to describe the events, but I want it understood that I have no sensitivity about the use of the word "recession," when it is clear that that is the kind of situation which prevails.

Senator DOUGLAS. People admit there was a recession in 1953 and 1954. The Federal Reserve Board did not use those terms. I called it a recession. I was denounced as a prophet of doom and gloom by that great expert, Mr. Leonard Hall, and others. I took quite a beating on this subject and had no help from high economists that I know of around Washington.

Four years after the event we refer to the recession of 1953 and 1954. And I would say that if there is misapprehension, it is because the Republicans in 1954 treated recession as meaning a depression, which it certainly does not.

Representative BOLLING. Mr. Kilburn.

Representative KILBURN. I want to say that I gather the definite impression that some of this exchange has had to do with politics.

Senator DOUGLAS. No, not at all. It has to do with the correct use of language, which is highly important.

Representative KILBURN. That is all.

Representative BOLLING. Dr. Talle?

Representative TALLE. No, thank you.

Mr. SAULNIER. May I just say that I would like to make it clear—well, let me put it this way: that I hope the Senator is not saying that there has been an incorrect use of language here.

Senator DOUGLAS. No, but there is an avoidance of a certain term.

Mr. SAULNIER. What he is saying is that in writing a report in November and December of 1957 there was a failure to tack onto an economic movement beginning at a point that the best qualified observers are not yet ready to specify, the word "recession," which has a great variety of popular meanings associated with it.

I am not prepared to admit that that was an avoidance of the use of the word. We have done what we thought was our duty, both for the President, and, let me add, for this committee, by giving a faithful, factual account of the development of economic trends during 1957. And if I may say so, I think it is a very objective account of those trends.

Representative TALLE. I agree with you, Dr. Saulnier.

Senator DOUGLAS. I have to leave. I would be very glad to stay and greet you personally. I hope you won't think I am running out on you.

Mr. SAULNIER. Not at all. Thank you very much.

Representative BOLLING. I would like to have your comments on monetary policy in say the last 13 months. And whether monetary policy of the moment is both right and adequate. One is moral and the other is not. I am curious as to your view of the adequacy and the use made of the monetary policy by the Federal Government.

Mr. SAULNIER. I shall be glad to comment on that, Mr. Bolling.

Let me say, in commenting on it, that these are matters on which there can be perfectly honest and yet rather wide differences of opinion. Now, during 1957 we have seen a rather sternly restrictive monetary policy at work. I think it is fair to say that it has been a rather sternly restrictive policy. During most of the year, net free reserves were in the neighborhood of minus 500 millions. That continued through mid-October. And only at the present time do we find that net reserve deficiency eliminated. We have now, in January, a small, but to me welcome, plus free reserve figure. During this period interest rates moved to a very high level. The demand for capital and credit was high during most of the year. And as you will recall, it was especially high as late as August. Indeed, I think you will find that most of the peaks in interest rates and bond yields were reached in August. Since then there has been a substantial decline in money rates, in the cost of borrowing money, a decline that has taken place mainly since mid-November, the date at which the discount rate was reduced. It has been a very sharp decline.

If one looks at economic conditions and asks the question "When did our economy turn during this period?" I think you will decide, looking at all of the facts, that we probably turned around the middle of the year. There are some economic series that show a decline as far back as December 1956.

Representative BOLLING. In other words, we made the turn in fact at about the time we reached the peak in cost of money and tightness?

Mr. SAULNIER. I think you will find, sir, that the peak in money costs came a little after the turn. There are some series that show a turn around the end of 1956, manufacturing notably. There is another batch of series that show a turn somewhere in the May neighborhood. And then there is a still larger batch that showed a turn in the July-August period.

For purposes of my own analyses I have used July as what we call the reference peak. Now, my point in going into this is to show that the period of greatest tightness in credit came somewhat after that peak. And that the movement toward credit ease, in the sense of a decline in money costs, did not come until November.

Now, an interesting point in all of this is that while we may date the turn as coming around the middle of the year, the consumers price index was still marching up. And accordingly there are—or there were—confused signs for those who put heavy reliance on the movement of this index as a guide to economic policy.

In the Economic Report we have expressed no judgments as to the adequacy or inadequacy of credit policy. We have done the best we can to describe that policy, and to describe the movement of our economy, and have left evaluations of it completely out of the story.

Representative TALLE. I am sorry, I have a meeting at 12:15. Thank you very much.

Representative BOLLING. Thank you, Dr. Talle.

I can understand Dr. Saulnier that this is not part of your particular job, but now that the implications are clear, what is the present situation? I am asking you for an evaluation.

Mr. SAULNIER. I can express only my personal view of these matters. And again let me say that these are matters on which you can have wide differences of opinion.

Representative BOLLING. I am painfully aware of that, Mr. Saulnier.

Mr. SAULNIER. I would have welcomed a shift toward a somewhat easier credit policy at an earlier date. I may be wrong in that. I recognize the need to cope with an inflationary problem in our economy. And I recognize also that there are some factors in this economic downturn that are perhaps not very susceptible to influences from the side of credit policy. But, nonetheless, I would have been satisfied to have seen a movement toward ease at a somewhat earlier date. I have been very gratified at the downward scaling of money costs that has taken place, but I think this is more a reflection of a recedence of demand than it is of a substantial easing or increase in the availability of credit. And I would like to have seen that come about more from the supply side of the credit market than from the demand side. I am not going to speculate on what is down the road, but I think it is pretty clear that we are in a phase in which we can stand a further easing of credit conditions without danger of inflationary pressures being resumed.

Representative BOLLING. A further easing.

Mr. SAULNIER. That is right.

Representative BOLLING. Now, one other question on a different subject.

Do you have figures available as to the amount of contract obligation by the Government in the last 6 months of 1957 as opposed to that contemplated in the first 6 months of 1958?

Mr. SAULNIER. I do not have those figures with me, Mr. Bolling, though I can say this about them, that in contrast with the second half of 1957, the amount of procurement contracts projected for awarding in the calendar year 1958, and particularly in the first half of the calendar year 1958, will be substantially higher.

Representative BOLLING. Well, I have heard a figure of something on the order of 5½ billion higher. I am not asking whether that is right or wrong. But I assume from your testimony today and from the content of the report, that some reliance is placed on this difference between the last half of 1957 and the first half of 1958 to bring about a turnabout in economic activity. Do I correctly assume that you feel that this, coupled with the other things that are projected will be adequate to make the turnaround?

Mr. SAULNIER. We feel that this necessarily rapid increase in the awarding of procurement contracts will have a very powerful influence on our economy. I would not be at all surprised if the increase were in the order of magnitude which you have indicated. Though, as I say, I would rather not cite any specific figures.

And, further, we have taken this into account in our appraisal of the adequacy of the program which is contemplated at this time. If it were not for the fact that this increase in procurement contract awards is not just in the offing but is in process, I would feel very differently about the other elements of the economic program.

Representative BOLLING. Thank you. Now, one last thing.

Assume for the moment, and we would all hope that it does not happen, that there was not a response from the economy in, what shall we say, in a levelling upward—by early June. But first, is that too early to be hopeful?

Mr. SAULNIER. Let me put it this way: First, we must distinguish between measures of current economic activity such as employment, production, construction outlays, and so on, and signs of future activity. If these measures of current activity are turning up in, say, June, we should see the forward-looking signs turning up at an early date. We ought to see the signs of that upturn in such things as contract awards, new orders, and investment commitments of various sorts. And those signs ought to be visible some months ahead of the actual upturn in economic activity. And, so, I would say that if I did not see these signs emerging, I would have to give very serious consideration to the adequacy of present measures to promote growth.

Representative BOLLING. In other words, if one were a Member of Congress and assumed that Congress was going to adjourn sometime in the latter part of July, one would be well advised if one thought that certain types of tax cuts might be necessary, if there were not an adequate response, indicated by looking at the signs in April and May?

Mr. SAULNIER. Well, I would rather not comment on specific proposals. I would just say that we have to watch the development of these things very closely, day by day, and that we have to watch not only the measures of current activity but these forward-looking measures. And we have to be prepared to take bolder steps if these are needed.

At the moment I don't expect them to be needed. At the moment, I would expect the forward-looking signs to be showing improvement before the middle of the year.

Representative BOLLING. Thank you very much. We thank you all, gentlemen, and particularly you, Mr. Saulnier, for your appearance here.

And with that, the committee will adjourn until tomorrow when we will meet in the House caucus room, room 362, the Old House Office Building, at 10 a. m. And the discussion will be on the economic outlook for the coming year.

Thank you very much.

(Mr. Saulnier later submitted the following for the record:)

RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED BY REPRESENTATIVE WRIGHT PATMAN

Question 1: How will the recommendations set forth in the President's Economic Report contribute to achieving the objectives of the Employment Act? Are these recommendations recognized in the budget and are other recommendations contained in the budget consistent with the achievement of these objectives?

Answer. The recommendations set forth in the President's Economic Report are entirely consistent with those contained in the budget message, though the economic report deals only with those parts of the President's program that can be expected to have a significant economic impact. For this reason, the economic report is less inclusive in its coverage of specific items than is the budget document.

The recommendations in the economic report should help achieve the objectives of the Employment Act by promoting a resumption of economic growth at an early date. Apart from the budgetary recommendations, those suggestions for legislative changes that would affect the Federal Government's programs of home loan insurance and guarantee would be particularly helpful if enacted by the Congress. By making credit more readily available to the home building industry and to prospective home buyers, these legislative actions would give impetus to the increase in residential construction outlays which is already underway and yield direct assistance to a broad range of industries.

As the economic report points out, at the turn of the year our economy was already feeling the effect of an acceleration in the placement of defense procurement contracts, called for to strengthen the Nation's defenses.

The economic report does not make recommendations concerning credit policy, which is the responsibility of the independent Federal Reserve System.

Question 2: What would you regard as the proper division of labor between tax policy and monetary policy as instruments of economic stabilization during the coming year?

Answer. The first actions to counteract deflationary tendencies should clearly be in the area of credit policy. More readily available credit and lower interest rates can make important contributions toward bringing about a prompt recovery of economic activity in the months ahead. If credit policy and the increases in defense contract awards required for purposes of national security, and other steps already taken, do not produce a reasonably prompt resumption of economic growth it will be appropriate then to consider stronger measures, among which tax reduction would be included.

Question 3: What factors do you see as bringing about a reversal of the recent downward trend and contributing to resumption of economic expansion?

Answer. I think I can answer your question best by referring to page 50 of the economic report of the President for January 1958. An attempt is made there to balance the major elements of demand that will affect economic activity in the months immediately ahead. The report states that although the decline in business outlays on new plant and equipment may outweigh the combined rise in other types of investment expenditures, this is likely to be offset by increased outlays on certain defense items and by increased expenditures of State and local governments. It is stated also that inventory liquidation, which was rather sharp in the final quarter of 1957, may not be substantially greater in 1958 than it has been so far. The outlook for changes in inventory holdings would seem to be tied particularly closely to governmental procurement expenditures and to business capital outlays. If the balance between these two broad categories of expenditures is favorable, and if personal incomes and consumption expenditures are reasonably well maintained, the outlook for inventory change will be good. The cost and availability of capital and credit can play an important part in determining the outcome through their impact on capital expenditures, both private and public, and their potential effect on the demand for new homes.

(Whereupon, at 12:25 p. m., the committee recessed to reconvene at 10 a. m., January 28, 1958.)

JANUARY 1958 ECONOMIC REPORT OF THE PRESIDENT

TUESDAY, JANUARY 28, 1958

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

The committee met at 10 a. m., pursuant to notice, in room 362, House caucus room, Old House Office Building, Hon. John Sparkman (vice chairman of the committee) presiding.

Present: Senator Sparkman; Representatives Bolling, Talle, Curtis, and Kilburn; Senators Douglas and Flanders.

Present also: John Lehman, acting staff director; William H. Moore, economist; and James W. Knowles, economist.

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

I will say in the beginning that yesterday, Congressman Hale Boggs was named as a member of this committee to fill the place vacated by the death of Congressman Kelley. I am not sure that Congressman Boggs will be here this morning. But we are certainly glad to have him as a member of the committee.

Hearings on the President's Economic Report transmitted to the Congress on January 20, 1958, started yesterday when this committee held an executive session with members of the Council of Economic Advisers. A transcript was taken of yesterday's testimony, which after being edited and amended if necessary by the Council, will be released along with the record of other hearings on the economic report.

This pattern follows the procedure we worked out last year. We of the committee are appreciative of the Council's cooperation so that the testimony received from them can be available to help everybody's thinking on the economic problems of today.

Today we are to hear from a panel of experts on the economic outlook for the coming year. They speak in their own right, not necessarily as representatives of their organizations. Each of these experts is a highly trained specialist in one or another of the fields which bear upon the outlook. We are asking each of them to speak particularly about the segment of the economy of his primary interest.

We don't want to foreclose or rule out, however, any comments on other fields. We want the members of the panel to feel free to question and discuss with each other any matters which will help to enlighten the committee in its consideration of the economic report.

We have asked the individual witnesses to confine their opening remarks so far as possible to 8 or 10 minute so that we can have ample time left for questioning and for tying together the various segments. We are sorry and disappointed that Dr. Bernstein is unable to be here today because of illness. When he was director of research of the International Montary Fund, Dr. Bernstein established his expertness in the field of international trade and international investment. Dr. Bernstein has been kind enough to submit a short statement however, which appears at the end of today's record. I hope that if some of the other of our panelists who are able to be here, have anything to say upon this important subject they will do what they can to help us fill this gap.

May I say that Chairman Patman is not able to be here this morning. And for that reason, I am serving in his place.

The first member of the panel is Mr. Ewan Clague, Commissioner of Labor Statistics, United States Department of Labor. Mr. Clague, we are glad to have you and hear from you at this time.

STATEMENT OF EWAN CLAGUE, COMMISSIONER, LABOR STATISTICS, UNITED STATES DEPARTMENT OF LABOR

Mr. Clague. Thank you, Mr. Chairman.

Mr. Chairman, and members of the committee, in response to your request, I have prepared a brief statement which summarizes the major statistical findings of the Department of Labor's Bureau of Labor Statistics concerning trends in the labor force, employment and unemployment, wages, prices, productivity, and construction. The charts which I am submitting with this statement illustrate many of the points I shall make. This brief presentation condenses a great deal of information. I am submitting a more detailed statement for the record.

Senator Sparkman. The entire statement will be placed in the record.

Mr. Clague. Thank you.

LABOR FORCE

In my testimony before the committee a year ago, I pointed out that it was difficult to determine how much the labor force is likely to grow in a given year, even though we might reasonably estimate long-run growth. Another year of experience underscores this point.

The labor force increased by only 350,000 in the past year after 2 years in which growth totaled 2½ million. The 1957 increase, although relatively small, was enough to keep the labor force about on the long-range trend line. (See chart 1.) Increases in 1957 were modest for youngsters and women, and labor force participation rates for older men declined more than usual. (See charts 2 A and B.)

Labor force growth is generally related to the availability of job opportunities. When women and young workers can find jobs easily, the labor force grows rapidly; when job opportunities are limited, many who are potential workers stay out of the labor force.

Our projections of the labor force, which assumed a steady expansion in overall activity, indicate a rise that would average about 900,000 a year through 1960. Whether 1958 will approach this figure depends on how rapidly the economy turns upward.

EMPLOYMENT

Total nonfarm employment turned downward in the early fall of 1957 after 3 years of record growth, and by December was 650,000 lower than a year earlier. By December 1957, the factory employment had dropped 825,000 below its year-ago level; more than three-fourths of this decline was in durable goods.

Nonmanufacturing employment, however, rose in the first half of 1957. By early fall, employment started turning down in wholesale and retail trade, contract construction, and transportation. On the other hand, continued strength was still evident at year-end in service, finance, and State and local government employment. (See charts 3A and B.)

Hours of work in manufacturing had begun to decline much earlier, on a seasonally adjusted basis, moving from 41.0 hours in December 1956 to 39.3 hours a year later. (See chart 4.) The combined effect of reduced employment and hours showed up in a 10-percent drop in the index of man-hours in manufacturing, contract construction and mining—the goods-producing industries in the nonfarm economy. (See chart 5.)

UNEMPLOYMENT

The weakness in employment began to be reflected in rising unemployment in the fall of 1957. By mid-December, insured unemployment, at 2.0 million, was more than 700,000 above a year earlier. Total unemployment reached 3.4 million, also increasing about 700,000 over the year. The seasonally adjusted unemployment rate reached 5.2 percent.

Layoffs in durable-goods manufacturing accounted for most of the rise. Joblessness also increased in construction, nondurable goods manufacturing, transportation and mining. These trends have been reflected in the Department's classification of local labor markets. Of the country's 149 major areas, 40 were shifted this month to classifications denoting higher unemployment.

WAGE DEVELOPMENTS

Although 1957 was relatively quiet from the standpoint of collective-bargaining activity, most workers covered by major agreements received wage increases during the year. Of the approximately 7¾ million workers covered by agreements affecting 1,000 or more workers (except in construction, finance, and Government), about one-third obtained increases through current negotiations. About 5 million received increases as a result of long-term agreements negotiated in earlier years, while in a few major situations wage rates remained unchanged.

Increases in wage rates in 1957 tended to be substantially larger than those of 1956. (See chart 6.) This upward shift can be traced essentially to extension of cost of living adjustments to new groups of workers.

The weekly earnings picture is quite different because of the reduction in hours of work. Weekly earnings of factory production workers declined about 1½ percent from December 1956 to December 1957. With the rise in the Consumer Price Index, real weekly earnings of these workers fell about 4½ percent. (See chart 7.)

Most major 1957 agreements also changed one or more supplementary benefits: Most commonly, health and welfare plans, holiday pay, vacation, and pensions. Relatively few supplemental unemployment benefit plans were adopted; at the present time at least 2 million workers are under such plans. Cost of living escalators continued to spread, by the end of 1957 covering an estimated 4 million workers under collective bargaining and 300,000 unorganized workers.

In contrast with the situation some years ago when deferred contract adjustments were much less common than they are today, about half the workers under major agreements will automatically receive wage-rate increases in 1958 as the result of bargaining concluded earlier: railroads, east coast longshoring, basic steel, aluminum, other nonferrous metal mining, smelting and refining, the manufacture of electrical equipment, construction, and meatpacking, among others. Wage rate increases for a majority of workers in these situations will be smaller in 1958 than in 1957; that is, assuming a continuation of the price leveling that has occurred in recent months, because they will not get as large increases by the Consumer Price Index.

The industries in which important wage negotiations probably will take place this year include rubber and petroleum refining, automotive and farm equipment industries, aircraft, and trucking. Contracts in coal mining are subject to bargaining on 60 days' notice. It is obviously too early to predict the course of bargaining in these industries, although they undoubtedly will be affected in some degree by the wage increases already agreed to in other industries.

PRICES

As the year ended, prices appeared to be leveling off, although the movements at both wholesale and retail provide few clues to overall future trends. The Wholesale Price Index, while relatively stable, has reflected greatly mixed movements, dominated by the continued increases in the capital-goods sector, on the one hand, and the longer term declines in lumber and nonferrous metals, on the other. Prices of farm products increased contraseasonally in December, reflecting unusually light marketings of livestock. The Florida freeze in December may also contribute to relatively high price levels for farm products over the next month or two. (See charts 8A and B.)

At the consumer level, the cost of services continued to increase, and the prospects are that this trend will persist. (See charts 9A and B.)

Among the consumer commodities, seasonal factors have influenced recent price trends in the durables. Introduction of new automobile models in November brought a sharp rise in this component of the Consumer Price Index, but in December increased price concessions resulted in a price drop. New models of many domestic appliances were accompanied by price increases at year-end, but it is too early to tell how these prices will hold in the coming months.

PRODUCTIVITY

Productivity gains in 1957, as measured by output per man-hour, were somewhat larger than the small gains of 1956. All three sectors—agriculture, manufacturing, and nonmanufacturing—showed improvement. The gain for the total private economy was around 2 percent, lower than the average postwar increase, but very close to the long-run average going back to 1909. However, the increase in manufacturing is significantly below the long-run rate. The nonmanufacturing increase of about 1½ percent is a bit below the postwar average; we do not have data on the long-term growth for this sector.

It should be pointed out that events of 1 or 2 years do not necessarily foreshadow a new trend line. In trying to understand the reasons for recent productivity trends, we should examine such things as the effects on overall measures of productivity of the use of marginal resources in a full-employment economy; the effects of volume of output on productivity; the growth of so-called nonproduction workers in the postwar period, particularly in manufacturing; the relationship between major increases in investment and improvements in productivity.

The truth is that we cannot fully understand trends in national productivity without more detailed knowledge. For example, in manufacturing, are some industries acting as a drag on the remainder? If so, which ones and can they be helped by better technology? What is happening in the diverse fields of nonmanufacturing—trade, construction, transportation, and services? How is the shift of employment to service industries likely to affect future productivity gains?

We are working on some of these problems, but in a limited way. It is hoped that the proposed improvement of the Government's statistical program referred to in the appendixes to the Economic Report of the President, and included in the President's budget for 1959, including the BLS productivity, price, and employment programs, will help to provide answers to some of these questions.

CONSTRUCTION

Housing and construction activity can be counted on to provide some upward thrust to the conomy in 1958.

Outlays for new construction set another record in 1957, in spite of a sharp 10 percent decline in new housing activity. (See chart 10.) The rise in dollar volume took place because of an increase to peak levels for most kinds of private nonresidential work, and for almost all types of public construction, but particularly highways.

The dollar volume of private housing, which began to decline in mid-1955, had stabilized by mid-1957, and then rose during the latter half, largely because of a rise in private apartment building. The decline was only in units begun under FHA and VA-assisted programs—those affected most by the credit conditions of 1957—and only in metropolitan areas, where such programs are most usual. (See chart 11.)

Starts actually edged up in the South; public housing rose substantially—reflecting chiefly armed services housing—and private apartment building increased sharply to the largest volume in 5 years.

We enter 1958 with a favorable framework of legislation and regulations which should help residential building. In addition, there are now some signs of easing in the money markets. If this continues, then existing legislative and regulatory provisions can be influential, provided housing demand continues strong. There is still a great need for upgrading our housing, and a large effective demand. The degree to which these favorable factors can influence housing volume in 1958 will depend a great deal on consumer confidence in the economy and in future earning power, and on the kinds of houses that are built—whether they are in the price classes most families can afford.

In addition to housing, it is a fair certainty that most public construction will rise in 1958. Expenditures for highways are expected to increase more in the 1957–58 period than in most postwar years. (See chart 12.) By its nature, however, highway construction does not have as broad an impact on the general economy as would the same expenditure for housing or nonresidential buildings. Fewer materials-supplying industries are affected by the actual construction, and corollary spending for new furnishings and equipment is not generated as it is when new buildings are completed.

Further, some rise in private nonresidential building other than industrial plant is expected this year, as well as continued expansion by the public utilities. State and local governments also are scheduled to continue the long-term increase in expenditures for schools and other community facilities. Thus, construction as a whole can be expected to show improvement.

Senator SPARKMAN. Thank you, Mr. Clague.

(Mr. Clague's complete statement follows:)

MATERIAL SUBMITTED BY EWAN CLAGUE, COMMISSIONER OF LABOR STATISTICS

I. LABOR FORCE TRENDS

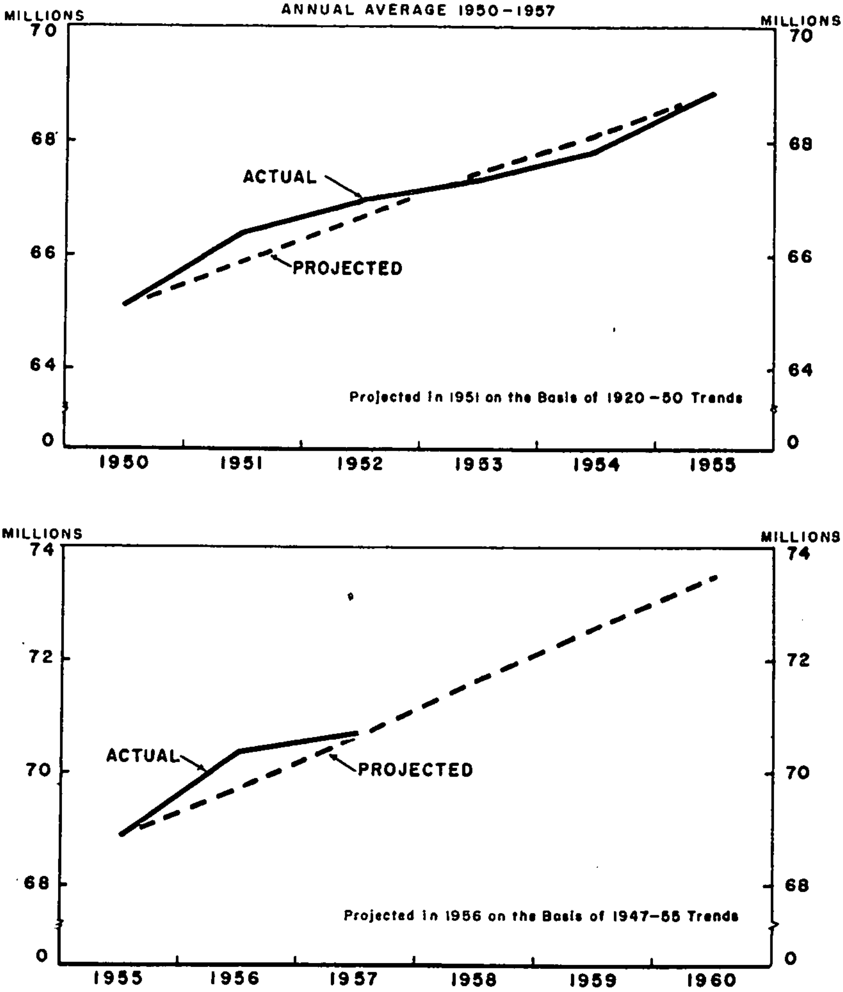
The total labor force grew slowly in 1957 after expanding rapidly in the preceding 2 years. It increased by only 350,000 to 70¾ million in 1957, an expansion about one-half million less than the annual average growth since 1950.

This small growth illustrates a point I emphasized in last year's testimony before your committee—that growth in the labor force from year to year is very uneven (chart 1). This uneven growth is closely related to changes in the demand for labor. When job opportunities are plentiful, the labor force expands rapidly, and it grows more slowly when jobs are harder to find. Women and young workers are the main groups which respond quickly to changes in labor demand, and therefore account for most of the variation in the rate of labor force growth. A brief discussion of developments since 1950 will illustrate how labor force growth is related to the availability of jobs.

Chart I.

COMPARISON OF ACTUAL AND PROJECTED TOTAL LABOR FORCE

ANNUAL AVERAGE 1950–1957



UNITED STATES DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS

Source: U.S. Bureau of the Census; Bureau of Labor Statistics

After the Korean hostilities started in 1950 and production was stepped up sharply, the labor force expanded rapidly, with greater than expected gains coming from young men of military age and adult women. Although the economy was still operating at very high levels in the following 2 years, the labor force increases were much smaller because the size of the Armed Forces had stabilized and defense production had leveled off. Specifically, the labor force increase in 1950–51 was 1¼ million compared with a total of 1 million for the next 2 years (1951–53).

The small increase which took place in 1953–54 was related to the business downturn following cessation of hostilities in Korea. When the economy recovered in 1955, the flow of workers into the labor market rose sharply, with an upsurge of 1.1 million workers in 1955, followed by an even greater number

(1½ million) in 1956. More than half of this increase was among adult women workers.

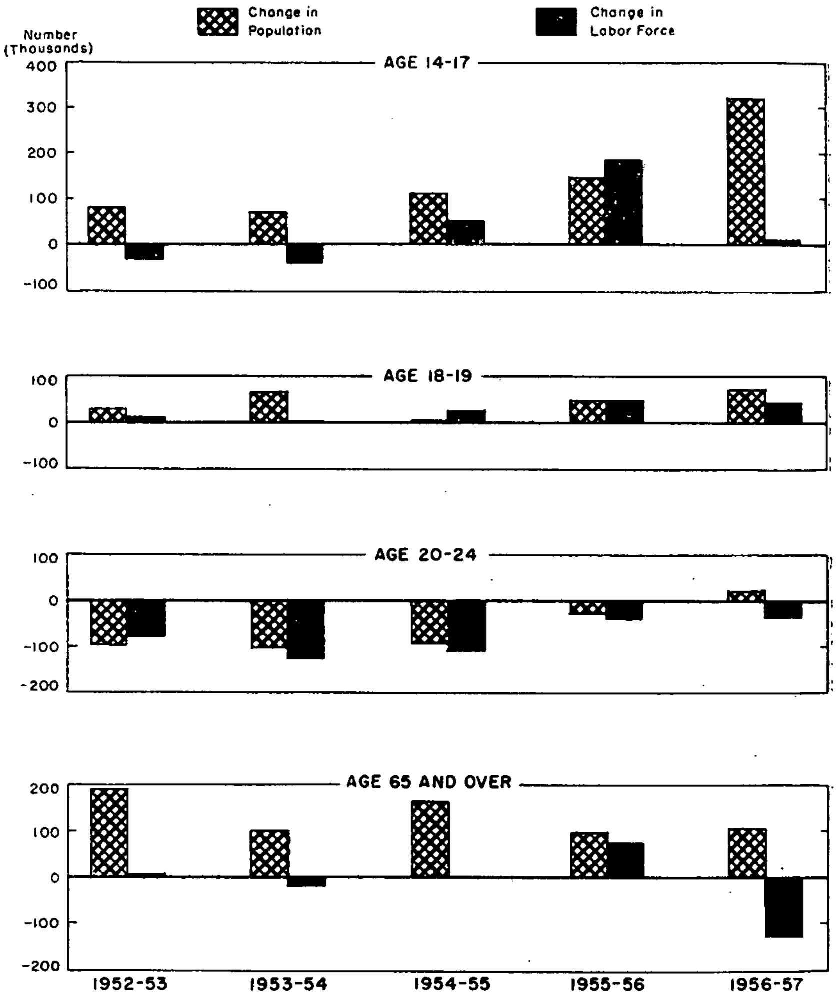
When labor demand became less urgent in the early months of 1957, the flow of additional workers into the labor market slowed down markedly. As a result, the labor force grew by about 350,000 in 1957. Labor force participation of young workers actually declined and the addition of adult women to the work force was much smaller than in the preceding 2 years (charts 2A and 2B). Moreover, labor force participation rates for men 65 and over fell much more than expected.

Chart 2-A.

ANNUAL CHANGES IN POPULATION AND TOTAL LABOR FORCE

SELECTED AGE GROUPS OF MALES

ANNUAL AVERAGE, 1952-1957

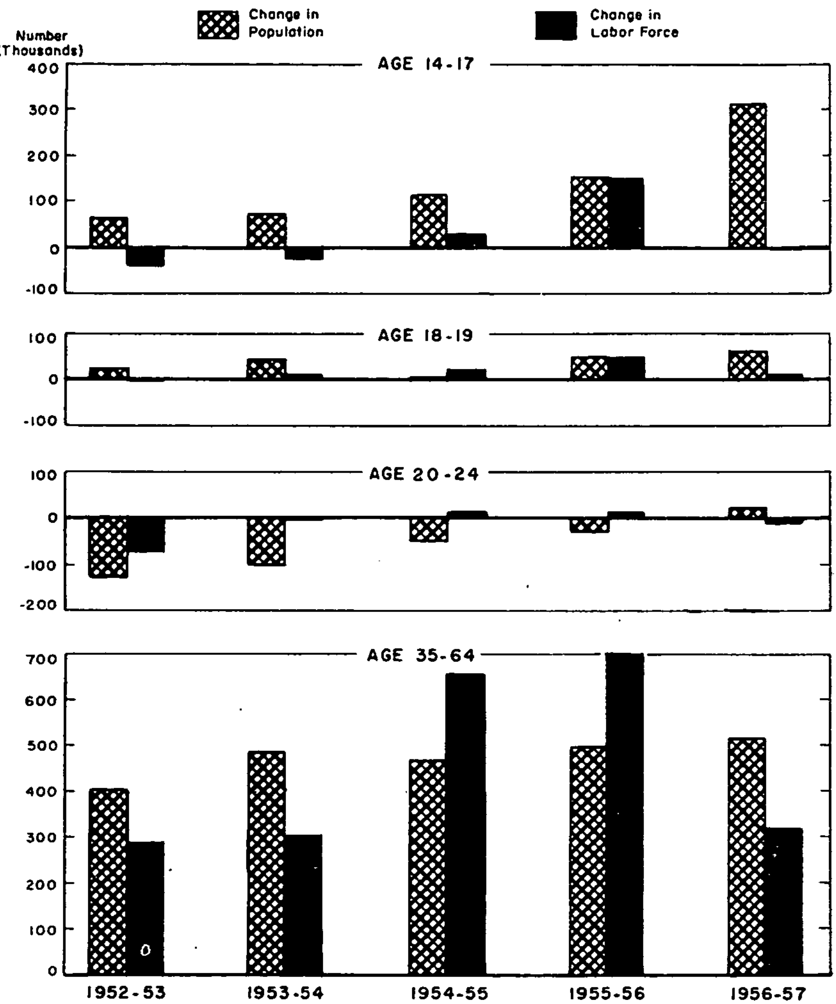


UNITED STATES DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS

Source: U.S. Bureau of the Census and Bureau of Labor Statistics

Chart 2-B.

ANNUAL CHANGES IN POPULATION AND TOTAL LABOR FORCE
SELECTED AGE GROUPS OF FEMALES
ANNUAL AVERAGE, 1952-57



UNITED STATES DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS

Source: U.S. Bureau of the Census and Bureau of Labor Statistics

It is interesting to note the average size of the labor force in 1957 was again at the long-range trend value, despite wide fluctuations in the rate of growth from year to year. For the remainder of this decade, our longer-range projections of labor force growth, which assumed a steady expansion of business activity, indicate a rise that would average about 900,000 a year. Most of the increase would come from population changes; some would result from continued increases in work activity of adult women. Whether the 1958 increase will be near this figure depends on how rapidly the economy turns upward.

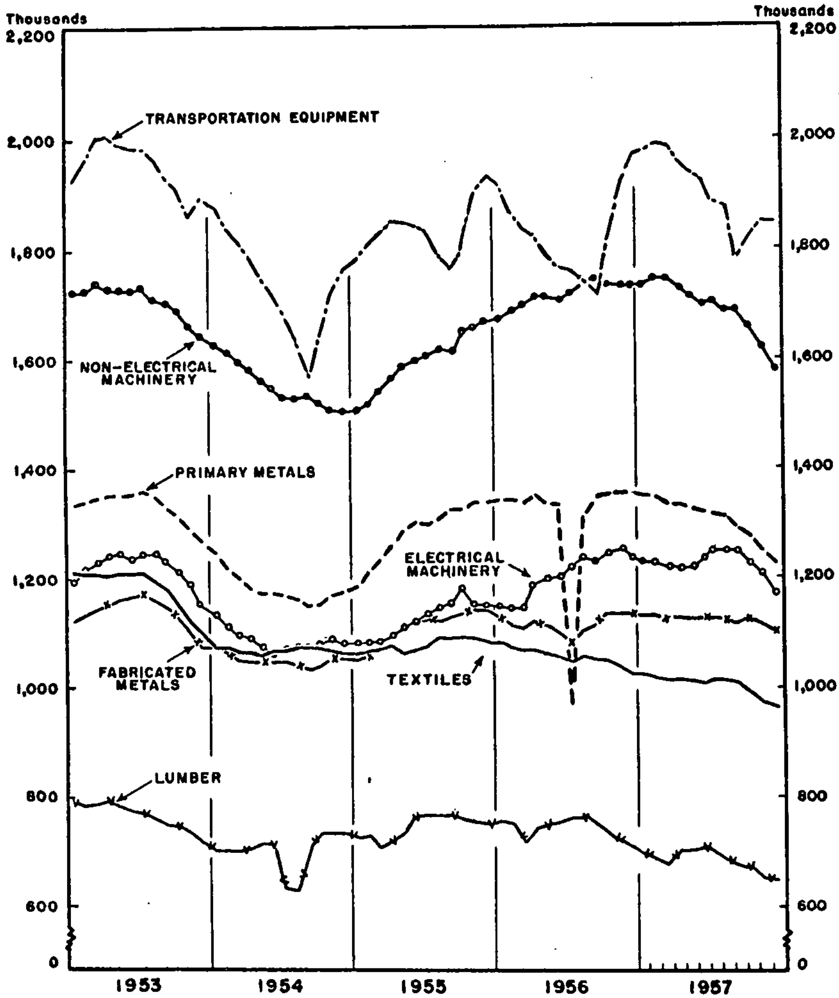
21111—58——4

II. EMPLOYMENT AND HOURS

Total nonagricultural employment turned downward in the early fall of 1957 after 3 years of record growth, and by December was 650,000 below a year earlier. Hours of work in manufacturing, which are generally quick to reflect changes in the economic climate, began to decline on a seasonally adjusted basis in late 1956. Employment in manufacturing has been declining steadily from the beginning of 1957, but total job levels continued to mount until the midsummer as employment expanded in most nonmanufacturing industries. (See charts 3A and B.)

Chart 3-A.

EMPLOYMENT IN SELECTED MANUFACTURING INDUSTRIES
SEASONALLY ADJUSTED



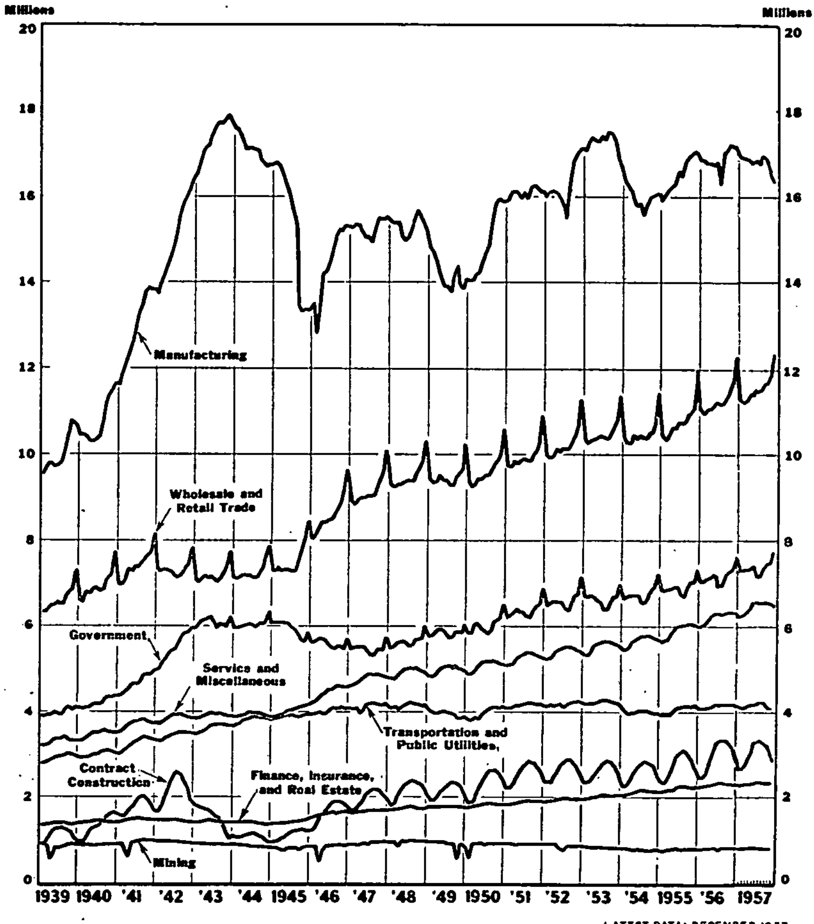
UNITED STATES DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS

LATEST DATA: DECEMBER 1957

Chart 3-8.

EMPLOYEES IN NONAGRICULTURAL ESTABLISHMENTS

BY INDUSTRY DIVISION



UNITED STATES DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS

During the second half of 1957 employment started to fall in a number of industries which had previously shown strength, and the decline in manufacturing employment accelerated. By December, factory employment had dropped 825,000 below its year-ago level, with more than three-fourths of this decline in the durable goods sector.

The employment decline in durable goods industries, which began in January, persisted throughout 1957. By early fall employment was on the downgrade in every durable goods industry. Employment in primary metals declined on a seasonally adjusted basis throughout the year, and by December was 125,000 below a year earlier. Reductions in employment in the machinery industry began in early spring as cutbacks in heavy equipment, associated with leveling off in investment expenditures, followed earlier employment declines in household machinery. By year-end machinery employment was down by 150,000 jobs.

The automobile industry also showed early employment declines, and the seasonal pickup associated with new model production in late months was less than in most recent years. Aircraft employment reached its peak early in 1957, but started a sharp decline in August which persisted throughout the rest of the year.

Nondurable goods industries reported relatively smaller job losses than the durable goods group in 1957, dropping by 180,000 over the year as compared with a decline of 645,000 in the latter. The bulk of the loss in the nondurable goods area occurred in textiles, apparel, and food.

The workweek in manufacturing, which had been 41.0 hours in December 1956, moved down by 1.7 hours to 39.3 hours 1 year later. (See chart 4.) The major declines in hours of work occurred in durable goods industries, particularly in the metals, machinery, and transportation equipment industries. A large proportion of these declines resulted from cutbacks in overtime work. Overtime work averaged 2.0 hours per week in December 1957 compared with 3.1 hours a year earlier.

Employment levels continued high among most nonmanufacturing industries at least till mid-1957 and some industries continued to expand throughout the year. Continued strength was evident in December in service, finance, and State and local government employment; nearly 450,000 jobs were added in these activities over the year. However, other industries which had previously provided buoyancy to the nonfarm job picture started to decline after midyear. Trade employment, which had been rising since late in 1954, started turning down in the early fall. Contract construction, another rapidly growing industry, also had begun to fall off at about the same time, as had transportation.

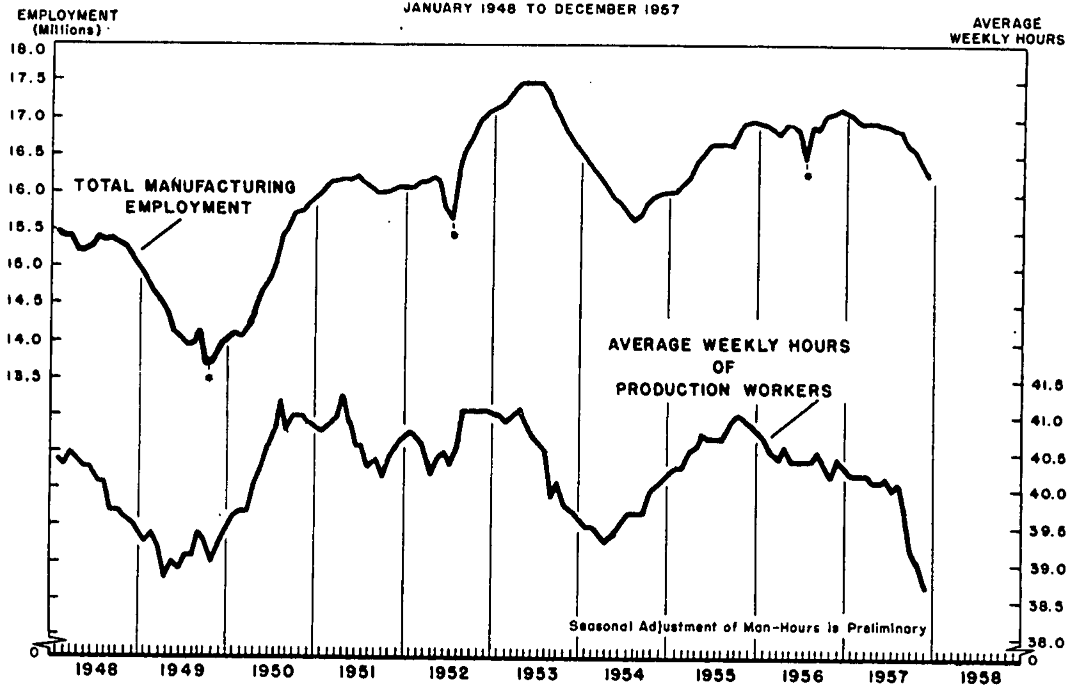
The seasonally adjusted index of aggregate weekly manhours in manufacturing, mining, and contract construction has declined 10 percent since the end of 1956, reflecting both the sharp decline in the workweek as well as in employment. (See chart 5.)

Chart 4.

EMPLOYMENT AND HOURS OF WORK IN MANUFACTURING INDUSTRIES

SEASONALLY ADJUSTED

JANUARY 1948 TO DECEMBER 1957



* Steel Strike

UNITED STATES DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS

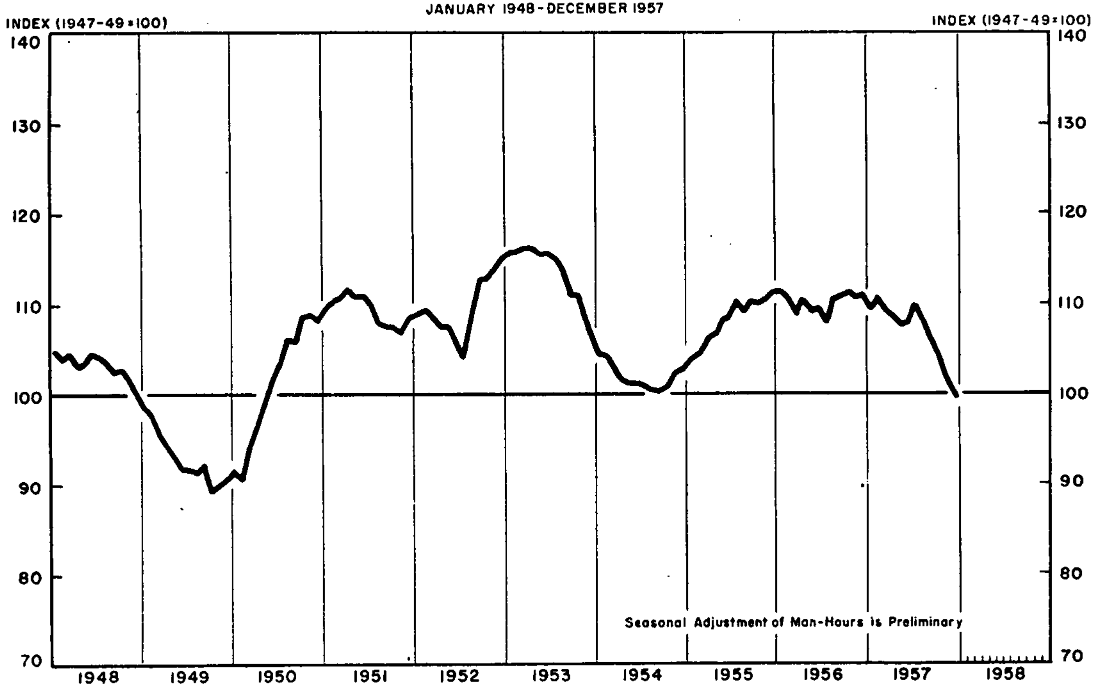
November and December 1957: Preliminary

Chart 5.

MANUFACTURING, MINING, AND CONSTRUCTION ACTIVITY

SEASONALLY ADJUSTED INDEX OF AGGREGATE WEEKLY MAN-HOURS

JANUARY 1948 - DECEMBER 1957



UNITED STATES DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS

November and December 1957: Preliminary

III. UNEMPLOYMENT

The weakness in nonfarm activity began to be reflected in rising unemployment in the fall of 1957. By mid-December insured unemployment totaled 2 million, more than 700,000 above a year earlier, and the rate of insured unemployment was 4.7 percent compared with 3.1 percent in December 1956. The largest increases in insured unemployment rates over the year occurred in States with significant steel, nonferrous metal, automobile, aircraft, metal mining, or lumbering industries, such as Connecticut, Pennsylvania, Ohio, Michigan, and the Pacific Coast States.

Total unemployment reached 3.4 million in mid-December, compared with 2.7 million last year, and the seasonally adjusted rate of unemployment was at 5.2 percent. Unemployed workers from durable goods manufacturing accounted for one-fourth of all jobless nonfarm workers in December 1957 compared with one-sixth a year ago. Joblessness also increased in construction, nondurable goods manufacturing, transportation, and mining.

About 500,000 of the 700,000 rise in unemployment over the year occurred among men 20 to 54 years of age, whose unemployment rate increased from 3½ to 5 percent.

By mid-December the number of workers unemployed for 15 weeks or more was only slightly higher than a year earlier, but the growing total of persons without work from 5 to 14 weeks indicated the possibility of a greater-than-seasonal rise in long-term unemployment in early 1958.

IV. WAGE DEVELOPMENTS IN 1957 AND 1958

The year 1957 was a relatively quiet one from the standpoint of collective bargaining. However, the comparatively low level of bargaining activity was essentially a reflection of the fact that many of the agreements negotiated in 1955 and 1956 provided for wage rate increases to go into effect during 1957; hence, in many major situations there were wage increases but not wage negotiations during the past year.

The BLS estimates that out of the approximately 7¾ million workers covered by major collective bargaining agreements in the United States,[1] about 2.5 million obtained higher wage rates through negotiation in 1957; about 5 million received increases as a result of long-term agreements negotiated in earlier years. These long-term contracts, which have been growing in importance in the past few years, provided for increases of specified amounts to go into effect in 1957 and, in addition, typically provided for further upward or downward adjustments in rates of pay depending on the course of the BLS Consumer Price Index.

Increases effective in 1956 and 1957

The wage rate increases that went into effect during the year tended to be substantially higher in 1957 than in 1956. According to preliminary figures, the most common increases in rates of pay going into effect in major collective bargaining situations averaged 15 but under 17 cents in 1957, as contrasted with 9 but less than 11 cents in 1956 (chart 6). In 1957, half of the workers received increases of at least 12 cents as compared with 10 cents a year earlier.[2]

---

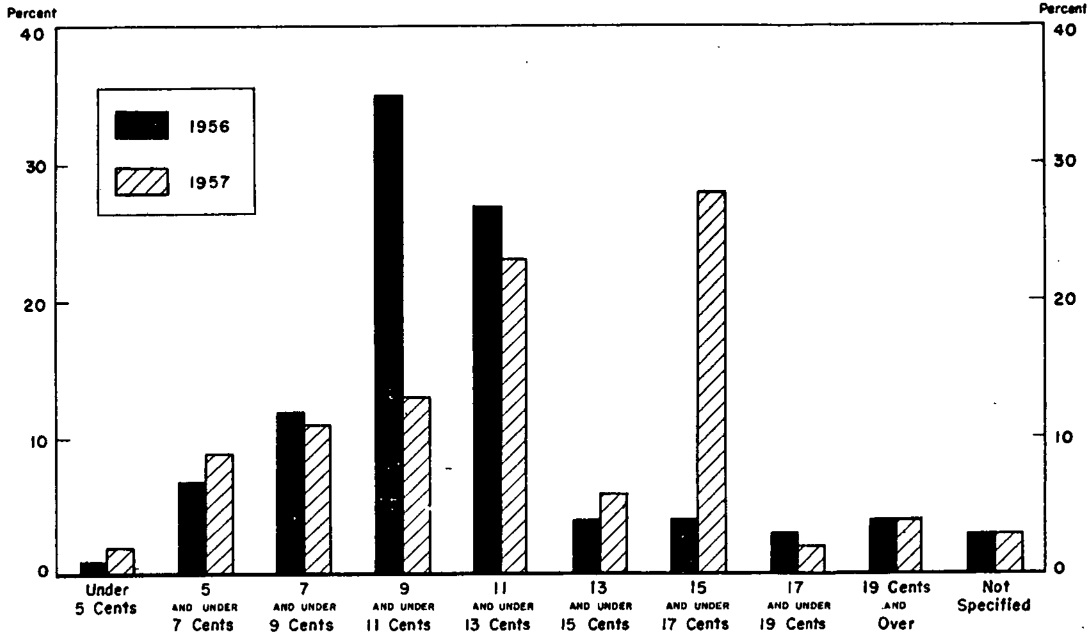
[1] Major collective bargaining situations are defined as those affecting 1,000 or more workers. This summary is based on data compiled in the BLS Monthly Report on Current Wage Developments and covers all major industry groups except construction, the service trades, finance, and government. Information on changes in union scales in the construction trades is presented in table 1. Construction is included in the text discussion of increases due in 1958, but, because data are less complete for this industry than for others included in this summary, it is omitted from tables 4 and 6.

[2] Increases presented here are averages for all workers covered by a settlement. Actually many settlements vary the cents-per-hour increase among occupations so that not all workers receive the average.

An analysis of union scales in the construction industry shows that they rose an average of 15 cents in 1957 compared with 13.6 cents in 1956. Table 1 shows a distribution of union scale increases in this industry in the 2 years.

Chart 6.

Wage Increases Effective in 1956 and 1957 as a Percent of Workers Covered*



*THIS CHART IS LIMITED TO COLLECTIVE BARGAINING SITUATIONS AFFECTING 1,000 OR MORE WORKERS. IT EXCLUDES THE CONSTRUCTION, SERVICES, AND FINANCE INDUSTRIES, AND GOVERNMENT. THE VALUE OF CHANGES IN FRINGE BENEFITS ARE ALSO EXCLUDED.

UNITED STATES DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS

1957 Data: Preliminary

TABLE 1.—*Percentage distribution of changes in union wage scales in 7 construction trades in major cities,[1] 1957 and 1956*

Cents-per-hour increase	Percentage of scales in— 1957	1956	Cents-per-hour increase	Percentage of scales in— 1957	1956
All scales	[2] 100	[2] 100	All increases—Continued		
All increases	89	87	15 and under 20	26	24
			15	18	19
Under 5	1	1	20 and under 25	12	9
5 and under 10	7	12	20	8	7
5	2	5	25 and over	13	11
7.5	2	5	25	10	8
10 and under 15	30	30	No change	12	13
10	17	17			
12.5	10	9			

[1] The 7 trades studied were bricklayers, carpenters, electricians, painters, plasterers, plumbers, and building laborers.

[2] Because of rounding, sums of individual items do not necessarily equal the totals.

This upward shift in the size of pay increases can be traced essentially to extension of cost-of-living adjustments to new groups of workers; some key escalator clauses adopted in 1956 provided for their first cost-of-living review in 1957. For example, more than 800,000 railroad workers received 15-cent raises in wage rates in 1957; of this amount 7 cents was a deferred adjustment specified at the time the contracts were concluded in 1956, and 8 cents consisted of cost-of-living adjustments. Rates of more than 650,000 workers in basic steel advanced an average of 15 or 16 cents—8 or 9 cents in deferred increases and 7 cents in cost-of-living advances—under contracts signed in mid-1956. The pay raises in both these industries were about 5 cents higher in 1957 than in 1956. On the other hand, workers in the automotive and related industries received essentially the same amount (about 12 cents) in deferred and cost-of-living increases combined in each of the 2 years.

Despite the upward shift in wage rate increases, more workers were affected by wage negotiations that resulted in no wage change during the past year than in 1956. More than 200,000 workers affected by major bargaining in which wages were an issue in 1957 received no pay increase during the year, whereas in 1956 the corresponding number was only about 30,000. Among the industries where wage rates were a subject of negotiation but were not changed in 1957 were men's apparel and northern textiles.

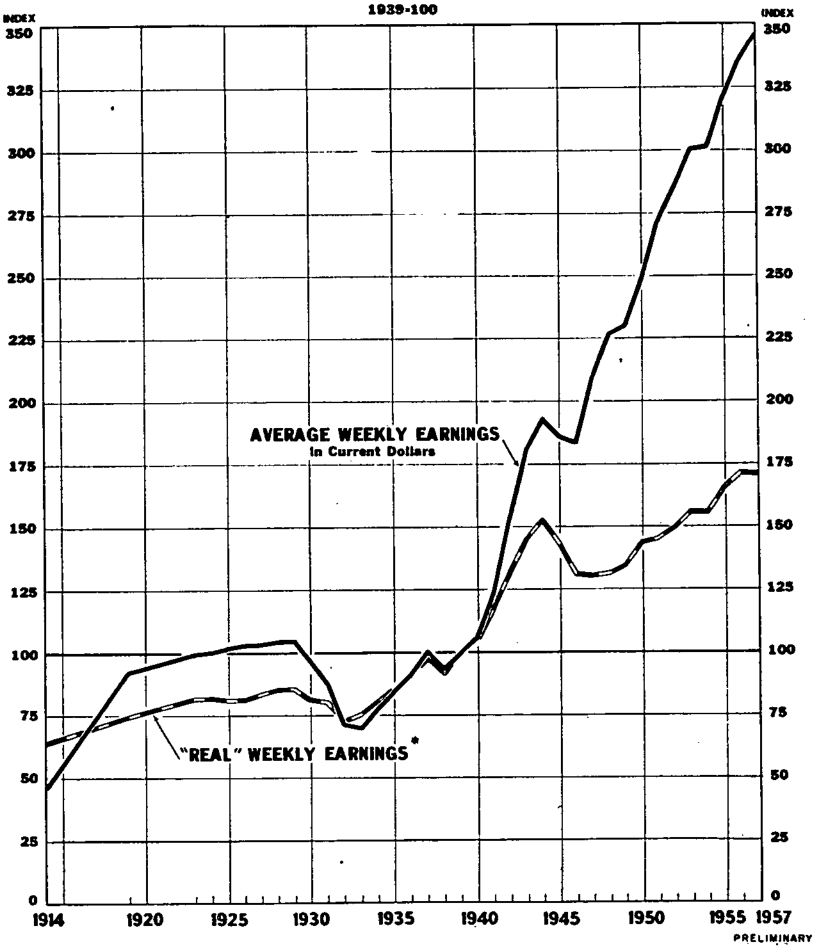
Weekly earnings

The picture of weekly earnings during 1957, however, was quite different from the trend in wage rates. Straight-time hourly earnings in manufacturing rose about 4½ percent over the year (table 2), but the rise in wage rates was more than offset by a reduction in hours of work, and consequently weekly earnings of factory production workers declined about 1½ percent from December 1956 to December 1957. With the rise in the Consumer Price Index, real weekly earnings of these workers fell about 4½ percent (chart 7). In most nonmanufacturing industries, hourly earnings generally rose by 4 to 7 percent; railroads, with a 9.6 percent increase were the most notable exception (table 3). So far as workers' purchasing power was concerned, however, these gains were also offset by reductions in working hours and by rising prices. Real weekly earnings declined in mining, construction, and the telegraph industry, and rose significantly only in railroads; little change occurred in trade, utilities, the telephone industry, and local railways.

Chart 7.

AVERAGE WEEKLY EARNINGS AND "REAL" WEEKLY EARNINGS IN MANUFACTURING

1939=100



UNITED STATES DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS

*MONEY EARNINGS ADJUSTED FOR CHANGES IN COST OF LIVING

TABLE 2.—*Average hourly earnings of factory production workers, by industry group, November 1957 [1] and November 1956*

Industry	Average hourly earnings				Percentage increase, November 1956 to November 1957 [1]	
	November 1957 [1]		November 1956			
	Including premium pay for overtime	Excluding premium pay for overtime	Including premium pay for overtime	Excluding premium pay for overtime	Including premium pay for overtime	Excluding premium pay for overtime
All manufacturing	$2.11	$2.05	$2.05	$1.96	3.9	4.6
Durable goods	2.24	2.18	2.16	2.08	3.7	4.8
Nondurable goods	1.92	1.86	1.84	1.78	4.3	4.5
Ordnance and accessories	2.39	2.35	2.25	2.17	6.2	8.3
Food and kindred products	1.96	1.89	1.89	1.81	3.7	4.4
Tobacco manufactures	1.54	1.52	1.45	1.43	6.2	6.3
Textile mill products	1.51	1.47	1.50	1.45	.7	1.4
Apparel and other finished textile products	1.50	1.48	1.48	1.46	1.4	1.4
Lumber and wood products	1.83	1.77	1.77	1.71	3.4	3.5
Furniture and fixtures	1.75	1.71	1.72	1.66	1.7	3.0
Paper and allied products	2.08	1.98	1.98	1.88	5.1	5.3
Printing	2.53	------	2.45	------	3.3	------
Chemicals and allied products	2.26	2.20	2.15	2.09	5.1	5.3
Products of petroleum and coal	2.73	2.67	2.57	2.51	6.2	6.4
Rubber products	2.33	2.25	2.17	2.10	7.4	7.1
Leather and leather products	1.57	1.54	1.52	1.50	3.3	2.7
Stone, clay, and glass products	2.10	2.02	2.01	1.92	4.5	5.2
Primary metal industries	2.55	2.51	2.44	2.36	4.5	6.4
Fabricated metal products	2.23	2.16	2.12	2.04	5.2	5.9
Machinery (except electrical)	2.34	2.28	2.25	2.17	4.0	5.1
Electrical machinery	2.10	2.06	2.03	1.97	3.4	4.6
Transportation equipment	2.50	2.41	2.39	2.27	4.6	6.2
Instruments and related products	2.14	2.09	2.05	2.00	4.4	4.5
Miscellaneous manufacturing industries	1.82	1.77	1.78	1.72	2.2	2.9

[1] Preliminary.

TABLE 3.—*Average hourly earnings in selected nonmanufacturing industries, November 1957 [1] and November 1956*

Industry	Average hourly earnings		Percentage increase, November 1956 to November 1957 [1]
	November 1957 [1]	November 1956	
Mining:			
Metal	$2.46	$2.33	5.6
Anthracite	2.93	2.69	8.9
Bituminous coal	3.05	2.95	3.4
Contract construction	2.96	2.80	5.7
Nonbuilding construction	2.71	2.54	6.7
Building construction	3.04	2.87	5.9
General contractors	2.84	2.71	4.8
Special trade contractors	3.16	3.00	5.3
Class I railroads	2.40	2.19	9.6
Local railways	2.07	1.99	4.0
Communication:			
Telephone	1.97	1.88	4.8
Telegraph	2.09	2.02	3.5
Other public utilities: Gas and electric utilities	2.39	2.27	5.3
Wholesale and retail trade:			
Wholesale trade	2.13	2.05	3.9
Retail trade	1.66	1.59	4.4
Service and miscellaneous:			
Laundries	1.11	1.06	4.7
Cleaning and dyeing plants	1.31	1.28	2.3

[1] Preliminary.

Supplementary benefits

Most major agreements reached in 1957 changed one or more supplementary benefits. Such agreements affected about 3 out of 4 workers accounted for by all major contracts concluded during the year. In many situations in which deferred wage-rate increases became effective, however, supplementary benefits were not changed. The most commonly affected benefits were health and welfare plans, holiday pay, vacations, and pensions. Relatively few supplemental unemployment benefit plans were adopted, although at the present time at least 2 million workers are under such plans, most of which have been in force long enough for some workers to be eligible for 26 to 52 weeks of benefits.

Cost-of-living escalators continued to spread to some extent; by the end of 1957 an estimated 4 million workers under collective bargaining and 300,000 unorganized workers were covered by such arrangements. Typically, these escalator clauses call for semiannual or quarterly changes in rates of pay with changes in the Consumer Price Index.

The wage outlook

As regards 1958, experience of recent years would indicate that wage-rate adjustments might be distinctly smaller than in 1957 if unemployment continues at a seasonally adjusted rate of 5 percent of the civilian labor force. Actually, however, while some key agreements expire or are subject to renegotiation on wages this year, about 4 million workers[3] under major agreements will automatically receive wage-rate increases determined by bargaining that was concluded in a somewhat different economic climate. Not only is this 4 million a significant group in and of itself, but the existence of this pattern of deferred increases may well affect the bargaining that will take place in other situations during 1958. (See tables 4 and 5.)

[3] Unlike earlier figures in this section, this estimate includes the construction trades, where an estimated 600,000 workers are scheduled to obtain deferred increases in 1958.

TABLE 4.—*Deferred wage increases scheduled to go into effect in 1958 in situations affecting 1,000 or more workers in manufacturing and selected nonmanufacturing industries* [1]

Average deferred wage increase	Number of situations	Approximate number of workers affected (in thousands)										
		All industries studied	Total manufacturing [2]	Food and kindred products	Printing and publishing	Chemicals and allied products	Stone, clay, and glass products	Metalworking	Total nonmanufacturing studied [3]	Warehousing, wholesale, and retail trade	Transportation	Public utilities
Total	486	3,300	1,819	227	25	36	48	1,422	1,481	169	1,234	28
Under 5 cents	39	87	71	2	4	10	25	7	16	9	7	
5 but less than 6 cents	58	218	107	66	1		6	19	112	37	59	
6 but less than 7 cents	81	148	115	6	1	2	4	97	33	26	2	
7 but less than 8 cents	109	1,700	577	125	3	6	2	433	1,123	34	1,089	
8 but less than 9 cents	68	238	175	1		12	11	151	63	12	46	5
9 but less than 10 cents	71	741	701	12	1	4		681	39	4	5	
10 but less than 11 cents	34	99	36	7	2			23	63	43	14	6
11 but less than 12 cents	8	36	20	5	7			9	16		1	15
12 but less than 13 cents	3	4	2	2					2	2		
13 cents and over	7	12	10	1	7	1		1	2		1	1
Amount not specified or not computed [4]	8	18	5	1			1		12	2	10	1

[1] Excluding cost-of-living adjustments. The construction, service and finance industries as well as Government are excluded.

[2] Includes a few settlements in the following industry groups for which separate data are not provided: Tobacco (1,000 workers), textiles (4,000), apparel (13,000), lumber and furniture (10,000), paper (7,000), petroleum and rubber (1,000 each), leather (15,000) and miscellaneous manufacturing (9,000).

[3] Includes a few settlements in some industries for which separate data are not provided; the largest group consists of iron and lead mining with about 35,000 workers. Data on copper mining are included with metal working.

[4] Insufficient information to compute cents-per-hour increases.

NOTE.—Because of rounding, sums of individual items do not necessarily equal totals.

TABLE 5.—*Deferred increases in union scales scheduled to go into effect in 1958 in major situations in construction*

Increases	Approximate number of workers affected
Total	584,000
5 and under 7 cents	9,500
7 and under 9 cents	19,000
9 and under 11 cents	119,500
11 and under 13 cents	30,000
13 and under 15 cents	14,000
15 and under 17 cents	215,500
17 and under 19 cents	84,000
19 and under 21 cents	33,500
21 and under 23 cents	22,500
25 cents and over	36,500

NOTE.—Because of rounding, sum of individual items does not necessarily equal total.

Deferred increases.—Among the industries in which pay rates will advance automatically during 1958 as a result of earlier bargaining are railroads; east coast longshoring; basic steel; aluminum; other nonferrous metal mining; smelting and refining; the manufacture of electrical equipment; and meatpacking. Many construction scales will also rise by a predetermined amount.

The exact amount of the wage changes in most of these industries cannot be predicted with certainty, since typically the specified deferred raises are accompanied by cost-of-living escalators that may increase or decrease the net change in money wage rates in the industry (table 6). However, if the Consumer Price Index remains relatively stable, wage-rate increases for a majority of workers in these situations will be smaller than in 1957. For example, this will be true for steel, aluminum, and railroads; in nonferrous metals other than aluminum and probably meatpacking, wage rates will rise by about the same amount as in 1957. Among the key industries, probably only in the construction trades will increase resulting from earlier negotiations be greater in 1958 than they were in 1957.

TABLE 6.—*Prevalence of cost-of-living escalator provisions in situations providing deferred increases in 1958* [1]

Item	Approximate number of workers due to receive deferred increases (in thousands)	Percent of workers in column 1 also covered by cost-of-living escalator clauses
All situations with deferred increases	3,300	78
AVERAGE DEFERRED WAGE INCREASE [2]		
Under 5 cents	87	26
5 cents and under 6 cents	218	13
6 cents and under 7 cents	148	47
7 cents and under 8 cents	1,700	90
8 cents and under 9 cents	238	68
9 cents and under 10 cents	741	97
10 cents and under 11 cents	99	25
11 cents and under 12 cents	36	20
12 cents and under 13 cents	4	0
13 cents and over	12	0
Amount not specified or not computed [3]	18	26
INDUSTRY GROUP (SELECTED)		
Manufacturing [4]	1,819	78
Food and kindred products	227	53
Printing and publishing	25	0
Chemicals and allied products	36	37
Stone, clay, and glass products	48	42
Metalworking	1,422	88
Nonmanufacturing [5]	1,481	77
Warehousing, wholesale, and retail trade	169	6
Transportation	1,234	90
Public utilities	28	0

[1] Excludes the construction, service, and finance industries, as well as Government.
[2] Excluding cost-of-living adjustments.
[3] Insufficient information to compute cents-per-hours increases.
[4] See footnote 2, table 4.
[5] See footnote 3, table 4.

The nonferrous increases will average about 7 to 7.5 cents in 1958, and, unless the Consumer Price Index rises 1½ points by September, most railroad workers may well receive increases of 10 cents or less. Rates in meatpacking will probably rise at least 11½ cents, in steel by 13 to 14 cents an hour, and in aluminum by about 14.5 cents.[4] In construction the most common deferred increases will be 10 and 15 cents; of course, many construction scales are open for negotiation this spring since deferred increases cover only part of this industry. (See table 5.)

Negotiations in 1958.—What about the industries in which wage negotiations will probably occur during the coming year? In addition to such industries as rubber and petroleum refining in which wage bargaining normally has been on an annual basis, these include the automotive, farm equipment and related industries, where long-term contracts expire this year, trucking, where major 6-year agreements have midcontract reopenings coming due at this time; and aircraft. In the manufacture of electrical equipment, changes in pay rates are already provided for, but there can be a contract reopening on the subject of employment security. Contracts in coal mining are also subject to bargaining on 60-days' notice.

It is obviously too early to predict the course of bargaining in these situations, although, as indicated earlier, they undoubtedly will be affected in some degree by the wage increases due in other industries with deferred adjustments. Two major settlements, resulting from contract reopenings, have already been reached in the trucking industry. They covered a number of Midwestern States and provided for a package of about 30 cents over a 3-year period; they also continued cost-of-living escalator clauses under which workers obtained a 3-cent increase in pay, effective February.

The outstanding negotiations of the year will take place in the automobile industry, where the executive board of the United Auto Workers has already proposed a series of bargaining demands. These include a larger wage-rate increase than the annual increase provided in the present contracts; additional inequity adjustments; a profit-sharing plan; more liberal pension, hospitalization, medical and surgical benefits; and liberalization of the supplemental unemployment benefit plans negotiated in 1955.

---

[4] If the Consumer Price Index does not rise more than .3 of an index point by May the increases in rates of pay in the basic steel industry will consist of a 5-cent cost-of-living adjustment that went into effect in January, and an average of about 8 or 9 cents in deferred adjustments scheduled for July. These workers will receive a penny more should the index rise .4 point by May. Since the steelworkers' escalator clause provides for somewhat slower downward than upward adjustments in wage rates, they will receive less than a total of 13 or 14 cents this year only if the May index falls .6 of an index point below its current level. The picture of cost-of-living changes for aluminum workers is essentially the same.

Meatpacking employees will receive a total increase of at least 11½ cents an hour in 1958—4 cents this month as a semiannual cost-of-living adjustment, and 7½ cents in September of this year unless the index declines .8 of an index point. They will receive an additional penny should the index rise .2 of a point by May.

There are no escalator clauses in the nonferrous industries other than aluminum and they are rare in construction; hence, in these industries there will be no cost-of-living adjustments added to or offsetting deferred increases.

Most railroad workers will receive 7-cent deferred increases. Their pay is also subject to cost-of-living reviews on the basis of the March and September indexes. At the time of the first review their rates will increase 1 cent if the index remains at its present level and 2 cents only if it rises .5 of a point; if the index should decline their cost-of-living allowance will not increase at that time. If the index advances a total of 1.5 points by September, this year's cost-of-living allowance for railroad workers will be 4 cents.

V. PRICES

Concurrent with the onset of the business downturn in the autumn of 1957, the Wholesale and Consumer Price Indexes leveled off. At the end of the year the Wholesale Price Index stood at its August level which was 1.8 percent over December 1956. The Consumer Price Index rose 3.1 percent in 1957 but most of the increase took place in the first half of the year; between August and November it increased only 0.5 percent and did not move at all in December.

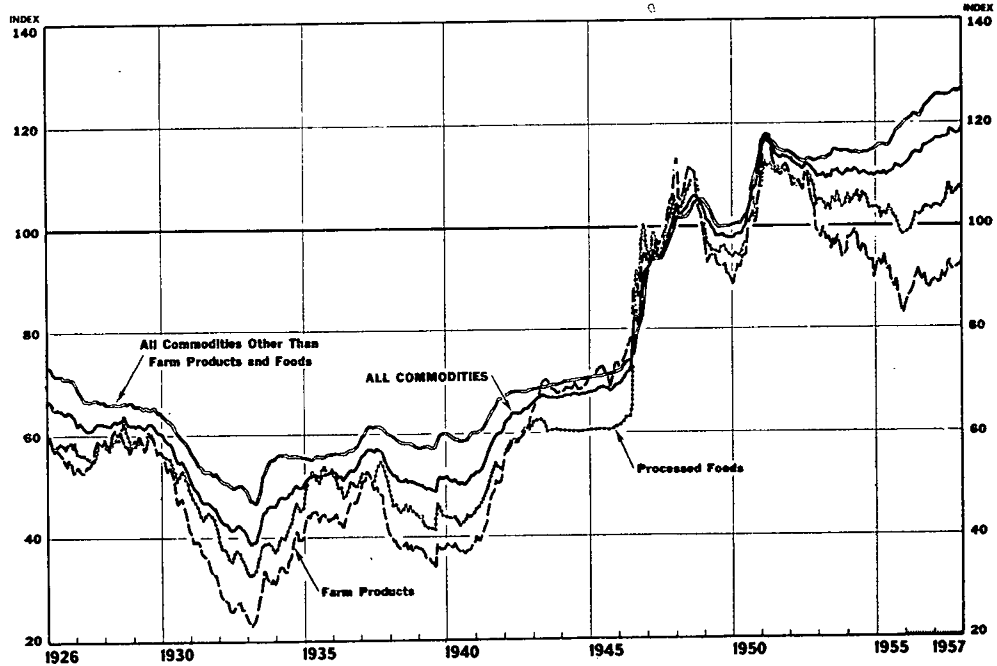
Wholesale Price Index

Before leveling off, the Wholesale Price Index had risen almost 8 percent since it started to climb in mid-1955. (See charts 8A and B.) Almost all commodity groups increased, but the rises were far from uniform. The leaders were machinery, up 18 percent between mid-1955 and December 1957, and metals, up 13 percent. Hides and skins, fuel, furniture, tobacco. nonmetallic minerals and the paper groups increased between 5 and 10 percent. Processed foods also rose by over 5 percent compared to an increase of under 2 percent for farm products. The only group declining significantly in the period was lumber, which fell 6 percent over the 30-month period. Seven of the groups reached postwar highs in 1957. The following table presents the data for the period mid-1955 to December 1957 as well as a tabulation of high and low points reached between January 1947 and December 1957.

Chart 8-A.

WHOLESALE PRICES

1947-49=100

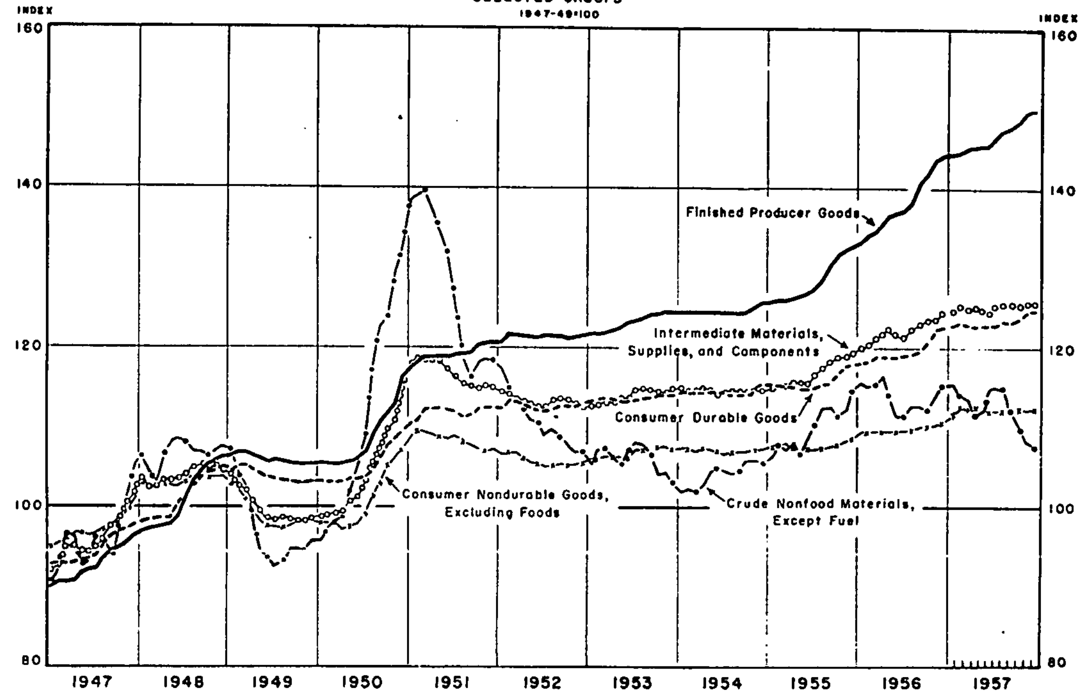


LATEST DATA: DECEMBER 1957

UNITED STATES DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS

Chart 8-8.

WHOLESALE PRICE INDEX
ECONOMIC SECTOR INDEXES
SELECTED GROUPS
1947-49=100



UNITED STATES DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS

LATEST DATA: DECEMBER 1957

TABLE 7.—*Behavior of major groups of the wholesale price index between May 1955 and December 1957 and high and low points during the period January 1947–December 1957*

	Percent change May 1955–December 1957	High point		Low point	
		Date	Index	Date	Index
All commodities	+7.7	December 1957	118.4	January 1947	92.3
All commodities except farm and food	+9.1	do	126.0	do	91.8
01 Farm products	+1.5	March 1951	117.6	December 1955	82.9
02 Processed foods	+5.2	February 1951	112.9	January 1950	94.0
03 Textiles	−.1	March 1951	115.9	May 1950	92.8
04 Hides, skins	+7.4	February 1951	127.7	December 1954	91.8
05 Fuel, power, light	+8.1	February 1957	119.6	January 1947	82.7
06 Chemicals	+3.5	February 1951	112.6	March 1950	92.0
07 Rubber	+5.6	January 1951	153.0	July 1947	94.1
08 Lumber	−5.7	April 1956	128.5	January 1947	84.9
09 Pulp, paper	+11.3	December 1957	131.0	August 1949	95.7
10 Metals	+13.4	August 1957	153.2	January 1947	87.9
11 Machinery	+17.8	December 1957	[1] 149.3	do	89.7
12 Furniture	+7.1	do	[1] 123.3	do	93.8
13 Nonmetallic minerals	+10.1	do	[1] 135.7	do	90.9
14 Tobacco	+5.3	do	[1] 128.0	do	96.8
15 Miscellaneous	−4.5	January 1948	120.0	November 1957	86.8

[1] Preliminary.

Looking at 1957 alone, only a few groups showed substantial increases. Processed foods and farm products each advanced over 4 percent, the largest increase for the year of any group in the index. The machinery, nonmetallic minerals, and tobacco groups were next, increasing between 3 and 4 percent. Except for machinery, most of the advance over the year was made in the first 7 months of 1957. Recent advances in machinery prices reflect largely the impact of the highway program on construction equipment and the effects of midsummer increases in agricultural machinery prices, although other types of machinery also moved upward. Since midyear, however, the demand for some types of industrial equipment has tapered off, as evidenced by declining backlogs of orders on the producers' books.

Following is a tabulation of price movements in 1957 for the major groups of the Wholesale Price Index.

TABLE 8.—*Percent of change, wholesale price index, 1956–57*

	Percent of change		
	December 1956 to August 1957	August 1957 to December 1957	December 1956 to December 1957
All commodities	+1.8	0	+1.8
All commodities except farm and food	+1.0	0	+1.0
01 Farm products	+4.6	−0.4	+4.2
02 Processed foods	+3.6	+0.6	+4.2
03 Textiles	−0.2	−0.5	−0.7
04 Hides, skins	+1.3	−0.7	+0.6
05 Fuel, power, light	+2.0	−0.5	+1.5
06 Chemicals	+1.4	+0.6	+2.0
07 Rubber	−0.7	−0.8	−1.5
08 Lumber	−2.0	−1.9	−3.8
09 Pulp, paper	+1.5	+0.8	+2.3
10 Metals	+0.6	−1.9	−1.3
11 Machinery	+1.8	+2.1	+4.0
12 Furniture	+1.2	+0.6	+1.7
13 Nonmetallic minerals	+3.0	+0.3	+3.4
14 Tobacco	+3.3	+0.2	+3.6
15 Miscellaneous	−1.7	−3.2	−4.9

Prices of many commodities within the groups of the Wholesale Price Index are particularly sensitive to market factors directly affecting their demand and supply relationships. The farm-products group reflected significantly higher cattle and hog prices as a result of curtailed supplies of these animals. In 1956 the peak of a cattle-production cycle was reached and the subsequent downturn in production sharply reduced marketings in 1957. Lower feed prices following the largest crops and carryover in history encouraged farmers to hold cattle for feeding and further reduced meat supplies in the fall and winter of this year. Hog producers curtailed pig farrowings in 1957 after an unusually large supply of hogs in 1956 had driven prices down in late 1956 and early 1957.

Much of the weakness of the textile products and apparel group reflected a long-run fall in the consumption of textile-mill products and cotton. During most of the postwar period the market for textiles and textile products has been weak, by comparison with the demand for other commodities. Thus, after rising to a peak in March 1951, the index for this group dropped off by about 15 percent in the following year. In the nearly 7 years that have elapsed since that time, the price level for the textiles group has remained below the 1947–49 average.

After the highs reached due to short supplies during the Suez crisis, the price of petroleum fell sharply from the spring of 1957; although prices of coal, coke, and electricity moved upward, by the end of 1957 the fuel, power and lighting group as a whole was considerably below its postwar high, reached early in the year.

A combination of lagging residential construction and intensified competition from substitute products depressed the lumber market in late 1956 and 1957. Western producers were additionally hard hit because of an increase in freight rates which put them at a competitive disadvantage in distant markets. As a consequence, in 1957 the lumber and lumber products index continued to decline from its peak reached in mid-1956.

Average prices of the metal and metal products group softened in 1957, primarily because of iron and steel scrap prices which fell over 46 percent and nonferrous metals which declined about 13 percent. Most iron and steel products other than scrap increased in price. In contrast, the nonferrous metals declined as a group, reflecting primarily over supplies of copper resulting from the tremendous worldwide expansion of copper producing capacity in 1953–56. The precipitous fall in the prices of iron and steel scrap reflected the sharp drop in steel production at year's end. Prices for steel products meanwhile continued to hold firm, terminating the year well over last year levels. The prices of finished steel products were about 8 percent and semifinished 9 percent over 1956 year end.

Consumer Price Index

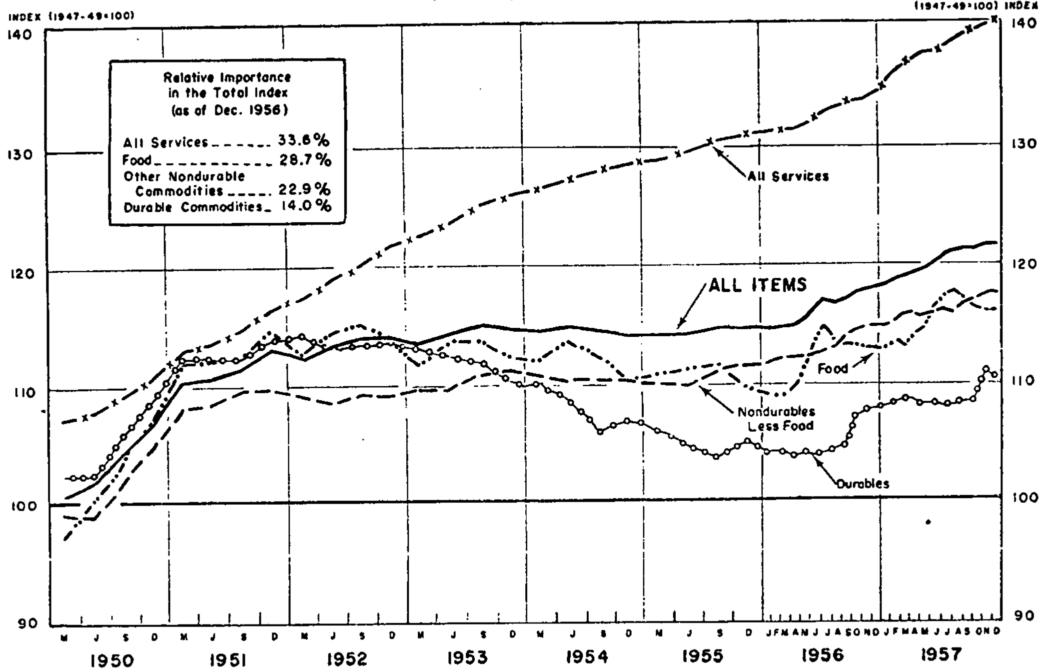
The Consumer Price Index advanced steadily during the first 8 months of the year, but increased by only one-tenth of a point in September and showed no change in October. (See charts 9A and B.) This was caused chiefly by the decline in food prices brought about by unusually ample supplies of fruits and vegetables. This seasonal movement brought the food index down by 0.8 per-

Chart 9-A.

CONSUMER PRICE INDEX

Commodities and Services

Quarterly 1950-55; Monthly 1956-57



UNITED STATES DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS

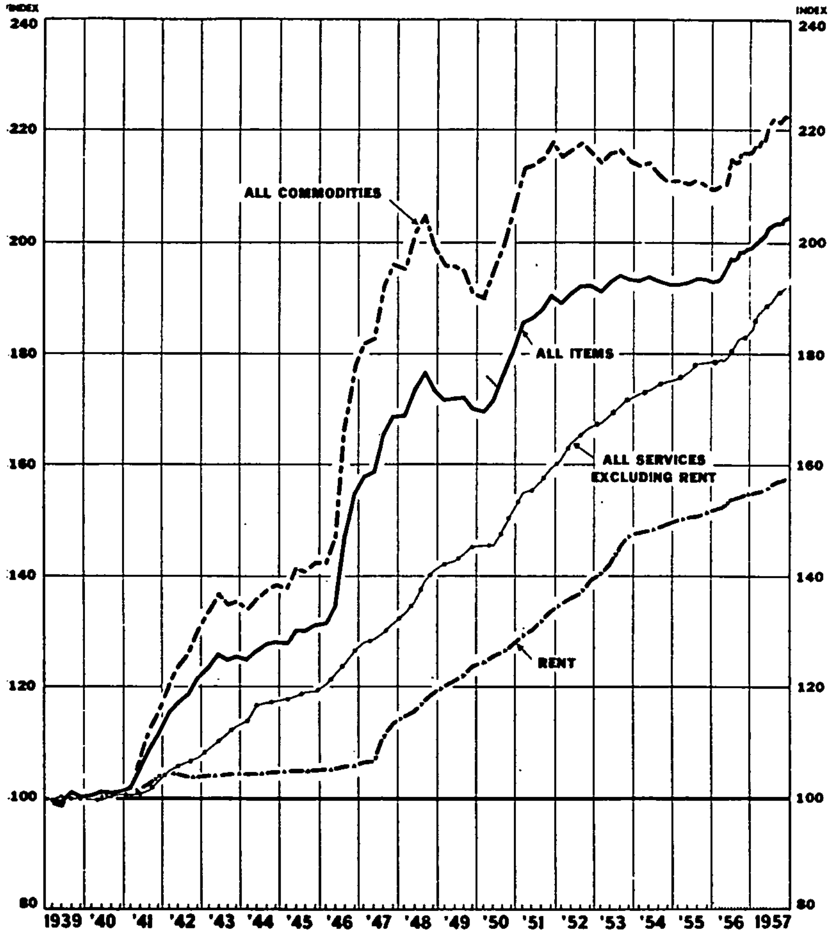
LATEST DATA: DECEMBER 1957

Chart 9-8.

CONSUMER PRICE INDEX

SPECIAL GROUPINGS

1939 = 100



UNITED STATES DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS

LATEST DATA: DECEMBER 1957.

cent between August and September and a further 0.5 percent in October. Seasonal declines in meat prices were a factor in the October drop. These decreases were counteracted by seasonal gains in apparel prices, and continuing advances in the services.

The index increased again in November, largely as a result of an 11.5 percent rise in new-car prices, accompanying the introduction of the 1958 models. This steep rise reflected higher manufacturers' prices on the new models, plus sharp reductions in discounts allowed by the dealers.

New-car prices were a factor on the downside in December of 1957, when increasing dealer discounts to customers brought the transportation component down, offsetting slight gains in foods, rents, and medical-care costs. Price increases were reported for major household appliances, particularly refrigerators and washing machines, representing higher prices on new models and some advances in current models.

TABLE 9.—*Consumer Price Index, all items and major groups, percent of change, 1956–57*

	December 1956 to December 1957	December 1956 to August 1957	August 1957 to December 1957
All items	+3.1	+2.5	+0.5
Food	+2.8	+4.4	−1.5
Apparel	+.6	−.4	+.9
Housing total	+2.8	+1.8	+1.0
Rent	+1.9	+.9	+1.0
Transportation	+4.4	+2.1	+2.2
Medical care	+4.5	+2.9	+1.6
Personal care	+4.3	+2.5	+1.7
Reading and recreation	+4.8	+3.0	+1.8
Other goods and services	+2.8	+2.8	+.1

In summary, the Consumer Price Index in recent years has been characterized by upward movements of its major components. Services and rents have advanced continuously since World War II. The upturn of the index in the spring of 1956 coincided with an unusually sharp rise in food prices, which had been declining for 4 years. The rise in food prices, which usually occurs in the spring, was magnified by severe weather conditions which curtailed spring crops of fresh fruits and vegetables. Food prices dropped sharply in August as new crops reached the market. Instead of the expected decline in the fall, food prices leveled off for the remainder of the year. In 1957 the upward movement of food prices continued much as it had the previous year. Nondurable commodity prices turned upward in mid-1955 and continued to climb through 1956 and 1957, except for minor interruptions at midyear. Durable commodities' prices rose sharply in mid-1956, but remained stable through the major part of 1957. In late fall, however, prices for new model automobiles and major household appliances increased.

VI. PRODUCTIVITY

The Bureau of Labor Statistics has recently completed work on postwar trends for the private economy and some of its major parts, soon to be published with complete explanation of methods, techniques, and sources of data. This set of estimates was made available for use in the President's Economic Report. They represent a major forward step in the development of productivity information for the economy and its various subdivisions.

Definition and concept

It is unfortunate that there is still much misunderstanding of the term "productivity." While it is a ratio of output to input, it is possible to define output and input in various ways, thus yielding different productivity measures. In the work of the Bureau of Labor Statistics, and in most of the work of others in this field, the input used has been labor input, or more specifically, man-hours. This productivity ratio, output per man-hour, is the resultant of many factors, including worker and managerial skill, technology, availability of material, volume of output, and so on.

As measures are prepared for broader and broader industry groups and sectors, their meaning and application become more complex. In particular, the estimates for the total economy or major groups are not necessarily indicative of the trend for individual component sectors, industries, or corporate entities.

Two major types of output per man-hour indexes have been prepared by the BLS, based on different concepts of output, as follows:

(*a*) *Physical output per man-hour.*—Productivity which measures the change in labor time required to produce a fixed composite of goods and services. Most of the productivity measures previously developed by the Bureau of Labor Statistics have been based on this concept. This type of measure tends to reflect primarily the effects of technological change, gains in worker and managerial efficiency, and shifts between plants.[5]

(*b*) *Net output per man-hour; also referred to as value added or gross national product approach.*—Productivity which includes the change in physical productivity of component industries, as indicated above; also reflects the shift in relative importance of industries with higher or lower levels of productivity; and also reflects changes in labor requirements resulting from changes in material used per unit of output. This measure might show an increase in productivity for a sector (or for the total economy) even if there were no change in productivity of the component industries.

The measures presented here are of the net output type. The index for the total private economy is based on estimates of private gross national product (in constant prices) published by the Office of Business Economics of the Department of Commerce. The estimate for agriculture is obtained from the same source. The estimate for manufacturing is based on previous work of the Bureau of Labor Statistics with preliminary extensions for recent years.[6] The estimate for nonmanufacturing is obtained as a residual.

The man-hour estimate for the private economy and the major subdivisions includes the time of all persons, including the self-employed, unpaid family workers, as well as all wage and salary workers.

Two sets of productivity measures have been prepared, using different man-hour concepts. One set of estimates covers hours paid (plus hours of unpaid family workers), including paid holidays, vacations and sick leave, and is based primarily on Bureau of Labor Statistics data. The other set covers hours worked, that is, excluding holidays, vacations, and sick leave, and is based on Bureau of the Census labor force estimates; this set is limited to the private economy, agriculture, and nonagriculture totals. Differences in trend are to be expected as a consequence of changes in hours paid for but not worked. However, problems of basic statistical data may obscure these differences.

Productivity measures, as well as other economic statistics, have certain statistical and conceptual limitations. These have been described in appendix E of the President's Economic Report. To summarize, they include such problems as measuring change in commodity specification and quality, deflation of values to take account of price changes, lack of adequate output or man-hour data for some industries or sectors in the economy, and others.

---

[5] All of the measures may also be affected by short term factors such as volume of output, percent of capacity utilization, etc.

[6] For a more extended discussion of methods, sources, and limitations, see BLS Rept. No. 100, Output Per Man-Hours in Manufacturing, 1939–47 and 1947–53.

Trends in output per man-hour, 1947–56

During the period 1947–56, total private real product per man-hour increased at the rate of 3.4 or 3.9 percent a year, depending on which productivity measure is used. The lower estimate is based on hours paid, the higher estimate on hours worked. (Other scattered evidence, although not conclusive, indicates that perhaps half of this difference may be due to statistical discrepancies.)

The agricultural sector of the private economy showed a much higher gain than the remainder; output per man-hour in agriculture rose nearly 6 percent a year. For nonagricultural industries, the average postwar gain in output per man-hour was 2.8 percent based on hours paid, 3.3 percent based on hours worked.

Manufacturing output per man-hour, based on hours paid of all persons employed in manufacturing, rose about 3.2 percent a year. (Estimates based on hours worked by all persons employed are not yet available.)

It should be noted that most previously published estimates of manufacturing productivity have dealt with output per man-hour of production workers. There is nothing intrinsically superior in this estimate; because of the long-term interest in the employment and average hours and earnings of production workers, there are more data available for this group than for nonproduction workers. The average annual increase for production worker output per man-hour paid in manufacturing (1947–56) was nearly three-fourths of 1 percent higher than that for all persons employed or about 3.9 percent a year. This difference arises because of the greater increase in employment of nonproduction workers in relation to production workers.

In the nonmanufacturing industries, output per hour paid rose about 2.6 percent a year from 1947–56. This rate is significant in view of a commonly held impression that manufacturing industries are the major source of productivity increase in the economy while nonmanufacturing industries are a drag on productivity progress. However, the nonmanufacturing sector represents a heterogeneous group of industries including mining, transportation, construction, and public utilities as well as trade and services. Some of these have great potential for productivity growth.

A large part of the postwar increase occurred between 1947–50 and was partly an adjustment to a decline from 1945–47. The average rates for the period since 1950 are lower than those for the total 1947–56 period. (See table 10.)

TABLE 10.—*Average annual percent change in real product per man-hour,*[1] *1947–56; 1950–56*

Sector	Real product per man-hour—Man-hour estimates based primarily on data from—			
	1947–56		1950–56	
	Bureau of Labor Statistics [2]	Census [3]	Bureau of Labor Statistics [2]	Census [3]
Total private	3.4	3.9	2.8	3.3
Agriculture [4]		5.8		5.6
Nonagriculture	2.8	3.3	2.2	2.7
Manufacturing	3.2		2.8	
Nonmanufacturing	2.6		1.8	

[1] Computed from the least-squares trend of the logarithms of the index numbers. Covers man-hours of wage and salary workers, self-employed, and unpaid family workers (over 14 years of age). Annual indexes of real product per man-hour, appear in appendix E, 1958 Economic Report of the President. Differences between measures based on Bureau of Labor Statistics and census data reflect differences in concept (hours paid versus hours worked) and statistical differences.

[2] Estimate of hours paid, based primarily on Bureau of Labor Statistics data supplemented by other sources. Includes hours worked by unpaid family workers (over 14 years of age).

[3] Estimate of hours worked, based primarily on census labor-force data, supplemented by other sources.

[4] Estimate based on census labor-force data on agricultural employment and hours of work. Not comparable with agricultural productivity measures based on the Department of Agriculture's man-hour measure of equivalent adult male labor requirements.

Comparison with long-run trends

The productivity estimates developed by the Bureau of Labor Statistics for this report cover the years 1947–56, but in order to provide a basis for comparison of current rates of change with long-run trends, estimates based on other sources covering the period prior to 1947 have been summarized. The recent report of the Joint Economic Committee on productivity, prices, and incomes contains annual estimates of productivity for the total private, farm, and nonfarm sectors of the economy covering the years 1910–56. The Joint Economic Committee estimates are based on the work previously done by John W. Kendrick and differ from those developed by the Bureau of Labor Statistics in several respects.

The biggest source of difference between the Joint Economic Committee estimate and either of the two measures shown in this report is due to the different concepts and sources of data used for agricultural man-hours. In order to compare postwar with prewar trends, an additional set of BLS estimates has been prepared in which the farm man-hour estimates used by the Joint Economic Committee have been substituted for those used by the Bureau of Labor Statistics.

The average annual long-run (1909–56) increase in total real private product per man-hour is 2.2 percent.[7] The average gain for agriculture is 1.9 percent

[7] Estimates published by the National Bureau of Economic Research, 1 by Moses Abramowitz covering the period since 1870, and 1 by John W. Kendrick covering the years 1899–1953, indicate an increase of about 2 percent. Both of these estimates and those of the Joint Economic Committee are, in theory, based on hours worked. The limitations of the data, however, are such that it is not clear whether the estimates are, in fact, closer to the hours-worked or hours-paid concept.

and for nonagriculture it is also 2.2 percent. The modified and comparable estimates of the BLS for the 1947–56 period show average gains of 3.1 to 3.5 percent for the total private economy, 4.0 percent for agriculture, and 2.8 to 3.3 percent for nonagriculture.

Thus for the postwar period as a whole there appears to have been a significant rise in the rate of productivity growth of the economy. However, as indicated earlier, the average rates for the period since 1950 are somewhat lower than those for the entire postwar period, and are closer to but not as low as the long-run average.

Productivity trends in 1956 and 1957

Over the long run, underlying technological and institutional factors tend to provide the basis for cumulative increases in output per man-hour. Year-to-year movements, however, may be heavily influenced by changes in volume of production, utilization of capacity, limitation of material and human resources, etc. In the period 1947–56, the rate of productivity change varied substantially from year to year. Annual changes for the total private economy ranged from less than 1 percent to nearly 9 percent. In agriculture the range was from a decrease of about 3½ percent to an increase of 16½ percent. In manufacturing the changes ranged from a very slight gain to an increase of 8 percent.

To the extent that year-to-year fluctuations reflect inadequacies in the basic data rather than real changes in productivity, the average for a period of years may be more reliable than the measure for any single year. This is particularly true of the estimates for 1956 and 1957, which are preliminary, and subject to revision as other data become available.

Trends in output per man-hour in 1956 and 1957 are described in the following paragraphs, but a penetrative analysis of these recent developments is not possible until trends for individual industries in manufacturing and segments of nonmanufacturing are separately measured and examined and more information is available on such items as capital stock, rate of capacity utilization, composition of the growth in nonproduction workers, and effects of volume change.

Output per hour for the total private economy made very little gain in 1956—between 0.8 and 1.2 percent, depending on whether hours paid or hours worked are used.[8] Preliminary estimates indicate that the rate of increase in 1957 may be somewhat better, approximately matching the long-run-trend rate of about 2 percent.

In manufacturing, the increases are estimated at 0.3 percent for 1956 and 0.8 percent for 1957.[9] In nonmanufacturing, the increases were 0.3 and 1.6 percent in 1956 and 1957, respectively. These rates are very much below the average increase over the total postwar period.

The manufacturing estimates, as previously indicated, refer to output per hour of all employed persons. Estimates of the increase in output per hour of production workers would be about 1½ percent for 1956 and 2½ percent for 1957. These differences in trend between production workers and all employed persons are greater in 1956 and 1957 than the average postwar difference.

It appears that 1956 was a relatively poor year of productivity gain, and that 1957 was a little better. This may suggest a slowing down in the rate of productivity growth, but such conclusions are premature, particularly in view of the preliminary nature of the 1957 estimates. Moreover, as past records of annual productivity change have already shown, the lack of substantial productivity gain in 1 or 2 years does not imply a stagnation in the future potential productivity growth of the economy, especially in view of the extensive expenditures on new plant and equipment during the past few years.

---

[8] Annual indexes from 1947 to 1957 were published in the Economic Report of the President, January 1958, table E–1, p. 108.

[9] Based on extensions using estimates of deflated sales and inventories from the Office of Business Economics. If Federal Reserve Board indexes of production were used, the increases would be about 1½ percent for 1956 and 2 percent for 1957.

VII. CONSTRUCTION

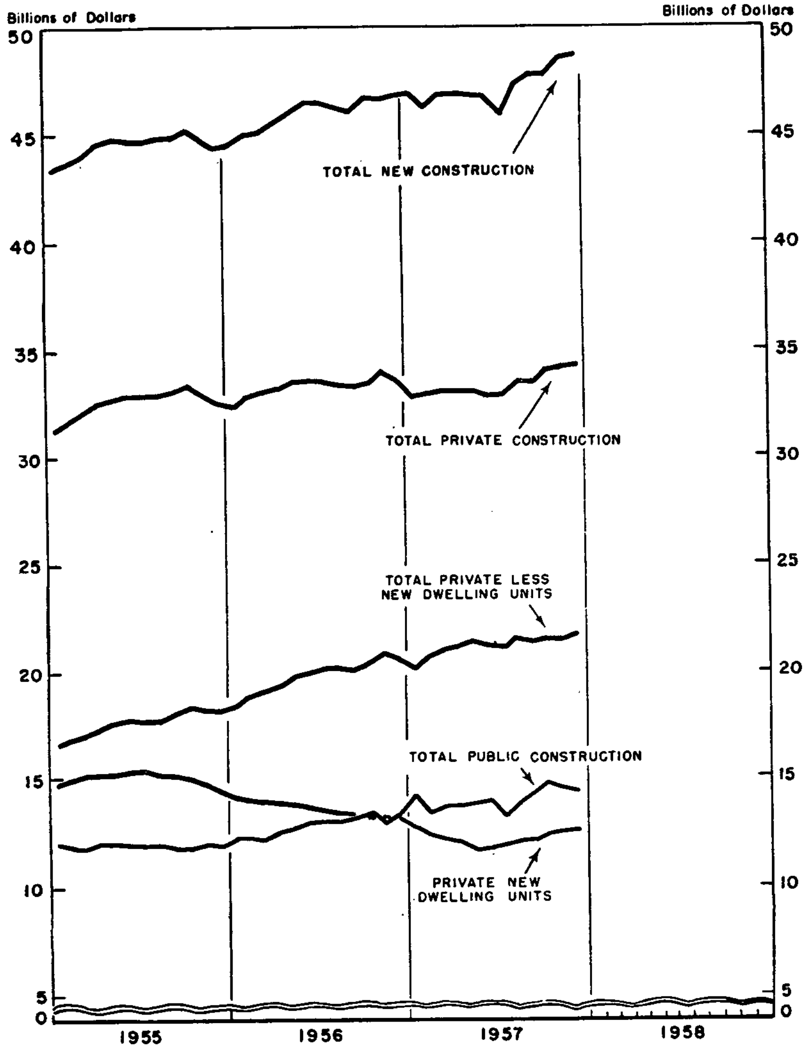
Construction in 1957

Expenditures for new construction edged up 3 percent in 1957 to $47.3 billion, exceeding the previous record set in 1956. Expenditures adjusted for the rise in costs—physical volume—were about the same in 1957 as in 1956, but, when new private housing is excluded from the comparison, the physical volume of all other types of work actually rose about 3 percent.

The achievement in construction in 1957, despite the fact that new private housing—the largest single sector—declined by 10 percent, resulted from continued expansion in most types of private nonresidential construction and in public projects (charts 10A and B). The greatest impetus to private nonresidential construction in 1957 was from the public utilities, but gains occurred, also, in most types of building construction—particularly office buildings, hospitals, churches, and additions and alterations to existing housing. In all of these instances, expenditures reached new high levels in 1957.

Chart 10-A.

EXPENDITURES FOR NEW CONSTRUCTION
PUBLIC AND PRIVATE
SEASONALLY ADJUSTED ANNUAL RATES

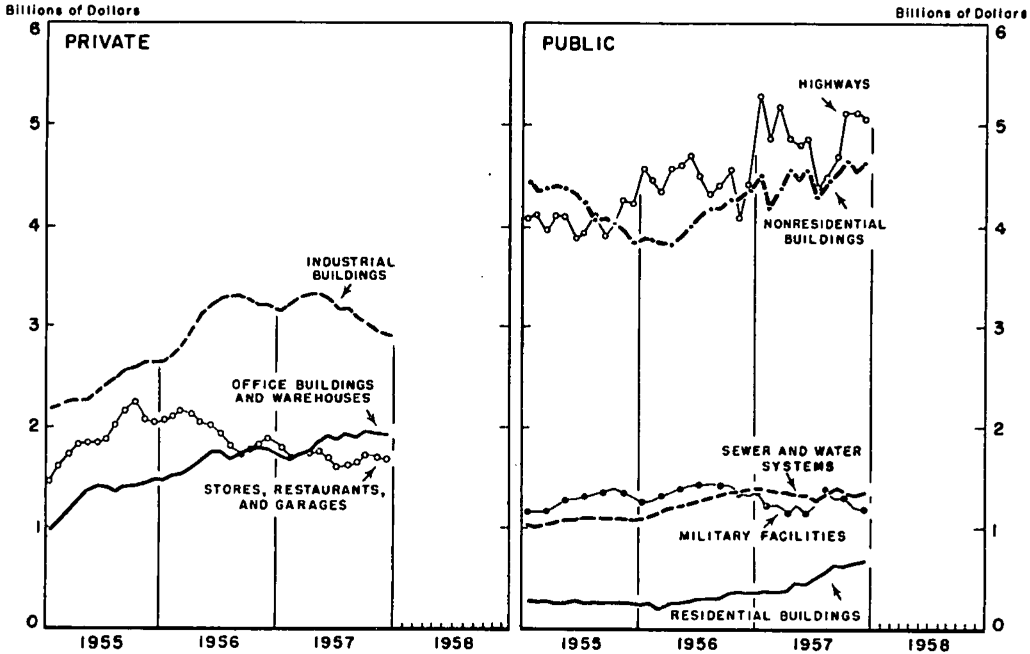


UNITED STATES DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS

Source: U.S. Department of Labor and U.S. Department of Commerce

Chart 10B.

EXPENDITURES FOR NEW CONSTRUCTION
SELECTED TYPES
SEASONALLY ADJUSTED ANNUAL RATES



UNITED STATES DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS

Sources: U.S. Department of Labor and U.S. Department of Commerce

Private plant expansion also rose a little over the year to a new peak, but (on a seasonally adjusted basis) monthly outlays had begun to taper off at mid-year, following the huge expansion which started in 1955. In addition, expenditures for store buildings continued the decline in 1957 which had begun the year before, and, although the drop appeared to have been halted during the last quarter of 1957, total annual expenditures for this type of private building construction were off 12 percent from 1956.

Expenditures for all major types of public construction, except for military facilities and waterworks, rose substantially in 1957. State and local funds accounted for 70 percent of all public outlays—the same ratio as in 1955 and 1956. On the other hand, 60 percent of the $1.1 billion overall gain from 1956 was in Federal money—most of it in Federal grants-in-aid for highways. This phenomenon reflects a huge expansion in 1957 on the new Interstate Highway System, following enactment of the Federal-Aid Highway and Revenue Act of 1956, as well as further sizable increases in the continuing and regular Federal-aid highway program. At the same time, however, the amount of State and locally financed highway work declined in 1957 for the first time in the post-World War II period, because of a drop in toll-road construction.

In addition to the highway expansion, large gains occurred in school construction and public housing (mostly for the armed services), as well as in conservation and development work. The latter reflected navigation and flood-control work by the Army engineers and a rise to peak activity on the St. Lawrence seaway.

Housing in 1957

Private housing activity, which began to decline (on a seasonally adjusted basis) in mid-1955, had stabilized by mid-1957, and then rose during the latter half, largely because of an increase in private apartment building.

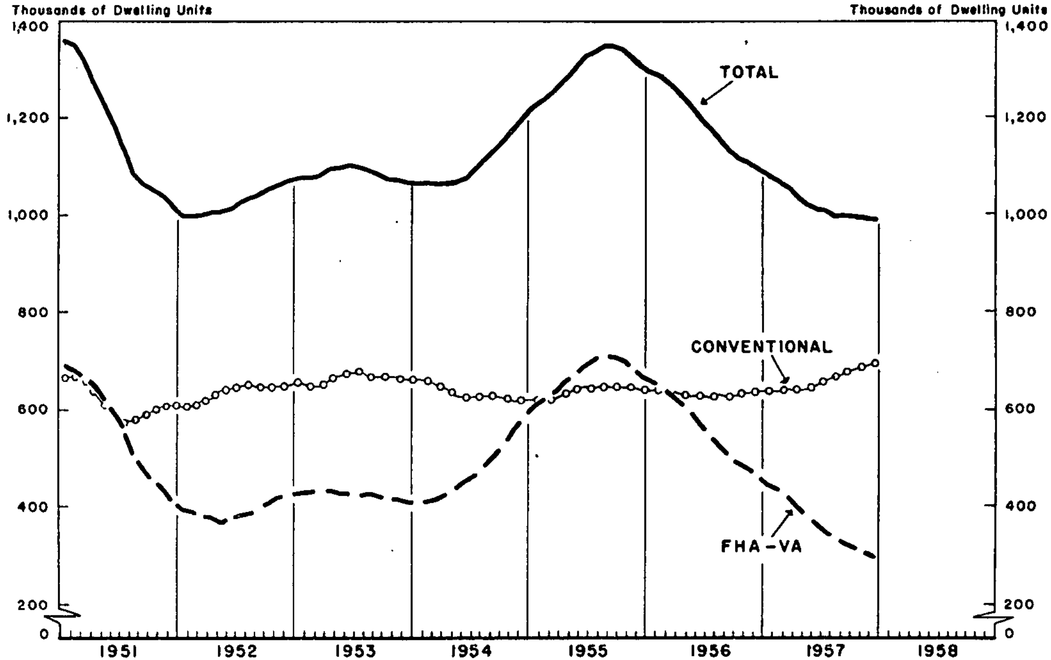
Analysis of the number of new nonfarm dwelling units started shows that the 1957 decrease was only in units begun under FHA and VA programs (chart 11)—those affected by the tight-money conditions throughout 1957—and only in metropolitan areas, where such programs are most generally available and used. Starts in nonmetropolitan areas leveled off, and housing activity actually edged up in the South, while down in all other regions. Public housing rose substantially (most of the rise was for armed services housing), and private apartment building increased sharply to the largest volume in 5 years.

Chart 11.

New Private Nonfarm Dwelling Units Started

TOTAL, UNDER FHA OR VA INSPECTION, AND ALL OTHER (CONVENTIONAL)

(12-MONTH MOVING TOTALS)



UNITED STATES DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS

Sources: U.S. Department of Labor, Federal Housing Administration (HHFA), Veterans Administration

A large part of the gain in new apartments was in FHA-insured projects, many of them cooperatives. A rise in rental units undoubtedly stems from a shortage which has resulted, in part, from an almost continuous decline in new construction of private multifamily dwellings between 1950 and 1956. Influential, also, were liberalization in loan ceilings and in mortgage-to-value ratios for apartment building, as well as special incentives to cooperatives that were provided in the Housing Act of 1956. The 1956 provisions were liberalized somewhat further in the Housing Act of 1957.

The outlook for 1958

Actions taken in 1957 have already set the stage for an increase in homebuilding activity in 1958, when mortgage funds become more plentiful. This increase, if it occurs soon enough, and the expected expansion this year in other fields of construction, should provide some upward thrust to the economy in 1958.

A favorable framework of legislation and regulations already exists to help residential building. For example, many additional families in the middle-income groups now qualify for FHA-insured home loans under recently announced reductions in the Federal Housing Administration's family income and equity requirements. These recent rulings should increase substantially the effectiveness of the middle-income market, which has shown extraordinary expansion over the past decade, and even since 1951. Also, under provisions of the Housing Act of 1957, FHA downpayment requirements since August 5, 1957, have been at their lowest levels in history.

There are now some signs of easing in the money markets. Interest rates for long-term borrowing have declined steadily since November, and the Federal National Mortgage Association has raised the price it pays for mortgages under its secondary market operations. Thus, the maximum permissible interest rates on FHA and VA loans are becoming more nearly in line with the market. This trend could continue, and, if it does, the favorable legislative and regulatory base can be influential, assuming that demand continues strong.

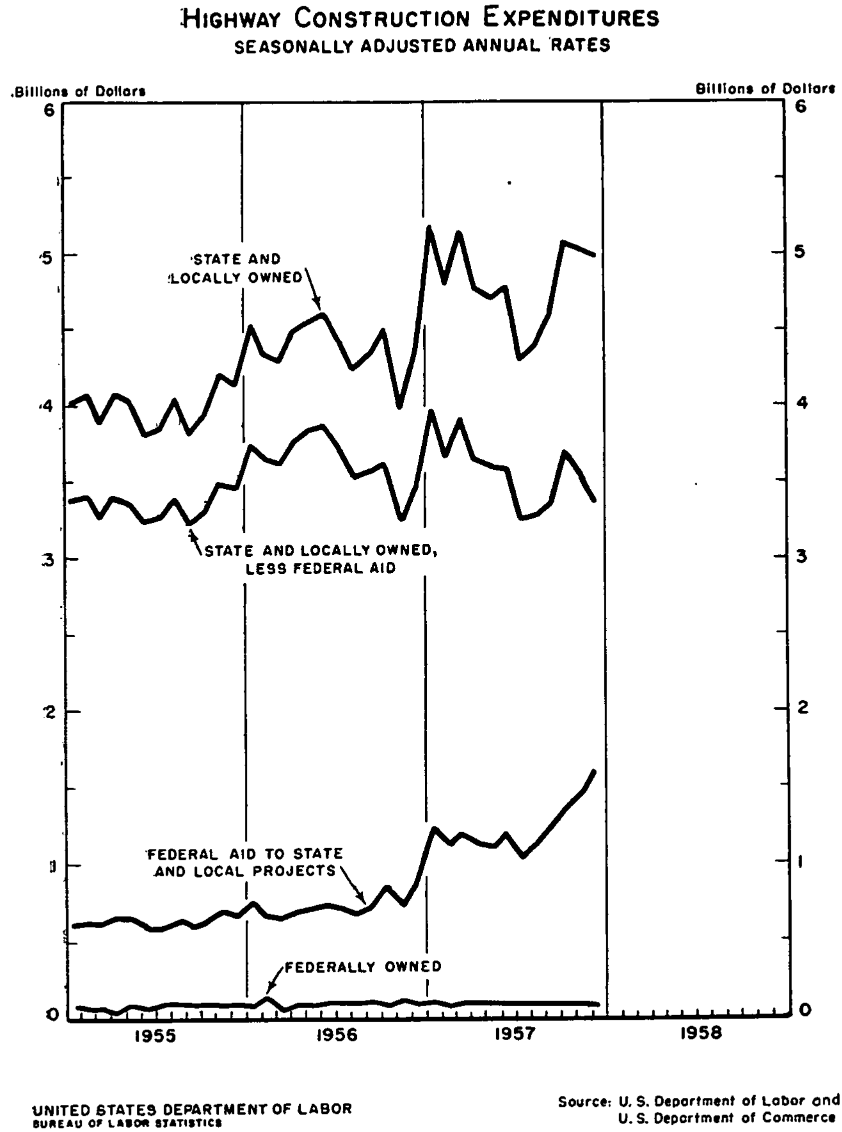
There is still a great need for upgrading and housing stock, and a large demand for housing. According to results of the national housing inventory, a fourth of all the Nation's dwelling units in December 1956 were structurally deficient or lacked plumbing facilities, and 11 percent of these had been added just since 1950. Many additional households have what may be described as satisfactory facilities, but would like to upgrade their housing. A backlog of need and demand arises, to some extent, from underbuilding in recent years of severe credit restrictions or shortage—in 1951–53 and in 1956–57.

Important elements in recent effective demand are (1) a marked change over the past decade in the income distribution of the Nation's families, because of large increases in the middle-income groups; and (2) the increasing size of American families and the changing composition of the families that are growing larger—their rising status, on the average, on the occupational and educational scale.

The degree to which these strong influences behind housing demand will be felt in 1958 depends a great deal on consumer confidence in the economy and in future earning power; and on the kinds of houses and apartments that are built—whether they meet the requirements of most families and are in the price classes they can afford.

In addition to the good possibility of more new housing in 1958, it is a fair certainty that public construction will rise. Expenditures for highways are expected to increase more in the 1957–58 period than in most postwar years. By its nature, however, highway construction will not have as broad an impact on the general economy as would the same expenditure for housing or nonresidential buildings. Fewer materials supply industries are affected, and less site labor is required. In addition, corollary spending for new furnishings and equipment is not generated to the same extent, except when business activities are attracted to or required on the highways or near rights-of-way.

Chart 12.



Some rise in private nonresidential building other than industrial plant is expected this year also, as well as continued expansion by the public utilities. In addition, State and local governments are scheduled to continue the long-term rise in expenditures for schools and many other community facilities, besides highways, in an effort to reduce still heavy backlogs of need.

Senator SPARKMAN. Next is Mr. Paradiso. We are glad to have you with us, sir.

Just proceed in your own way.

STATEMENT OF LOUIS J. PARADISO, ASSISTANT DIRECTOR AND CHIEF STATISTICIAN, OFFICE OF BUSINESS ECONOMICS, DEPARTMENT OF COMMERCE

Mr. PARADISO. Mr. Chairman, members of the committee, I have been asked to prepare a statement with respect to the Government demand.

In examining the near-term prospects for the economy, it is obviously necessary to consider the implications of Government programs on national economic activity. For this purpose I have made a translation of the budget estimates submitted earlier this year by the President for the fiscal years 1958 and 1959 into those conforming to the national income and product accounts.

Also, based on fragmentary data, I shall cover briefly the implications of revenues and expenditures of State and local governments.

The Government expenditures which are relevant in the consideration of the course of gross national product, which measures the market value of the Nation's output of goods and services, are those made for the purchase of goods and services currently produced. These include, for example, not only purchases of all types of military items but also purchases of services of civilian employees, which we measure by their compensation.

In addition to payments made for the purchase of currently produced goods and services, Government expenditures are also made for purposes which do not represent or reflect current output such as retirement, benefit payments, and unemployment compensation. These also have important impacts on the economy, to which I shall refer later in this statement.

I shall now discuss the implications of the budget on the trend of total expenditures when placed on a national income and product basis. Expenditures, when thus viewed, closely approximate those in the cash budget and broadly speaking, differ by the deductions made from the cash budget expenditures of capital transactions and all loans except those related to the Commodity Credit Corporation operations.

In the fiscal year 1958, Federal expenditures, when stated on an income and product account basis, are projected to total $81 billion. About $5 billion above the fiscal year 1957 total, and a little above the annual rate reached in the final quarter of last year. A further increase of $3 billion is implied in the fiscal year 1959, to a total of $84 billion.

The composition of these expenditures will change, however. In fiscal 1958, outlays for goods and services will rise only moderately, only half a billion dollars over the fiscal 1957 total.

While transfer payments, interest outlays, grants-in-aid, and subsidies together will be $4.5 billion higher than in fiscal year 1957.

For fiscal year 1959, however, of the $3 billion projected increase in total expenditures, $2 billion is earmarked for increased purchases of goods and services, mostly for defense. Transfer payments and grants are expected to increase but not by as much as in fiscal year 1958 while interest payments will remain unchanged.

It is interesting to note that on an income-and-product basis, which provides measures most closely reflecting the economic impact of the Government spending programs, the indicated increase in total expenditures for fiscal year 1958 to fiscal year 1959 of $3 billion compares with a rise of less than $2 billion shown in the cash budget expenditures and only $1 billion rise shown in the administrative budget expenditures. This somewhat larger rise shown on an income-and-product basis is due to the fact that in fiscal 1959 the expenditures which are for purposes of purchasing currently produced items increase more than expenditures for other purposes.

This is brought out explicitly when we examine for the period ahead, the component relevant to the gross national product; namely, Federal purchases of goods and services.

Before doing this, in order to provide some perspective, it is of interest to compare the relationship of these expenditures with the gross national product in recent years. Government purchases of goods and services, including Federal and State and local governments, comprise nearly 15 percent of the gross national product in 1950. It rose to 23 percent in 1953. And it dropped to an even 20 percent last year. This is the entire take, in other words, by the Government of our total output.

Federal Government purchases in 1950 were 8 percent of the gross national product. They reached a high of 16½ percent in 1953, and dropped to 11½ percent in 1957. The swing in the Federal purchases ratio was due to fluctuations in national security expenditures, which in 1950 comprised 6½ percent of the gross national product; increased to 14 percent in the 1952–53 period; and then dropped to 10½ percent in 1957. State and local purchase of goods and services as a proportion of the gross national product increased slowly and steadily over this period from 7 percent in 1950—that is, 7 percent of the total gross national product in 1950—to 8½ percent last year.

That is the State and local purchases of goods and services.

Now, turning to the current picture. Business prospects undoubtedly will be affected by the major shift which is occurring in Government-purchasing programs. Last October's midyear review of the fiscal 1958 budget implied some moderate cutbacks in Federal purchases through the first half of calendar 1958. Federal purchases of goods and services were on an annual rate of $50 billion in the October-December quarter of last year. They were off $1 billion from the June quarter high of that year. This was accompanied by a sharp drop in the placement of defense orders during the latter half of last year.

The January budget picture modifies the earlier prospect. The budget estimates implied the maintenance of the fourth quarter 1957 rate of Federal purchases during the first half of this year, of this calendar year 1958. And they imply a rise in fiscal year 1959. The increase implied in the budget in Federal purchases of goods and services from the $50 billion fourth quarter 1957 annual rate would be to a quarterly average of $52 billion at annual rate in fiscal 1959, or a 4-percent rise.

The budgetary figures indicate that this increase is expected to occur in outlays for defense items. The nondefense purchases remain substantially unchanged. Thus national security purchases which were at an annual rate of $45 billion in the fourth quarter 1957, are expected to be maintained at this rate through the first half of calendar 1958, and they are expected to rise by $2 billion in fiscal 1959. While these Federal outlays for goods and services are indicative of the magnitude of the step-up in the current take of the gross national product, the issuance of orders for delivery of goods and services in conjunction with these programs is also significant in view of the impact which they exert on expectations, inventories, purchasing in plant and equipment outlays.

Government defense orders have recently turned up, and a larger amount of funds is currently available for obligation. The new obligational authority proposed for the Department of Defense (military functions), for fiscal year 1959 as presented in the budget is about $2½ billion greater than the fiscal year 1958 total. Since obligations incurred in the first-half of fiscal 1958 were considerably short of the total obligation authority consistent with the fiscal 1958 programs, some acceleration of obligations in calendar 1958 over 1957 can be anticipated.

In addition to the $2 billion rise in the purchases of goods and services, the President's budget message implies little change from the fourth quarter 1957 rate for other expenditures during the first half of 1958 and an increase of $1 billion in fiscal 1959. The major part of these increases will be for grants-in-aid for the States and in transfer payments.

At this point, I should like to submit a table which presents some details of Federal expenditures for the year 1957 through fiscal year 1959, stated on the basis of the national income and product account. This table is entitled "Federal Government Expenditures, 1957 through 1959."

Senator SPARKMAN. The table will be included.

(The table referred to, follows:)

Federal Government expenditures, 1957–59 (on national income and product basis)

[Billions of dollars]

	4th quarter, 1957 (annual rate)	Actual, fiscal year 1957	Projections		
			Fiscal year 1958	Calendar year 1958	Fiscal year 1959
Total expenditures	80.5	76.2	81.0	83.0	84.0
Purchases of goods and services	50.0	49.5	50.0	50.5	52.0
Other expenditures	30.5	26.7	31.0	32.5	32.0

Source: Estimates for 1958 and 1959 are based on the budget of the U. S. Government for the fiscal year ending June 30, 1959. Data for 1957 are estimated by the Department of Commerce.

Mr. PARADISO. A brief comment on the receipts side. The Federal Government receipts are estimated on the basis of the budgetary income assumptions of a personal income of $352 billion in calendar year 1958 compared with $343 billion in calendar 1957. Corporate profits are assumed to be $42 billion in calendar 1958; about the same as in calendar 1957. These assumptions are those released by Treasury Secretary Anderson on January 13, 1958. On the income and product basis, total receipts will increase approximately $2½ billion in fiscal 1959 over fiscal 1958 total. About the same increase is anticipated for fiscal 1958 over fiscal 1957 total.

Thus, in fiscal 1957, total Federal receipts on an income and product basis were $81½ billion, and are projected to reach $86½ billion in fiscal 1959.

I might recall here that the receipts on an income and product basis cover the same categories as those in the cash budget, the major differences between the two estimates being that the income and product accounts receipts are measured on an accrual basis rather than in terms of flat cash flows, and capital transaction receipts are excluded from the national income and product account totals.

Now, I should like to submit a table which shows the Federal Government receipts and expenditures comparisons on the basis of the administrative budget, the cash budget, and on the basis of the national income and product for the fiscal years 1957, 1958, and 1959.

Now, just a word with regard to the State and local government expenditures and receipts.

Senator SPARKMAN. That table will be received and printed in the record.

(The table referred to follows:)

Federal Government receipts and expenditures: Administrative budget, cash budget, and national income and product account, 1957–59

[Billions of dollars]

	Fiscal years		
	1957, actual	1958, estimated	1959, estimated
Administrative budget:			
Receipts	71.0	72.4	74.4
Expenditures	69.4	72.8	73.9
Surplus or deficit (−)	1.6	−.4	.5
Cash budget:			
Receipts	82.1	85.1	87.3
Expenditures	80.0	84.9	86.7
Surplus	2.1	.2	.6
National income and product account:			
Receipts	81.4	84.0	86.5
Expenditures	76.2	81.0	84.0
Surplus	5.2	3.0	2.5

Source: Administrative and cash budgets from the Budget of the United States Government for the fiscal year ending June 30, 1959; national income and product account data from the U. S. Department of Commerce, Office of Business Economics, statistics for 1958 and 1959 based on estimates in the budget.

Mr. PARADISO. For the period under review, State and local government receipts and expenditures are somewhat more tenuous than the Federal estimates since there are no budgetary summaries of overall spending or revenue estimates for these bodies compared with the budget presentation for the Federal Government.

However, based on information developed by the Bureau of the Census, and studying and analyzing past trends, it appears that purchases of goods and services by these governments will continue to increase at about the same rate as in the recent past. Expenditures of State and local governments on a national income and product basis were $37 billion in fiscal year 1957. They are expected to be $40 billion in fiscal year 1958, and $43 billion in fiscal year 1959.

Purchases of goods and services by these governments, which totaled $34½ billion in fiscal 1957, are expected to rise $3 billion in each of the following 2 fiscal years.

Increased outlays for construction and employee compensation will account for almost all of these advances. State and local government revenues are projected upward in line with increased expenditures, so that the deficit on income and product accounts for these governments will be about the same as in fiscal 1957, namely, about one-half billion dollars.

The higher revenues are mainly due to increased receipts from property and sales taxes, moderate increases in personal income taxes, and higher grants-in-aid from the Federal Government.

Senator DOUGLAS. Did you say "higher grants-in-aid"?

Mr. PARADISO. Higher grants-in-aid. Grants-in-aid from the Federal Government received by these States.

Senator DOUGLAS. Isn't this the opposite of the President's program which calls for lesser grants-in-aid?

Mr. PARADISO. No; I don't think so. I think there is an increase involved in grants-in-aid for the fiscal year—I believe I am correct on that. This would be associated with the highway program.

Senator SPARKMAN. The idea is to have their panelists present their direct statements and then to question them. I suggest we make notes of these and then go into it in detail.

Mr. PARADISO. Total receipts of State and local governments on the national income and product account were \$35.5 billion in fiscal 1957 and are estimated at \$39 billion in fiscal 1958 and \$41.5 billion in fiscal 1959.

Now, in summary, it seems clear the prospect for purchases of goods and services by Federal, State, and local governments combined for the next year and a half is one of a rising trend. For the fiscal year 1957 these purchases amounted to \$84½ billion. They are expected to increase \$3 billion, to \$87½ billion in fiscal 1958, and an additional \$5 billion, to \$92½ billion, in fiscal 1959.

Senator SPARKMAN. Thank you, Mr. Paradiso. I should have mentioned that Mr. Paradiso is an Assistant Director and Chief Statistician of the Office of Business Economics in the Department of Commerce.

Next we will hear from Mr. Miles L. Colean, consulting economist, in Washington. We are glad to have you.

Proceed in your own way.

STATEMENT OF MILES L. COLEAN, CONSULTING ECONOMIST, WASHINGTON, D. C.

Mr. COLEAN. Mr. Chairman and members of the committee. The subject assigned to me is the Outlook for Private Residential Building in 1958.

When observers cast about for some strong force capable of cushioning the drop and stimulating a recovery in business, they usually light upon housebuilding as the best current possibility. I share this conclusion. Housebuilding is potentially such a force and there is good reason for believing in its ability to assist materially in keeping the current recession a mild one.

For one thing housebuilding has already had a considerable shakeout. The number of new permanent private nonfarm houses started has fallen from its most recent high of 1,310,000 in 1955 to 990,000 in

1957, a drop of 24 percent in a space of 2 years. During the same 2 years, expenditures for new private dwelling construction fell from $15 billion to $12 billion, a drop of 20 percent, in spite of an estimated 6 percent increase in the cost of residential building. In terms of constant dollars, the drop in expenditures was around 23 percent.

From any way it is viewed, this is a considerable shakeout. It took place at a time when the rest of the economy was for the most part reaching new limits of expansion. While it was taking place, the gross national product rose from a rate of $403 billion in the last quarter of 1955 to $433 billion in the last quarter of 1957, and disposable personal income went from $279 billion to $301 billion. Between the end of 1955 and the end of 1957 population increased 6 million and the net number of new nonfarm households by probably at least 2 million. In the same period around 1 million dwelling units appear to have been demolished or in other ways removed from the market. Vacancies, which never were very high since the war, dropped from 2.7 percent in late 1955 to 2.4 percent according to the most recent quarterly survey (third quarter 1957).

It seems clear that all that went on during the period of housebuilding's shakeout had the elements of a strong recovery. Another reason for believing in the potentiality of a prompt recovery is that the shakeout had an element of artificiality about it. There was little that I can see in the nature of the housing market itself that would have called for as serious a curtailment as has taken place. While it is true that, because of overstimulus resulting from the excessively easy credit available in 1955, there was some satiation of demand in 1956, it also appears that the temporary oversupply was pretty well worked off during that year. In any case, it appears that new households and withdrawals combined were well in excess of the number of new houses built during 1956 and 1957.

What, then, would produce a decline in activity amid evidences of growing demand? One outstanding feature of the period from 1955 to the present was the increasing difficulty experienced in placing insured and guaranteed mortgages at a time when their fixed interest rates were lower than the levels being freely offered by other borrowers in the investment market.

It has been my opinion that this difficulty, rather than any serious maladjustment in the housing market, has been the major cause of the slump in housebuilding. At least one reason for thinking so lies in the fact that during 1957 the number of houses financed with conventional loans, on which interest rates were not restricted, actually increased over the number financed in 1956—from 634,000 to 692,000 dwelling units—in spite of the general stringency of credit.

During the past several weeks, credit has become noticeably much easier throughout the whole range of investments. While there is ordinarily a lag of several months in trend in interest rates on mortgages behind the trend in other rates, the rapidity of the change in the general structure of rates indicates that the lag on this occasion will be less than would ordinarily be expected. The time is certainly near when the established range of yields on FHA insured mortgages will be within the range of marketable rates. Already there has been an increased interest in this area of investment. There appears, however, to be little likelihood of the trend going far enough or moving rapidly enough to enable the veterans' guaranteed home loan program to be an important element in the 1958 housebuilding program.

If my view that credit has been the most important restraining force on housebuilding during the past 2 years is right, then the prospect for 1958 will largely depend on the amount and kind of mortgage credit that will be available to builders and buyers during this year.

In 1957, conventional financing, according to the best estimates available, came to 692,000, as I have already noted. This was the largest volume of new housing conventionally financed since the 1920's. It may be expected to go higher in 1958. The amount of increase however is limited by the number of customers who can meet the relatively high downpayments that are characteristic of conventional financing—because of restrictive State legislation—or who can and are willing to make up the gap between their own resources and the conventional limits by second mortgage financing or some sort of a conditional sales arrangement. In such a year as 1958, I should be surprised to see an increase in conventionally financed units of more than 35,000, which would give a total of around 725,000 to 730,000 dwelling units from this source.

Unless the veterans' guaranteed-loan program is extended for World War II veterans with a boost in the interest rate ceiling—contingencies which I am not counting on—it would be overoptimistic to expect it to provide for many over 50,000 new dwelling units during the year. Therefore, whatever we are to have in the area of private development above 775,000 new units or thereabouts will depend upon the FHA operation.

Last year, FHA financing provided for 168,000 new units—exclusive of military housing projects, which are classed statistically as public housing. On the basis of the assumption I have made, FHA would have to raise its contribution to 225,000 to reach a level of 1 million new private starts, an increase of about one-third, and 325,000 new starts, or double its 1957 volume, to reach 1.1 million—a figure which seems to me to be well within the area of potential demand.

The question is—and it may be the most important question of 1958—can FHA attain such goals? In 1950 FHA financing provided over 486,000 starts, but, since that was the big year of rental housing activity under section 608, such a figure is not likely to be repeated. The most volume that FHA has produced in any subsequent year was just under 280,000 in 1952.

I think there is a real basis for questioning FHA's ability to repeat its 1952 performance, let alone to surpass it. For one thing, FHA enters the year with its prospective business on the decline. It has in fact been on the decline since last August when discount controls were instituted. Since that time the number of new applications for new dwelling units per month—exclusive of Capehart housing—has dropped from 28,000 to 15,000 and we have yet to see statistically the effects of the recent changes in credit conditions.

I understand that the January figure may show some upturn.

Yet this is the very season of the year in which applications should be increasing if there is to be a strong pickup of building in the spring.

More serious than this is the fact that even with a declining volume, most of the FHA offices have been unable to handle their cases within a reasonable period of time; and it may even be true that the delays and frustration attending FHA processing operations have contributed to the decline in activity. The Mortgage Bankers Association, which as you know is made up of mortgage companies right on the firing line of mortgage origination, has recently made a survey of the experience of representative members, covering a sample of 41 of FHA's insuring offices, which I have been permitted to discuss with you.

The survey shows an average processing time of nearly a month—26.5 days—for processing an application for an insured mortgage on an existing property with a range up to more than 2 months in the worst instances. For processing cases for conditional commitments to builders for new construction, which was the most important part of FHA's new construction activity, the average time reported is again about a month—29.3 days—and with some cases running beyond 2 months' time.

To convert the conditional commitment to a firm commitment to the home buyer appears to take on the average another 2½ weeks—18.9 days—with 3 weeks to 1 month being a common period, and extreme cases running longer. The whole FHA processing time for new construction actually is frequently running around 3 months. The time reported does not include situations where a subdivision review is called for. These figures are in sharp contrast to the customary 1 to 2 weeks taken in handling conventional loans and in fact to the most favorable cases reported in the MBA survey.

This condition represents a real and serious obstacle to a rapid pickup in building, especially when it is borne in mind that the FHA processing is only part—though an important part—of the time required in getting a building operation underway. It means that in many parts of the country, a builder, starting now to arrange financing, would be hard pressed to be ready for spring operations. If this is the condition now, what is likely to be the effect of an increase in business such as would be needed to reach the modest levels of activity I have mentioned? The answer, despite FHA's continuing efforts at correction, is likely to be greater congestion and inability to perform satisfactorily.

FHA's problems are several, and, though they are not beyond correction, they are in the main beyond correction by administrative action alone.

(1) FHA is inadequately staffed to do its job because of the limitations placed by Congress on its ability to spend its own income for administrative purposes.

(2) Much of the time of its officials is consumed in administering, or attempting to administer, numerous special purpose programs which contribute relatively little to the total of housing activity.

(3) The FHA examination procedure itself is exceedingly complex and cumbersome, partly because of administrative incrustations over the years and partly because of the statute itself.

The great advantage of the VA guaranteed loan system was its simplicity. And as a result of its simplicity, it was exceedingly responsive to demand when changes in the money market made its rigidly administered rates attractive. Thus in 1954, it almost doubled its 1953 volume of starts, and, in 1955, its new house volume rose another 30 percent.

Under existing circumstances FHA cannot be expected to accomplish such feats. Unless it is quickly able to enlarge its staff and simplify its operation so that it can substantially increase its examining capacity and decrease its examining time, it will indeed do well to raise its volume enough to maintain last year's total production.

If FHA should do no more than this, house building, instead of providing a real stimulus to the economy, would at best be neutral. I do not believe that the considerations I have mentioned have been given sufficient weight in the hopeful view that many have taken of the housing outlook. They are the basis for my own forecast of only a slight increase in the total number of new private dwelling units to be started this year, in spite of my conviction that the market could absorb a good deal more, if our mortgage-insurance mechanism were effectively energized.

Thank you.

Senator SPARKMAN. Thank you, Mr. Colean.

Next we have Mr. Douglas Greenwald, chief statistician of the department of economics, McGraw-Hill Publishing Co., Inc. Mr. Greenwald, we are glad to have you with us. Proceed in your own way, sir.

STATEMENT OF DOUGLAS GREENWALD, CHIEF STATISTICIAN, DEPARTMENT OF ECONOMICS, McGRAW-HILL PUBLISHING CO., INC.

Mr. GREENWALD. My assignment as a member of this panel is to discuss the outlook for private investment in new plants and equipment. My contribution will be based primarily on surveys of business plans for new plants and equipment and of new orders for capital goods carried out by the department of economics of the McGraw-Hill Publishing Co. We have been doing survey work in the capital investment field for over 10 years. My statements on current developments in investment are based on our surveys. Judgments about the future outlook for investment are mine, personally, and do not represent the judgments of the McGraw-Hill Publishing Co.

As you know, the capital goods segment is an important area of the economy. Last year it accounted for 60 percent of gross private domestic investment. In 1956 and 1957, capital spending has set new records, and accounted for 8.5 percent of the gross national product. In the 7 years prior to 1956, the share averaged 7.5 percent, and in the 4 years prior to World War II it averaged 6 percent.

There are three important points which I should like to make about capital investment. The first is that investment is high and will continue high. The second is that the current direction of expenditures on new plants and equipment is down. The third, and final point is, that industry is now spending less on new capacity and more on new cost-saving processes and on research and development of new products.

1. THE LEVEL

The level of investment in 1956 and 1957 was at an alltime high mark. The level of capital expenditures in 1958 and 1959 will be high, too, higher than in any year before 1956. Planned expenditures for 1958, if carried out, will make this year the highest on record for physical volume as well as dollar volume of investment in new plants and equipment.

2. THE DIRECTION

There is no doubt as to the direction capital investment is taking in 1958. It is going down; but it is down from an extraordinarily high level. The McGraw-Hill preliminary survey of business plans to invest in new plants and equipment was completed late in October. It indicated that total business investment in new facilities will be down about 7 percent from 1957. Business expects to spend $36.1 billion on new plants and equipment in 1958 compared with $38.6 billion in 1957 and $36.6 billion in 1956.

These figures are based on the McGraw-Hill definition of business capital expenditures, which differs somewhat from that of the United States Department of Commerce and the Securities and Exchange Commission.

The important point is that after spending more than $310 billion on improvements and expansion of plants and equipment since the end of World War II, the business community still plans to invest about $36 billion this year.

There will be important variations from the average decline of 7 percent. Investment in manufacturing is expected to be off by 16 percent. The electric-utility industry plans to spend 8 percent more money on new facilities in 1958 than in 1957. Even in the manufacturing area, where the overall drop is pronounced, some industries—electrical machinery and petroleum refining—plan to increase spending on new facilities.

Here is a table which shows the principal results of our preliminary survey on capital expenditures. The full report is attached.

Senator SPARKMAN. The table will be printed in the record.

(The table referred to follows:)

Plans for capital spending

[Millions of dollars]

Industry	1956 actual [1]	1957 estimated [1]	1958 planned	1957–58 percent change
All manufacturing	$12,787	$13,904	$11,614	−16
Machinery	1,078	1,257	1,047	−17
Electrical machinery	603	653	738	+13
Autos, trucks and parts	1,689	1,194	836	−30
Transportation equipment (aircraft, ships, railroad equipment)	440	596	501	−16
Other metalworking	887	866	623	−28
Chemicals	1,455	1,795	1,723	−4
Paper and pulp	801	847	644	−24
Rubber	201	208	193	−7
Stone, clay and glass	686	604	552	−9
Petroleum refining	711	889	933	+5
Food and beverages	799	828	749	−10
Food	580	609	527	−13
Beverages	219	219	222	+1
Textiles	465	397	306	−23
Miscellaneous manufacturing	1,035	969	773	−20
Petroleum industry	5,531	5,962	6,038	+1
Mining	443	460	375	−18
Railroads	1,231	1,457	1,064	−27
Other transportation and communications	4,229	4,530	4,575	+1
Electric and gas utilities [2]	4,895	6,254	6,441	+3
Commercial	8,236	6,955	[3] 6,885	[3] −1
All business [4]	36,641	38,633	36,059	−7

[1] U. S. Department of Commerce, Securities and Exchange Commission, McGraw-Hill Department of Economics.
[2] Gas utilities based on survey by American Gas Association.
[3] Figure based on large chain, mail order and department stores and other large commercial companies.
[4] Petroleum refining, included under both manufacturing and petroleum industry, is counted only once in the total.

Mr. GREENWALD. The expected decline in investment is confirmed by McGraw-Hill indexes of new orders for machinery and industrial construction. Orders for machinery, except electrical, in the last 3 months of 1957 averaged 11 percent below the fourth quarter of 1956.

New orders for machinery in the October–December period of last year declined 21 percent, after seasonal adjustment, from the July–September quarter.

The McGraw-Hill index of new contracts for industrial construction for the fourth quarter of 1957 was off by 52 percent from the fourth quarter of 1956. And between the third and fourth quarter of 1957, this index declined about one-third. The actual drop in industrial construction will not be so steep as the decline in new contracts would indicate because there is still a relatively large backlog of long-term industrial construction projects already under contract.

3. THE SHIFT IN THE PURPOSE OF INVESTMENT

Companies plan to spend more on replacement and modernization of plants and equipment in 1958 and 1959 than on new capacity to produce existing products. Since the end of the Korean war, manufacturers have been adding capacity at the rate of about 6 percent per year, while manufacturing output has increased at less than half that rate. Our recent preliminary survey showed that manufacturers, on the average, were operating at 82 percent of capacity in the month of September. At the end of 1956, manufacturing companies were operating at 86 percent of capacity. At the end of 1955, only 2 years ago, manufacturers were operating at 90 percent of capacity, the rate at which they report they actually prefer to operate. Since September, manufacturing production, as measured by the Federal Reserve Board index, has declined about 5.5 percent while some additional capacity has been put in place.

I estimate that the present operating rate is somewhere in the neighborhood of 75 percent.

Business will carry out a bigger dollar volume of research and development work in 1958 than in 1957, despite its plans to cut capital investment. Our survey suggests that research and development expenditures in 1958 will run 5 percent to 10 percent higher than the $7.3 billion spent in 1957. Only 5 percent of the reporting companies in our survey expect to cut spending on research in 1958. More than two-fifths of the companies plan to increase these expenditures, and 54 percent plan to spend about the same amount on research and development this year as they did last year. These expenditures on research and development are being made by companies to develop a broad range of new processes and new products. New developments since the early 1950's are accounting for a major share of investment planned for 1958 and 1959. And research expenditures totaling nearly $13.5 billion for 1956 and 1957 will result in high level capital investment in the early 1960's.

Another reason for expecting large expenditures on plants and equipment in 1958 and 1959 is the continued need for industry to modernize its facilities. Modernization means cost cutting. Industry will be especially keen to cut costs during the next 2 years, with profits and profit margins being squeezed all along the line.

FORECAST FOR 1958–59

We do not carry out quarterly surveys of business' plans. But it seems probable from both our preliminary survey results and our current new orders indexes that investment will be declining throughout the calendar year, and at least into the first half of 1959. On the basis of our survey data, I estimate that the fourth quarter 1958 rate of capital expenditures will be about 10 to 15 percent below the fourth quarter of 1957.

Our survey also provides a clue to the expected trend in 1959. It showed that 28 percent of the reporting companies plan to cut investment in 1959 below the 1958 level. One-fifth of the companies expect to increase spending. And the remainder, more than half, expect to spend the same amount in 1959 as in 1958.

As I stressed earlier, I believe capital expenditures will decline into 1959, but the magnitude of the decline from the all-time peak to the low point should not exceed 15 to 20 percent.

One reason for expecting a relatively high level of capital investment in 1958 and 1959 is the increased spending on research and development.

For more conclusive evidence of what will happen to capital expenditures in 1958, we must await the results of the next quarterly survey of the United States Department of Commerce and the Securities and Exchange Commission, which will cover the full year 1958, and the regular annual McGraw-Hill survey, which will cover the years 1958 through 1961.

Both of these surveys will be released early in the spring.

But from all the statistical evidence now at hand, it seems probable that industry's expenditures on new plants and equipment for the year 1958 will be down no more than 10 percent and may well be off only 7 percent, as indicated by the preliminary McGraw-Hill survey. We cannot count on any significant lift to the overall economy from the capital goods area for at least 18 months. But we can expect that the current decline will moderate and that investment will remain relatively high by historical standards.

(McGraw-Hill's fall survey, 1958–59 report, follows:)

McGRAW-HILL'S FALL SURVEY—PRELIMINARY BUSINESS PLANS FOR CAPITAL SPENDING IN 1958–59

(Prepared by McGraw-Hill Department of Economics)

[Millions of dollars]

	1956 actual [1]	1957 estimated [1]	1958 planned	1957–58 percent change
All manufacturing	$12,787	$13,904	$11,614	−16
Petroleum industry	5,531	5,962	6,038	+1
Mining	443	460	375	−18
Railroads	1,231	1,457	1,064	−27
Other transportation and communications	4,229	4,530	4,575	+1
Electric and gas utilities [2]	4,895	6,254	6,441	+3
Commercial	8,236	6,955	[3] 6,885	[3] −1
All business [4]	36,641	38,633	36,059	−7

[1] U. S. Department of Commerce, Securities and Exchange Commission, McGraw-Hill department of economics.
[2] Gas utilities based on survey by American Gas Association.
[3] Sample based on large chain, mail order, and department stores and other large commercial companies.
[4] Petroleum refining, included under both manufacturing and petroleum industry is counted only once in the total.

HIGHLIGHTS

1. Business now plans to reduce capital expenditures in 1958, by 7 percent overall as compared with 1957. And most companies plan to stay at their reduced levels in 1959. However, the level now planned for 1958–59 is still high compared to most previous years. The 1958 total is 20 percent more than actual spending in 1955 and only slightly less than spending in 1956.

2. Most companies plan to maintain or increase expenditures on research and development in 1958. About one-third of those reporting plan to make substantial capital expenditures, after 1959, as a result of these research programs. And this includes many of the larger companies that have a heavy weight in the spending total.

3. The drop in 1958 capital expenditures is concentrated in manufacturing—where plans call for a 16 percent reduction next year. Offsetting this is a planned increase of 3 percent by electric and gas utilities and small increases by the petroleum industry, and by the transportation and communications industries (other than railroads).

However, almost all major industries—and all size groups of companies—are now planning to spend less in 1958 than they reported earlier, in our spring, 1957, survey.

4. The main reason for the drop in manufacturing expenditures is the sharp increase in manufacturing capacity—while production has been leveling out. On the average, manufacturing industries operated at 82 percent of capacity in September.

5. The most frequent reports of increases in research are in the paper, electrical machinery, chemical, and rubber industries. And these industries also show especially strong intentions for capital spending based on research, in the years after 1959.

6. Most large companies reported their plans in late October.

These are the highlights of the preliminary survey of business' plans for new plants and equipment conducted in September and October by the McGraw-Hill department of economics. Plans reported in this survey are preliminary, because many companies do not complete their budget reviews until later. But in the past, these preliminary surveys have accurately shown the trend of capital spending. Present tentative plans for 1958 and 1959 will be rechecked, and the later plans reported in more detail, in the regular annual McGraw-Hill survey of capital spending plans, to be made next spring.

Capital spending plans

MANUFACTURING COMPANIES

[Millions of dollars]

	1956 actual [1]	1957 estimated [1]	1958 planned	1957–58 percent change
Iron and steel	$1,336	$1,857	$1,411	−24
Nonferrous metals	601	944	585	−38
Machinery	1,078	1,257	1,047	−17
Electrical machinery	603	653	738	+13
Autos, trucks and parts	1,689	1,194	836	−30
Transportation equipment (aircraft, ships, railroad equipment)	440	596	501	−16
Other metalworking	887	866	623	−28
Chemicals	1,455	1,795	1,723	−4
Paper and pulp	801	847	644	−24
Rubber	201	208	193	−7
Stone, clay and glass	686	604	552	−9
Petroleum refining	711	889	933	+5
Food and beverages	799	828	749	−10
Food	580	609	527	−13
Beverages	219	219	222	+1
Textiles	465	397	306	−23
Miscellaneous manufacturing	1,035	969	773	−20
All manufacturing	12,787	13,904	11,614	−16

NONMANUFACTURING INDUSTRIES

	1956 actual [1]	1957 estimated [1]	1958 planned	1957–58 percent change
Petroleum industry	5,531	5,962	6,038	+1
Production [2]	4,066	4,188	4,272	+2
Transportation [3]	261	392	337	−14
Refining	711	889	933	+5
Marketing	426	430	434	+1
Other	67	63	62	−2
Mining	443	460	375	−18
Coal	257	224	146	−35
Iron ore [4]	45	68	75	+10
Nonferrous	86	103	79	−23
Nonmetallic [5]	55	65	75	+15
Railroads	1,231	1,457	1,064	−27
Other transportation and communications	4,229	4,530	4,575	+1
Electric and gas utilities [6]	4,895	6,254	6,441	+3
Commercial	8,236	6,955	[7] 6,885	[7] −1

[1] U. S. Department of Commerce, Securities and Exchange Commission, McGraw-Hill department of economics.
[2] Does not include bonus payments for leases.
[3] Includes oil pipelines; does not include gas pipelines, included under gas utilities.
[4] Excludes taconite.
[5] Excludes mining by manufacturing companies.
[6] Gas utilities based on survey by American Gas Association.
[7] Sample based on large chain, mail order, and department stores and other large commercial companies.

CAPITAL SPENDING IN MANUFACTURING

Almost every manufacturing industry plans to reduce its capital expenditures in 1958. One exception is the electrical machinery industry—which plans a 13-percent increase. Companies that make heavy electrical apparatus, communications equipment and electronics for defense purposes, are operating these plants at a higher rate of capacity than is true in manufacturing generally.

Capital spending is holding up relatively well in the chemical process industries. Plans for 1958 are up 5 percent in petroleum refining, and off only 4 percent in chemicals, 7 percent in rubber and 9 percent for stone, clay and glass.

However, there are very large declines reported for the basic materials industries: 24 percent for steel, 38 percent for nonferrous metals, and 24 percent for paper and pulp. In metalworking—as foreshadowed by the recent decline in machine tool orders—planned spending is off sharply. The auto industry plans to spend 30 percent less next year. Other transport equipment makers (which include the aircraft industry), are cutting investment 16 percent; machinery, 17 percent; and other metal-working, 28 percent. In all of these lines, excess capacity has been increasing.

The food, textile, and miscellaneous manufacturing industries show declines of 10 percent to over 20 percent in planned spending for 1958.

There is some evidence that capital expenditures may stabilize in 1959 from the plans of manufacturing companies for 2 years ahead. Only 23 percent of those reporting now plan a further reduction in capital spending for 1959. At this time last year, 32 percent planned to cut 1958 below 1957. On the other hand, 77 percent of those reporting now plan to maintain or increase expenditures in 1959. This compares with 74 percent in October 1955, and only 68 percent of those reporting last year, whose plans were holding up for 2 years ahead.

Capital spending plans of selected industries

	1957–58 percent change		*1957–58 percent change*
Agricultural machinery	+12	Rayon chemicals	−31
Construction and mining machinery	−20	Fertilizers	−1
Office machinery	−22	Cement	−60
Appliances—radio and TV	−9	Glass	−2
Aircraft	−24	Brewing	−9
Railroad equipment	+11	Baking	−15
Shipbuilding	+8	Canning	−23
Heating apparatus	−21	Flour milling	0
Instruments	−44	Meat	−21
Drugs	+13	Tobacco	−35
Soaps, fats, and oils	−1	Broadwoven textiles	−22

NONMANUFACTURING INDUSTRIES

The electric and gas utilities are planning another increase in expenditures in 1958—after spending more than $6 billion on new plants and equipment in 1957. However, the increase scheduled for next year is at a slower rate, only 3 percent. And this may reflect rising costs. In 1959 almost half the reporting electric utilities plan to reduce capital expenditures, compared with 31 percent reporting plans for the same level and 24 percent planning an increase. This may mean that some original plans for 1959 are now being stretched into 1960. In the case of gas utilities, the uncertain money market has affected planning for new pipeline projects, as postponements are reported for both 1957 and 1958.

The petroleum industry—which also spent about $6 billion in 1957—likewise plans a small increase in 1958. Slightly larger drilling expenditures, more tankers, and more refinery expenditures (some of them carried over from 1957) account for the stepup. The oil industry figure, particularly for the transportation division, may actually be somewhat larger for 1958 than shown by our survey—because it was not possible to get all the plans for new oil pipelines this far in advance.

Expenditures in mining show a sharp drop—except for the companies mining iron ore. Plans for iron mining are up 10 percent for 1958. Exact figures for spending on beneficiation plants, for taconite and other low-grade ores, are not yet available. But the principal companies in the field expect to reduce capital expenditures somewhat in 1958.

Railroads plan to cut back capital spending by 27 percent in 1958. They cite lower earnings, high cost of borrowing, and declining freight traffic as the reasons. In the other transportation and communications group, a small overall increase results from the planned deliveries of merchant ships and new airliners. Plans for trucking companies indicate a continuing decline in expenditures for new equipment—although not as much as the very large decline experienced this year. Communications spending is still at a high level.

Commercial business firms reduced their expenditures sharply in 1957 and plan some further reduction next year. For the McGraw-Hill sample of large chainstores, department stores, banks and insurance companies, the decline is gradual in 1958. However, small trade and service establishments—which account for most of the final figure reported by the Department of Commerce—cut back sharply in 1957.

The sheer size of the drop in 1957 suggests that 1958 probably will not be off as much, for the commercial group. But there is no sign as to when expenditures will start up again. Almost twice as many of the big commercial firms plan to reduce spending in 1959 as plan to increase.

(N. B.—The large companies sampled by McGraw-Hill account for the bulk of commercial construction, and much of the market for advanced types of office machinery. However, the small trade and service companies purchase a larger share of store equipment and furnishings, service industry machinery, light trucks and business automobiles.)

CAPACITY AND RATES OF OPERATION

For the first time since we began asking the question in 1955 every manufacturing industry is now operating at a lower rate of capacity than it generally prefers. The average for all manufacturing was 82 percent of capacity in September 1957, according to the present survey. This compares with 90 percent of capacity reported on previous surveys as the preferred average.

(N. B.—The companies reporting to McGraw-Hill are generally the larger companies in their respective industries—and so may be operating at a little higher rate than some others. In a few industries, seasonal factors raised the operating rate. However, generally speaking, September is a normal month for comparison with past data.)

In December 1955, manufacturing industry was operating at an average rate of 92 percent of capacity; in December 1956, at 86 percent; in September 1957, at 82 percent. Thus the operating rate has dropped from a point that required many companies to use high-cost facilities to one that leaves modern capacity idle. And this explains the letup in manufacturers' capital spending.

However, there are no industries reporting really depressed levels of business. The lowest figure is for the transportation equipment industry: 77 percent of capacity. The auto industry—reporting for the period just prior to model changeover—was at 79 percent. Most other industries were operating in the low 80's. The highest operating rates were reported for paper, rubber, and petroleum refining—industries that were all near 90 percent of capacity in September.

Preliminary investment plans for 1959 [1]

	Percent of companies answering		
	Up	Down	Same
Iron and steel	17	48	35
Nonferrous metals	18	46	36
Machinery	24	17	59
Electrical machinery	27	24	49
Autos, trucks, and parts	23	15	62
Transportation equipment (aircraft, ships, railroad equipment)	9	31	60
Other metalworking	22	18	60
Chemicals	17	28	55
Paper and pulp	39	22	39
Rubber	27	0	73
Stone, clay, and glass	17	24	59
Petroleum refining	(2)	(2)	(2)
Food and beverages	14	28	58
Textiles	18	16	66
Miscellaneous manufacturing	17	19	64
All manufacturing	20	23	57
Mining	9	57	34
Petroleum [3]	36	21	43
Railroads	8	42	50
Other transportation and communications	50	23	27
Electric utilities	24	45	31
Commercial	19	33	48
All business	20	28	52

[1] Compared with 1958.
[2] Not available.
[3] Includes all reporting petroleum companies, breakdown by division not available.

Capacity—Rates of operation

	Actual [1]	Preferred [1]
	Percent	*Percent*
Iron and steel	84	96
Nonferrous metals	80	89
Machinery	80	89
Electrical machinery	83	91
Autos, trucks, and parts	[2] 79	(3)
Transportation equipment (aircraft, ships, railroad equipment)	77	85
Other metalworking	80	88
Chemicals	82	92
Paper and pulp	90	95
Rubber	88	90
Stone, clay, and glass	85	86
Petroleum refining	90	95
Food and beverages	80	90
Textiles	82	93
Miscellaneous manufacturing	82	88
All manufacturing	82	90

[1] Actual operating rate in September 1957; preferred rate at end of 1956.
[2] In month prior to model changeover.
[3] Not available.

RESEARCH AND DEVELOPMENT

Although industry is reducing capital spending in 1958, most companies plan to maintain or increase research expenditures. In manufacturing, 54 percent of the reporting companies will spend about as much on research in 1958 as in 1957. Only 5 percent plan to cut, and 41 percent plan to increase these expenditures.

In the chemical process industries—and in the food and textile industries—scarcely any companies are reducing research spending. And over half the chemical, paper, and rubber companies are stepping up research. Two-thirds of the electrical equipment companies are increasing research, while only 2 percent are cutting back.

However, the effects of changes in the defense program are showing up in planning by the aircraft industry. Only 18 percent of the aircraft and parts companies plan higher research spending next year. And 27 percent are cutting back. This is twice the proportion in any other industry. In the same defense area, a relatively large number of companies making scientific instruments report reductions in research programs.

In the chemical, electrical, and instrument industries, most companies expect their present research programs to lead to substantial capital expenditures after 1959. And this is also true of about half the companies in the aircraft, petroleum, and primary metals industries. In the aggregate, a little more than one-third of all manufacturing companies expect research to create significant opportunities for capital spending in the years after 1959.

As indicated above, these reports are most frequent in industries with a relatively high capital investment factor. Although 62 percent of all companies reporting said research would not lead to substantial capital expenditures, many of these are small companies in industries—like food and textiles—where total investment is not as large.

HOW THE SURVEY WAS MADE

This survey, made by the McGraw-Hill department of economics, is based on industry's replies to a questionnaire received during late September and October, and thus represents industry's thinking at that time of year.

Companies that participate in the McGraw-Hill survey are usually the larger companies in their industry. This fact may affect the results of the survey. However, in each successive survey a concerted effort is made to include more medium-sized and smaller companies. More such companies cooperated in this survey than in any previous year.

Companies reporting in the survey employ more than 50 percent of all workers in the group of industries where capital investment is highest. This group includes oil, utilities, railroads, chemicals, machinery, autos, steel and nonferrous metals. In industries where coverage is not so complete, companies are carefully selected to provide a representative cross section of their industry. Companies included in the industrial sample employ a total of more than 9.4 million workers, about 44 percent of total employment in all industry.

Commercial business—trade, finance and services—is the one major field of capital investment with a lower level of coverage. The commercial sample is made up primarily of large chainstores, mail order, and department stores, as well as large insurance companies and banks.

STATISTICAL NOTES

Expenditures have been classified to—

1. Provide a mining figure that does not (like the official Government figure) include oil well drilling, but which does include most of the mining expenditures by manufacturing companies.

2. Provide a petroleum figure that covers the entire petroleum industry.

As a result of these differences in classifications, most of the dollar estimates reported in this survey, are not directly comparable with statistics of capital expenditures published by the United States Department of Commerce and the Securities and Exchange Commission.

Capital spending plans of gas utilities were made available by the American Gas Association from a survey of this industry. Correspondents of Business Week personally interviewed many company executives, as did members of the McGraw-Hill department of economics. Other McGraw-Hill magazines helped in conducting the survey in their own fields.

Research and development expenditures for 1958 (compared with 1957)

	Percent of companies answering—		
	Higher	Lower	Same
Primary metals	34	9	57
Machinery	43	8	49
Electrical equipment	64	2	34
Aircraft and parts	18	27	55
Fabricated metal products and ordnance	44	0	56
Professional and scientific instruments	33	11	56
Chemicals and allied products	57	0	43
Paper and allied products	65	4	31
Rubber products	55	0	45
Stone, clay and glass	22	0	78
Petroleum products	33	0	67
Food and kindred products	40	3	57
Textile mill products and apparel	25	3	72
Other manufacturing [1]	37	8	55
All manufacturing	41	5	54
Nonmanufacturing industry	29	5	66
All industries	38	5	57

[1] Includes autos, tobacco, lumber and wood products, furniture, printing and publishing, transportation equipment other than aircraft and autos, and miscellaneous manufacturing industries.

Will your research and development program lead to substantial expenditures on new plants and equipment in 1959 or later?

	Percent of companies answering—	
	Yes	No
Primary metals	45	55
Machinery	28	72
Electrical equipment	60	40
Aircraft and parts	50	50
Fabricated metal products and ordnance	31	69
Professional and scientific instruments	59	41
Chemicals and allied products	65	35
Paper and allied products	42	58
Rubber products	91	9
Stone, clay and glass	35	65
Petroleum products	50	50
Food and kindred products	38	62
Textile mill products and apparel	18	82
Other manufacturing [1]	26	74
All manufacturing	38	62
Nonmanufacturing industry	38	62
All industries	38	62

[1] Includes autos, tobacco, lumber and wood products, furniture, printing and publishing, transportation equipment other than aircraft and autos, and miscellaneous manufacturing industries.

McGraw-Hill serves these growth areas:

Appliance-radio-TV: Electrical Merchandising
Atomic energy: Nucleonics
Aviation:
    Aviation Week
    Aviation Week Airport Directory
Chemical processing:
    Chemical Week
    Chemical Engineering
Coal mining:
    Coal Age
    Coal Mine Directory
    Keystone Coal Buyers Manual
Construction:
    Construction Methods & Equipment
    Engineering News-Record
    Construction Daily
Distribution, industrial:
    Industrial Distribution
    Directory of Industrial Distributors
Electrical construction and maintenance: Electrical Construction & Maintenance
Electrical goods:
    Electrical Wholesaling
    Directory of Verified Electrical Wholesale Distributors
Electrical utilities:
    Electrical World
    Power
    Electrical West
    Directory of Electric Utilities
Electronics: Electronics
Food: Food Engineering
Instruments and controls: Control Engineering
Management: Business Week
Manufacturing plant operation: Factory Management & Maintenance
Metal mining:
    Engineering and Mining Journal
    E. & M. J. Metal and Mineral Markets
Metalworking: American Machinist
Petroleum:
    Petroleum Week
    National Petroleum News
    Platt's Oilgram News & Price Services
    Oil Price Handbook
Power:
    Power
    Electrical World
    Electrical West
Product design, research and development: Product Engineering
Purchasing—business and industrial: Purchasing Week
Textiles: Textile World
Trucks and buses: Fleet Owner

And international business, as well:

Ingeniería Internacional Industria
Ingeniería Internacional Construcción
Management Digest
The American Automobile
El Automóvil Americano

Senator SPARKMAN. Thank you, Mr. Greenwald.

Next will be Mr. Myron S. Silbert, vice president, Federated Department Stores, Inc., of Cincinnati, Ohio. Mr. Silbert, we are glad to have you with us.

STATEMENT OF MYRON S. SILBERT, VICE PRESIDENT, FEDERATED DEPARTMENT STORES, INC., CINCINNATI, OHIO

Mr. SILBERT. The two topics, "Inventories" and "Consumer Demand," both represent important segments of the total economy.

Let's consider consumer demand first, because it is the larger, representing 64.6 percent of the gross national product in the third quarter of 1957.

Consumer demand as a whole, including both goods and services, has a substantial degree of stability. In the current recession, consumer expenditures for goods and services are feeling some effect of the turndown in the economy, but in total have held their ground fairly well.

This relative stability is due to the fact that although unemployment has increased sharply, the total number employed in January 1958 is estimated to be between 1 and 2 percent less than a year ago. Then, in addition, there are many built-in stabilizers in our economy, such as social security, unemployment compensation, pension funds, substantial accumulated savings, Federal deposit insurance, and others.

In November and December combined, the dollar sales of United States department stores were eight-tenths of 1 percent behind the same 2 months of 1956. In January 1958, for 3 weeks, dollar sales were about 2 percent above January of 1957.

There has been only a slight increase in the price levels of department store goods between this recent holiday season and that of the year before, therefore, the trend in unit sales is only slightly behind the dollar sales.

Now, looking at various types of goods, we see the following recent sales results in the November-December period:

Food sales	5 percent above last year.
Apparel sales	Plus 2 percent.
Major household applicances	Minus 5 percent.
Radio-phono-TV	Plus 4 percent.
Automotive sales (new and used cars and auto parts)	Minus 17 percent.

(In January 1958, the early reports indicate a larger drop in dollar volume of auto sales.)

Total retail sales	Plus 2 percent.

Now, as to the outlook for the coming year. One should be timid about forecasting. In our work we make our estimates for a half year at a time and I would like to present those to you very humbly.

The figure that we are estimating is for total goods and services, not just department store or retail store sales alone.

I am basing my estimate on the fact that in the other postwar recessions this total of personal consumption expenditures has held up well. This was so in 1949 and also in 1954.

Part of the results depended on the amount of price change. In 1949, the price change in the whole area of personal consumption expenditures was less than 1 percent even though the price of commodities dropped sharply. In 1954, there was even a 1 percent increase in prices applied to the personal consumption goods sector.

In 1958, I do not expect any important price change in the total segment of personal consumption expenditures.

My estimate for the first 6 months of 1958 is that the dollar amount of total personal consumption expenditures of all goods and services will hold close to the first half of 1957.

And for estimates as to various types of expenditures and their change in the first half of 1958 compared to the first half of 1957:

Food sales will increase.

Service expenditures will increase. (One factor is the climbing price of shelter.)

Sales of apparel and general merchandise may be 2 percent or so behind 1957.

Sales of major household appliances may be even a bit more behind the dollar total of 1957 than soft goods.

Sales of new and used cars have started out behind the previous model year. I am not close to that field and can do no more than refer to these recent results.

This total estimate for consumer expenditures does not mean that they will be unmarked by the recession. Normally, these expenditures increase about 1 percent each quarter or about 4 percent a year, and the impact of this recession is to eliminate the normal growth.

Now, let us discuss another factor in the economy—the effect of change in inventories.

This factor depends on the businessman—and he is not as stable in his operations as is the consumer. But he has shown improvement in his inventory operations, and fluctuations are not as great as in past years.

Part of this present recession is due to an inventory correction. This correction has been going on for some time. We can see evidence of it in the falling off since early 1957 of new orders placed with manufacturers. Actual inventories themselves have turned down beginning with September.

Manufacturers' inventories at the end of November were 1.93 times November shipments adjusted for seasonal variation. In November 1956, a year before, this ratio was 1.83 and in January 1956 it was 1.69, and the average for the 3-year period 1954, 1955, and 1956, was 1.78. This ratio of manufacturers' inventories to sales has climbed steadily over the past 23 months.

The corresponding wholesale ratio has also climbed and the stock to sales ratio for retail stores has actually decreased from the year 1956 to the year 1957.

The corresponding wholesale ratio of inventories to sales was 1.17 in November. In November 1956, it was 1.10 and in January 1956, 1.03. The 3-year average of this ratio for 1954, 1955, and 1956 was 1.06.

For all retail stores—a combined figure for all types of retail outlets—autos, durables, nondurables, apparel, department stores, and others, the inventory to sales ratio in November 1957 was 1.47, only slightly above the 1.43 figure for November 1956 and below the 1.55 figure for January 1956. It was also below the 1.53 average for 3 years—1954, 1955, and 1956.

In the manufacturing field, the present downward adjustment of inventory is substantial in steel and in nonferrous metals. There has been curtailment of production in cotton goods—in order to reduce inventories. An important bulge is in inventories of petroleum products which are substantially heavier than a year ago.

If consumer demand holds as we have estimated, curtailment of production will ultimately bring inventories back into line. It is hard to estimate how long this period of correction may be. In the past, the curtailment has not only eliminated the excess, but continued beyond that until inventories got too low.

In the past, during a period of curtailment of inventories, both retailers and manufacturers have let important basic items run down in their inventories and they have lost sales because of being out of stock.

If retailers and manufacturers were, for their own business welfare, to become aggressive about keeping their necessary basic inventory items in stock, they would not only aid their sales, but could contribute to an earlier checking of the recession. That is a step that business might take to help itself.

In the second and third quarters of 1957, inventory was being accumulated at a rate of $2 billion per year. That is in all of business—manufacturing, wholesaling, and retailing. In the fourth quarter, inventory was probably being decreased at a rate larger than the previous increase, probably at the $3 billion annual rate estimated by the Council of Economic Advisers. This shift from increase to decrease contributed to the cut in production and employment during the fourth quarter. The reduction is continuing in the first quarter of 1958.

If business merely brought inventories to a normal position and not below, this negative factor could be brought to a halt without being unnecessarily prolonged.

Senator SPARKMAN. Thank you, Mr. Silbert.

Next, and last, is Mr. Oris V. Wells, Administrator, Agricultural Marketing Service, Department of Agriculture. Mr. Wells, we are glad to have you with us again.

STATEMENT OF ORIS V. WELLS, ADMINISTRATOR, AGRICULTURAL MARKETING SERVICE, UNITED STATES DEPARTMENT OF AGRICULTURE

Mr. WELLS. At the 35th Annual Agricultural Outlook Conference, 2 months ago, we summarized the agricultural outlook for 1958 as follows:

(1) Farmers will get about the same average prices as in 1957; and may I say a recent review has led me to believe that this is as good a statement as I can give the committee.

(2) Agricultural output will remain high, and could well set a new record, depending upon weather.

(3) Further increases in production expenses may largely offset any rise in gross farm income, leaving farm operators' net realized income from farming about the same as in 1957.

(4) Including income from nonfarm sources, principally wages and salaries from off-farm employment, and with decreasing numbers of persons on farms, this could mean a slight gain in per capita income of farm people.

(5) The parity index—prices paid by farmers—is likely to creep up further, resulting in a further slight drop in the parity ratio.

(6) Retail food prices may rise further because of increases in marketing charges.

(7) Exports of agricultural products will continue high but will probably be less than in the fiscal year ending June 30, 1957, chiefly because of the cotton situation.

(8) Year-end stocks of wheat and cotton may again be reduced, but the carryover of feed grains will increase still further.

(9) Government payments for price support, for the soil bank, and for export programs will continue to be large, but the acreage-reserve program will be reduced.

(10) Farm debt will probably continue to rise, but the value of farm assets will increase too.

(11) Land values will probably rise somewhat, and levels of living of farm families will probably continue to improve.

(12) Food consumption and diets of United States families will remain at a relatively high level.

This outlook involves two main assumptions: First, that the current slowdown in industrial production, employment, and consumer incomes will not be protracted or severe and that consumer demand for food will continue much as in 1957. There is no evidence that the adjustment in the economy so far has affected the demand for food to any significant extent. Second, this appraisal of the outlook is based on agricultural programs presently in effect. Changes in agricultural legislation could well alter the outlook, although I feel such changes as are likely to be made are more likely to affect the outlook for 1959 than for 1958.

The current agricultural situation is described in the accompanying table and charts, and I would like to ask that they be made a part of the record.

Senator SPARKMAN. That will be done.

(The table, and three charts referred to, follow:)

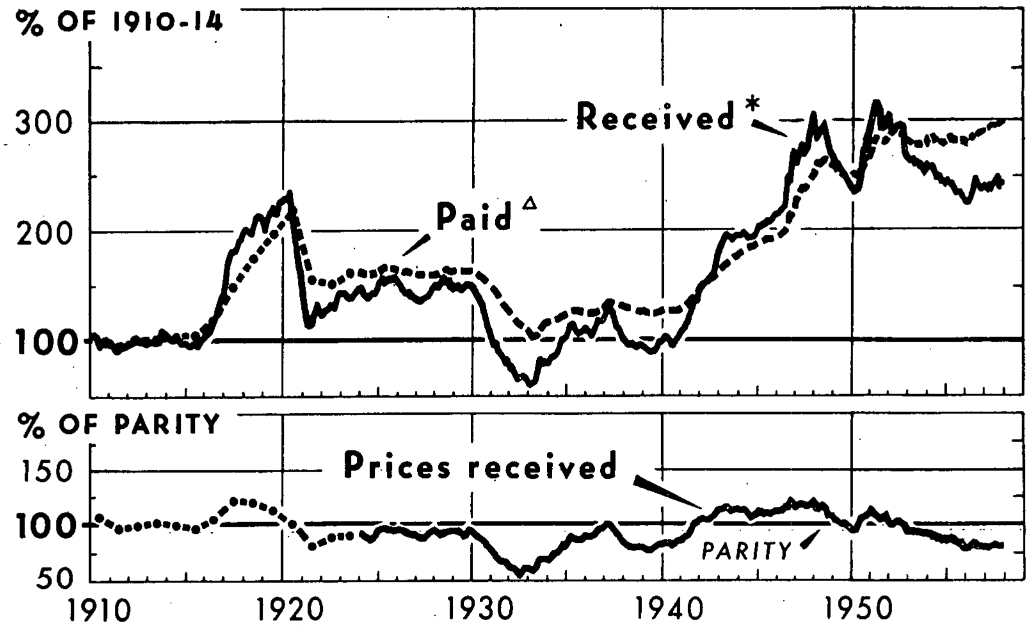
Selected data relating to agriculture, United States, 1939 and 1946–57

Year	Prices received by farmers	Parity index	Parity ratio	Farm output: Total	Farm output: Livestock and products	Farm output: Crops	Food consumption per capita	Agricultural exports	Cash receipts from farm marketings [1]	Production expenses [1]	Net income of farm operators: Realized [1]	Net income of farm operators: Total, including change in net inventories [1]
	Index numbers, 1910–14=100			Index numbers, 1947–49=100				Millions of dollars				
1939	95	123	77	80	85	82	94	655	7,872	6,162	4,394	4,489
1946	236	208	113	98	101	98	104	3,173	24,770	14,324	15,000	14,923
1947	276	240	115	95	100	93	102	3,957	29,664	16,831	17,191	15,458
1948	287	260	110	104	97	106	99	3,472	30,253	18,643	15,943	17,695
1949	250	251	100	101	103	101	99	3,578	27,864	17,909	13,673	12,866
1950	258	256	101	100	107	97	100	2,873	28,405	19,248	12,857	13,716
1951	302	282	107	103	112	99	98	4,040	32,928	22,258	14,802	16,111
1952	288	287	100	107	112	103	100	3,431	32,556	22,476	14,256	15,120
1953	258	279	92	108	114	103	101	2,847	31,183	21,246	13,880	13,263
1954	249	281	89	108	117	101	101	3,054	29,944	21,527	12,190	12,684
1955	236	281	84	112	120	105	102	3,199	29,542	21,631	11,581	11,852
1956	235	285	82	113	122	106	103	4,167	30,372	22,299	12,070	11,600
1957	242	296	82	113	121	106	102	[2] 4,500	30,200	22,900	11,900	11,600
1956—4th quarter	234	289	81					1,332	30,900	22,600	12,600	12,000
1957—1st quarter	237	294	81					1,283	30,300	22,700	12,000	11,500
2d quarter	243	296	82					1,129	30,600	23,000	12,200	11,700
3d quarter	247	295	84					962	30,300	22,800	12,100	11,800
4th quarter	241	298	81					[2] 1,126	29,800	22,900	11,500	11,500

[1] Quarterly data are seasonally adjusted annual rates. 1957 data are tentative estimates. Preliminary figures available Mar. 5, 1958.

[2] December estimated.

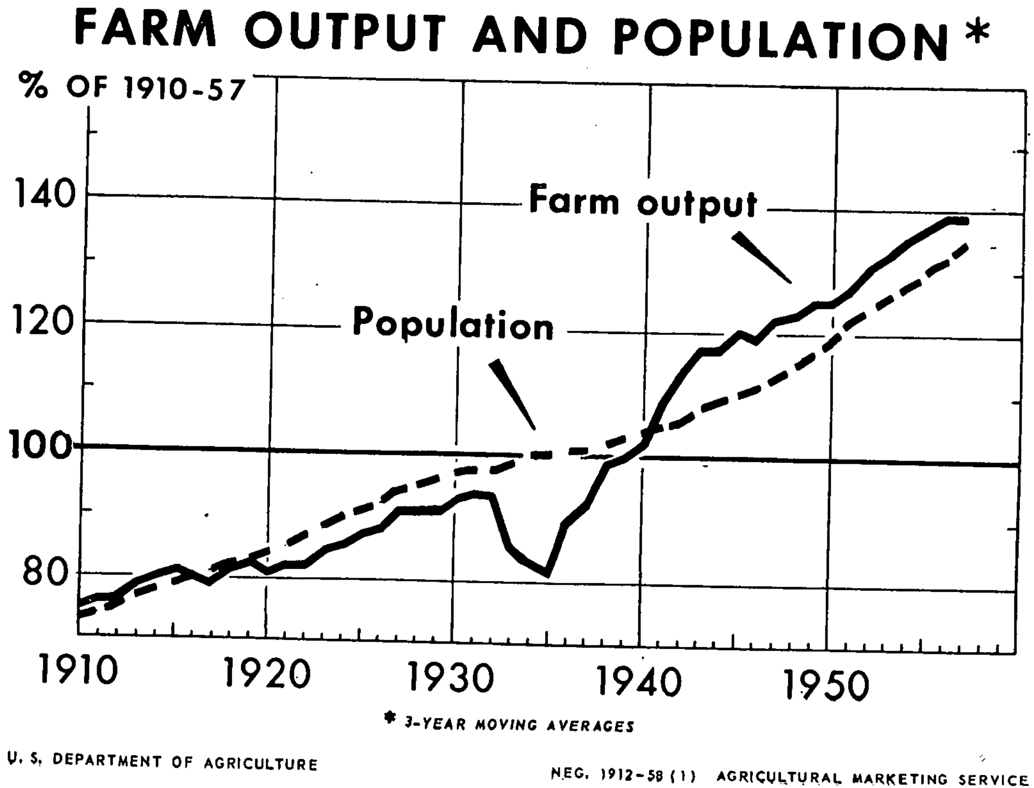
FARMERS' PRICES



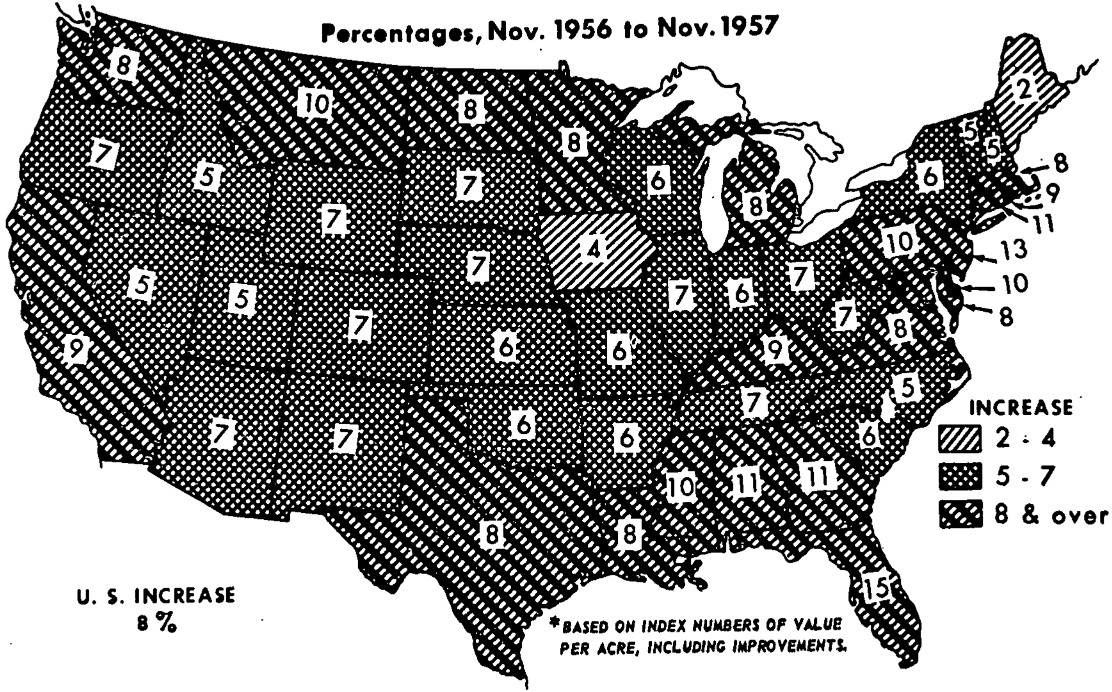
* MONTHLY DATA

△ INCLUDES INTEREST, TAXES, AND WAGE RATES. ANNUAL AV. DATA, 1910-23; BY QUARTERS, 1924-36, BY MONTHS, 1937 TO DATE

U. S. DEPARTMENT OF AGRICULTURE NEG. 98-58 (1) AGRICULTURAL MARKETING SERVICE


FARM OUTPUT AND POPULATION *
% OF 1910-57
140
120
100
80
Farm output
Population
1910
1920
1930
1940
1950
* 3-YEAR MOVING AVERAGES
U. S. DEPARTMENT OF AGRICULTURE
NEG. 1912-58 (1) AGRICULTURAL MARKETING SERVICE

CHANGES IN DOLLAR VALUE OF FARM LAND*



U. S. DEPARTMENT OF AGRICULTURE

NEG. 57(11)-2191 AGRICULTURAL RESEARCH SERVICE

Mr. WELLS. Farm output in 1957 continued at the record level of 1956 despite acreage allotments and the soil-bank program. The effects of a reduction of some 3 percent in cropland used was offset by a corresponding increase in yield per acre. For 1958, fewer acres in total will likely be withdrawn from use under the soil bank. The signup for the 1958 winter-wheat program is about 4 million acres compared with almost 11 million acres in 1957. The December 1 estimate of the 1958 winter wheat crop is some 200 million bushels larger than the 1957 crop. Further, hog production is now expanding, apparently at a moderate rate, while some reduction in cattle slaughter is in prospect.

Prices received by farmers averaged 3 percent higher in 1957 than in 1956. For the most part, this reflects higher prices for hogs and cattle. Prices of feed grains declined. For 1958, the most significant changes in view are somewhat better average prices for eggs and cattle while prices of wheat and dairy products will likely show some reduction. Hog prices may be lower next fall than this past fall, reflecting the moderate increase anticipated for the 1958 spring pig crop.

Prices paid by farmers, including interest, taxes, and wage rates, increased about the same as prices received. Almost all items showed some increase with prices paid for motor vehicles and farm machinery up substantially. The parity ratio averaged 82 in 1957, the same as in 1956.

Gross farm income, including Government payments, increased in both 1956 and 1957, but the continued rise in production expenses has been an offsetting factor. Essentially, net farm income has stabilized, following the persistent decline from 1951 to 1955. At the time of the Outlook Conference, we were expecting a slight increase in realized net farm income in 1957. But the rapid deterioration of the cotton crop in size and quality and delays in cotton marketing reduced cash receipts substantially below earlier expectations for the fourth quarter of 1957.

Turning now to farm investment in construction and new equipment, which in 1957 accounted for some 7 percent of total private fixed investment, there was apparently a slight increase in 1957 over 1956, reflecting not only a small gain in gross farm income but also a further increase in debt. For 1958, a further small increase in expenditures for construction and farm equipment may be in prospect, but by and large we would expect agriculture's contribution to the important investment sector to be largely neutral in 1958.

Finally, while the prospect for 1958 sums up price and income-wise as about the same as in 1957, there are some longer term influences we should note. The chart comparing trends in farm output and United States population not only suggests that a few years of stable production would yield a much better balance between farm supplies and demand but also underlines the necessity for production increases over the years ahead.

And we should also note another sign of confidence: Farm real-estate values continued to increase in 1957, rising an average of some 8 percent between November 1956 and November 1957, with increases in every State of the Nation.

Thank you.

Senator SPARKMAN. Thank you, Mr. Wells.

That completes the direct statements of the panel.

Now, we will question the panel members. Senator Douglas, will you lead off?

Senator DOUGLAS. Mr. Chairman, I would like to ask a question, if I may, of Mr. Greenwald. In the mimeographed statement which was submitted to us there is a paragraph at the bottom of page 4 which I did not hear you read. I wondered whether that omission was intentional or accidental.

Mr. GREENWALD. I did that only to take care of the time limitation.

Senator DOUGLAS. Well, let me read it. You say:

> Some reserve capacity is necessary in order to meet the defense emergencies as they crop up, and also to allow for near term growth in the civilian economy.

And then you have the last sentence:

> The statistics seem to suggest that we now have the capacity to take care of both these needs in 1958 and probably for some time ahead.

I wondered whether you still stood on that sentence or whether you wished to withdraw it?

Mr. GREENWALD. No, I still stand on it.

Senator DOUGLAS. Is this equivalent to saying that the decrease in the rate of capital investment in the last 2 years has been due to the inability of industry to sell goods at the prices charged so that the excess capacity has increased and percentage of excess capacity has diminished?

Mr. GREENWALD. I agree.

Senator DOUGLAS. Would not that have a depressing influence on the volume of new investment?

Mr. GREENWALD. Well, the point I think that we haven't really made here, of course, is that much of the capacity is built not only for this year or next year, but 5 years ahead.

Senator DOUGLAS. But for the next year or two it would indicate that volume has diminished.

Do you have any information as to whether these estimates which are submitted to you are being revised downward in this last month?

Mr. GREENWALD. No, I do not. The only thing I could suggest is this: that Electrical World, one of our McGraw-Hill publications, is dong a survey in the electrical utility field. Whereas we came up with an 8 percent increase, they have come up with a 10 percent for the private utilities, which is an increase rather than a decline.

Senator DOUGLAS. May I ask a question directed to page 5.

You count expenditures for research and development as part of capital investment.

Mr. GREENWALD. No.

Senator DOUGLAS. That is exclusive.

You think those are going to increase?

Mr. GREENWALD. Yes.

Senator DOUGLAS. Are you quite certain that the research expenditures amount to $13½ billion?

Mr. GREENWALD. Well, that is according to our estimates in the survey.

Senator DOUGLAS. Or equal to one-third of the total of capital investment?

Mr. GREENWALD. That represents the total for 2 years. $7.3 billion was roughly the figure for 1957, $6.2 billion for 1956.

Senator DOUGLAS. Now, there is one other question that I should like to ask. And that is directed to your table, which follows on page 2.

You estimate a decrease of 16 percent in capital investment in all manufacturing; a decrease of 27 percent in railroads, and a decrease of 18 percent in mining, but an increase of about 1 percent on oil and gas, a 3 percent increase in electrical and gas utilities, and a decrease of 1 percent on commercial investments.

Now, commercial investments form just a little under a quarter of the total, or about half of the nonmining, nonrailway groups.

Investment in commercial enterprises would take the form of building; is that true?

Mr. GREENWALD. This represents what commercial companies buy. So it would take in office machinery and fixtures.

Senator DOUGLAS. I mean volume investment in office machinery would be relatively slight. It would be mainly in what is known as commercial building.

Mr. GREENWALD. That is right.

Senator DOUGLAS. It would not be a stimulus to the machine industries.

Mr. GREENWALD. That is right.

Senator DOUGLAS. That is all, Mr. Chairman.

Senator SPARKMAN. Mr. Curtis?

Representative CURTIS. Mr. Chairman, I was going to ask some questions somewhat along the line that Senator Douglas raised about the question of whether this situation of cutback in investment in capital outlay, which I believ Mr. Silbert has pointed out to a large degree, lay in inventory adjustments; whether we have gotten our production beyond the purchasing capacity of the people.

Now, I believe that was the question. Only I rephrased it, that was asked you, Mr. Greenwald. Have I rephrased it and still retained the question?

Mr. GREENWALD. Well, I am not sure of the question.

Representative CURTIS. The question is this: Here we have had a cutback in the outlay or the amount of expenditures in private-capital outlay. Mr. Silbert has suggested that a large bit of what we are experiencing now from a retail level is a readjustment of inventory, which seems to, again, point out that we had more goods, at any rate, than there were purchasers for it.

Now, I am wondering if I am rephrasing that right.

Mr. GREENWALD. Well, I think in terms of the current level that is probably true. But as I have pointed out before, a lot of this capacity that is put in is not put in just for 1957, 1958, or 1959. Some of it is for 1960 and 1961. So that in the longer run you will have a moving up of consumption.

Representative CURTIS. That is right.

Now, I think the way Senator Douglas has presented it is an oversimplification. Because it seems there is another big factor in this question. You have pointed out one aspect of it, of this business of capital outlay. Isn't it true that in a period of rapid technological advancement when we have capital outlay for—capital outlay to follow that technological advancement, we have got a lot of obsolescence. And there is a lot of capital machinery that goes out of production and yet has to be financed in some ways.

Is that a fair statement?

Mr. GREENWALD. Yes. Of course, one of the things in the investment picture is that modernization, which is what you are really referring to here, is going to be an important part, probably an even more important part in the next few years than that spent for investment for expansion.

Representative CURTIS. Yes. That was the other thing that I was going to get to, the fact that you did emphasize that there seemed to be a shift in the type of capital outlay: I think we have three factors in capital outlay—and I am just posing this for the first time myself: No. 1 is what we might simply call replacement from capital equipment wearing out; No. 2 is a replacement with better equipment, modernization; and No. 3 is expansion just to take care of growth.

Mr. GREENWALD. That is right.

Representative CURTIS. Are there any other factors in there?

Mr. GREENWALD. That is the way we break it down, when we ask for percentages in the annual spring survey. We group modernization and replacement together. And then expansion. And since the end of the Korean war, roughly 50–50 is the proportion for modernization and replacement and for capacity.

Representative CURTIS. Actually, of course, modernization can include, and frequently does include, additional capacity.

Mr. GREENWALD. Right.

Representative CURTIS. And is a method of expansion.

Mr. GREENWALD. That is right.

Representative CURTIS. Now, then, coming back to the question: The capital outlay in the past seems—for expansion, that is—seems to have gotten ahead of purchasing. Would you say that is right or not?

Mr. GREENWALD. Well, again I want to point out that the capital outlays for expansion are not just for the one year. They are for a longer range.

Representative CURTIS. I appreciate that.

It is allied to the economy for the year 1957 and beginning in 1958.

Mr. GREENWALD. If you go back to a little bit before that, at the end of 1956, when companies were operating at 86 percent of capacity, it seems that is not a bad relative amount of capacity to be working at. Because you know most companies don't like to operate at capacity, in any case.

Representative CURTIS. And, of course, if they have undergone considerable modernization and expansion, 86 percent of capacity is considerably more production than 90 percent of their previous capacity.

Mr. GREENWALD. Well, this again is relative in each year; that is right.

Representative CURTIS. It is relative. But if they have been increasing their abilities to produce, the percentage figure can be more.

Mr. GREENWALD. That is right.

Representative CURTIS. Now one other question.

Has there been any indication in this projected plan of business to spend money for improvements in expansion that they have been cutting back on present plans, or is it simply that there haven't been as many future plans?

Mr. GREENWALD. We don't have any evidence of that.

Representative CURTIS. There seems to be no retrenchment?

Mr. GREENWALD. No. All I can say is if you take the recent quarterly survey of the Department of Commerce, and the SEC, their figures tend to confirm our figures. That was done a little later than ours. Mr. Paradiso might say something on that.

Representative CURTIS. Does there seem to be any retrenchment here on the plans projected ahead, or is it simply a slowing down of the rate of new plans?

Mr. PARADISO. We don't have any overall evidence with respect to further curtailment or retrenchment on the part of business.

However, there have been some reports published in newspapers where some companies actually have cut off further expenditures on plants which have been partly completed. However, this is no indication that this is a widespread affair. But there is one question I would like to ask in connection with the new orders trend which the McGraw-Hill Co. collects from machinery companies, namely this: Do these cutbacks in orders really reflect a much larger drop in plant equipment spending than was indicated by your survey back in November?

It seems that that is one indication as to a possible clue as to the kind of curtailment that may actually be going on.

Is there such an indication in your orders data?

Mr. GREENWALD. The October index for new orders of machinery was very low, incidentally. So the survey taken immediately after that should have taken account of that particular drop in new orders.

Now, of course, in November and December, the orders for machinery were very low, too.

But actually I don't have any evidence to indicate that the current decline in new orders was not planned earlier by the companies placing new orders.

One of our magazines, Electrical World, has carried out a survey of investment of the utility industry. It shows a higher percent change between 1957 and 1958 than our own survey. So this would tend to have some offset on any additional decline in investment in manufacturing, I would think. Their survey shows a 10 percent increase in investment for 1958. Ours shows only an 8 percent increase. And theirs is a much broader sample of the industry than ours.

Representative CURTIS. The next question I was going to ask, depending on your answer there, is whether or not financing entered into this problem of continued outlays for industrial replacement and expansion?

Mr. GREENWALD. I don't think that is very important at this time.

Representative CURTIS. The reason I ask it is we have had a tight money situation, as it is described, and at least the smaller and medium-sized businesses have indicated that they are in a financial pinch for expansion. And this is just—this is not a sample; this is just some expression from individuals that they have cut back on some of their expansion plans because they did not have the financing available to carry them out under the high, or the tight-money situation.

Mr. GREENWALD. Well, we have no evidence of that. But I think that small business, if credit were easier, would probably invest somewhat more than planned earlier.

Representative CURTIS. Your surveys are among the largest concerns; are they not?

Mr. GREENWALD. That is right. We do have some smaller or medium-sized companies. But for the most part they are the large companies. And it is a pretty broad range, actually, of the investment total.

Representative CURTIS. If I can go to one other line of questioning, which I think underlies these presentations here. Picking up with the particular point that Mr. Wells has made in his paper, No. 6, retail food prices may rise because of increases in marketing charges. Many people have been pointing out for some time that our cost-of-living statistics do not adequately reflect increased quality of service or goods that you might purchase.

Yet, that can be a big feature of increased costs.

In other words, the cost-of-living index is not necessarily measuring inflation. It can be increased standard in living. Maybe that would be a way to get it across.

I was wondering, in this increase in marketing and food prices, whether that would be increased quality or would it be simply what might be termed purely inflationary change?

Mr. WELLS. I think it is a mixture of the two. What I was trying to do was some reasoning as to what might happen to the retail price for food, assuming farm prices stayed at about the same. We have had an uptrend of about 2 percent a year in food marketing margins over and above the farm price. Last year it was 4 percent.

I am rather hoping, as a matter of fact, that the chainstores and others will so aggressively compete for customers this year that this will be halted. But I doubt if it will be entirely halted.

Representative CURTIS. Now the point is, if it were quality——

Mr. WELLS. Well, a portion is in my opinion increased services to the housewife. In other words, more frozen food, more packaged food and better quality——

Representative CURTIS. Exactly. That is why I was going to pick it up as an illustration. If it were more precooked and frozen products——

Mr. WELLS. You remember I said a portion. I think a portion of it is also increased general wage and operating costs. I think it is a mixture of the two.

Representative CURTIS. If we could break that down not only in this area, but all these areas, I think we might get some pretty important information, because if it is increased quality, that would mean increased work for the processors, at any rate.

I would like to refer to the same question, because it has been pointed out that the cost of housing is another factor that will go up. And in the housing industry, there seems to be no question that the amount of the quality of a home today is considerably superior than the quality of the home that previously was there.

Now, is this increased cost a—does this increased cost reflect largely increased quality, or is it essentially a reflection of just—a reflection of the cost of the same item?

Mr. COLEAN. Well, I may say that our figures on construction costs are very bad, so it is very difficult to analyze them with any degree of confidence. There has, however, unquestionably been a very considerable increase in the quality of housing during the last few years, as well as an increase in basic costs, principally in labor.

Material costs during this year have been quite stable, and I would expect no rise in house construction cost next year, except as it might be effected by some further increases in labor which I would not expect to be substantial.

There is some indication, moreover, that builders are tending to look toward a lower price market. Now that doesn't mean that the construction costs necessarily will go down. But they will be more interested this year in a simpler type of house than they have been in the past. This whole process in residential building that we have seen in the automobile industry of loading the product with all kinds of new gadgets, equipment, style changes, and so on, has been a material factor in the market.

Representative CURTIS. That was the reason I asked that. For example, some of it—and I know you agree with this—goes beyond gadgets.

For instance, a housing development that I am familiar with in St. Louis, Mo., has gone to air-conditioned homes in what would be the lower-medium class housing.

Mr. COLEAN. That is quite true throughout the whole southwestern part of the country. And it is spreading.

Representative CURTIS. That is right. And yet with a very little increase in price, that additional quality gets into the product. And that is the emphasis I wanted to make.

Now——

Mr. COLEAN. In that connection I might say I recall a statement that came out of the FHA office not long ago to the effect that within 10 years, I think it was, a house that did not have air conditioning would be obsolete.

Representative CURTIS. That is very true.

Now, the thing I am getting around to is this: That we have been going through—agriculture particularly—but the whole economy has been going through a tremendous technological advancement. And in trying to forecast what is going to happen economically, I think we have to weigh what that technological advancement has been doing, in investment of private capital and so forth. One way of paraphrasing it is we talk about increased cost of living, but we have to talk about increased standard of living, too.

Actually so far as many people are concerned, the consumer, regrettably it doesn't make too much difference whether it is increased standard or increased cost if they can't afford the increased standard of living. And many of these things are fixed in—as you say, put on the automobiles—they are gadgets, and you either buy an automobile or you don't buy it. You have no choice as to whether you buy that increased standard of quality that goes into the product.

But, I wanted to pose that because it seems to me that we have to distinguish these factors if we are going to come out with any projections as to what is going to happen. Because, with the statement that I believe Mr. Greenwald has made that the amount of money being spent on research and development is increasing, is it not?

Mr. GREENWALD. That is right.

Representative CURTIS. So we can anticipate this process going on, it would seem to me, of increased standard, or rising of standard of living.

Now, Mr. Chairman, I just have one final question.

Mr. CLAGUE. Congressman, I wonder if I couldn't talk to that?

Representative CURTIS. Yes; I would be very happy to have you talk to that.

Mr. CLAGUE. I want to make it clear, as far as our Consumer Price Index is concerned, that a rise in the standard of living isn't necessarily converted into the index.

Representative CURTIS. That is right.

Mr. CLAGUE. Let us take food prices which Mr. Wells was mentioning. It is true, you have more packaged foods now. For example, you get tomatoes wrapped up in cellophane packages; they used to come in a bushel basket. Now when we do our pricing, we don't compare a price of a loose tomato in a bushel basket with the packaged price. We insert that item in the index by taking the price of the packaged tomatoes by themselves, first month, second month, third month, and so forth; so that the shift to the higher standard is taken out of our index, and would not be reflected there—that rise, let us say, in the quality of the article. On the other hand, it is also true, as Mr. Wells indicated, that the packaged tomato has more services in it. So if you had a rise in its transportation cost and a further rise in refrigeration costs, that would be converted into our index; because that is an increased cost of that particular item.

I would like to make one more point about automobiles too. We indicated that, in November, automobile prices were partly responsible for the rise in our index—that is, the prices of new cars.

Part of the rise in the price of automobiles in the autumn of the year is the temporary disappearance of the heavy discounts on the old models by the dealers, which sometimes run to $600 and $800 per car, in comparison with the new price of the new models which are selling probably at list price. That change in price has nothing to do with improvement in quality.

Now in the improvement of quality itself—as you indicated, a car is made with a great many new things on it, including some items that are definite improvements. If we can find an improvement that ought to be taken out of the price index we take it out.

In other words, when a car contains a new type of transmission that costs $80, we take that out of our index and figure it as though that improvement had not been in there at all. On the other hand, I would have to say to you, there are certain kinds of improvements in quality that don't show in price—a tire, for instance, in which they put a new chemical that makes it run longer, and so on. So that some kinds of improvement in quality do get into our index in spite of our efforts to get them out.

I would emphasize that those quality changes wouldn't amount to much from year to year. They accumulate over a long-time period. And they are not effective in, let's say, the change from 1956 to 1957 or 1957 to 1958 in any great degree. I just wanted to make clear that all rises in the standard of living which are occurring in this country, and increasing people's cost of living, don't necessarily show in our consumer price index.

Representative CURTIS. I appreciate your making that clear, because I think that is very important. And I know our statistics subcommittee under Mr. Bolling, the chairman, is going into that feature. I hope that we do pursue it further.

Mr. Chairman, I just had one other relatively minor question. I believe Mr. Paradiso would be the one to ask.

You have pointed out the increased expenditures at the State and local level of government. Do your figures show how the projected financing of that is to be done?

Is that largely going to come through immediate increase of taxes? Or is it increasing through—is it a deferred payment plan through increase of State and local debt?

Mr. PARADISO. We haven't made that kind of a study.

As I indicated, these figures are very tentative. We don't have any summaries actually from the State and local bodies. So we actually don't have the analyses on that particular subject.

However, there is an implied increase in personal taxes and real estate taxes—which would finance some of this rise in these expenditures. But we don't have the details on this because we don't get reports on these budgets as we do from the Federal Government.

Representative CURTIS. There has been a considerable rise recently in State debt, for example—or there seems to be a trend and it seems to be going forward. I think it would be important for us to know what the projected plans are, because if it is going to be through increased State debt which does not affect the value of money, fortunately, but certainly affects the immediate cost to the consuming public that is one thing; and if a large bit of the increase in State's expenditures was going to be financed through increased State debt, which would be spreading it over a period of time, it would be—it would have an important bearing on this picture.

Mr. PARADISO. Yes. On the basis of the assumption that we made in terms of revenues and in terms of the expenditures, the deficit will remain roughly around a billion and a half dollars. So the amount of debt financing would be roughly that.

However, this is dependent on getting the revenues which we have assumed. And it is a pure assumption.

Representative CURTIS. Thank you.

Senator SPARKMAN. Congressman Bolling.

Representative BOLLING. If I understood the members of the panel, they indicated in the various fields that there was going to be very little push-up in the economy from consumers housing right on through the line. That would call for examination in a little more detail perhaps.

I would like to check back and make sure I understood some of the points Mr. Paradiso made. I am not clear whether these were fiscal years or calendar years?

Mr. PARADISO. That is fiscal; yes.

Representative BOLLING. The increase in Government expenditures from 1957 to 1958 for goods and services would be about half a billion dollars.

Mr. PARADISO. That is right.

Representative BOLLING. But that includes grants, subsidies, and so on; I would like you to repeat that.

Mr. PARADISO. Four and a half billion dollars.

Representative BOLLING. Four and a half billion dollars.

Mr. PARADISO. Yes.

Representative BOLLING. Now, the overall increase in 1957, 1958, 1959: 1957 was $76 billion.

1958, $81 billion.

1959, presumed to be $84 billion.

Now can we track this down by quarters?

What I would like to know is a little more detail about what the annual rate in these two categories was—what the annual rates were in, say, the second quarter of calendar 1957, the third quarter of calendar 1957. First quarter of 1958, and so on. So we can actually see how much additional Government spending is presumed—at least in the Economic Report—to turn the economy around; how much of an increase has taken place in these various categories.

Mr. PARADISO. I don't have the quarterly figures here. Just a minute.

Let's see. Federal purchases—let's say we go back to the first quarter of 1957.

Representative BOLLING. This is calendar year 1957.

Mr. PARADISO. Calendar year 1957, yes. They were at an annual rate of $50.3 billion. In the second quarter at the annual rate of $51.1 billion, and that is the top. Then we get into the third quarter of last year $50.6 billion, and then it drops down to $50 billion in the fourth quarter at annual rate.

Now, that $50 billion is roughly the annual rate which is projected for the first half of this year. So the expectation is for a leveling out through the middle of this year in Federal purchases in total and for national security purchases also.

Now, the expansion that is coming will be after the midlle of the year and that expansion will average $2 billion more per quarter. So that we expect the fiscal 1959 total to be $52 billion on Federal purchases of goods and services.

Representative BOLLING. I am now addressing myself to the expenditures other than the purchases of good and services—in what particular categories can we account for this tremendous jump of $4½ billion from 1957–58 fiscal.

Mr. PARADISO. That occurred in the transfer payments. That rise amounted to $2 billion. They were $14.6 billion in fiscal 1957. They went up to $16.5 billion in fiscal 1958 and that represents benefit payments and other items covered in the various transfers. There was a rise in grants-in-aid from $3.6 billion in fiscal 1957 to $5 billion in fiscal 1958. So that accounted, you see, for nearly a billion and a half dollars of the total rise. Also there was nearly a half a billion-dollar rise in net interest payments—$5.3 billion to $5.7 billion.

Then we had some half a billion rise in subsidies, less current surplus of Government enterprises. So, most of the increase which occured in fiscal year 1958 was for items other than for purchases of goods and services.

Now, to my mind this is a rather important development because if in this earlier period the rise in expenditures has been in items which do not reflect the purchase of current output, we now are getting a shift from that. It means that the amount of direct orders which will have to be placed will have to be much larger for the purpose of buying the enlarged volume of goods. There is this very definite shift which will have a different impact on business receipt of orders.

Representative BOLLING. I have heard somewhere—and I am not sure of the accuracy of it—that the difference in contract authorizations or contract obligations in future purchases of goods and services, say in the last half of calendar 1957 and the first half of calendar 1958, will be in the magnitude of five-plus billions of dollars. I gather then, from the figures that you discussed and from the comments of the other panelists that the turn around in the oconomy is in essence coming from that contract authorization, if at all?

Mr. PARADISO. That is quite true. The amount of contract letting in the second half of last year was considerably below the amount which was needed even to support the original $38 billion expenditure on the part of the Defense Department.

Now, the contract letting during this half is going to be nearly double, as you have indicated, double the contract letting in the last half of last year.

In addition to that you have a further acceleration later on after the new appropriations are made. So there is a very substantial amount of stimulus which will come from contract letting. And this to my mind should have a very important psychological effect although not necessarily an important factor which will impinge immediately on production, because many of these contracts, as you know, are for the purchase of goods to be delivered a year hence or 2 years hence, or even beyond that.

Representative BOLLING. This contract letting is presumably going to have a good psychological effect.

Mr. PARADISO. That is right.

Representative BOLLING. What are the figures again?

Mr. PARADISO. I have to give you those from memory.

I am sure the people in the Defense Department can give you the exact figures. As I remember them, they are roughly around $8 billion placed in the second half of last year and roughly $13 billion or $13½ billion in the first half of this year. But those are from memory.

Representative BOLLING. Thank you very much.

Senator SPARKMAN. Senator Flanders.

Senator FLANDERS. I am sorry, Mr. Chairman, that I came in late.

Senator SPARKMAN. We are glad that you got here.

Senator FLANDERS. I had four committee meetings this morning and that, for me, is a record. I presume that you, Mr. Chairman, with your longer experience in House and Senate, can beat that record, but it is a record for me.

Senator SPARKMAN. We are doubly glad you are here.

Senator FLANDERS. Thank you.

Now I, of course, haven't heard the discussion until within the last 20 minutes or so. But I would like to ask one or two questions of Mr. Greenwald; it may be that they have been covered in your previous questioning. If so, I ask the indulgence or the pardon of yourself and other members of the committee.

Looking at the table on page 3 of your testimony, two or three questions arise. One is this: In what category would electrically driven household equipment come?

Mr. GREENWALD. As a manufacturing company or as a purchaser of capital equipment. If its major product line were electrical machinery it would be in the electrical machinery group.

Senator FLANDERS. Electrical machinery; yes. But now I am a little bit confused by your specifying that only if it was the manufacturer, it would be in the electrical machinery group. Can the same equipment appear twice in another case under some other category?

Mr. GREENWALD. No. There are no consumer purchases in this at all.

Senator FLANDERS. Well now if a department store were planning to increase its inventory of electrical household equipment, where would that appear—under commercial?

Mr. GREENWALD. No; it would not.

Senator FLANDERS. It wouldn't appear at all?

Mr. GREENWALD. It wouldn't appear at all. It is only the purchasers of capital equipment that appear.

Senator FLANDERS. It is a capital expenditure, but it doesn't appear in this table.

Mr. GREENWALD. It is not a capital expenditure made by industry.

Senator FLANDERS. No. Well, then, what do you include under the line "commercial"?

Mr. GREENWALD. That represents building and equipment, as purchased by commercial companies.

Senator FLANDERS. I see. That is now clear in my mind.

To what do you attribute the great decrease in paper and pulp equipment? I see no indications that the consumption of paper and pulp is decreasing. Under Parkinson's law, it is bound to increase. I take it that the production equipment was in a sense overbuilt.

Mr. GREENWALD. Right. They expanded a little bit too fast, I assume, according to the demand.

Senator FLANDERS. All right. Well, I am glad that the future is still bright for the industry, even if the present is dubious.

Now, may I inquire whether these calculations were made before it became evident that our defense propositions were to be greatly increased.

Mr. GREENWALD. No; they were made after that.

Senator FLANDERS. And they took into account a certain effect, delayed, of course, but they were made with the expectation that the defense-hardware orders would be increased, and eventually production would be increased.

Mr. GREENWALD. I think you could say that. I am not sure that all of the companies would have recognized that point, but I think in general, since the survey was taken in October that this would have been the case.

Senator FLANDERS. Of course, when we reckon on employment, say, 9 months from now, we turn deplorably and hopefully to defense hardware as one of the possible causes for improvement.

That is all, Mr. Chairman.

Senator SPARKMAN. Thank you, Senator Flanders.

Mr. Colean, I want to ask you a question or two.

In your very fine statement on home building, you bring out the fact that FHA is processing its applications with entirely too much delay. Then you proceed to give the reasons for it. And one of the reasons given is that FHA is inadequately staffed because of the limitations placed by Congress on its ability to spend its own income for administrative purposes.

I just want to ask you for information. Did Congress give FHA less than it asked for?

Mr. COLEAN. I think it did. At any rate, as I understand it—and certainly as Mr. Mason, I think, presented it to the Appropriations Committee yesterday—the amount of money that they were allowed to spend from their own premium income last year was based on a lower volume of business than they even attained last year. And certainly below what would be necessary to meet any increase in the volume of applications that they would be required to handle if they were in any way to make up for the drop in the VA program.

Senator SPARKMAN. Well, I realize that is the testimony of yesterday. But I am going back to last year's testimony. The reason I asked is because I have at different times gone before the Appropriations Committee on this very question and I have found that Congress has always gone along quite well with the FHA in its request for the privilege of using its own funds for these purposes. It is not an appropriation; it is simply the right to use what it takes in.

Mr. COLEAN. There is a provision in the law which permits them to use a certain percentage of increased income on its business.

Senator SPARKMAN. That is true.

Mr. COLEAN. On the other hand, the Appropriations Committee has not allowed them to invoke that. They have set a rigid amount of money.

Senator SPARKMAN. My understanding is that that is based each year on a budget figure that is submitted to Congress.

Mr. COLEAN. It is. But it doesn't permit changes during the year to match increases in business. These changes sometimes take place quite rapidly.

Senator SPARKMAN. I think you might well look into that to see what the FHA asked for last year, because it is a matter of a budget request.

Mr. COLEAN. It is a matter of a budget request. Whatever they ask for and how much they got, it wasn't enough.

Senator SPARKMAN. I agree they ought to have more. And I feel confident Congress will give them more.

Mr. COLEAN. It will be very helpful if they do.

Senator SPARKMAN. I will say this: Many complaints have come to me about the long delay—months as you point out in some instances—in getting application fully processed.

Mr. COLEAN. I may say Alabama is one of the worst.

Senator SPARKMAN. Well, it has been quite bad. In spite of that, as you point out the South was one part of the Nation last year that had a step-up in production of housing. I think you pointed that out.

Mr. COLEAN. I think that was Mr. Clague.

Senator SPARKMAN. One other thing about hurrying it up: You are familiar with this new experiment that FHA is trying, aren't you, the certified areas?

Mr. COLEAN. I am, and it is a very forward-looking arrangement which I would hope they could push much more rapidly.

Senator SPARKMAN. Have you had any adequate observation of its operation?

Mr. COLEAN. It has been pretty hard to observe it so far. It has only been in force but 2 months, I believe. And it went into force at a time before the change in money market would give it much appeal. But I would think that it would be an important thing, and it is certainly a means for cutting down processing time.

Senator SPARKMAN. Yes.

Mr. COLEAN. Very materially.

Senator SPARKMAN. I will say that I have talked to some of the people in the home-building industry, and also among the mortgage bankers and everyone that I talked with was quite enthusiastic about it.

Mr. COLEAN. That is right.

Senator SPARKMAN. In the few areas in which it has been tried out as an experiment.

Mr. COLEAN. I think that is true.

Senator SPARKMAN. Any further questions?

(No response.)

Senator SPARKMAN. Before adjournment, I would like to acknowledge a distinguished visitor that we have with us this morning, back in the audience.

Sir Harry Campion, Chief of Her Majesty's Statistical Office, president of the Royal Statistical Society.

Mr. Campion, we are delighted to have you with us. I wonder if you would rise and let the people here greet you? [Applause.]

I may say that we have had another welcome visitor this morning. I believe he has gone now. Mr. Grover Ensley, who, until last year, was staff director of this committee.

The committee will stand in recess until 10 o'clock tomorrow morning.

Thank you very much.

(The following was later supplied for the record:)

PROSPECTS FOR INTERNATIONAL TRADE AND INVESTMENT IN 1958

By E. M. Bernstein [1]

It is customary to classify the use of the gross national product in four categories: Personal consumption expenditures, gross private investment, Government purchases of goods and services, and net foreign investment. This method of classification may lead to a serious underemphasis of the significance of international trade and investment in determining the magnitude of the gross national product. It may seem that the $3.3 billion of net foreign investment accounted for the absorption of only three-fourths of 1 percent of our gross output. This is not at all true.

If our statistical techniques were more refined we would classify the four categories as follows: Personal consumption expenditure on domestic goods and services, gross private investment in domestic goods and services, Government purchase of domestic goods and services, and exports of domestic goods and services. The classification is not made in this way only because we cannot isolate the domestic constituent of private and public consumption and investment for each category separately, although we can do it for the aggregate. So we use the concept of net foreign investment—deducting from our exports of goods and services, our imports of goods and services and gifts.

The true contribution of international trade and investment to our gross national product is shown by our exports of domestic goods and services. Even here, however, we cannot isolate the domestic constituent. Our exports of goods and services in 1957 amounted to $26.3 billion. This was about 6 percent of our gross national product, if we assume that the import component in our

---

[1] Submitted at the request of the Joint Economic Committee in connection with its hearings on the economic report of the President.

exports was the same as in the goods and services we use domestically. In an economy as large, as diverse, and as sensitive to cyclical fluctuations as that of the United States, this is not an insignificant part of the aggregate demand for the gross national product.

In 1957, the value of our exports of goods and services was nearly twice as large as the investment in residential nonfarm construction. It was nearly 90 percent as large as the gross private investment in all forms of producers' equipment. And it was nearly 80 percent as large as personal consumption expenditure on all forms of durable goods—automobiles, household appliances, etc. There should be no mistake about this—it was the export of $26.3 billion of goods and services, not the net foreign investment of $3.3 billion, that reflects the contribution of foreign trade to production and employment in the United States in 1957. You can see how important to our economic well-being are the maintenance and growth of our exports of goods and services. And you can see why the level of business activity during the current recession will be affected by the amount of our exports.

In estimating commercial exports in 1958, that is, excluding military aid, we must first make allowance for the fact that our share of world exports was abnormally large in 1957. On the basis of the 1956 ratio of our exports to total world exports, I would say that we sold about $1 billion of extra exports because of the Suez difficulties. Most of these extra exports were in the first two quarters of 1957, particularly in March which exceeded the monthly export average of the year by $500 million. These exports helped maintain our prosperity into the second quarter of 1957. Unfortunately, the decline in our exports which began in the middle of 1957 may be expected to continue to the end of 1958.

In 1954, our exports actually increased by $600 million. This was because the recession of that year was largely confined to the United States. In Europe, industrial production continued to expand and served to maintain the demand for and the prices of raw materials. As a consequence, world trade grew and all regions, including the United States, shared through an increase in exports. The situation is somewhat different now. In some countries in Western Europe, the rise in industrial production has temporarily slowed down. The prices of raw materials have dropped sharply in the past 2 years. World trade has been falling since the middle of 1957; and we must expect our exports to fall with the decline in world trade.

Apart from the reduction in our exports because of lower production and incomes abroad, there will be additional restrictions on dollar payments in some countries. The significance of this factor will depend in large part on our imports and foreign investment—the source of the dollar receipts of other countries. While the gold and dollar reserves of the free world, outside the United States, are far larger than they were in 1953, there are a number of countries—particularly raw-material producers—hard pressed for reserves whose purchases from us depend on their immediate dollar receipts and, therefore, on our imports and foreign investment.

Our imports will decline because of the recession. In 1949, our imports for the year were $500 million less than in 1948. In 1954, our imports for the year were $700 million less than in 1953. With the somewhat larger trade we now have, our imports may be nearly $1 billion less in 1958 than in 1957; and to this must be added some decline in our purchases of foreign services. Even this estimate is based on two favorable assumptions: First, that the recession in this country will be mild and will come to an end during the second half of the year; second, that the fall in raw-materials prices will slow down and will stop before the end of 1958.

Furthermore, our private foreign investment always declines in a recession. This is especially true of our direct investment. Both 1956 and 1957 were very good years for private foreign investment. They reflected the same optimism that led to record levels of domestic investment. It is extremely difficult to project changes in foreign investment. I should think the decline in our private foreign investment in 1958 would range between $500 million and $1 billion.

In estimating the impact of all factors on our exports we cannot add together the effects of the elimination of the special conditions of 1957, of the decline in production and income in other countries, and of the fall in dollar receipts abroad. For the dollars that some countries save from the elimination of their exceptional imports will offset in part the effect of a decline in their dollar receipts. And if countries want to import less because their production and incomes are lower, they will to that extent have less need to restrict imports because of the fall in their dollar receipts. I would expect our exports of goods and services in 1958 to fall by about $2 billion.

The world dollar payments situation that this envisages is not a serious one. It should not lead to widespread payments difficulties. In fact, the overall dollar payments position should be somewhat better in 1958 than in 1957. The real hardship will be in the decline in production and income from foreign trade that will be suffered by the United States and the rest of the world so long as the recession continues. Our exports of goods and services will probably begin to grow again at the end of 1958, provided the recovery in our domestic economy is already acting on our demand for imports.

(Whereupon, at 12:11 p. m., the committee was adjourned, to reconvene at 10 a. m., Wednesday, January 29, 1958.)

JANUARY 1958 ECONOMIC REPORT OF THE PRESIDENT

WEDNESDAY, JANUARY 29, 1958

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

The committee met at 10 a. m., pursuant to recess, in the House caucus room, room 362, Old House Office Building, Hon. Richard Bolling presiding.

Present: Senators Douglas, Sparkman, and Watkins; Representatives Bolling, Talle, Curtis, and Kilburn.

Present also: John W. Lehman, acting executive director.

Representative BOLLING. The committee will be in order. Again, today, we are privileged to hear from a panel of experts. Yesterday we heard from specialists in the various fields which bear upon the economic outlook. Today's hearing carries this study of the outlook further by way of interpretation and consideration of the policy implications for governmental economic policy in the year ahead.

The committee appreciates the help of these professional economists in analyzing the economic problems and helping to focus committee attention throughout the remainder of these hearings and during our deliberations in preparing the annual report. Each of these individuals has been invited to appear as an expert interested in fiscal and economic policy rather than as a representative or spokesman for the particular institution with which he is associated.

The first panelist is a replacement for Mr. Gerhard Colm, who, unfortunately, is ill. We are fortunate to have with us today, Mr. Manuel Helzner, Mr. Colm's assistant in the National Planning Association. Mr. Helzner will read Professor Colm's paper and then remain with the panel to answer questions.

Mr. HELZNER. Mr. Chairman, I appreciate the opportunity of presenting to this committee the statement of Gerhard Colm. I spoke to Dr. Colm this morning, and although he is recovering and feeling much better, his doctor has advised him not to leave his home. He has always appreciated the invitations to appear before this committee and regrets that he cannot be here today. [Reading:]

STATEMENT OF GERHARD COLM, CHIEF ECONOMIST, NATIONAL PLANNING ASSOCIATION

The American economy is in a recession which is largely attributable to (1) severe cutbacks in defense contracts in the second half of 1957 and (2) the fact that consumer purchasing power did not expand in real terms in line with the increase in productive capacity of industry. Present indications suggest a continued reduction in business investments, falling expenditures of consumers, and reduction in exports.

In contrast with the predominantly downward movement in the private sectors of the economy is the outlook for an expansion in the public sector, both in the outlays of State and local governments and the Federal Government.

The recent Presidential messages imply the hope that the proposed increase in Government spending will not only offset the decline in private demand but will stimulate a rise of GNP by approximately $10 billion from the current to the next fiscal year. Assuming that tax rates remain substantially unchanged, only an increase in GNP of that magnitude could yield a $2 billion increase in tax revenues as estimated in the budget. This economic outlook which is expressed and implied in the President's messages appears to be highly optimistic in view of the proposed program as a whole.

The Federal policies which, according to the economic report, are expected to halt the contraction in private activities and to stimulate renewed economic expansion include the following main measures:

1. The increase in national security expenditures;
2. The increase in Federal expenditures for road construction;
3. The stimulation of State and local government outlays by the general relaxation of credit terms:
4. The stimulation of residential construction by the proposed increase in interest rates on guaranteed or insured mortgages and the reduction in cash requirements.

It does not seem to me that this program is adequate to bring about the early reversal in the downward business trend and to promote the economic expansion anticipated in the budget and the economic report. Cash expenditures for defense, road construction, and other purposes are estimated to increase by $1.7 billion from the fiscal year 1958 to 1959. Part of this increase will be absorbed by the rise in wages and salaries and will not directly create additional employment.

Furthermore, according to budget estimates, new loan insurance and guaranty commitments will decline—due largely to the scheduled expiration of the VA housing program for World War II veterans.

In view of this anticipated contraction in federally supported housing programs and in view of the increased feeling of uncertainty among potential home buyers, it is less certain that the expected increase in residential construction will materialize. Thus, Federal activities under the President's program do not represent a substantial expansionary influence if the fiscal year 1959 is compared with the current or last fiscal year.

The expectation for an early economic upturn could, in my opinion, be based only on the fact that there will be a substantial though short-run increase in the placement of defense contracts during the next few months. This rise in defense orders is due not to any general increase in the defense procurement program but to a reversal of the sharp curtailment in the placement of orders during the preceding 6 months.

Here, Mr. Chairman, is inserted a table showing the contract obligations placed with private industry and an estimate for the fiscal year 1958–59. There are three bases on which this information is presented: first, on the basis of every 6 months period beginning with July–December 1955, in the first half of the fiscal year 1956—and continuing on through an estimate for the fiscal year 1959.

Second, based on a calendar year aggregation of these figures, a $5 billion increase is expected in contract obligations to be placed with private industry in the calendar year 1957 to 1958. However, it will be noted that this rise essentially offsets the decline in contracts placed between 1956 and 1957 calendar years.

Now, on a fiscal year basis the figures indicate that there is essentially no change in the level of estimated contract obligations to be placed with private industries. Rather the upturn expected in military contract obligations placed during the latter half of the current fiscal year—that is, during the first 6 months of 1958—in effect the first 6 months of the calendar year will offset the decline of the first 6 months of the fiscal year; namely, from July to December of 1957.

Mr. Chairman, may I request that this table be made a part of Dr. Colm's testimony.

Representative BOLLING. The table will be made a part of the testimony.

(The table referred to follows:)

Department of Defense military functions—Contract obligations placed with private industry

[Billions of dollars]

Time period	Major procurement	Other	Total
July-December 1955	3.4	2.3	5.7
January-June 1956	9.5	2.8	12.3
July-December 1956	7.8	3.4	11.2
January-June 1957	6.7	3.2	9.9
July-December 1957 (estimate)	5.7	2.2	7.9
January-June 1958 (estimate)	9.8	3.6	13.4
July-December 1958 (estimate)	7.5	2.3	9.8
Calendar year:			
1956	17.3	6.2	23.5
1957 (estimate)	12.4	5.4	17.8
1958 (estimate)	17.3	5.9	23.2
Fiscal year:			
1956	12.9	5.2	18.1
1957 (estimate)	14.5	6.6	21.0
1958 (estimate)	15.5	5.8	21.3
1959 (estimate) [1]	15.0	4.6	19.6

[1] Projected on basis of first half fiscal year 1959 estimates.

SOURCE: Department of Defense and National Planning Association; estimates based on 1959 defense budget program.

Mr. HELZNER. I continue reading Mr. Colm's statement:

These figures indicate that the increase in contracts will bring the dollar level for the fiscal year 1958 as a whole up to the level of the previous year and that no increase is contemplated for the next fiscal year. Although this concentrated placement of orders during the next few months should have some effect on the level of economic activities, it cannot be expected to bring the economy back on the track of sustained economic expansion.

Efforts to channel more funds into mortgages are desirable but the proposal to increase the interest rate on mortgages just when the general level of interest rates is dropping does not appear very promising to me.

If the Congress should decide that the programs proposed by the President are adequate, then I think that a substantial tax reduction would be needed in order to bolster purchasing power and consumer demand. However, I cannot recommend such tax reduction until the Congress has examined the adequacy of the various programs for national security, research, education, and the other functions of Government. It is my personal conviction that the development of more adequate programs in these vital areas is more urgent than tax reduction.

In our present situation the worst course of action would be one of inadequate measures, either with respect to programs or taxes, which might leave us with a prolonged period of large unemployment. Large unemployment would bring not only hardship and frustration to many Americans, but also would deprive us of services and goods which we so urgently need. It would also mean that we would fall back in the competitive struggle with the Communist regime of Russia and her satellites; this would do great harm to the American position all over the world.

The present situation may present a unique test of the commitments affirmed by the United States under the Employment Act. I appreciate that I have had the opportunity to express my views to this committee which has, I feel, a great responsibility in the present situation.

Thank you, Mr. Chairman.

Representative BOLLING. Thank you, Mr. Helzner.

I hope you will convey to Mr. Colm our hope for an early recovery.

The next witness is Mr. James Duesenberry, professor, department of economics, Harvard University.

Mr. Duesenberry.

STATEMENT OF JAMES S. DUESENBERRY, PROFESSOR OF ECONOMICS, HARVARD UNIVERSITY

Mr. DUESENBERRY. In my testimony today I shall deal with two topics. First, I shall review the economic developments of the past 2 years to show how we got into our present difficulties. Second, I shall make some comments on the near-term outlook and its implications for economic policy.

The committee has asked what factors account for the apparent reduction in business expenditures for plant and equipment. The proximate cause of the decline is fairly readily found. From the beginning of 1956 through the third quarter of 1957 there was virtually no increase in manufacturing production or sales.

Meanwhile the capacity of manufacturing industry is estimated to have risen by 10 or 12 percent. At the beginning of 1956 utilization rates for manufacturing capacity were generally high even for prosperous periods. Order backlogs were increasing in many lines; overtime work was widespread, and in many lines obsolete capacity—included in capacity figures but normally used only to carry peak loads—was continuously in use. The increase in capacity relative to sales during 1956 and the first three quarters of 1957 did little more than bring utilization rates down to normal—although of course the utilization situation varies widely from industry to industry. The reductions in capacity utilization which had taken place up to last fall were not in themselves particularly distressing. But it is not surprising that manufacturers began to reduce their rate of expenditure on plant and equipment. The accumulation of capacity has tended to force down profit margins on both sales and invested capital.

As a result, the prospective returns from new investment have fallen, which naturally tends to reduce plant and equipment expenditures.

The proximate cause of the decline in plant and equipment expenditures was the very wide discrepancy between the rate of growth of manufacturing capacity and the rate of increase in manufacturing capital during 1956 and 1957. A number of factors lay behind that discrepancy. First of all, the rate of capital formation in manufacturing was abnormally high. Demand could not have grown as fast as capacity under the best of circumstances. An average growth rate of 3 to 4 percent is about as much as we can expect on the average, and capacity was growing faster than that. The abnormally high rate of capital formation of 1956–57 was brought about in part by the very high rates of utilization of capacity achieved by the end of 1955. But there was also an element of confidence boom in the picture.

The ease with which the economy weathered the reduction of Government expenditures in 1953–54 and the speed of the recovery from the 1953–54 recession generated a high degree of confidence in the growth potential and cyclical stability of the economy.

These factors generated a high rate of capital formation which would not have been sustained indefinitely. But if income had actually grown at, say, 3½ percent per year during 1956 and 1957 excess capacity would have developed at a very slow rate and the boom could have gone on much longer. In fact, however, real income rose very slowly during 1956 and 1957. From the beginning of 1956 to the third quarter of 1957 real gross national product was rising at a rate of only about 1 percent per year. Because an increasing share of gross product is spent on services there was practically no gain in manufacturing output.

The real explanation of the decline in capital formation is the slow rate of growth of real demand. Money demand grew rapidly as we know. But we do not improve the utilization of capacity by marking up all the prices and wages.

An analysis of the rate of growth of demand during the last 2 years has to be approached with caution because 2 quite different sorts of factors limited the growth of demand. On the one hand we have to consider the physical limits to the economy's capacity to produce additional goods and services. On the other we have to consider the factors limiting the growth of expenditures.

Gross national product in real terms might have risen slightly more during 1956 if demand had increased more rapidly. But in that year the economy as a whole was operating at very nearly full capacity. In view of the inflation which was then taking place and the tendency for speculative investment, to develop an economic policy directed toward increasing demand had little to recommend it. But whether it was desirable to increase demand or not the fact remains that output was limited by demand, not by physical factors, though some particular industries in the capital goods sectors were bottlenecked. It is fairly obvious that more output could have been produced in 1957.

The relatively low rate of increase in real demand during 1956–57 can be accounted for in the following way. Private investment, having reached very high levels by the end of 1955 leveled out and remained virtually constant in real terms during the first 3 quarters of 1956. Meanwhile, Government expenditures though increasing in money terms remained virtually constant in real terms. Aggregate demand increased because the foreign balance was still improving and because the multiplier effects of earlier increases in capital expenditures were still working themselves out. Those multiplier effects, however, were relatively small because governments were absorbing about 25 percent of every increase in income.

It is often pointed out that the fact that Government revenues absorb a substantial proportion of a reduction of income is a built-in stabilizer.

By the same token the fact that the Government absorbs a large share of any increase in income is a built-in brake. Not so much attention has been given to that point because 1955–56 is about the only postwar period with constant tax rates in which Government expenditures were not increasing. It may be said therefore, that one of the causes of the relatively small increase in real demand during the first 3 quarters of 1956 was the drag on the economy exerted by high tax rates and constant—real—Government expenditures.

After the third quarter of 1956 Government expenditures began to rise in real as well as in money terms. But by the beginning of 1957 the investment boom had begun to sag. Inventory accumulation declined. Residential construction fell off fairly rapidly. Other private investment rose slightly but in real terms total private investment declined. The increase in Government expenditures from the third quarter of 1956 to the third quarter of 1957 more than compensated for the downward movement of private investment, but the net increase in constant dollars of the two factors was only about 2 percent.

In the light of hindsight it seems clear that monetary and fiscal policy should have been used to support rather than to restrict demand after the first quarter of 1957. Of course, it would not have been desirable to use monetary policy to give further encouragement to the boom in industrial investment or commercial construction. But it would have been desirable to go as far as possible in easing credit to house buyers and to State and local governments without encouraging a higher rate of investment in other sectors. In addition, an increase rather than a decrease in defense expenditures would have been desirable in the second half of 1957. Those measures would have cushioned the economy against the impending reduction in plant and equipment expenditures and might have eliminated the necessity for the contraction of inventories which is now underway.

I do not say that in a critical spirit however. Forecasting is not such an exact science that one wishes to rely very heavily on it and the situation last summer posed the administration and the Federal Reserve with a peculiar dilemma. Ordinarily we would expect that, after 2 years of slow growth in production, there would be considerable unemployment. But because of the very small increase in productivity in the last 2 years, unemployment remained low until last fall.

As a result we were faced with fairly tight labor markets at the same time that excess capacity was appearing in industry. Last summer then, those who had to make monetary and fiscal policy were faced with rising prices, low unemployment and at the same time with predictions of a depression. Any action involved a risk of error. As we have seen our present difficulties could have been avoided had monetary and fiscal policy been changed earlier. But forecasters can be wrong. If the forecasts of a slump made last summer had been wrong a liberal monetary and fiscal policy might have brought on more inflation, encouraged speculative investment and caused a worse depression later on. One can criticize the administration and Federal Reserve for applying too simple a supply and demand approach to the inflation problem and for not following a more middle of the road policy last year. But one cannot blame them for not completely reversing their policy on the strength of a forecast.

THE CURRENT OUTLOOK AND ITS IMPLICATIONS

So much for the past. Having pointed to the fallibility of forecasters I shall now try a little forecasting. Unfortunately for forecasters the near term outlook depends very largely on the actions taken by the Government which are sometimes even harder to predict than those of the private sector.

Two sets of forces are at work to drive down income: (*a*) a reduction in inventories and (*b*) a decline in plant and equipment expenditures. On the other hand, an expansion in Government purchases is to be expected. If Government purchases—not contract awards but expenditures by contractors—expand rapidly enough to offset the prospective decline in plant and equipment expenditures the inventory adjustment will probably be completed fairly quickly. The reduction in income during the last quarter of 1957 was largely due to a shift from accumulation of inventories at an annual rate of $2 billion to decumulation at a rate of $3 billion. We are only now beginning to feel the effects of the decline in income on consumer expenditures.

If inventory decumulation is to continue at a rate as high as $3 billions per year some further cuts in production must take place. But personal disposable income declines much less than production because profits and taxes fall while transfer payments rise as production declines.

Moreover, consumers will not reduce consumption as fast as their income falls. When dealing with changes which are after all very small percentages of income, any forecast is hazardous. But if increased Government orders balance off reductions in plant and equipment expenditure, the inventory decline should not carry income down by more than say another 5 billions. In those circumstances the rate of inventory reduction should decline by about the middle of the year or—if the outlook for defense expenditures appears favorable—even sooner.

If, however, Government expenditures do not rise promptly the depression will be a much more serious matter. Plant and equipment expenditure will decline in the first quarter and the resulting reduction in sales and profits will carry them down further in the second quarter. The decline in income will make adjustment of the inventory position difficult and the slump will drag on for a considerable period.

In the first quarter of this year the rate of expenditure on business plant and equipment will probably decline by about $3 billion. Because new orders and order backlogs in the capital goods industries have already fallen, a further decline in production is to be expected in the second quarter. Under the stimulus of falling interest rates an increase in residential construction may offset a part of the decline in plant and equipment expenditures. However, the tight money policy was only partly responsible for the low rate of residential construction last year. A reversal of monetary policy is not likely to have as much effect now as it had in 1954.

It is obvious that an easy money policy is now in order but there is some doubt whether the combined effect of easy money and increased Government expenditures will be sufficient to check the decline in income during the first half of the year.

That raises the question of a tax cut. In ordinary circumstances a situation like the present one would appear to call for a tax cut. But if Congress and the administration intend to increase defense expenditures on the scale recommended by the Rockefeller report, any tax cut made now would have to be reversed in 1959.

It seems to me that three things are in order. First, the administration should proceed as rapidly as possible to place contracts for its expanded defense program. Second, it should present to Congress its estimates of the dates at which actual outpayments by contractors on the defense program can be expected. In the event that actual outlays by contractors are going to increase rapidly the current depression will be over soon.

If on the other hand, the administration's schedule calls for a rather slow increase in actual expenditures the Congress can consider two alternatives or some combination of them. First, it could make appropriations for some missile defense expenditures which though desirable from a defense point of view were cut back by the administration for budgetary reasons. For example, the proposed elimination of several wings from the Tactical Air Force does not seem desirable. In at least some cases, expenditures on those items could be made more quickly than missile expenditures.

If budgetary changes of that type do not appear desirable the Congress should consider a tax reduction of a temporary nature. Such a cut should have two features. First, it should be a tax reduction which has a fairly immediate effect on private expenditure. Second, it should be automatically eliminated no later than mid-1959.

Thank you.

Representative BOLLING. Thank you, Mr. Duesenberry.

Next is Mr. Walter D. Fackler, assistant director, economic research department, United States Chamber of Commerce.

STATEMENT OF WALTER D. FACKLER, ASSISTANT DIRECTOR, ECONOMIC RESEARCH DEPARTMENT, CHAMBER OF COMMERCE OF THE UNITED STATES

Mr. FACKLER. I am Walter Fackler, assistant director of economic research for the Chamber of Commerce of the United States. I appear at the invitation of the committee to discuss with the committee and with this distinguished panel some of the policy implications of the current economic outlook. At a later date in these hearings the national chamber will present its analysis of the President's Economic Report and related matters.

Meanwhile, I am pleased to participate in this forum, though I do not pretend that I can give clear and simple answers to the questions that have been put to us. I hope, however, that I may help to put some of the questions in perspective and to clarify some of the issues.

The Congress faces challenging responsibilities, and this committee has a very special role to play, in light of world conditions. Our friends and foes are both watching how we conduct our national affairs. As a bastion of free world strength we must not only seek to maintain fairly regular and rapid economic growth, but we must also continuously disprove the Marxist dogma that capitalism will fail mainly because of its inherent instability.

If I were limited to just one short piece of advice, I would suggest that each member of this committee and and every Member of Congress read or reread thoughtfully the report just issued by your Subcommittee on Fiscal Policy entitled "Federal Expenditure Policies for Economic Growth and Stability." This document is a "democratic manifesto" of fiscal integrity and good sense. It will, I predict, become a landmark as a public statement of principle, and be widely quoted, cited, and reprinted in the future. It reflects great credit on the chairman and members of the subcommittee and this parent committee. It should be studied carefully by a wide audience.

THE SHORT-RUN OUTLOOK

I am not a forecaster by temperament or trade. I leave this treacherous occupation to my more capable or daring colleagues. But it is impossible to discuss policies appropriate to our times without, at least, making some assumptions about the short-run outlook. My own feeling based on limited study of current trends, the analysis of others whose judgment I respect, and my hunch, is that the current slump will be fairly mild and short-lived and that expansive forces will get underway in the second half of 1958. I caution the committee, however, to heed the advice of others on this score. I make the assumption—it is not a forecast—that we are passing through a minor contraction or phase of readjustment from which we can shortly expect recovery, chiefly as a basis for discussing policy issues and because it seems reasonable. If the current downturn is watched carefully, we have little to lose and much to gain by making such an assumption at this time.

Learning to live with minor economic fluctuations is largely a matter of building our confidence to cope with them should they get out of hand. We must learn to expect and experience them without alarums and jitters. We know that periods of economic slack and readjustment always follow a pronounced boom. We know that they are inevitable, and we would not have it otherwise since our economic freedom is involved. The path of economic growth can never be perfectly smooth in a dynamic, changing world. One of the great proven strengths of a free economy is its ability to adapt to changing demands, technological innovations, and altered conditions of supply of our basic economic resources. Some fluctuations between conditions of high pressure and low pressure must be regarded as "normal."

One of the great dangers of governmental policy is that we may forget that a free economy demands this normal range of fluctuation in its operations as a necessary condition for adaptability and growth. To be sure, the limits are not precise; but they are there nonetheless, and we should not behave as though they did not exist. Mild recessions simply are not something to be viewed with alarm as long as they stay within the normal range. They are evidence that our economy is still viable. And they are less to be feared if we have been fairly successful in controlling the inflationary excesses of the booms which precede them.

I am not suggesting that even temporary unemployment is not a distressing situation for those affected. But this is a social problem which we can surely handle without force-feeding the economic system or making impossible demands upon it.

I am not suggesting either that even minor or normal periods of adjustment do not have inherent dangers. On the contrary, as this committee knows well because of its particular responsibilities, ups and downs can become cumulative and self-reinforcing. We must always remain alert to see that fluctuations in the general level of economic activity do not go beyond the range of necessary and normal adaptation—and we do have the tools to cope with excessive swings, though we are still somewhat clumsy and untutored in their use.

The inherent difficulties and practical problems of using fiscal policy to counteract, offset, or mitigate fluctuations in private demand are well known and need not be dwelt upon here. Although there will always be some disagreement in matters of emphasis, degree, timing, and the combination of monetary and fiscal policies appropriate to a given situation, there is, I believe, fairly widespread agreement on the following principles:

(1) Monetary policy is the first line of defense against a cumulative contraction. It can be applied promptly, is readily reversible, is general in application and can be used to promote stabilizing changes in climate of expectations which governs private investment decisions.

Debt management could be used to reinforce monetary policy; otherwise the whole burden of monetary policy is shifted to Federal Reserve authorities. A positive debt policy for purposes of stabilization, however, is essentially a "lossful" operation from the Treasury's point of view. It will not minimize the cost of debt service. It requires funding into long-term securities during inflation—at higher interest rates—and into short-term instruments during recession—when rates are lower and more favorable for long-term funding. Until the debt has a more manageable maturity pattern, and there is greater understanding of debt operations on the part of the Congress and the public, it does not seem realistic to hope for much positive help from debt policy. This means, of course, that monetary policy has to compensate for the unstabilizing effects of Treasury action.

(2) The built-in tax flexibility that results from our primary reliance for tax revenues on income taxes and progressive rates is a prompt defense mechanism against contraction which operates smoothly and automatically without requiring discretionary policy decisions. This tax flexibility coupled with some automatic increases in Government spending, especially in the form of transfer payments such as unemployment compensation, operates as the second line of defense.

Although listed as the second line of defense here, automatic built-in flexibility in taxes and expenditures might more logically be considered the first defense since they do not require ad hoc decisions. Monetary policy, however, is probably more important. Hence it is a matter of taste which measures we consider the first line, and which the second line, of defense.

(3) A speedup of existing Government programs, especially those long-range, continuing projects of social investment which are already being undertaken on their individual merits, serves as the third line of defense. Obviously, acceleration of existing programs should be confined to those projects where favorable and quick effects on total demand may reasonably be expected.

(4) A reduction in tax-rate schedules is the fourth line of defense. No reduction should be made for stabilization purposes alone, unless a recession becomes severe and protracted; that is, when both the duration and volume of unemployment are significantly high.

(5) Compensatory Government spending, except for those automatic increases in transfer payments and easily accelerated increases referred to above, should be used only as a last resort in a period of prolonged economic distress. If a prompt and effective combina-

tion of other policies is used, recessions should be kept within the normal range, and these last-resort measures would not be required.

How can we apply these principles to the present economic outlook? We probably have not reached a stage beyond the second or third defense lines. Indeed, in view of the step-up in military procurement and projected increases in spending for national security, it may well be that our third reserve of defenses has already been brought into action. In other words, we may not need to accelerate any existing nondefense programs, and, in fact, may want to decelerate some of them ere long.

Unless it later becomes clear that present downward trends will not reverse themselves in the second half of this year, any large-scale fiscal action for purposes of economic stabilization would be inappropriate. A major tax cut at this time might well have to be quickly reversed if economic recovery is rapid. Inflationary pressures could reassert themselves before the year is out. Furthermore, since it would be difficult to reimpose higher tax rates, especially in an election year, there exists the danger that monetary policy will be overloaded in a subsequent inflationary situation. Just as in an inflationary situation we must be careful that control procedures do not precipitate a recession, so during a contraction we must not neglect the possible inflationary consequences of measures intended to counteract the slump. Clearly, if any tax relief is undertaken at this time, it should be part of a well-constructed long-run plan of tax reform and tax revision. And the new tax program must be designed to meet projected outlays and produce some surplus at income levels expected to prevail when the present slack in the economy has been eliminated.

THE LONG-RUN OUTLOOK

Although the present uncertainties of the immediate short run are disturbing, I am more concerned about the long-run implications of the present situation and the context in which short-run policies are decided. There is a clear and present danger that we may become so preoccupied with pressing short-run problems that we lose sight of the long-run results of our series in the short-run acts. In other words, if we always look at our feet, we will not see where we are going.

First, to clear the decks, let us consider the role of the Federal Government in present economic and political circumstances. We do not have a peacetime budget and we had better quit pretending that we have. Nor does it seem likely that we will have a peacetime budget for a long time to come, in view of the large, continuous, and probably rising changes which will be made against our national output for defense purposes.

On the other hand, we do not have a wartime budget directed at all-out mobilization. What we have is something in between—a space-age preparedness budget or a free-society defense budget—call it what you will.

There are important implications here for fiscal policy, economic stability, and growth. In a setting of all-out war, the energies of the Nation can and must be mobilized mainly to one objective—preservation. Under such conditions, we do not worry much about long-run economic growth, rising consumption standards, and a host of other social priorities which must play second fiddle or be dismissed from the orchestra outright. For short periods we can live to some extent on our capital in an attempt to get maximum output out of existing resources. Private investment may be actually cut back and carefully channeled to war needs; and new facilities to produce consumer goods are clearly a luxury which cannot be afforded.

The long-pull preparedness situation is different. We want high rates of economic growth, maximum productive capacity, and rapid exploitation of new technological developments. But we also want to enjoy rising levels of consumption, calling for rising levels of private and public investment for the production of normal peacetime goods and services. In addition, within minimum necessary limitations, normal peacetime incentives are used to guide the system, and normal occupational and consumer freedoms prevail.

We must stop and ask ourselves two questions:

(1) To what extent can we have business as usual, or, better, consumption as usual; and

(2) What will be the long-run impact on our economic system of a prolonged heavy defense program?

In answer to the first question, I suggest that high rates of economic growth are more important than rising living standards—that defense is more important than opulence. This does not mean the two are completely unrelated. There is no reason why we cannot feed, clothe, and house our growing population, perhaps, even more elegantly than before. But stern and conscious choices must be made. Although we may not have to pull in our belts, we may not be able to let them out as fast as would otherwise be the case.

What I am arguing is simply that we can afford, at least within wide limits, whatever level of defense we need, but that it should, probably, be made a charge against some postponed improvements in consumption rather than chiefly against productive investment and capacity.

The committee asked this question, among others: "What, if any, evidence is there of existing or threatened overcapacity in plant, equipment, commercial construction, and housing?" To which I reply, "None." To be sure, at the present time we do have some temporarily idle capacity, and it is true that in boom periods there may be maladjustments and a too-rapid growth in certain lines, but we cannot have general overcapacity. Surely, in these times, above all, our problem is not too much real capital—not that we are too productive. Rather, it is that we cannot have everything we want as quickly as we want. Parenthetically, it should be noted that published figures on capacity can be very misleading. In periods of rapid technological advance, obsolescence is also rapid, and statistical computations lead to exaggerated notions of capacity, excess or otherwise.

What all this means is: In the short run, any major increase in defense outlays should come at the expense of nondefense consumption, both public and private, for there seems to be no reason to assume that there will be a marked change in the relative values of public vis-a-vis private nondefense consumption. In the longer run, increasing capacity to produce can provide for increases in both defense and nondefense goods and services.

As to the second question raised earlier: What will be the long-run impact on the economic system of a prolonged heavy defense program? We must consider, first, what the large defense expenditures do to the structure of industry and the composition of our real capital, and, second, how defense financing—the tax structure, primarily—affects the system.

The effects of defense procurement are far from neutral, nor do we want them to be. In the long run, our military strength depends on expanded productive capacities. But neither do we want to wake up 10 years from now to see that we have done things to our economic system which we do not like and could have easily avoided.

In an all-out mobilization period, we must have "crash" programs, make maximum use of existing facilities, and get immediate deliveries. In a sustained, prolonged buildup, however, we can avoid many undesirable "crash" techniques, at least in production. This is a difficult and uncomfortable issue, but one that should be faced. We don't need "just growth" but "balanced growth." We must maintain a healthy small- and intermediate-sized business community, encourage the formation of new firms, and promote a competitive market structure. I may be old fashioned, but I prefer to rely primarily on competition rather than "voluntaryism" or Government authority as an agency of social control.

Modern technology may demand large-scale producing units, but we should have no systematic bias in our procurement practices which give undue advantage to large size or keep control of new technological developments within the ambit of a particular group of existing firms.

On the revenue side, there is much that needs to be done. I agree emphatically with the report of your Subcommittee on Fiscal Policy in its statement, "Whether or not tax reduction will be called for [as a stabilizing measure], tax revision is always timely." Tax reform is not only timely; it is long overdue. Here we have looked at our feet far too long. Each year we extend for another year, without correcting the uneconomic features of the tax structure. It is a tribute to our economic system that it performs as well as it does under unnecessary deterrents. I do not deprecate the sincere efforts that have been made by Congress to correct inequities and clarify the Internal Revenue Code. But tranquilizers are not sufficient where surgery is wanted.

What I am mainly concerned with is the long-run impact of our present tax structure on economic efficiency, on small business, on the diversification of investment, on opportunities for economic growth, and on job opportunities. We must have high taxes, but let us at least try to eliminate those features of our tax system which reduce our ability to bear taxes. Here, too, long-run growth of our tax base should be a major consideration in setting short-run policies.

Constructive tax revision should be guided by considerations of tax neutrality, equity, flexibility, balanced economic growth, in the sense used above, and, at the same time, adequacy to meet our revenue needs. Any tax system must be a compromise among sometimes conflicting canons, and it is easier to state principles than it is to apply them. On this score, I have no desire to change places with the members of the committee. Specific advice is all the more difficult because what one would advocate in one tax area depends also on changes he would want to make in connection with other forms of taxation and the allowances he would have to make in light of other governmental policies. Certainly, what is needed is a bold, new approach.

Properly devised tax reform should meet most of the major objections and slogans which crop up to prevent almost any constructive movement in the right direction. It should not discriminate against either high- or low-income groups. It should balance flexibility with adequacy, and equity with neutrality. It should promote economic efficiency, competitive enterprise, and balanced growth, and, thus, help to raise low-income groups to the status of income-tax payers as rapidly as possible. Whether or not we have the wisdom, maturity, and moral fiber boldly to attack the problem of tax reform, I do not know. But I do know the problem will not go away just because we ignore it.

There are other disturbing features in the long-run outlook which are related indirectly to stabilization policy. Two, at least, should be mentioned in passing. One is the problem of wage-price determination. We have gotten ourselves into a vicious pattern of bargaining which forces up money wages every year by more than productivity and existing prices can bear. In addition, the existence of long-term contracts, previously negotiated, means that in many industries wage increases cannot be postponed even in the face of falling demand. I am not pointing the finger at organized labor. I am simply pointing out that in the present framework both the individual union and employer are caught in the system. With costs and prices rigid downward, we may be developing more and more an economic structure which must make most adjustments through variations in output and employment rather than through prices. From a welfare standpoint this is retrogression.

The structure of markets to which monetary and fiscal policies are applied should not be ignored because policies are an immediate issue, while market structures are a long-run problem. For these policies to work smoothly we need a competitive system with the fewest possible number of artificial and structural rigidities. This is another important reason why we must enforce competition in all markets both for products and for labor.

The last long-run problem I shall mention is that of international trade. With our international responsibilities we cannot swing to more restrictive trade practices, nor should we attempt to cure domestic problems by attempting to push them onto our friends and neighbors abroad. Our long-run growth and strength are intimately tied to expanding trade opportunities for the free world.

SUMMARY

In conclusion, I should like to summarize as follows:

(1) Short-run policy at this stage should primarily be that of prophylaxis—easing credit conditions, maintaining Government spending, and letting tax flexibility and stepped-up military procurement do what they can. In short, watchful waiting.

(2) In the long run which matters I doubt whether we shall all be dead, but if so, we shall certainly have some legatees. Short-run

policies should have long-run goals as well as immediate aims. We need to reconsider today the long-run impact of defense programs on our rate of growth, on attainable increases in per capita public and private nondefense consumption, on the structure of real capital, and on the degree of competition in the system. And we need to look at the impact from both the tax and expenditure sides and the interactions of the two. In addition, we should be concerned not only with the appropriate combination of public policies for stability, but should be prepared to assess the likelihood of their success in light of the institutional structure of labor and product markets through which they must operate.

Representative BOLLING. Thank you, Mr. Fackler.

Next is Mr. Martin R. Gainsbrugh, Chief Economist, National Industrial Conference Board.

STATEMENT OF MARTIN R. GAINSBRUGH, CHIEF ECONOMIST, NATIONAL INDUSTRIAL CONFERENCE BOARD

Mr. GAINSBRUGH. I am honored to be asked back again.

Even as the 1958 recession begins, economists are already differing over its causes. Accurate diagnosis therefore is important at this time for policy decisions. I propose therefore to concentrate my opening statement on interpretation of our current position rather than on policy recommendations.

My opening comments are confined to what I consider the hard core of this recession, namely the downward trend in private capital investment. The National Industrial Conference Board, some quarters back began a survey of capital appropriations in large manufacturing industries. And I believe this provides insight in our current and prospective trends.

Based upon our analysis of these materials it would seem—and this supports what Mr. Duesenberry has already said—the shallowness of the 1953–54 recession awaited by business as a test of the soundness of the postwar boom, released the pent-up plans for capital spending.

The seasonally adjusted rate of capital appropriations touched bottom in the first quarter of 1954. In each succeeding quarter of 1954, the adjusted rate of appropriation approvals rose. The rate in the first quarter of 1955 was some 50 percent above the low point a year earlier. The investment boom was on.

Starting with the fourth quarter of 1954 and continuing through the first half of 1956, unspent appropriation backlogs climbed steadily upwards. It was only in the second and third quarters of 1957 that capital goods spending substantially exceeded the rate of appropriation approvals. During these 6 months over one-fourth of the unspent backlogs accumulated in the previous 10 quarters were used up.

We found in the third quarter of 1957 that capital appropriations of the thousand largest manufacturing corporations had been cut 30 percent from the figure for the third quarter of 1956.

I now bring you a preliminary result of our findings for the fourth quarter. Mind you, these are for the giants of American industry.

On the basis of returns for about 80 or 90 companies this downward trend in appropriations is still continuing, if not accelerating.

Capital appropriations may have been cut back about 40 percent in the fourth quarter as compared with 30 percent in the third quarter. It may very well be—I know of no data on which to substantiate it—that you can defend the thesis that excess capacity does not exist in American industry today. I don't see how you can deny the belief that it exists in the psychological feeling of the top men in industry, whether or not it may exist in abstract statistics. It certainly exists in industry's thinking about whether they should continue to add to their plant and equipment at as high a rate as they have in the past.

Now, what do we know about the cyclical patterns of capital investment?

Capital investment plans typically go through waves of optimism. One such wave reached boom proportions in 1955–56. In the process of carrying out these investment plans in a fully employed economy, some pressures were created; among them, increased prices in the capital goods field.

The old laws of supply and demand have not yet been repealed.

As frequently happens in an investment boom every one gets into the act and then some. We now face the temporary problem of unused capacity in many lines of American industry, including many of our growth industries. And the working off of this unused capacity will take some time, time measured in terms of a year or more, not in terms of a few months. I am not a member of the 6-months club.

It should be recalled that in the 1948–49 recession there were four quarters of decline before a rise was evident in the first half of 1950. In the 1953 downturn there were four quarters of decline before the upturn of capital goods in the second quarter of 1955. We are now seeing in investment, as in other sectors of the economy, a series of significant economic changes from the first postwar decade to the second postwar decade. The first postwar decade is always highly stimulative. Now, we are beginning to witness a restructuring and reallocation of capital inputs from the heavy concentration that was required in the manufacturing sector in the first postwar decade. This high rate of capital investment was in part a result of World War II, in part the result of the uneasy peace, in part because of the inadequacies of capital inputs in the 1930's, and the early 1940's.

As we enter 1958 we appear to have brought our capital structure in manufacturing industry at least into balance with the overall economy and, with it, we may be witnessing the shift from here on increasingly from the fabrication toward the service area, toward the Government sector and to other areas of the economy which have been undercapitalized. This readjustment may take some time.

In financing the record rate of plant and equipment investment of the past 2 years, business drew upon its liquidity reserves which have now reached the lowest postwar point. Further, the stock-market decline of the past 6 months or so has made equity financing somewhat less attractive. And corporate profit margins have been constantly narrowed beginning with the third quarter of 1956 and continuing into the first quarter of 1958.

Perhaps even more important from the point of investment nondistributed corporate profits have been declining. The problems of finance have also contributed to the letdown of the investment boom.

The cutbacks in capital goods spending are highly significant for short-run stability. What seems to have happened as late as the fourth quarter of 1957 was this: The business community became aware in their own activities of the impending slowdown in the capital-goods sector, and then cut back their inventories as the first countermeasure.

What we are witnessing today, therefore, is the opening stage of a capital-goods cycle rather than an inventory recession of the type we have experienced ever since the end of World War II. This time the inventory cycle was induced by the impending decline in capital goods rather than being the cause of the decline.

How much farther these two forces decline will depend upon the reaction of the rest of the economy.

I would like to close, therefore, by offering my comments on three trends in late 1957 and early 1958, which are already significantly conditioning our short-run outlook.

No. 1, first and foremost is the severity of the contraction, particularly in manufacturing in recent months. This has been far more rapid than was visualized in most models for 1958; more, I suspect, than even the Council's model. The rate of decline in factory output in the past 4 months was 6 percent for all manufacturing and 8½ percent for durable goods.

The soft-goods industries, the so-called impregnable sector, as late as September 1957 was still at an alltime high. It fell by 4 percent in just 3 months. This rate of contraction was sharper in manufacturing than in the comparable initial quarters of earlier postwar recessions. It brought in its wake unexpectedly rapid and marked increases in unemployment, and losses even in personal income, generally viewed as impregnable in the initial stages of contraction.

Most projections assumed that sufficient forward momentum was still left in the economy to bring it into higher ground by the end of 1957.

Now in many instances the estimates for 1958 are being revised downward in recognition that contraction was already underway as we entered 1958.

And in that connection I could wish that our current statistics in the fourth quarter had been better than they were, particularly the Federal Reserve Board index of industrial production.

That is a key measure that was revised downward by some 2 or 3 points during the course of the quarter. It threw many of us off in getting a fix on the economic situation in the fourth quarter.

That is the bad news of recent weeks. Now, the good news. A second and more gratifying development is the surprising continued strength of end-product demand. Now it is true that gross national product declined by some $6 billion in the fourth quarter but the bulk of this decline represented a reversal of inventory policy. The dollar value of goods taken off the market place by consumers, by business and Government, was virtually as great in the fourth quarter as in the third. This strength of final demand is all the more noteworthy in that it occurred in a quarter characterized by sharp cuts in output, employment, and income. Despite all the early moaning and wailing about Christmas business, retail trade was at an alltime holiday peak in the month of December.

Department store sales are still very good in the month of January 1958.

Should end product demand hold up as well in the weeks immediately ahead, it could fatten up order books and lead to a rise in production. And in that connection I noticed a statement by Roger Blough, of United States Steel Corp., this morning in which he said that—

> Very rapid reduction of steel inventories by the industries' customers continued at an accelerated pace, until very recently.
>
> Yesterday, the company received information indicating that business in January would be somewhat better than was anticipated.

I would in this connection watch closely the figures for soft-goods expenditures. This one bothered me when I saw the gross national product figures for the fourth quarter. A decline is already evident in consumer outlays for soft goods.

The first recent development, to repeat, is the severity of the cutback in manufacturing; the second and more gratifying development, is the continued strength of end product demand.

Third and last of recent developments is the emergence, with bipartisan support, of expanded outlays for defense and related technology and scientific efforts as the most potent economic stimulant as yet at work on the economy. We could have argued for months about the form countercyclical activity should take—perhaps monetary in character, perhaps fiscal in character; we might have resorted to stockpiling, to work relief, to other devices.

Here, instead, we have unanimity upon a form of countercyclical action. And this new countercyclical force is already serving through accelerated contract placement to mitigate the most recent cutbacks which have occurred in manufacturing. The low rate of contract placement in the closing half of 1957 coupled with a decline in defense outlays contributed toward contraction in business activity at the year end. With each passing week of this year, this sector of demand will shift from the low gear in which it was placed in 1957 to a steadily higher gear.

As such outlays rise, they should help to replace the loss in demand through the tapering off of the private investment boom in plant and equipment. Should this rising trend in defense outlays be in turn supported by stable consumption outlays, we could lock this recession in the capital-goods industries, as we earlier locked the contraction in the automotive industry and the home-building industry, into those respective industries.

And if so, the disturbing cuts in factory output and employment could prove to be short lived. And again in that connection I would watch closely the figure for expenditures for soft goods consumption in the weeks ahead. If this stays stable, if we have stable consumption outlays backed up by rising defense outlays, then I think there is the possibility that by late 1957 we could see factory output and employment again ascending.

Representative BOLLING. Thank you, Mr. Gainsbrugh.

Next is Mr. Jewell J. Rasmussen, professor, department of economics, University of Utah.

STATEMENT OF JEWELL J. RASMUSSEN, PROFESSOR, DEPARTMENT OF ECONOMICS, UNIVERSITY OF UTAH

Mr. RASMUSSEN. Thank you, Mr. Chairman.

In the interest of time, I shall omit certain parts of my prepared statement and in the interest of clarity, I shall add to it or modify it in a place or two.

First, let me state clearly the points I want to make in this brief statement.

No. 1. This current recession could develop into a serious recession. I will not argue that it will, but that it could become serious.

No. 2. If such should happen, it would be good insurance to have some plans ready for action.

No. 3. Such plans, however, should be very flexible because both the timing and the amount of action are important.

No. 4. Although both monetary and fiscal policies can and should be used to stem a recession, fiscal policies of tax reductions, increased transfer payments, or increased public works are much stronger in my opinion than monetary policy.

With the exception of a few general comments on the subject, I shall leave the problem of the causes of the current slowing up in the various segments of the economy to those who are closer to the field of business analysis than I.

It is clearly apparent to all, however, that in the last decade we have had a tremendous expansion of plant and equipment. For example, in the 10-year period of 1948 to 1957, there was spent on producer's durable equipment and new private construction, other than nonfarm residential, a total of $368 billion (current prices) or an average of $36.8 billion per year. The last 3 years show an annual expenditure of 39.8, 46.1, and 49.4 billion dollars for these 2 categories.

Although there is little doubt that in the years ahead such factors as population growth and technological advances will require continued large capital outlays, it appears that this extensive period of rapid expansion in plant and equipment has produced some temporary overcapacity which could possibly require more than just a few months to overcome.

Yesterday, Mr. Greenwald stated that investment in plant and equipment in manufacturing is expected to be down 16 percent in 1958. Two of my colleagues who have done considerable work in forecasting and cycle analysis indicate that the decline for 1958 in this category will be between 20 and 30 percent.

In the more serious recessions in the past, investment in manufacturing has declined from the previous year by 50 percent or more. For example, 1921 went down 57 percent; 1931, 45 percent; 1932, another 46 percent; and in 1949 it dropped as much as 22 percent. And this was mild recession.

The possibility of a recession of a more serious type appears to be much greater now than in 1949 or 1953–54. For the first time since 1945 there is perhaps a real danger that a serious recession could develop. There is ample justification to regard the present recession with particular suspicion.

21111—58——10

A principal causal factor in this potential threat is overcapacity. It is quite true that there are significant countercyclical factors to be taken into account—for example, national defense, the highway program, and State and local public works have been mentioned—but I think it would be a mistake to assume that these forces will automatically check a downturn in a few months' time. The prosperity and high level of employment during the past 15 years may have dulled somewhat the view held by many economists that the maintenance of a level of total demand adequate to assure full employment will pose a long-run economic problem in the United States.

Often overlooked is the fact that part of this prosperity since the end of World War II has been due to the backlog of deferred demand carried over from the great depression and World War II. Hence the so-called normal level of activity has been inflated by this catching-up activity. We are now probably fully caught up, and from here on the real rate of growth, at least for a time, could be somewhat lower than we have experienced in the past decade.

Now, the aspect I wish to stress or emphasize particularly in this brief statement is the point made in the first sentence of the economic report and the fiscal and monetary policy related thereto. The sentence reads as follows:

> Developments in 1957 illustrate how rapidly changes can occur in the problem of maintaining growth with reasonable stability of prices in a dynamic, free-enterprise economy.

Events not only in 1957, but in prior years also, indicate that ours is a dynamic economy, with significant shifts in economic activity occurring almost overnight. Accordingly, if the range of economic fluctuation, with reasonably stable prices, is to be kept within satisfactory limits, fiscal and monetary policies must be very flexible.

Many people are forecasting the day and the hour when the current downslide will end and the upturn will begin—and some may be right, too. But the science—or art—of forecasting is far from an exact science, and we cannot afford to rely heavily on forecasts. Forecasts must continue to be made. But we ought not to gamble and base a program on forecasts alone. The upturn may come in 4 or 5 months, as some have predicted; it may come in 11 or 12 months, as others suggest, but the slide may also gather additional momentum and continue for more than 12 or 13 months unless checked by appropriate governmental economic policies.

It is an obviosity perhaps to state that nearly all the economists hold the view that Government fiscal and monetary policies and their timing constitute a set of major influences on the state of employment, production, and prices. Appropriate fiscal and monetary policies, properly timed—and timing is of the utmost importance—can go far toward stemming prospective inflationary trends.

While both monetary and fiscal policies should be used, I have a strong bias toward fiscal policies, especially in periods of recession. I am aware of the fact that the advocates of the efficacy of monetary policy as an economic stabilizer claim improvements in recent years. Nevertheless, the braking power of monetary policy is much more effective than the stimulating power. The efficacy of small reductions in the rediscount rate in a recession is particularly doubtful; demand considerations are weightier than small cost reductions. A consensus of panelists on monetary policy at the recent annual meeting of the

American Economic Association in Philadelphia indicated a definite movement among economists toward greater emphasis on fiscal policy and a stressing of the limitations of monetary policy.

There is an area where lower interest rates can be effective in stimulating activity: in housing and other long-term investment where interest is an important part of total cost. But how much stimulus there will be from this source in very short periods is uncertain.

As to appropriate fiscal policy for the coming year, I must again stress preparedness and flexibility. If the recession is mild and short lived, the automatic stabilizers we now have may prove adequate. But even this course of action requires acquiescence to a budget deficit which may occur through the maintenance of Government expenditures even though revenue may fall below expenditures. I hope we have made enough progress to avoid serious debate on the acceptance of deficits under these circumstances.

If the recession continues to spread and deepen, then positive stabilizing action should be undertaken by reducing taxes or increasing the level of expenditures. Since discretionary action of this type usually requires considerable time, and since there is much uncertainty about the possible extent of a recession, preparation should begin immediately on possible tax-reduction or expenditure-increasing programs. With advance preparation and general agreement secured, a cut in the individual income tax could be made effective and felt by the taxpayer within 2 or 3 months after the decision was made. And a general income-tax-rate reduction would probably be the most desirable type of tax reduction. The tax cut, however, should be temporary with a time limit specified.

Plans could also be made to increase the flow of transfer payments—increasing grants-in-aid to State or local governments, increasing and/or lengthening the period of eligibility for unemployment compensation—or to increase expenditures on public works. The latter could include approved and authorized projects to expand heavy public works and to initiate appropriate light public works. The project plans which I understand many Federal agencies now maintain will reduce the time element in getting such projects underway, but much time will be lost unless many of these projects are authorized and ready to go upon short notice if the recession becomes serious enough to warrant them.

As to a preference of type of increased expenditures, should such be necessary, I have a bias toward resource-strengthening expenditures, including human as well as material resources.

Effective fiscal policy depends as much on timing as on the nature and the scope of the program. So whether the policy is to cut taxes, increase transfer payments, or increase public works, some solution must be found to two problems: (1) determining who is to have the authority to decide what kind of action is appropriate and when action is to be initiated; and (2) determining what criteria can and should be used by the authority in arriving at its decisons. Leaving the answers to these questions until a serious recession is upon us can only multiply the confusion, suffering, and cost before a satisfactory level of economic activity is restored.

I shall close on a discordant note. A unique situation probably exists in the economy which will complicate both effective monetary and fiscal policies. This is the situation of rising prices, due to the cost-push of wage demands and fringe benefits in excess of productivity gains, in the face of increasing unemployment and continued recession. What effects will this situation have on the Government policymakers? What will be the effects on the social and economic costs of maintaining stability of the economy? The maintenance of stability and satisfactory growth will certainly be made more difficult by this cost-push effect on prices.

Representative BOLLING. Next is Stanley Ruttenberg, director, Department of Research, American Federation of Labor and Congress of Industrial Organizations.

STATEMENT OF STANLEY RUTTENBERG, DIRECTOR, DEPARTMENT OF RESEARCH, AMERICAN FEDERATION OF LABOR-CONGRESS OF INDUSTRIAL ORGANIZATIONS

Mr. RUTTENBERG. Mr. Chairman, I certainly hope that all of you will excuse me for injecting a political note into the comments of my distinguished predecessors this morning. But I can't help relating my economic analysis and the implications of policy actions to the political situation of the election year, 1958.

Against a background of rising unemployment, falling output and other economic danger signs, the Economic Report of the President unfolds an array of wishful thinking with implications of dangerous political deception. At a time when the Nation's problems require honest reporting and hardheaded solutions, the prospect of next November's returns seems to have directed the administration to lull the American people with soothing optimism. Instead of proposing realistic solutions for current fears, therefore, the administration report whistles in the dark and hopes that tomorrow will be a better day.

Whether this attitude shows administration naivete or purposeful deception of the American people, the report fails to carry out the mandate of the Employment Act of 1946. This law requires the President to submit a report on current and projected economic conditions, and to suggest a program that will, among other things, "promote maximum employment, production, and purchasing power." The lack of candor and positive projections and recommendations in the economic report makes it fall short of this legislated objective.

The United States is faced with a triple challenge at this time: Reversing the economic downturn, meeting the Soviet challenge and providing the economic and social programs necessary for a growing population. The President's Economic Report not only does not make positive recommendations to meet these problems, but makes assumptions and suggestions that could increase the seriousness of the challenge now facing the American people in all three of these areas.

Political considerations seem to have dictated this approach: Prosperity, security—plus a balanced budget—are desired administration goals to get the proper election returns next November. But needed action both for the economy and for security might produce an unbalanced budget temporarily—a political danger in the administration's view. Possibly to avoid such a political faux pas as a proposed imbalance in 1959's budget, therefore, the administration has chosen to proclaim that the downturn in the economy will be reversed. It is hoped that the prediction will become a fact.

However, the economic signs the administration has chosen as guideposts to a brighter future seem rather blurred: The economic report emphasises an upturn in military contract placements, increased State and local government spending, as well as a rise in construction.

Though Defense Department contract placements will be about four to four and one-half billion dollars greater during the first half of 1958 than at the low point of 1957, present budget plans show that these contract placements will drop again in the second half of 1958 and early 1959. Even though a four- to four-and-one-half-billion-dollar rise in the first half will certainly have some good effect on the economy, this sum could not guarantee the optimistic results the administration so hopefully expects.

Another chosen sign of an upturn is State and local government spending. But State and local government revenues have been declining because of the overall economic downturn. As a result, present predictions of a rise in State and local government spending may be tempered by cutbacks in spending by governments whose revenue intake is declining. Even if monetary policy eases enough to increase the amount of local and State securities floated at lower interest rates, the increase in spending generated by this factor would not seem to warrant a prediction of a significant upturn in this economic area.

As for construction, the economic report itself shows that 1957's physical volume of construction did not come up to that of 1956. Although the Department of Commerce and Department of Labor predict that construction spending will rise by about 5 percent in 1958, part of this anticipated rise in volume will be offset by rising costs. The upturn in physical volume, therefore, will not be as much as the predicted 5 percent. Housing starts will show little change between 1957 and 1958, according to most predictions, in spite of eased monetary policy.

The three major signs of optimism in the economic report, therefore—contract placements, State and local government expenditures, and construction—do not add up to a substantial basis for such an optimistic view of future economic developments.

These favorable factors will not necessarily reverse the pessimistic economic signposts, which are very real and very current. Plant and equipment expenditures are down and will not be forced upward rapidly by these three factors. Consumer spending, according to the survey research center of the University of Michigan, is also expected to be down. Inventories are being liquidated. The three upturn factors emphasized by the administration may stop inventory declines, but they do not point to an overall rise in economic activities.

Despite the very real dangers evident in the economy, despite the weakness of the basis for optimistic predictions, therefore, the economic report has chosen to soothe America's fears with a politically inspired optimism about the first of the three grave challenges facing America today—reversing the economic downturn.

Why? Because the Economic Report of the President was written to make way for the political advantage of a proposed balanced budget for 1959, even though a balanced budget might jeopardize the effective solution of the two other major crises facing the Nation—namely, security and economic and social needs. A balanced budget can mean curtailing the rise in defense spending below the point necessary to insure America's success in winning the military-preparedness race. It might, therefore, mean a failure to face the real needs of defense appropriations.

Equally serious is the prospect that emphasis on a balanced budget will jeopardize the economic and social progress of the past 25 years. Sputnik is being used as an excuse to propose the curtailment of programs vitally necessary for the economic and social advancement of our growing population.

At the same time, the bogeyman of "big government" is being used as an ax to cut or shift to the States programs that have been started to meet the economic and social problems of the American people. The President's Economic Report should have laid the groundwork for programs to insure the military, economic, and social strength of America, instead of weakening defense prospects and jeopardizing other advances, possibly, for the sake of political gain.

The President's Economic Report should have been based on a philosophy and psychology that would give America strength. The administration should recognize the psychological and economic facts of life. A realistic appraisal of an economic downturn with rising unemployment and declining production calls for economic analyses and programs that will provide concrete foundations for the hope of economic prosperity.

Economic prosperity will give the United States the foundation for all the defense requirements of the future and all the social and economic progress its people deserve. Instead, the President's Economic Report has chosen, perhaps for political reasons, to treat the American people's real concerns and needs as childish nightmares that can be brushed aside with soothing reassurances.

No responsible government in this country today can ignore the dictates of current reality.

1. We must reverse the economic downturn by stimulating consumer purchasing power. First things must come first. Tax cuts for low- and middle-income families would be a start in the direction of insuring the growth and prosperity of a healthy economy. Revenue losses from such a cut should be made up by closing the loopholes which have eroded the progressive nature of our tax structure. Tax cuts are now necessary to stimulate the needed purchasing power to reverse the current downturn and increase the growth of the economy.

2. We must meet whatever defense needs arise. The health of our economy can be the basis of our strength in meeting defense costs. A growing economy will be a wellspring of economic strength in meeting the revenue needs of military preparedness.

3. We must recognize that the Federal Government has a responsibility to develop the social and economic programs that will fill the requirements of a growing population. A healthy economy will make it possible to insure the strength of our Nation on the military and social fronts.

Even if a slight upturn occurs by November, the administration will have failed to suggest action to stop current economic losses caused by lowered production, declining incomes, rising unemployment. It will have failed to contribute proposals for stimulating economic growth, the basis of our defense and social strength.

It is more than unfortunate that the administration seems to have allowed its political desire to present a balanced budget to control its statements about the economy so much that the President's Economic Report fails to serve the purpose for which it was originally intended.

Representative BOLLING. Thank you, Mr. Ruttenberg.

Senator Douglas, do you have some questions?

Senator DOUGLAS. I want to compliment all of the members of the panel on what I regard as an extraordinarily able series of papers. I am greatly pleased to find such substantial agreement that a large part of our present troubles has been caused by an appreciable decline in capital investments. If I may be permitted to ask a question or two, I will appreciate that.

Mr. Rasmussen, I was greatly impressed with your statement and, on page 4, you stated that—

> If a recession continues to spread and deepen, then positive stabilizing action should be undertaken by reducing taxes or increasing the level of expenditures.

I subscribe to that theory. The difficult question is: At what point will you move from monetary policy to fiscal policy?

I wonder if you have any informed judgment as to the critical point at which you should move from monetary policy to fiscal policy? What criteria and what quantitative values would you have to have? Take percentage of unemployment, for instance. What percentage of unemployment?

Mr. RASMUSSEN. I haven't formulated, Senator Douglas, an exact set of criteria for this sort of judgment. It is going to have to be something that we can get a fairly general agreement upon. I would, however, as you indicated, stress the unemployment figure. And I think in our economy if we get above, say, 6 percent, we are in serious trouble.

Now, we have got to look at the thing sort of subjectively too, and decide if employment might come back, or if it is going to go on down.

So we have to couple a percentage figure with a good subjective analysis of where we think we are going. I think that combination has to be brought together.

Senator DOUGLAS. I am interested in what you say because 6 years ago I came precisely to the same conclusion. That 6 percent was a danger point, but in between 6 and 8 percent there was a certain zone of uncertainty.

The figures on unemployment that we have are figures of total unemployment, and after some bludgeoning, we finally got the Council of Economic Advisers to include layoffs as a part of the unemployment. They were trying to say, if you didn't have the job, but had a promise of a job, that you weren't unemployed. So the index of total unemployment is much better now than it was a year ago. But as we all know, during a recession, we have a large volume of people who are put on involuntary part-time 3 or 4 days a week.

Now, we worked on a sub rosa method of treating this. But my colleagues on the committee have never permitted this to be included in our official statistics. But I would like to ask this question: Do you think that an allowance for involuntary part-time should be included in the future of unemployment?

Mr. RASMUSSEN. I certainly do, Senator Douglas. Our data are weak in that respect. We use this overall figure and ignore this type of unemployment in our data. I would definitely include some sort of measure of involuntary part-time unemployment in determining how much unemployment we really have.

Senator DOUGLAS. For the sake of the record, may I say that the computations which we have made for December indicate that the amount of part-time was the equivalent of a million full-time unemployed. And that this raised the percentage, therefore, of unemployment by 1.3 percentage points, to a total of 6.7 percent, with seasonal factors eliminated. I think that is right—6.7.

Mr. RASMUSSEN. The name we give to that is concealed unemployment. I think there is a good deal of that that doesn't show up in the regular figures that are published.

Senator DOUGLAS. Do you—would you—say these figures are correct, and, personally, I believe they are approximately correct, that we are in the danger zone now.

Mr. RASMUSSEN. We are getting close to it now, Senator.

Senator DOUGLAS. If it should go up further in figures for January, and if they show a further increase, we would either be at or still closer to it.

Mr. RASMUSSEN. I think it will show that, too, when they are released.

Senator DOUGLAS. Thank you. That is all.

Representative BOLLING. Senator Watkins.

Senator WATKINS. I am sorry, Dr. Rasmussen, that I was not here in time to hear you deliver your paper. However, I went over it rather hurriedly before coming over here. I note that you place more emphasis on fiscal policies than monetary policies to halt the downward trend.

Mr. RASMUSSEN. That is correct.

Senator WATKINS. Would you be kind enough to explain a little more in detail what fiscal policies you think ought to be undertaken to halt the downward trend?

Mr. RASMUSSEN. Well, the two major types, of course, which I have in mind are either tax cuts or increases in expenditures or some combination thereof.

Senator WATKINS. Would defense expenditures come within that?

Mr. RASMUSSEN. That is right. Of the most likely types of increased expenditures right now, of course, would be the defense expenditures, as mentioned here this morning.

Another important one would be the State and local expenditures. There is a terrific backlog yet of definite need for schools, sewers, and public buildings of various kinds at the State and local level. This type of spending has been going on quite rapidly, but it might fall off if recession psychology gets more important. So they might need some bolstering if we are to keep that rate of spending going as we talked of here.

Senator WATKINS. I am not acquainted with conditions in all the States of the Union, but in our own State, for instance, I think the State is out of debt. Under a situation of that kind, the State and local governments could certainly provide a lot of employment in many projects that have been held up because of World War II that have not been undertaken since that time.

Wouldn't you think that great emphasis ought to be placed upon those types of activities?

Mr. RASMUSSEN. Very definitely. As you point out, in the State of Utah we have no State debt whatever. And the State could incur considerable debt, if we can overcome the psychology against debt, and continue these necessary building programs.

Senator WATKINS. And that probably would be true to a certain extent all over the United States.

Mr. RASMUSSEN. I think that it would to a certain extent, yes.

Senator WATKINS. I do not know that any State in the Union is as much in debt as the United States is at the present time.

Well, now, isn't it true that defense expenditures, then, are more or less limited to a certain type and class of employment rather than to the general class of workers?

Mr. RASMUSSEN. And particularly so now, Senator. I am glad you asked that question, because I think it should be brought out that while we speak generally here of defense expenditures, they might be highly concentrated in a narrow area of missiles and so-called space-age equipment, which may not have a very wide impact.

So, I think that should be made clear. We might be misleading ourselves in assuming that this increase in Federal expenditures might fill in this large gap here. We have got to watch that very carefully.

Senator WATKINS. If the Federal Government is to step up the expenditures in the defense field rather heavily in the next few years, that would absorb a lot of the resources and strength of the United States in the economic and financial field, and the States and localities throughout the United States—cities, towns, and counties—ought then to take up the other field if there is going to be a concerted effort to keep full employment throughout the United States. Isn't that true?

Mr. RASMUSSEN. Yes, I would agree with that, Senator Watkins.

Senator WATKINS. Now, with respect to the unemployed, I note you talked about those who were employed part time. That ought to be taken into consideration. Isn't it also a fact that you have got to take into consideration many of these so-called unemployed where people only work occasionally—such as housewives and others?

If all those were listed, it would give us a distorted picture of the unemployment in the country.

Mr. RASMUSSEN. That is true. We have to be careful to draw the line here where it doesn't bring in the casual people into the field.

Some of these people can work or not work as they choose. It is not a necessity that they work. There are a certain number of those who I think should be excluded from the general figure of unemployment.

At the same time, as Senator Douglas has pointed out, we have a rather large number in the concealed unemployment group that should be brought in, you see. So I would be careful and cautious about including these casuals, particularly, in the unemployment figures.

Senator WATKINS. Do you know any scource of information from which we could obtain the number of these casuals that you mention?

Mr. RUTTENBERG. Could I comment on that?

Senator WATKINS. Yes, please.

Mr. RUTTENBERG. I think the statistics show that the casuals are not in there. The question which the Census Bureau asks is, "Were you working or actively seeking work during the period of the survey?" And the figures, just looking at the fluctuation in the labor force moving up and down month to month, show that a large number of people come into and go out of the labor force every month. So I think it is safe to conclude that the casuals as such about whom you are talking are now not in the official Census Bureau unemployment figure.

Mr. RASMUSSEN. That is correct.

Senator WATKINS. I was not sure about that. But I do know many housewives, of course, enter and leave the labor force very freely. They have been working previously, and they quit work, and are probably listed as unemployed.

Mr. RUTTENBERG. Only if they are actively seeking work after they become unemployed.

Senator WATKINS. They have to make some sort of showing in some States to get unemployment insurance. They have to make an appearance that they are seeking work. The minute they do that they are listed as unemployed, when as a matter of fact there is no real necessity in any case for their employment whatsoever, other than they want to work. We have literally hundreds of thousands of them in the United States, housewives who work because they want to work. And it is not necessary for them to do so in order to make a living.

I know in my State we have, at least in the summertime, during the agricultural season, large numbers of high-school students that are unemployed—hundreds who could work are unemployed. We have to import laborers from Mexico to help us because our people here in this country will not do the type and kind of work that has to be done on many of our farms. Stoop labor and all those things.

Mr. RUTTENBERG. They won't do it for the wages offered.

Senator WATKINS. I happen to be a fruit farmer and I happen to know if we gave all of it to them, they probably wouldn't work at it. Because they can go, take piece jobs in industries, and what not. And they are educated to the point where they won't do that type of work. They would have to be almost starving before they would do it. As long as their fathers are employed, why, they will not take that kind of activity.

So we literally have thousands of unemployed high-school students in my State, during the summer, whose counterparts in years gone by have always been employed, that type of worker. Because the necessities of the time past made it necessary for them to do that kind of work, but presentday students won't do it, yet they are counted as part of the labor force and listed as unemployed.

We should be more concerned about the heads of households that are unemployed. I agree with you on that score; we ought to watch unemployment in that area carefully, and we should not let it get to the danger point which I think would be around 6 percent of the labor force.

The cities, towns, and counties, and States of the country have a great responsibility here also. They can't expect the Federal Government to carry the defense load and at the same time do all the other things. It is getting to the point where we have got to have more guns apparently, and less butter. And the country might just as well realize that now as later.

Mr. GAINSBRUGH. May I break in to add one fact?

There has been so much emphasis upon unemployment, I think we ought to keep this in proper perspective.

The President's economic report and your own economic indicators will show that as late as December 1957 there were still more people at work in areas outside manufacturing than ever before in the Nation's history. The total number of people employed in the month of December, including those in the Armed Forces, was still as high as 67 million. And coming back to the point about involuntary part-time work, the average workweek in manufacturing still carried in it a 2-hour overtime component.

So although unemployment may have been rising, and rising more than seasonally in the month of December, we still had a very active labor force in this country.

Mr. RUTTENBERG. Could I add one word?

Senator WATKINS. I think you are dead right on that, Mr. Gainsbrugh. I think that there is a tendency all the time to play up all of our deficiencies and never look at the things that are constructive that are actually going on. If you are just going along normally, that doesn't get much attention, but if you have a little break here and there in the dike, or a little leak, why, immediately that is hurled to the high heavens by the prophets of gloom and doom.

You would think the whole economy had gone to pieces. When as a matter of fact we are in a rather strong position today.

Mr. RUTTENBERG. Can I break in?

Senator WATKINS. You can break in if you want to argue with me.

Mr. RUTTENBERG. I don't want to argue with you. I want to add a thought to what Mr. Gainsbrugh has said. It is certainly true that employment in December outside of manufacturing is at high levels. It is true that in December of 1957 our population numbered 173 million people, and was growing. Aside from that factor, therefore, the important question is, What is the number of unemployed with respect to the total force?

But in terms of the unemployed, the figure of 39.3 hours per week worked in December in manufacturing is the lowest figure for the month of December all the way back to the year 1939. And the staff members, if I am wrong, can correct me.

Senator WATKINS. I haven't time to check you now. But I would like to ask a question about the plant capacity in this country.

Plant capacity, as I understand it, relates largely to industry and factories, does it not?

Mr. RASMUSSEN. That is right.

Senator WATKINS. Do you have any figures to enlighten us on the heavy increase in plant capacities?

Mr. RASMUSSEN. No. I pointed out in my statement that I was pretty much leaving this to others. I just made 1 or 2 general statements there, Senator. One was—using data from the economic report itself—that the 10-year average expenditure for producers' durable equipment and new private construction other than nonfarm residential housing, shows a boom period, particulary the last 3 years, and even for the whole 10-year period, a very high level.

And as has been brought out before in these hearings, the rate of increase in capacity is faster than the rate of increase in goods coming from that capacity.

So it is catching up with us. In fact it is overtaking us, you see, now. Capacity is overtaking our actual output of goods.

Senator WATKINS. It may be that, of course, the industry overestimated the needs of the country and built beyond those needs. And, of course, you would have some explanation, pretty strong explanation, I believe, for the boom that we have had in the last 3 or 4 years when you point out that industry has overextended its capacity.

Mr. RASMUSSEN. In the last 12 years we have had this catching up. And that is pretty much behind us now. We had our regular growth plus also this deferred demand which we were catching up on. These two together made people more optimistic and they built more capacity. The catching up has petered out and we have just the regular growth ahead of us.

Senator WATKINS. Of course that stimulated employment where anyone who was willing to work at all would have the opportunity to work, whether they needed to work or not.

Mr. RASMUSSEN. That is right.

Senator WATKINS. I think that is all for the moment.

Representative BOLLING. Senator Sparkman?

Senator SPARKMAN. I should like to ask the other members of the panel if they agree with this idea of concealed unemployment?

As I understand from the question of Senator Douglas a while ago, it was to the effect that shorter hours, shortened hours, did set up a kind of concealed unemployment. According to the formula, that he said—he didn't say what the formula was—the underemployment which it represented would be used to increase the actual unemployment figures. Is it the same as unemployment?

Mr. GAINSBRUGH. I for one would say there is far more subjective determination of the length of the workweek involved in this concept of unemployment than there is in the prevailing concept of are you at work or are you not at work, and the difficulties of measurement will be far greater. I think the challenge that would arise, if these figures were incorporated in the official unemployment figures, would be the most vigorous of any change that we have thus far made in the census classification of employed and unemployed.

Senator SPARKMAN. The thought occurs to me that there is a great deal of difference in being totally out of work and simply having your reduced workweek, both psychologically and the actual economic impact of it.

Mr. DUESENBERRY. It seems to me that this is a problem that comes up many times. This is a problem of the one-figure measure. There does not seem to be any real reason why we have to wrap everything up into a single number. Short workweeks are significant. We should not forget that they exist.

But there is not any reason why we cannot have one figure which shows complete unemployment and another figure which shows the number of people on part time and which shows the average workweek. We ought to be able to keep two figures in our heads at the same time when we think about the significance of the unemployment situation.

We are not going to have to always convert every aspect of the situation into a single figure and wrap it up into one giant indicator.

Senator SPARKMAN. Doesn't it depend a lot on what we are trying to arrive at? If it is a matter of total income, why then it has a great deal of significance; but if it is a question of what it may mean to the community, it seems to me that it means something else.

Mr. DUESENBERRY. With respect to all of these things we have a social problem in connection with unemployment which is different from the loss-of-production problem. I think this also applies to the question of secondary workers who may be said not to need to work.

Now, it is not as much of a social problem if a married woman is unemployed. But if she is willing and able to work, then it is a loss of production. While these are two different things, you can cannot really add them up. We have to take account of both of them. But we worry more perhaps about the social problem.

But at the same time there does not seem to be any reason for us to throw away productive capacity when we could use it.

Mr. FACKLER. I would reinforce Professor Duesenberry's remarks, because I was going to say much the same thing, that we should not rely always on one figure. This has been a continuing problem. How do you measure unemployment, and what are the weaknesses of the Census Bureau data? It boils down basically to "what do you have in mind"? A measure of unemployment appropriate for one purpose is quite different than that for another. It would be nice if we had our unemployment figures in more detachable parts, I suppose, so that we could put the right combination together for a particular purpose. The social problem, as Professor Duesenberry points out, may be quite different from unemployment as a loss of production or from the psychological impact of unemployment on the community, and the like. So, there are weaknesses. You just have to take the data and put them together as best you can to arrive at an answer for the particular problem you have in mind.

Mr. RUTTENBERG. Could I add a word, Senator Sparkman?

I think it is well to keep in mind in connection with the part-time employment that when the economy begins to pick up, employment does not increase. In other words, unemployment does not drop as the economy turns up, because the part-time workers are returned to full-time work before any new workers are hired.

For example, in 1954, industrial production picked up more than seasonally in September of 1954, and continued up through the end of 1955 and into 1956. But nonfarm employment did not pick up more than seasonally until 2 months later in November of 1954.

The significant employment increases did not occur until March of 1955, some 6 months after industrial production picked up. As a matter of fact, it was not until August and September of 1955, 1 year after the pickup started, that nonfarm employment was back to the predownturn level.

I think this is an important consideration to keep in mind—that unemployment will probably remain high even after a pickup whether you include the part-time people in the unemployment figure or not.

Senator SPARKMAN. Another question: Senator Watkins said a few minutes ago that we might as well—if I understood him correctly—we might as well make up our minds that we must have more guns and less butter. I think that is what you said, wasn't it, Senator?

Senator WATKINS. If you have to make a choice.

Senator SPARKMAN. Yes, if we have to make a choice.

As a matter of fact, as long as we are not using our full productive capacity, is it necessary to make that choice? Can't we have both?

Does anyone disagree with that?

Mr. RASMUSSEN. We are getting both, Senator Sparkman.

Senator SPARKMAN. We are getting both and not using our full productive capacity. Is there any reason why we should not continue?

Mr. RASMUSSEN. To illustrate: In the last 4 or 5 years with increasing Government budgets, the percentage of total income from Government expenditures stood almost steady, around 25 percent of the GNP. So, we have had both more guns and more butter in the last 4 or 5 years.

Mr. GAINSBRUGH. Let me add this in connection with that argument:

I would say that at the moment we are getting increased military strength and perhaps getting a contribution toward improved economic health simultaneously. But I would still emphasize the desirability of other countercyclical approaches that we might have been able to develop had the times permitted. We were hopeful, some of us at least, that in the context of emerging contraction in business investment and declines in defense spending, that what we might in 1958 be getting was a decline in governmental expenditures and a decline in governmental taxation and some degree of tax relief for business and for individuals. This we now have to forego in the context of growing world uncertainties.

There are other alternative countercyclical activities that we could have resorted to in 1958 had the world picture been different. In other words, I, for one, would say we do not need expanded defense spending or military spending, or necessarily increased governmental spending, to keep the United States of America at full employment.

Mr. DUESENBERRY. I certainly would agree that we do not need it to keep full employment. There are plenty of other countercyclical measures that we could have used. However, it is true right now that many people feel at any rate that defense budgets ought to rise very substantially. And I do think that we have to be a little bit cautious if we were to do anything on the scale of the Rockefeller report.

I know some defense people who advocate even greater expenditures than are recommended in the Rockefeller report. Then we would have to be very cautious about increases in nondefense governmental expenditures, and about tax reductions. So, it is a question of whether we can have a little more guns and a little more butter; but if we want to have a lot more guns, then we are going to have to hold down the butter.

And I think in all of our fiscal planning now we have to look forward to what the defense picture is going to be a year from now, or a couple of years from now, and not take the kind of action which we cannot reverse, which will give us a lot of trouble later on. That is why in my statement I was very cautious about recommending a tax cut because I had a feeling that the defense picture may call for more expenditures than are now contemplated.

Mr. HELZNER. Mr. Chairman, if I may, I would like to underline what Professor Duesenberry has just said with regard to the defense program being evaluated on its merits as far as the defense needs go rather than as a countercyclical tool. I think the charge has been very unfoundedly leveled against the United States as being a defense-oriented economy Moreover, in answer to the question as to the choice between guns and butter, there is also the consideration in terms of how much butter can we forego, and for how long.

There are many nondefense needs and programs for schools and other areas which, in terms of national priority—after we have been able to evaluate the defense programs and defense needs—also cry for support and for fulfillment. And in an economy which is expanding in labor force and in productivity and in potential capacity, we must be able to evaluate not only our increased defense requirements, but also be willing to give serious consideration to the national priorities, which are required in these nondefense areas.

Senator SPARKMAN. We can talk about this all day.

Let me say just this: It seems to me—and this is my own feeling—that certainly for the time being we are not confronted with the choice of less guns or less butter. And I do not see any need of that being, so long as nothing more than the projected program continues.

Let me move to something else.

Senator WATKINS. Could I make a comment on that? When we have such recommendations as the Rockefeller report and other reports that indicate we ought to spend much heavier on defense, don't you think that may possibly swing us into a period like that, more guns and less butter?

Senator SPARKMAN. If we move into that, that would be a different proposition. I said the projected program.

Senator WATKINS. We never know what Congress is going to do.

Senator SPARKMAN. The projected program is the one that has been recommended by the President so far as defense is concerned.

Mr. FACKLER. May I make one comment? I feel very strongly that we ought to look at the long-run priorities first and decide on them on the basis of what we need and want.

Senator SPARKMAN. I certainly would not differ with you on that. But I am talking about the need of putting in a program.

Mr. FACKLER. We can keep programs flexible enough so that we can adjust them in the light of short-run conditions. But the basic level of defense we need, what the social priorities are in the areas of public nondefense expenditures, how fast levels of consumption can rise—attainable rates of consumption—these should be decided first without regard to stability. Then, if plans are flexible enough, they can be adjusted to a short-run situation such as we are in now.

Senator SPARKMAN. Now, let me ask Dr. Rasmussen a question. And I am asking this particularly of you, because you are, I believe, the only representative on this panel that comes from a farming State. Would you care to comment on the relationship of agricultural conditions and general industrial prosperity?

Mr. RASMUSSEN. You mean the relative agricultural prosperity versus the industrial prosperity?

Senator SPARKMAN. The word "prosperity" with agriculture would be out of place.

Mr. RASMUSSEN. That is what I am wondering.

Senator SPARKMAN. The general agricultural condition.

Senator WATKINS. I was just calling Senator Sparkman's attention to the fact that Utah is really not an agricultural State. I think Dr. Rasmussen will agree with me that less than 3 percent of our area is actually agriculture.

Mr. RASMUSSEN. I might put it this way, Senator Watkins and Senator Sparkman: That in Utah 5 percent of our total personal income comes from agriculture. In our State, the No. 1 employer at the present time is Uncle Sam. The Government is the biggest single employer in the State of Utah.

Senator SPARKMAN. Even you disclaim—well, since I have pointed you out, go ahead and tell me anyway.

Mr. RASMUSSEN. Well, I could make some comments if you wanted me to about the agricultural situation. But our State is not a big farm State, as you see.

Manufacturing now is more important by far than agriculture in Utah, believe it or not.

Senator WATKINS. And by reason of our strategic location and the needs of World War II, we received a lot of defense installations there?

Mr. RASMUSSEN. That is why we have so much Government employment; it is because of our location, yes.

Senator WATKINS. Which unhappily—and I say that in the sense that we would like to have peace—we still have a need for those locations as far as installations are concerned?

Mr. RASMUSSEN. That is correct.

Senator WATKINS. You mentioned public works. Isn't it a fact that the United States has done fairly well by the State of Utah in the matter of roads, something like $750 million to be spent there in the next 15 years on roads, including defense highways?

Mr. RASMUSSEN. Yes. One reason being, of course, that we have a lot of public land in Utah, and this ups the share which we get because of that fact.

Senator WATKINS. About 70 percent of Utah's area is owned by the United States.

Mr. RASMUSSEN. Seventy-two percent.

Senator WATKINS. I thought they had cut it down a little bit. I guess they are buying more though.

Mr. RASMUSSEN. They are buying more, Senator.

Senator SPARKMAN. I will not push that question. But I was thinking as the different members of the panel testified of at least three different segments of our economy that had not been touched on here that I believe could very well be stimulated in such a way as to help relieve the present situation. And agriculture is one of them. Small business is one. And home construction is one.

I have taken up so much time, I will not ask you to comment on it. But I didn't notice any comment from any of you regarding those three segments. And yet it seems that they are most important in the present economic situation prevailing in this country.

Senator WATKINS. Would you let me at this time, Mr. Chairman, ask Dr. Rasmussen one further question along the line that I had just called his attention to?

Also in the Intermountain States, including Utah, we have a mammoth reclamation program underway which has just been authorized by the Congress. It was authorized in 1956. That is true; isn't it?

Mr. RASMUSSEN. That is the Glen Canyon and Flaming Gorge Dams.

Senator WATKINS. That calls for expenditures of approximately $760 million, does it not?

Mr. RASMUSSEN. In the ultimate completion of the projects, yes.

Senator WATKINS. And that work is already under way.

Mr. RASMUSSEN. Yes. Glen Canyon is progressing nicely and in Flaming Gorge they have the camp site and some work done. The question of how much they do there will depend on the appropriations.

Senator WATKINS. A recommended $4 million will dewater the sites or revert the water from where they want to put the dam itself.

Then we have the small projects that will have a positive big effect in Utah, too, do we not?

Mr. RASMUSSEN. While in total they are not big, they add to the total considerably, nevertheless.

Senator WATKINS. As a matter of fact, the United States Government itself probably is doing about all that it could be expected to do in Utah at the present time, if it goes ahead with these programs that I mentioned.

Mr. RASMUSSEN. Yes. That is why I mentioned in my statement about possibly expanding heavy works if we need to. The Glen Canyon and Flaming Gorge projects could be speeded up some if it were necessary to really help employment.

Senator WATKINS. That would spread work all over Utah, and other States as well where materials must be purchased?

Mr. RASMUSSEN. That is right.

Senator WATKINS. If we had roads being built in addition at the same time, we would use up all "the hands" we had and all we could borrow from neighboring States, and a large percentage of the population of Utah in those programs alone. So we are fortified as far as that part is concerned. Since the State is out of debt, it could add to employment if necessary by getting other programs going in the State of Utah.

Mr. RASMUSSEN. That is true.

Senator WATKINS. Isn't it true that industry has had a heavy expansion in the last few years in that State?

Mr. RASMUSSEN. Very much so. That is one of the reasons why Utah is now down some.

Senator DOUGLAS. Let me take this occasion to add: It is perfectly possible by political powers for the Rocky Mountain Senators to have the rest of the United States bring prosperity to those arid regions by spending enormous amounts of money. This is good for Utah, but when you try to irrigate land at a cost of from $1,200 to $2,000 an acre, I would not suggest that it was a proper use of economic resources..

Senator SPARKMAN. Especially if they won't pay anything like that for taking our land out of production.

Senator DOUGLAS. The Senator from Utah can boast about how Utah is prosperous. It is prospering at the expense of the rest of the country due to the compromise of 1787 which permits these States to have equal representation in the Senate, at the expense of the other States which have to pay the bill.

I want to say that I think the big taxpaying industrial States should begin to follow a policy of massive resistance to this raiding of the Public Treasury by the Rocky Mountain Senators.

Representative BOLLING. It seems that we are getting into a debate on something that I believe did pass the Congress some time ago. I would only comment that it would appear that Utah is doing pretty well in the butter.

Senator WATKINS. We expect to keep both guns and butter going out there. I want to say this: That I think I ought to be given a rejoinder to that. I was only talking about the economic conditions. I didn't think it was going to get in politics.

I would like to say that the biggest contributions that are made from the Public Treasury don't go to the Intermountain States by any manner or means even in proportion to population, because as far as reclamation is concerned that will be paid back.

But I notice that the agricultural budget is the largest one in the whole program sent up by the President. And I note also that Utah gets very little out of that budget. But the States of Illinois and other States in the Midwest and the South and the East get a heavy contribution from the billions of dollars that are poured into the agricultural program.

Representative BOLLING. I hope the Senators will permit me now to call on some of the Members of the House or they will accuse this acting chairman from the House of favoring the Senate.

Mr. Kilburn.

Representative KILBURN. Mr. Gainsbrugh, I gather from your statement the plant capacity has increased but isn't it true that it is the goods that come out of those plants that really affect the economy?

Mr. GAINSBRUGH. I would say both. Where you have excess capacity in being, it has an independent impact upon the economy. There is a tendency to say, "Let's not build new plants because the capacity in being is already more than adequate to meet our current needs."

Representative KILBURN. If they don't sell their goods, it doesn't help the economy.

Mr. GAINSBRUGH. That is right. I would add one further point. We hear much talk about the benign aspect of the existence of improved plant. Where this is in being along with excessive capacity and in being not for just a week but for a quarter or for a year, there is a temptation on the part of some of the members of that industry to engage in production even at small or nonexistent profit margins. You then begin to get some weakness in the price structure. That we haven't had as yet. But it could also be part of our pattern in 1958.

Representative KILBURN. As I understand it, most of you gentlemen have recommended in one way or another at some time tax reductions and additional Government spending. What happens to inflation under today's conditions?

Mr. GAINSBRUGH. I think what we do is at least temporarily detour around the problem. We don't eliminate it. I think it comes back in aggravated form at a later period of time. But there are two dangers at the moment at least. One is the danger of a later resumption of inflationary pressures. The other is the continuance of the current downward spiral. And I think you have to weigh the two dangers. I would take it the views of the group this morning are that the dangers of further softening are greater than the dangers of immediate resumption of inflationary pressures. And that we will deal therefore with the question of resumed inflationary pressures at some later period of time.

Representative KILBURN. Mr. Ruttenberg, I can't refrain from saying that I do not agree with the inference in your statement that the President's economic report is political.

I think it is unfortunate to bring that in there. One question I would like to ask is this: do you believe what the President has often said, and that is that wage rates should only follow production?

Mr. RUTTENBERG. You mean wages should relate to productivity gains.

Representative KILBURN. Yes.

Mr. RUTTENBERG. I think as an overall policy, wages should follow the change in productivity over a cycle of time or period of time, but not necessarily year by year.

But I think it would be very interesting to take a look at the statement of the United States Steel Corp. in the Wall Street Journal this morning. Here is a corporation that was operating at about 70 to 75 percent of capacity through most of the fourth quarter of 1957 and reported a quarterly profit of $90 million. Now, in 1957 as a whole, United States Steel increased its net income by $70 million over 1956, with the same level of tonnage output—33 million tons.

You talk about this question of wages following productivity. I think it is a good sound notion. But in this steel situation, we find that because of the price rise that occurred in 1957, United States Steel reports a $70 million increase in net profits after taxes with the same level of output—33.4, 33.7 million tons. This is really an indication of what has happened in the wage-price situation.

Representative KILBURN. But all that tells us nothing about their investment or percentage of increase in their investment.

That is the real relationship; is what they have invested?

Mr. GAINSBRUGH. May I add one further point?

Representative KILBURN. Yes.

Mr. GAINSBRUGH. The Economic Report of the President does stress the very relationship that you have described. It then offers some figures on productivity and wage-rate increases for the years 1956 and 1957. It points out that again in the year 1957 unit labor costs were rising. Wage rates again in the year 1957 were increasing faster than productivity and productivity in the year 1957 had again not risen as much as it does over the long run.

Representative KILBURN. Thank you.

Representative BOLLING. Mr. Curtis.

Representative CURTIS. Thank you, Mr. Chairman. First I want to comment that these papers have been very stimulating, and I just wish that there were the time to go into the many aspects of the points that the papers raise. Then secondly I wanted to thank Mr. Fackler for his kind comments in regard to the work done by the fiscal policy subcommittee of this committee in its recent report on the economic aspects of Federal expenditures. We have just conducted those hearings and made our report. And I myself thought it was a pretty good report. It has a direct bearing on the questions that are being raised here.

Having said that I want to pick up just one point with Mr. Ruttenberg, I too, regretted his inference that the President's Economic Report was political, but having had some conversations and discussions with Mr. Ruttenberg over a period of several years now, I find that the word "political" as he uses it essentially comes down to a difference in economic appraisal. It has always impresed me that Mr. Ruttenberg starts with the premise that the Federal Government is the dog and the private sector of the economy is the tail; and, therefore, when the tail doesn't wag, it is the fault of the dog. While I think the President's report—and I certainly go along with this—is premised on the fact that the private sector is the dog, and although the Federal Government can have an effect on the private sector and undoubtedly does, it certainly can't control it.

And so the President's Economic Report is trying to make an appraisal of what we have actually found existing in the free-market system to the extent that we have it, and to analyze these trends to see how our Government policy can conform to it, and to the exent that it can influence it, to influence it in the right direction.

It seems that therein lies the difference. Your philosophy, I think, is that the Federal Government should be more in this area than it is. And that is a perfectly proper and legitimative point of view to have. But I think it is unfair to say that a person is politically motivated just because they disagree on that. That is the only point I would make.

And naturally I would expect you to have a response.

Mr. RUTTENBERG. Yes, I would have a response, Mr. Curtis. I agree with you fully that the Government ought not to be the only responsible factor for stimulating and moving this general private economy along. But I do think that Government must assume a larger degree of responsibility than it now does.

There has been talk here this morning of the Rockefeller report, and reference by indirection to the Gaither report.

This administration, both in its budget and in its economic report, has not come even close to recommending in the defense area anything like the suggested expenditures of the Rockefeller or Gaither reports. I think in part—and here I could be completely wrong—it has failed to do that because of its fear that large expenditures for the military will put the Government too much out in the forefront.

I hope that this fear is wrong. I hope that the Congress will do something to bring military expenditures up to the level where we can regain superiority over the Soviets in the fields of missiles and outer space.

We have certainly lost it. And in his budget, the President has not lived up to realities of meeting that challenge. I don't think in my humble judgment he has.

Representative CURTIS. That is a perfectly legitimate area to disagree on. But there are those who fear the other way, that we might use the military as simply a device and in the name of defense try to actually stimulate the economy, when actually we will not be spending wisely for defense.

So it gets into the area of judgment. But the economics of the thing is the area that we are trying to get into here. And I think it is perfectly proper for you to call attention to these differences of opinion of where we might spend money. But I think our report on the economic impact of Federal expenditure lays out some of those guidelines. And I think that it is important that we try to follow those guidelines, or if some one disagrees with the way we have set them out, to disagree on the basis of the economics, as far as this committee is concerned.

Mr. RUTTENBERG. Could I just follow this up?

I agree with you fully and with some of the statements that have been made earlier this morning, that we ought not to rely upon the level of military expenditures as the stimulating factor to bring about a recovery in the economy. I think such reliance is wrong. This would be playing right into the hands, it seems, of the Soviet Union.

There are facts available to indicate that with a steady growth in the economy of America, at its normal pace and normal rate of growth, we could step up defense spending by $20 billion a year more and still not be confronted with serious problems of defense or "guns versus butter."

If we have a proper normal rate of growth we could increase our expenditures for military hard goods by 50 percent and still be able to have a steady growth that would supply the normal rate of growth in schools and education and hospitals and roads and all the other necessary aspects of the economy.

I would like, if I am not mistaken, to have the gentleman here on the end, Mr. Helzner, comment on this, because I think the National Planning Association recently did a report back in March of 1957 where they pointed up this problem.

Representative CURTIS. I would like to hear it too, except that I would like to get on to the specific questions I have in mind. And maybe we will have him comment on it. Actually I think we have posed the question. That is the issue, and we are trying to get into the economics behind it.

Now, one thing I think we can start off on: your presentation and talk about the political desire to present a balanced budget is the point I wish to comment on now. It is all right to talk about a balanced budget. As far as I am concerned we are talking about the economics of a balanced budget and the fact that without a balanced budget—I am not talking about an annual balanced budget, nor is this administration—as a matter of fact it has made it quite clear that it could actually go into deficit financing for any one year, but an overall balanced budget certainly is deficit financing which is a primary inflationary factor, if not the most dominant one.

I submit that your very argument and plea for consumer spending is badly damaged by inflation, the occurrence of inflation and the impact it has on purchasing power.

So the emphasis, if there is an emphasis, of the balanced budget is on its economic aspects and the fact that you will actually increase inflationary forces or have inflation occur if you continue over any range of time with deficit financing.

I want to go on to point out this: That in your recommendations to further consumer spending, you hit only one segment of our consumers. Those are the income taxpayers. Now the people who are not the income taxpayers probably are the ones who if they had the dollars would surely spend them, while the people who are on the tax rolls it is questionable—for instance in agricultural products—whether they would spend any more.

We are confronted with the problems of an economy of plenty at least in one area. Except for this segment of the population who I will say are nontaxpayers and who in turn are badly hit by inflation. So the emphasis on a balanced budget is really in my judgment to a large degree to protect the consumer purchasing power of a large segment of our populace.

Mr. RUTTENBERG. Yet, Mr. Curtis, to talk about deficit financing promoting inflation and therefore hurting people because of rising prices is like saying that deficit financing will cause price inflation in a period when steel is operating now at 55 percent of capacity and when the auto industry anticipates about a 5,300,000-car year (last year they produced 6.1 million, and in 1955 produced 7.8 million) and when the electrical products industry is producing at rates of capacity 20 to 35 percent below its capacity. It seems that it isn't a question of whether deficit financing at this point in time will cause rising prices, because I do not think it will.

At this point of time in time if we have to engage in deficit financing it will tend to stimulate the economy and not bring on inflation.

Representative CURTIS. That is fair argument. I disagree with it. We could discuss the economics of it. That is economic argument. Because I happen to disagree with you, I don't think it calls for your referring to it as a political effort to win an election. I think the administration takes that particular point of view.

Now, if I may, having established that, and recognizing that we do disagree, on the economics of the thing, I want to go on.

Mr. RUTTENBERG. If the Congress unbalances the budget for fiscal 1959, the blame will be upon the Democratic Party and not upon the administration.

Representative CURTIS. Oh, I don't know that. Heavens, as a Republican, if I thought it was necessary, I don't hesitate to take positions on those things. And so do many other people in—so do others in my own party.

One factor which has not been discussed in these hearings is the rate of personal savings. Do any of you see why we might or might not anticipate a change in the rate of personal savings? That is for consumers to spend either a larger or smaller fraction of their disposable income during the coming year.

Mr. GAINSBRUGH. We already have had an indication that in the fourth quarter period of uncertainty and decreasing employment and income there was greater resort to savings to maintain the expenditures for services and soft goods. And I would expect this to continue in the months immediately ahead.

Representative CURTIS. Is there any other comment from any of the panelists on that?

Mr. FACKLER. I would agree. In periods such as this where you do have falling income, rates of saving actually may go up temporarily because of the debt, the fixed commitments consumers have. Also they may get a little more cautious about contingencies. And we might expect the rate of saving, part of it going for debt repayment, as a proportion of income to increase.

I noticed Professor Duesenberry's remarks neglected this point—on page 4 where he said:

However consumers will not reduce consumption as fast as their income falls.

Some of the other forecasters and business analysts have recently been making the reverse comment—that we could expect consumption to fall faster than income because consumers would attempt to save proportionately more.

I just put a little question mark here, because there is not unanimity of opinion on this score.

Mr. DUESENBERRY. If I may comment on that?

Representative CURTIS. Yes.

Mr. DUESENBERRY. I think there is not as much difference as there appears to be. When income is falling I think you will find that consumers do reduce their consumption by less than the decline in income. I think it is also true that they won't finance consumption by reducing savings to as great an extent in this situation as they did in, say, 1953–54, when their general financial position was better.

In other words, you always have some tendency for savings to decline on declining income. And they decline not only absolutely but as a proportion of income. But I think that tendency will not be as strong this time as it has been sometimes in the past. Because of bad expectations on the part of consumers, because they are well stocked with durables, and because they are in debt. I think we are in disagreement about how to phrase this rather complicated thing. But it is not as good a factor as it was formerly. But there is still something in it. I do not think we get proportional cuts in consumption with every cut in income.

Mr. RASMUSSEN. I would add that I agree with Mr. Duesenberry on that point.

One other factor too: Only part of the consumer's saving is in the voluntary area. Much of the consumer's savings are buying life insurance, homes, et cetera. These cannot be cut immediately.

So only a portion of that saving can be cut in a short-run period. I think we are heavily in debt as consumers, and that was not true some years ago.

Mr. RUTTENBERG. I think we ought not to lose sight of the fact that the survey of consumer finances done by the Survey Research Center at the University of Michigan for the Federal Reserve Board and for Business Week magazine in alternate parts of the year shows that the bottom 50 percent, more or less, on the income scale, are dis-savers and have not been saving, and do not save, and actually spend more than they earn.

So, when we are talking about this overall figure of savings, we must keep in mind that savings rest in the hands of a limited number of people.

Mr. CURTIS. Mr. Chairman, I won't go into this other aspect, because I have already taken too much time. But I simply want to pose the problem: Yesterday in regard to this question of capital expenditures, there was some point made of distinction between expenditures for expansion as opposed to those for replacement. And the indication was that in the coming months it is more replacement than expansion—the expenditures, that is. The other thing that seems to me very significant, and I wish we could explore it, is the fact that the projection of expenditures for research and development seems to be on the increase, which, if so, will produce further technological changes which will again stimulate the capital-expenditure sector. And the underlying thing that I see in this whole picture is this rapid technological change that has occurred. Of course, in agriculture, it has been so rapid that it is properly referred to as a revolution. But even in our nonagriculture sector, the change has been so rapid, it seems to me, that its effects must be carefully weighed. The results of technological change on capital investment has been great, plus I might add this other basic factor, the effect of inflation on capital investment under our tax laws whereby when plants and equipment turn over, say, in 10 or 15 years, the taxpayers are only allowed to put aside half the cost of replacement. For example, a piece of equipment that costs a hundred thousand dollars in 1940 is replaced with something that is identical and costs $200,000 in 1957. And we have had this added burden put upon the capital market simply to replace capital goods, let alone keep up with this technological change. But, as I say, I wish I could go into that, but I know it would take a long time. So, I will pass on.

Representative BOLLING. Mr. Talle.

Representative TALLE. Thank you, Mr. Chairman.

I want to say "thank you" to all the members of the panel for your good work. And I should like to say to you, Mr. Helzner, that I hope you will bring to Dr. Colm my best wishes for a quick and complete restoration of good health. We should adjourn now, but if you will bear with me, I will ask three quick questions.

In your paper, Mr. Helzner, page 2; you say there:

> Furthermore, according to budget estimates, new loan insurance and guaranty commitments will decline, due largely to this scheduled expiration of VA housing programs for World War II veterans.
>
> Actually what happened was that the interest rate was not realistic, and activity stopped for that reason.

Isn't that correct?

Mr. HELZNER. Well, sir, I believe Dr. Colm was referring here to the scheduled expiration of the VA housing program for World War II veterans in July. In the budget special analysis E, the section on Federal credit programs, there is a table referring to the expected new commitments for major Federal credit programs.

Here two items, one the Veterans' Administration program, shows a decline of new guaranty and insurance commitments expected from the fiscal year 1958 to fiscal year 1959 from $2.2 billion to approximately $800 million, respectively.

In addition to that decline in Government programs in the field of housing, there is projected an estimated drop in Federal National Mortgage Association activities. Direct loans and investments by FNMA between the fiscal year 1958 and fiscal year 1959 also show a decline from $1.1 billion to approximately $700 million, respectively. It was those two items which Dr. Colm recognized as certainly not giving added support to the expectation of an increase in housing activity in the months ahead.

Representative TALLE. There was a time when the veterans program was active. But the program was not hampered by an interest rate that was unrealistic.

Mr. HELZNER. Yes.

Representative TALLE. Senator Sparkman and I were in Chicago a few days ago at the homebuilders convention, and I offered a two-word piece of advice in my speech. I said "Rediscover FHA." You see, some years ago FHA was helpful in financing as much as 36 percent of the housing industry. But more recently only 17 percent. Now, there is a vast difference between those two figures. It is less than half. So, I advocate that the industry and the Congress, too, "rediscover FHA."

May I say further that at the time when the 36 percent applied, the terms were pretty severe as compared with now, because last year we liberalized our terms very much. I should think it is pretty good advice to rediscover FHA.

Those liberal terms did not go into effect immediately.

And, therefore, relatively little time has passed since they were put into effect. And I would think that the matter of market is a question mark right now. Will the psychology of the people be such that they will proceed to want to build houses?

Mr. HELZNER. Let me underline the significance of the Congressman's remarks by all means. In the last 5 years, approximately 5.7 million new homes were started, of which half received Government support and assistance either in the form of the VA or FHA program. And certainly these programs were very effective in the housing field. My remarks and the statement of Dr. Colm referred to what we can expect in the next 2 years or in the next fiscal year based on the proposed budget and the extent of support that the housing industry can look forward to based on these Government programs.

Representative TALLE. I feel confident that as far as FNMA is concerned that it will not be in any sense an obstacle to the industry. We have a pretty good record, it seems to me, in housing, because we have topped a million a year for a period of 10 years. That is total housing—private and public. That is a pretty good record.

Mr. GAINSBRUGH. The change in monetary policy makes those securities now look more attractive.

Representative TALLE. Quite right.

I always like to see your smiling face, Mr. Gainsbrugh. You always have been very helpful to this committee in past years also.

Would you like to name a few of the more important soft goods that you referred to as being significant areas?

Mr. GAINSBRUGH. Drugstore sales were still running 8 to 10 percent higher in December 1957 than they had in December of 1956.

Sales of gasoline stations, too, were running well above a year ago.

The two areas where weakness in soft-goods purchases had already begun to appear were food and apparel. I still would like to see more supporting evidence for the conclusion that consumer outlays for soft goods did actually decline in the fourth quarter. Your economic report tells you so. But very frequently these preliminary figures are subject to revision on the basis of later data.

We may find greater strength actually in existence in the fourth quarter in consumption than was evident in the Council's first guess.

Representative TALLE. Thank you very much.

My third and last question is: Whether we borrow through securities issued by States or municipalities or the Federal Government, taxpayers must pay, of course. Now, since the 1st of March of 1941 Federal issues have not been tax exempt. But State issues and municipal issues are. And the record shows that States and municipalities can borrow at a lower rate than can the Federal Government.

Is it not, therefore, reasonable to ask that States and municipalities participate in such important costly programs as, say, urban renewal and slum clearance?

Mr. Rasmussen, I think you are edging into that sort of thing.

Mr. RASMUSSEN. I would say, yes. Where they have, as I pointed out earlier, some existing debt leeway, yes. Some States are tighter than others. My own State has a lot of leeway. That is true there, if they can and will use it for State and local purposes. Many of them cannot, though. Some local governments do not have the leeway that our State has. But insofar as it is there, I certainly would use it.

My own city, Salt Lake City, last month reported they could borrow at 2.8 percent, with their credit rating and with the favorable tax aspect—2.8 percent, which is not possible, I think, for the Federal Government today.

Senator WATKINS. The reason they can't borrow is because of constitutional limitations, isn't it?

Mr. RASMUSSEN. That is right.

Representative TALLE. I am not saying the Federal Government should step out. What I am saying is that it is reasonable that States and municipalities should supplement the Federal Government, what the Federal Government is doing. And I believe it would be advantageous to all our people.

Mr. RASMUSSEN. I should say this: It is very difficult to get the State and local governments to go into debt if you have an adverse psychological situation. For example, if recession is prevalent, they are very reluctant to go into debt.

Senator WATKINS. Isn't it a fact that some of those people are the very first to insist on the Federal Government borrowing more to help them?

Mr. RASMUSSEN. That is true, too.

Representative TALLE. We discovered in the testimony given before the Committee on Banking and Currency, that quite a few legislatures, the witnesses said, are dominated by farmer representatives. And they do not believe that they should be taxed, and so on, for improvements in slum clearance and urban renewal in the cities.

But I think there is a gradual change in that attitude.

Thank you very much, gentlemen. I wish we had more time.

Representative BOLLING. I only wish to make one comment. It is in connection with something Mr. Curtis said.

Yesterday there was an indication from one witness that an increase in investment in research and development was likely. My impression is that this may be at least in part a question of semantics. I gather that organizations within industry and other areas that have formerly called themselves something besides research and development are now calling themselves research departments. This may or may not be something that will lead to increased productivity and expansion. For example, a marketing analysis, which is really part of a sales effort, is now perhaps here and there called a research operation. And this has nothing to do with technology. I think that we are going to have to go behind those figures which probably in themselves are entirely accurate to find out whether there is a real expansion in what we would understand to be research.

Representative CURTIS. I agree with that. I would add this comment, though. I think that if we were to develop our distributive system in some marked way, research in that area is just as important and would be productive in that way, too.

Representative BOLLING. It could be. And my point is that there may be concealed within the general category of research and development things that are in no way connected with increased productivity.

Representative CURTIS. I think the gentleman's point is well taken.

Representative BOLLING. Senator Douglas, do you have further questions?

Senator DOUGLAS. No, I have no further questions.

I would merely like to make a request that I be permitted to file for the purpose of the record an explanation of the methods by which we compute the full-time equivalents of involuntary part-time employment together with the results.

Representative BOLLING. The request is granted.

(The following was later received for the record:)

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
February 11, 1958.

MEMORANDUM

To: Senator Paul H. Douglas.
From: James W. Knowles, staff economist.
Subject: Computation of full-time equivalent unemployment.

At your request, this memorandum outlines the procedures and assumptions now used in computing full-time equivalent unemployment, including the unemployment equivalent to time lost by those working part time for economic reasons. It brings up to date two previous memoranda on this subject: (1) that submitted to you March 9, 1955, by Dr. Grover W. Ensley, then staff director, which was published as appendix A to the committee report on the January 1955 Economic Report of the President;[1] and (2) the one submitted by Raymond T. Bowman, Assistant Director, Bureau of the Budget, in November 1955, to the Subcommittee on Economic Statistics, in response to a request by its chairman, Hon. Richard Bolling, which was published as an appendix to hearings on employment and unemployment statistics which were held on November 7 and 8, 1955.[2]

Existing series do not furnish any single summary measure of the degree to which there is maximum utilization of the labor force, nor, therefore, do they furnish a measure of the total amount of unemployment of labor resources in any particular month. The unemployment figure includes those who did not work at all during the survey week and were looking for work, plus those persons who were on temporary layoff with definite instructions to return to work within 30 days.[3]

To those reported unemployed in the survey is added the full-time equivalent of the time lost by individuals working part time for economic reasons. Of the four major groups of part time worked reported by the Bureau of the Census in its monthly survey, two are used in computing full-time equivalent unemployment: (1) Persons who usually work full time at their present jobs, but who worked part time during the survey week because of economic factors, such as slack work or material shortages; and (2) persons usually working part time but who prefer and could accept full-time work if available.

[1] Joint Economic Report, Report of the Joint Economic Committee on the January 1955 Economic Report of the President, S. Rept. No. 60, 84th Cong., 1st sess., pp. 95–97.

[2] Employment and Unemployment Statistics, hearings before the Subcommittee on Economic Statistics, November 1955, pp. 162–167.

[3] Up until January 1957, persons on temporary layoff with definite instructions to report to work within 30 days were counted as having a job but not at work. Therefore, in earlier memoranda those on temporary layoff were added to the reported unemployment in calculating full-time equivalent unemployment. Under the new definitions put into effect with the January 1957 survey, this is no longer necessary as this group is now regularly counted in the reported unemployment.

The concept of full-time equivalent unemployment does not include time lost because of vacation, holidays, illness, bad weather, strikes, or other reasons not clearly the result of economic conditions. Until May 1955, the number of persons working part time for economic reasons had been obtained infrequently; in all, data are available for 17 separate months between May 1949 and May 1955. Since then, these data have been obtained each month. All the basic components needed for the full-time equivalent unemployment computations, therefore, have been measured directly on a current basis since May 1955.

The computations of full-time equivalent unemployment are based on the following assumptions:

(1) All unemployed persons are assumed to be seeking full-time work. From time to time in the past the Census Bureau has asked the unemployed whether they want full-time or part-time work. Approximately 10 percent want part-time work as a rule. This question could be asked monthly, but only at the expense of other information now requested, since space and time in the survey are limited. It would then be necessary to estimate the average hours sought by unemployed persons seeking part-time work.

(2) The length of the full-time workweek is assumed to be 37.5 hours, a conservative assumption. A more refined estimate—possibly of the normal full-time workweek by industry, were sufficient data available—would raise this estimate under recent conditions and increase the computed amount of full-time equivalent unemployment. It may be noted that the practices with regard to work sharing differ widely from industry to industry and thus affect the number of layoffs and the hours reported in a given week.

(3) The Census Bureau draws an arbitrary distinction between part-time and full-time workers at 35 hours a week; man-hours lost by those working more than 35 hours a week are thus not included in the computation.

(4) All persons who worked part time because their jobs started or terminated during the survey week are assumed to be working part time for economic reasons. In an unknown number of cases, such short weeks may be caused by personal rather than economic factors.

For each of the two groups of workers who work part time during the survey week of each month because of economic factors, the monthly survey provides an estimate of the total number of man-hours actually worked, as well as the number of persons included in the group. The number in each group is multiplied by the assumed 37½ hours representing full-time work; the difference between this total and the hours worked is the total man-hours lost by workers on part time for economic reasons. The total man-hours thus lost are divided again by 37½ hours, which yields the full-time unemployment equivalent to the time lost by these two groups of workers because they were on part time for economic reasons. Full-time unemployment equivalent to time lost by part-time workers is added to the unemployment as reported by the Bureau of the Census in its monthly report on the labor force to yield the equivalent unemployment. The computation for January 1958 is illustrated below:

January 1958

[In thousands]

(1) *Unemployed (census)*	4,494
USUALLY WORK FULL TIME AT PRESENT JOB BUT WORKED PART TIME FOR ECONOMIC REASONS	
(2) Man-hours equivalent to full-time work, 1,953×37.5 hours per week	73,238
(3) Man-hours actually worked	49,411
(4) Time lost (2)−(3)	23,827
(5) Full-time equivalent unemployment, (4)÷37.5 hours per week	636
USUALLY WORK PART TIME AT PRESENT JOB BUT PREFER AND COULD ACCEPT FULL-TIME WORK	
(6) Man-hours equivalent to full-time work, 1,116×37.5 hours per week	41,850
(7) Man-hours actually worked	20,311
(8) Time lost (6)−(7)	21,539
(9) Full-time equivalent unemployment, (8)÷37.5 hours per week	574
(10) Total full-time equivalent unemployment, (1)+(5)+(9)	5,704

The computed full-time equivalent unemployment serves as a rough, but useful, measure of time lost by workers for whom the current rates of activity does not provide opportunity for full-time employment. It is not an estimate of all the lost time that can be ascribed to less than perfect functioning of the economy. Some people, when they lose their jobs involuntarily, withdraw from the labor market instead of looking for other work. Furthermore, not all of the time lost by people classified in the labor force is included in the concept. For example, no allowance is made for time lost by those working more than 35 hours a week who are regularly employed in industries in which the customary workweek is longer than the hours actually worked. A computation which provided a reasonably useful approximation of the extent to which, in each month, there is departure from full employment of the Nation's labor resources would necessitate further refinements. In addition to the points made above, and in the two earlier memorandums to which reference has been made, a more refined procedure would take into account overtime hours worked by those at work, and differences in the length of the full-time workweek appropriate for each of the separate classes of workers.

The attached table shows the reported unemployment, the numbers on part time for economic reasons, the full-time unemployment equivalent to time lost by those on part time, and the total full-time equivalent unemployment for each month from January 1956 through January 1958. This table is consistent with present labor force definitions.

Unemployed persons, part-time workers, and estimated full-time equivalent unemployment: By months, January 1956–January 1958

	Unemployed persons	Persons who worked part time because of economic factors			Full-time equivalent unemployment	
		Total	Usually work full time	Usually work part time	Of part-time workers	Total
1956						
January	3,092	1,847	1,060	787	769	3,861
February	3,137	1,877	1,130	747	798	3,935
March	3,125	1,722	938	784	783	3,908
April	2,755	1,873	1,057	816	796	3,551
May	2,870	2,046	1,221	825	835	3,705
June	3,400	2,398	1,172	1,226	1,092	4,492
July	3,134	2,167	1,016	1,151	1,011	4,145
August	2,527	2,280	1,118	1,162	1,004	3,531
September	2,295	1,919	1,023	896	821	3,116
October	2,127	1,793	1,000	793	721	2,848
November	2,648	1,859	1,055	804	767	3,415
December	2,727	1,863	1,043	820	804	3,531
1957						
January	3,244	1,935	1,190	745	816	4,060
February	3,121	2,076	1,203	873	879	4,000
March	2,882	2,136	1,288	848	893	3,775
April	2,690	2,083	1,242	841	844	3,534
May	2,715	2,133	1,215	918	831	3,546
June	3,337	2,501	1,312	1,189	1,089	4,426
July	3,007	2,363	1,091	1,272	1,061	4,068
August	2,609	2,323	1,076	1,247	1,016	3,625
September	2,552	1,952	1,068	884	799	3,351
October	2,508	1,991	1,057	934	826	3,334
November	3,188	2,208	1,152	1,056	942	4,130
December	3,374	2,332	1,306	1,026	979	4,353
1958						
January	4,494	3,069	1,953	1,116	1,210	5,704

Representative BOLLING. Are there further questions or comments? If not, we thank you all very much, gentlemen.

And we will adjourn now until tomorrow at 10 o'clock in this same room.

(Whereupon, at 12:32 p. m., the committee adjourned, to reconvene at 10 a. m., January 30, 1958.)

JANUARY 1958 ECONOMIC REPORT OF THE PRESIDENT

THURSDAY, JANUARY 30, 1958

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

The committee met at 10 a. m., pursuant to recess, in the House caucus room, 362 Old House Office Building, Hon. John Sparkman (vice chairman of the committee) presiding.

Present: Senators Sparkman and Douglas; Representatives Talle, Curtis, Kilburn, and Boggs.

Present also: John W. Lehman, acting executive director.

Senator SPARKMAN. The committee will come to order.

I was waiting in the hope that some of the other members who do plan to be here this morning might come in. However, I think we might get started. Some of our members are prevented from attending. I know 1 or 2 of them are out of town, and others are working in other committees.

However, about four additional members are to be here this morning. I suppose they will come in. But I think we can catch up.

So I think we should get started.

The committee, today, hears from representatives of interested organizations, associations, research groups, and labor unions. We have a similar panel of different organizations on next Tuesday. In previous years we have tried to hear from all these organizations in one session, but since this has made for a very large panel and a very limited time we have divided these organizations into two more or less balanced panel discussions.

We are asking that the initial oral presentation of each one will be limited to 8 or 10 minutes so that ample time will be left for discussion between and among the committee members and the representatives who are here today. Each organization is, of course, welcome to supply longer statements or other materials which they believe would contribute to the record and help the committee in its consideration of the economic situation and problems of the next year.

I will say that where those longer statements are provided, the entire statement will be printed in the record.

Our first witness this morning is Mr. Roy Battles, assistant to the master of the National Grange. Mr. Battles, we are glad to have you with us.

Mr. BATTLES. Thank you, Mr. Chairman. We are delighted to be here.

STATEMENT OF ROY BATTLES, ASSISTANT TO THE MASTER, THE NATIONAL GRANGE

My name is Roy Battles. I am the assistant master of the National Grange. We think these hearings, Mr. Chairman, are entirely appropriate, are a fine thing, and are in our democratic traditions whereby groups of our sort may come together and compare notes with members of the committee, with you, and with the panel members assembled here.

Farmers have a paramount stake in a stable and prosperous expanding economy. Almost 90 percent of their food and fiber sales are for domestic consumption. Even during the so-called boom period of recent years, total United States agricultural output has exceeded available demand by a significant margin. Low farm prices have resulted which, coupled with high costs of production supplies and labor, have led to a rural cost-price squeeze of depression proportions.

With inelastic costs of production, it is not difficult to imagine what would happen to farmers if consumer demand for food and fiber—especially for livestock products—was even moderately curtailed by a recession of any significant proportions. This is especially true because consumers pay cash for food, which is often a residual item in the family budget—coming only after a variety of regular payments on notes secured by mortgages have been made and other bills paid.

Inflation also plays a particularly vicious role in depressing the level of living of farm people. The rising prices of living and production supplies, higher labor costs, increased marketing expenses and higher taxes—all a product of inflation—are not offset by higher farm prices in the market place, when that market place is a perennial depository for commodities in excess of demand and when international prices have major impact on even domestic United States farm prices.

For these and other reasons, the Grange, along with the President and the rest of the Nation, is most anxious that all segments of the economy—including labor, industry, and the Government—implement policies and programs which will result in a sound and expanding economy with stable prices.

As farmers, we are weary of hearing industry and labor blame each other for the wage-price spiral, which puts a deadly economic squeeze on the rural pocketbook. It is our feeling that present indications—including the stepped-up defense effort—are that there will be a gradual reversal of present recessionary trends, and that we must soon be prepared to again battle inflation.

Relatively speaking, the supply of labor will continue to be scarce, which will give organized labor an even stronger bargaining advantage. In many economic areas, industry is able to "administer prices" and control production. Agriculture enjoys neither of these advantages.

The President made numerous references in his message concerning the necessity for both industry and labor to exercise self-discipline and economic statesmanship in the interest of long-range national well-being in terms of policies relating to price and wage increases. We strongly endorse this recommendation. As a matter of fact, the consumer price index would be greatly higher today if it were not for the fact that wholesale prices of farm products have dropped from 107 percent in 1947–49 in 1952 to 88.4 percent in 1956. In short, lower farm prices have tended to offset price rises in other segments of the economy.

We also endorse the Government's management of fiscal and monetary policies intended to curb inflation. For instance, the farmer has a great deal less to lose in higher interest rates than he does in higher prices for production supplies and cost of living. "Cheap money" in a time of significant inflationary tendency is the road to ruin for American agriculture. It is just as certain, however, that we in agriculture have a great stake in the maintenance of a stable level of productive investment.

Despite defense problems, the Grange is disappointed in our national reluctance to further curtail expenditures of the Federal Government. The present tax load subtracts from the economy far more productive investment and buying power than it adds through governmental expenditures. Relatively little consumer or production goods flow from the Federal Treasury. As a rule, however, we are inclined to recognize that Federal expenses should go up in times of recession and down in times of prosperity.

The Grange stands ready, furthermore, to support curtailments in Federal agricultural expenditures, when accompanied by a program that will enable farmers—with and without the aid of Government—to raise their returns from investments, labor, skills, and risks.

Our main criticism centers around two general assumptions made in the report. First, it is implied that farm income levels are actually not very much too low after all, and that agriculture is basically in a relatively strong posititon. In other words, the report fails to show accurately, or even call attention to, the serious income situation now faced by American farmers, not to mention taking cognizance of the heavy drain on the actual and potential level of national economic activity caused by the rural depression.

Second, no new constructive approaches to solving the farm income problem were suggested. We get the impression that the President has assumed that some forms of price-support aid to farmers in the past represented an eror in policy, and that as a result we should more or less turn back the clock and permit agriculture to sink or swim in the so-called free market, while labor, industry, and urban business operate from a favored position—well secured therein by Government.

The Grange agrees that present mechanism of production control and governmental price support loans and purchases for the six basic commodities have outlived their usefulness. In fact, we maintain that price fixing at any level above a free market price, including the 60 to 90 percent levels proposed by the President, will result in the Government placing itself in the position of a market place.

I shall not go into detailed proposals of the National Grange to upgrade the income of farm people and take the role of serving as a market place for farm products away from the Government. Basically, we believe that major emphasis should be placed on producer controlled self-help programs, on a commodity-by-commodity basis, some of which will require enabling legislation. This program envisions the organization of farmers—with or without the aid of Government—in such a manner as to enable them to control their marketings in an orderly fashion and to gain bargaining power in the process. This might be appropriately called the marketing agreement approach, coupled with the domestic parity concept of bringing farmers an American price in the American market place. We believe that the capacity of agriculture to produce will stay ahead of the demands—at prices which in themselves would yield an equitable farm income—of an increasing population for many years to come. It is our contention that by merely lowering farm prices during that period, production would not be reduced nor consumption increased sufficiently to solve the problem of production in excess of demand, which depresses rural income.

Agriculture has neither the moral nor economic responsibility to protect consumers against shortages when this protection would entail disproportionate financial risk or loss by the producer. On the other hand, producers themselves should bear the cost of farm commodity programs to the extent that they share in benefits accruing from those programs. We feel it would have been more realistic if the President had recognized these basic principles and had launched a sound offensive to pull us out of the present state of stagnation in our efforts to solve the farm-income problem.

Such a program would, we hope, (1) raise, not lower, net farm income, (2) restore to private traders the handling and sales of farm products, (3) permit competitive sales in world commerce without taxpayer subsidy, (4) drastically reduce Government farm program costs, (5) allow competitive efficiency to influence productive patterns, rather than to rely on Government control through acreage allotments and other devices, (6) retain for producers the responsibility for and control of surpluses, and (7) assure farm operators a maximum degree of freedom in the management of their own resources and productive capacity.

Insofar as the agricultural legislative proposals submitted by the President are concerned, we support most of them in principle. Our disappointment stems from the fact that nothing is proposed that will point the way toward even the beginning of the end of agriculture's present dilemma.

Thank you very much, Mr. Chairman.

Senator SPARKMAN. Thank you, Mr. Battles.

Next is Mr. Angus McDonald, coordinator of legislative services of the National Farmers Union.

Mr. McDonald, we are glad to have you with us. Proceed in your own way.

STATEMENT OF ANGUS McDONALD, COORDINATOR, LEGISLATIVE SERVICES DIVISION OF NATIONAL FARMERS UNION

Mr. McDONALD. Mr. Chairman, and members of the committee, I am Angus McDonald, coordinator of legislative services of the National Farmers Union.

Unfortunately our national president, James G. Patton, who has always been very much interested in this committee and in the hearings, is unable to be here. Our economist, John Baker, also very much interested in matters under consideration here, was also unable to attend, being occupied elsewhere with another congressional committee at a rather technical hearing. I have been designated therefore to represent the National Farmers Union here today as best I can on economic policy matters.

First I would like to call attention to a rather voluminous document submitted to this committee in the form of a memorandum, dated October 15, 1957.

Senator SPARKMAN. Let me ask: was that the document that was submitted to the subcommittee on agricultural policy?

Mr. McDONALD. I believe so, Mr. Chairman.

Senator SPARKMAN. I just thought it would be well to make that clear at this point.

Mr. McDONALD. Thank you, Mr. Chairman.

Now, our general policy recommendations in regard to agriculture are set forth in some detail in this document. I will not attempt at this time to enumerate or even summarize our findings and recommendations since the committee already has them in this document. It is my understanding that this memorandum has been or will be published by the committee.

I will repeat, however, one or two of the broad objectives of the National Farmers Union in regard to farm income and prices. Our goal is to bring income of farmers up to that of citizens living off farms. Farm income per family and per capita is less than 50 percent of the per capita and family income of those living in cities and towns. In 1956 income of farm people averaged $902 compared with $2,018 for the nonfarm population. Farm people constitute 11.9 percent of the total population. Yet the total net income of people on farms, from farms, was only 4.3 percent of the national income and the net income of farm people from all sources was only 6.4 percent of the national income.

Looking at the income of farmers from the standpoint of hourly rates, the situation is even worse. Early in 1956 the Secretary of Agriculture reported that the national average rate per hour of farm operator was 70 cents, or 30 cents less than the amount called for in the minimum wage law. Looking at different types of farming, we find that hourly rtaes of dairy farmers in eastern Wisconsin range from a high of 68 cents per hour in 1952 to a low of 29 cents per hour in 1955.

While it is true that some other types of farmers are making a little more, all hourly rates are falling way under the $1 minimum. For example, hog farmers in the Corn Belt are making 48 cents per hour; wheat-corn-livestock farmers, 34 cents per hour; wheat-roughage-livestock farmers are making ony 32 cents per hour. Many more figures could be given to indicate the unfortunate economic condition of the farmer. We assume that members of this panel and, of course, members of the committee, are aware of the farmer's present economic condition, therefore, we will not labor the point.

The question before us and the Farmers Union and this committee is whether or not the Congress and the farmers themselves can take measures to alleviate the farmer's economic condition. One factor which we believe deserves serious consideration is the continued increase of costs, despite a fairly consistent severe decline in farm prices and farm net income. We suggest that the price of steel, for example, and in general most farm supplies are not responsive to the law of supply and demand. We therefor, suggest that the farmer almost alone of the important economic groups in our society is operating in a free market. The farmer, except for price floors established by the Government, is more or less helpless in the market place. While it is true cooperatives have given the farmers some measure of economic security, most farm commodities are not marketed through cooperatives nor are farm supplies purchased through farmer-created cooperatives.

Farmers Union over the years has supported a system of price supports which was related to the price of commodities farmers purchased and therefore constituted a sort of production cost of living escalator. For many years a system of price supports on the basic commodities, and to some extent on others, worked very well from a standpoint of profit and loss operation. Losses over a period of years by the Commodity Credit Corporation, with the exception of potatoes, were insignificant. Although price supports did not as rule bring about a decline in agricultural production, they did provide the farmer with stability and a certain measure of economic security.

Contrary to the theory of some farm organizations and I believe Secretary Benson, we do not believe that taking away or lowering price supports will necessarily decrease production. This point is elaborated at some length in the document referred to above. We believe there is a tendency for farmers, because of the nature of their operations, to increase production or at least not decrease it when prices fall.

It would seem that the attempts of this administration to decrease production and to save the country money by getting rid of price supports as quickly as possible have been a failure. Although Secretary Benson has decreased price supports on many commodities many times, cost of Commodity Credit operations have increased from $67 million plus in 1952 to $1,299 million plus in 1957. One of the avowed aims of the administration was to get rid of the burdensome cost of farm programs to all taxpayers. We suggest that the administration has fallen on its face in this respect.

Application of the theories of those who centended lowering prices would decrease production has also not been proved during the last 5 years. Agricultural production has increased generally since this administration has been in power.

Now, Mr. Chairman, I turn to another matter, we feel, of great importance. That is the matter of the development of natural resources of the Nation.

We bring to the attention of the committee certain recommendations and activities of the administration in regard to resource development. Resource development in regard to electric power, irrigation, and atomic energy have been going ahead by leaps and bounds in the Soviet Union. I call the attention of the committee to a recent publication of the Senate Committee on Interior and Insular Affairs, titled: "Relationships of River and Related Water Resource Development Programs of United States, Soviet Russia and (Red) China, December 20, 1957."

In this publication, Nikita S. Khrushchev, Chief of the Soviet Communist Party, publicly states:

> The Soviet Union can in the next 15 years not only catch up with the United States in production of basic items but also outstrip it.

Mr. Khrushchev lists hydroelectric energy, water, transportation, flood control, and food production by irrigation as basic items of Soviet production. Mr. Khrushchev adds significantly:

> We declare war on the United States in peaceful production * * *. We declare war. We will win over the United States. The threat to the United States is not the intercontinental missile. We are relentless in this.

Let us look briefly at the electric power situation in the United States and in the Soviet Union—the power generating capacity during the period 1948–56 increased 96.8 percent in the United States. The corresponding Russian increase was 137.8 percent. At the present time four hydroelectric plants are under construction in the the Soviet Union, which will exceed the Grand Coulee in the Columbia Basin, previously the largest plant in the world. Russia plans a gigantic program calling for a single grid linking the vast U. S. S. R. and operating at 400,000 volts.

In the field of atomic energy the Soviet Union plans to double its 1965 atomic electric power goal from 2 million to 4 million kilowatts. Technology in atomic power construction and design is probably equal to, if not ahead of, the United States. Soviet Russia has had the atomic power plants operating for 4 years and will have 2½ million kilowatts of atomic power capacity completed by 1960.

I might interpose there by saying that the United States has only one atomic electric power plant operating, the one at Shippingport, Pa., which produces 60,000 kilowatts.

The United States on the other hand is lagging in hydroelectric, conventional thermal power development, and nuclear power development. There has been a deliberate and systematic slow-down by the administration during the past 5 years. The administration has not only attempted to prevent any new projects from being authorized by the Congress but has attempted to destroy existing programs. Many examples could be given. One of the most significant is the TVA. Although over half of TVA power is being used at the present time for defense purposes, the administration has not recommended any new loan funds for TVA for several years.

The policy of the administration since the advent of the satellites and the publication of the report on resource development in the Soviet Union has been to further slow down water and resource development.

The President, in his budget message, said, with respect to water resources:

> The construction activities of the Corps of Engineers and the Bureau of Reclamation will be limited to orderly continuation of work started in prior years. We should not, at this time, add to this extremely high level of commitments by starting new projects. Construction on projects under way will go forward as economically as possible. Expenditures for maintenance and operation will provide reasonable protection of Federal investment.

In a statement delivered before the House Committee on Ways and Means, January 17 of this year, Budget Director Brundage said:

> Another recommendation which should hold down budget totals is that no new project be started in fiscal 1959 for construction of water resources projects

by the Corps of Engineers or the Bureau of Reclamation in view of the high level of current spending resulting from the large number of new projects started during the last 3 years.

With respect to these remarks let us bear in mind that of the total budget of $72.5 billion only about $900 million or 1.24 percent is devoted to water resource development so that, were all water resource development deleted, the saving in terms of the total budget would be almost imperceptible.

For 1959 there are again no proposals for new starts. Funds to continue projects already under way are requested but the adequacy of these funds to maintain economic and expeditious construction schedules is very questionable.

To give one or two examples, the John Day Dam, which requires an appropriation as to projects already authorized, already under construction, required $30 million this year, and the President recommended $2 million. I believe, Mr. Chairman, I have exceeded my time, so I will conclude my statement at this point.

The $2 million request for construction funds to continue John Day Dam is absurd on its face in view of the magnitude of the project, and I am reliably informed that the scheduled operation by Oahe will be pushed back another year, and possibly 2 years, if current budgetary requests prevail.

Senator SPARKMAN. Our next witness is Mr. Ralph Robey, economic adviser of the National Association of Manufacturers.

Mr. Robey, we are glad to have you with us.

Proceed in your own way.

STATEMENT OF RALPH W. ROBEY, ECONOMIC ADVISER TO THE NATIONAL ASSOCIATION OF MANUFACTURERS

Mr. ROBEY. Thank you. Mr. Chairman and gentlemen of the committee, the Economic Report of the President contains many interesting and enlightening observations on the current state of the economy. Yet it fails to face forthrightly, or deal with adequately, the two central economic problems of our era. These two problems are:

(1) The tendency for unit labor costs to increase continuously. This puts us chronically in the position of choosing between inflation and recession.

(2) The impairment of both the incentive to save and invest, and the sources out of which savings would normally arise. This calls into question our ability to finance a satisfactory rate of economic growth in the present critical period of world history.

In the remainder of this statement I would like to submit, respectfully, my own analysis of our current economic situation and future economic prospects. In doing so I will begin from a somewhat different starting point from that used in the President's Economic Report.

Since this is still a profit-motivated economy, the natural place to start any analysis of the economic outlook is with a consideration of the trend in profits. Some 85 percent of our national income originates in the profitmaking sectors of our economy. The activities which give rise to this income occur because someone finds it profitable—or expects to find it profitable—to take the steps which cause them to occur. The profitmaking sectors account for about 85 percent of our total civilian employment. Here again these people have jobs because, quite baldly, someone expects to earn a profit out of employing them.

There are some people who profess to be shocked by this state of affairs and who urge that the "selfish"profit motive should not be permitted to guide our economic destinies. However, I assume that this committee accepts the profit motive as the proper guiding principle of our free economic system and that I need not argue that point.

The fact is that when our economic activity is below a satisfactory level, when production and growth which should occur do not occur, we must ask first why no one found it profitable to undertake the actions which would lead to production and growth.

Perhaps in stressing the central importance of profitability I seem to be dwelling upon the obvious. But, surprisingly, most economic analyses do not start from this base, and profits are usually regarded as a result, rather than the cause, of economic activity.

In recent years most discussions of the economic outlook are centered around the concept of "demand." The demand for each of the broad types of goods and services is analyzed separately, and these parts are put together to form a picture of the prospects for the economy as a whole. This is, in general, the method followed in the President's Economic Report.

This "demand" approach to economic analysis is not necessarily in diametric opposition to the "profitability" approach which I have proposed. Certainly it will not be profitable to produce or to invest unless there is a satisfactory level of demand for the ultimate product.

But demand is only one-half the picture and the other half is cost. There will always be enough demand to make high rates of production profitable, if cost levels permit goods to be offered at a low enough price. Conversely, if costs rise too fast it will not be profitable to produce, no matter what the state of demand.

With this background we may turn to the record of profits in the postwar period. The years since World War II are generally regarded as a period of inflationary price rises but, at the same time, of extensive genuine economic growth. It is therefore surprising, and alarming, to find that profits, even in terms of a dollar declining in value, have not been rising.

The record is summarized in the attached table I. There have been fluctuations upward and downward in the profit total since 1947, but essentially profits have gotten nowhere. The 1957 dollar profit figure was at approximately the same level as in 1948, despite the fact that the dollar had declined about 15 percent in value. By contrast, the total of personal incomes after tax has increased steadily during the period, each year's figure being higher than the year before. In 1957 total personal income after tax was 77 percent higher than in 1947 and 60 percent higher than in 1948.

A few other figures may be cited to illustrate the situation: While profits stood still during the period 1948 to 1957, gross national product increased 69 percent, the consumer price level rose 17 percent, physical industrial production rose 37 percent. In this setting stagnant profits must be regarded as very seriously restricted profits. If any of the remaining participants in the productive process had experienced no growth in their earnings in such a period they would assuredly feel that they had been unfairly treated. However, our major concern here is not with "fairness" to the recipients of profits, but with the effect on the economy of restrictions of its basic driving mechanism.

Profit totals do not tell the whole story since they always average out a wide variety of individual experiences. There are always marginal situations where it is just barely profitable to continue in operations. With a deterioration of profit prospects these may cease to be worth undertaking at all. Other enterprises which might have been started are not started if there is no reasonable basis for expecting them to be profitable. The effect is a generally depressing influence on the economy.

In view of the rapid rise in personal incomes since 1947—see table 1—it seems unrealistic to suppose that the stagnation of profits, with its threat to general economic stability, can be due to an insufficiency of demand. Clearly, the fault lies on the cost side, and, to call a spade a spade, on the labor cost side. The physical output of our economy increased by 44 percent between 1947 and 1957, while the total dollar labor cost of producing that output rose by 98 percent.

A part of this increased labor cost was passed on to buyers but a part was not, with the result that profits have been squeezed. It is doubtful that buyers are now in a mood to assume any further cost rises, which would, therefore, have the effect of restricting markets and squeezing profits, rather than raising prices.

Of course we might try to get out of this box by inflating demand through increases in money supply, so as to match the higher level of costs. How this might be done and whether it would be successful, I will not venture to predict. Such measures would simply be an acceptance of inflation as a means of offsetting runaway costs—a policy which must lead to disaster in the long run.

We are somewhat in the position of a man who finds that a pair of shoes which had previously been comfortable are beginning to pinch him. One solution might be to buy a bigger pair of shoes, but he would be better advised to find and correct the condition which caused his feet to swell. Otherwise they might continue to swell, with the result that he would shortly have to discard the new shoes and buy a still bigger pair. We may face the same sort of difficulty if we simply use a bigger money supply to counteract the squeeze resulting from swollen costs.

When the present economic situation is understood in this light, it is rather surprising to find the President evenhandedly urging restraint on both business and labor. Present difficulties are clearly due to lack of restraint in the labor-cost area, rather than the profit area.

The report correctly indicates that unwarranted wage costs can have a depressing effect on the economy in the coming months. But one looks in vain for any concrete proposals for dealing with this central problem. The only approach to the problem of rising labor costs that is proposed is the hortatory approach. It is already clear, from the response of labor leaders since the publication of the report, that this exhortation will fall on deaf ears. It is useless to appeal to those who have power to refrain from using that power.

The past 2 years have been a period of trial for what had previously been our major weapon against inflation—general credit controls by the Federal Reserve Board. Can this be an effective means of controlling an inflation generated by pressures from the cost side?

I am afraid that the verdict must be that in present circumstances general credit controls can be of only limited effectiveness. They might be effective ultimately, but only at a cost in unemployment that we would probably be unwilling to pay.

Consumer prices started moving upward about 2 years ago. During most of this period the Federal Reserve Board cautiously but consistently moved in the direction of making credit more difficult to obtain. Undoubtedly this was the right thing to do since without restraints the price rise might have been much worse. The fact remains that for 19 months, starting in April 1956, the Consumer Price Index rose almost steadily, the total increase amounting to 6 percent.

Consumer prices leveled off in December of last year and the general expectation is that this particular inflationary episode is at an end. Whether the inflationary trend is resumed will depend in part on what measures we use to get out of the current recession. General credit restraints undoubtedly deserve some credit for the recent leveling off in price trends but it is ironic that, at the very moment that such restraints are beginning to take hold, they are also being relaxed. The reason is that, given the present upward pressure on costs, credit controls can restrain price increases only by also restraining production and employment. We have achieved a leveling off in the price trend but we have had to pay for it with a curtailment of business activity.

These remarks should not be interpreted as a criticism of the Federal Reserve Board. I believe that the tightening of credit conditions in 1956 was the right thing to do and that the relaxing of credit during the past month was again the right thing to do. But they illustrated the futility of attempting to deal with a cost-generated inflation by restrictions on money and credit.

The President's Economic Report contains a section on The Longer Perspective which is highly optimistic in tone. It argues that—

> There are good grounds for confidence not only that economic growth can be resumed without prolonged delay, but also that a vigorous expansion of our economy can be sustained over the years.

The chief reason given for this long-range optimism is that our needs will rise rapidly during the coming decade. Increased needs arising from growth in population and changes in its age distribution, requirements for better roads and other transportation facilities, and so forth, will, it is argued, greatly expand our markets for goods and services.

This description of needs as though they were assets is a curious inversion of logic. Since when is economic need a guarantee of economic growth? If this were so, India, China, and the other backward nations where need is most acute, should have the brighest economic prospects of all the nations on the globe.

It is true that we shall need more in the future than we have needed in the past. Our contest with Russia for worldwide economic supremacy should be sufficient guarantee of that. But this is the challenge we must meet, rather than a source of reassurance on which we may rest.

The report makes somewhat more sense when it refers to increases in knowledge and improvement in technology as a "further element of strength." But this is given only passing mention and there is no discussion at all of the still more basic factor of capital formation.

Certainly our economic future is going to depend more on what we will be able to produce than on what we will need. What we will be able to produce will depend largely on the amount and character of our productive facilities—our stock of capital. There is only one way of making cumulative additions to our stock of capital and that is through savings out of current income.

If one were deliberately seeking to set up a barrier to saving and capital formation it would be hard to devise a better one than our present income tax system. This not only reduces the incentive to saving and investment, it also taxes away a substantial part of the income which could have been saved. The structure of tax-rates bears especially heavily on the incomes out of which the most venturesome forms of savings should be drawn.

The obvious effect of our income tax system as a deterrent to savings and capital formation is not given the weight it deserves in current discussions. It is given no weight at all in the President's Economic Report. The probable reason for underrating this barrier is the widespread impression that savings and capital formation have been proceeding at very satisfactory rates indeed in the postwar years.

Our research department at NAM recently undertook a study to test the validity of this impression and found that is rested on a failure to take important parts of the picture into account. The research department study is a comprehensive analysis of major tendencies in business finance and I will not attempt to summarize it, but merely draw out two salient facts. May I say, Mr. Chairman, that we submitted the entire study to the Ways and Means Committee.

First, the 30 to 40 billion dollar totals we read for the annual amounts of new investment in plant and equipment are impressive amounts. Few people bother to recollect that our current stock of capital is being used up at the same time. Our net gain is not the total of current purchases of plant and equipment, but merely the margin by which current purchases exceed current consumption. Our calculations, summarized in table 2, indicate that this margin is very small. The rate of capital consumption for 1956 is estimated at about $35 billion annually, so that a relatively minor decline in new installations could wipe out the net gain completely.

Second, such business expansion as has occurred since pre-World War II days has been financed very largely through borrowed capital. The burden of this debt has been eased—just as all debt burdens have been eased—by the simultaneous progress of inflation. If we are to have economic growth without inflation we shall have to finance a greater portion of our growth with equity capital, and depend less on debt.

Clearly, the impression that all is well needs some reappraisal, in regard to our long-run prospects for capital formation as well as in regard to our present standing in the cold war. No matter how well we match the Russians in the performance of our missiles, we will still have to face her in the broader contest for economic supremacy. Nothing less than the maximum attainable rate of economic growth will be satisfactory.

At one point in his report the President states that his objective is to "promote sound economic growth with reasonably stable prices." In my opinion the recommendations presented in the report are not adequate for the attainment of that objective.

Since this is not a committee which considers specific legislation, I will present my own recommendations in very general terms. I believe it is necessary to devise effective measures which will—

(1) Reduce present income tax rates which impair current profitability and limit the funds for future capital formation.

(2) Restrain the monopolistic power of labor to set costs at levels which are too high to be supported by the economy. This power, if unrestrained, places us in the position of choosing between inflation and unemployment.

I do not like being a pessimist, but I believe that unless prompt progress is made in these directions we will not attain our goal of prosperity without inflation.

Senator SPARKMAN. The two tables will be placed in the record at this point.

(The tables referred to follow:)

TABLE 1.—*Profits compared with personal incomes, after tax, 1947–57*

[Billions of dollars]

	Corporate profits after tax	Total personal incomes after tax		Corporate profits after tax	Total personal incomes after tax
1947	$18.2	$169.0	1953	16.7	250.2
1948	20.3	187.6	1954	16.0	254.5
1949	15.8	188.2	1955	21.0	270.2
1950	22.1	206.1	1956	21.0	287.2
1951	18.7	226.1	1957 [1]	20.6	300.0
1952	16.1	237.4			

[1] Preliminary, 4th quarter by Council of Economic Advisers.

Source: U. S. Department of Commerce.

TABLE 2.—*Acquisitions of fixed capital compared with consumption of fixed capital, 1947–56*

[Billions of dollars]

	Business expenditures for new plant and equipment	Current consumption of fixed capital by business		Business expenditures for new plant and equipment	Current consumption of fixed capital by business
1947	$20.7	$13.7	1952	$29.6	$23.8
1948	23.5	16.2	1953	31.7	26.4
1949	21.7	17.4	1954	30.4	28.0
1950	25.5	19.1	1955	33.2	30.5
1951	29.0	22.4	1956	39.2	34.9

Source: NAM research department, Major Tendencies in Business Finance, January 1958.

Senator SPARKMAN. May I say that the Committee on Economic Development was supposed to appear this morning at this place in the program. Their representative was not able to be here, but will be in the panel, a similar panel, on Monday.

At this time we will hear from Mr. Peter Henle, assistant director of research for the American Federation of Labor and Congress of Industrial Organizations.

Mr. Henle, we are glad to have you with us. Proceed in your own way, sir.

STATEMENT OF PETER HENLE, ASSISTANT DIRECTOR OF RESEARCH, AFL-CIO

Mr. HENLE. Thank you, Mr. Chairman.

In this set of hearings, the Joint Economic Committee has been listening to a group of distinguished economists analyzing the President's Economic Report in the light of current economic trends. Among those from whom the committee has already heard is Stanley Ruttenberg, AFL-CIO director of research, who discussed a number of the major issues raised by the President's report.

I would like to focus particularly on several points concerning the current level and trend of unemployment.

1. Today's level of unemployment does present a serious problem.

The most recent monthly estimate of unemployment by the Census Bureau is 3.4 million for the month of December 1957. Judging from the extent and size of recent layoffs and the more current figures available on unemployment insurance claimants, the figure for January, due to be released about February 10, will show a substantial increase.

The increase in unemployment insurance claims is far larger than the normal seasonal rise for this time of year. In mid-January, total claims were approximately 825,000 higher than the week just before Christmas. For 1956–57, the comparable increase was only 470,000, and even in the recession of 1953–54, it was only 550,000. There has been some increase in coverage of the unemployment insurance system since 1954, but that alone does not account for the much greater increase in claims in the past month.

Judging by this increase in unemployment insurance claims, the January estimate of unemployment will be in the neighborhood of 4.4 million to 4.6 million. This will be higher than the level of unemployment reached at any time during the 1954 recession and at a level reached only in a very few months of the 1949 recession.

In addition to this increase in full-time unemployment, the extent of time lost because of reduced work schedules, although difficult to estimate, appears to be more severe than the 1954 recession and close to the level reached in 1949. For example, average hours worked in manufacturing for the month of December totaled 39.3, lower than any December in the postwar era.

Glancing at the impact of this rising tide of unemployment in terms of localities, a recent Department of Labor report added 21 communities to the list of labor-market areas with substantial labor surplus (unemployment over 6 percent), making a total of 45 in all. The new areas represent diverse geographical areas including Pittsburgh, Pa.; St. Louis, Mo.; Bridgeport, Conn.; Youngstown, Ohio; Newark, N. J.; and Portland, Oreg. Here again the impact already appears to be as severe as the 1949 and 1954 recessions.

The figures I have been citing are admittedly merely statistics, but behind the data lies the very real hardship that unemployment is now forcing on a substantial segment of the Nation's population. While it is important not to exaggerate the unemployment picture, I feel a more serious error would be to fail completely to recognize its existence. I would say that the President's Economic Report is practically blind to the importance of this problem. Almost no attention is devoted to the unemployment question and in the critical section entitled, "Appraisal of the Current Economic Situation," the words "employment" or "unemployment" are not even mentioned.

Organized labor very definitely feels that unemployment has become a problem of serious national concern.

2. Even if the Nation's economy should improve rather quickly, as the President's report expects, a serious unemployment problem is likely to remain for an extended period of time.

Let us assume that the President's Economic Report is correct in feeling that the economic outlook will improve in the near future. In such a situation, it seems fairly clear that unemployment is likely to be the last economic indicator to show any significant improvement.

There are several reasons for such a lag in the easing of unemployment. In the first place, any improvement in the placement of new orders or in the pace of production almost certainly will first be reflected in longer hours of work for the existing work force rather than in the hiring of additional workers.

Another factor which may affect the employment situation is a possible sharp increase in productivity during 1958. The President's Economic Report includes a special appendix discussing the extent of productivity advances in the past 2 years These figures must be regarded as quite preliminary and tentative, since productivity information at best involves many rough calculations particularly when the period covered is a recent one. As rough indicators, the figures show a relatively small increase for 1956 followed by a marked improvement in 1957 when "the productivity advance for the private economy apparently matched the long-term trend rate of about 2 percent."

One possible development for 1958 might well be a more decided advance in productivity. This would result from the cumulative effect of installing more highly mechanized and obviously more efficient plant and equipment purchosed by business during the past few years. Recent management efforts to reduce all types of costs are another factor for higher productivity in 1958. If this improvement in productivity should occur, even greater output would be possible with the existing work force, thus reducing the necessity to hire new workers.

A third factor, making for a continued relatively high level of unemployment is the continued increase in the labor force. This increase has been relatively erratic in recent years but has averaged approximately 800,000 over the past 5 years and even during the recession year of 1954 increased by 400,000. These new workers, of course, will join the ranks of those looking for jobs.

Thus we cannot dimiss the current increase in unemployment as merely a temporary phenomenon. Even if the hoped-for economic upturn materializes, a relatively high level of unemployment is likely to plague the economy throughout most of 1958.

3. We must recognize long-run changes which are slowly taking place in the Nation's work force.

We in the AFL–CIO are particularly aware of this problem because this past week the AFL–CIO held a special 1-day conference based on the theme "The Changing Character of American Industry." Among the speakers were Ewan Clague, Commissioner of Labor Statistics; George W. Taylor, University of Pennsylvania; Walter

Isard, University of Pennsylvania; and a number of union commentators.

The speakers reviewed a number of trends that are likely to occur in the work force over the next 10 years. Among the major issues discussed were the declining number of men in the prime-working-age group, 21 to 44, the gradual increase in the proportion of youngsters in the labor force, and the continued increased participation in the labor force of women over the age of 35.

These trends have a number of implications for both private and public policies regarding employment. Because of the decline in the birthrate during the 1930's, we feel the effects today in the number of young men entering the labor force. Similarly, the rate at which new families are being formed has also been declining. These trends eventually will be reversed during the 1960's when an increasing number of young people will be both entering the labor market looking for jobs and entering the consumer market looking for the products with which to set up their own homes.

However, until the 1960's it may well be possible that some of the forces of the past 10 years such as the boom in marriages, births, and the setting up of new households, which have been operating to accelerate our economic growth, will be losing some of their previous impact. Under these circumstances, without further positive Government action, our economy may find it more difficult to sustain a high rate of growth.

4. There is every reason to adopt those Government actions and programs which are likely to have the maximum effect in reducing the level of unemployment and alleviating the hardships of those currently unemployed.

It is in this area that the President's Economic Report seems to be particularly weak. There is no recognition that in the months ahead unemployment will remain a relatively serious problem and that reduction of unemployment must therefore be ranked as a major objective of Government policy.

There are two current attitudes held by those in Government which, it seems to me, are hindering the development of effective policies to meet the current recession. Unless these are modified, Government is likely to be playing a constrictive rather than constructive role in the months ahead.

The first of these is a sort of hypnotic trance which the concept of a balanced budget seems to develop in many Government officials. Let me make myself quite clear. Organized labor recognizes the importance of adequate revenues to meet the expenses of Government. Over a period of years, of course, it is desirable that the budget be balanced. But in a recession year, if some type of Government action is genuinely needed to meet a major problem in American life, such a program should not be abandoned simply because it does not seem to fit in a neatly balanced budget. Instead, if compensating revenues can be found, well and good, but in a period of recession the Government should not feel compelled to cut corners in order to present a balanced budget.

The second attitude which may be hindering effective Government action relates to national defense. Let's not be stingy with the sums necessary to protect the United States and the free world against aggression. The proposed budget for fiscal year 1959 has been presented to the American public as sufficient to match the acknowledged vast strides taken by the Soviets. Frankly, it is surprising to find that a budget defended as adequate is one which would cut the number of Army divisions, retire a number of warships from active service, reduce the number of carrier air groups, cut back the number of operating aircraft, decrease the number of strategic air defense and tactical wings in the Air Force, and in addition slash the active-duty strength in all branches of the Armed Forces.

Determination of the Nation's defense program must be left to the experts—among which the AFL–CIO cannot be counted—but it is not out of order to suggest that greater consideration be given to the proposals of the Gaither and Rockefeller Commissions.

With regard to Government policy, a number of actions can be suggested to strengthen consumer-buying power and stimulate business spending. Certainly any vestige of the tight-money policy should be eradicated. Tax policy should be revised to grant tax relief to low- and moderate-income families. The Government should move energetically to provide a more comprehensive housing program.

In more detail, I would like to mention three proposals aimed at alleviating the distress caused by unemployment. The points I mention above are these we feel to improve economic conditions as a whole. The three points I am now going to mention are particularly related to this unemployment problem.

Federal legislation is needed to improve State standards regarding unemployment insurance.

1. We do not propose to change the basic character of this Federal-State unemployment compensation system. However, action at the Federal level is necessary to correct present inadequacies in many existing State laws by establishing certain minimum standards which the States would have to meet as a condition of their employers' receiving credit against the Federal unemployment tax. Although today's Federal-State system does provide a certain support to the economy, it is estimated that only about 15 to 20 percent of the current wage loss caused by unemployment is compensated by unemployment insurance.

The basic proposal which the AFL–CIO is advancing is a simple one: to write into law basic standards which have long been accepted by experts in this field, by legislators, and also by the current administration as desirable for any State unemployment-insurance system.

We are proposing that by Federal legislation the present benefit ceilings be raised so that the maximum primary benefit payable under State laws would not be less than two-thirds of the State's average weekly wage in covered employment, and that, subject to this maximum, the individual worker's primary benefit would be not less than 50 percent of his weekly wage.

The States have been urged time and time again to bring their laws up to these standards. In 1953 the current administration began its campaign that the States voluntarily raise their unemployment-insurance programs to these standards. Since that time very little, if any, progress has been made. In fact, since 1955 maximum benefit levels relative to average weekly wages have actually declined in the majority of States. Today average benefit payments represent only about one-third instead of one-half of lost wages.

2. Congress must adopt the long-sought-after program to aid the chronically distressed areas of the country. Action must be taken to improve the ability of these communities to develop new industry and thus once again develop a balanced economy that will provide sufficient employment to those residing in the area.

3. The minimum-wage law must be extended to millions of workers who are now denied this protection.

In particular, workers in large department stores, hotels, and other retail establishments which by any criteria are "big business" should not be denied the protection of the Nation's minimum-wage statute. Other groups of workers to whom the basic minimum should apply are in the lumber, telephone, canning, and laundry industries.

In conclusion let me say that organized labor does not in any sense feel that it has all the answers to meet today's economic problems. What organized labor can contribute is a keen awareness of the hardships of unemployment, a strong feeling of support for all measurements necessary for the defense of freedom, and a number of what hopefully can be considered constructive proposals to help set the Nation's economy moving forward once again.

Senator DOUGLAS. Thank you, Mr. Henle.

Dr. Talle?

Representative TALLE. Thank you, Senator Douglas.

Mr. Battles, as presently constituted we have in effect a twofold economic system situation, don't we, in our country? Agriculture is the most highly competitive of all industries.

The next in order would be retail merchandise. In those fields competition, the forces of supply and demand work very effectively. It is time, is it not, that the effect on prices of that portion which any one farmer brings to the market is very slight?

Mr. BATTLES. That is true.

Representative TALLE. In the rest of the economy we have what people today call administered prices. And there comes a time when those who are engaged in competitive enterprise may be hurt so much that the hurt is felt also by those whose prices are determined administratively. It is a familiar expression to say that an industry is basically sound. Sometimes I think that it only means that the rug hasn't been completely pulled from under it.

That is all for you, Mr. Battles, not that you aren't worthy of much more, but our time is so limited.

Mr. Robey, perhaps you might discuss textbook economics for just a moment. I remember you wrote a book, at least one, perhaps several.

In the field of production we speak of four factors, don't we—land, labor, capital goods, management. We must have something of all of those in order to get production.

The rewards to those factors are: to land, rent; to labor, wages; to capital goods, interest.

And all of those are prices, aren't they? Each reward is a price.

Mr. ROBEY. That is right, Mr. Talle.

Representative TALLE. Then we come to profits. But is not that a price, too? A reward paid for making decisions at least.

Mr. ROBEY. I think so.

Representative TALLE. It is a price. Some economists have thought of it as a kind of residual share. But it is a price; for, after all, the person who starts a business or invests money in it has a choice. He doesn't necessarily have to stay there and he doesn't have to add anything more to it. So he will seek in whatever business he is engaged in to get as much out of that business as he could out of some other industry.

So they are all prices.

Let us turn to the year 1956. As this committee revealed in its report last year, the gross national product increased by 5 to 5½ percent during that year. But we found to our distress that more than one-half of that 5½ percent increase was not an increase in productivity at all.

Mr. ROBEY. An increase in prices.

Representative TALLE. That is right.

Now, in this year's report, what do we find for 1957?

We find that four-fifths of the increase in gross national product is not an increase in goods and services, but merely an increase in prices. We couldn't look for better evidence, could we, that inflation is at work.

Mr. ROBEY. Well, I don't know what you could find that is better evidence.

Representative TALLE. Of course, our own pocketbooks tell us that, too, don't they?

Mr. ROBEY. Yes.

Representative TALLE. So we come, then, to this very difficult question: What can we do to maintain full employment on the one hand, and a stable price level on the other hand?

Mr. ROBEY. Are you asking me that question now, sir?

Representative TALLE. Yes.

Mr. ROBEY. Well, certainly I agree with you that it is a very difficult question. I think that we need action in two fields. One is in the field of taxation; the other is in the field of labor legislation. That is the only way that we can handle economic growth without inflation.

Representative TALLE. That reminds me of what a friend of mine said the other day when he got his paycheck. He said, "I am awfully thankful to the Government for permitting me to have some part of my wages."

I think that is the way some of us feel.

Mr. ROBEY. I think so.

Representative TALLE. Gentlemen, I want to thank you very much for your statements. I don't want to take more time at this point, Mr. Chairman.

Senator DOUGLAS. Mr. Curtis.

Representative CURTIS. Thank you, Mr. Chairman.

I wanted to point up the statement of Mr. Robey where he points out these two different factors underlying the economy—the need for demand and the need for profit. And then I would like to refer to Mr. Henle's paper, which incidentally, although there are many areas that I disagree with, I certainly want to commend you, sir, for a very thoughtful and moderate paper.

In discussing unemployment, it seems to me that one factor that must come into discussion is this point of need for profit or, let's turn it a different way—the need for investment capital. In our hearings, oh, I think in 1955, of the Subcommittee on Fiscal Policy, studying the economic effects of our tax laws, some of the papers brought out this statistic. I should say it is really an estimate, that today it requires over $14,000 of capital investment to provide a job for one person. Now, if we are going to get jobs for people, isn't it necessary to pay some attention to this investment capital area?

Your paper emphasizes the other factor. But I want to be sure that you agree that there is a balance that needs to be met.

Maybe you think the balance is not right, but don't you agree that there does have to be a balance?

Mr. HENLE. Yes, I certainly agree that there should be a balance, and that the investment side of the economy should not be neglected.

Now, I do, however, have a somewhat different point of view than Mr. Robey, looking at the investment picture at the present time.

Representative CURTIS. Yes.

Mr. HENLE. It seems that, looking at the figures in the postwar period, the most striking thing in recent years has been—I don't know whether you want to call it a boom—but at least a terrific growth in business spending for plant and equipment; this has been particularly true for the years from 1955 through 1957. We are tapering off now. And I think many economists would say that this increase in business spending has been the one factor that helped keep things going so well in 1956 and up through 1957.

Now, Mr. Robey seems to feel that even this great spurt is not sufficient, and that we need to take steps to make certain that this business spending should increase further. And he feels that there has been a squeeze on profits which has restricted such capital spending.

I would like to simply emphasize that at this stage of the game it seems that the shoe is mostly on the other fooot, particularly when industries like steel and automobiles and many of the basic industries are operating at figures well below capacity level, that this is an indication that something has gone a little wrong with the demand side of the economy.

I am not going to quarrel with the figures that Mr. Robey has in his appendix regarding profits. But we must also remember that these profit figures do not include depreciation, and that there have been some particular pieces of legislation in the postwar period which enabled businesses to count as depreciation an increased amount which otherwise would have to be recorded as profits.

Representative CURTIS. Yes. But depreciation is certainly not a profit. It is return of capital and I think with inflation you have exactly the opposite picture, where we actually, through inflation, have conducted a capital levy on American industry.

To illustrate it—well, I can give an exact illustration. I was talking to some railroad people just last night. They tell me a railroad car lasts about 30 years. The railroad cars that they bought before World War II inflation cost around $2,500 a car. They have to replace them now with cars that cost $10,000. But all they want are the cars. They are not interested in the capital. But under our tax laws, they were only able to set aside $2,500.

Mr. HENLE. But beginning in 1950, under the provisions of accelerated amortization, cars which they bought during the Korean war period particularly they could amortize over a 5-year period.

Representative CURTIS. That is perfectly true but it is still just return of capital. That is my point.

Incidentally, I didn't happen to agree with that policy of giving rapid amortization for many other reasons. But it is unfair to say that that is profit. That is return of capital under any way of figuring it. They get their return of capital sooner. That is the only point.

Mr. HENLE. I agree with that, but when you look at a set of figures on profits from 1947 through 1957, you are not seeing the same definition of profits, because the profits have been somewhat skewed or distorted, or whatever you will, as a result of some of this legislation.

Representative CURTIS. Compared to other parts or other segments of the economy, I agree with you. In fact it seems that really what happened is those that happened to be on a percentage proposition—any industry that happened to be on a percentage basis in regard to return of capital was able to weather inflation because of the percentage.

So the rest of the segment of the economy that wasn't was unable to hedge against it. So it has put those people in a preferred position in relation to the other parts of the economy.

But the essential feature is that from a capital standpoint we have actually, through inflation, successfully imposed a capital levy on the entire industry of the country. In my judgment that is one of the main factors behind this tight money—or was one of the main factors behind the tight-money situation.

The one point I wanted to establish was that it is a matter of balance between the two. And it is a perfectly fair argument, I would say, as to where is the balance now. I would ask Mr. Robey to comment on the points made, because it does seem like we have unused productive equipment now which indicates that the demand is not up to taking the production off of the market.

Mr. ROBEY. We do have some unused capacity. That doesn't mean that it is excess capacity. It means that we have pushed the cost of production up to the point where the prices at which the product can be hold are running up against public resistance.

Now, if we could get the prices down, we could use all of this capacity and then probably some more. I would like to comment on this question of depreciation.

I recognize the point that Mr. Henle has made—that is, the accelerated depreciation, and so forth, and so on. But I don't think that is too important in the profit figures that I have been citing. We figure, as nearly as we can, that depreciation at the present time is about $6 billion a year less than necessary to cover the actual wear and tear on the capital.

In other words, we are using up about $6 billion more capital than is covered by depreciation. So the figures that he mentions are not very significant, I think.

Representative CURTIS. Now, to get to the final point I wanted to bring in here.

It seems that in this picture of the consumer and the investment dollar and the balance between them, we have another factor which is most unusual—an economic factor. And I think perhaps we can best illustrate it in the agricultural sector of our economy where the demand actually does not go up as the consumer purchasing power goes up.

In other words, we have reached a point where—at least for the bulk of our economy—where we are in an economy of plenty. Even though people have more consuming dollars in their pockets they still don't buy more agricultural products. And it looks like that same thing in the other areas of our economy is beginning to play a part. People are not in the position of having to buy because their necessities or standard of living is sufficiently high. There is a choice. And if that is so, then I think your point, Mr. Robey, is very well taken, that cost does enter and make a big difference, because the consumer doesn't have to buy.

Now, I wonder if you would comment on that, Mr. Henle?

Mr. HENLE. Well, certainly costs are a factor in this problem.

Representative CURTIS. First the premise—maybe you don't agree with the premise that we are in a new era that has never occurred before of plenty, where our people just don't eat more food. In fact, the doctors tell them to eat less.

I am going to come to the one sector of our economy that that does not apply to, but I am talking now of the bulk of our consumers. They have got the money to buy and our agriculture studies show that the one thing they did do was move to eating more meat and less starches. There is some shift there. But essentially we have reached, or we are reaching a period where just putting consumer dollars into the pockets of our people is not going to provide the consumption of the production.

Mr. HENLE. Well, I think what may be true for agriculture may not be true for other products. The Bureau of Labor Statistics, for example, has made a number of studies of consumer buying habits, and they have examined this particular problem. And through their studies, they will be able to show, for example, that when a family's income—and I think this is what you are getting at—moves up, say, from $3,000 to $4,000 to $5,000, where that additional thousand dollars is spent.

Representative CURTIS. That is right. Or is it saved?

Mr. HENLE. Or is it saved; yes. Basically, of course, it is true that the food area is an area where a family can only consume and spend so much.

To a certain extent this is also true in the clothing area.

Representative CURTIS. And in automobiles.

Mr. HENLE. There is trading up in the automobile area. What the BLS finds is that there is an increase as family income goes up with regard to transportation, recreation, travel, reading, amusements, in that type of expenditure. And of course there is an increase in saving. The higher the income generally, the higher the rate of saving.

Now, however, I would disagree very strongly with what I thought was the implication in your comment, that we may be reaching a point where with regard to the economy as a whole people's needs are being satisfied.

Representative CURTIS. I don't know that we have reached it. I say we are reaching it when we see it in agriculture. And also we see it in some of the things you have mentioned.

So I think the importance of it is whether putting consumer dollars into the pockets of these people is going to create the stimulus that is argued.

Let me go on to the final point of the syllogism.

Well, go ahead, if you want to.

Mr. HENLE. I don't agree that people's needs are being satisfied. I think there is a large area of unmet needs of the American people. And frankly this thesis about consumers' needs being met strikes me as strangely reminiscent of the so-called mature-economy thesis of the 1930's.

Representative CURTIS. I am trying to analyze what we have got today. And I will now close with the final point in this syllogism.

There is an area, a segment of our consuming populace, that I am sure could use a lot more consumer dollars and you can almost classify it by saying they are the nontaxpayers, the people who don't have enough income to pay income taxes.

Now, you refer, and there has been constant reference to this almost worship of a balanced budget—"hypnotic trance" is how you describe it. The reason for arguing for a balanced budget is real. I agree with you that we are talking about a period of time, not an annual balance—this deficit financing theory; we have found we have just gone through a period of prosperity and we haven't paid off and we haven't balanced off when we could have.

There is one way you finance deficit financing, and it must be financed. And that is, I submit, through the tax of inflation. Inflation hits this sector of the consuming public that could be purchasing more of the most. That is the reason I think that from your standpoint of interest in the consumer dollar, you should be probably even more concerned about inflation and the damage it does to the consumer than those of us who are accused of being more interested in the other end of this thing, which is the investment dollar.

Mr. HENLE. Let me say categorically that we are concerned about rising prices. This concern also includes, for example, those unions that may feel they are somewhat—and it is really only somewhat—protected against rising prices through this type of escalator clause. Actually, the escalator clause doesn't do them any good. It may enable them to keep up for a little while. But in terms of real buying power and getting some of these things that these families want, the increase in prices hurts them, and the escalator clause doesn't do them any good. They would much rather have a situation of stable prices where they wouldn't have to go out and get the escalator.

Representative CURTIS. Don't you agree that deficit financing, finance through inflation, which is economically a form of taxes—it transfers purchasing power from the private sector to government—don't you agree that deficit financing is one of the primary and probably the most powerful force to produce rising costs or inflation?

Mr. HENLE. I would differ with you regarding the importance of this factor. I don't consider this a major factor, particularly at the present time.

Representative CURTIS. I wasn't trying to say the present time. I am talking about it as a theory over a cycle, because I will agree in any particular year the balanced budget doesn't make too much difference. But those who have advocated deficit financing have always said, "Well, you are going to pay off in your prosperous years." But we have been through this now, and we haven't paid off in prosperous years.

I think we have a right to say—we know how we paid off. We paid off by depreciating the dollar to a 50-cent value. We have done nothing about paying off directly. I presume if we go into deficit financing now we would go through that same theory or same cycle which would be badly affecting the consumer dollar which you point out is so important to preserve jobs and the stability of the economy.

Mr. HENLE. I think it is just a matter of priorities. I think the way we would look at this budget problem is that the needs of the economy, and particularly the problem of meeting the threat of the Soviets, is of such paramount importance—I am talking about the policy for this year—that these things come first.

And, frankly, if we run a little deficit for what may well be a recession year, that takes second place.

It is important over the long run to have a balanced budget; yes. We definitely will agree with that. But for this period of time, we are concerned about the feeling that we must have a balanced budget for this coming fiscal year.

Mr. CURTIS. Well, we are all naturally concerned about defense, but there are some of us who feel that the basic defense of this country, or any defense, has to be based upon a sound economy.

I have taken longer than I intended, Mr. Chairman.

Thank you.

Senator SPARKMAN. Senator Douglas.

Senator DOUGLAS. I would like to place myself at the bottom of the totem pole if I may. I think the Senator members of this panel in the past have taken more than their arithmetic share of the time.

Senator SPARKMAN. Congressman Kilburn.

Representative KILBURN. I have just a couple of questions.

One I would like to address to Mr. Battles. I represent a farm district. And I want to represent them the best I can. What do you think—there has been a growing belief in my mind that if we got rid of all supports on farm products—of course, it would probably cause some disruption and some marginal people would go out of business—but in the long run it seems to me that if the Government got out of it entirely that in the long run the farmers would be better off.

What would you say?

Mr. BATTLES. We do not know, Mr. Kilburn, how long before consumer buying power coming about by rising standards of living and increases in population would catch up to our capacity to produce.

This technological revolution we have had has really stepped up total production, and our capacity to produce now is tremendous.

Now, the theory is that if we took the Government out of the price-support business and allowed prices to go where they would in a sort of a free-market operation, that this in turn would discourage enough production, and because food would be somewhat lower in price possibly that demand would catch up with our productive capacity and just, by virtue of this balance or almost a balance, the farm situation would turn out all right, and our prices would lift, and our incomes would rise.

We do not believe this will happen, at least for a few years. And that is the reason for a great many farm interests now beginning to reason along the line that perhaps the present price support programs have outlived their usefulness.

And in view of the fact on the cost side of our picture, a thing we ran up against this morning in a way, we have in essence Mr. Henle and Dr. Robey here placing the blame for the inflationary period on each other and on government, both of them. So, we are in this cost squeeze, because we are big business in terms of buyers. We buy $20 billion worth of production supplies a year. This puts us in a real squeeze.

So, basically we are thinking now as farm people perhaps we are going to have to copy some of the mechanisms used by business and labor. Congressman Talle referred to this as administered prices and to wage contracts.

We may have to in some way, somehow, among ourselves organize farm people; sometimes with the help of Government in enabling legislation to place in our own hands as farm people bargaining power and the power to channel into the market place our supplies. Perhaps, even, you see, cutting back the total amount that might go into the market place in any year.

I agree the function of price in a free market place is almost essential. This function of allocating resources is something we just cannot get away from. It is imperative.

Secondly, the Government as a market for farm products is entirely wrong; that this in essence not only is wrong, but it requires export subsidy, and it also requires—well, it also places a ceiling on the price, because here is the Government with all these products, and just as soon as they rise in price automatically, why, they begin to move their supplies into the market place.

So, we are in sympathy with your objectives. We are wondering in the process, though, if we won't have to, by our own bootstraps, and sometimes with the help of Government, for our own economic well-being, attain some mechanisms which would enable us to bargain pretty well.

Mr. KILBURN. I am trying to get some intelligent information as to how to vote when this thing comes up before the House. Since this does affect the whole economic picture I thought the question wasn't out of place.

I have one question I would like to ask Mr. McDonald about the second part of his statement.

You compare what Russia has done in power development with what we have done in this country. Of course, they started a lot lower than we did anyway, so their increase would be naturally more than ours.

Is it not true in Russia that there are no private power companies at all; whereas, in this country, the big bulk of the power is built up by private power companies?

And do you in your calculations take that into consideration?

Mr. McDONALD. Yes, sir.

That figure which was taken from this Government bulletin, this publication of the Senate Interior Committee, included all power production in the United States, 1948 I believe, to 1954, or 1956. I forget now the period.

And I quite agree with you that the state of electric power development in the Soviet Union is way, way behind that in the United States. I wish I could give some figures on the overall electric power capacity.

The point is that their rate of increase is greater than ours. And apparently it is becoming—or it is going to become greater, unless this country increases its rate of increase.

Now, in regard to your statement—your question is not on atomic power, but my statement refers to electric power production, as produced with the atom. They have gone apparently much, much farther ahead than the United States in the production of electric power by means of atomic energy.

Mr. KILBURN. Don't you think, right there on that, that of course we cannot expect the private power companies here to do that unless they are satisfied that they will make money at it? Whereas, over there they don't care about the money, the Government does not.

Mr. McDONALD. That is true. I think it is important to know that when we revised the Atomic Energy Act of 1954 one of the principal reasons for the revision was to give the private electric power energy a chance to get into it. And I believe that Mr. Strauss of the Atomic Energy Commission has given every inducement to the private electric power industry to get into the production of electricity by means of atomic energy.

That situation has been going on for about 4 years. We still have no atomic energy development in this country that amounts to very much. In fairness to the private industry, they have found that their costs, despite some subsidies from the Government, were so high that they could not do it, and the factor of safety discouraged them also, because atomic energy is in the experimental stage, of course.

And you are quite correct in saying that the governments of these other countries—and I should have mentioned England and several others—have gone into this thing in a big way. The Government must do the job in the experimental research stage in our view.

And that is why we have been pushing some legislation which would give us a few large experimental plants.

Representative KILBURN. Of course I am very much against public power myself. Up in my district there is a river on which a private power company has put, I think, 6 or 7 dams.

Mr. McDONALD. The electric energy furnishes the only reliable statistics for the total electric power production. And, of course, the Government people know what the Government produces. But the private people publish a periodical. I might add that they do have great plans for expansion.

They foresee a terrific expansion in electric power for the next few years.

Representative KILBURN. I yield.

Representative TALLE. Congressman Kilburn has raised a very important point. It is at the bottom of page 3 of your paper. It is very important for us to know the starting point in each case.

You mentioned the percentage increase for the United States, and the percentage increase for the Soviet Union. In my State we have nearly 100 percent electrification of farms, for instance. Well, you see, if the Russians electrified 1 farm, just 1 farm, the increase over the base—namely zero—would be so great that it would look very remarkable.

The need for knowing the base in each case is very important. It is hard to do, because you would have difficulty, I think, in getting statistics from the Soviet Union.

Mr. McDONALD. I agree with you completely. This material which was taken from this Senate document was put in more to call attention to things to come.

I do think that it is very significant that the Russians are building right now four hydroelectric powerplants which are the biggest in the world. They are bigger than Grand Coulee.

I do think it is significant that they will be producing next year over 2 million kilowatts of electricity by means of atomic energy.

Representative TALLE. In a certain foreign country, which I can name, is a plant being built now entirely with money supplied by us. That country is terribly short of electric power. So, you see what that means on record when they get that going. It will be an immense increase, because they start from such a low base. That is the point I have in mind.

Thank you.

Representative KILBURN. Thank you, Mr. Chairman. That is all.

Senator SPARKMAN. I mentioned a couple of days ago that we had a new member of our committee. This morning is the first time he has been able to attend.

I take pride in welcoming to the committee our newest member, Congressman Hale Boggs.

Hale, at this time we will turn the questioning over to you.

Representative TALLE. Mr. Chairman, as the senior minority member, may I join you in welcoming the new member.

Senator SPARKMAN. Thank you.

Representative BOGGS. Thank you very much, Mr. Chairman. And thank you, Congressman Talle.

As the rankest freshman, I shall be seen and not heard at least for today.

I am happy to be on this committee. I consider it a very important committee. I am sorry I was not here for the last several days. I have been away from Washington.

Thank you, Senator Sparkman.

Senator SPARKMAN. I commend to you the reading of these papers. They are rather brief. And you will get a great deal of good out of them.

I am going to be very brief.

Mr. McDonald, first I want to ask you this question: On the first page of your statement you point out that the income of farm people in 1956 averaged $902, compared with $2,018 for the nonfarm population.

Now, what I am curious to know is whether or not the $902 for farm people included food—food that they produced on the farm and consumed there?

Mr. McDONALD. I believe, Mr. Chairman, the Department of Agriculture does make some kind of an estimate for their living quarters and everything else that is considered as income for other people. It is considered as income for the farmer.

Senator SPARKMAN. Mr. Battles, I was quite interested in your self-help proposal. I wish we might have time to go into that in greater detail.

What you have in mind there, I take it, is that the farmers would organize themselves into cooperatives or into organizations of different types for the purpose of doing the things that they rely on the Government to do in large part now?

Mr. BATTLES. As a good example, we might, Senator Sparkman, refer to the marketing agreement as it works with one minor crop, namely, citrus in the West.

I am not sure that the marketing-agreement approach will work for all commodities. But I think we must move toward the time when we implement or attempt to implement this sort of an approach generally for other crops.

Out there the citrus people are organized. Ninety-five percent of them are in a cooperative. They would not necessarily have to be in a cooperative to use the marketing agreement and order. But in essence, what this enables them to do is to grade their crop on the basis of consumer grades, and to channel oranges into the market as the market will absorb those oranges at fair prices. After the first grade have gone into the market, then the second grades flow into juices, and the juice oranges are a cheaper orange.

Then they channel the next grade of oranges into dried oranges—you know, those that they make drinks from, and one thing and another. If at the end of the year they have a few oranges left, and there is no market for them, these do not go to market. This sort of a situation prevents a small surplus of production—maybe even of the cull grade—from setting the price on the total.

This is a well-managed proposition.

Now, in the area of wool, we think the Wool Act, while this is a governmental mechanism which allows the free market price to operate—and it is not exactly self-help—but the Wool Act is working good; the Sugar Act is working good. We have a dairy bill which in essence transfers to farmers themselves at a fee assessed on themselves the operation of the surplus disposal program that the Department is now operating in supporting dairy prices.

It is this sort of an approach that we think the years ahead—well, we think in the years ahead the Congress will want to explore and we as farm people will want to explore. We are not ready in all areas—as I say, we have a dairy bill ready. We have economists that have been meeting for over a year in the cotton area, for instance; and you are interested in that. And we are not ready with a cotton program.

But a good deal of thought is going on in attempting to develop this sort of an approach.

Senator SPARKMAN. Well, I want to say to you, Mr. Battles, that I think a great deal could be accomplished in that field. I think it is bound to be a slow process, one involving considerable education, and of trial and error, and experimentation, and so forth.

Mr. BATTLES. That is right.

Senator SPARKMAN. But I feel a great deal could be done. And I have a strong feeling that we are not going to solve the farm problem until we do more on this.

Mr. McDonald, what are your thoughts on that? You are representing one of the great farm organizations.

Mr. MCDONALD. Well, Mr. Chairman, if you will permit me to make just a general statement: We look on the farm problem——

Senator SPARKMAN. Let me interrupt you to ask this question.

Don't your people do a lot of this up in the Northwest in the grainfield?

Mr. MCDONALD. Oh, yes.

You are speaking of the cooperatives?

Senator SPARKMAN. Yes.

Mr. MCDONALD. And the other devices?

Senator SPARKMAN. Yes.

To some extent it controls the flow to market?

Mr. McDONALD. In St. Paul, Minn., we have the headquarters of the Farmers Union Grain Terminal Association. I think it is the largest grain cooperative in the world. It handles between 150 million and 200 million bushels of grain annually.

We have also the central exchange, a supplying cooperative, which probably exceeds any other cooperative of its kind and size in the world.

We have also emphasized the fact that farmers must first of all help themselves. They must organize in unions like ours and Mr. Battles'. They must organize cooperatives. In this country we have two economies, not one; we have an economy in which the prices are privately administered regardless of production, an area where the law of supply and demand does not seem to work very well, and then we have the agricultural economy, which is the only free economy left just about in this country.

If you want to include your labor unions, which are organized, the working people organized into labor unions, and they can control their prices; the manufacturers are organized into various associations; and I am sure that every member of this committee is aware of all this commotion about the price of steel, steel going up; and steel was 60 and 70 percent of capacity, and so forth and so on. There has been quite a lot of publicity in regard to facts developed by the leader of one of the labor groups in regard to automobile prices, and that the law of supply and demand does not operate.

Until you do have a truly free competitive economy throughout, not only as it is applied to things farmers sell but as it applies to things farmers buy, you have got to have some kind of Government assistance.

Representative TALLE. Mr. Chairman, you will agree with me, Mr. McDonald, that competition is also quite active in the retail field?

Mr. McDONALD. I do, sir.

Representative TALLE. That would be second after agriculture.

Senator SPARKMAN. Well, as I gather, both of you feel that a great deal can be done in that field. But as I understand it, both of you feel that the Government must remain there as a supporter or a backstop or certainly it has a part to play; is that right?

Mr. BATTLES. I do not see how, Mr. Chairman, in some of the broader areas we are going to be able to organize voluntarily, you see, to do this job without some enabling legislation on the part of the Government.

However, it is surprising to spot on a map the production areas of our main commodities. For instance, cotton areas; you know the cotton areas; but if you spot the major production of cotton, you will find it centers in 3 or 4 areas. And this is true of many of our crops—wheat, and all of these crops.

It is interesting to see the major production areas on a map, which implication might be that we could organize easier than we thought we could because of geographic centering of these production areas.

Senator SPARKMAN. The thought occurs to me, though, that those production areas are, to some extent, fluid, shall I say, or mobile. For instance, whereas my State has always been a fairly heavy producer of cotton, yet last year, for the first time in history, the principal farm income in Alabama came from animals rather than from crops, all crops. So, we are fast moving into that field.

Mr. BATTLES. Absolutely. Probably a wholesome trend.

Senator SPARKMAN. There are many questions that I would like to ask, but time is getting short. I would like to make one suggestion. I am sorry I did not do this before Mr. Kilburn left.

I think it would be interesting to you. With reference to the power situation—well, first of all, I believe this is right, is it not; that that is one area in which the economy is still climbing? In other words, we have an increasing economy in electric-power development, is that not true?

Mr. McDONALD. Yes, sir; that is correct.

Senator SPARKMAN. The thing I started out to mention is this: About 3 years ago this committee made studies of comparative economies of the U. S. S. R. and the United States. The names of the studies are "Trends in Economic Growth, a Comparison of the Western Powers and the Soviet Bloc (January 1955), and Soviet Economic Growth: a Comparison With the United States (July 1957)." I suppose copies are still available, and I think you will find this power question is fully discussed in there, as to the base and its growth and comparative increase, and so forth. I will not ask more questions.

Senator Douglas.

Senator DOUGLAS. I would like to ask Mr. Robey a question or two. I take it that the tax relief which you propose is a reduction in the income tax, particularly in the upper brackets. And, I presume, also in the corporate-income tax?

Mr. ROBEY. I would not say particularly in the upper brackets. The particular bill that we prefer is the Sadlak-Herlong bill, which goes clear across the board.

Senator DOUGLAS. How great a decrease do you propose?

Mr. ROBEY. The Sadlak-Herlong bill provides for a 5-year program. The bottom, base rate, which is now 20 percent, would be reduced 1 percentage point a year and at the end of 5 years would be down to 15. The progressive rates would be reduced until, at the end of 5 years, the maximum rate would be 42—42 percent combined.

Senator DOUGLAS. So, you would get a first-bracket rate of 15 percent and a maximum marginal rate on top of that of 27 percent?

Mr. ROBEY. That is right, and corporate taxes would be reduced from 52 to 42 percent over the same period.

Senator DOUGLAS. Now, how much of a reduction in tax receipts would that effect?

Mr. ROBEY. Of course, here you are dealing with estimates.

Senator DOUGLAS. Well, assuming the existing national income.

Mr. ROBEY. We estimate, and we have checked as carefully as we can, that this would probably cost about $3 billion.

Senator DOUGLAS. You mean assuming that you take into account economic growth?

Mr. ROBEY. We are assuming each year that the Sadlak-Herlong bill is put into effect that it would cost about $3 billion in revenue. Underlying the bill is the assumption that the Nation would continue to grow. This is not a question of transferring the tax burden from one group to another. But this would be carried out of the increased revenues resulting from the growth of the Nation.

Senator DOUGLAS. If this were to be put into effect, immediately, what would be the reduction in tax revenues?

Mr. ROBEY. For 1958, if it went into effect retroactively to January 1, I guess it would still cost us about $3 billion for this year, for the calendar year 1958. Now, that is as close as we can come. If it did not go into effect until the second half, why, then you would have a smaller amount.

Senator DOUGLAS. I may be wrong, and I may not hold these figures accurately in my head, but I thought that a 1 percentage point decrease in the first-bracket tax rate only was the equivalent of approximately a billion dollars, as a rough measure. So, 5 percentage points would be about $5 billion.

Mr. ROBEY. The first year this goes into effect there is only a 1 percentage point reduction in the base rate.

Senator DOUGLAS. I am trying to get the ultimate. It would be a $5 billion loss in income tax from the first-bracket rate decrease, let us say.

Mr. BOGGS. Don't you have some corporate proposals, too?

Senator SPARKMAN. Yes.

Mr. ROBEY. You reduce the corporate-tax rate over the 5-year period from 52 to 42 percent.

Senator DOUGLAS. That would be a reduction of one-fifth in the corporate tax. The corporate tax is now about——

Senator SPARKMAN. Two percent a year reduction.

Senator DOUGLAS. Corporate profits before taxes are $42 billion; corporate-tax liability is $21 billion. One-fifth of that would be a little over $4 billion, or, added to the $5 billion loss from reducing the first-bracket individual income-tax rate, $9 billion.

Now, you have got a reduction in the upper bracket income-tax rates, too.

Mr. CURTIS. There would not be much loss there.

Mr. ROBEY. No. The loss in the upper brackets is very small, because we do not get very much revenue up there. Eighty-four percent of the total receipts from the individual tax comes from the base rate. Only 16 percent, all told, comes from the progressive rates.

Senator DOUGLAS. And how much of an impairment of that would your proposals have?

Mr. ROBEY. I don't understand. What do you mean; how much of an impairment?

Senator DOUGLAS. Well, how much of a reduction in revenue would come when you scaled the marginal rates above the first bracket down to a maximum rate of 42 percent? I am not quite certain—because I haven't studied the Sadlak-Herlong bill—what the rate of progression would be. But have you estimated as to what the reduction would be?

Mr. ROBEY. Well, let me put it this way, Senator Douglas. The estimates that we have are that the Sadlak-Herlong bill would cost about $3 billion. Now, that is $3 billion a year. It would be $3 billion the first year.

Senator DOUGLAS. I see. Three billion each year?

Mr. ROBEY. Three billion each time you make a reduction; yes.

Senator DOUGLAS. I see. So, at the end of the 5-year period, that would be an annual loss of $15 billion. Well, let's take the first year, for simplicity. How would you meet this loss of $3 billion the first year?

Mr. ROBEY. Well, we think actually, it probably could be met by Government economy.

Senator DOUGLAS. Where would you get the economies?

Mr. ROBEY. Every year we have a committee that goes over the proposed budget with great detail and makes recommendations. The committee is now in the process of doing that, and it will be a matter of a very short time until we will have this year's recommendations.

But suppose the Congress did not put through the necessary economies in order to offset this; there obviously is not very much surplus in the proposed budget to allow for it. We have a feeling that such a tax reduction could be tremendously important in swinging the economy up. And so, although theoretically it would cost $3 billion, actually it may not cost that because of the lift it will give to the economy.

Senator DOUGLAS. You are advocating this as a means of getting out of the recession?

Mr. ROBEY. We think it would be very important; yes.

Senator DOUGLAS. Would you advocate this if we were not in a recession?

Mr. ROBEY. Yes.

Our support of this reform started long before the current recession started.

Senator DOUGLAS. I thought that was true.

Mr. ROBEY. Yes.

Senator SPARKMAN. May I interject at this point a thought, because I do not believe the record is quite accurate.

You stated that the total loss would be $15 billion. As a matter of fact, would it not be $45 billion? Because it is $3 billion the first year, $6 billion the second year, and so on.

Senator DOUGLAS. Fifteen billion dollars' annual loss at the end; yes.

Senator SPARKMAN. The last year would be $15 billion, which would be a total of $45 billion.

Mr. ROBEY. Yes. In the meantime, you remember, our economy has been growing.

Senator SPARKMAN. You count on replacing that; is that correct?

Mr. ROBEY. Yes. We count on the growth of the country taking care of all of those reductions.

Representative BOGGS. You graduate downward, though, in the first bracket rate from 20 to 15 percent. But you graduate the additional marginal rates down from 91 to 42 percent over the same period of time.

Mr. ROBEY. Right.

Representative BOGGS. So that in the tax rates above the first bracket you are graduating down—I am not very good on mathematics—how many percentage points a year?

Mr. ROBEY. Well the higher the progressive rate, of course, the greater the reduction in terms of points and percentage each year. But that is the inevitable result.

Representative BOGGS. How much would it be?

Senator SPARKMAN. Ten points a year. Well, if you take 91 as a top and 42 as a low, that is 49——

Mr. ROBEY. I would say it is about 10 percentage points a year. That is approximately what it comes to. I am taking the 91-percent rate.

That is the inevitable result of the kind of an income-tax structure we have today. If you are going to reform that rate structure, those in the higher brackets necessarily are going to have a larger reduction percentagewise and in terms of points than the man that is paying 20 percent.

Now, 25 percent down there on the base rate actually costs more revenue than the entire change made in the progressive rates, much more. That is where the great savings go.

Representative BOGGS. Of course, I didn't mean to interject myself into Senator Douglas' line of questioning.

Senator DOUGLAS. No; it is very important.

Representative BOGGS. I agree that these top rates don't produce any significant amount of revenues. But a 1-percentage-point reduction in the 20-percent bracket wouldn't mean near as much to the 20-percent taxpayer as a hundred-dollar increase in the exemptions for that taxpayer.

Mr. ROBEY. What do you mean, "wouldn't mean nearly as much"?

Representative BOGGS. Well, in revenue returned to him.

Mr. ROBEY. That would depend on the individual. I don't know.

Representative BOGGS. Well these studies have been made by the Bureau.

Mr. ROBEY. Well, increasing exemptions a hundred dollars, I believe, costs $3 billion, too. And also would take close to 6 million people off the income-tax payrolls.

Representative BOGGS. That is right. It would cost over $3 billion.

Mr. ROBEY. Yes. So an increase of a hundred dollars in exemptions would cost as much or more than the Sadlak-Herlong bill. And I don't think it would begin to have the effect on the economy.

Representative BOGGS. Well, go ahead, Senator Douglas.

Senator DOUGLAS. While this antirecession argument comes in handy for you at the present time, I take it that you want this whether you have a recession or not.

Mr. ROBEY. Yes.

Senator DOUGLAS. So it is a question of permanent policy?

Mr. ROBEY. Yes.

Senator DOUGLAS. Well now suppose this were a normal year, as the administration hopes it will be a normal year—and let us assume for the moment that they are right; and we hope they are right—you are asking us to decrease revenues by $3 billion, and find this $3 billion by curtailing expenditures.

Now, can you give us any help as to the $3 billion in expenditures that we should curtail?

Mr. ROBEY. Well, I can submit for the record, although it will be some little time before we have had a chance to appraise the 1959 proposed budget; but I would be delighted to send you a study, or a copy of our study as soon as it is complete.

Senator DOUGLAS. I would be glad to have it.

Mr. ROBEY. We have a committee working on it now.

Senator DOUGLAS. How would you stand on subsidies to ship operators?

Mr. ROBEY. In general we don't like subsidies.

Senator DOUGLAS. What about the ship operator's subsidy?

Mr. ROBEY. Do you consider those subsidies necessary from a defense point of view?

Senator DOUGLAS. I am asking you.

Mr. ROBEY. Our position, sir, is that the only subsidy that should be is one which is necessary for the national defense.

Senator DOUGLAS. That covers a multitude of sins.

Mr. ROBEY. That covers a multitude of sins. But that is as clear a policy as we can get.

Senator DOUGLAS. What about shipbuilding subsidies?

Mr. ROBEY. Well, we never take—well, we very seldom take a position on an individual item.

Senator DOUGLAS. That is all we in Congress have to do. We have to take positions on individual items; nothing else but.

Mr. ROBEY. We cannot take a position on those individual items.

Senator DOUGLAS. Well, you can't help us very much unless you do.

Mr. ROBEY. We adopt general principles as our policy, and my recollection of our policy on subsidies is that we have no use for subsidies unless they are necessary from the point of view of national defense.

Senator DOUGLAS. They all say it is.

Mr. ROBEY. I know they do. Just the same as everything that is proposed——

Senator DOUGLAS. On the silver subsidy?

Mr. ROBEY. We are not for the silver subsidy.

Senator DOUGLAS. You are not for that?

Mr. ROBEY. No.

Senator DOUGLAS. Do you believe that the Government should collect interest on deposits to banks, or should they be interest free, as now?

Mr. ROBEY. We have no position on that.

Senator DOUGLAS. How do you stand on the depletion allowance and subsidy to the oil industry?

Mr. ROBEY. Well, our position there is in most general terms. We say that this goes back many years and was a result, presumably, of very careful survey. All we can say is that some kind of a depletion allowance is necessary. Now, we do not pass judgment on the present depletion allowance.

Senator DOUGLAS. What about an allowance for sulfur—the depletion allowance on sulfur, which is 23 percent.

Mr. ROBEY. We only have one position on depletion that covers the whole works.

Senator DOUGLAS. So in general, you are for them?

Mr. ROBEY. Well, in general, we recognize that some depletion allowance is necessary. We do not pass judgment on whether the present rates are the right ones.

Senator DOUGLAS. Therefore, you would approve some form of depletion allowance for sand and gravel.

Mr. ROBEY. I would assume so; yes.

Senator DOUGLAS. And for oyster shells?

Mr. ROBEY. I suppose, under our policy, they would come under that.

Senator DOUGLAS. Clamshells?

Mr. ROBEY. You are getting into more detail than we ever go into. I would be willing to bet you that the question of clamshells was never even mentioned.

Senator DOUGLAS. Mentioned by whom?

Mr. ROBEY. Before our committee.

Senator DOUGLAS. I suggest that you did not examine the subject as thoroughly as you should.

Mr. ROBEY. That, perhaps, is true in a good many things.

Senator DOUGLAS. That is on the list of commodities, on things upon which depletion is allowed. Where do you stand on the question of plugging the so-called loopholes in the tax structure?

Mr. ROBEY. Well, what is a loophole, sir?

Senator DOUGLAS. I would say a loophole exists where a person with a given income gets a lower rate of taxation than a person with an equal income under substantially similar circumstances.

Mr. ROBEY. You are not talking about the regular process of a tax avoidance which the Congress provides for?

Senator DOUGLAS. Well, the tax avoidance is permitted in many cases by Congress at the instance of groups which stand to benefit from the rules that Congress puts into effect. The question is whether we should change the rules.

Mr. ROBEY. Well, if you will define a tax loophole as someone that is being freed of paying taxes in a way which the Congress did not intend——

Senator DOUGLAS. Oh, no, no, no. Congress may make mistakes, you know. You think we make lots of mistakes. The question is: Why should you accept our verdicts without criticism in the field of loopholes and subject us to rigorous criticism in other matters?

Mr. ROBEY. If you will accept my definition of loopholes, we are against it.

Senator DOUGLAS. No; I will not.

Mr. ROBEY. If you say merely that I pay a little less tax than someone else who has approximately the same income and that I am taking advantage——

Senator DOUGLAS. Under substantially similar circumstances.

Mr. ROBEY. I don't know what you mean by substantially similar circumstances.

Senator DOUGLAS. I submit my definition is at least more precise than the definition which you gave.

Mr. ROBEY. I don't know what substantially similar circumstances means.

Senator DOUGLAS. Well, the Senator would be grateful if Mr. Robey would submit the $3 billion in economies that we could make for this year. And I hope you can get it for us reasonably early, because the appropriation bills will shortly be starting on that. Thank you very much.

Senator SPARKMAN. Any further questions?

(No response.)

Senator SPARKMAN. I want to ask one question before you go. It is one that I forgot a while ago.

What may be the effect of slackening industrial movement on the income of part-time farmers or some of these people who have left the farms?

We notice this: Down my way, every time the autombile factories in Detroit close down or cut off a considerable part of their help, we have a great influx of farmers coming back home.

Now, may we expect that to continue? Or what is the effect of the decreasing economy on those people?

And another thing: We hear a great deal more and more—in fact, I think we hear entirely too much of this argument—that we have got too many farmers and more of them ought to get off the farms.

Now, what about a situation such as prevails now or, certainly, threatens to prevail? I would be glad for any one of you to answer that.

Mr. ROBEY. Senator, I would say that if we continue to slide, yes, it will affect the farmers very definitely. It can't help it. They can't be generally prosperous, really prosperous, if the rest of the economy is on a downgrade. So, I think there is no way to insulate the farming community from the behavior in the industrial and commercial part of the community.

Senator SPARKMAN. Probably the part-time farmer or the one who has just recently migrated would be the first to catch it.

Mr. ROBEY. He may be; yes, sir.

Senator SPARKMAN. Any further comment?

Mr. HENLE. Mr. Chairman, I certainly agree with the implications in your remark; frankly, the estimate of the automobile situation that I have read would indicate that even if our economy should recover this is not going to be a good year for automobiles. And so you are likely to have those farmers trecking down from Detroit in any case.

Mr. Chairman, I wonder if I could in closing add just a couple of comments about the wage-price problem which some of the panel members and the Senators have raised.

Mr. Robey raised this question. He is very concerned with it. He feels that the blame in this inflationary problem lies pretty exclusively on labor's doorstep. I don't want to argue back and forth on this issue. I would like to make a few general comments.

(1) In terms of the price levels viewed in historical perspective from the end of World War II, basically the United States economy has done a pretty darned good job. Particularly when viewed against the backdrop of inflationary movements in other countries, the upward movement in the United States price indexes is relatively moderate.

Most of the increases have come at two particular times—immediately after the war and during the Korean period—at times when everyone recognizes special circumstances prevailed.

We have had a special upward push on the price level during the last 2 years. This is what all this shooting has been about. There have been many charges back and forth.

Let me call the committee's attention to the movement of productivity during this period. It is recognized—and the President's Economic Report carries an appendix in this area showing some figures—that productivity during this period, particularly in 1956, was relatively low.

Now, this is not something that could have been predicted. This is something that has just happened. It is one of the things the economy has to live with. Productivity improved in 1957, and we tend to feel there will be a further improvement in 1958.

Now, admittedly, when you have an economy in which many of the prices are set administratively, and in which many of the wages are set through free collective bargaining, a situation may develop temporarily in which the general movement of prices is higher than the movement in productivity. However, if you look at the figures for the whole postwar period, the trend in real wages just about corresponds with the increase in productivity.

Now, there have been problems in certain particular industries. And I know the committee is giving this their attention. I know the committee is going into the whole price picture in terms of an extensive study.

Let me just mention one thing.

Yesterday the profits for the United States Steel Corp. were announced for the year 1957. Profits were approximately $70 million higher than 1956. Tonnage in the year 1957 was just about the same as the tonnage in 1956.

Under those circumstances even granting that there was an increase in wages, which, of course, there was, during this period, nevertheless the prices of steel products sold by United States Steel were set at such a level as to return to that company $70 million more in profit than they had earned on almost identical tonnage in the year before.

Senator Sparkman. Thank you very much, Mr. Henle. I think it would be interesting if you could give us a table to demonstrate the point that you made about real wages and productivity over a period of time. I find that most interesting. It think it would be helpful if a table could be produced. If you have one, we would be glad to have that for the record.

Mr. Henle. We rely on the normal statistics of the Bureau of Labor Statistics which were presented to this committee last year and printed in the report entitled "Productivity, Prices, and Incomes."

Senator Sparkman. On Monday, the committee will meet at 10 o'clock in room 457, Senate Office Building. At that time the Director of the United States Bureau of the Budget, Mr. Percival F. Brundage, will be our witness. We move over to the Senate Office Building and we will be in room 457 on Monday at 10 o'clock.

The committee stands adjourned until that time.

(Whereupon, at 12:35 p. m., the committee adjourned, to reconvene at 10 a. m., Monday, February 3, 1958.)

JANUARY 1958 ECONOMIC REPORT OF THE PRESIDENT

MONDAY, FEBRUARY 3, 1958

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

The committee met at 10 a. m., pursuant to recess, in the Senate Office Building, room 457, Hon. Wright Patman (chairman of the committee) presiding.

Present: Representative Patman, Talle, Curtis, and Kilburn; Senators Douglas and O'Mahoney.

Present also: John W. Lehman, acting executive director.

Chairman PATMAN. The committee will please come to order. Today our hearing is on the Federal budget, as we hear from Mr. Brundage, Director of the Bureau of the Budget. An always important question of governmental economic policy is the influence of the budget on problems of economic stabilization and growth. The sheer size of the budget in terms of expenditures and of receipts makes the budget one of the major factors in determining levels of economic activity and of how Government expenditures will affect growth and stability in the years ahead.

As we all know, the Bureau of the Budget is attached to the Office of the President and prepares the budget for the President.

Mr. Brundage, we are glad to have you and your associates with us, and invite you to make any opening remarks you wish about the policies and assumptions behind the President's budget before we go into the questioning period.

You may proceed in your own way, sir.

STATEMENT OF PERCIVAL F. BRUNDAGE, DIRECTOR, UNITED STATES BUREAU OF THE BUDGET; ACCOMPANIED BY ROBERT E. MERRIAM, ASSISTANT DIRECTOR, AND SAMUEL M. COHN, OFFICE OF BUDGET REVIEW

Mr. BRUNDAGE. Mr. Chairman and members of the committee, I am very happy to have this opportunity to discuss with you the Federal budget for the fiscal year 1959, which the President sent to the Congress on January 13. The budget is summarized in text and charts in The Federal Budget in Brief, and I have brought along copies of this publication for you. My introductory statement will touch on highlights, without going into the details of the budget, and then I shall be glad to try to answer your questions.

BUDGET TOTALS

Budget expenditures in 1959 are estimated to be $73.9 billion, $1.1 billion more than the current estimate for 1958. About 62 percent of the total is for our major national-security programs, including the military functions of the Department of Defense, atomic energy, stockpiling of strategic and critical materials, expansion of defense production, and the military portion of the mutual-security program. In addition, the budget expenditure estimates include $500 million for defense contingencies.

Over the past few years, the Department of Defense has moved forward in modernizing and adding to the defensive and counteroffensive power of the Armed Forces. The 1959 budget provides for accelerating these efforts, with particular emphasis on missile programs, nuclear retaliatory forces, antisubmarine warfare capabilities, and research and development.

Budget receipts for 1959 are estimated to be $74.4 billion, compared to $72.4 billion for the current fiscal year. It is always difficult to estimate receipts or expenditures 18 months in advance. The revenue estimate represents the consensus of experts in the Treasury and the Council of Economic Advisers, and assumes that economic growth will soon be resumed. It is further assumed that prices, on the average, will remain at their present level. The estimates of receipts include amounts under legislation recommended by the President to continue present excise and corporation income-tax rates.

The estimated budget surplus for 1959 is $0.5 billion. The chart on page 4 of The Budget in Brief compares the budget totals with those of the past several years.

This same chart indicates how the trend of budget expenditures has followed behind the trend of new obligational authority. For the fiscal year 1959, the President recommended $72.5 billion of new obligational authority, $1.9 billion less than present estimates for the current year. The figure for the current year, however, includes $6.6 billion of supplemental authorizations not yet enacted but which are being submitted to the Congress at this session.

As in past years, a substantial part of the new obligational authority recommended for 1959 will be used for the procurement of equipment which might take 1 or 2 years or more to produce. Thus, the expenditures for such long lead-time items may not take place until 1960 or later, just as some expenditures in 1959 will be from new obligational authority enacted by the Congress for earlier years. This is illustrated in the chart on page 36 of The Budget in Brief.

Considering only appropriations, the budget estimates that $39.9 billion enacted for fiscal 1959 and earlier years will be carried forward into fiscal 1960. Of these unspent balances, $31.3 billion will have been obligated. The largest part of these amounts is for the military functions of the Department of Defense: $32.1 billion of unspent balances of appropriations estimated to be carried into 1960, of which $24.4 billion would be obligated. Some detail for each agency is shown in table 8 of the budget document, pages 16 and 17.

FEDERAL GOVERNMENT RECEIPTS FROM AND PAYMENTS TO THE PUBLIC

As this committee is well aware, the Federal-aid highway program, old-age and survivors insurance, and other significant programs are financed through trust funds. The receipts and disbursements of these trust funds have important impacts on the national economy. If one were to add the trust-fund figures to the budget figures, however, there would be a substantial amount of double counting. For example, interest paid by the Treasury on United States Government securities held by the trust funds would be counted once as a budget expenditure and again when the trust fund spends the money.

A consolidation of budget and trust funds, eliminating intragovernmental payments and also eliminating such noncash transactions as net interest accruals, shows that the total Federal payments to the public in the fiscal year 1959 are estimated to be $0.6 billion less than receipts. The following table shows the relation of budget and trust fund totals to total receipts from and payment to the public for 1957, 1958, and 1959. It is the same as the table which appears on page 50 of The Budget in Brief.

I won't read the table, but it shows an excess of receipts over payments of $2.1 billion in 1957; $175 million in 1958, and $624 million in 1959.

Senator O'MAHONEY. May I interrupt at this point?

Mr. BRUNDAGE. Yes.

Senator O'MAHONEY. I was looking at another document up here. I just heard the echo of increased receipts.

Where did you make that statement on page 3?

Mr. BRUNDAGE. It is on the top of page 4 of my remarks.

Senator O'MAHONEY. You skipped reading the second paragraph on page 3?

Mr. BRUNDAGE. No.

Senator O'MAHONEY. Well, now, the table on page 4 represents budget receipts. And the estimate for 1959 is $74,400,000,000; right?

Mr. BRUNDAGE. That is right.

Senator O'MAHONEY. I noticed in the New York Times of last Monday that the Treasury obligations which must be paid or refinanced during the 12-month period beginning last Monday amount to $82 billion plus. So that we have a budgetary picture of estimated receipts of $74.4 billion, and new finance obligations amounting to at least $7 billion more than your estimate of receipts for 1959; is that right?

Mr. BRUNDAGE. Well, I don't remember the figure. It is more; yes.

Senator O'MAHONEY. Why don't you remember the figures? Aren't you the Director of the Budget?

Mr. BRUNDAGE. I can carry our estimated figure of receipts, but not the maturities of the Treasury; no, sir.

Senator O'MAHONEY. Well, the Treasury is diligently attempting to refinance a substantial part of this at the very moment. I would think that would be a topnotch assignment for the Director of the Budget.

Mr. BRUNDAGE. Well, a great deal of that is short term and is refinanced constantly.

Senator O'MAHONEY. Of course. But it still is the obligation of the Government of the United States.

Now, assuming that I am correct in my memory, the amount which has to be refinanced in the 12-month period beginning last Monday is over $82 billion, and you are estimating your receipts at $74.4 billion; do you think that this committee can look with equanimity or complacency upon a financial situation where—according to the figures of the Treasury and the Bureau of the Budget—the receipts which are estimated and the borrowings which will be made, together, exceed $150 billion as a comfortable situation?

Mr. BRUNDAGE. Well, I would like to see our debt lower, but that was of course the result of World War II largely. And I think you will find that the maturities were not too far different in 1957 and 1958.

Senator O'MAHONEY. But the rate of interest is greater, is it not?

Mr. BRUNDAGE. Well it isn't as comfortable a position as I would like, that is true.

Senator O'MAHONEY. You say the maturities are not very different. That isn't my information. The announcements from the Treasury indicate the purpose of the Treasury is to change short terms into long terms.

Mr. BRUNDAGE. We have been trying to do that.

Senator O'MAHONEY. Well you are doing more of it now are you not, in paying the higher rate of interest?

Mr. BRUNDAGE. But I think you will find that the maturities during this past year are not going to be far different from the figure you quoted. I don't have it here.

Federal payments to the public of $86.7 billion are estimated for 1959, which indicates the economic impact better than the estimate of $73.9 billion of budget expenditures. Furthermore, total cash payments in 1959 are estimated to be $1.7 billion greater than 1958 and $6.7 billion greater than 1957. Estimated budget expenditures rise by less than these amounts, $1.1 billion from 1958 to 1959, and $4.5 billion from 1957 to 1959. (The budget document presents much more detail and historical data in special analysis A, beginning on p. 879.)

The tabulation of Federal receipts from and payments to the public—the so-called consolidated cash statement—includes trust fund and some other transactions not reflected in the budget totals. However, there are certain additional Federal financial transactions which are not fully reflected even in that tabulation.

We have been experimenting with the development of a set of figures which would give a better indication of the gross disbursements of the Federal Government to the public. These figures would differ from the consolidated cash statement in two ways:

(1) Refunds of receipts would not be deducted from the receipts side of the budget, but would be shown as part of the Government's gross disbursements to the public.

(2) Expenditures made by public enterprises—for example, the Post Office Department and the Commodity Credit Corporation—and trust fund enterprises—for example, the secondary market opera-

tions of the Federal National Mortgage Association—would be shown on a gross rather than a net basis; that is, the expenditure figures would include the outlays made by these enterprises from the income they receive in their operations.

Various technical problems arise in constructing this series which make it useful at this time only as a measure of general orders of magnitude. For example, the figures for enterprise receipts from their operations are on an accrual basis rather than the cash basis used for the other data. Also, this series incudes some enterprise receipts and disbursements which are intragovernmental in nature—certain disbursements of Government agencies which are receipts of Government enterprises. Transactions of Government-sponsored enterprises are still on a net basis. Because of these inadequacies we are not prepared to include these totals in the budget document but they may be of interest to you. We hope to be able to refine them and make them more meaningful in the future.

I won't read the table that is on page 6 of my presentation.

(The table referred to follows:)

Gross Federal Government receipts from the public and disbursements to the public

[Fiscal years. In millions]

Description	1957 actual	1958 estimate	1959 estimate
Receipts from the public	$82,106	$85,113	$87,286
Receipts from enterprise operations	10,285	10,092	10,106
Receipts refunded	3,917	4,229	4,445
Total, gross Government receipts from the public	96,308	99,434	101,837
Payments to the public	80,007	84,938	86,662
Payments made by Government enterprises from their operating receipts:			
Public enterprise funds:			
Post Office Department	2,531	2,670	3,495
Commodity Credit Corporation	3,277	3,443	2,820
Federal National Mortgage Association	1,245	872	625
Public Housing Administration	256	405	514
Export-Import Bank of Washington	357	404	511
Other [1]	1,272	1,252	1,340
Trust revolving funds:			
Federal National Mortgage Association	1,021	774	592
Other [2]	326	272	209
Checks issued refunding overpayments of revenues	3,917	4,229	4,445
Total, gross Government disbursements to the public	94,209	99,259	101,213
Excess of gross Government receipts over disbursements	2,099	175	624

[1] Includes among others, the Tennessee Valley Authority, the Federal Housing Administration and the public enterprise funds of the Veterans' Administration.

[2] Includes among others, the trust revolving funds of the Civil Service Commission, the National Capital Housing Authority and the Department of Justice.

NOTE.—To preserve comparability between years, the operations of the Federal intermediate credit banks are included in all 3 years on a net basis only. After Jan. 1, 1959, these banks will no longer be required to file financial reports under the Corporation Control Act. Estimates of receipts and disbursements of such enterprises are not available on a gross basis and are included in this table on a net basis.

This new series has some similarities to the flow of funds statistics for Federal transactions published by the Federal Reserve Board, but there are differences. One advantage of these figures is that they can be compiled relatively quickly from the estimates contained in annual budget documents.

BUDGET PROPOSALS AFFECTING FUTURE YEARS

Earlier in this statement I indicated how some appropriations enacted for 1959 and earlier years would not be spent until 1960 or later. In addition, the budget and budget message reflect a number of recommendations which would increase certain receipts, and reduce, transfer or hold down Federal expenditure in future years.

PROPOSALS TO INCREASE RECEIPTS

In the budget message, the President indicated his belief that when the Government provides a service conferring a special quasi-commercial benefit on identifiable individuals or groups above and beyond the benefits to the public generally, it should charge the beneficiaries for the special service, rather than place the full burden of the cost on the general taxpayer. Accordingly, he made several proposals in the field of "user charges."

These proposals include raising postal rates to reduce the substantial postal deficits, which have placed heavy and unfair burdens on taxpayers to the advantage of large users of the mails; levying increased gasoline taxes on the private users of the airways to help pay for the wide range of special Government services benefiting these users; and enacting legislation to raise patent fees, to charge employers of longshoremen for the costs of administering disability compensation, and to charge the cost of migration and reception centers under the Mexican farm labor program to the farmers who use the Mexican workers.

In addition, all Government agencies have recently been instructed, at the President's direction, to prepare legislative proposals generally designed to remove present restrictions or limitations on their authority (1) to recover full cost to the Government of services that provide special benefits to individuals or groups and (2) to obtain a fair market value for the use or sale of federally owned resources or property.

Another important proposal which is part of the general user charge consideration is to lift limitations on interest rates in Federal credit programs. The President is recommending the enactment of legislation which would permit greater flexibility for the Government in setting interest rates on loans it makes in the future, and which would require that, insofar as consistent with the purposes of each program, all of the costs involved be paid by the borrowers. Such legislation, by removing or reducing hidden subsidies, would make a significant contribution toward better fiscal management. It would also produce some added income.

Moreover, for loan guaranty programs, the Government should be authorized to permit interest rates high enough to attract private lenders. The President is suggesting that all statutory limitations or ceilings placed on interest rates be reviewed, and that authority be provided to vary the rates for guaranteed or insured loans in line with market conditions and under proper safeguards.

Programs affected by the recommendations on interest rates include college housing loans, rural electrification and telephone loans, and special assistance mortgage purchases.

PROPOSALS TO REDUCE EXPENDITURES

On the expenditure side, the budget proposes adjustments in various programs which will result in savings in future years after a suitable time for amending State and local budget procedures has been allowed and after due notice to affected individuals. Among the programs involved are the following:

First, there are programs where shifting emphasis or changing needs lessen future requirements for specific types of Federal assistance. For example, modifications are—or will be—recommended in the agricultural conservation program, in grants for hospital construction, and in veterans' pensions.

Second, there are programs where the administration proposes an increase in State and local participation and a decrease in the Federal proportion, but with no reduction in the total combined outlay.

In two cases, recommended by the Joint Federal-State Action Committee, it is proposed that the Federal share be eliminated beginning in the fiscal year 1960, with accompanying revenue adjustments. These are grants for construction of waste treatment facilities and grants for vocational education.

In four other cases, it is proposed that the Federal proportion gradually be reduced. These are grants for public assistance, urban renewal, schools in federally affected areas, and natural disaster relief.

Third, are programs where the proposals are designed to free the agricultural economy from excessive controls. These include the recommendations for greater flexibility in agricultural price supports and for termination of the soil-bank acreage reserve at the end of the 1958 crop year.

Another recommendation which should hold down budget totals in the future is that no new projects be started in fiscal 1959 for construction of water resource projects by the Corps of Engineers and the Bureau of Reclamation, in view of the high level of current spending resulting from the large number of new projects started during the last 3 years.

Finally, certain previously recommended legislation is not being requested in the fiscal year 1959. Examples are general aid for school construction and major medical care insurance for Federal employees.

DEBT CEILING

The budget recommends that the Secretary of the Treasury be granted more latitude in managing the public debt than is afforded by the present statutory ceiling of $275 billion. Because of the relation of revenues, expenditures, and the debt to possible economic, international, and military developments, we are recommending a temporary increase of $5 billion.

FEDERAL STATISTICAL PROGRAMS

On numerous occasions this committee has expressed its interest in the development of improved statistical measures of the functioning of our economy. I am glad to be able to state that this year the budget contains a number of interrelated proposals which together constitute an important step toward meeting the needs for improved statistical data. In developing this program we have taken into account the specific recommendations made in recent studies and appraisals of the adequacy of the Government's economic statistics. Many of the suggestions for improvement come from hearings and reports held by this committee and its subcommittees—particularly the Subcommittee on Economic Statistics.

The program proposed for 1959 is designed primarily to strengthen our present national economic accounts, and the separate proposals included in the program are integrated within the framework of the national income and product accounts. Some of these proposals deal directly with the preparation of these accounts, and others with improving the basic data from which the accounts are constructed. Details of the various proposals are given in special analysis I of the 1959 budget, and in appendix C of the Economic Report.

The improvements proposed for 1959 will not remedy all deficiencies in the Government's overall system of statistical intelligence. They are, however, a significant advance toward supplying the kind of statistics we need in order to reach wise decisions on what policies should be pursued to maintain economic stability and promote economic growth.

As stated in the President's Economic Report, page 73:

> A well-coordinated system of Federal statistics is essential for recording the Nation's economic activity, correctly appraising its economic performance, and formulating appropriate public and private policies.

Chairman PATMAN. Thank you, Mr. Brundage.

I would like to ask a few questions, but I shall be brief, because I know other members of the committee are anxious to interrogate you.

First, is there any reason why the Treasury cannot deal directly with the trust funds more than they are dealing with them now, by selling bonds directly at a certain rate of interest? Very much like the Treasury used to do in connection with the adjusted service certificate fund.

Mr. BRUNDAGE. Well, I would rather, Mr. Chairman, not express an opinion on the Treasury dealings with the trust funds. I know that they are trying not to take advantage of the fiduciary relationship, and they are trying to deal with it at arm's length.

Chairman PATMAN. Like it is now, most of the securities go through the open market to the trust funds.

Mr. BRUNDAGE. You are correct that some do, but not most. All but about $9 billion out of $55 billion are special obligations issued directly to the trust funds by the Treasury.

Chairman PATMAN. It would at least save some money?

Mr. BRUNDAGE. It would in some cases, but probably not in others.

Chairman PATMAN. And would you talk to the Treasury about that and get its consideration?

Mr. BRUNDAGE. Fine.

Chairman PATMAN. Now in connection with the transferring of the burden to the local communities, Mr. Brundage, I know you keep in mind that the local people pay the most burdensome tax on earth. For instance, in road districts, school districts, cities, and many of the local districts, and political subdivisions of the State, people render their property for taxation, and they pay on a valuation basis or ad valorem tax, and many communities where the people own their little homes they have deeds to them, although they owe for them rather than actually own them.

There are many towns where most of the people owe for their homes like veterans, they have paid down $500 or a $1,000 and they still owe $9,000. Well, they pay taxes on that property as though they own it when they actually owe for it, and they are paying taxes on what they owe rather than what they own. So they are paying taxes on their debts.

I know you keep that in mind when you recommend the transfer of the burdens of Government from those who pay according to ability to pay, to those who would have to pay on what they owe rather than on what they own.

Mr. BRUNDAGE. Our thought is that the general taxpayer is burdened with a great many charges which would seem to be increasing from year to year. And it is very difficult to hold them down. And in fairness, just as the income tax is supposed to be the most satisfactory tax, because it is based on ability to pay, we are trying to use that same philosophy to tax those that obtain special benefits from the Government.

Chairman PATMAN. Yes, sir. Now in reading your Federal Budget in Brief on page 54, I notice that the budget expenditures by functions—the interest charge has gone up about $2 billion the last 5 or 5½ or 6 years. That is the annual cost of servicing the national debt. Now, if that interest rate had not gone up and we were saving that $2 billion and the Treasury did not contemplate keeping $3 billion in the commercial banks, you wouldn't need the increase of the national debt, would you?

Mr. BRUNDAGE. Well if the interest rate hadn't gone up, that is true, yes.

Chairman PATMAN. In other words, need for an increase in the national debt limit was caused by the interest rate going up?

Mr. BRUNDAGE. I don't know that you can isolate any one cause. But that was a contributing cause.

Chairman PATMAN. Well you were with Secretary Anderson when he testified before the Ways and Means.

I was there and remember hearing you testify after Secretary Anderson. He stated, in table 3 attached to his testimony, that this increase of $5 billion contemplated the keeping of a $3 billion in the commercial banks without interest.

Mr. BRUNDAGE. Yes, approximately that amount.

Chairman PATMAN. Now, then, if you didn't keep that $3 billion in the commercial banks—in other words, if you did not keep idle funds on which the Treasury doesn't draw checks at all.

It is out of the reach of the Treasury. They have got to have another——

Mr. BRUNDAGE. They are in and out all the time.

Chairman PATMAN. They must pull it out of the commercial banks and get it into the Federal Reserve banks before they can even check on it.

Well, it just occurs to me that that should be changed.

Has the Bureau of the Budget given consideration to the saving that the taxpayers would enjoy if the Treasury did not keep that $3 billion idle in unused funds in the commercial banks for which the Government receives no return and upon which the taxpayers are paying 3 and 4 percent interest at all times?

Mr. BRUNDAGE. Well, of course there is a risk when you run too close in the cash balances. And I think that is a big factor in leading the Treasury to ask for this increase, because when you run so close, if you have a storm or something and you hold up a couple of days' receipts, then you may be writing checks when you don't have enough to back it up.

Chairman PATMAN. That would be a complete answer were it not for the fact that the Treasury has the authority under existing law to deal directly with the Federal Reserve banks at all times up to $5 billion. Therefore, your statement that they must keep this $3 billion in the commercial banks, I believe, is weakened by that argument; don't you think so?

Mr. BRUNDAGE. Well, I still think it is a valid argument, Mr. Chairman.

Chairman PATMAN. But the Treasury is keeping the money where it is not even drawn on. The Treasury doesn't draw on this $3 billion in the commercial banks. They have got to draw it out of the banks into the Federal Reserve before they could even issue a check on it. It just occurs to me it is going rather far to cause the taxpayers to pay $100 million or $150 million a year extra in interest to let the banks have this use of this $3 billion to $6 billion a year.

At the last meeting of the committee, it is my understanding, Senator Sparkman yielded to a House Member first, so I will yield to a Senate Member first this time.

Senator Douglas, would you like to ask any questions?

Senator DOUGLAS. I would like to ask some questions about the general budget figures. And on page 12 of your pamphlet, the Federal Budget in Brief, you give the summary of expected receipts. And these in comparison with the expected expenditures give approximately balanced budgets at both years, a deficit of $400 million for the current fiscal year and expected surplus of $400 million for the year 1959.

I would like to ask a series of questions which I will try to make as brief as possible; on, first, the receipt side of the budget, and second, the expenditure side of the budget.

And I would like to ask you if you don't think you are somewhat optimistic in estimating that there will be an increase in receipts during the current fiscal year of $1,600 million over the 1957 fiscal year.

The 1957 individual income taxes netted $35.6 billion. You have the expected receipts for fiscal 1958 at $37.2 billion.

Now, I know, of course, a considerable percentage of this will come from the income received during the first 6 months of calendar 1958.

Mr. BRUNDAGE. That is right.

Senator DOUGLAS. And in some cases surtax on the entire 1958. But if there should be a decrease in income received during the first 6 months of calendar 1958, wouldn't this reduce your estimate of receipts for fiscal 1958?

Mr. BRUNDAGE. It is based on estimates, Senator Douglas. There is no question about that. We reduced our estimates, as you recall, from a year ago when we originally estimated $73.6 billion total budget receipts for 1958. We reduced our estimates by $1,200 million.

And it seemed to us that with individual incomes rising by quarters—the last quarter of calendar year 1957 was above the first two quarters, although not above the third—that we are not far off in this figure. But, of course, anything could happen. I don't think that we are going to have any extended recession or depression.

It seems that the factors supporting our optimism for a recovery soon this year, within a few months' time, are strong ones. So, I personally don't feel especially concerned with that. I am concerned with any estimate. But I think that those are pretty carefully——

Senator DOUGLAS. Well then, the estimated receipts for the remainder of 1958 and for the entire fiscal year of 1959 are based on the assumption that current recession will shortly be terminated and we will go back to substantially the same conditions as prevailed during the first three quarters of calendar 1957; is that right?

Mr. BRUNDAGE. That is substantially correct. We anticipate that the last quarter of calendar 1958 should be better than the last quarter of 1957.

Senator DOUGLAS. What are you estimating on the third quarter of calendar 1958?

Mr. BRUNDAGE. Well, this is an overall estimate which was put together as a result of discussions with the Treasury, with the Council of Economic Advisers, with representatives of the——

Senator DOUGLAS. Yes; but you quoted the last quarter of calendar 1958. So, presumably, you are making these estimates for quarters and not merely by——

Mr. BRUNDAGE. That was my personal statement. There were considerable differences as to just when and how fast it would come, but this was a consensus for the fiscal year. Even though we got the same figure for the fiscal year.

Senator DOUGLAS. Does this mean you are putting off recovery until the fall?

Mr. BRUNDAGE. No. I anticipate it before June 30.

Senator DOUGLAS. I feel like quoting these lines from Shelley: "Oh when wind and winter comes can spring be far behind."

Now, Mr. Brundage, in your estimate of receipts, you apparently allowed for about $42 billion of corporate profits for fiscal 1958?

Mr. BRUNDAGE. For calendar year 1958, it is a little less than we estimated for calendar 1956.

Senator DOUGLAS. But not appreciably less.

Mr. BRUNDAGE. Yes. Well, we think that the corporate profits in calendar 1958 will be pretty close to those in calendar 1957 and we are estimating the same yield of corporate taxes in fiscal 1959 that we estimate in fiscal 1958.

Senator DOUGLAS. Now what provision do you make for increased postal rates in these estimates?

Mr. BRUNDAGE. We are providing for an additional $700 million based on the Postmaster's proposal for 5 cent first-class rate outside the city.

Senator DOUGLAS. Now, as I remember it, in the late forties, the rate on first-class mail was 2 cents; was it not?

Then it was raised to 3 cents which it presently is.

Mr. BRUNDAGE. It was 2 cents, I think, before the forties.

Senator DOUGLAS. Yes; we increased it to 3 cents in the early fifties, as I remember it.

Mr. BRUNDAGE. During the war, as I recall.

(NOTE.—To clarify the record, the following information was submitted subsequent to the hearing:)

The first-class rate was raised from 2 to 3 cents for out-of-town first-class mail in 1932. All first-class mail was raised to 3 cents in 1944.

Senator DOUGLAS. Now you are proposing to increase it to 5 cents.

Mr. BRUNDAGE. That is the rate that Canada has, and a great many other countries.

Senator DOUGLAS. Well, I know. Do you really think that first-class mail should be increased to 5 cents?

Mr. BRUNDAGE. Well, I do, for out-of-town mail.

Senator DOUGLAS. Isn't it true that receipts from first-class mail now meet approximately 97 percent of the expenses which can be charged to first-class mail; that there is a deficit of only 3 percent on a 3-cent postage stamp?

Mr. BRUNDAGE. It is quite clear we are losing money on 3-cent mail.

Senator DOUGLAS. Not very much. The Postmaster General's figures, which separate the cost quite accurately both on the basis of number of units and weight, indicate the deficit is only 3 percent.

Mr. BRUNDAGE. We made a special study of it, Senator Douglas, this last year, at the request of the Post Office Department. Our Office of Accounting did that.

There are a number of ways that you can allocate it between first, second, and third class. But we think that on most fair allocation you would have a loss on all three classes at a 4-cent rate.

Senator DOUGLAS. Well, naturally on all three classes, but the losses accrue on second and third class. And in order not to bill them at cost, in order that you may continue a hidden subsidy to them, you are going to raise the rates on first class from 3 to 5.

Mr. BRUNDAGE. Well, it is in part a shifting. But as I say it depends on how you charge overhead.

Now, you can assume that you have to deliver the first-class mail anyway, and that the other can be delivered on the basis of what they call incremental cost accounting.

Senator DOUGLAS. Distribution costs, as you know, are distributed on the basis of the number of units. And it is only the transportation costs that are distributed on the basis of weight. And yet with this system, first class approximately pays its way; the deficit comes on second and third class. You are supposing that magazines, the slick weeklies, and monthlies, and the direct-mail advertisers, should ride on the backs of the average correspondent in the country?

Well, let me say, I don't think Congress will approve a 5-cent charge of first-class mail. While I regard myself as an economy hound, I will vote for a 4-cent increase.

Now, suppose you get a 4-cent rate for first-class mail, how much will that reduce your postal revenues?

Mr. BRUNDAGE. I think about $140 million, as I recall it.

Well, if Congress doesn't approve the 5-cent rate for out-of-town mail, I hope that you will make it up by increases in second- and third-class rates.

Senator DOUGLAS. I would certainly be for that. I wish you would come down here and make a fight for it. I certainly would be for it.

Mr. BRUNDAGE. I will check that if you like. It is about that figure.

Senator DOUGLAS. I heard the figure of $175 million.

Mr. BRUNDAGE. I will look it up.

Senator DOUGLAS. Fine.

(Mr. Brundage later supplied the following information for the record:)

A 4-cent rate for out-of-town first-class mail would lower postal revenues by $174 million below the 1959 estimate which assumes a 5-cent rate.

Senator DOUGLAS. Well, now, may I ask—am I taking too much time, Mr. Chairman?

Chairman PATMAN. Well, we will get back to you, Senator.

Senator DOUGLAS. All right.

Chairman PATMAN. Mr. Kilburn, we will recognize you now.

Representative KILBURN. As I understand the picture, what we have to do is increase our expenditures for some phases of national defense and in view of that we have got to cut on some of the other things.

Mr. BRUNDAGE. That is right.

Representative KILBURN. In other words, at this time tighten our belts a little bit?

Mr. BRUNDAGE. That is right.

Representative KILBURN. I still think that—I want to see if you agree with me—that if we try to do everything for everybody, as we have done sometimes in the past, that we still face inflation, a big out of balance budget. I think the value of the dollar will go down.

Mr. BRUNDAGE. It contributes to it, sir.

Representative KILBURN. I think your statement was very good. I might add: The budget is such a big job, I don't see how you fellows handle it.

One question Senator Douglas asked I did not quite follow. I don't see why the Post Office doesn't refuse to deliver occupancy mail. Can't they save some money by just cutting that out altogether?

Mr. BRUNDAGE. It wouldn't hurt my feelings.

Representative KILBURN. After all, you might say it isn't mail. You can hire a boy to go around from door to door. I don't see why the mailman should lug that stuff around. I don't know what it would save, but I think it would save something. I am for any kind of a postal increase that is fair all around that would try to help us balance our budget.

Chairman PATMAN. Senator O'Mahoney?

Senator O'MAHONEY. Mr. Brundage, I was very much interested in the interrogation commenced by Senator Douglas. I think perhaps he will carry that on a little bit later to a further extent, but I should like very much to call your attention to the special analysis B which appears in the budget at page 883. I think perhaps, Mr. Chairman, I should read into the record and ask for the inclusion of the tables, particularly the tables that appear on page 884.

21111—58——15

Chairman PATMAN. Without objection, they may be inserted.
(The tables referred to follow:)

SPECIAL ANALYSIS B—ANALYSIS OF BUDGET RECEIPTS

Estimates based on existing and proposed legislation

This special analysis provides supporting detail for the figures on budget receipts by source which are included in the tables of the budget message and in table 1 of part I.

The estimates of receipts from taxes and customs for the current and ensuing fiscal years are prepared in December of each year by the Treasury Department. In general, the estimates of miscellaneous receipts are prepared by the agencies depositing the receipts in the Treasury.

The receipts estimates are based on the assumption that resumed business expansion occurs early in the calendar year 1958. It is also assumed for the fiscal year 1959 that legislation will be enacted extending tax rates at their present levels for a year beyond July 1, 1958, as recommended by the President.

Detailed estimates of budget receipts under both existing and proposed legislation are contained on pages 885 to 888.

BUDGET RECEIPTS

Budget receipts in the fiscal year 1958 are estimated to be $72,400 million, an increase of $1,371 million over actual receipts of $71,029 million in 1957. A further rise of $2,000 million to $74,400 million is expected for 1959.

FISCAL YEAR 1958

Actual receipts in 1957 and estimated receipts in 1958 are compared by major sources in the following table. The amount shown for each receipt source is the net amount after deduction of refunds and transfers to trust funds.

Net budget receipts

[In millions]

Source	1957 actual	1958 estimate	Increase (+) or decrease (—), 1958 over 1957
Individual income taxes	$36,619.5	$37,200.0	+$1,580.5
Corporation income taxes	21,167.1	20,385.0	—782.1
Excise taxes	9,055.3	8,898.0	—157.3
Employment taxes	327.6	339.2	+11.6
Estate and gift taxes	1,364.7	1,486.0	+121.3
Taxes not otherwise classified	14.3	5.0	—9.3
Customs	734.6	765.0	+30.4
Miscellaneous receipts	2,745.6	3,321.8	+576.2
Net budget receipts	71,028.6	72,400.0	+1,371.4

Receipts from the most important revenue source, the individual income tax, are estimated to increase in 1958 by a substantial amount. A large increase is also estimated for miscellaneous receipts, which consist almost entirely of nontax revenues. Offsetting these and other smaller increases are estimated declines of 4 percent for corporation income taxes and 2 percent for net excise taxes (after transfers to the highway trust fund).

Individual income taxes.—Receipts from the individual income taxes are estimated to be $37,200 million in 1958, $1,581 million above actual receipts of $35,620 million in 1957. The increase results from the higher levels of income affecting 1958 receipts.

Corporation income taxes.—Corporation income-tax receipts are estimated to amount to $20,385 million in 1958, $782 million below the $21,167 million received in 1957. The decline in corporation-tax receipts reflects an estimate of lower corporation profits in calendar year 1957 than in 1956 and an irregularity in the flow of corporation receipts that raised the fiscal year 1957 total in comparison with 1958.

Excise taxes.—Receipts from this source are listed in the following table:

Excise-tax receipts

[In millions]

Source	1957 actual	1958 estimate	Increase (+) or decrease (−), 1958 over 1957
Alcohol taxes	$2,973.2	$3,036.0	+$62.8
Tobacco taxes	1,674.1	1,735.0	+60.9
Taxes on documents, other instruments, and playing cards	107.5	112.0	+4.5
Manufacturers' excise taxes	3,761.9	4,184.0	+422.1
Retailers' excise taxes	336.1	355.0	+18.9
Miscellaneous excise taxes	1,718.5	1,770.0	+51.5
Undistributed depositary receipts and unapplied collections	66.2		−66.2
Gross excise taxes	10,637.5	11,192.0	+554.5
Deduct—			
Refunds of receipts	103.3	174.0	+70.7
Transfer to highway trust fund	1,478.9	2,120.0	+641.1
Net excise taxes	9,055.3	8,898.0	−157.3

Gross excise taxes in 1958 are estimated to increase to $11,192 million from actual reecipts of $10,638 million in 1957. The full-year effect of increased and new taxes under the Highway Revenue Act of 1956, as compared with the part-year effect in 1957, together with estimated higher levels of taxable goods and services, are responsible for the estimated rise in gross receipts. All major excise-tax sources are expected to increase, with the manufacturers' taxes showing the largest advances. Receipts from the gasoline tax furnish almost half of the increase shown for this group.

Although gross excise taxes are estimated to increase $555 million in 1958, a decline of $157 million is estimated for net excise taxes. Transfers of tax receipts to the highway trust fund will increase in 1958, not only because of a greater volume of gasoline sales, but also because transfers of both increased or new taxes and taxes in effect prior to the Highway Act will occur on a full-year basis in 1958. Refunds will also increase because of the gasoline-tax-refund provision of the Highway Act.

Employment taxes.—The yield of the employment taxes is shown in the following table:

Employment-tax receipts

[In millions]

Source	1957 actual	1958 estimate	Increase (+) or decrease (−), 1958 over 1957
Federal Insurance Contributions Act and Self-Employment Contributions Act	$6,634.5	$7,763.0	+$1,128.5
Railroad Retirement Tax Act	616.0	620.0	+4.0
Federal Unemployment Tax Act	330.0	342.0	+12.0
Gross employment taxes	7,580.5	8,725.0	+1,144.5
Deduct—			
Refunds of receipts	2.6	2.8	+.2
Transfer to Federal old-age and survivors insurance trust fund	6,301.2	6,900.0	+598.8
Transfer to Federal disability-insurance trust fund	333.3	863.0	+529.7
Transfer to railroad retirement account	615.9	620.0	+4.1
Net employment taxes	327.6	339.2	+11.6

All employment taxes are expected to increase in 1958. Higher levels of taxable wages and a full-year effect of the higher rates enacted to finance the disability insurance trust fund are primarily responsible.

Estate and gift taxes.—Receipts from this source are estimated to be $1,486 million in 1958, an increase of $121 million over actual receipts of $1,365 million in 1957.

Customs.—Customs receipts are estimated to amount to $765 million in 1958, an increase of $30 million over the actual receipts of $735 million in 1957.

Miscellaneous receipts.—Miscellaneous receipts are estimated to increase substantially in 1958. Interest payments by Government enterprises and foreign countries, rents and royalties on the outer Continental Shelf, and larger deposits by the Federal Reserve Board are primarily responsible.

FISCAL YEAR 1959

Estimated receipts in 1958 and 1959 are compared by major sources in the following table:

Net budget receipts

[In millions]

Source	1958 estimate	1959 estimate	Increase (+) or decrease (−), 1959 over 1958
Individual income taxes	$37,200.0	$38,500.0	+$1,300.0
Corporation income taxes	20,385.0	20,400.0	+15.0
Excise taxes	8,898.0	9,280.0	+382.0
Employment taxes	339.2	347.1	+7.9
Estate and gift taxes	1,486.0	1,570.0	+84.0
Taxes not otherwise classified	5.0	5.0	----
Customs	765.0	780.0	+15.0
Miscellaneous receipts	3,321.8	3,518.0	+196.2
Net budget receipts	72,400.0	74,400.0	+2,000.0

Major increases are estimated to occur in receipts from the individual income taxes and from excise taxes. Other receipt sources are expected to show relatively small gains or to remain virtually unchanged.

Individual income taxes.—A rise in personal income is expected to increase receipts from individual income taxes by $1,300 million to $38,500 million in 1959.

Corporation income taxes.—Virtually unchanged receipts of corporation income taxes from the fiscal year 1958 to 1959 reflect the assumption that corporate profits will be about the same in the calendar year 1958 as in 1957. Although corporate profits declined in the latter part of 1957, they are expected to improve after the early months of 1958 and average for the whole of 1958 at about the same level as in the calendar year 1957.

Excise taxes.—Receipts from this source, by major groups, are listed in the following table.

Excise taxes under proposed legislation are estimated to increase in 1959 on both a gross and a net basis. Expanded business activity and increased consumer incomes are estimated for 1959, and these are reflected in advances throughout the excise-tax group.

Excise-tax receipts

[In millions]

Source	1958 estimate	1959 estimate	Increase (+) or decrease (−), 1959 over 1958
Alcohol taxes	$3,036.0	$3,098.0	+$62.0
Tobacco taxes	1,735.0	1,780.0	+45.0
Taxes on documents, other instruments, and playing cards	112.0	112.0	----
Manufacturers' excise taxes	4,184.0	4,418.0	+234.0
Retailers' excise taxes	355.0	367.0	+12.0
Miscellaneous excise taxes	1,770.0	1,858.0	+88.0
Gross excise taxes	11,192.0	11,633.0	+441.0
Deduct—			
Refunds of receipts	174.0	189.0	+15.0
Transfer to highway trust fund	2,120.0	2,164.0	+44.0
Net excise taxes	8,898.0	9,280.0	+382.0

These estimated increases also reflect enactment of legislation (1) extending existing excise-tax rates for another year and (2) providing a new tax of 3½ cents a gallon on jet fuels and an increase in the existing tax rate on aviation gasoline to 3½ cents from the present 2 cents. Receipts from taxes on aviation gasoline and tires are presently transferred into the highway trust fund; it is also proposed that starting in 1959, receipts from aviation gasoline and tires be retained in general receipts.

Employment taxes.—The yield of the employment taxes is shown in the following table:

Employment-tax receipts

[In millions]

Source	1958 estimate	1959 estimate	Increase (+) or decrease (−), 1959 over 1958
Federal Insurance Contributions Act and Self-Employment Contributions Act	$7,763.0	$7,988.0	+$225.0
Railroad Retirement Tax Act	620.0	625.0	+5.0
Federal Unemployment Tax Act	342.0	350.0	+8.0
Gross employment taxes	8,725.0	8,963.0	+238.0
Deduct—			
Refunds of receipts	2.8	3.0	+.2
Transfer to Federal old-age and survivors insurance trust fund	6,900.0	7,100.0	+200.0
Transfer to Federal disability-insurance trust fund	863.0	888.0	+25.0
Transfer to railroad retirement account	620.0	625.0	+5.0
Net employment taxes	339.2	347.1	+7.9

All employment taxes are estimated to increase in 1959 as a result of higher levels of taxable wages.

Estate and gift taxes.—Receipts from estate and gift taxes are expected to continue to increase in 1959. Receipts from this source are estimated to reach $1,570 million in 1959, $84 million above 1958.

Customs.—Receipts from this source are expected to amount to $780 million in 1959, an increase of $15 million over 1958.

Miscellaneous receipts.—The estimated increase of $196 million in miscellaneous receipts is attributable, for the most part, to larger collections of principal and interest and payments on loans.

Senator O'MAHONEY. This special analysis, the document begins, provides supporting detail for the figures on budget receipts by source which are included in the tables of the budget message and in table 1 of part I.

The estimates of receipts from taxes and customs for the current and ensuing fiscal year are prepared in December of each year by the Treasury Department. In general the estimates of miscellaneous receipts are prepared by the agencies depositing the receipts in the Treasury.

Are you familiar with the methods used of estimating these receipts?

Mr. BRUNDAGE. Only generally familiar. The Treasury is responsible for giving us the figures which we put in the budget. But they discuss it in considerable detail with the Council of Economic Advisers and with us.

Senator O'MAHONEY. Do you accept those estimates without review by your staff?

Mr. BRUNDAGE. No.

Senator O'MAHONEY. Your staff does review them?

Mr. BRUNDAGE. I was going on to say that we review them with representatives of the Council of Economic Advisers and the Treasury, and we come to a consensus.

Senator O'MAHONEY. Do these figures represent the judgment of the Treasury Department, Council of Economic Advisers, and the Bureau of the Budget?

Mr. BRUNDAGE. And the departments concerned, that is right.

Senator O'MAHONEY. Well, I mentioned the Treasury because all of the receipts come through the Treasury.

Mr. BRUNDAGE. Yes.

Senator O'MAHONEY. Well now, how many members of your staff are detailed to review these estimated figures?

Mr. BRUNDAGE. How many, Sam?

Mr. COHN. My name is Samuel M. Cohn. I am the Chief of Fiscal Analysis in the Bureau of the Budget.

We do not have any staff member, Senator, who reviews in detail the methodology of the Treasury in deriving given revenue estimates from basic assumptions. We have one staff member who reviews the basic assumptions and calls our attention to them, relates them to current economic activity, and informs Mr. Brundage of the relation of the assumptions used to present developments, past developments, and the implications for the future.

Senator O'MAHONEY. Well, I recognize the technicalities involved in this. I understand they are perplexing. I understand how difficult it is for you, and must be, to judge in 1 calendar year, the month of December it says here, to judge the receipts that are going to take place, or begin to take place, 6 months in the future. But when the Bureau of the Budget examines these estimates of increased receipts by the various departments, you were aware, were you not, in December that unemployment was rising; were you not?

Mr. BRUNDAGE. Yes, sir.

Senator O'MAHONEY. You were aware that freight car loadings were falling?

Mr. BRUNDAGE. Yes.

Senator O'MAHONEY. You were aware that the prices of automobiles had increased and dealers were finding it difficult to sell?

Mr. BRUNDAGE. Yes. Our conclusion on the total was more than $2 billion under the preliminary estimate we had made about 3 months earlier for fiscal 1959.

Senator O'MAHONEY. And I understand when the Treasury Department and the other departments first guessed at the receipts they were about $2 billion more than you have presented to Congress?

Mr. BRUNDAGE. Yes; that is right.

Senator O'MAHONEY. Now, then, let me read to you some of the statements that you make here.

Receipts from the most important revenue source, the individual income tax, are estimated to increase in 1958 by a substantial amount. A large increase is also estimated for miscellaneous receipts which consist almost entirely of nontax revenue. Offsetting these and other increases are estimated declines of 4 percent for corporation income tax and 2 percent for net excise taxes. (After transfers to the highway trust fund.)

Individual income taxes.—Receipts from the individual income taxes are estimated to be $37,200 million in 1958, $1,581 million above the actual receipts of $35,620 million in 1957. The increase results from the higher levels of income affecting the 1958 receipts.

Corporation income taxes.—Corporation income-tax receipts are estimated to amount to $20,385 million in 1958, $782 million below the $21,167 million received in 1957.

The decline in corporation tax receipts reflects an estimate of lower corporation profits in calendar year 1957 than in 1956 and an irregularity in the flow of corporation receipts that raised the fiscal year 1957 total in comparison with 1958.

Now, examining the table of net budget receipts, we find that the individual income taxes, as you say, lead the list, and you are estimating an increase of $1,580,500,000. This is in spite of the rising unemployment, of the decline in steel production, and such things as the very serious decline in the oil industry in the United States during the calendar year 1957. Are you aware, for example, that the Texas Co. is reported not to have ordered a pound of steel in this country for domestic production since last September?

Mr. BRUNDAGE. I didn't know that fact; no, sir.

Senator O'MAHONEY. It would be an important fact, would it not, in judging what individual income taxes would be and what corporate income taxes would be?

Mr. BRUNDAGE. The individual incomes were still holding up last fall.

Senator O'MAHONEY. By reason of what? What was the reason for their going up? Was it inflation?

Mr. BRUNDAGE. Well, there were wage rates geared to the cost of living——

Senator O'MAHONEY. What were the results of unemployment?

Mr. BRUNDAGE. And other annual raises which caused the total to go up.

Senator O'MAHONEY. That was inflation; wasn't it?

Mr. BRUNDAGE. It kept on going up until September.

Senator O'MAHONEY. Let me ask you this: When do you expect the upturn to begin?

I understood you to say in response to Senator Douglas' question about June or July.

Mr. BRUNDAGE. I said my own guess would be before July 1. The group that discussed it, and their outside advisers, ranged all the way from that it has already started to the fact that it wouldn't start until late fall.

Senaor O'MAHONEY. Isn't it a fact that the upturn in the economy must begin in March, just a month from now, if you can by any manner of means reach this estimate of receipts?

Mr. BRUNDAGE. No; I don't think so.

Senator O'MAHONEY. Mr. Merriam, what is your opinion?

Mr. MERRIAM. I agree with the Director. I don't believe so.

Senator O'MAHONEY. How do you think the estimates are made, then?

Mr. MERRIAM. Well, the director has just explained to you how they were made.

Senator O'MAHONEY. I mean estimates of the upturn? When do you think the upturn will begin?

Mr. MERRIAM. I think he has just indicated to you his opinion.

Senator O'MAHONEY. I am trying to get your opinion.

Mr. MERRIAM. His judgment is better than mine. I think he has the better view of this, but I would certainly think that the signs would all point to early summer.

Senator O'MAHONEY. I see. I can't get you to disagree with your chief.

Mr. MERRIAM. If you could, I would be starting off the week in a bad way.

Senator O'MAHONEY. Let me find out something that I read last night. This was in the report of the Organization for European Economic Cooperation. It is the second volume of the eighth report. It is entitled "Europe Today and in 1960." It was published in April 1957.

On page 9 the introduction begins with this statement:

The OEEC has on two previous occasions studied the longer term prospect of the European economy. When the OEEC was set up in 1948 all member governments submitted 4-year national recovery programs covering the period up to the end of June 1952.

Then skipping a sentence or two to the conclusion:

A development that actually took place in Western Europe between 1948 and 1952 was impressive, with industrial output increasing considerably more than projected, agricultural output expanded as foreseen, and the reduction of a large balance-of-payments deficit.

Then the second paragraph:

The second time the OEEC studied the longer term prospect was in 1951. When the Council declared that the product objective of economic policy should be a 25-percent expansion of production over a 5-year period.

And the concluding sentence:

The increase in gross national product achieved in the period 1951–56 was very close to the 25 percent set up as a goal and the increase of industrial production of 32 percent which has projected was also close to the result achieved.

Now, contrasting that picture of increased industrial production in Europe as reported by the OEEC, with which the Council of Economic Advisers and the Bureau of the Budget, I assume, are well acquainted, I want to read from your Budget in Brief the following statement on page 17:

As part of the mutual-security program the United States provides military assistance (military equipment and training) and defense support (economic aid to help maintain adequate defense forces) to countries participating in collective defense efforts. Expenditures in 1959 for these programs will be about the same as in 1958, but increased appropriations are recommended to finance newer type weapons for our allies.

In another part of the budget we have estimates for economic aid to our allies. I call your attention to the fact, as I have already done in a letter which I wrote to you, that the Comptroller General made public in August 1957 his report on the military-assistance program. Among other things set forth in that report is the information that by December 31, 1956, the Government had committed itself to the expenditure of $2,900 million—rather $2,600 million, I believe—for the production of military end items in European factories under agreements between this country and the foreign countries on which the countries themselves and their agencies should not reap any profit for the Government out of payments made from the United States Treasury.

Mr. Cameron found that profits were being earned. You are familiar with that; are you not?

Mr. BRUNDAGE. Yes; I have seen the report.

Senator O'MAHONEY. And you are aware that, at the time I had my correspondence with you, the Department of Defense had not yet made any response to the General Accounting Office as to what would be done about this. Last week I learned from Deputy Assistant Secretary Shaft that representatives of the General Accounting Office and the Department of Defense had just been sent to Europe to check into that matter. So that we don't know yet what will be done about those expenditures.

Have you gone into it?

Mr. BRUNDAGE. We had a representative working on it at the time I got your letter. As you say, they are still working on it.

Senator O'MAHONEY. What have you discovered, if anything?

Mr. BRUNDAGE. Well, I haven't anything to say about it now.

Senator O'MAHONEY. Do you expect to save any money there?

Mr. BRUNDAGE. Well, I would like to.

Senator O'MAHONEY. In view of the report of the OEEC about the great increase in productivity in the OEEC, are you of the opinion that any savings may be made there?

Mr. BRUNDAGE. There are a lot of political factors involved, and the distribution by countries is different, as you know.

Senator O'MAHONEY. Is it desirable to increase productivity abroad?

Mr. BRUNDAGE. Well, the percentage of increase was more rapid in Europe, just as it was in Russia, than it was over here, because they started from a much lower base.

Senator O'MAHONEY. Yes. Those countries started from a much lower base than we have started. The great industrial productivity of the United States enabled this country to swing the balance of power both in World War I and in World War II. There can be no question about that. But the reports from Europe now indicate that our allies in Europe have progressed far above their levels of pre-World War II; is that not right?

Mr. BRUNDAGE. That is right.

Senator O'MAHONEY. Well, the question, therefore, is: Did the Bureau of the Budget take into consideration the possibility that if the advance of industrial productivity in Europe is good that we should not follow a reverse policy here at home?

Mr. BRUNDAGE. We have certainly brought that to the attention of the people that are working on it, Senator.

Senator O'MAHONEY. Then what conclusions have you reached in preparing the budget?

Mr. BRUNDAGE. We are not putting in any particular refunds.

Senator O'MAHONEY. I beg your pardon?

Mr. BRUNDAGE. We are not providing for any refunds, if you mean that.

Senator O'MAHONEY. No, I am not talking about refunds. I am talking about industrial productivity. Is it good in Europe? Is it good in the United States? Do you think it is good enough for the United States?

Mr. BRUNDAGE. As compared to Europe?

Senator O'MAHONEY. Should we not continue to promote the industrial activity in the United States?

Mr. BRUNDAGE. By all means. We are.

Senator O'MAHONEY. Well, then, how do you defend the positions which are taken by you and by the administration set forth on page 10 of your statement this morning:

> Another recommendation which should hold down budget totals in the future is that no new project be started in fiscal 1959 for construction of water resource projects by the Corps of Engineers and the Bureau of Reclamation, in view of the high level of current spending resulting from the large number of projects started during the last 3 years.

Now, there is a definite and positive statement that the position of the administration is against any new starts in water conservation projects, is it not?

Mr. BRUNDAGE. We will have to increase our expenditures and increase the business activity because of the large number of new starts in the last 3 years. So our total expenditures will be greater for several years even if we don't have any new starts.

Senator O'MAHONEY. Let me call your attention to page 16 of your Budget in Brief: This is under the item, "Major national security."

You have a table at the end of the second column. And that shows that budget expenditures beginning in 1953 were—this is fiscal year 1953—amounted to \$51,830 million. In 1954, \$47,872 million.

In 1955, another more than \$5 billion decrease. \$42,089 million.

In 1956, \$41,825 million.

In 1957, an increase of less than \$3 billion, to \$44,414 million. But still more than \$7 billion less than 1953. In 1958, estimate, \$44,871 million. 1959, estimate, \$45,836 million.

Then the column on "New obligation authority" shows a decrease of from \$58,976 million in 1953 to \$44,298 million estimated in 1959.

This shows a considerable saving; does it not?

Mr. BRUNDAGE. Yes.

Senator O'MAHONEY. And it shows the decrease in expenditures and in requests for new obligational authority for major national security, does it not?

Mr. BRUNDAGE. As compared with 1953, which was very largely influenced, of course, by the Korean war.

Senator O'MAHONEY. Well, does this not represent an even greater decline in total national defense when one considers the fact that the weapons we are building are constantly more expensive.

Mr. BRUNDAGE. We have a continued decline in the number of the forces and in the conventional weapons, and we are putting increases in the last 3 or 4 years into the newer weapons.

Senator O'MAHONEY. Did this table include the estimates that Congress is now working on for increased military expenditure in the last 6 months of 1958?

Mr. BRUNDAGE. Yes.

Senator O'MAHONEY. This table does include that?

Mr. BRUNDAGE. It does include it, yes. That is, all except this \$500 million reserve for defense contingencies.

Senator O'MAHONEY. Well, do you agree that the policy of the Government should be to do whatever is necessary to do to promote receipts in the Treasury?

Mr. BRUNDAGE. To promote receipts to the Treasury?

Senator O'MAHONEY. Yes. Did you increase the amount of money that the Government gets?

Mr. BRUNDAGE. I don't believe in spending money for an unnecessary purpose just to increase our receipts from taxes if that is what you mean.

Senator O'MAHONEY. I was listening to the chairman. Would you repeat that?

Mr. BRUNDAGE. I wasn't quite sure Senator O'Mahoney, just what you had in mind, but I would not be in favor of making unnecessary expenditures in order to stimulate offsetting receipts.

Senator O'MAHONEY. No, no, I wouldn't want to make any unnecessary expenditures, but I call your attention to page 7 of the statement, of your statement. It is entitled "Budget Proposals Affecting Future Years." And the beginning of the second paragraph is entitled "Proposals To Increase Receipts."

In the budget message the President indicated his belief that when the Government provides a service conferring a special quasi-commercial benefit on identifiable individuals or groups above and beyond the benefits to the public generally, it should charge the beneficiaries for the special service—

and so it goes on.

You recommended the increase in postal rates to which Senator Douglas referred. You recommended levying increased gasoline taxes on private users of the airways. You recommended enacting legislation to raise patent fees. I might say that as chairman of the Subcommittee on Patents, I am recommending something along that possibility to the judiciary. To charge employers of longshoremen for the cost of administering disability compensation and so forth.

Have you given consideration to any other proposals to increase receipts that would conserve our natural resources and help to build up the opportunity to make money on which to pay taxes, to provide employment, and to help balance the budget?

Mr. BRUNDAGE. I am always very receptive. I am happy to get ideas.

Senator O'MAHONEY. Has the Bureau of the Budget given consideration to that?

Mr. BRUNDAGE. We have given a lot of consideration to it.

Senator O'MAHONEY. Have you any evidence of what that consideration was?

Mr. BRUNDAGE. Well, we have mentioned a lot of them here.

Senator O'MAHONEY. Well, I don't find it.

Mr. Chairman, I don't want to take too much time.

Chairman PATMAN. We will get back to you, Senator.

Off the record.

(Discussion off the record.)

Senator O'MAHONEY. Mr. Curtis of Missouri, please.

Representative CURTIS. Mr. Chairman, I would first like to commend the Director of the Budget for devoting as much time as he does in the statement to the thing which Senator O'Mahoney called attention to, possible ways of increasing receipts. I don't recall so much detail ever before on ideas of where the Federal Government could get additional money.

Incidentally on that, Mr. Director, I recall this point came up in the hearing when you were before the Ways and Means Committee. Do we have a complete list of the various fees and charges that the Federal Government makes?

Mr. BRUNDAGE. We have a list.

Representative CURTIS. At the time I recall I was asking you whether it was 50 million a year, a hundred, or what. What was that?

Mr. BRUNDAGE. We had a committee working on it. We have a lot of them, but there must be about 200 or 300 kinds of charges.

Representative CURTIS. I know there are, and I have been trying for some time to get a list, and have suggested to the Ways and Means Committee that we ought to get into this area of fees and charges that the Federal Government makes in all areas. We ought to find out where we are, and see what principles, general principles, serve as guidelines as to when we should make charges and when we should not. Because, after all, in many areas, I think the Public Treasury should bear the cost, and charges should not be passed on. Now, one general question, too: How much liaison is there between the Bureau of the Budget and the General Accounting Office?

Mr. BRUNDAGE. We are working very closely together. We have a joint accounting program with representatives of the Treasury, the General Accounting Office, and the Bureau of the Budget, working together constantly.

Representative CURTIS. The reason I mention that is that when I was on the Expenditure Committee, which is now called Government Operations, in the 82d Congress, I was very disturbed to find that there was not strong liaison between the Expenditure Committee and the Appropriations Committee.

It seems to me that it is now important that there be strong liaison, because, well, to take an analogy: A good restaurant owner, I understand, is constantly watching his garbage pail. He can determine a great deal about what is going on in his operations by looking at the garbage pail and analyzing that. And that is the analogy. Now, how much are we recouping each year from the sale of surplus properties?

Mr. BRUNDAGE. Well, that is a very distressing operation, because the harder we work at it the more surplus we seem to churn up. And I just can't understand it. But it comes from stations all over the world. And the more we dispose of, the more we seem to have. But I have a group working on that. And I hope to get—I hope to control it someday. But it is a most perplexing problem. I have a list of the various receipts, which I will be glad to give you.

Representative CURTIS. I wonder if we could put the list of those receipts in the record?

Chairman PATMAN. Without objection, they may be inserted.

(The list referred to follows:)

Statement of miscellaneous receipts for fiscal years 1957, 1958, and 1959

[In thousands]

Source	1957 actual	1958 estimate	1959 estimate
0190 MISCELLANEOUS TAXES			
0190 Miscellaneous taxes:			
0192 Immigration head tax	(1)		
0193 Tonnage tax	$5,146	$5,150	$5,150
0199 Miscellaneous taxes, not otherwise classified	170	160	160
Undistributed miscellaneous customs collections	[2] 1,151		
Total, miscellaneous taxes	4,165	5,310	5,310
0510 SEIGNIORAGE			
0510 Seigniorage:			
0510 Seigniorage on subsidiary silver coinage	30,090	33,825	33,795
0511 Seigniorage on minor coinage	16,395	19,055	18,930
0512 Seigniorage on silver bullion, difference between cost value and monetary value	2,056	2,000	2,000
Total seigniorage	48,541	54,880	54,725
0520 COINAGE			
0520 Coinage:			
0520 Charges on bullion deposits	253	253	253
0521 Bar charges on bullion sales	18	17	17
0522 Proceeds of surplus bullion recovered	50	50	50
0523 Profit on sale of silver bullion	1,445	1,445	1,445
0524 Handling charges on gold purchases	119	119	119
0525 Handling charges on gold sales	61	60	60
0529 Charges on sales and handling, not otherwise classified	(1)	(1)	(1)
Total, coinage	1,947	1,944	1,944
0700 FEES FOR PERMITS AND LICENSES			
0710 Admission permits and fees:			
0710 Permits to enter national parks	4,723	5,001	5,237
0719 Admission fees, not otherwise classified	(1)		
Total, admission permits and fees	4,724	5,001	5,237
0720 Business concessions:			
0720 Commissions on telephone pay stations in Federal buildings, Washington, D. C.	99	102	102
0721 Commissions on telephone pay stations in Federal buildings outside of Washington, D. C.	2,444	2,385	2,391
0722 Fees, vending machines	11	12	12
0723 Revenues, Government airports	3,542	3,993	4,413
0729 Business concessions, not otherwise classified	941	911	936
Total, business concessions	7,038	7,403	7,854
0730 Immigration, passport, and consular fees:			
0730 Consular fees	7,979	8,403	8,653
0731 Immigration and naturalization fees and permits	4,454	3,952	3,745
0732 Passport fees	4,055	4,900	5,300
Total, immigration, passport, and consular fees	16,488	17,254	17,697
0740 Patent and copyright fees:			
0740 Copyright fees	890	899	919
0741 Patent fees (earned)	7,424	7,000	7,000
Total, patent and copyright fees	8,314	7,899	7,919
0750 Registration and filing fees:			
0750 Fees, Securities and Exchange Act	1,249	3,110	2,160
0751 Registration fees, correspondence courses	331	300	300
0759 Registration and filing fees, not otherwise classified	355	337	337
0789 Landing fees, civil aircraft using military airfields	409	450	450
Total, registration and filing fees	2,345	4,196	3,247

[1] Less than $500.
[2] Debit item, deduct.

Statement of miscellaneous receipts for fiscal years 1957, 1958, and 1959—Con.

[In thousands]

Source	1957 actual	1958 estimate	1959 estimate
0700 FEES FOR PERMITS AND LICENSES—continued			
0790 Miscellaneous fees for permits and licenses:			
0791 Migratory bird hunting stamps	$4,616	$4,500	$4,500
0792 Fees from leased grazing lands, Pierce Act	1	3	3
0793 Grazing fees for range improvements, Taylor Grazing Act, as amended	549	786	786
0796 Fees, Federal Firearms Act	66	66	66
0797 Licenses under Federal Power Act (general)	1,666	1,278	1,319
0798 Rights-of-way on, and occupancy of, public lands and reservations	275	216	216
0799 Fees for permits and licenses, not otherwise classified	3,016	3,559	3,579
Total, miscellaneous fees for permits and licenses	10,189	10,406	10,469
Total, fees for permits and licenses	49,097	52,161	52,423
0900 FINES, PENALTIES, AND FORFEITURES			
0910 Fines, penalties, and forfeitures, agricultural laws:			
0910 Penalties, cotton marketing quotas, Agricultural Adjustment Act of 1938	937	951	876
0911 Penalties, tobacco marketing quotas, Agricultural Adjustment Act of 1938	5,632	725	500
0912 Penalties, peanut marketing quotas, Agricultural Adjustment Act of 1938	552	225	200
0913 Penalties, wheat marketing quotas, Agricultural Adjustment Act of 1938	4,442	4,105	3,955
0915 Penalties, rice marketing quotas, Agricultural Adjustment Act of 1938	29	25	25
0919 Fines, penalties, and forfeitures, agricultural laws, not otherwise classified	97	89	89
Total, fines, penalties, and forfeitures, agricultural laws	11,690	6,120	5,645
0920 Fines, penalties, and forfeitures, emergency war laws:			
0920 Fines, Emergency Price Control and Second War Powers Acts	29	10	5
0921 Treble damages, emergency price control	370	343	341
Total, fines, penalties, and forfeitures, emergency war laws	399	353	346
0930 Fines, penalties, and forfeitures, immigration and labor laws:			
0930 Violations, labor management relations laws	111	97	97
0931 Violations, immigration and naturalization laws	375	377	377
Total, fines, penalties, and forfeitures, immigration and labor laws	486	474	474
0940 Fines, penalties, and forfeitures, customs, commerce, and antitrust laws:			
0940 Violations, air-traffic regulations	42	47	47
0941 Violations, antitrust laws	596	400	400
0942 Fines and penalties, Interstate Commerce Act	346	312	328
0943 Navigation fines	85	78	78
0944 Violations, customs laws	1,451	1,450	1,450
0949 Violations of trade laws, not otherwise classified	21	10	10
Total, fines, penalties, and forfeitures, customs, commerce, and antitrust laws	2,541	2,297	2,312
0950 Fines, penalties, and forfeitures, narcotic, prohibition, and alcohol laws:			
0950 Violations, antinarcotic laws	24	22	22
0951 Violations, Federal Alcohol Administration Act	60	60	60
0952 Violations, National Prohibition Act	11	8	5
Total, fines, penalties, and forfeitures, narcotic, prohibition, and alcohol laws	95	90	88

Statement of miscellaneous receipts for fiscal years 1957, 1958, and 1959—Con.

[In thousands]

Source	1957 actual	1958 estimate	1959 estimate
0900 FINES, PENALTIES, AND FORFEITURES—continued			
0960 Forfeitures, unclaimed money and property:			
0960 Unclaimed funds of veterans, Armed Forces Leave Act of 1946	(1)		
0961 Forfeitures, savings deposits of deserters, Navy	(1)		
0962 Excess proceeds of withheld Veterans' Administration foreign checks	$31	$30	$30
0963 Funds and proceeds of enemy property	600	(1)	(1)
0964 Proceeds of bonds and securities forfeited	438	417	417
0969 Unclaimed funds and abandoned property, not otherwise classified	174	144	144
Total, forfeitures, unclaimed money and property	1,243	592	592
0990 Miscellaneous fines, penalties, and forfeitures:			
0990 Forfeitures, moneys remaining in registry of courts 5 years or longer	362	400	400
0991 Forfeitures, wages of seamen remaining in registry of courts more than 6 years	11	10	10
0992 Trespass and depredations, public lands and reservations	49	45	45
0993 Forfeitures of deposits, Surplus Property Act	67	53	53
0999 Fines, penalties, and forfeitures, not otherwise classified	2,863	2,539	2,524
Total, miscellaneous fines, penalties, and forfeitures	3,352	3,048	3,031
Total, fines, penalties, and forfeitures	19,806	12,973	12,486
1100 GIFTS ADD CONTRIBUTIONS			
1110 Contributions to "conscience fund":			
1110 Moneys received from persons known	30	29	29
1111 Moneys received from persons unknown	58	54	54
Total, contributions to "conscience fund"	88	83	83
1190 Gifts to the United States:			
1192 Residue of funds of quasi-governmental organizations	206	140	143
1199 Gifts to the United States, not otherwise classified	80	60	58
Total, gifts to the United States	286	199	201
Total, gifts and contributions	374	283	284
1300 INTEREST			
1300 Interest on loans, Government corporations, and enterprises:			
1310 Interest earned on Export-Import Bank of Washington securities	23,808	26,000	30,000
1312 Interest earned on Public Housing Administration notes	1,763	2,250	2,250
1314 Interest earned on Commodity Credit Corporation securities	339,735	465,000	465,000
1317 Interest on advances to Colorado River Dam fund, Boulder Canyon project	3,226	3,200	3,200
1318 Interest earned on Housing and Home Finance Agency notes	3,645	7,712	13,225
1319 Interest payments, Panama Canal Company	6,213	10,810	8,917
Total, interest on loans, Government corporations, and enterprises	378,390	514,972	522,592
1320 Interest on securities and advances of Government corporations:			
1320 Interest earned on securities of Government agencies	57,586	64,943	77,202
1321 Interest on advances, Small Business Administration	1,177	2,996	7,486
1323 Interest earned on Rural Electrification Administration notes	41,043	44,390	48,230
1324 Interest earned on Farmers' Home Administration notes	25,466	28,980	32,580
Total, interest on securities and advances of Government agencies	125,272	141,309	165,498

[1] Less than $500.

Statement of miscellaneous receipts for fiscal years 1957, 1958, and 1959—Con.

[In thousands]

Source	1957 actual	1958 estimate	1959 estimate
1300 INTEREST—continued			
1330 Interest on loans, States, municipalities, and other public bodies:			
1339 Interest on other loans to States, municipalities, and other public works	$68	$150	$313
1340 Interest on loans to individuals and private organizations:			
1340 Interest on agricultural loans to individuals and private organizations	15	13	12
1345 Interest on advance payments to contractors	273	176	150
1349 Interest on other loans to individuals and private organizations	(1)	(1)	(1)
Total, interest on loans to individuals and private organizations	288	189	162
1350 Interest on loans, foreign governments:			
1351 Interest on loans to United Kingdom		1,408	68,408
1352 Interest on agreement dated Feb. 27, 1953, Federal Republic of Germany	25,000	25,000	25,000
1356 Interest on loans, Defense Production Act	24,431	29,267	35,677
1358 Interest on repayments by Government of the Philippines under agreement of Nov. 6, 1950		2,572	24
1359 Interest on other loans to foreign governments	38,646	42,757	38,800
Total, interest on loans, foreign governments	88,078	101,005	167,909
1390 Miscellaneous interest collections:			
1390 Interest on Government-owned securities	2,244	2,211	2,182
1391 Interest from Union Pacific RR., central branch	22	30	30
1392 Interest on deferred collections or payments	29,699	17,217	43,187
1393 Interest on public deposits	76	68	63
1394 Interest on public deposits, foreign exchange conversions	3,272	4,040	2,856
1399 Interest collections, not otherwise classified	610	538	537
Total, miscellaneous interest collections	35,923	24,105	48,855
Total, interest	628,019	781,730	905,330
1500 DIVIDENDS AND OTHER EARNINGS			
1510 Earnings from Government-owned enterprises:			
1516 Surplus from liquidated enterprises	(1)		
1520 Earnings from Government-sponsored enterprises:			
1520 Deposits of earnings, Federal Reserve System (collections under sec. 16 of Federal Reserve Act, as amended)	433,500	580,000	660,000
1524 Franchise tax (banks for cooperatives)	778	1,398	1,621
1525 Federal National Mortgage Association income tax equivalent accruals	1,062	4,672	4,193
Total, earnings from Government-sponsored enterprises	435,340	586,070	665,814
1590 Miscellaneous dividends and earnings:			
1591 Gain by exchange	96	75	75
1599 Dividends and earnings not otherwise classified	2,492	3,216	3,599
Total, miscellaneous dividends and earnings	2,588	3,291	3,674
Total, dividends and other earnings	437,928	589,360	669,488
1700 RENTS			
1710 Rent of land:			
1710 Proceeds from submarginal land program, Farm Tenant Act (75 percent)	1,472	1,275	1,275
1711 Rent on outer Continental Shelf lands	[2] 55,458	105,000	105,000
1719 Rent of land, not otherwise classified	9,568	10,386	10,389
Total, rent of land	[2] 44,418	116,661	116,664
1720 Rent of buildings and grounds:			
1720 Rental or operation of property, defense housing	31	31	31
1721 Rental or operation of other housing facilities	5,313	5,599	5,326
1722 Rent of public buildings and grounds	18,401	17,550	17,496
1723 Receipts from use and occupancy of agricultural labor supply centers, camps, and facilities	1	1	1
Total, rent of buildings and grounds	23,745	23,181	22,854

[1] Less than $500.

Statement of miscellaneous receipts for fiscal years 1957, 1958, and 1959—Con.

[In thousands]

Source	1957 actual	1958 estimate	1959 estimate
1700 RENTS—continued			
1730 Rent of equipment and facilities:			
1730 Rentals on films leased	$17	$10	$10
1731 Rent of docks, wharves, and piers	2,613	2,316	2,307
1732 Rent of airplanes	901	830	830
1733 Rent of telegraph and telephone facilities	57	48	48
1734 Charter hire of vessels	4,552	4,002	1,002
1739 Rent of equipment and facilities, not otherwise classified	39,491	39,428	39,035
Total, rent of equipment and facilities	47,630	46,634	43,231
Total, rents	26,957	186,476	182,749
2100 ROYALTIES			
2110 Royalties on minerals and other natural resources:			
2110 Moneys due Oklahoma from royalties, oil and gas, south half of Red River, act Mar. 4, 1923, as amended	9	10	10
2111 Royalties on coal leases in Alaska	119	25	25
2112 Royalties on oil and gas	1,141	1,013	1,003
2113 Receipts, mineral leasing	77,569	82,091	82,491
2114 Royalties on outer Continental Shelf lands	231	5,000	5,000
2119 Royalties on natural resources, not otherwise classified	52	55	55
Total, royalties on minerals and other natural resources	79,121	88,195	88,584
2120 Royalties on patents and copyrights:			
2120 Royalties on patents and copyrights	49	40	36
Total, royalties	79,169	88,235	88,620
2300 SALE OF PRODUCTS			
2310 Sale of agricultural products, livestock, and livestock products:			
2310 Sale of dairy products	66	65	65
2311 Sale of hogs	13	9	9
2312 Sale of livestock and livestock products, not otherwise classified	54	53	53
2319 Sale of agricultural products, not otherwise classified	73	3,191	6,205
Total, sale of agricultural products, livestock, and livestock products	207	3,318	6,332
2330 Sale of timber, wildlife, and other natural land products:			
2330 Reimbursement of expenditures, Coos Bay wagon road grant lands, Douglas County, Oreg	11	----------	----------
2331 Reimbursement, advances to Oregon and California land-grant fund	4,295	5,435	5,435
2332 Sale of public timber	119,762	126,097	150,797
2336 Sale of wildlife and wildlife products, not otherwise classified	2,479	2,495	2,498
2337 Sale of wildlife products, Pribilof Islands	3,570	3,637	3,586
2338 Sale of natural land products, Oregon and California grant lands (25 percent)	5,401	5,500	5,500
2339 Sale of natural land products, not otherwise classified	371	250	250
Total, sale of timber, wildlife, and other natural land products	135,889	143,414	168,066
2340 Sale of minerals and mineral products:			
2340 Sale of crude oil and other petroleum products from Naval Petroleum Reserve No. 1 (Elk Hills)	13,845	13,500	13,500
2349 Sale of minerals and mineral products, not otherwise classified	220	235	235
Total, sale of minerals and mineral products	14,065	13,735	13,735

Statement of miscellaneous receipts for fiscal years 1957, 1958, and 1959—Con.

[In thousands]

Source	1957 actual	1958 estimate	1959 estimate
2300 SALE OF PRODUCTS—continued			
2350 Sale of power and other utilities:			
2351 Sale and transmission of electric energy, Bonneville project, Oregon	$45,470	$53,560	$60,000
2352 Sale and transmission of electric energy, Eklutna project, Alaska	1,295	1,555	1,555
2354 Receipts, heat, light, and power, Capitol Power Plant, Architect of the Capitol	49	105	132
2355 Sales and transmission of electric energy from Falcon Dam, Tex	46	345	400
2357 Sale and transmission of electric energy, Southwestern Power Administration	6,449	6,835	7,520
2358 Sale and transmission of electric energy, Southeastern Power Administration	14,486	18,128	17,450
2359 Sale of power and utilities, not otherwise classified	70,324	70,646	76,983
Total, sale of power and other utilities	138,118	151,174	164,040
2360 Sale of publications and reproductions:			
2360 Sale of card indexes	1,441	1,500	1,575
2362 Sale of maps and charts	1,261	1,298	1,333
2364 Sale of recordings, films, and photographs	35	40	40
2365 Duplication of documents issued to individuals or firms	272	299	299
2366 Duplication of records and other documents	299	298	300
2369 Sale of publications and reproductions, not otherwise classified	436	522	561
Total, sale of publications and reproductions	3,745	3,957	4,108
2370 Sale of scrap, salvage, and waste (byproducts):			
2370 Sale of loose cotton samples	1,245	1,300	1,300
2379 Sale of scrap, salvage, and waste (byproducts), not otherwise classified	7,365	6,467	6,356
Total, sale of scrap, salvage, and waste (byproducts)	8,610	7,767	7,656
2390 Sale of miscellaneous products:			
2391 Sale of stores	8,360	8,345	8,339
2392 Proceeds of medals sold	(1)	(1)	(1)
2393 Sale of occupational therapy products	14	15	15
2399 Sale of miscellaneous products, not otherwise classified	1,973	1,523	1,522
Total, sale of miscellaneous products	10,347	9,883	9,876
Total, sale of products	310,981	333,248	373,812
2500 Fees and other charges for services.			
2510 Fees and other charges for accounting, legal, and judicial services:			
2510 Costs collected for auditing accounts of American Red Cross	(1)	125	66
2511 Cost of appeals under Grain Standards Act	517	500	500
2512 Costs collected from estates of deceased Indians	69	70	70
2513 Fees, clerks of United States courts	1,644	1,650	1,650
2514 Fees of United States marshals	358	361	361
2515 Fees, Tax Court of the United States	57	62	62
2517 Costs collected for maintenance of District of Columbia inmates in Federal penal and correctional institutions	1,189	1,200	1,200
2519 Accounting, legal, and judicial services, not otherwise classified	3,947	4,777	5,332
Total, fees and other charges for accounting, legal, and judicial services	7,781	8,746	9,242
2520 Fees and other charges for communication and transportation services:			
2520 Radio service	72	51	51
2521 Telephone and telegraph service	4,114	4,310	4,735
2522 Transportation service	2,054	1,903	1,673
2523 Earnings, United States transports	1	1	1
2524 Charges for repairs of Rock Island Bridge, Rock Island, Ill	42	20	40
2525 Postal receipts, Canal Zone Government	697	710	775
Total, fees and other charges for communication and transportation services	6,980	6,993	7,273

[1] Less than $500.

Statement of miscellaneous receipts for fiscal years 1957, 1958, and 1959—Con.

[In thousands]

Source	1957 actual	1958 estimate	1959 estimate
2300 SALE OF PRODUCTS—continued			
2530 Fees and other charges for quarters, subsistence, laundry, and health services:			
2530 Laundry and dry cleaning	$95	$83	$83
2531 Quarters	1,093	952	957
2532 Subsistence	361	362	372
2533 Quarantine charges	24	21	21
2534 Medical, dental, and hospital services	2,946	2,952	3,207
2539 Fees and other charges for health services, not otherwise classified	31	39	39
Total, fees and other charges for quarters, subsistence, laundry, and health services	4,550	4,409	4,678
2540 Fees and other charges for testing, inspection, and grading services:			
2540 Overtime service, marine inspection and navigation	44	38	38
2541 Overtime service, Federal Communications Commission	10	10	10
2542 Collections under Cotton Standards Act	2,236	1,700	1,700
2544 Fees, Federal Food, Drug, and Cosmetic Act	29	26	26
2545 Navigation fees	457	400	400
2546 Testing fees	258	102	102
2547 Inspection of perishable food and other farm products	15	14	14
2549 Fees and other charges for inspection and grading services, not otherwise classified	1,091	1,326	1,326
Total, fees and other charges for testing, inspection, and grading services	4,140	3,616	3,616
2550 Fees and other charges for administrative, professional, and scientific services:			
2550 Charges for expenses, American Mixed Claims Commission	1	2	2
2551 Deductions from awards of Mixed Claims Commission, United States and Germany, Settlement of War Claims Act of 1928, sec. 2 (e)	14	17	17
2555 Charges for expenses, International Claims Settlement Act of 1949	777	500	350
2559 Fees and other charges for administrative, professional, and scientific services, not otherwise classified	3,834	4,121	4,283
Total, fees and other charges for administrative, professional, and scientific services	4,626	4,640	4,651
2590 Fees and other charges for miscellaneous services:			
2590 Construction charges, Indian Service	255	300	300
2591 Collection on account of reimbursable construction costs, water conservation and utilization projects, act Oct. 14, 1940, as amended	102	96	96
2592 Fees, services performed for Indians	78	75	75
2593 Fees, sale of timber	702	720	750
2594 Overhead charges on sale of services or supplies	2,495	2,381	2,405
2595 Services of conscientious objectors	(1)		
2597 Storage and related charges	610	572	572
2598 Retired pay deposits, Uniformed Services Contingency Option Act of 1953	135	134	134
2599 Fees and other charges for miscellaneous services, not otherwise classified	2,801	2,893	2,861
259X National service life insurance appropriation, Veterans' Administration	664	570	570
259X Military and naval insurance, Veterans' Administration	[2] 23		
Total, fees and other charges for miscellaneous services	7,818	7,741	7,763
Total, fees and other charges for services	35,895	36,146	37,224

[1] Less than $500.
[2] Debt item, deduct.

Statement of miscellaneous receipts for fiscal years 1957, 1958, and 1959—Con.

[In thousands]

Source	1957 actual	1958 estimate	1959 estimate
3100 SALE OF GOVERNMENT PROPERTY			
3110 Sale of public land and buildings:			
3110 Sale of public land and materials, 5 percent fund to States	$2,792	$3,453	$3,453
3111 Sale of lands, etc., account of military post construction fund	44	40	40
3112 Proceeds from sale and lease of land, Columbia Basin land development program	451	420	450
3114 Proceeds from disposition of war housing	51	20	20
3119 Sale of public land and buildings, not otherwise classified	12,633	14,574	15,524
Total, sale of public land and buildings	15,970	18,507	19,487
3180 Sale of surplus Government property:			
3180 Net proceeds from surplus property in the United States	43,305	26,745	26,864
3181 Net proceeds from surplus property in foreign areas	30,060	34,012	33,901
3182 Proceeds from surplus vessels	39,242	21,278	22,313
3183 Proceeds of sales or dispositions from strategic and critical materials stockpile	7,627	8,000	8,000
3184 Sale of vessels, titles V and VII, Merchant Marine Act, as amended	41,743	10,243	9,484
3185 Net proceeds from surplus property in foreign areas, act of Oct. 3, 1944, foreign exchange conversions	49,578	60,547	54,098
3186 Net proceeds from excess property in foreign areas, act of June 30, 1949, foreign exchange conversions	2,182	1,182	1,023
Total, sale of surplus Government property	213,738	162,007	155,683
3190 Sale of other Government property:			
3190 Sale of town lots and standing timber, Alaska	116	115	115
3191 Sale of ordnance material, Army	1,191	----------	----------
3192 Proceeds of sales of vessels, Coast Guard	6	6	6
3194 Proceeds of ship inventories	124	100	100
3195 Sale of scrap and salvaged surplus materials	136,571	121,828	136,339
3196 Sale of equipment	3,931	1,100	1,068
3199 Proceeds from sales of Government property, not otherwise classified	15,014	25,392	34,669
Total, sale of other Government property	156,953	148,541	172,297
Total, sale of Government property	386,662	329,054	347,467
3300 REALIZATION UPON LOANS AND INVESTMENTS			
3310 Repayments of capital investment, Government-owned enterprises:			
3316 Repayment of investment in liquidated enterprises	185	200	200
3318 Repayment of advances to special funds	474	550	550
Total, repayments of capital investment, Government-owned enterprises	659	750	750
3320 Repayment of capital investment, Government-sponsored enterprises:			
332X Repayment of capital stock (Federal intermediate credit banks)	4,046	4,632	----------
3330 Repayment of loans, foreign governments:			
3335 Repayment of loans to United Kingdom	48,951	0	50,928
3336 Repayment on agreement dated Feb. 27, 1953, Federal Republic of Germany	----------	----------	22,722
3337 Repayment of loans for United Nations headquarters	2,000	2,000	2,000
3338 Repayment of unexpended advances to Philippine defense forces under agreement of Nov. 6, 1950	----------	14,000	3,500
3339 Repayments of loans to foreign governments, not otherwise classified	2,170	4,305	5,285
Total, repayment of loans, foreign governments	53,121	20,305	84,436

Statement of miscellaneous receipts for fiscal years 1957, 1958, and 1959—Con.

[In thousands]

Source	1957 actual	1958 estimate	1959 estimate
3300 REALIZATION UPON LOANS AND INVESTMENTS—Continued			
3340 Repayment of loans, States, municipalities, and other public bodies:			
3340 Repayment of principal on account of loans to States, municipalities, etc., defense public works	$4	$4	$4
3342 Repayment by District of Columbia for advances for acquisition of lands under sec. 4, act of May 29, 1930, as amended (National Capital Planning Commission)	100	154	165
3343 Repayment of advances to Maryland-National Capital Park and Planning Commission	----------	----------	483
3344 Repayment of public works loans to the District of Columbia	42	77	124
3349 Repayments of loans to States, municipalities, and other public bodies, not otherwise classified	10	5	5
Total, repayment of loans, States, municipalities, and other public bodies	156	240	781
3350 Repayment of loans, individuals and private organizations:			
3351 Repayment of principal on loans for Indian rehabilitation	1	1	1
3352 Repayment of principal on account of loans, Puerto Rico Reconstruction Administration	6	----------	----------
3354 Repayment of loans to students	48	60	60
3355 Repayment of loans to veterans	1,881	2,000	2,000
3356 Repayment on account of loans, Rural Electrification Administration	86,514	93,125	99,405
3357 Repayment on account of loans, Farmers' Home Administration	157,929	185,190	194,370
3359 Repayment of loans to individuals and private organizations, not otherwise classified	176	322	153
3360 Repayment on account of mutual security loans, Export-Import Bank of Washington	17,452	22,053	27,236
Total repayment of loans, individuals and private organizations	264,007	302,752	323,226
3380 Proceeds from sale of securities, stocks and collateral:			
3382 Proceeds, sale of securities, Public Works Administration	1,120	1,151	1,184
3390 Repayments upon other loans and investments:			
3399 Repayments upon loans and investments, not otherwise classified	398	398	399
Total, realization upon loans and investments	323,506	330,229	410,775
3500 RECOVERIES AND REFUNDS			
3510 Compensation for Government property lost or damaged:			
3510 Recoveries for Government property lost or damaged, National Guard	605	493	443
3511 Recoveries for Government property lost or damaged, not otherwise classified	8,707	8,230	8,224
Total, compensation for Government property lost or damaged	9,312	8,723	8,667
3520 War reparations and recoveries under military occupation:			
3520 Reparations, World War II, cash	(1 2)	----------	----------
3521 Reparations, World War II, proceeds from reparations property	(1) 1	----------	----------
3522 Army costs due the United States from Germany	2	----------	----------
3524 Recoveries, governmental operations in occupied areas, Germany and Austria, foreign exchange conversions	681	1,171	----------
3525 Reparations, World War II, proceeds from reparations property, foreign exchange conversions	280	7	----------
Total, war reparations and recoveries under military occupation	961	1,178	----------

[1] Less than $500.
[2] Debt item, deduct.

Statement of miscellaneous receipts for fiscal years 1957, 1958, and 1959—Con.

[In thousands]

Source	1957 actual	1958 estimate	1959 estimate
3500 RECOVERIES AND REFUNDS—continued			
3530 Recoveries of excess profits and costs:			
3530 Recoveries, excessive profits on renegotiated contracts	$40,393	$34,075	$28,329
3531 Recoveries, excess cost over contract price	984	3,352	2,207
3532 Recoveries, excess premiums for increased production of strategic materials	([1,2])		
3533 Recoveries, voluntary refunds, renegotiation program	428	400	400
Total, recoveries of excess profits and costs	41,806	37,827	30,936
3540 Recoveries under foreign aid programs:			
3540 Recoveries, services, and expenses, reverse lend-lease	8		
3541 Recoveries, defense aid, commodities, supplies, and services	84,656	117,704	75,004
3542 Recoveries, defense aid, commodities, supplies, and services, foreign exchange conversions	1,888	2,706	
3543 Recoveries, intergovernmental defense agreements, foreign exchange conversions	82,500	50,000	30,000
3544 Recoveries, economic assistance to foreign nations, Economic Cooperation Act of 1948, as amended, foreign exchange conversions	15,620	10,309	1,762
3546 Recoveries, military assistance to foreign nations, Mutual Defense Assistance Act of 1949, as amended, foreign exchange conversions	12,352	11,083	11,116
3549 Recoveries, foreign aid programs, not otherwise classified		1,504	
Total, recoveries under foreign aid programs	197,024	193,306	117,882
3550 Miscellaneous recoveries and refunds:			
3556 Recoveries, foreign programs, not otherwise classified, foreign exchange conversions		52	
3558 Recoveries on account of reimbursable maintenance charges, Bureau of Indian Affairs	2,291	3,002	3,002
3559 Recoveries on account of reimbursable costs under Alaska Public Works Act	1,358	2,000	2,000
3560 Recoveries on account of reimbursable appropriations made for Indian tribes	23	25	25
3561 Recoveries on account of reimbursable development costs in connection with lands and improvements	150	150	150
3562 Refund of transportation charges	31,342	31,645	31,645
3564 Recoveries, expenses of international service of ice observation and patrol	549	400	400
3566 Recoveries from operation of ships	579	612	562
3596 Refund of moneys advanced under Emergency Relief and Construction Act of 1932	([1])	([1])	([1])
3568 Reimbursement by Panama Canal Company for payment to Republic of Panama for use of Canal Zone	430	430	430
3569 Reimbursement for net cost of operations of Canal Zone Government, less tolls on Government vessels	9,075	8,992	9,865
3571 Recoveries, jury service	468	421	420
3572 Recoveries, court costs	309	194	184
3573 Recoveries, settlement of claims	360	201	194
3574 Cost of handling penalty mail	71	30	30
3575 Payments by and recoveries from the District of Columbia	1,987	2,465	2,719
3576 Costs collected for auditing corporation accounts	974	974	974
3578 Recovery from highway trust fund for refunds of gasoline and floor-stock taxes	17	95,000	110,000
3579 Recoveries, benefit payments under secs. 4 (c) and 5 (f), War Claims Act of 1948, as amended	17,500		
3580 License benefit charges	186	141	290
3582 General Accounting Office collections for other agencies	32	32	32
3590 Repayments, lapsed appropriations	6,779		
3591 Refund of royalties	283	293	293
3592 Refund of utility charges	24	22	22
3593 Refund on empty containers	62	128	127
3594 Refund, State and local taxes	114	117	117
3595 Refund of terminal leave compensation	13	4	3
359X Reimbursement of expenses, old-age and survivors trust fund and Federal disability insurance trust fund	30,877	32,158	32,107
3599 Recoveries and refunds, not otherwise classified	40,885	102,449	25,285
Total, miscellaneous recoveries and refunds	146,738	281,937	220,879
Total, recoveries and refunds	395,842	522,971	378,363
Total, miscellaneous receipts	2,748,889	3,325,000	3,521,000

[1] Less than $500.
[2] Debt item, deduct.

NOTE.—Detail may not add to totals because of rounding.

Source: Bureau of the Budget, Jan. 10, 1958.

Representative CURTIS. It is incomplete as you say. You are still working on it?

Mr. COHN. It is in categories, sir. It is not specific. There are about 23 pages here of miscellaneous receipts, and these are categories rather than specific items.

Representative CURTIS. Even that would be helpful.

Mr. BRUNDAGE. I don't know whether you really want it in the record. It is up to you.

Chairman PATMAN. It may be inserted.

Representative CURTIS. I am always interested in data of that nature.

Now, I understand—in fact I have followed, myself, some of these publications of surplus property that the Federal Government issues. They are great bulky lists.

Mr. BRUNDAGE. That is right.

Representative CURTIS. And to me it is very disturbing to find a lot of the items that are on these lists, common-use type things. You find typewriters, papers, desks, and so forth.

It is very obvious that good procurement procedures are lacking when we generate surplus of this nature. I also understand that we are getting back about 8 cents on the dollar.

Now, do you know what the figure is running?

Mr. BRUNDAGE. Pretty close to that. It is under 10. Of course, most of the property disposed of is obsolete military equipment.

Representative CURTIS. It is under 10 cents on the dollar?

Mr. BRUNDAGE. Average.

Representative CURTIS. Yes, average, of course. But even more important, it seemed to me, in this examination of our garbage, if I can continue that analogy, is to follow through, to find out what generated it in the first place and where our procurement practices were at fault. Now that is why I asked the question of how close the liaison between your organization and the Government Accounting Office was.

Mr. BRUNDAGE. Both GAO and Bureau of the Budget staff are working on it.

Representative CURTIS. And is that one of its main objectives?

Mr. BRUNDAGE. I think it will take another 2 or 3 years. We have been able to effect a substantial reduction in the inventories. They have been going down. And we have been pulling cash out of the working capital funds. And eventually we will get it under control.

The Government is so huge, and there are so many installations, and there was so little detail as to what some of these farflung stations had that it takes a long time.

Representative CURTIS. Yes. I am not as much interested myself in the angle of the actual garbage, as I am in how that was generated. What were the procurement practices that brought that about?

That to me is the place where the Bureau of the Budget could find many, many areas of saving. And we are talking in terms of billions.

How much did we generate last year in the way of surplus?

It was 2 or 3 billions of dollars, as I recall. I put it in the record last spring but I have forgotten. It was around 2 or 3, wasn't it?

Mr. BRUNDAGE. That is about right. I believe it went up to about $4 billion last year.

Representative CURTIS. Well, that is an annual figure. And that is very substantial.

Mr. BRUNDAGE. Until recently, station X didn't know the inventory that station Y had, which might be only a couple of hundred miles away, and they would order what they needed.

Representative CURTIS. And from the affirmative angle the Congress has been trying to ride herd—I know this personally, because I have been doing what I could—on the Military Establishment, not in military items but in common-use items.

Something that Senator O'Mahoney is very much interested in, too. And yet we seem to get nowhere on the affirmative approach.

Mr. BRUNDAGE. All I can say is that it is improving, but it isn't improving fast enough to suit me.

Representative CURTIS. I think we ought to show them some of their garbage a little more forcefully and explain to them how that wouldn't have been generated if they had been following good procurement practices.

One other item, and this is a part of that. You have already discussed part of it in the discussion of these various user charges, but what else is outside the budget, major items that are presently outside the budget, which you are now trying to group in.

Aren't the Public Law 480 funds—and I am again talking in terms of billions—those are outside the budget, too, aren't they?

Mr. BRUNDAGE. Well, the figures appear in the Budget document. The currencies are in the custody of the Treasury.

Representative CURTIS. You have no control over them; do you?

Mr. BRUNDAGE. We don't have the same kind of control over them as over regular appropriations because of prior agreements made with various countries.

Representative CURTIS. Neither does the Congress, I might state.

Mr. BRUNDAGE. However, we do control and apportion these funds to the agencies. Also the Treasury has some control.

Representative CURTIS. How does the Treasury have control over them?

Mr. BRUNDAGE. They have custody and sell (for appropriated dollars) the funds to Government agencies for use overseas (at least 10 percent of the total.)

Representative CURTIS. They have nothing to say whether they are spent for that, that, or the other thing.

They are there, and apparently the State Department, or whatever group it is that is concerned, can spend them for these various purposes. They can go ahead and do it. I don't know who rides herd on this program.

Mr. BRUNDAGE. Well, for the purposes set forth in the law, they can spend; yes.

Representative CURTIS. Those purposes—I conducted a fight on the floor last spring to cut the purposes down. I think there were about 6 purposes, and I got it down to 3. But the 3 that they have got are so general that it is a question of whether anything was achieved or not.

But what is the Bureau of the Budget doing toward getting control over, some control over, the expenditure of these funds, and other counterpart funds, I might say, because these generate counterpart funds?

Mr. BRUNDAGE. We have information on that.

There are only two limitations, Mr. Curtis: (1) Not less than 10 percent of the currency must be set aside for sale to United States Government agencies—that is handled through the Treasury—and (2) currencies to be used for nonmilitary grants must be purchased with dollars.

Representative CURTIS. Yes. But the 90 percent—they can go ahead and spend that for almost anything under the sun. New starts, I might say, among public works of all sorts abroad. But apparently there are no restrictions on that program at all.

Now, one other major subject matter: Do you list anywhere—does the Bureau of the Budget have this basic set of figures—first, the obligational authority to start with; secondly, what obligational authority has been rescinded?

Of course, we want to get what is spent, but what is rescinded?

And then what is transferred and then what is the new obligational authority? Then what is the balance?

Now, the two items that I have a hard time finding are what is rescinded and what is transferred.

Now, we discussed this before.

Mr. BRUNDAGE. I don't think we show a total for that; no. But transfers between appropriations are shown in the detail for each appropriation in the budget.

Representative CURTIS. And, incidentally, this transferring of obligational authority is a very disturbing thing to me. I know that is an item we discussed. And apparently you ride herd or the Bureau of the Budget rides herd on it to some degree.

Mr. BRUNDAGE. Yes.

Representative CURTIS. But many things are—obligational authority actually is transferred from one area to another that apparently does not come under the purview of the Bureau of the Budget.

Now, how much work have you been doing there?

Mr. BRUNDAGE. We are still having an argument about it. We are trying to get more control over it.

Representative CURTIS. Is there any legislation that Congress might pass that might assist you in tightening up on these transfers?

Mr. BRUNDAGE. If we get H. R. 8002, I think we will have an advantage.

Representative CURTIS. I think so too. That is one thing I had in mind. Of course, that won't really hit the specific problem of transfers. It is very easy to argue that the transferring of funds from one contract to another is really for the same thing. You actually have to get into the details to see that it really isn't the same thing.

Mr. BRUNDAGE. Well, it is a difficult problem, because some flexibility is necessary.

Representative CURTIS. Of course it is.

Mr. BRUNDAGE. Because new developments come along; changes in plans; and so on; and you can't forbid it. But I think it is too lax now.

Representative CURTIS. Yes. It ought to be known.

I suggest we will find a great deal of this garbage generated in these transfers that Congress doesn't know anything about, and apparently the Bureau of the Budget.

Now, one final area. I note your discussion of the shifting of emphasis and the work of the Joint Federal-State Action Committee. Now, I would like to point up one specific thing. I tried to point it up before.

That here you are talking about—one of the things you are recommending is in respect to vocational education. Does the Bureau of the Budget have any idea how much the Military Establishment is spending each year and how much investment, capital investment, they presently have in vocational education? I am talking about the schools that they have set up to train welders, bulldozer operators, radio repairmen, electronics repairmen and so on, has anyone taken a look at it?

Mr. BRUNDAGE. I don't think it is segregated in their accounts at all.

Representative CURTIS. I suggest it should be segregated. I think you will find that the military have gone into vocational education to the tune of billions of dollars; have been duplicating the vocational educational program in our civilian society; that the cost to train 1 bulldozer operator, for example, in the military is $10 for every $1 of such cost in the civilian sector; and you get a poorer product when all is said and done, for a variety of reasons. And before we start talking about cutting back on a Federal grant-in-aid program which assists the vocational education program, in the State, local, and private sector, let's review what the Federal Government is doing directly, simply by putting a uniform on it.

Because in my judgment we are not getting the product even though it is costing us about 10 times what it should cost us.

Mr. BRUNDAGE. I will try to arrange that, so we will have some information in another year. I don't think it is available right now, but we will try to get it.

Representative CURTIS. I want to conclude with this statement: that just putting a uniform on the thing does not necessarily mean that it is military. And I think it is about time we start looking at some of these things that uniforms have been put upon, and find out whether they really need to be under the military sector.

I think if we do that one thing, we will find that a lot of this so-called defense bill is not defense at all.

Thank you, Mr. Chairman.

Chairman PATMAN. Dr. Talle?

Representative TALLE. Mr. Chairman, reference has been made to the period between 1947 and 1951. There are some factors that might be mentioned prior to that period. It is true, is it not, Mr. Brundage, that the crops in Europe and the Near East and Middle East were very poor in 1947?

Mr. BRUNDAGE. I think that is right.

Representative TALLE. It is true, is it not, that in 1947 Great Britain decided to restrict its support to Greece and Turkey?

So, the United States stepped in to support a couple of orphans left on our doorstep, and so we passed the bill which granted the loan to Greece and the loan to Turkey?

Mr. BRUNDAGE. Right.

Representative TALLE. I doubt that we will ever regret that. There was another thing to consider at that time. Communism was a very serious threat at that time and the election in Rome in 1948 showed that something more than 90 percent of eligible voters in Italy went to the polls. The help given to Italy at that time by the United States had much to do with the outcome.

Now, in addition to that, I remember that at that time we had had various names for this thing we called surplus assets. I think surplus assets have been dealt with by agencies that have been called by, I think, at least five different names. I don't mean bad names. There were so many changes in names.

Mr. BRUNDAGE. That is right.

Representative TALLE. I remember too that when that matter came up in Banking and Currency in the House, I asked a Government witness for a catalog of our surplus assets and I was told there wasn't any. Then I asked for records of such inventories as agencies might have, and I was told there weren't any.

Then I asked what, roughly would be the total value in dollars of the assets that the Government held as surplus assets. I was informed that the amount was something over $100 billion.

That total included some ships and our enterprise at Willow Run.

It included a lot of equipment and tools. But that was the figure, as the record will show, that was given at that time.

I then urged that a catalog be set up, and that we proceed in an orderly way to dispose of the assets, so that taxpayers might get some return for the money they had contributed to the Government.

What is the situation now, Mr. Brundage, with reference to inventory and catalog and the war assets? Do we know what we have as surplus?

Mr. BRUNDAGE. Well, we have made a lot of progress. You will find property inventory figures for the whole Government in a recent report of the House Committee on Government Operations. The Army has a dollar value inventory now. And the Navy has one. And the Air Force—they are not exactly on the same system, but we are trying to get the same system so far as possible in all the services. But they do have a control that they never had before, and it would be manageable if it were about a tenth of the present size. On the job of cataloging procurement items, the Defense Department completed identifying all its items over a year ago but there is still a great deal of work to be done before the services can make full use of the new catalog system.

You can't run a central inventory like you could with a small company, you see. That is the problem. It is an awfully tough one.

But we are making progress on it.

Representative TALLE. I think so too. And I think that the schools of our country, for instance, to pick one item, have been helped a lot by getting surplus goods.

Since we are talking about this period, 1947–51, I am reminded of the plan to make of Germany a pastoral state. Just how that could be achieved with so much loss of territory and with so many millions of additional people put into the truncated area, of course, no witness would ever answer. Is it not true that historically, Germany had been the supplier of heavy capital goods to Europe?

Mr. BRUNDAGE. For a number of generations, yes.

Representative TALLE. And in return for the heavy capital goods she got food from Turkey, Yugoslavia, and countries like that.

By almost superhuman efforts it got as far as 85 percent in the way of being self-sufficient, under Hitler, but if you are short 15 percent, you are still not self-sufficient.

Let us look at a second proposition, the proposition to dismantle Germany, and that proposition was really carried through, was it not?

Mr. BRUNDAGE. Yes, that is right, at least in part.

Representative TALLE. Plants were dismantled in Germany, carried off into Russia, and maybe elsewhere. This occurred at a time when steel was very short in our country. And so our taxpayers advanced money to buy steel to rebuild plants in Germany because plants there had been dismantled and sent to Russia.

Mr. BRUNDAGE. To a certain extent, yes; that is true.

Representative TALLE. That is what happened.

It is a phenomenal thing this buildup in Europe following World War II. Take West Germany, for instance, in industry. Consider all of the countries devastated by the war in agriculture.

That is a phenomenal advance. It certainly shows what hard work and intelligence and patience can do. When we talk about the period 1947 to 1951, these are some things to remember, and there may be some other things to remember also, Mr. Brundage.

Mr. BRUNDAGE. That is right.

Representative TALLE. Thank you.

Senator DOUGLAS. If I may resume the analysis of possible receipts, Mr. Brundage, which was discontinued some time back, I would like to put into the record the statement of the Secretary of the Treasury which was made at the press conference on the day the budget was submitted, namely, January 13, in which he gave some estimates of personal income and corporate profits for the calendar years 1957 and 1958, and said that these furnished the basis for his estimates of revenue for the fiscal years of 1958 and 1959.

Now, in that statement he said that the personal income for calendar 1957 would be 343 billion. Estimated that that would increase for calendar 1958 to 352 billion. Or an increase of 9 billion and approximately 2.7 percent.

Corporate profits he said, for calendar 1957, would be 42 billion and would remain at that figure for calendar 1958. And I want to make it clear that the revenue estimates which he made, not you, but he made, for fiscal 1958 and 1959 are based on these figures for the calendar years.

Now, let us take up first the question of personal income. It seems this is an extraordinarily optimistic estimate that personal income will increase by 2.7 percent, or from 343 to 352 billion, in view of both the general situation and in view of analysis of what was happening during the last quarter of calendar 1957.

I am informed that the personal income for December of 1957 was at an annual rate of 342.2 billion, or 10 billion a year less than the estimate which the Secretary made for the year as a whole. And it would therefore be necessary for personal income to rise by the end of the year to 363 billion to get an average of 352 billion for the year as a whole.

Now, in other words, in order that this income, estimate of income from personal income tax, may hold good, we have got to have December of 1958, 20 billion above December of 1957. Or 6 percent greater, and this is assuming sort of a rough average climb during the year—and if the dip in the first part of 1958 carries us down, as I firmly believe it is carrying us down, below December 1957, the rise from January, February, March, question mark, up to the end of the year must be even more precipitous.

And I know these figures are not yours, Mr. Brundage. You have to take them from the Treasury. And I am not putting you on the hot seat in this matter, but I do say that the evidence clearly indicates that a lot of rose water was poured into that budget.

Mr. BRUNDAGE. I might say, though, that personal income increased between 1955 and 1956 from $305.9 billion to $326.9 billion or by $21 billion. And there is a tremendous resiliency, I think, in our economy. But I wasn't responsible for those specific assumptions.

Senator DOUGLAS. Yes, I know. But I mean these figures lie behind the estimates of receipts.

And if corporate profits were to dip, as apparently they are dipping certainly at the moment, the some $20 billion which you rely upon as receipts from that form of taxation would be accordingly tremendous.

So I believe that Congress should sprinkle a great many handfuls of salt upon these budget estimates of yours.

Now, if I may turn very briefly to the question of expenditures——

Senator O'MAHONEY. May I interrupt?

Senator DOUGLAS. Certainly.

Senator O'MAHONEY. Would it be desirable, does the Senator from Illinois think, to request Mr. Brundage to make a new estimate of receipts on the basis of conditions as they now exist, rather than on the basis of conditions as they existed last December?

Senator DOUGLAS. Well, I would like to do that, except that I believe in being kind to witnesses.

Senator O'MAHONEY. I believe in being kind to Congressmen who have to pass the laws for the appropriations and the taxes.

Would you have any objection to doing that?

Mr. BRUNDAGE. Well, I would rather wait and do it in March or April, because I think that the factors are so—there are so many uncertainties today it isn't much easier today than it was in December.

Senator O'MAHONEY. Of course that is the very thing that is puzzling Senator Douglas and myself. There are so many problems today we cannot imagine how you made so rosy a picture of receipts.

Senator DOUGLAS. I may say to my colleague from Wyoming, as we all realize, these estimates were not made by Mr. Brundage, but by the Secretary of the Treasury. And I hope the Senator from Wyoming will renew this request of his when the Secretary of the Treasury appears before us. But I wanted to protect Mr. Brundage from undue cruelty on the part of the questioners.

Mr. BRUNDAGE. Thank you, Senator Douglas.

Senator DOUGLAS. Now, may I turn to the question of expenditures, and particularly some items at the bottom of page 53 of your Federal budget in brief.

I notice that you allow $160 million for postal pay increase, and $179 million for increases to Government employees outside the Department of Defense. What percentage increase in pay would this provide for?

Mr. BRUNDAGE. Well, in the postal it is 6 percent increase.

In the classified, it is a minimum of 6, but it does correct quite a good deal of the compression which had developed at the top of the different grades which made it very difficult to distinguish and to reward a most capable man as compared to a man with the same service.

Senator DOUGLAS. You are aware that postal employees and civil service employees have not been able to improve their position in the last 5 years. They have roughly just about kept pace with the cost of living; perhaps not even that. Whereas, the rest of the economy has gone forward some 17 or 18 percent.

So that the differential between private employment of a comparable nature and public employment was widened very markedly.

Now, in view of that fact, my own personal belief of equity and good business requires a greater pay increase than 6 percent. And suppose the general increase which was given would range around 28 and 29 percent, this would cause a further increase of approximately $120 to $130 billion in the budget.

Mr. BRUNDAGE. Well, we had some hesitancy, Senator Douglas, in proposing a wage increase in view of the developments in October, November, and December and the increasing unemployment; but we did feel that this was something that was both necessary and would result in considerable improvement in efficiency.

Senator DOUGLAS. May I turn to the defense expenditures for hardware, so-called, which you give by fiscal years at the top of page 52, in the last three columns.

You have a substantial identity of figures, namely, for fiscal year 1957, $13.6 billion; for fiscal 1958, $13.8 billion; for fiscal 1959, $13.7 billion or $13.8 billion.

In other words, you have an approximate constancy of budget expenditures. So that it is clear that the administration does not contemplate any permanent increase in outlays upon military hardware. And, as I understand it, the situation is approximately as follows: that in the fiscal year from—in the fiscal year of 1957 the expenditures ran at the rate of about $1.1 billion a month. And I will just call that roughly a billion dollars a month, with the understanding that it really ran $1.1 billion.

Mr. BRUNDAGE. Yes, on the average.

Senator DOUGLAS. Then, in the last 6 months of calendar 1957 and the first 6 months of fiscal 1958, the annual expenditure upon military hardware was cut in half, to approximately a half billion a month; isn't that correct?

Mr. BRUNDAGE. It was cut, but I think it ran substantially more than $500 million.

Senator DOUGLAS. Yes, I know; 500 or 600 million dollars a month. But substantially in half.

Now, it is proposed for 6 months to increase the rate of expenditure to $1.5 billion per month, so that the total expenditures for fiscal 1958 will be substantially what they were for fiscal 1957, namely, $13.8 billion, which is only, as a matter of fact, a little less than $200 million more than the expenditures for fiscal 1957; isn't that right? And, thereafter, for fiscal 1959, the rate remains constant, of a billion dollars a month, roughly?

Mr. BRUNDAGE. There was a substantial increase for the last 6 months of fiscal 1957, as you know.

Senator DOUGLAS. Increase? You mean decrease?

Mr. BRUNDAGE. No, there was an increase. There was a substantial increase both over the preceding 6 months and over the corresponding 6 months before.

Senator DOUGLAS. If you take the year as a whole.

Mr. BRUNDAGE. So the decision was reached, as you know, to cut it back in July and August.

Senator DOUGLAS. Yes, yes; but if you take the year as a whole, Mr. Brundage, fiscal 1957 as a whole, the expenditures, according to your figures, $13.6 billion, or just a little over a billion a month; then in the last 6 months of calendar 1957, or the first 6 months of fiscal 1958, it was cut about in half.

Mr. BRUNDAGE. Well, it is not as much as that, Senator Douglas. There was a cut in the fall, but it wasn't as much as that. The actual expenditures for the military functions of the Department of Defense were $19.4 billion for the 6 months, July–December 1957.

Senator DOUGLAS. We can get lost in the minutiae of figures. This is a point I am trying to bring out: Your increase, projected increased expenditures, for the last 6 months of fiscal 1958 and first 6 months of calendar 1958 will just about make good the cuts during the preceding 6 months so that the general average for the year, the fiscal year, will be approximately the same as for fiscal 1957, and that thereafter in fiscal 1959 expenditures will continue at the previous yearly rate.

Mr. BRUNDAGE. It is about that; yes.

Senator DOUGLAS. That is substantially accurate.

In other words, the administration is proposing a one-shot increase in military expenditures, and thereafter they subside back to the previous level except for this $500 million contingency fund which you have tucked down at the bottom of page 53.

Mr. BRUNDAGE. What I think you are referring to, Senator Douglas, is the obligations, the amount to be obligated, but not expenditures. I think you will find that the expenditures are actually——

Senator DOUGLAS. Well, look at your own figures. They are headed "Budget Expenditures by Function." And I assume that this means expenditure.

Mr. BRUNDAGE. That is right.

Senator DOUGLAS. Now, it may well be that now as you shift from expenditures to obligations, you are now beginning to place contracts which will not be expended in the first 6 months or be expended in the last 6 months.

All I am trying to say is that apparently what you are proposing is simply a one-shot increase, and thereafter you go back—and that merely makes good the cuts which were made in the latter part of 1957, and thereafter you go back to the level of fiscal 1957.

I do not want to stress this too much. I want to raise this question:

In view of all the developments that have occurred since last fall, do you think—or will the Nation think, I will put it that way—that adequate national defense is provided merely by continuing at the rate at which we were moving in June or in fiscal 1957 before the Wilson-Humphrey cuts were put into effect?

In other words, we are undoing Wilson-Humphrey, but not improving on what existed before the cuts occurred.

Mr. BRUNDAGE. Well, I think you will find—and I would be glad to give you the figures by months and by categories—but the actual expenditures of the Department of Defense for military functions, for the 6 months, you see, were over $19 billion——

Senator DOUGLAS. Wait a minute, now. I am speaking of your item "Purchase of aircraft, missiles, ships, and other military equipment."

Mr. BRUNDAGE. I don't have the details, but I think you will find that the total expenditures of the Department for the last 6 months of the fiscal year 1958 will not be very different. They may be up 10 or 15 percent, but not more than that, over the first 6 months of the year.

Senator DOUGLAS. I wonder if you would supply for the record the major procurement expenditures for the following 6-month periods; namely, June to January 1956; January to June 1957; calendar years: July to December 1957; projected January to June 1958; projected June to January 1958; and projected January to June 1959.

Now, I am willing to bet you a hat, Mr. Brundage, that general results will simply show that you make good either in January to June of 1958, or June to January, the cuts which the Humphrey-Wilson budget imposed during the latter half of 1957.

Now, this is very important. It is extremely important. Both as regards to whether it is making adequate provision for defense, and, secondly, since this is the one stimulus that the administration relies upon outside of the business system to get recovery, whether it is adequate——

Mr. BRUNDAGE. Well, I will take you up on that. I need a new hat.

Senator DOUGLAS. Well, I expect I need one, too, and I will get it from you. And I will define procurement as in ships, aircraft, missiles, and other equipment.

Senator O'MAHONEY. I wanted to say that before taking up that bet for the hat he ought to reread this paragraph from his statement this morning. I am reading from page 8. This is under the discussion for proposals to increase receipts:

> In addition, all Government agencies have recently been instructed, at the President's direction, to prepare legislative proposals generally designed to remove present restrictions or limitations on their authority (1) to recover full cost to the Government of services that provide special benefits to individuals or groups, and (2) to obtain a fair market value for the use or sale of federally owned resources or property.

I am not altogether clear whether or not that means tight money in another aspect or not.

Mr. BRUNDAGE. I am afraid that that will not affect the bet.

(The material referred to follows:)

Expenditures of the Department of Defense (military functions)

[In billions]

Period	Expenditures		
	Total	Major production and procurement	Other
July-December 1956	$18.4	$6.2	$12.2
January-June 1957	20.1	7.5	12.6
July-December 1957 (estimate)	19.4	7.1	12.3
January-June 1958 (as implied in budget estimate for year)	19.5	6.7	12.8
July 1958-June 1959 (budget estimate) [1]	39.8	13.8	26.0

[1] Half-yearly estimates not available.

Obligations of the Department of Defense (military functions)

[In billions]

Period	Obligations		
	Total	Major procurement and production	Other
July-December 1956	$20.3	$7.7	$12.6
January-June 1957	20.0	6.8	13.2
July-December 1957 (estimate)	18.1	6.1	12.0
January-June 1958 (as implied in budget estimate for year)	24.7	10.0	14.7
July 1958-June 1959 (budget estimate) [1]	42.7	15.4	27.3

[1] Half-yearly estimates not available.

Senator O'MAHONEY. Well, I desire now to put in the record the table from the New York Times which I spoke about this morning.

First I want to call attention to these three facts:

One, the administration is asking a $5 billion hike in the debt ceiling. Am I right?

Mr. BRUNDAGE. That is right.

Senator O'MAHONEY. Secondly, the New York Times announces under the heading "One-Year Maturities Are $82,570,980,552":

Direct obligations of the United States Government in the hands of the public that will mature within 12 months amount to $82,570,980,552. They consist of Treasury securities as follows:

Then there follows the list, which I don't need to read. But I will insert it in the record.

(The above-mentioned article follows:)

1-YEAR MATURITIES ARE $82,570,980,552

Direct obligations of the United States Government in the hands of the public that will mature within 12 months amount to $82,570,980,552. They consist of Treasury securities as follows:

Feb. 6: Discount bills	$1,700,448,000
Feb. 13: Discount bills	1,700,087,000
Feb. 14: 3⅜ percent certificates of indebtedness	10,850,581,000
Feb. 20: Discount bills	1,800,427,000
Feb. 27: Discount bills	1,800,644,000
Mar. 1: Series E, savings bonds [1]	2,315,662,796
Mar. 1: Series F savings bonds [1]	198,638,449
Mar. 1: Series G savings bonds [1]	1,502,561,500
Mar. 6: Discount bills	1,799,986,000
Mar. 13: Discount bills	1,802,558,000
Mar. 15: 2½ percent Treasury bonds	1,448,744,500
Mar. 20: Discount bills	1,700,115,000
Mar. 24: Tax anticipation bills	3,001,664,000
Mar. 27: Discount bills	1,699,852,000
Apr. 1: 1½ percent Treasury notes	382,795,000
Apr. 3: Discount bills	1,700,438,000
Apr. 10: Discount bills	1,700,147,000
Apr. 15: 3½ percent certificates of indebtedness	2,351,162,000
Apr. 15: Discount bills	1,751,093,000
Apr. 17: Discount bills	1,700,522,000
Apr. 24: Discount bills	1,700,823,000
May 1: Discount bills	1,700,909,000
June 15: 2⅞ percent Treasury notes	4,391,791,000
June 15: 2⅜ percent Treasury bonds	4,244,811,000
Aug. 1: 4 percent certificates of indebtedness	11,519,077,000
Oct. 1: 1½ percent Treasury notes	121,269,000
Dec. 1: 3¾ percent certificates of indebtedness	9,832,719,000
Dec. 15: 2½ percent Treasury bonds	2,368,365,500
1959—Jan. 1: Series E savings bonds	2,266,368,692
Jan. 1: Series F savings bonds	205,350,115
Jan. 1: Geries G savings bonds	1,311,371,500
Total	82,570,980,552
Week ago	82,569,260,552
Year ago	78,840,112,074

[1] Maturing monthly within a year from this date forward.

Senator O'MAHONEY. Now, the necessity for refinancing outstanding securities within a year requires the Government to borrow or to continue to borrow this very large sum of money. How large it is can be seen from page M-4 of the President's budget.

At the very top of that page there is a résumé of the budget.

Under the heading "New Obligational Authority," we find that under existing legislation and under proposed legislation, the 1959 estimate is $72,500 million. The budget expenditures are estimated at $73,900 million. The budget receipts, which some of the members of the committee regard as having been optimistically estimated, are set down at $74,400 million. But even assuming that, we have this situation, that while we are asking for a $5 billion increase in the national debt ceiling, and we are required to finance over $82½ billion worth of outstanding securities, the budget receipts are estimated for less by more than $8 billion than the maturities which must be refinanced within a year.

And, of course, that is only a fraction of the outstanding debt. The administration is asking for an increase of $5 billion because the present debt ceiling, $275 billion, is no longer capable of holding the borrowings that the administration finds itself compelled to make.

Now, there is no question about any of these facts, is there?

Mr. BRUNDAGE. No.

Senator O'MAHONEY. I would greatly appreciate it, sir, if you would take such time as you can find convenient to go over these again and give us a formal written opinion from the Bureau of the Budget on the nature of the crisis, the fiscal crisis, the economic crisis, that this country faces.

Now, I do that because I quite sincerely believe that we are overlooking the opportunity to expand development, economic development, in the United States, while we continue to advocate economic development abroad.

Turning to page 18 of your Budget in Brief, I want to read some parts of it. The second paragraph:

> As part of the mutual-security program, the United States provides assistance to help less developed countries fulfill their strong desire for improved living standards. Our country has long recognized the compelling humanitarian reasons for helping less fortunate people abroad as we do at home.

Now, when I read that, I underlined it—"as we do at home." Because many of the recommendations which you are making today, Mr. Brundage, are certainly designed to do away or reduce what was so critically called in recent years the expenditures occasioned by the concept of the welfare state.

Of course, the two words were not used in a laudatory sense at all. They were used in a very critical sense.

Representative TALLE. Will the Senator yield to me?

Senator O'MAHONEY. Yes, of course, Dr. Talle.

Representative TALLE. I appreciate the Senator's willingness to yield. And I thought in connection with the Senator's statement about the amount of debt that is coming due we should recall that in January of 1953 the first difficult problem the then Secretary of the Treasury, George Humphrey, had to solve was to find money to refinance something over $80 billion. That was a serious matter.

Senator O'MAHONEY. Oh, it was a very serious matter. What the Secretary did at that time was to launch a long-term bond program; the objective was to substitute long-term bonds for short-term bonds.

Representative TALLE. That is right.

Senator O'MAHONEY. And the fiscal segment of our economy was so delighted with this prospect that those bonds immediately went to a premium. But before long they began to fall, fall, fall; and even though they were paying a higher rate of interest than ever before, they were selling under par.

Now, I want to call attention to the fact that——

Representative TALLE. Well, Senator, I remember after World War I bonds fell in price. I bought what my Navy pay permitted. But you know——

Senator O'MAHONEY. I know. They went into the banks. We know that. But I am merely pointing out that we are going through the same things again.

Now, as it happens, in the preparation for World War II, the Government sought to prevent that loss to soldiers and sailors like yourself, and we provided the legislation that was necessary to make the savings bonds available which are redeemable at cash even today.

Representative TALLE. May I remind you, Senator, that the purchasing power of E bonds I bought in 1939 was reduced by roughly 50 percent by 1952.

Senator O'MAHONEY. That is right. But the savings bonds still are paying dollar for dollar and the purchasing power, of course, is reduced by the decline in the value of the dollar.

Representative TALLE. That is right.

Senator O'MAHONEY. What I am trying to do now is to escape from the mistakes that we made before.

Representative TALLE. And may I say, Senator, today as I have said ever since those bonds were first issued, I consider them the finest investment anybody can make.

Senator O'MAHONEY. Let me read this—this is from the New York Times:

> Holders of any of the 5 maturing issues—there are 5 maturing issues amounting to $16,785,000,000—which must be refinanced and the Treasury will open its subscription books—or did open them—this morning on this major refinancing effort.
>
> Holders of any of the 5 maturing issues are privileged to exchange their holdings for the 3½-percent long-term bond if they wish. In the past it has been the general practice for a refunding to limit conversions into long-term bonds to only part of the maturing debt, usually to securities that had not been of short term when originally put out. This time even holders of special discount bills due April 15 can convert into long-term bonds. Besides, the long-term-bond holders of the old debt can exchange their holdings into a 1-year, 2½-percent certificate, or a 6 year 3-percent bond.

Now, that has driven some of the outstanding issues or the issues that are to be refinanced, up on the market. And Mr. Paul Heffernan, of the New York Times, who writes this article, has this to say:

> There are indications that the speculative buying is stemming not only from an apprehension of continued slackness in business—

Observe that, Mr. Brundage—

> continued slackness in business, but from the belief that the Federal System will be spurred to take positive action in the market to increase the lendable funds of the commercial banks.

I will insert this article from the New York Times at this point in the record.

(The article referred to follows:)

[From the New York Times, Sunday, February 2, 1958]

TREASURY ISSUES MEET NEW FAVOR—UNITED STATES REFINANCING THIS WEEK FINDS MARKET RECEPTIVE

(By Paul Heffernan)

A wave of speculative buying is sweeping over the market for United States Government securities on the eve of another effort of the Treasury to get more of the public debt funded into long-term bonds.

The Treasury will open subscription books tomorrow on one of its major refinancings of the year. It has designated for refunding five issues of securities totaling $16,785 million and is asking holders of this debt to convert their holdings into new securities due either in 1 year, 6 years, or 32 years.

Further, the Government officials have announced terms that make the 34-year bond specially attractive.

The winter recovery in the long-term market has been so pronounced that the Treasury, which put out 4-percent bonds only last October, conceivably could now place with investors several hundred millions of dollars of new long-term bonds bearing 3¼ percent or 3⅜ percent interest.

But after the difficult experience of last year—in July the Government had to pay 4.17 percent to borrow $1,700 million for 9 months—the Treasury is not as complacent as it used to be about borrowing money and is no longer disposed to squeeze the market to the last drop. This time the Treasury seems to be in earnest about the oft-professed wish of official Washington to get more of the marketable debt payable in the distant future so that less of it will be coming up each year for redemption or refunding.

The Treasury's seriousness about this is borne out by two of the terms of the refunding:

The new long-term bond is to bear a rate of 3½ percent, a handsome yield incentive compared with going values.

Holders of any of the 5 maturing issues are privileged to exchange their holdings for the 3½-percent long-term bond, if they wish. In the past, it has been the general practice for a refunding to limit conversions into long-term bonds to only part of the maturing debt—usually to securities that had not been of short term when originally put out. This time even holders of special discount bills due April 15 can convert into the long-term bond.

Besides the long-term bond, holders of the old debt can exchange their holdings into a 1-year, 2½-percent certificate or a 6-year 3-percent bond.

Already the generous terms are touching off a market response. Speculative interest has developed in the debt conversion on a scale unmatched since the war. The day after the terms were announced the market price of securities figuring in the refunding were bid up by about seven-sixteenths of a point. The 3⅝-percent certificates of indebtedness, which have only a couple of weeks to run, were bid up to a premium value of 100⅝.

The new 3½-percent bond, in when-issued trading, also got up to 100⅝.

ESTIMATES ARE RAISED

With the buildup of speculative interest, dealers raised their estimates of possible exchanges into the long-term bond. At first it had been thought that the Treasury would do well to get $1 billion of the maturing debt exchanged into the long-term bond. This estimate reflected the possible interest of professional long-term investors, such as pension funds, insurance companies, savings banks, and endowment funds.

But after the generous refunding terms became known, it was suggested that $2 billion or even more of the old debt might elect to convert into the long-term issue. This estimate resulted from the eagerness with which speculative interests put in bids for maturing debt holding the exchange rights.

If exchanges into the long 3½'s exceed $2 billion, an interesting situation will result in the market. Under such circumstances speculative interests—stock-brokerage houses and their customers—might turn out to be underwriters of up to half or more of the long-term conversion.

In a free market, this is as it should be. Probably a good deal of the thinness that has prevailed in the Government securities market in recent years has been due to the absence of a speculative atmosphere. The Treasury's traditional close pricing of new issues has been a factor for discouraging speculation.

MARKET WILL DECIDE

The coming refunding will demonstrate whether the swollen speculative interest in the Government market is mostly out to get a quick profit on a generously priced new issue, or whether it will be a more lasting affair.

If the speculative fever is fed chiefly by the lure of a quick return, there will likely be wholesale dumping of the new long-term bonds into the market as long as they command a premium status. Conceivably they could break through 100, as has frequently happened in Government financing.

However, if the current buying is long viewed and represents a considered hedge against further deterioration in economic conditions, it could turn out to be a welcome new force in the Government market.

There are indications that the speculative buying is stemming not only from an apprehension of continued slackness in business but from the belief that the Federal Reserve System will be spurred to take positive action in the market to increase the lendable funds of the commercial banks.

In market circles generally it is held likely that a reduction in reserve requirements of the commercial banks may soon take place, but the specialists in the Government sense that current prices of Treasury and other basic securities may already have discounted such a development.

Senator O'MAHONEY. I will read from another story in the New York Times: "Alleghany story—Frustration marks path of an empire."

I do not need to say to any one in this group that the Alleghany Corp. is one of the instrumentalities that Robert R. Young used in the acquisition of the New York Central Railroad. I need not say that the railroads are in a—or they say they are in—a very desperate situation, giving I would think very little support to the hopes expressed in this estimate of budget receipts.

Wherever you look, you find the evidence of a situation which is not improving. And how the Treasury Department and the Bureau of the Budget were able to see the signs of improvement that would mean the substantial increase in individual income taxes and incorporate income taxes, I frankly am unable to understand. I agree that probably these questions can better be asked when Secretary Anderson comes, but they have got to be answered by Congress. And I hope that the Bureau of the Budget will help to answer them.

Mr. BRUNDAGE. I would be glad to make this statement, Senator O'Mahoney. This is just a couple of observations. One of them is that we have to expect some fluctuations in business like we do in every phase of human life. We don't feel the same one day as we do another. If we kept on going up like this, I am afraid the value of the dollar would go down in proportion. I think you have got to have in business, just as in any phase of life, some fluctuations. I think it is natural, and I am not too concerned so long as it doesn't go too far. And I think the administration is aware of the problem. And I think a number of steps are under consideration and have been taken.

Now, the world situation you refer to as contrasted with our domestic economy—I think the world situation has a tremendous impact on our domestic economy at all times. We just need to go back for 30 years, and you see the effect of the world war and the credit failure in Austria.

And it is something that we can't ignore. We can't say that the situation in Thailand or Indonesia or any other spot in the world isn't important to us. And I think that that is something that the President feels very strongly about.

Then in relation to national debt, I think you have to take our gross national product into account. The total of our debt today in relation to our gross national product is less than it was 5 years ago. And also——

Senator O'MAHONEY. The gross national product is measured in inflated dollars. It isn't a realistic indication of what has been produced. Certainly not in the face of the evidence we are getting from the industrial circles.

Mr. BRUNDAGE. I would like to spend the day discussing it.

Senator O'MAHONEY. The administration is committed to this policy of providing economic aid abroad. You say it and say it very well, here on page 18:

The budget provides for direct United States technical assistance and also for contributions to the United Nations technical assistance programs using the funds and experts of many nations. This assistance teaches other people improved ways of farming, of producing goods, of carrying on business and government, and of combating diseases. Provision is included for the new United Nations fund proposed by the United States for resource surveys and training in productivity centers. The budget also provides for special assistance programs as our contributions to the United Nations Children's Fund, care of refugees and other requirements not covered by development loans.

To help meet urgent needs for economic development in less developed countries that cannot be financed by other lending sources, the Development Loan Fund was authorized in the Mutual Security Act of 1957. Projects are now being considered and negotiations are being started that will result in the commitment of an appreciable volume of loans by the end of the current fiscal year. * * *

Now, those are loans from the Treasury of the United States. The appropriations made for fiscal 1958 were $500 million. In this budget you ask for $25 million. That is the President's request for the next fiscal year.

Now, I point out to you that the Rocky Mountain States, the public-land States, the arid-land States, are also in need of economic development. And I point out to you that the economic development which we were undertaking then was economic development that would produce revenue to help the Treasury to bear the burden.

And I can't for the life of me understand why what is good enough for the underdeveloped countries of Europe, is not good enough for the underdeveloped States of the United States. It just doesn't make sense.

Mr. BRUNDAGE. We aren't cutting back on it.

Senator O'MAHONEY. You cut back on the Colorado storage project. You cut a million five hundred thousand that was appropriated for the Navajo project. You took the Navajo project away from New Mexico.

Mr. BRUNDAGE. We were trying to prevent the total from going up so fast.

Senator O'MAHONEY. My contention is that your ax of prevention fell upon a category of expenditures that would produce results for the United States.

I turn to page 87 of your budget on mutual security. There I find the reference to the International Cooperation Administration and the Development Loan Fund. I find this statement:

The status of loans at the end of the respective fiscal years is: Loans outstanding, 1956, $1,872 million; 1957, $1,950 million; 1958, $2,226 million; 1959, estimate, $2,347 million.

I call your attention to the next line, "interest past due on these loans." This was $1 million in 1956, $2 million in 1957, $4 million in 1958, and $7 million in 1959.

And on the shoulders of the American people, as your budget shows, the interest upon our national debt is steadily increasing.

Now, why isn't it necessary for us to work together, Congress and the administration, the Bureau of the Budget, and the Treasury Department, to see that we do not deny to the citizens of America, the same sort of aid that we are giving abroad?

I said the "same sort." It is not the same sort. Because here there are requirements for interest to be repaid. Interest will be repaid in the upper Colorado River storage project from the beginning of construction, on the amount that the Government spends.

And by stretching it out as you have done in this budget, you increase the interest costs. That doesn't seem to me, I am frank to say, good financing policy.

Representative TALLE. If I might put in a quick question. I am very much interested in economic statistics. I serve on the subcommittee of this committee that deals with that field. We have the best statistics, economic statistics, in the world. But there are some gaps. Take for instance construction statistics for one; farm income for another.

Mr. Brundage, I note from your statement on pages 10 and 11 that you call attention to the provisions in the budget for improved economic statistics.

Mr. BRUNDAGE. Yes.

Representative TALLE. I am always eager, you see, to promote something I am interested in, like other people.

Am I right in assuming that this is the first step in your program to improve these statistics and that further steps will be included in future budgets?

Mr. BRUNDAGE. That is correct. We are putting in a $500,000 increase for construction statistics.

Representative TALLE. I very much appreciate that Mr. Brundage. Neither Government nor private business can make intelligent judgments without up-to-date, accurate, and significant statistics.

Mr. BRUNDAGE. I agree.

Representative TALLE. Thank you.

Thank you, Mr. Chairman.

Representative CURTIS. Mr. Chairman, picking right up there, I was very happy to see the same thing that Dr. Talle has pointed out. But I was a little disturbed to have called to my attention the item in page 950 of your budget for fiscal year 1959, where the total of the increase recommended in this area is offset in part by a reduction of about $166,000 in the amount available in 1959 to the Internal Revenue Service for statistical programs.

Now, I think that there is an area where we need better, not just poorer statistics. One particular thing: I asked the Secretary about some estimations in regard to how our new depreciation tax laws were operating. And we just don't know, because the statistics aren't available. That is a very important economic factor that we ought to know about; $166,000 would be more than recouped by having the figures of that nature available.

Mr. BRUNDAGE. I am having a study of that made right now.

As a matter of fact, we are currently reviewing the statistical operations of the IRS, and I think some of the data you are seeking will become available.

Representative CURTIS. I wanted to call attention to that, because that is disturbing to me. I don't like to see us go backward.

Now, I find myself in a very peculiar position after listening to Senator O'Mahoney asking these questions of why we spend money abroad. I don't know that I agree with the details of how we are spending it.

But certainly, the general theory is that we are not trying to develop them for their own sake, but we are doing it for defense reasons, vis-a-vis Russia.

Senator O'MAHONEY. You misunderstood my question. I don't ask why we are spending it abroad. I know we are spending it.

Representative CURTIS. It isn't just for development of those countries.

Senator O'MAHONEY. Oh, yes, I based my statement there not on my views, but on the views of the Budget Bureau.

Representative CURTIS. But the point I am making is that the theory is that it isn't to develop them, but it is because we need those countries theoretically, according to this theory, for our own defense. And it is a selfish motive.

And it is defense. I personally don't follow the argument on through. But at least I know what they are saying.

Senator O'MAHONEY. I know what they are saying too. I don't agree with what they are saying.

Representative CURTIS. You and I may not be too far apart.

Senator O'MAHONEY. I believe, for example, that we cannot hope by expenditures for economic aid to purchase the political views of any people.

Representative CURTIS. Well, now, we are talking the same thing. I happen to agree there. But at least I want to give them the benefit of their theory.

Senator O'MAHONEY. I want to give them the benefit of their theory. My theory is simply this: let us increase our own capacity to produce; let us expand our economy; let us increase our revenue; and then we will be able to carry the great burden of the cost of trying to lead the world to freedom.

Representative CURTIS. I happen to think that there are ways that we could spend money, really one-tenth of what we are spending, and get almost tenfold the results.

Senator O'MAHONEY. Well, now, I want to have a conference with you before this session is over.

Representative CURTIS. Now, the second thing I would like to pick up—and again I am stimulated to do so by Senator O'Mahoney's, what I regard as, pessimism.

Everything that you look at in this economic picture you say indicates that there is no basis for optimism.

Senator O'MAHONEY. Don't accuse me of pessimism.

Representative CURTIS. Well, it is justified. Let's put it this way then. Your appraisal is what would be—I don't want to put——

Senator O'MAHONEY. I am pointing to facts, is all.

Representative CURTIS. All right. Well, that is what I want. You say where are the facts.

Well, the areas have been detailed, and I think they are substantiated. Housing. I think most of our witnesses have indicated that it is going up, although maybe not as much as we anticipated. There is no question that defense spending is increasing.

Senator O'MAHONEY. No. Defense spending is going down. I read the table on page 16.

Representative CURTIS. I mean the actual expenditures. So is public-works expenditures. I am talking about the dollars that affect the economy in the next few months.

Senator O'MAHONEY. Well now, let's get the record straight. Let's turn to page 16 of this document, Budget in Brief.

Representative CURTIS. I will refer the question to Mr. Brundage.

Mr. BRUNDAGE. Yes, that is true.

Representative CURTIS. I am talking about the actual expenditures, not obligations. I am talking about the actual dollars that go out of the Treasury into the private sector of the economy are increasing. So is public works. Because of the things we already have on the books and the fact that they are starting that actually is an increase.

The biggest factor of all, which is a basis for the Treasury's position, is that lying behind this has been this tremendous inventory cutback which seems to have reached its NADIR. The capital expenditures of business are not cut greatly—let's put it this way: Although cuts exist, expenditures are still way above the average of previous years. The amount that is being spent on research and development has increased. There are many factors in this thing that cause me to believe the Treasury's appraisal is by no means unreasonable.

I might disagree with them on details, but it is not all dark.

(The material report follows:)

I. MAJOR NATIONAL SECURITY—$45,836 MILLION (62.0 PERCENT OF 1959 BUDGET)

Over the past few years, the Defense Department has made great strides in progressively modernizing and adding to the defensive and counteroffensive power of the Armed Forces. The 1959 budget provides for accelerating these efforts, with particular emphasis on missile programs, nuclear retaliatory forces, antisubmarine warfare capabilities, and research and development. While expenditures for these high priority activities will increase, partially offsetting reductions are being effected in parts of the military program which are of declining importance.

Expenditures for the military functions of the Department of Defense are estimated to be $39.8 billion in 1959, almost $1 billion more than in 1958.

Total procurement expenditures will remain about the same in 1959 as in 1958. Within this total, expenditures for all types of missiles will continue to increase rapidly and more surface ships and submarines armed with missiles will be built. Procurement of aircraft and conventional weapons will decline.

Military personnel costs will rise in 1959, although the number of personnel on active duty will be reduced. The increase for personnel stems from proposals to revise the military pay system so as to reward merit and technical proficiency and to encourage men and women to make the armed services a career.

Expenditures for operation and maintenance will be about the same as in the current year. Savings from closing marginal installations and tightening maintenance standards and procurement practices will be offset by the increasing unit cost of maintaining and operating new and more complex weapons.

Military public works expenditures will provide additional facilities at airbases to allow greater dispersal of the Strategic Aid Command and to reduce the time it takes to get SAC bombers into the air. Improvements will be made in our system for tracking aircraft and missiles and transmitting immediate warning to SAC and Air Defense Command bases. Estimated expenditures for research and development will rise substantially, with much of the increase being devoted to missiles, a missile defense against missiles, outer space projects, and basic research. Funds for personnel, procurement, testing, and other costs related to research are included in other categories.

[In millions]

Fiscal year	Budget expenditures	New obligational authority
1959 (estimated)	[1] $45,836	[1] $44,298
1958 (estimated)	44,871	40,995
1957	44,414	41,344
1956	41,825	36,925
1955	42,089	34,778
1954	47,872	40,079
1953	51,830	58,976

[1] Figures do not reflect $500,000,000 for defense contingencies, which is included in the allowance for proposed legislation and contingencies.

As part of the mutual security program, the United States provides military assistance (military equipment and training) and defense support (economic aid to help maintain adequate defense forces) to countries participating in collective defense efforts. Expenditures in 1959 for these programs will be about the same as in 1958, but increased appropriations are recommended to finance newer-type weapons for our allies.

Expenditures of the Atomic Energy Commission are estimated to rise $250 million in 1959. The increase in the supply of uranium concentrates and the expanded capacity of AEC's production plants will result in greater production and larger operating expenditures. Increased emphasis will be given to research and development for both peaceful and military purposes.

Purchases of defense materials for the military stockpile are decreasing as more and more stockpile objectives are completed. The President is proposing that the Defense Production Act be extended for another 2 years.

Senator O'MAHONEY. May I call your attention to page M-4 of the résumé of the budget?

Here are the figures that they give to us: Budget expenditures in 1953, 74.3; 1954, 67.8; 1955, 64.6; 1956, 66.5, a little rise; then 69.4; then the estimate for 1958 is 72.8; and, for 1959, it is 73.9.

So now they still are not up to the total expenditures of 19——

Representative CURTIS. During the Korean war. But I am talking about in relation to our peaks of prosperity of 1956 and 1955, and certainly in relation to that the expenditures have gone up.

That is what we are talking about after all, is the relation to the preceding months of high activity, and the indication by spending more which we are doing in this area. This will have that effect.

Now one question that I had, Mr. Brundage, I notice you say that no new projects are to be started in the public works area. But the thing that disturbed me is: What is the definition of a "new project"?

In other words, there are a lot of projects where the engineering work has been completed, and there are a lot of projects where there have been local commitments. I am very much worried about this.

When a community makes a commitment, through floating a bond issue for matching funds, or other financing, is that a factor considered in whether it is counted as a new start?

Mr. BRUNDAGE. Well, new prospects are the projects for which construction funds have been appropriated by the Congress.

Representative CURTIS. That is the point. What is new?

Is a new project one which has had no money at all spent or is it a project which just hasn't had any construction money spent? It would be uneconomic, I might state, in many projects where you have completed your engineering design, to buy the land and then have your construction funds cut off.

There is another factor, if a local community, a taxing authority, has bonded for their matching funds and you shift to a narrower definition of "new," you are going to damage their position, too.

My reason for asking the question is I have seen some of the items that have not been included in the budget. And it seems to me that a very peculiar definition of "new project" has been used.

What has been the definition standard applied to determine what is a new project?

Mr. BRUNDAGE. It is projects for which Congress has not appropriated construction money. But I will let Mr. Merriam amplify that. That is Mr. Merriam's area particularly.

Mr. MERRIAM. It is actually those on which no construction funds have been appropriated by the Congress to date.

Representative CURTIS. In other words, if engineering funds have been appropriated and spent, that would not be regarded as a new project.

Mr. MERRIAM. That is right.

Representative CURTIS. That relieves my mind considerably.

Senator O'MAHONEY. I am glad you asked that question because I wanted to give a specific illustration.

Representative CURTIS. I have some, too, Senator.

Senator O'MAHONEY. This is upper Colorado River storage basin. I foresaw the ax of the Bureau of the Budget. I felt sure that there was going to be a cutback in the schedule for the building of the projects included in this great overall project.

Two big reservoirs were planned. One, Glen Canyon, and one, Flaming Gorge. When the appropriation for fiscal 1958 was under consideration in the Appropriations Committee, the Commissioner of Reclamation testified that it was the intention to pursue both of these reservoirs simultaneously. Several times I asked him that question, and always he answered "yes."

There was an appropriation of $4,800,000 for fiscal 1958. It was stated in the record that part of this fund would be used to build the roads that were essential to reach the location of the dam site and other preliminary expenditures. When all of that was committed, there was left about $2 million. And the announced program of the Department of the Interior, fully explained to the Appropriations Committee of the Senate and House and fully understood in the report which was made on the appropriations bill, was that in November or December of 1957 bids would be asked for on the construction.

I suspected that bids would not be asked for. And I so advised the Governors of the four Western States involved in this project: Governor Simpson of my own State, the Governor of Utah, the Governor of Colorado, and the Governor of New Mexico. We had a conference in the Office of the Director of the Budget. Mr. Merriam was the efficient presiding officer, very gracious. And he listened to these governors. Not all of them came. But the Governor of Wyoming and the Governor of Colorado were there, and I was there, and some others were there. We came away from there feeling that perhaps we might have made some progress. But I was told on the very best authority that the Bureau of the Budget had directed the Interior Department not to let this contract for which the Congress had appropriated money.

I could get no definite answer.

And I got the answer, when it came, that the writer of the letter was not able to answer the question. It was being given deep consideration. That phrase, I think, is very well known in Washington.

Sometimes it is a phrase that is used by members of the Congress, I must admit.

Representative CURTIS. Mr. Chairman, the thing I am interested in is the standards, because I personally will fight for standards.

Senator O'MAHONEY. This is what I am getting at: Now in January, the Bureau of Reclamation has announced that no bids will be asked. It has been indefinitely postponed. Now, that is a violation, in my way of thinking, of confidence with the Congress, with the Appropriations Committee, with the public officials of the States in question, and it is a repeal of an old start; it is not the withdrawal of a new start.

Mr. MERRIAM. Just so the record may be clear without going into all the details, there is money in the budget of 1959, as you well know, for Flaming Gorge.

Senator O'MAHONEY. I know there is. But not for this contract. My contention is that in the circumstance——

Mr. MERRIAM. I don't think you would want to say that either the Congress or the Bureau of the Budget ought to tell the department what to start first and which to do first.

Senator O'MAHONEY. Well, I think the Bureau does do that.

Mr. MERRIAM. I disagree.

Senator O'MAHONEY. Let me ask Mr. Brundage.

How about the Department of Justice and its desire to meet the increased expenditures that were placed upon it by reason of the fact that the trial of the Bethlehem-Youngstown merger case was advanced; that the case the Department has against General Motors with respect to buses was advanced; and there were two other cases as I remember that were advanced.

A little bird told me that the Department of Justice wanted about $200,000 more because of the increased expenditure which became necessary by the obligation of the Department of Justice to carry out these antitrust cases to support the law. And it was one of the items which was cut back by the budget.

Representative CURTIS. Mr. Chairman, if I can get back to my point on standards.

What I am interested in is having standards that are applied. I can understand very well why we might establish some standards to stretch out programs, to not start new ones, and apply it across the board to all, and when those standards are economic I will agree with them. One thing I am proposing though—and I can use the illustration of the floodwall in North St. Louis. Now, there, money has been spent on engineering, and the city has put up bonds, and they are all ready to acquire land. But that project has been cut back.

Here is what I fear in that kind of a situation. It is an uneconomic thing, because you freeze the use of your land and actually the work that has been done in preparation of condemnation, if it is delayed a couple of years, has to be done over again at an added cost.

All I would urge is whatever standards are applied that they be economic standards and do not cut projects off where you are going to create economic waste.

I would be interested in knowing what specifically was the reason on this, because those facts have been presented to me and I presume they are accurate.

Mr. MERRIAM. Did it have a construction appropriation in fiscal 1958?

Representative CURTIS. Apparently not. Apparently the program is going to have to cease, and the city is going to be sitting there.

Mr. MERRIAM. It has not ceased, has it?

Representative CURTIS. No; it hasn't ceased as yet. I think this next fiscal year is the question.

Mr. BRUNDAGE. I will look that up.

(The following statement was submitted:)

Advance engineering and design for the initial portion of the St. Louis floodwall is scheduled for completion in 1958. No funds are included in the 1959 budget for initiation of construction.

Representative CURTIS. But again I want to emphasize I will apply the same standard to my people—in fact, as far as I am concerned, I will cut their projects and stand the gaff. But I want good economic standards applied, and then I will fight for them.

Now, one area—and this is an area of a little bit of gloom—I have already listed some of these things that make me think that the optimism in the President's Economic Report is justified.

I noticed an item in this morning's paper saying that foreign trade has now fallen off again in the fourth quarter. This is a factor over which we do not have too much control, because it involves the economics of the countries. I am a little bit concerned as to what is happening in these other countries, as to whether we can anticipate further decline.

Do you know what appraisals were made, if any, on that subject?

Mr. BRUNDAGE. I think the economies of some of them are very strong and some are a little weaker. The French, as you probably know, have concluded various arrangements. I do not know just what the level of exports was estimated at.

Representative CURTIS. I think it is probably in there. But that is a factor that is a little disturbing to me.

Mr. BRUNDAGE. It has an important effect on our economy.

Representative CURTIS. One other thing: When I asked about some information with regard to Government activities, I wanted to commend the Bureau of the Budget for the work done in preparing these various charts on the commercial activities of the various civilian agencies of the Government which are in our hearings on the Subcommittee on Fiscal Policy, November 18, 1957. From pages 296 through page 305. Those data are, in my judgment, very helpful.

I just wanted to commend the Bureau of the Budget for that.

Mr. BRUNDAGE. Thank you very much.

Representative CURTIS. One final item: And this is a detail perhaps, but it worries me. It has been called to my attention that the GSA used some of the President's emergency fund to finance intervention in a rate case. The question I raise is: What right does any agency have to use the President's emergency fund for that purpose? And what control does the Bureau of the Budget exercise over the President's emergency fund?

First of all, I am right in assuming that that is not a fund that should be used for that kind of purpose; am I not?

Mr. BRUNDAGE. I am not familiar with it. I will look it up.

Representative CURTIS. Is my assumption correct?

Mr. BRUNDAGE. It has to have some defense impact.

Mr. MERRIAM. This involves the intervention in the hearings on the A. T. & T. rates to be charged with reference to the SAGE system. And there was a congressional directive, as I recall it, asking that there be intervention by the GSA on the part of the Government. They did not have any money budgeted for it.

Representative CURTIS. Is that the purpose of the emergency fund?

Mr. MERRIAM. The emergency fund has been used for similar situations. And the emergency which exists, of course, is one as declared and seen by the President.

Representative CURTIS. We are talking solely about rates. I have no interest in this at all, except I do have an interest in how the emergency fund is used.

I know Congress never contemplated that the emergency fund should be used for things of that nature. I am disturbed to find that apparently they do do it. I am glad to get your explanation. But in my judgment it has really disturbed me even more because all you have to do is hang a label of defense on it and then you can use it.

Mr. MERRIAM. It has been a very sparing use of it. I think we would agree with you. When Mr. Dodge came in as Budget Director, he indicated, and it has been followed ever since, that there would be a very sparing use of the emergency fund.

Representative CURTIS. The second question is this——

Mr. MERRIAM. I do want to make that clear. We would agree with you as far as the general principle is concerned.

Representative CURTIS. The second question is this: The Bureau of the Budget does have control over expenditures in the President's Emergency Fund?

Mr. MERRIAM. Yes, sir.

Mr. BRUNDAGE. We have to approve requests for allocations before they are submitted to the President; yes.

Representative CURTIS. You have to approve it.

Then maybe what Congress has to do is pin this thing down by language. I hate to do it, because this is something that should be flexible, but there is only one way of doing it.

Mr. MERRIAM. I think you ought to take a look at what has come out of that. I think there were three uses made of it in the last fiscal year (1957).

Representative CURTIS. This one was called to my attention.

Mr. MERRIAM. If you will look in the Appropriations Subcommittee hearing which we had last month we detailed those in there. And with a little explanation of each one of them.

I think you will find the reasons for it.

Representative CURTIS. Thank you, Mr. Chairman.

Senator O'MAHONEY. Were you about to make any comment, Mr. Brundage, on what I said about the cutback?

Mr. BRUNDAGE. I don't know just what the conclusion was; we gave the Department of Justice a little more money than last year for the antitrust work. I don't know whether it provided for this particular case or not, but we intended to maintain the same general program level; some old cases are over and new cases are taken up.

Senator O'MAHONEY. I am pretty sure that I was right in what I had to say.

I want to insert in the record table 7 on world industrial production which appears on page 41 of the President's Economic Report.

(The table referred to appears during the record of hearings January 27 at p. 18.)

Senator O'MAHONEY. The purpose of that is to show how the rate of expansion of world production is moving ahead more rapidly abroad than it is at home.

I do not close my eyes to the fact that the United States is still a leading industrial producing nation of the world. But I know that there was a time when it was leading the world in the production of weapons for defense. I know that we have lagged behind Soviet Russia in the defense field and now we are making desperate efforts to catch up, particularly in the missile field. I would hate to see Congress adopt the policy which has been apparently recommended to us by the administration, which would cause us to lag behind in the rate of industrial production gains also.

The committee will be in session tomorrow, February 4. The meeting will be held in this room at 10 a. m. There is an invited panel representing agriculture, business, labor, and general.

On February 5 in this same room at 10 a. m. the witness will be W. J. McNeil, Assistant Secretary of Defense (Comptroller).

Then, on the following day, there has been a change in the order of appearance of the previously scheduled witnesses.

On Thursday, February 6, at 10 a. m., the Chairman of the Board of Governors of the Federal Reserve System, Mr. William Martin, Jr., will be the witness instead of Secretary Anderson. And Secretary Anderson will appear on Friday, February 7. These hearings will also be in this room.

We are grateful to you, Mr. Merriam and Mr. Brundage, for the help you have given us. I think we will have some more questions for you by typewriter.

Thank you.

The hearing is adjourned.

(Whereupon, at 1 p. m., the committee adjourned, to reconvene at 10 a. m., February 4, 1958.)

JANUARY 1958 ECONOMIC REPORT OF THE PRESIDENT

TUESDAY, FEBRUARY 4, 1958

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

The committee met at 10 a. m., pursuant to recess, in the Senate Office Building, room 457, Hon. Paul H. Douglas presiding.

Present: Senators Douglas, O'Mahoney; Representatives Talle, Curtis, and Kilburn.

Also present: John W. Lehman, acting executive director, and Norman Ture, economist.

Senator DOUGLAS. We are very glad indeed to welcome all of you here this morning. I think we will start from my right and ask Mr. Fleming to present his statement.

I understand you will proceed without interruption, but if possible will you confine your opening statements to 8 or 10 minutes apiece? After you have presented your presentation, there will be discussion between the committee and the panel. We will start with our old friend, Mr. Roger Fleming, secretary-treasurer of the American Farm Bureau Federation.

We are glad to have you.

STATEMENT OF ROGER FLEMING, SECRETARY-TREASURER, THE AMERICAN FARM BUREAU FEDERATION

Mr. FLEMING. As an organization which is deeply conscious of the need for a better understanding of economic forces, the American Farm Bureau Federation welcomes this opportunity to comment on the President's Economic Report for 1958.

At the outset we would like to make an overall comment with regard to the nature of the present report. We are disappointed at what seems to be a tendency to assume that the basic function of the Economic Report is to present a catalog of the President's recommendations for improving economic conditions.

The number and variety of these recommendations seems to us to distract attention from the fundamental economic issues facing the Nation, and to suggest an unwarranted, and perhaps unintended, reliance on legislation as a means of solving economic problems.

For our part we would like to see more emphasis on analysis—more discussion of economic trends, the basic forces underlying these trends, emerging economic problems, and the alternatives facing the Nation—and less emphasis on legislative recommendations; particularly recommendations of the type that are relatively unimportant from an overall standpoint regardless of their individual merit.

In the interest of brevity we will confine our comments to the sections of the report which deal with the Federal budget, farm price support and production adjustment programs, and foreign trade.

THE FEDERAL BUDGET

We are ever mindful of the threat of atheistic communism to the free world. We are for an adequate defense program designed to cope with the threat of world domination which is the stated aim of Communist Russia. However, we wish to emphasize that through excessive expenditures and continued excessive taxation in the United States we can destroy both political and economic freedom just as surely as we could lose such freedom from Communist aggression. We must be strong militarily, but our greatest strength lies in our ability to preserve a strong, dynamic, expanding competitive enterprise economy and our capacity to maintain individual freedom through the avoidance of excessive centralization of power in big government.

It is apparent that current events in the realm of atomic weapons and missile developments are being used as an excuse for extravagant appropriations and wasteful methods in Government. It is becoming increasingly clear that Congress should take measures to regain effective control of Federal expenditures.

The Farm Bureau believes that a balanced budget is essential and that it can be provided, even though new emphasis seems to be necessary on certain phases of our military effort. The times require that Government exercise strict economy, eliminate duplication of effort, and promote efficient operation. Necessary increases should be offset by reductions in other items.

We believe that the Defense Establishment can provide the necessary weapons and defense measures with the amount provided for in fiscal 1958. We are confident this can be achieved by more thorough coordination and better utilization of money, manpower, and facilities in the national Defense Establishment.

The Federal budget for fiscal 1959 indicates a slight surplus of revenue over expenditures; however, this is based on an estimate of substantially higher tax receipts. Based on our best analysis we are fearful that revenues will not greatly increase in fiscal 1959 over the current rate. Therefore, if the objective of a balanced budget is to be achieved with some certainty, we believe a reduction in Federal expenditures is required.

The American Farm Bureau Federation makes the following general recommendations for a reduction in the Federal budget. Detailed recommendations in each category will be developed as we present budgetary recommendations to the appropriate committees of the Congress.

(1) We support the recommended reductions in the United States Department of Agriculture budget below those for fiscal 1958. Specifically, we believe that the $230 million reduction in the soil-bank program is entirely justified. Likewise, we recommend a savings of $100 million in the forward authorization for the 1959 agricultural conservation payments program. We further urge maximum utilization of present CCC stocks in facilitating the operation of the conservation reserve phase of the soil-bank program and in the operation of special export-subsidy programs.

We shall continue to work for programs designed to reduce Government interference in the operation of individual farms, which, if accomplished, will further reduce the need for expenditures for agriculture.

(2) We recommend that the authorization for the mutual security and foreign aid program for fiscal 1959 be reduced by at least $620 million.

(3) We further recommend that postal rates be increased to more nearly bring into balance receipts and expenditures in the operation of the postal system.

(4) Great savings can be achieved in the Health, Education, and Welfare Department. We specifically recommend that no additional funds be authorized that would expand the activities of this Department in the field of education over that provided in fiscal 1958. We are opposed to Federal aid to education, except as it is limited to federally impacted areas.

(5) Savings can be had in the Veterans' Administration by better utilization of the hospital facilities and by limiting hospital benefits to service-connected injuries.

FARM PRICE SUPPORT AND PRODUCTION ADJUSTMENT PROGRAMS

The President's recommendations on agriculture carry a commendable recognition of the need for major changes in existing farm price support and production adjustment programs. Many of these recommendations are consistent with our long-established objective of creating conditions which will make it possible for farmers to earn and get a high per family real income in a manner which will preserve freedom and gradually eliminate Government regulation of individual farming operations.

Although we are in general agreement with what we believe to be the objectives of many of the President's recommendations on agriculture, our specific recommendations for achieving these objectives are somewhat different.

We are continuing our support for a soil-bank program which, in addition to building a conservation reserve, will reduce the acreage devoted to alloted crops and feed grains; provided—

(1) That land placed in the soil bank must represent a reduction in cropland acreage;

(2) That the maximum use be made of surplus commodities as incentive payments;

(3) That participation in the soil bank be a requirement for price supports on feed grains and any other crops not under acreage allotments or marketing quotas;

(4) That the term of the contract for retiring acreage from production under the program be for a period of years; and

(5) That no harvesting or grazing is permitted on any land in the soil bank.

If the soil-bank program is not revised to effectively accomplish the foregoing, we will not oppose the termination of the acreage reserve phase of the program.

We recommend that Public Law 480, the Agricultural Trade Development Act of 1954, be extended for 2 years—with additional authorizations of $1,250 million for the first year and $750 million for the second year. The President recommended a 1-year extension and an additional authorization of $1.5 billion. This program was developed as a temporary program to help relieve problems caused by unrealistic domestic price-support policies. It has proved to be an effective means of moving surpluses; however, it is not a permanent solution to the surplus problem as foreign-currency sales are not a satisfactory substitute for dollar trade. Accordingly, we believe that Public Law 480 should be terminated as soon as the reduction of the Commodity Credit Corporation's stocks will permit.

We also believe that fundamental changes should be made in national price-support policies to bring about a better balance between farm production and effective market demand and thereby reduce the need for surplus-disposal programs such as Public Law 480.

With this in mind, the American Farm Bureau Federation board of directors recently recommended a new approach to price support on cotton, corn, and feed grains as follows:

We support legislation to provide (*a*) that the price-support level for corn, upland cotton, and extra-long staple cotton grown in 1959 and succeeding years shall be 90 percent of the weighted average market prices for such commodities during the preceding 3-year period; (*b*) that the level of price support for other feed grains shall be established in relation to the price support for corn with consideration to comparative feeding values and other related factors; and (*c*) that corn acreage allotments be terminated. Further, we submit to State farm bureaus for their study and consideration the use of this approach for other commodities currently having price supports.

As a part of the above recommendation, we recommend that the cotton export program be changed to a direct subsidy, either in cash or in kind, beginning August 1, 1958. In this connection, we recomment that CCC stocks be set aside as of August 1, 1958, to be utilized in the financing of the export subsidy program, provided that no sales in excess of the quantity required to finance the export subsidy program shall be made for unrestricted use at less than 110 percent of the prevailing support price for cotton. The acreage allotment for cotton under these recommendations would be an acreage designed to meet the projected demand.

Since these recommendations were adopted by our board as a part of a package proposal for new farm legislation, we are attaching as exhibit A a copy of the board's complete statement.

Senator DOUGLAS. The document will be included in the record at this point.

(The document referred to, exhibit A, follows:)

EXHIBIT A

AMERICAN FARM BUREAU FEDERATION BOARD ACTION WITH RESPECT TO FARM PRICE SUPPORTS, JANUARY 22, 1958

We favor the following recommendations to provide for a coordinated approach to some of the problems that have developed under existing price support and adjustment programs for certain commodities.

(1) We support legislation to provide (*a*) that the price support level for corn, upland cotton, and extra long staple cotton grown in 1959 and succeeding years shall be 90 percent of the weighted average market prices for such commodities during the preceding 3-year period; (*b*) that the level of price support for other feed grains shall be established in relation to the price support of corn with consideration to comparative feeding values and other related factors; and (*c*) that corn acreage allotments be terminated. Further, we submit to

State farm bureaus for their study and consideration the use of this approach for other commodities currently having price supports.

As a part of the above recommendation, we recommend that the cotton export program be changed to a direct subsidy, either in cash or in kind, beginning August 1, 1958. In this connection, we recommend that CCC stocks be set aside as of August 1, 1958, to be utilized in the financing of the export subsidy program, provided that no sales in excess of the quantity required to finance the export subsidy program shall be made for unrestricted use at less than 110 percent of the prevailing support price for cotton. The acreage allotment for cotton under these recommendations would be an acreage designed to meet the projected demand.

(2) We oppose legislation to reinstate price support for dairy products at the 1957 levels.

All of the so-called self-help programs for dairy farmers currently under consideration provide for a tax on dairy farmers to finance surplus disposal. We oppose the enactment of such proposals.

(3) Unless our present investigations develop a better program for sheep and wool, we will favor legislation to extend the present wool program temporarily, provided the mandatory checkoff provision, authorized by section 708, is deleted.

(4) In order to assure adequate supplies of cotton and to improve its competitive position, we favor an increase in cotton acreage for 1958, coupled with a lower level of price support than would otherwise prevail.

If legislation is required to accomplish this, we recommend that for 1958 each individual farmer be given a choice of (*a*) an increased acreage allotment of 25 percent and a price support of 70 percent of parity or (*b*) the acreage allotment and price support effective in 1958 under present law.

Farmers accepting the increased acreage and lower price support for 1958 would not be eligible to participate in the cotton acreage reserve program for 1958.

Additional acreage planted in 1958 under the provisions of alternative (*a*) of this program would not be counted in determining future farm, county, and State and national allotments for cotton.

Mr. FLEMING. We believe that our recommendation for price supports on cotton, corn, and feed grains has a number of advantages including the following:

(1) It is a new approach—tailored to the requirements of individual commodities and yet avoiding the trap of divergent and conflicting programs for different commodities.

(2) It would more nearly gear production to market demand.

(3) By helping to avoid price depressing surpluses, it would improve net farm income.

(4) It eliminates the use of a statistical parity formula that was never designed to relate commodity prices to market demand.

(5) It avoids giving wide discretion to the Secretary of Agriculture for setting support levels.

(6) It could help to rescue the farm price support and adjustment program from the mire of partisan politics.

(7) It would permit the automatic adjustment of price support levels when conditions change in the market.

(8) It would help speed up adjustments to market demand, both in the overall and as between commodities.

(9) It would lower costs both to taxpayers and to farmers.

(10) It would reduce the need for governmental intervention, such as production controls, in the private affairs of farmers.

(11) It would reduce the validity of the argument by foreign countries that the United States is subsidizing uneconomic production and dumping it in world markets.

(12) It would help consumers by encouraging production of what they want without wasteful surpluses.

FOREIGN TRADE

Farm Bureau has long recognized that a healthy foreign trade is one of the real keys to farm prosperity. We consider the reciprocal trade agreements program to be a sound approach to the reduction of trade barriers which is necessary to the expansion of two-way trade on a mutually advantageous basis. We support the President's recommendation for a 5-year extension of the Reciprocal Trade Agreements Act, but expect to suggest a modification of some of the detailed proposals which the administration has included in its extension proposal.

Might I add, Mr. Chairman, that the amendments which we may support will not be designed to restrict trade. They will be designed to enlarge trade.

Senator DOUGLAS. Would you be willing to let us in on the secret of this amendment?

Mr. FLEMING. It may not be an amendment. It may be aggressive action to oppose certain amendments which seem to be in the offing.

Senator DOUGLAS. I welcome it. Thank you very much, Mr. Fleming.

Our next panelist is Mr. Emerson P. Schmidt, director of economic research for the Chamber of Commerce of the United States.

Mr. Schmidt, we are very glad to have you, and we will be happy to have you proceed in your own way.

Mr. SCHMIDT. Thank you, Senator Douglas.

STATEMENT OF EMERSON P. SCHMIDT, DIRECTOR, ECONOMIC RESEARCH, CHAMBER OF COMMERCE OF THE UNITED STATES

Mr. SCHMIDT. I am Emerson P. Schmidt, director of economic research of the Chamber of Commerce of the United States. I appear by invitation to discuss the President's Economic Report.

As in previous years, the 1958 Economic Report of the President contains a wealth of statistical materials and much useful economic analysis. In addition, the several appendixes, covering the proposed program for improving economic intelligence through better statistical programs, an analysis of the nature and limitations of the Consumer Price Index, and new estimates on productivity, provide timely information and constructive suggestions.

Although the appendix on the Consumer Price Index discusses the possibility of both upward and downward bias in this index, there is no evaluation of the net cumulative bias in recent years. Such an evaluation is badly needed because there is a feeling among many users of this index that it does contain an upward bias on net balance.

In addition, the estimates on productivity, while carefully hedged, are somewhat confusing, particularly since in the last year some 4 or 5 different estimates have been published by the Government. Our productivity data are pitifully inadequate, and productivity concepts and figures are seriously abused in economic analysis, as noted below.

POLICY OBJECTIVES OF EMPLOYMENT ACT

Although the report wrestles with the problem of policy objectives, particularly the conflict of employment and price stability goals, there is no mention of the imbalance in the stated objectives of the Employment Act itself.

The chapter on economic goals and the policies of the free society develops what is becoming an accepted fourfold classification of economic policy: (1) Economic growth, (2) economic stability, (3) price stability, (4) free competitive enterprise.

Although the first, second, and fourth sections refer to the Employment Act and its explicit directives, the section on price stability makes no mention of the act nor of its obvious omission of the price stability goal.

Because of the recent upward price pressures, many believe that the overall fourfold objective of the Employment Act would be strengthened if the act were amended to make the integrity of the dollar an explicit goal of Federal economic policy. Such an amendment would give the responsible Government bureaus a clearcut directive to weigh in the problem of protecting the purchasing power of our currency in all their policy decisions.

INFLATION VERSUS PRICE CHANGES

While there is much discussion in the report of the problems of inflation, there is lacking a clear distinction between mere price increases, structural changes, and inflation. We are told that "a clear responsibility rests on Government to pursue policies that will help prevent inflation" (p. 4).

Actually, since inflation is chiefly a monetary phenomenon, in one sense, preventing inflation is ultimately a responsibility of Government. Effective control devolves mainly on monetary and fiscal policy, although other supporting measures are necessary, too.

During a period of expansion and boom, it is to be expected that there will be some price increases, and internal shifts in the structure of relative prices are constantly taking place.

Such price movements are necessary and desirable for the proper allocation of resources. But such price changes need to be distinguished from what we mean by inflation in the more technical and limited sense. Individual price increases are not bad per se, as is often implied in popular discussions.

VOLUNTARYISM

The report urges self-restraint on the part of business and labor in price and wage policy. How much reliance can legitimately be placed on such self-restraint is a moot question. It is the function of competition to set prices and to discipline both the market for goods and the market for services.

We are told that "business managements must recognize that price increases that are unwarranted by cost, or that attempts to recapture investment outlays too quickly, not only lower the buying power of the dollar, but also may be self-defeating by causing a restriction of markets, lower output, and narrowing of the return of capital investment."

Actually, this type of thinking is, in a fundamental sense, a negation of a free market philosophy. It is the function of businessmen in a competitive economy to maximize profits, at least in the long run, both in their own and the public interest; and under competition the firms which are able to earn the largest net returns are, presumably, doing the best job for the consumer.

Above-normal profits for the economy as a whole, or an industry, or a company, then become the invitation for expanding capacity; and this expanded capacity, in turn, brings down prices and helps to return profits to some kind of a norm.

If every business followed the advice of the Economic Report, it is difficult to see how the economy could react and adapt itself to changed consumer tastes and demands and to allocate resources properly.

LABOR LEADER RESTRAINT

Likewise, we are told that "the leadership of labor must recognize that wage increases that go beyond overall productivity gains are inconsistent with stable prices, and the resumption of economic growth can be slowed by wage increases that involve either higher prices or further narrowing of the margin in prices and costs."

Now it is true—and vitally relevant—that wage increases in the economy as a whole that exceed productivity gains must reflect themselves in either unemployment or higher prices. But this is not true for individual situations.

In an industry that has excess resources, wage adjustments from time to time ought to be tempered to encourage the diversion of excess resources from declining companies or industries into areas in which demand is expanding. In turn, industries that are expanding must bid for human and other resources at a somewhat higher rate in order to expand.

In other words, the overall productivity gains from time to time for the economy as a whole are no guide at all for individual situations, and the Economic Report does not strengthen the foundations of a dynamic competitive economy by such a recommendation.

In dealing with the problem of wages and labor costs, while there is some implied or direct criticism of wage settlements sought by labor leaders, the pious injunction to exercise restraint does not deal with the problem. Nowhere in the report is there any clear-cut analysis of the difference between wage settlements and price determination.

While not all goods markets are perfectly competitive, they are far more competitive than the labor markets. Wagemaking leadership and pattern wage settlements are more contagious in their effects than is the case of price leadership.

The power to strike and paralyze a company, an industry or the whole economy backed up by force and violence enables individual wage settlements to get out of line. A clearer and broad public understanding of the relationships of wages, prices, and costs would lay the basis for reducing wage demands and moderating wage settlements. Only in this sense would so-called voluntary restraint have a chance to operate in the public interest.

But the report does not get at the roots of wage inflation as we tried to do in our The Mechanics of Inflation, and as Prof. Edward H. Chamberlin does so admirably in his new research study, The Economic Analysis of Labor Union Power.

The naive deficiency of purchasing power theory, while not supported by the report, is not refuted. Professor Chamberlin puts it succinctly:

> The plain truth is, fortunately, very simple, and does not depend on any subtle lines of reasoning. It is that when any group of laborers receives higher money wages it is thus enabled to buy more goods, so that its real income is increased. Its own higher wages raise the cost and hence the price of the goods it produces, and thus others are able to buy fewer goods, so that the real incomes of others are diminished. [Similar propositions are evidently true for any element in society which receives a higher money income.]
>
> If wage increases become general, each laborer gains by his own higher money wages and has his gains pared down by the higher money wages of others, as these raise the prices of what he buys. If all money incomes [including contractual], increased proportionately, clearly the rise in prices would roughly cancel the gains generally, and no one would have a higher real income. But since some laborers [and some other elements of society] have more power to raise their money incomes than others [some, such as receivers of contractual incomes, life insurance beneficiaries, pensioners, et cetera, have zero power.] those who have more power gain at the expense of those who have less. The interest of those who gain is hardly to be identified with the whole, if the whole includes also those who lose.

The report, unfortunately, makes no contribution in handling this particular problem, and urging union officials to exercise restraint may encourage misguided complacency.

ECONOMY

While there are some discussions of economy in Government, there is no reference to the problem of Government competition with vate industry; nor is there any reference to the further implementation of Hoover Commission recommendations. Thus, possible sources of tax saving are overlooked.

ECONOMIC OUTLOOK

In dealing with the business outlook, the report states:

> There are grounds for expecting that the decline in business activity need not be prolonged and that economic growth can be resumed without extended interruptions. The policies of Government will be directed toward helping to assure this result (pp. III–IV).

The stress is then put on a series of possible plus factors for the period ahead.

The several factors which, it is argued, will tend to put a floor under the economy include the following:

(1) Our domestic market for goods and services have been well maintained.

(2) A considerable adjustment in inventories has already taken place and the present inventory holdings are generally not heavy.

(3) Personal income has fallen very little, and purchases by consumers are continuing at a high level.

(4) The confidence of business concerns in the economic future is evidenced by their long-range plans for the expansion and improvement of production facilities and the high rate at which they are carrying out these plans.

(5) The increasing amount of resources committed to research and development is further evidence of this confidence and assures the continued working of forces that make for expansion.

(6) Financial conditions are increasingly favorable to resumption of economic growth. Credit is more readily available and its cost is lower.

In addition to these basic symptoms of strength, the report points to other favorable signs. A recent reduction in the cash investment required of prospective home buyers under Federal mortgage-insurance programs tends to promote increased home building.

More ample and low-cost credit also favors the continuation of a large and growing volume of capital expenditures by State and local governments, and should help moderate effects of the decline in investment outlays by business concerns.

At the turn of the year, it is also argued, the economy was beginning to feel the effects of an acceleration of the placement of defense contract awards, prompted by the need to move forward quickly with programs essential to the strengthening of the Nation's defenses.

Finally, the report points out that there are good reasons for confidence that a vigorous expansion of our economy can be sustained over the years. Our domestic market for goods and services has about doubled every 25 years, and we should do at least as well in the next 25 years. The long-run growth opportunities will moderate any temporary setback.

Undoubtedly, these are all plus factors or at least possibilities. But the reader of the report has no way of evaluating the strength of each one separately or the group as a whole. And many question marks remain. The biggest one, of course, is whether the expansive forces do add up to enough economic thrust to stem a possible cumulative downturn and bring about a rapid recovery. Times are still prosperous, but economic conditions could deteriorate rapidly as experience has shown.

The budget is essentially a full employment budget and cannot be expected to provide massive expansive force. Additional practical steps may be needed to check the decline and stimulate recovery and growth. It may well be that a tax cut, and tax reform, will be needed to bring the desired results.

In any case, the tax reform is long overdue. A combination of fortuitous circumstances has helped us before, and at this time we may again be facing a similar set of circumstances where the timing is such that we can use long-run tax revision as a short-run stabilizing measure. In the interest of both economic growth and short-term stability, tax reform should remove serious disincentive features of our tax laws and make them more neutral as to impact. Tax implications force themselves far too strongly and too widely into business and individual decisions.

CONCLUSION

In conclusion, it should be underlined that what happens to the economy in the coming year depends largely on two things:

(1) Continued business and consumer confidence in the future; and

(2) What Government does.

The businessman can make a contribution to recovery and renewed growth by modernizing plant, doing all he can to keep costs under control and engaging in a vigorous program of new product development, product improvement and promotion and endeavoring to give good values which appeal to the consumer.

The optimism of the Economic Report is probably a healthy influence. But we should beware of misplaced confidence. The most important kind of confidence must stem from a knowledge that, while we cannot prevent economic fluctuations, we can mitigate their dangers and hardships.

Government, through State and local expenditures and Federal procurement, is being counted on as the major buoyant influence on total demand.

In addition, it may be necessary to work from the tax side of the fiscal equation as well.

Thank you very much, Mr. Chairman.

Senator DOUGLAS. Thank you.

The next witness is Mr. Herbert Stein, director of research of the Committee for Economic Development.

Mr. Stein.

STATEMENT OF HERBERT STEIN, RESEARCH DIRECTOR, COMMITTEE FOR ECONOMIC DEVELOPMENT

Mr. STEIN. I am grateful for the opportunity to appear before the Joint Economic Committee in response to the invitation first extended to Mr. Alfred C. Neal, president of CED, who is unfortunately unable to be here today. The comments I make here are my own, not necessarily representative of CED. However, the views I shall express on economic policy are, I believe, consistent with the recommendations set forth by the research and policy committee of CED in a 1954 statement entitled "Defense Against Recession." This statement is highly relevant today and I commend it to your attention.

We can discuss the President's Economic Report at two levels. We can discuss the report as an educational document designed to increase public understanding and illuminate public consideration of policies to achieve the objectives of the Employment Act. Or we can discuss the specific policies described or recommended in the report on their own merits, apart from the supporting language by which those policies are explained and justified. I shall make what seems to me the most important observations on the report from each of these standpoints.

Viewing it as an educational document, I must say that I find the report disappointing. In saying this I am not comparing this year's report unfavorably with its predecessors. In some respects—notably brevity—this year's report is superior. I am complaining about features that have characterized the report for 12 years. All I would say on this score is that the deficiencies are clearer the 12th time around than they were at first. Furthermore I want to make it entirely plain that I am not criticizing the Counsel of Economic Advisers or its staff, for whose talents I have a high regard. I am criticizing a conception of the report that has animated it from the beginning.

I think the report needs more analysis, more candor and more clarity. I would like to see the report select the main issues involved in achieving the objectives of the Employment Act, analyze the meaning of these issues and the viewpoints that are consistent with what is known and not known about them, and explain the administration's conception of the American economic and political system that leads it to the policies it recommends. We don't get anything like this in the economic reports. The repeated pattern of the reports is to start with a few general goals, like growth, stability, and freedom, to end with a long, varied list of specific policy recommendations, and to bridge the gap between by verbal tables.

It seems to me that the two main issues with which the report had to deal this year could be clearly identified:

First, is high employment incompatible with general price stability in the presence of existing American institutions? If so, what can we do about it?

Second, how should we deal with a business decline the duration and depth of which cannot be foreseen?

Of course both of these questions are dealt with in the Economic Report, but neither with the depth or clarity they deserve.

The report says:

> If fiscal and credit policies are sufficiently stern to keep the price level from rising, there are risks of economic dislocation, an unnecessarily slow rate of economic growth, and extreme and inequitable pressures on some who are not themselves contributors to the inflation of costs and prices.

This statement is phrased in language that is difficult to criticize, because it only asserts the existence of risks, and in some sense of course, everything is possible. But if this sentence is saying anything it is saying that the risk is real, serious, likely, even probable. Now this is a most fundamental and far-reaching statement to make about the American economy. I realize that similar statements are made by many people, but they should not be made by an official body without substantial evidence. No evidence is presented except a reference to "events of 1957" which does not specify which events are relevant or explain how the events of 1 year could demonstrate a conclusion that is important only if it applies in the long run.

There is no description of the causes that might make high employment and price stability incompatible, nor are we told whether the problem is old or has recently arisen. All we get is a reference to the "exercise of economic power by individuals and groups favored by temporary conditions or by their place in the Nation's productive system." I suppose that the latter phrase refers to businesses and labor organizations that are not limited by effective competition; if this is what is meant the manner of expression is exceptionally delicate.

Having asserted the existence of a problem without explaining its nature or causes the report proposes a remedy without giving any reason to think that it could work, or that it would be good if it did work or that it would be preferable to the alternatives, which are not discussed. The remedy, of course, is responsible self-control by business and labor.

The Employment Act calls upon the Government to achieve its objectives by means calculated to promote free competitive enterprise. I would not personally regard a system in which organizations of business and labor exercise large and pervasive power without effective limitation by competition as a system of free competitive enterprise, even if these organizations voluntarily act in a most constructive way.

If the administration believes that power on such a scale now exists in the American economy, it is not sufficient to appeal for responsible exercise of the power. It should also be seeking to reduce the power. And this would require as a first step a more thorough analysis of the state of competition in business and labor markets than the report contains.

The question, we must recognize, is an exceedingly difficult one. In my opinion, we do not really know whether price stability and high employment are incompatible under present arrangements. If they are incompatible, we do not know any sure and satisfactory way of reconciling them. But the treatment in the report does not seem to me a serious effort either to explain the problem or to solve it.

Now, let me turn to the other main issue that was essential to this year's report—how to deal with the current business recession.

The report appraises the plus and minus factors in the current economic situation and concludes as follows:

> These considerations suggest that the decline in business activity need not be prolonged, and that economic growth can be resumed without extended interruption.

It is difficult to quarrel with this conclusion but it literally says much less than it appears to say. It literally only says that the evidence does not force us to the conclusion that the recession will be deep or long. It does not say that the evidence forces us to the conclusion that the recession will be short and mild.

I would not object if the report expressed the view that the current recession will probably be short and mild. But any such estimate of the situation is subject to great uncertainties. What I miss is any recognition of the possibility that this estimate may be incorrect and that the situation may turn out to be more serious than we now expect. This is a serious omission, for several reasons:

1. Public confidence would be enhanced by the knowledge that the Government was prepared to take stronger measures if the recession deepened substantially.

2. If the possibility of a more serious recession were recognized, the need for a larger increase in the debt limit would be apparent. I do not think it was prudent to ask for only a temporary $5 billion increase in the debt limit. Even a small deepening of the recession would substantially reduce revenues and, if the debt limit is not raised further, would force a squeeze on expenditures that would be undesirable in terms of both national security and economic stabilization.

3. Recognizing the possibility of a more serious recession would inevitably lead to consideration of steps that might be necessary at some time to reverse the decline—notably an emergency tax cut. Discussions should now be going on in the Government—between the administration and the Congress—about the conditions in which such a tax cut might be desirable and the form it should take. This should not be for any action now but to pave the way for action when and if necessary. The Secretary of the Treasury has recognized that circumstances are conceivable in which an emergency tax cut might be appropriate. The Economic Report should have laid the groundwork for such action.

I am puzzled by the report's treatment of both budget policy and monetary policy as instruments of economic stabilization.

Discussing 1957 the report says:

> Federal fiscal policies were also directed to restraining inflationary tendencies. Beginning early in the year, all Federal expenditure programs were closely reviewed to effect economies wherever such action was consistent with essential program objectives. No general reduction of taxes was undertaken, and reductions in specific taxes—certain excise taxes and the tax rate on corporate income—that were scheduled to occur on April 1, 1957, were postponed. The Federal budget was balanced during the calendar year 1957, and $1.7 billion of debt was retired.

In calendar 1957, when we were pursuing an anti-inflationary fiscal policy, Federal cash expenditures rose $8.6 billion over the previous year and the cash surplus declined $4.2 billion.

What is the plan for 1958, when the policies of Government are being directed to helping assure the resumption of economic growth? The report presents no budget figures for calendar 1958, but they can be roughly estimated from the fiscal year figures. These estimates indicate that cash expenditures will rise about $2.5 billion from calendar 1957 and the cash surplus is due to a slowing down in the rate of revenue growth as a result of the recession.

It appears that Federal budget policy was more inflationary in 1957 than in 1958, although the economic situation would not seem to call for a shift in this direction. My point here is not to criticize the 1958 policy. I think it would have been better if some of the restraints on nondefense expenditure proposed for 1958 had been introduced in 1957. But I would not recommend an increase of expenditures at this time for the purpose of combating the recession. The 1958 policy can be rationalized and possibly the 1958 and 1957 policies can be reconciled. My point is that the report does not reveal the rationale underlying these policies and gives us no clue to the principles by which budget policy is guided.

The treatment of monetary policy in the report is even more puzzling. In the discussion of policy for the future to deal with the recession there is no mention of monetary policy or the Federal Reserve, although monetary policy is discussed in the historical sections of the report. Surely, the administration must count on monetary policy to play an important role in bringing about recovery. In fact, the expectations and recommendations presented in the report can only be justified on the assumption that monetary policy will be vigorous and effective.

The report's silence on future monetary policy is all the more puzzling, in view of the establishment in 1957 of a new consultation committee on which the Federal Reserve, the Council of Economic Advisers, and the Treasury are represented. Incidentally this committee, which seemed rather important when established, is not mentioned in the report itself and is only referred to in one line of an appendix to the report. It cannot be assumed that the authors of the report were uninformed about the Federal Reserve's views and plans.

I shall not speculate about possible reasons for this omission. But I believe the omission is serious and should be corrected in future reports.

What I have said about the report as an educational document has probably implied what my reactions are to the policies recommended or omitted in the report. I shall here only list a few points of policy that seem to me most important:

1. Monetary and fiscal policy should not be inhibited by the thought that it can only prevent inflation by seriously reducing employment and retarding economic growth. I do not believe that these are the necessary consequences of anti-inflationary financial policy. To act on the contrary assumption, in the absence of a stronger evidence than we now have, would be to give up the fight against inflation without a real effort.

2. If there is a danger that business or labor organizations have enough power to force us to choose between price stability and high employment, we must seek diligently for ways to reduce this power and not only appeal for its restrained exercise.

3. Policy should be prepared to deal with the possibility that the recession will exceed the expectations suggested by the report.

4. Monetary conditions should be vigorously and progressively eased until the business decline is reversed.

5. The debt limit should be raised by at least $10 billion.

6. Preparations should be made for an emergency tax reduction of limited duration to be put into effect if the recession becomes substantially more serious.

Thank you.

Senator DOUGLAS. Mr. Stein, I want to thank you for what I personally regard as an extremely brilliant and suggestive report. I am very much interested and think most of the recommendations that you have made are recommendations which this committee at various times on various occasions has urged.

Representative CURTIS. Mr. Chairman, I would like to add my own personal comments to those of the chairman.

Mr. STEIN. Thank you.

Senator DOUGLAS. The next witness is Mr. Don Mahon, secretary of the National Independent Union Council.

We are very glad to have you, Mr. Mahon. Proceed in your own way.

Mr. MAHON. Thank you, Senator Douglas.

STATEMENT OF DON MAHON, SECRETARY OF THE NATIONAL INDEPENDENT UNION COUNCIL

Mr. MAHON. My name is Don Mahon. At this hearing I will present the position of the National Independent Union Council as executive secretary.

I am also president of the National Brotherhood of Packinghouse Workers. We maintain our national council headquarters here in Washington.

Since our appearance last year there have been some drastic changes in conditions affecting the entire Nation and, consequently, every member of our organization, as well as their families and dependents. With unemployment at one of the high points in several years, and prospects not too bright for the immediate future, we are greatly concerned with the President's report and measures that will be taken by Congress to improve this situation.

AUTOMATION AND UNEMPLOYMENT

Current unemployment stems from various causes. Without counting the business slump, or recession, if you prefer that name, the most important on the list of factors affecting our members are automation and competition by foreign imports. We wish to make certain suggestions which we feel will help to alleviate this and other problems. We will present them in the order of their importance in our opinion. Also, some remedies.

We believe the most essential factor in the solution of all our problems is just honest cooperation among the various political and economic groups in our country. This cooperation would result in the proper development of all their resources whether they represent labor, agriculture, finance, industry, the Armed Forces, or government.

LABOR ADVISORY COMMITTEES

Coordination of the efforts of these sections of our great democracy will overcome any obstacle no matter how high, including sputnik, as so recently demonstrated. That cooperation and coordination can be obtained providing all the interested groups are given a fair hearing and a voice in helping to shape the necessary program in their specialized field.

In order to bring this about most democratically and efficiently we propose the establishment of qualified advisory committees. To a certain degree this policy has already been followed with respect to several sections of the economy. An illustration in the field of finance is the Board of Governors of the Federal Reserve System.

On this Board are appointed men with wide experience. They have practical knowledge with respect to banking and finance and related problems. This is altogether fitting and proper. Likewise when committees are set up to study and make recommendations concerning agriculture, it is the custom to choose farmers, or men with broad practical experience and knowledge in the field of agriculture.

When studying problems affecting industry, it is the practice to choose men with a wide knowledge and considerable background in the business field. This is also understandable and quite reasonable and proper. They have accomplished much.

Accordingly, it is our suggestion that a Federal Labor Advisory Board be established, with experienced representatives from the field of labor who have actual firsthand knowledge of it problem, just the same as that provided for other sections of the economy.

All would benefit. At present, there is supposed to be a Labor Advisory Committee in the Department of Labor. However, we have no knowledge of its having even met for several years. Since its 2 members are both from 1 labor organization, its value, if any, in an advisory capacity would be questionable for that reason alone.

For some unaccountable reason most people who have prescribed solutions to the problems of labor in the past have been from some other field. They naturally looked at organized labor and its problems from their own viewpoint. Our people who are unemployed, and not enjoying the prosperity that should be the lot of all American workers today, are beginning to wonder if perhaps those who did the planning and directed the course might not be better equipped if they had some more expert advice. With that thought in mind, we urgently recommend the immediate activation of a Federal Labor Advisory Board with spokesmen from all branches of the labor movement.

Most Congressmen and Senators have already recognized that small business requires a special committee in the Senate and the House of Representatives in order to better service this important section of the economy.

Certainly the members of the more than 2,500 independent unions in this country today are entitled to consideration comparable to that granted to small business. Both are essential to the continuation of our free competitive system whether it be in industry or labor. House Resolutions 118 and 129 would provide this answer.

The President, in his report to Congress, has made certain recommendations concerning small business. We trust that comparable consideration will be given to the problems of small unions.

PRODUCTIVITY AND INFLATION

On page 21 of his report, the President makes reference to certain of the obligations of labor and industry and with respect to collective bargaining. Unions are cautioned about seeking wage increases on the basis that it would be inflationary, and cause related economic woes. Our unions have certainly given most serious consideration to these matters. The fact that the continually rising cost of living has more than equaled many of the forward steps taken, from the standpoint of increased earnings, is sufficient evidence that labor cannot stand still and be run over by this ever-rising tide.

The high productiivty of the labor force of our country today has created more products than our wage earner has money to buy. Inflated profits and excess depreciation allowances are partly responsible for this situation. Since this situation, in connection with greatly increased automation in industry, has resulted in the greatest number of unemployed workers since before the war, it is, therefore, most urgent that measures be taken promptly to make a proper adjustment.

One important step forward in this direction will be Government sponsorship of training programs for older employees, partially disabled employees, and especially those employees who have been displaced directly or indirectly as a result of automation in industry.

By providing adequate training for workers in higher skilled crafts, so much in demand especially in time of emergency, we can use this current breathing spell to prepare for the next curve of expansion in the industrial life of our country.

This will prove wise, regardless of whether such expansion is caused by the greater threat of war, or the progressive advancement of our standard of living. The latter situation is certainly most desirable but skilled craftsmen will be one of our most valuable assets in either event.

EQUAL EDUCATIONAL OPPORTUNITIES

Our organization advocates that the time is at hand for a general overhaul job in connection with our entire school system. We believe that all eligible American high-school graduates, who properly qualify themselves, should have equal opportunity to attend a college or university.

21111—58——19

The underwriting of the cost of this program by our Government would be the best investment in the future of our country thus far proposed. Those who oppose this equal opportunity for all students will find their arguments rather out of date. In fact, they were first voiced, more than 100 years ago, by the opponents of the free public school system which at that time was classified as certain socialism.

Certainly no one today considers our free public system of schools as any cause for alarm or threat to our form of government other than that it does not go far enough. Many now acknowledge that unless college and university training is made available to our students, on a mental rather than a financial basis, we will eventually be a second-rate nation from the standpoint of qualified scientists.

There is also a great lack at present of educational facilities for medical doctors and others who must have advance schooling in order to qualify for their place in the complicated society of today. Now is the time to take positive action to solve these shortcomings.

EXCESSIVE INTEREST AND CARRYING CHARGES

The spotlight of publicity has recently been concentrated on certain union leaders. It should not be limited to this field of activity alone when checking for unethical practices. There are several other glaring examples of those who violate every principle of human decency. All should be subjected to a thorough investigation, and soon.

One of these is in the field of business and finance that involves high pressure or deceitful salesmanship and the charging of exorbitant interest, multiple carrying charges, and all of the other tricks that have been used to pyramid costs on installment buying by wage earners. Many of these practices have been conducted in such a manner that they stay within the shadow of the law. They are certainly not within the scope of what would be considered ethical practices for any other type of activity in this country.

To correct them would eliminate considerable inflation and raise the standard of living of many workers by increasing the value of their dollars. These exorbitant rates of interest, carrying charges, and related gimmicks actually amount to the equivalent of usury.

With unemployment growing, thousands of wage earners are losing their furniture, their automobiles, and even their homes because they have been oversold and overburdened with charges to an extent far beyond their power to ever repossess them. Such charges have been known to go as high as 100 percent, and 30 percent is not unusual.

Certainly this type of inflation cannot be blamed on labor. For some reason, it is seldom publicized. An investigation appears to be in order.

FHA PENALIZES FOR PREPAYMENT

There are also some very vicious practices connected with the mortgages on the homes of many working families. This includes FHA. We will cite at least one joker in most of these contracts too.

It is when the worker tries to cut down his overall interest by paying off faster than the contract provides. He is penalized an additional 1 percent because he paid the loan off before it was due.

All of these things we have cited detract from the useful buying power of the worker's dollar. They are certainly a part of the cause of inflation. They require a most thorough investigation, along with the other unfair methods that are constantly threatening the buying power of the wage earner.

When the above-proposed investigations are conducted we feel confident that the record will reveal that there are a good many unethical practices besides those blamed on a few labor unions.

UNFAIR FOREIGN COMPETITION ENDANGERS UNITED STATES

We are becoming increasingly alarmed about the application of certain tariff and foreign trade policies and their effect on the economy of this country.

We recognize that there is some merit and logical argument for freedom of trade between the nations. We also realize that economic aid should be given to free nations of the world in order that they might raise their standards of living. But we do not believe that this aid should be rendered to the extent that it will weaken the economy of this Nation and lower the standard of living of our people.

Hard-hit industries include automobile, textile, meat and food products, paper, steel, porcelain, petroleum, and others, including the electrical industry in particular. Workers in other industries we can cite are in a comparable situation.

For example, the structure of our economy is dependent on energy, particularly electrical energy. Electrical energy cannot be produced and distributed without turbines and transformers and other related equipment. Such equipment is produced, in this country, by experienced workers who have acquired special skills through long experience. A large part of the cost of such equipment consists of labor, approximately 40 percent. It is not likely that automation will replace these skilled workers. Consequently, the electrical industry employs millions of workers in this country, plus those who are employed in the various industries which supply the electrical manufacturers, such as steel, copper, paper, porcelain, and many others. The workmen employed in the electrical industry earn substantially high salaries.

We find, however, that the present tariff and foreign trade policies are encouraging foreign manufacturers to sell such equipment in this country at prices so low that competition from an American manufacturer is out of the picture. Even the greater efficiency of the American worker does not make it possible for the American manufacturers to compete with foreign manufacturers who pay their workmen rates that range from 20½ to 62 cents per hour.

Compare this to American manufacturers who pay well in excess of $3 per hour on items where 40 percent of the cost is labor.

QUESTIONABLE ECONOMY

The Federal purchasing policies require purchase from the lowest bidder. No American manufacturer can compete with the foreign-built equipment under these conditions. Consequently, practically all of this type of equipment is now being made in foreign countries. This type of foreign policy has caused many of our electrical manufacturing plants to lay off as many as 25 percent of their employees.

Some of these plants are situated in depressed labor areas. Of course, there is an allowance for this of 6 percent, but what good is 6 percent to a manufacturer when a foreign company underbids him by 50 percent? Unless this trend is recognized and our electrical-equipment industry is given protection from the importation of such equipment, the electrical power system of this country will be dependent on foreign manufacturers, and will put more of our people on the ever-increasing unemployment rolls.

Practically all large transformers purchased by the Government during the past 2 years have been from foreign manufacturers. True, they are being purchased at a lower price, but we also believe that the Government is getting an inferior product.

INFERIOR FOREIGN PRODUCTS

Ten 103,000-kilovolt-ampere transformers, purchased from an English manufacturer, were put into service at the Chief Joseph Dam, near Brewster, Wash. In less than 1 year, 3 of these large units failed. The fourth was torn down for inspection and it was discovered that all 10 of the units must be sent back for redesigning and rebuilding. It is our understanding that, had it not been for the fact that there were 3 American-made transformers present at the location, which could be relied upon, the district supplied by this dam would have suffered greatly for the want of electrical power.

Electrical energy is too vital to the economy and defense of our country to allow foreign manufacturers to have control over the equipment necessary to supply this energy.

We believe that the protection of our economy, and in certain industries, the protection of our country, requires selective tariff protection for those industries in which the labor skills require long apprenticeships and experience. We disagree completely with the trend to displace skilled and highly technical American workers with cheaply paid foreign labor. We have no quarrel with the desire to help the foreign countries which are friendly to us, or which have a political philosophy similar to ours. However, we believe that the American workman is entitled to compete for his livelihood on some fair basis, and competing with labor rates one-fourth or less is not fair competition.

There is a tendency on the part of American manufacturers to utilize every means at their disposal to try to compete with foreign manufacturers, even though they are competing against conditions we have cited. The American workman has a tremendous stake in maintaining a high standard of living in this country. Without the high performance record and the high caliber of the American workman such a high standard of living could not have been attained. If it is necessary for American industry to try to become competitive with foreign companies which pay labor rates one-fourth or less than that paid to American workmen then it is inevitable that the standard of living in America will deteriorate.

We earnestly hope that you will understand the seriousness of these conditions, and will assist in correcting them.

INDEPENDENT ORGANIZED LABOR WILL COOPERATE WITH ALL FRIENDLY GROUPS

In conclusion, we wish to state our belief in the American system. It is well exemplified by the representatives of the various sections of our economic life who are also represented on this panel today. They speak for groups, with resources in various forms, necessary to start our economy, and our standard of living, on another great upward curve. Cooperation is all that is needed. We believe this joint committee and our Government has the necessary leadership to direct and bring about such cooperation and the resulting benefits to all in our country.

We feel confident the membership of our unions will cooperate whenever the opportunity arises.

Thank you.

Senator DOUGLAS. Thank you very much.

Our next witness is Vincent A. Perry, trustee of the Federal Statistics Users' Conference.

Mr. Perry, proceed in your own way.

STATEMENT OF VINCENT A. PERRY, TRUSTEE, FEDERAL STATISTICS USERS' CONFERENCE

Mr. PERRY. I appear here today in my capacity as a trustee of the Federal Statistics Users' Conference, rather than as an economist for my employer, General Foods Corp. The Federal Statistics Users' Conference is a broadly based organization whose members—business, farm, labor, and research organizations—are linked together by a common interest in the improvement in Federal statistics. A list of our membership is submitted for your information. (Available in committee files; see also hearings, Subcommittee on Economic Statistics, "The National Income Accounts," October 29, 1957, p. 66.)

We are glad to have the opportunity to appear before you today to lend our support to the recommendations for the development of a well-coordinated statistical system as contained in the President's Economic Report, and to the first steps being taken in this direction as outlined in appendix C of the report and special analysis I of the 1959 budget.

The contributions of the National Economic Accounts Review Committee, the Office of Statistical Standards of the Bureau of the Budget, and the Economic Statistics Subcommittee of this committee are all reflected in the program for the improvement of Federal statistics which we have before us—a program which spells out clearly the interdependence of the various parts of the Federal statistical program through the relationship to a common frame of reference—the national economic accounts.

The interrelationships of the various elements of the Federal statistical program are not new. They have always existed, but the 1959 program makes the relationships more explicit, and the significance of each proposed improvement is set forth not only as a separate item, but as an integral part of a larger whole.

This common frame of reference is a useful tool, but the importance of the individual elements which provide the material for this framework should not be overlooked, for it is the separate statistical programs which provide the facts important to nongovernmental users. It would be unfortunate if improvements in the national accounts were made the standard by which the merit of each betterment in every statistical program were measured. If this were done many worthwhile statistical programs might suffer because of their indirect relationship to the national economic accounts.

The improvements proposed in the Federal statistical program in 1959 fall into three main categories: (1) Improvements in the system of national accounts, (2) improvements in basic data used in the national accounts, and (3) improvements in benchwork data provided through the economic censuses.

A few comments on these points.

As for improvements in national accounts, users have a great interest in the proposals to prepare and publish quarterly estimates of gross national product and major components in constant-dollar terms. They are of such value that users expend countless man-hours in adjusting current-dollar figures to get a picture of real changes in gross national product. The preparation of quarterly constant-dollar estimates will promote a broader use of this important indicator by users who do not have facilities for making adjustments themselves and will enable all to utilize a common estimate.

The resumption of work on the accounting of interindustry flows constitutes another major advance in a field of growing importance to nongovernmental users. Input-output analysis is not yet as widely used as national income and product statistics, but there is growing use of this type of analysis.

Another valuable proposal is the provision for a small research staff in the Office of Business Economics to work on problems of concept and estimation so that qualitative improvements in our national income and product accounts will not be sacrificed to the pressures of day-to-day work.

Closely connected with these proposals on the national income and product accounts are recommendations for improving our knowledge of labor productivity by providing employment series covering "hours worked" as well as "hours paid for," and the inclusion of hours of "workers other than production workers." These improvements will give a better basis for measuring "real" changes in labor productivity in industry and will also serve to improve the constant-dollar estimates in the national income and product accounts.

Present estimates of "hours worked" are derived from the household interviews of the Current Population Survey. While the information derived from this source permits general estimates of productivity, as for example, those in table E-1 of appendix E of the Economic Report, it does not provide any basis for making detailed estimates for productivity in manufacturing industries. The improvements proposed in 1959 will make more detailed and more reliable information available as the information will be acquired from the same sources which report on "hours paid for."

The 1959 statistical program includes a number of improvements in basic data used in the national accounts, such as statistics relating to prices, construction, plant and equipment expenditures, producers' durable equipment, inventories, service trades' receipts, and consumer credit.

Let us turn briefly to construction statistics. This is an area in which much work needs to be done. Statistics on repair and maintenance, for example, are based on very sketchy information. The survey proposed in the Economic Report as part of the 1959 program will develop a much sounder factual basis for these estimates by sampling actual expenditures for both residential and nonresidential repair and maintenance. Similarly, the proposed survey of the amount of farm, private nonresidential, State, and local construction will provide direct factual information on which to base estimates in place of the present incomplete and inadequate data.

The importance of the 1958 economic censuses to users of Federal statistics need not be dwelt upon. Together with the regular decennial census, they provide a comprehensive statistical summary of basic importance. This importance is not only for the picture they give us of our economy in the year that they are taken, but also for the benchmark data they provide to increase the usefulness of current statistical programs in the intercensal years.

Regretfully, time limitations make it impossible to speak on every recommendation.

Let us say in brief that the Federal Statistics Users' Conference supports all of them.

The coordinated approach to the Federal statistical program, designed to serve as a basis for a long-term improvement in economic data, is the most promising vehicle yet devised for relating the needs for individual items of statistical information to the common interests of all nongovernmental users of Federal statistics—be they business, farm, labor, or nonprofit research organizations.

We in the Federal Statistics Users' Conference welcome the concept of a coordinated Federal statistical program, and hope that the recommendations of the President's economic report will be adopted. We want to emphasize, however, that primary user interest lies in the individual statistical improvements which are recommended, for the individual statistical programs themselves provide the information which we use. We hope that this committee will support the recommendations of the economic report, and also support those recommendations as expressed in allowances for specific programs in the 1959 budget.

Senator O'MAHONEY. On October 2 last, there was released by the Joint Economic Committee a Report on Congressional Action on Appropriations for Federal Statistical Programs.

Now, this report will be of value in connection with the statement just made by Mr. Perry. And I will ask that it be inserted in the record at this point.

(The report referred to follows:)

REPORT ON CONGRESSIONAL ACTION ON APPROPRIATIONS FOR FEDERAL STATISTICAL PROGRAMS

Congressman Richard Bolling (Democrat, Missouri), chairman of the Subcommittee on Economic Statistics of the Joint Economic Committee, released today the attached statement on appropriations for the Federal Government's statistical program. This statement, which was prepared by the Office of Statistical Standards of the Bureau of the Budget, is based on special analysis J of the 1958 budget document. Analysis J, which was developed at the request of the Subcommittee on Economic Statistics for inclusion in the President's annual budget, presents in summary fashion the budgets for Federal economic statistical programs.

In commenting on the comparison of final congressional action with the recommended program as set forth in the President's budget, Congressman Bolling said:

"In view of the very real need for additional statistical information for sound and timely decision making, it is gratifying that in spite of the reductions which Congress found necessary to make in funds requested for statistical programs, the appropriation, nevertheless, will be slightly larger than in fiscal 1957 and adequate in general to provide for the continuation of these vital programs at the 1957 levels. It is to be noted that, with a very few exceptions, the increases are not for new statistical programs that were requested in the President's budget but cover 'mandatory items' in the 1958 budget—primarily a shift in procedure from a separate appropriation to direct agency contributions to the civil service retirement fund, as required by legislation enacted in July 1956.

"It is especially gratifying that it was possible to find funds to enable the Internal Revenue Service to prepare preliminary tabulations of key financial items in income tax returns, since this will make certain business-indicator statistics available a year earlier than at present.

"In view of the need for substantial improvement in our economic statistics revealed by investigations of the Subcommittee on Economic Statistics, it is to be regretted that the relatively small sums could not be found which would have made possible improvement and expansion of the monthly data on manufacturers' sales, inventories, and new orders; extension of the financial reports program to include at least trade and mining corporations; and needed improvements in estimates of savings and of plant and equipment expenditures.

"It is to be hoped that in the forthcoming year it will be possible to find funds to make feasible further progress in these important programs."

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D. C., September 17, 1957.

HON. RICHARD BOLLING,
Chairman, Subcommittee on Economic Statistics, Joint Economic Committee, Senate Post Office, Washington, D. C.

MY DEAR MR. BOLLING: In response to your request of August 30, I am enclosing a summary analysis of final 1958 appropriations for the statistical programs included in special analysis J of the 1958 budget document. The summary shows the increases requested and granted for major economic statistical programs.

Sincerely yours,

RAYMOND T. BOWMAN,
Assistant Director for Statistical Standards.

Enclosure.

1958 APPROPRIATIONS FOR MAJOR STATISTICAL PROGRAMS

I. CURRENT PROGRAM

The 1958 budget estimates submitted to the Congress included about $35.3 million for major current statistical programs, as described in special analysis J of the 1958 budget document. These requests represented an increase of about $5 million, of which nearly $1.6 million was not for funds available for statistical work but for "mandatory items" in the 1958 budget (primarily a shift in procedure from a separate appropriation to direct agency contributions to the civil service retirement fund, as required by legislation enacted in July 1956).

Final action on the 1958 appropriations and allocations within the agencies allowed about $32.7 million of the $35.3 million requested for major current statistical programs. This amount provides generally for continuation of the programs at the 1957 level: allowance is made for the increases required for the mandatory items, but (with few exceptions) not for the program increases requested.

The 1957 appropriation, 1958 budget request, and final 1958 appropriation are shown in the table below for the agencies whose programs are included, in whole or in part, in this summary.

Appropriations for major current economic statistical programs by agency

[In thousands]

Agency	1957 appropriation	1958 budget estimate	1958 appropriation
DEPARTMENT OF AGRICULTURE			
Agricultural Marketing Service:			
Economic and statistical analysis	$1,464	$1,723	$1,536
Crop and livestock estimates	5,230	5,737	5,576
Agricultural Research Service: Production economics	2,526	3,496	2,760
DEPARTMENT OF COMMERCE			
Bureau of the Census	7,475	8,535	7,882
Business and Defense Services Administration: Construction statistics	142	142	142
Office of Business Economics	960	1,055	1,035
DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE			
Office of Education	514	682	591
Public Health Service:			
Division of Public Health Methods	1,218	1,800	1,800
National Office of Vital Statistics	1,456	1,522	1,513
DEPARTMENT OF LABOR			
Bureau of Labor Statistics	7,026	7,768	7,200
TREASURY DEPARTMENT			
Internal Revenue Service: Statistical reporting	1,790	2,199	[1] 2,274
FEDERAL TRADE COMMISSION			
Financial reports	248	368	202
SECURITIES AND EXCHANGE COMMISSION			
Operational and business statistics	182	241	194
Total, major current programs	30,231	35,268	32,705

[1] Includes $75,000 for tax analysis series not included in 1958 budget estimate.

The increases requested and allowed are shown by broad subject area in the following tabulation, and discussed in the following paragraphs. Figures are shown both for "Total increases" (including the mandatory items) and for "Program increases" (from which the mandatory items have been excluded).

Increases requested and allowed for fiscal year 1958 by broad subject area

[In thousands]

	Total increases		Program increases	
	Requested	Allowed	Requested	Allowed
Labor statistics	$563	$109	$293	0
Demographic statistics	836	736	684	$593
Prices and price indexes	441	196	240	0
Production and distribution	2,242	836	1,555	201
Construction and housing	82	37	45	0
National income and business financial accounts	873	558	642	[1] 349
Total, major current programs	5,037	2,472	3,459	1,143

[1] Includes $75,000 for tax analysis series not included in Budget request.

Labor statistics.—No funds were allowed for program increases in this area. Program increases requested, all of them in the Bureau of Labor Statistics, totaled over $450,000 but were offset in part by completion of nonrecurring projects for which funds were available in fiscal year 1957. Included in the requests for which funds were not allowed were about $120,000 for a study of the effects of tariff changes on United States employment; $145,000 for strengthening the industry wage survey program in nonmanufacturing industries; $50,000 for extension of the joint Federal-State labor turnover statistics program to additional States; and about $50,000 for the older worker study.

Demographic statistics.—The largest program increase requested in this area was $554,000 for full-year costs of the national health survey program, initiated in fiscal year 1957. This request was allowed in full.

Final action also allowed $39,000 of the $130,000 requested in this area for the Office of Education, most of which was for full-year costs of the recently expanded statistical and research program.

Prices and price indexes.—No funds were allowed for program increases in this area. Additional funds requested included $114,000 to the Bureau of Labor Statistics, for initiation of a continuing program of consumer expenditure surveys for use in maintaining surveillance over the accuracy of the weighting pattern used in the Consumer Price Index; $100,000 to the Agricultural Marketing Service for a program designed to improve the indexes of prices paid and received by farmers; and $26,000 to the Agricultural Marketing Service for improved coverage in its research program on prices, supply, and consumption.

Production and distribution.—Final action allowed program increases of $201,000 out of a total of $1,555,000 requested in this area. The increases which were allowed were $104,000 to the Agricultural Research Service, for economic studies of irrigation in the Upper Colorado River Basin; and $75,000 to the Agricultural Marketing Service for two specific projects—preparation of the weekly crop and weather report, in cooperation with the Weather Bureau, and development of improved poultry- and egg-producing estimates. (The increase allowed for these two projects was less than half the $158,000 requested, but the conference committee specifically directed that they be undertaken within the total funds approved for the agency. A total of $97,000 is being made available for the two projects by allocation of funds within the agency.)

Programs in this area for which increases were not allowed were included in the budget requests of the Bureau of the Census and the Agricultural Research Service. Among the Census Bureau requests which were disallowed were: $70,000 for expansion and improvement of the monthly data of manufacturers' sales, inventories, and new orders, in line with recommendations made by the Federal Reserve Consultant Committees and the Joint Economic Committee; $125,000 for several specific projects designed to improve the accuracy and usefulness of the foreign-trade-statistics program; and $100,000 for the annual compilation and publication of County Business Patterns. In the Agricultural Research Service, no funds were allowed for the $730,000 increase requested to provide economic data needed for the development and appraisal of farm programs, including research on the financial condition, landownership and tax burdens of different groups of farmers.

Construction and housing statistics.—No increase was requested for fiscal year 1958 for the construction statistics program conducted jointly by the Departments of Commerce and Labor, pending completion of a thorough review of needs in this area. The $45,000 increase which was requested, but not allowed, in this area was for the Census Bureau to obtain information on the status of plans in State and local governments for various types of public works.

National income and business financial accounts.—Total program increases of $395,000 of the $642,000 requested have been made available, in this area, by appropriation or allocation within the agency. This total increase was offset in part by a reduction of $46,000 in funds allocated to the financial reports program by the Federal Trade Commission, making the net increase in this area for fiscal year 1958 about $349,000.

The largest increase in this area is $300,000 allocated by the Commissioner of Internal Revenue, following recommendation of the Senate Appropriations Committee, for preparation of preliminary tabulations of key financial items in the income-tax returns in order to make certain business-indicator statistics available a year earlier than at present. Also in the Internal Revenue Service, an additional $75,000 (not included in the budget request) was allocated for accelerated tabulation of certain tax-return items for a tax analysis series, needed particularly by the tax committees of the Congress and the Treasury Department. In the Office of Business Economics, final congressional action allowed $20,000 of the $40,000 increase requested for preparation of a new edition of the National Income Supplement.

Among the programs in this area for which increases were not allowed were about $150,000 to the Agricultural Marketing Service for improvement of farm income estimates; $100,000 to the Federal Trade Commission for extension of the financial reports program to include trade and mining corporations; and about $50,000 to the Securities and Exchange Commission for improvements needed in estimates of savings, plant and equipment expenditures, and small-company securities issuances.

II. PERIODIC CENSUS PROGRAMS

For periodic census programs, all of which are conducted by the Bureau of the Census, final action allowed $4,250,000 of the $5,945,000 requested, as shown in the following tabulation:

[In thousands]

	1957 appropriation	1958 budget estimate	1958 appropriation
1958 Censuses of Business, Transportation, Manufactures, and Mineral Industries	$150	$1,845	$1,000
1960 Censuses of Population, Housing, and Agriculture (18th Decennial Census)		4,100	3,250
1957 Census of Governments	1,750		
1956 National Housing Inventory	1,000		
Total, periodic censuses	2,900	5,945	4,250

1958 censuses of business, manufactures, and mineral industries

The 1958 budget estimate of $1,845,000 for preparatory work for the 1958 economic censuses included about $322,000 for a census of transportation, but the funds for a transportation census were specifically disallowed by the Congress. Collection of information for the 1958 censuses of business, manufactures, and mineral industries will begin early in calendar year 1959, covering operations during calendar year 1958. In the preparatory work during fiscal year 1958 specific operations will include review of scope, coverage and contents of the censuses; revision of report forms and pretesting of inquiries; development and testing of operational procedures (including those for electronic equipment); and establishment of a mailing list of multiunit companies.

1960 censuses of population, housing, and agriculture

The 1958 budget estimate of $4,100,000 for the 18th Decennial Census included about $2 million for preparatory work for these censuses and about $2,100,000 for the purchase and development of electronic data-processing equipment. Final action reduced these amounts, respectively, to $1,500,000 and $1,750,000. In order to achieve its goal of processing most of the data from the 1960 censuses by the end of calendar year 1961, the Census Bureau will devote considerable attention to the development of processing methods. During fiscal year 1958 the Bureau will plan the scope, coverage, and content of the 1960 censuses; will purchase a new electronic computer with an anticipated speed of approximately double that of the present equipment; and will develop and test fosdic (film optical sensing device for input to computers), which mechanically edits and automatically transfers information from microfilm copies of questionnaires directly to Univac tape.

1957 census of governments

The $1,750,000 appropriated last year for the census of governments was a 3-year appropriation, covering operating costs beginning in fiscal year 1957. During fiscal year 1957 the identification and listing of local governmental units was completed, and surveys of public employment and of tax valuation were initiated. These surveys will be completed in fiscal 1958, and work has begun on the study of governmental finances.

1956 national housing inventory

Work on the 1956 national housing inventory, for which $1 million was appropriated last year, was largely completed during fiscal year 1957. Press releases will be issued for each of the nine standard metropolitan areas included in the survey and for the Nation as a whole, and will be followed by more detailed bulletins.

Senator O'MAHONEY. Congressman Talle?

Representative TALLE. Thank you, Mr. Chairman.

I am pleased with your statement, Mr. Perry. And I may say that yesterday when the Director of the Bureau of the Budget, Mr. Brundage was here, I interrogated him on his thoughts for the future. We are delighted that in the budget message this year we are assured of additional support for improving economic statistics. I expressed the hope that the step taken this year might be merely a first step and that there would be other steps following in the future.

And Mr. Brundage agreed that this is a first step and that additional help may be expected in future years.

I thought you might be interested to know that.

Mr. PERRY. We are delighted to hear that.

Representative TALLE. Your organization has held some notable conferences, I believe, hasn't it—Federal Statistics Users' Conferences?

Mr. PERRY. We have had two, each a year apart. The last one was in the fall of this past year, 1957.

Representative TALLE. It is true, is it not, that support for this type of program began following the hearings held in July of 1954 by our subcommittee on Economic Statistics?

Mr. PERRY. Yes.

Representative TALLE. We had unity of action and full cooperation among the agencies of government, professional statisticians, private business, and the Congress. I believe you will agree that that is the way we should work in this field.

Mr. PERRY. We do.

Representative TALLE. I have noted with interest the fields in which you think we should have additional improvement, and I might like to add one to your list. You mentioned construction statistics. There is ample oportunity for work there. Farm income is another that deserves additional attention.

Then I would like to add a third. I believe that we should give all the encouragement we can to improvement in economic statistics in foreign countries. All we can do is to use persuasion, of course. But I think we should endeavor to point out to them that it would be advantageous to them and advantageous to us if there were improvement in foreign economic statistics.

We have the best in the world, but we recognize our deficiencies.

In some foreign countries the statistics are good. The Scandinavians, Dutch, and English are improving theirs. It has been discussed in Parliament. But I think that we should endeavor to encourage them in this field. I have done what I could for a number of years to promote that idea. And I intend to continue along that line.

Would you like to comment?

Mr. PERRY. Yes. We recognize your efforts in this field and I speak for all the members of the conference. We certainly appreciate them and we hope that you will continue the efforts that you have made in the past.

Representative TALLE. Thank you. The Subcommittee on Economic Statistics as a whole has been very much interested, and we have had the unfaltering support of the entire Joint Economic Committee. There has been no disagreement in the whole committee or the subcommittee about the importance of work in this field. It is not a romantic work, as I have said time and time again, but it is very important.

Thank you. I will forego at the moment further questioning, Mr. Chairman.

Senator O'MAHONEY. Mr. Kilburn?

Representative KILBURN. Mr. Stein, you state in the first part of your statement:

"The comments I make here are my own, not necessarily representative of CED."

As I recall the history of the Committee on Economic Development, its objective is a very useful one. In fact, I think one of our colleagues here in the committee was at one time the head of it. Does the Committee on Economic Development have meetings very often?

Mr. STEIN. Yes, we have frequent meetings.

Representative KILBURN. But you say here as I gather it, these views are your own and refer back to a 1954 report of the Committee.

Now, what I would like to know is, Do you think that the Committee on Economic Development backs you up in everything you say in this statement?

Mr. STEIN. Well, with respect to the subjects that the Committee has studied and discussed at meetings, I think the views I have expressed here are representative of the Committee's feeling. The Committee as a group has not studied the Economic Report. The Committee has studied the problems that are covered in the Economic Report.

We have been doing some work on the problem of inflation. We have done a great deal of work on the problem of recession. And I think that the views I express are within the spirit of the Committee's utterances and thinking on these matters.

Representative KILBURN. My only thought is that I have a great deal of respect for that Committee, and I want to be sure that the Committee as a whole backs you up.

Mr. STEIN. You see, there is a strong principle in the Committee for Economic Development that nobody speaks for anybody else. It is a committee of businessmen, and the businessmen decide their own policies. The staff helps them.

I am a member of the staff and do not speak for the Committee.

Representative KILBURN. We are going to have this question of price supports, I presume, up in the House some time in this session. What would you or your organization think if the opportunity arose to vote to remove all price supports? Mr. Fleming?

Mr. FLEMING. Let me say with regard to this matter our folks, of course, have discussed this throughout the width and breadth of the land. There are many of our members who would support such a policy.

However, the clear majority would want to not go to such a position immediately, recognizing the surpluses which are now in Government hands which would make the market price situation far worse than if they hadn't accumulated in the first place.

And so our folks have come together rather firmly with regard to the recommendations spelled out in this report—which is to relate price supports to the market, not to an arbitrary formula that is backward looking and that can't possibly reflect changes in market conditions. We would rather move gradually in the direction of eliminating Government regulation of individual farming operations than to do any such thing precipitously as I understand your proposal would do.

Representative KILBURN. It isn't even a proposal.

Mr. FLEMING. Well, the comment that you make would do, then.

Representative KILBURN. In other words, you think it ought to be done gradually?

Mr. FLEMING. I think that in this instance the particular words arrived at very carefully by elected farm leaders seeking to adopt sound policies that move in the direction and at the rate of speed farmers will support may be important. In other words, I think the statement included in my statement is the most accurate reflection that I can make of the consensus viewpoint of our 1,600,000 member families.

Representative KILBURN. Well, in your statement it is fine. But of course the situation may very well arise when you come to it that you cannot vote on that situation.

Mr. FLEMING. We are confident we can help to provide that opportunity for you.

Representative KILBURN. Thank you, Mr. Chairman.

Senator O'MAHONEY. Mr. Curtis?

Representative CURTIS. Thank you, Mr. Chairman. I have some specifics that maybe I will take up first.

First, to Mr. Mahon. You recommend this labor advisory committee. Don't we have a labor advisory committee now in the Department of Labor?

Mr. MAHON. There is supposed to be a committee over there now. And I have mentioned that in the complete statement.

However, that committee, as we understand it, has never had a meeting in the last couple of years and is only representative of one labor organization. And there are a good many various labor organizations in the country today.

Representative CURTIS. It has representation of the AFL–CIO, is that right?

Mr. MAHON. Yes; it is strictly limited to that.

Representative CURTIS. The unions you represent, as I understand it, are what we might refer to as the small independents, similar to small businesses. Am I right in that?

Mr. MAHON. That is correct. The majority of them are small in that they don't represent entire industries in a block, or things of that nature. However, some are substantially larger than many of the component units of the AFL–CIO. As you probably know.

The Secretary of Labor tells us there are about 60 million that have been employed in this country, and of those perhaps now since they have kicked out the teamsters, the AFL–CIO represents about 15 million. So the other 45 million of course are in independent unions or not organized yet.

Representative CURTIS. Well, I certainly think your recommendation there is a very well-founded one, that there should be representation of the independent unions on the advisory committee. And I am a little bit shocked to learn that that committee has not been meeting.

Mr. MAHON. We feel, Congressman, that that situation has gone to a point where it needs attention from Congress. I think some of the things that have been revealed indicate that there is something wrong. And Congress has seen fit in the Senate and the House to establish a Committee on Small Business. And certainly that is an integral part of our economic life.

We believe that small unions, small labor organizations, or unrecognized or unrepresented groups, have problems that are of vital concern to the welfare of this country and should have a place where they can get a hearing and get the facts established. It is impossible for that to be done through the Department of Labor. We found that it is strictly dominated by the advisory committee, which is composed of the two gentlemen who represent the large federation.

And, to the best of our knowledge, it does not even hold meetings. Certainly, no advisory committee can be representative of all if it doesn't have different views on it. We think that that would be the best way to find out what these problems are.

So we are recommending that the House and Senate establish such committees as they have for small business.

Representative CURTIS. I appreciate your explaining that. I agree with you.

Now, to just a point for Mr. Fleming. And, incidentally, I thought that these papers collectively were excellent and extremely helpful, all of them.

One point, though, that seems to me an inconsistency in the Farm Bureau's position—and I bring it out so you can comment: You recommend the authorization of mutual security and foreign aid program be reduced.

On the very next page you are recommending that Public Law 480 be extended. Actually, Public Law 480 is generating considerably more than $62 million annually which money in turn is being used for identical programs under the mutual security and foreign aid.

Now, do you think we ought to continue Public Law 480 as it is without, for example, the Congress having some sort of control over what that money is spent for? I am not talking now from the farm angle. You are using farm surpluses which generate in effect counterpart funds which in turn are used to carry out the identical programs set up under the mutual security and foreign aid.

Where are we going to go?

Mr. FLEMING. First of all, Congressman, let me say that we would like the record to show that no one is less responsible for the governmental policies that have contributed to building up the surpluses in agriculture than is the American Farm Bureau Federation. We have taken the lead for 11 years in trying to get these policies changed.

Three years ago we had to take account of the fact that the surpluses were at hand and were depressing farm income. We knew that there was nondollar demand abroad for some of these surpluses. We recommended, first of all, renewed effort to change the policies which had helped to create the surpluses and secondly we recommended selling some of these excess stocks for local currencies and trying to get the best possible use to the American taxpayer of the counterpart funds so generated.

I am certain we would want to work with Members of Congress who are interested in so operating Public Law 480 that it does the maximum good and avoids the pitfalls which are inherent in such approaches.

Now, in terms of a comparison with the mutual security program, I think there are some differences. They may not make a fundamental distinction, but I think there are some highly significant differences.

First of all, much of the economic aid under mutual security is not used in a way that provides anywhere near the comparable dollar return to that which we get from counterpart funds—at least in many countries.

Representative CURTIS. Well, the point is you can use them for the same thing. Let me illustrate, and I am not arguing the merits of programs—objectives, that is. Take our student-exchange program. They come before the Appropriations Committee under the Mutual Security Act of economic aid and others to get funds. Then what they don't get there, they then come in under Public Law 480, and in some instances get equal amounts for almost any program that has been advanced under mutual security.

You will find the identical program can be accomplished through Public Law 480. And we are dealing really with more dollars in 480 than is in our appropriations the other way. And I just don't understand the consistency of recommending cutting one and increasing the other. If I wanted to cut any, I would tend—well, not necessarily cut; but talking about procedure, I would certainly get 480 funds under the control of the Congress. And so that whatever we are doing in the area of foreign aid, that we could follow it.

And yet the proponents of continuing 480, which include your organization, have resisted the attempts of those of us who are interested in getting control of how these moneys are spent.

In fact, they have argued that it is interfering with the disposal of agricultural products.

Mr. FLEMING. I have not been in on any discussions of this particular item, Congressman Curtis. I do visualize some operational problems in the Congress seeking to negotiate deals with other countries and the governments of other countries.

Representative CURTIS. That is the argument.

Mr. FLEMING. I can visualize the basis for the argument. It has never been made to me, but I can see it.

We share your concern, Congressman, that Public Law 480 carry out its original purpose and that it be terminated just as soon as practicable. Because we think it is, at best, an emergency program to tap nondollar demand for agricultural products during a transition period.

Representative CURTIS. I wish the Farm Bureau would look at both programs. If they are going to recommend cutting one and increasing the other that they reconcile the two.

And, incidentally, I suggest, don't buy that argument about interfering in making deals and setting up programs, because I think on examination it just doesn't carry weight. We had that out on the floor. And frankly, I just don't think it makes any sense at all. If you have any program that we are going to embark upon in any foreign country, it is going to have to be through negotiations.

The only argument being made is that if these programs are subject to the scrutiny of the appropriations committees that it is going to interfere with putting them over.

Well, heavens, that same argument can be used for any mutual security program that we have got, or economic aid. It is a matter of procedure, not of substance.

Senator O'MAHONEY. Congressman, I think it is both substance and procedure. I agree with everything that you have said. How in the world the Congress of the United States can maintain any control over the expenditure of the public money from the United States Treasury without looking into methods in which the money is spent abroad is beyond me. It is a delegation of a congressional power to unknown individuals who have never been presented to the Congress, who are not known to the Congress, never having been confirmed. And they do as they please.

We open the door of the Treasury and let them spend the money as they wish. I think all are men of good will. I have no charge against the integrity of any of these. But it seems to me to be an arrangement that is bound to fail, not only in not getting the results that we are after but in wasting the money of the people of the United States.

I want to speak briefly here of the development of loan program which was authorized for the first time last year in the Mutual Security Act.

Now, this program in the authorization bill provided for an appropriation to the President. The authorization bill provided for $500 million for fiscal 1958 and $650 million for fiscal 1959. The appropriations committees cut the appropriation for fiscal 1958 from $500 million as authorized to $300 million. But the President's budget calls for $650 million for the next fiscal year.

Now, the appropriation of $300 million was made directly to the President. The President's signature on the appropriation bill was scarcely dry when an Executive order was issued, signed by the President, delegating those powers and duties to the Department of State.

Then the Secretary of State waived the administration of the fund over to the International Cooperative Administration. Then on reexamination of the law, I found that there was a provision there which set up a manager of the fund, which was purely a ministerial power; but the manager of the fund was clothed with the power to delegate his authority to any individual in any department of the Government.

Now, the authorization in the appropriation to the President was made to satisfy the country and the Congress that papa would look after the expenditures.

Well, papa can't look after the expenditures. It has to be done by subordinates. And the rule is so full of things like that that it would be easily possible for persons unknown, but nevertheless selected through these various steps of delegated powers, to enter into contracts for the expenditure of the public money that was really dishonest. I don't believe they would intentionally do it, but the power is there.

Congress has let that slip away. And I quite agree with what Congressman Curtis has to say about the identity of the problem between mutual security and the Public Law 480.

Mr. Fleming?

Mr. Fleming. I would just like to make this comment. Anything that I said was not intended to question the responsibilities of the Congress to investigate and to make sure that the money is well spent. The truth of it is we are concerned about it just as you are—and we're appreciative of your interest in it.

Representative Curtis. I know you are.

Mr. FLEMING. The point I had sought to comment upon was the rather specific question of whether the Congress should itself be in on the negotiation of the agreement for sales under Public Law 480. That is the only part I intended to refer to.

Senator O'MAHONEY. Well, then, your only point was that Congress should not take the executive function of carrying out the contract.

Mr. FLEMING. This is the only point I intended to make.

Senator O'MAHONEY. You agree with me.

Mr. FLEMING. Yes.

Senator O'MAHONEY. That the Congress should fix the standards which would guide the activities of the executive officials who carry it out.

Mr. FLEMING. I would go even further than that. We are in favor of tightening the standards with regard to 480 operations, for example.

Senator O'MAHONEY. Let's not go into this any further at the moment.

Mr. FLEMING. I'm confident we are in substantial agreement.

Senator O'MAHONEY. The point is, do we agree there ought to be fixed standards by the Congress?

Mr. FLEMING. Yes, indeed, sir.

Senator O'MAHONEY. I think it would be helpful if the American Farm Bureau Federation will make that clear in the communications it has with its members.

Let me say to my colleague—did you have another question?

Representative CURTIS. Yes.

Senator O'MAHONEY. All right.

Representative CURTIS. One comment I wanted to make was—I thought your points in constructive criticism of the report were well taken. You are familiar with this committee's subcommittee on agricultural policy.

Mr. FLEMING. Yes, sir.

Representative CURTIS. I think we have gone into exactly this kind of approach that you mentioned. And our report, I understand, will be out in a week or so, will it not?

Mr. LEHMAN. I would think 10 days.

Mr. FLEMING. I want to compliment the Joint Economic Committee for their leadership in this field and for the compendium, most of which I have read. It sheds much light on this important area of public policy.

Representative CURTIS. I am glad you feel that way, and I, of course, am in turn doing everything I can to advertise the fact that this work has been done, and to call people's attention to it. Because I think it has been light rather than heat. And that is what we badly needed.

Mr. Perry, you expressed the hope that the committee will support budget recommendations for specific statistical programs. And yesterday I called attention to the fact that one of those proposals is to reduce the Internal Revenue Service statistical budget by $166,000, which would result, as I see it, in postponement of the statistics on the use of the new depreciation methods in the tax code.

And I presume then that you would not take exception to that particular item. At least I would hope that you and your organization would not.

Mr. PERRY. I cannot respond as a representative of the conference; that particular problem has never come up, to the best of my knowledge. But as an individual, I would like to see further statistical work done on the use of new depreciation methods.

Representative CURTIS. Thank you very much.

Now, Mr. Stein, apart from whether you recommend a tax reduction now, do you think that any recessionary action should rely heavily on vigorous easing of monetary policy; and how effective do you think that the Federal Reserve's actions so far have been. And would you make any specific recommendations for monetary policy now?

Mr. STEIN. Well, it is very difficult to estimate the effectiveness of what has been done. I would think that they should now proceed further and faster to ease credit.

Representative CURTIS. For further easing. Because they have eased.

Mr. STEIN. I think they should take further steps. I think this is the one main thing we can appropriately do now and that we must certainly test the power of this instrument as fully as we can.

Representative CURTIS. Well, do you think—the thing I am really getting at is: Do you think we ought to test the monetary phase a little more vigorously before we go into the tax reduction?

Mr. STEIN. Yes, I would think so. I would think so primarily because if we should find that the economy turns up very quickly or that this further easing of monetary policy is very effective, we want to be in a position to reverse and to damp down the pace of the recovery and not let that swoosh up too fast, which you can do with monetary policy.

But if you enact the tax reduction, you have the tax reduction for at least a year.

I am quite sure you cannot undo it quickly.

So I would think you would not take the step on taxes until the situation had become fairly serious, and until you knew that you were in a position where you were unlikely to be creating an inflationary problem for yourself.

Representative CURTIS. Mr. Schmidt, would you want to comment on that?

Mr. SCHMIDT. Yes. I didn't go particularly into that because my associate Walter Fackler testified last Wednesday before this committee on this. He developed what he called a heirarchy of steps. He thought, as Mr. Stein does, that the first step ought to be a relaxation of monetary restraint and then fiscal policy, a tax reduction.

Third, a stepping up of existing Government procurement programs, and finally any additional Government expenditure programs.

And we have felt that the Federal Reserve has done, on the whole, an admirable job in resisting the upward pressures in 1955, 1956, and the early part of 1957. And that the relaxation has been in the right direction. And probably it ought to go a little more rapidly from now on.

But there is danger that any undue relaxation will again set in motion upward price pressures. So I think we have to be somewhat patient because it takes a little time for any change in monetary policy to reveal itself in private and individual business decisions.

Representative CURTIS. I want to again comment favorably on the very fine constructive criticism in the papers in regard to the format and substantive features of the President's Economic Report. I know that you all are aware of the fact that any report has its limitations as to what it can do.

This committee has worried for a long time, as I know the Council of Economic Advisers have, too, as to just what should be attempted to be accomplished in this report. And I take your criticisms on the paper in the way of constructive criticisms, realizing that you recognize, too, that by moving over in one area you might bare some other spot.

But I think there is a lot that can be done. And then I would like to call attention, Mr. Schmidt, to some work that this committee is presently engaged upon in regard to this question of inflation, price changes, and so on. There is another area we are trying to put more light and less heat on to see if we can bring up, or bring out, what are the factors that go into—the economic factors that go into this question of inflation, price changes, and so forth.

I wonder, Mr. Lehman, I was just pointing out the fact that our committee was—the staff, rather—is going into projected studies in this area of inflation, price changes, and so on, and that we hope by doing that to throw a great deal more light and less heat on that subject.

Where are we presently in that regard?

Mr. LEHMAN. Arrangements have been completed for a compendium of technical papers similar to the compendium we published this past fall on agricultural policy. Publication of those papers will be followed by hearings, to take place, perhaps, in May. After the participants have had an opportunity to present their papers and discuss them, there will be an additional week of hearings where the interested parties may come in and discuss the compendium and the statements.

Representative CURTIS. I wanted to bring that out because of the interest that your paper has shown and the fact that this committee is aware of that. And I might say we are getting, as we always do, very fine cooperation from the Council of Economic Advisers.

Mr. SCHMIDT. In that connection, I looked over that proposed compendium. It looks to me like a very good one. I had one minor disappointment. I don't know whether it is too late to correct it or not. I think I found the word "cost" in only one of the main titles.

You find the word "prices" over and over again. But the word "cost" appeared only in one place.

I would think that a man like Prof. Edward Chamberlin who has written this new pamphlet to which I referred, which is a remarkable document, would make a very fine addition to the panel if he is not already on it. I believe he is not. So that would be my only suggestion if it is not too late.

Representative CURTIS. I appreciate your making it. And I hope that other interested groups will always make these suggestions to us.

Mr. Chamberlain has been invited but was unable to appear. If you could influence him to come along, it would be helpful.

Mr. SCHMIDT. Maybe he could present a paper. I think it is the first fresh light that I have seen from an academic economist who has no axes to grind on the relationship between price changes and cost changes—particularly wage changes.

Representative CURTIS. Thank you, Mr. Chairman.

Senator O'MAHONEY. Congressman Curtis, thank you.

I may say to the witnesses that the committee is always happy to have their comments upon any of its papers that those who respond to our invitations to testify would care to make. Any improvements that can be made in these rather complex subjects should be made. And we welcome them from all sources.

Particularly with the intelligence that we have with us today. I am always anxious whenever a panel has arrived before the committee to testify representing different factors of the economy to stimulate them into self-discussion, self-examination in the sense not that each witness should examine himself, but that he should examine his companion.

I would like to get Mr. Fleming and Mr. Stein and Mr. Schmidt and Mr. Mahon and Mr. Perry discussing the papers which have been submitted to us today. Are you all in agreement?

Let me begin with you, Mr. Fleming, on the right? Have you any comment to make on the papers of any of your fellow panelists?

Mr. FLEMING. I appreciate the papers very much, and I agree with most of the points made. I have a sort of gratuitous reaction to Mr. Mahon's suggestion with regard to the value and the function of advisory committees. I have little confidence and practically no enthusiasm for this approach to the problem to which Mr. Mahon refers—and which I can well understand. Such advisory committees usually are hand picked by one means or another by the one they are intended to advise. It seems to me Mr. Mahon is relying on this approach having a value it may not have in practice. We have grave misgivings about this approach ourselves.

After all, you have officials who are responsible—made responsible either by the Congress or the President of the United States. They most certainly will seek advice from every place they think helpful advice and counsel can be obtained—but the responsibility is theirs unless and until they are relieved of it.

I assure you these advisory committees can be misused very easily—either as a shield or as a device to neutralize the free institutions or as a rubberstamp for unwise action. You see they aren't and can't be really responsible. I just present this as a reaction of a private farm organization to the overuse of formalized advisory committees. I wouldn't put a lot of reliance upon this approach as a means of solving the problems which I presume you are concerned about and which I can understand.

Mr. MAHON. I would comment there.

We believe that factfinding is the important thing. We think that today the working people have some pretty decided ideas about what is causing their problems, too. We have due respect for all experts, too. And I came from a coal mining and farming community myself. They had sort of town councils and that sort of thing there. A good many problems were worked out that way, not necessarily the view of any one person, but a combination. And we think that a little more of that down-to-earth kind of advice through a factfinding committee, or a committee on small unions in our case, like you have for small business, would certainly be beneficial and help to let the Congressmen and Senators—I know they are very busy—hear the views of the people who are directly involved.

Senator O'MAHONEY. Mr. Stein, I was impressed by some of the remarks in your paper. Much to my disappointment I was called out of the room while you were testifying and I had to glance over it rather hurriedly. But it seems to contain a criticism of the economic report which if well founded deserves great consideration by this committee.

You say on page 2:

> I think the report needs more analysis, more candor, and more clarity. I would like to see the report select the main issues involved in achieving the objectives of the Employment Act, analyze the meaning of these issues and the viewpoints that are consistent with what is known and not known about them, and explain the administration's conception of the American economy and political system that leads it to the policies it recommends.

Now without any reference to the report itself, I think that in this sentence you have pointed directly at one of the most important functions that this committee can perform. And that is to make clear in its report the economic facts which are at the basis of any determination we make. We have testimony here about small business. Congress passes the small-business law, for example. We have aid to agriculture. Even when we condemn the large expenditures and price supports and recommend curtailment, we still don't have a clear-cut policy which anybody says will cure the problem.

The same is true in other fields.

Now, Mr. Stein, on the bottom of page 2 you say this, quoting from the report. The report says:

> If fiscal and credit policies are sufficiently stern to keep the price level from rising, there are risks of economic dislocation and unnecessarily slow rate of economic growth and extreme and inequitable pressures from some who are not themselves contributors to the inflation of costs and prices.

And then you criticize this statement as inadequate, as lacking a recommendation.

I would like to know what the other members of the panel feel about Mr. Stein's criticism of the report and whether or not any of you believe that fiscal and credit policies should be more stern than they are now?

And primarily, of course, do you believe that the Congress should take any action to keep the price level from rising? If so, what action?

Mr. Stein, since you stated it first, let me ask you to respond first.

Mr. STEIN. In the first place, let me say that I object to the word "stern." I think that is an emotional word.

Senator O'MAHONEY. Who used this?

Mr. STEIN. This word is used in the report. It was used in the Economic Report.

I think that fiscal and credit policies should have been more restrictive in the 1954–57 upswing, especially in the early phases of it. I think we let the economy recover or move up too rapidly. But I think we are talking here about a long-run prescription for the American economy.

Senator O'MAHONEY. Suppose I take the language as it is presented to the Board and as you brought it here before our eyes. The statement is:

> If fiscal and credit policies are sufficiently stern to keep the price level from rising, there are risks.

Well, now, let's forget the risks. Do you believe that the price levels should be kept from rising?

Mr. STEIN. Yes.

Senator O'MAHONEY. Do you believe stern policies should be used to do this?

Mr. STEIN. Yes. I believe restrictive policies should be used, yes.

Senator O'MAHONEY. Restrictive or restricted.

Mr. STEIN. Restrictive.

Senator O'MAHONEY. Do you recommend any such policies to this committee?

Mr. STEIN. For today?

Senator O'MAHONEY. Yes. This is the Economic Report of 1958. We have got to make our comments on it.

Mr. STEIN. I believe the restrictive policies must be adjusted to the degree that is necessary to prevent the inflation, and I think we are not in an inflationary situation now. So what I am saying is that restrictive policies should be used to the degree necessary to keep prices from rising.

Senator O'MAHONEY. Who is going to determine what the degree "necessary" is?

Mr. STEIN. Well, I think the responsibility for this lies, as I have indicated, mainly in the monetary and fiscal policies of the Government. Monetary policies are determined by the Federal Reserve. I think they must determine that. And I think——

Senator O'MAHONEY. Well, then, you make no recommendation with respect to the powers of the Federal Reserve?

Mr. STEIN. I think their powers are adequate and I am recommending that they use them to the extent necessary to keep prices from rising.

Senator O'MAHONEY. Well, does that imply that they were not sufficiently well used?

Mr. STEIN. I think they were not sufficiently restrictively used, yes.

Senator O'MAHONEY. What would you have recommended had you been in a place to exercise the discretion?

Mr. STEIN. Well, I am not in a good position to say this, because I testified before a subcommittee of this committee back in 1955. At that time I said I thought they were starting to restrict too early. But I am recanting. I was mistaken then. This is no criticism of them—the Federal Reserve—because they were more restrictive than most economists thought was appropriate at the time.

But I think with hindsight they should have been more restrictive in 1955.

Senator O'MAHONEY. Mr. Schmidt, would you care to make any comments on that?

Mr. SCHMIDT. Well, I don't quite agree with Mr. Stein that it is the duty of Congress or the administration to keep prices from rising. This subject, I think, was quite well discussed in either last year's—or the year before—Economic Report. That when you get a boom, you get a general bidding up of wages and prices in general. So I don't think the goal ought to be absolute price stability, but rather it ought to be—seen as the maximum employment goal, it ought to be some kind of a target that you shoot at, but you don't lament if you don't hit it exactly on the decimal point.

There must be some kind of range in a flexible and a free economy within which you operate.

So I think that during the period like the last 2 or 3 years you are bound to get some useful price increases; if you are working toward full or maximum employment you are bound to get some upward price pressure. That should not be regarded as an unmitigated evil.

Senator O'MAHONEY. Let me call your attention, Mr. Schmidt, to your statement on page 3 of your paper. I read now from Mr. Schmidt's paper on page 3.

> The report urges self-restraint on the part of business and labor in price and wage policy. How much reliance can legitimately be placed on such self-restraint is a moot question. It is the function of competition to set prices that will discipline both the market for goods and the market for services, We are told that "business managements must recognize that price increases that are unwarranted by cost, or that attempts to recapture investment outlays too quickly, not only lower the buying power of the dollar, but also may be self-defeating by causing a restriction of markets, lower output, and narrowing of the return of capital investment."

Then you say:

> Actually, this type of thinking is, in a fundamental sense, a negation of a free-market philosophy.

Will you proceed with your comment in light of these words?

Mr. SCHMIDT. Well, it is the same point that Mr. Stein had in his paper, that if you have to rely on the business and labor leaders to discipline the economy, your reliance rests on a rather weak reed; that you ought to rely primarily on monetary and fiscal policy to create the overall climate of total demand and to help to maintain economic stability and economic growth.

Then it is up to the individual to try to maximize his own returns, whether as a wage worker or as a businessman or as a farmer.

And this idea that you can expect people voluntarily to forego a wage increase or a salary increase in the interests of avoiding inflation doesn't appear to me to be very realistic.

If a man is offered a salary increase and somebody says, "Well, we are in an inflationary epoch and you should not take that salary increase," we would want to examine his head.

But yet this seems to be what the report implies.

So I would put the primary emphasis through monetary and fiscal policy to create the restraints on the economy to prevent extreme fluctuations and to prevent extreme upward price pressure.

I wouldn't go quite as far as Mr. Stein in criticizing the basic structure of the Economic Report, but I have some of the same feelings.

For example, I think there has been no analysis as to what level of employment or unemployment is consistent with reasonable stability in the overall economy in terms of prices and wages and so on. We do know that when unemployment drops below 3 or 4 percent, we do have upward pressure on the consumer price index. Almost automatically when unemployment rises above 5 percent, that pressure either disappears or is greatly relaxed.

I think our postwar experience demonstrates that. Now it is that kind of thing that I would like to see analyzed in the Economic Report.

Senator O'MAHONEY. Well, I must say I think we have hit on a rather productive field here. But the buzzer sounds warning us that the Senate is about to go into session. I am afraid we will have to adjourn this meeting. I do it very regretfully.

Mr. SCHMIDT. Could I make one comment. I happen to be chairman of the Bureau of Labor Statistics, Business Research Advisory Council. We meet regularly. There is a similar labor group which meets regularly 3 or 4 times a year in the BLS. I just wanted to set the record straight that the Department of Labor does have these advisory committees which meet quite regularly and Mr. Mahon must have been referring to some other kind of committee which apparently doesn't meet.

Senator O'MAHONEY. I want to say this: I would like to invite each of you gentlemen to take with you as you leave the committee room now, copies of the papers of each of your colleagues. And I will invite you, if you will be kind enough to do it for the benefit of the committee, to write your comments on the papers of your colleagues. Would you be willing to do that?

Representative TALLE. Mr. Chairman, will you permit me to suggest another assignment also?

Senator O'MAHONEY. Of course.

Representative TALLE. I don't demand this. I just invite it. The question is this: Is it not extremely difficult to maintain full employment and a stable price level at the same time?

Mr. SCHMIDT. That was the point I referred to a moment ago.

Senator O'MAHONEY. The only way to keep the prices down is to keep a reasonable number of people unemployed.

Mr. MAHON. We do have some comments with regard to the statements Mr. Schmidt made. I think he's off some—he covered a lot of territory there.

Senator O'MAHONEY. Mr. Fleming.

Mr. FLEMING. My only question was to be certain that the statement rather than our individual summary would be placed in the record.

Senator O'MAHONEY. Yes. The full amount will be placed in the record as though presented here.

Thank you very much. The committee is very much obliged to you for a very interesting presentation.

The next meeting will be on Wednesday morning, tomorrow morning, February 5, at 10 o'clock in this room, when the Assistant Secretary of Defense, Mr. W. J. McNeil, will be the witness. Mr. McNeil is the Comptroller of the Department of Defense.

(By direction of the chairman, the following is made a part of the record:)

COMMITTEE FOR ECONOMIC DEVELOPMENT,
Washington, D. C., February 7, 1958.

Mr. JOHN W. LEHMAN,
Clerk of Joint Economic Committee,
Congress of the United States, Washington, D. C.

DEAR MR. LEHMAN: After the panel of which I was a member concluded its testimony on February 4, Senator O'Mahoney invited each member of the panel to submit written comments on the papers of the others. There is only one point that I would like to make in response to this invitation.

I would like to associate myself with Mr. Perry's endorsement of the proposals for improving Federal economic statistics contained in the Economic Report and in the Budget. I believe that improvement of economic statistics could, among other things, contribute substantially to better policy for dealing with recessions such as the current one by enabling us to detect economic changes earlier and to understand their implications better.

Congressman Talle invited the panel members to comment on a question which he raised, as follows:

"Is it not extremely difficu't to maintain full employment and a stable price level at the same time?

My answer to this should be, "Yes, difficult, but not impossible, the degree of the difficulty depending on how full is full employment."

This is a long story and I expect to discuss it further in the paper that I have been invited to submit to the subcommittee of your committee that will be studying the problem of prices this spring.

I would like to thank you and the committee for the courtesy afforded to me on the occasion of my appearance on February 4.

Sincerely yours,

HERBERT STEIN.

CHAMBER OF COMMERCE OF THE UNITED STATES,
ECONOMIC RESEARCH DEPARTMENT,
Washington, D. C., February 5, 1958.

Hon. HENRY O. TALLE,
Congress of the United States,
House Office Building, Washington, D. C.

DEAR CONGRESSMAN TALLE: Pursuant to your request for additional information of the panel members on full employment and price stability at last Tuesday morning's hearing before the Joint Economic Committee, as a broad generalization I would say that the sellers' market is never conducive to price stability. This is true of the goods as well as the services market.

Actually, we do not know what peak levels of employment are consistent with general price stability. But I would like to emphasize that what is true of the labor market is true of other services or goods markets.

All one has to do is to ask this question: "What would happen to rents, if we always had more tenants seeking space than there was space available at current prices?" Obviously, rents would rise, and this is very easy to see.

Bertil Ohlin, a famous Swedish economist, set forth a rigorous standard in these words: "Full employment is the degree of employment that exists when the aggregate demand for commodities is at the highest level that is compatible with the condition that demand at existing prices is balanced by current supply" (The Problem of Employment Stabilization).

And Senator Paul H. Douglas, in 1952, in his book, Economy in the National Government, stated: "I submit as a rough judgment that probably we should not run a governmental deficit unless unemployment exceeds 8 percent and. indeed, possibly slightly more than that. When unemployment is between 6 and 8 percent, the governmental budget should at least balance and therefore be neutral in its effects. When unemployment is over 8 percent, we should have a deficit; but when it is under 6 percent, there should be a surplus."

Does experience suggest what level of employment is in keeping with the preservation of the purchasing power of the dollar?

Any appeal to the statistical record may be subject to many doubts and questions. But for what the record since 1945 is worth, it does suggest that 4 percent or less unemployment is not consistent with stability in the Consumer Price Index as can be seen from the accompanying table.

Year	Unemployment as percent of total civilian labor force	Year to year consumer price changes [1]	Year	Unemployment as percent of total civilian labor force	Year to year consumer price changes [1]
1946	3.9	+6.5	1952	2.7	+2.5
1947	3.6	+12.1	1953	2.5	+0.9
1948	3.4	+7.3	1954	5.0	+0.4
1949	5.5	+1.0	1955	4.0	−0.3
1950	5.0	+1.0	1956	3.8	+1.7
1951	3.0	+8.2	1957	4.2	+3.1

[1] Percentage point changes based on 1947–49=100.

When unemployment was below 5 percent the value of the dollar generally deteriorated. In 1949 and 1950 unemployment reached 5.5 percent and 5 percent, respectively. In 1949, consumer prices declined by 1 percentage point and in 1950 they remained steady until Korea. In 1954 and 1955 unemployment reached 5 percent and 4 percent, respectively, while consumer prices declined 0.3 percentage points in 1955 and rose only 0.4 percentage points in 1954. In the other years since 1945, unemployment generally averaged under 4 percent and prices generally rose from a minimum of 0.9 in 1953 and 1.7 percentage points (1956) to a maximum of 12.1 in 1947 and 8.2 in 1950. In 1957, with 4.2 percent unemployment, the dollar deteriorated 3.1 percent in value.

What, then, does the record indicate? The period since 1945 has been one of postwar readjustments with suppressed inflation in the early part, then a Korean war and large Government budgets ever since. The statistics themselves are at best rough measures and certainly not beyond dispute. No attempt is made here to refine them. But, apart from these other limitations, the record does suggest as a possible tentative conclusion that unemployment below 4 percent, or possibly 5 percent, may not be consistent with the preservation of the value of the dollar. If one of our essential goals is stability in the purchasing power of the dollar, unemployment in the neighborhood of 5 percent is more conducive to such stability than unemployment of 4 percent or less.

Unemployment, even of only 1 percent or one family, is a hardship for those involved, just as unrented quarters or underutilized physical resources may be a hardship for savers, investors, and owners. But a sellers' market in any field is likely to create upward price pressures. Even if a sellers' market does not exist, where powerful unions make demands on a take-it-or-leave-it basis and where union leaders are in competition for prestige and power with each other, the problem of persistent cost-push pressure complicates public monetary and fiscal policy. Even in periods of widespread general unemployment wages may be driven up, and with the built-in automatic wage increases in long-term labor contracts the problem of stabilization is further compounded.

If cost-push pressures originating in wage bargains are very strong, the degree of unemployment required to hold down prices could be considerable. The wage pressures of the unions depend on goals and strategies which cannot be predicted in advance with any certainty. To the extent that these bargains are reasonable, the degree of conflict between a high employment goal and price stability is reduced. But if they are excessive, the bargains made will produce a corresponding conflict between these two goals.

I am glad to respond to your request, and you are welcome to insert this in the record of the hearings of the Joint Economic Committee, if you think it would be helpful.

Yours sincerely,

EMERSON P. SCHMIDT,
Director, Economic Research.

(Whereupon, at 12:03 p. m., the committee was recessed, to reconvene at 10 a. m., Wednesday, February 5, 1958.)

JANUARY 1958 ECONOMIC REPORT OF THE PRESIDENT

WEDNESDAY, FEBRUARY 5, 1958

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

The Committee met at 10 o'clock a. m., pursuant to recess, in the Senate Office Building, room 457, Hon. John Sparkman (vice chairman of the committee) presiding.

Present: Senators Sparkman, Douglas and Flanders; and Representatives Bolling, Talle, Curtis and Kilburn.

Present also: Mr. John Lehman, acting executive director.

Senator SPARKMAN. The committee will come to order, please.

We heard last Monday from the Director of the Bureau of the Budget as to overall expenditure and revenue plans and expectations of the executive branch. We all know only too well that the needs for national security and defense are not only the largest, but one of the most important factors in shaping the pattern of Government expenditures and determining the tax needs with which Congress must deal. Because it is such a large and important element bearing upon the economic health of the country and upon economic stability and growth this year and in the years ahead, the committee has felt it imperative that we take a little more intensive look at the portion of the overall budget which is involved in the Defense Department plans.

To this end we invited Secretary McElroy to discuss this problem with the committee and he has designated Assistant Secretary W. J. McNeil as his representative.

Mr. McNeil is Comptroller of the Defense Department. In that capacity he is in intimate contact with the financial operations of what is by far the largest enterprise in this country.

Mr. McNeil, we are glad to have you with us. We will be pleased to have you proceed in your own way.

By the way, I believe you are accompanied, are you not? Will you present them for the record?

Mr. MCNEIL. Mr. Max Lehrer and Mr. Henry E. Glass, of my staff, who work with me.

Senator SPARKMAN. Thank you.

STATEMENT OF W. J. McNEIL, COMPTROLLER OF THE DEFENSE DEPARTMENT, ACCOMPANIED BY MAX LEHRER, DIRECTOR, ECONOMIC AND FISCAL ANALYSIS DIVISION; AND HENRY E. GLASS, CHIEF, ECONOMICS BRANCH, ECONOMIC AND FISCAL ANALYSIS DIVISION

Mr. McNEIL. Mr. Chairman and members of the committee, if it is satisfactory, I might go through a statement I prepared which may be helpful in putting the defense problem in focus or at least present it in a way which might be helpful in the work of the committee. As you said in your opening statement, the magnitude of defense operations is such that it does affect the economic picture to some extent at least.

I am glad to be here as a representative of the Defense Department to contribute what I can to your deliberations on the President's Economic Report for 1958. Since Defense, notwithstanding its size and importance, is only one of the departments of the Government, it would be appropriate for me to focus my discussion on the defense aspects of the subject under consideration. I note that you have already heard the Council of Economic Advisers, the Director of the Budget, and other Government officials, and will later hear the Secretary of the Treasury.

Although economic factors are taken into account in formulating the defense program and budget for any particular year, essential military requirements must, and do, receive overriding priority in the Department of Defense. The defense budget for fiscal year 1959 is no exception. This budget and the fiscal year 1958 supplemental request, which in effect is an advance installment on the 1959 program, are predicated on the defense needs at this time, taking into account, of course, the economic and fiscal capabilities to support the program. There can be no other logical basis for formulating a defense budget.

Before discussing the defense program and budget, it may be helpful to the committee to explain the three dimensions or measures of the defense program, namely, new obligational authority, commonly called appropriations; planned obligations; and expenditures.

Appropriations or new obligational authority are the funds granted by the Congress each year.

Obligations are a measure of the level of new activity planned for the year—people to be employed, volume of contracts to be placed for goods and services, and so forth.

Expenditures are the total of payments made during the year for personnel costs and for goods and services received, regardless of the year in which the goods and services were ordered.

While there is no exact relationship for any 1 year between these 3 sets of figures, higher appropriations and higher planned obligations forecast increased expenditures; lower appropriations and lower obligations forecast lower expenditures. It should be noted, however, that obligations normally exceed both new obligational authority and expenditures, chiefly because receipts from the sale of existing assets to the military assistance program are available for use for the military department's own programs.

These receipts are applied as a credit against the gross expenditures of the military departments. Thus, the net expenditures reported understate the actual amounts spent by the services on their current programs. The degree of understatement, however, is fairly constant from year to year so that the net expenditure figures are still a good measure of trends in the defense program. Nevertheless, obligations are perhaps the best overall measure of the current defense program.

Total new obligational authority requested for fiscal year 1959 amounts to about $39.1 billion, direct obligations planned total about $41.1 billion, and net expenditures are estimated at about $39.8 billion in the President's budget. Total authority made available to the Department of Defense for 1959 will be somewhat greater than the new obligational authority shown in the budget document, since the 1959 budget also includes a request for authority to transfer, for other uses, $345 million from the working capital funds of the Department of Defense.

These revolving funds, by reducing inventories, are able to generate credits in excess of their needs. These excess credits can either be returned to the Treasury or made available for other defense purposes, as the Congress may determine.

The Congress provided $590 million by transfer from working-capital funds during fiscal year 1958, while during fiscal year 1957 a total of $437 million of excess balances in the working-capital accounts were transferred in lieu of new appropriations and an additional $672 million was rescinded.

The fiscal year 1959 budget and the fiscal year 1958 supplemental requests continue the upward trend in defense expenditures which has been registered each year since fiscal year 1955. Total expenditures in that year were $35.5 billion and increased to $35.8 billion in fiscal year 1956, and $38.4 billion in fiscal year 1957. Fiscal year 1958 and 1959 expenditures are estimated in the President's budget at $38.9 billion and $39.8 billion, respectively.

These expenditure figures by fiscal year, however, obscure some important changes which have taken place within the fiscal year. Defense expenditures in the second half of fiscal year 1957—January–June 1957—were running at a rate of about $40 billion a year compared with a budget estimate for that year of $38 billion. Largely as a result of the Department's efforts to bring its expenditures more closely into line with the budget estimate, expenditures in the July–September 1957 quarter declined to $9.8 billion and in the October–December quarter to $9.6 billion.

This represents an annual rate of $38.7 billion for the half year, compared with the current budget estimate for fiscal year 1958 as a whole of $38.9 billion.

Expenditures in the January–March 1958 quarter will probably be about the same as in the October–December 1957 quarter—approximately $9.65 billion. Expenditures for the April–June quarter are estimated at about $9.85 billion, bringing the total for the fiscal year to the budget estimate of $38.9 billion.

During fiscal year 1959 we would visualize the usual seasonal drop in the July–September quarter to perhaps $9.6 billion or $9.7 billion since this is normally the low quarter of the fiscal year, followed by a gradual rise in each of the remaining quarters of the fiscal year.

There was a good deal of discussion last summer and fall of the so-called sharp cuts in the defense program. Actually, the drop in defense expenditures from an annual rate of about $40 billion in the January–June 1957 period to a rate of $38.7 billion in the July–December 1957 period amounts to only about 3 percent, a relatively modest change. Even in the major procurement area where a large part of the reduction was concentrated, the drop in expenditures amounted to only about 5 percent. The adjustment in the defense-related industries, particularly the aircraft industry, was prompt and is now substantially completed.

The trend of expenditures, of course, does not give the full picture of the impact of the defense program on the economy. Also important in terms of economic impact is the rate of defense obligations since, as stated earlier, obligations reflect the rate at which orders and contracts will be placed for goods and services. The volume of direct obligations for major procurement and production was $14.7 billion in fiscal year 1957 and will rise to a little over $15 billion in fiscal year 1958, including the effect of the 1958 supplemental, and be about the same in fiscal year 1959.

The Department of Defense budget is normally summarized in terms of major categories as shown, for example, on page 431 of the budget document for fiscal year 1959. While the major procurement category has perhaps the most direct impact on the economy, there is a substantial flow of orders and contracts from obligations in other categories.

For example, the military personnel category includes funds for the procurement of food and clothing. Included in the operation and maintenance category are funds for the procurement of petroleum and petroleum products, repair and overhaul, some spare parts, and services and general supplies of all kinds normally purchased at the local level. Except for a small amount for planning and overhead, virtually all the obligations for military construction represent contracts placed with industry.

Similarly, a substantial portion of the obligations for research and development represents contracts with industry and educational institutions, while a small portion of the Reserve component category comprises procurement funds for the Army and Air National Guard.

In total, these "other" areas involve contractual obligations amounting to roughly $6 billion a year, bringing the total planned contractual obligations for fiscal years 1958 and 1959 to about $21 billion in each year.

As in the case of the expenditures, the obligation figures by fiscal year obscure some important changes which took place within the fiscal year. The principal areas of fluctuation in the rate of obligation are the major procurement and military construction categories. Obligations for major procurement and construction dropped from an average rate of more than $4.1 billion per quarter in fiscal year 1957 to less than $2.3 billion in the July–September quarter 1957. The drop in obligations for construction was considerably greater than for procurement. Construction obligations fell from an average of $500 million per quarter in fiscal year 1957 to about $120 million in the July–September quarter 1957. Major procurement obligations dropped from an average of $3.6 billion per quarter to $2.2 billion in the July–September quarter.

The lag in obligations was of relatively short duration—just about one quarter. Obligations for major procurement in the October–December 1957 quarter were already significantly higher than the July–September quarter—$3.9 billion compared with $2.2 billion. Procurement obligations planned for the January–March quarter 1958 total $4.9 billion and for the April–May quarter 1958, $5.1 billion. This gives a total of about $16 billion which, after certain adjustments to eliminate intra-Department of Defense transactions, will reduce to roughly the $15.3 billion reflected in the budget document. These figures clearly indicate a considerably higher level of obligations for major procurement in the current 6-month period beginning in January 1958 than in the prior 6-month period ending in December 1957.

The marked fluctuation in the rate of contract placements for military construction is partly due to a seasonal factor—roughly one-third of our obligations for military construction are usually placed in the July–December half year, whereas two-thirds are placed in the January–June half year.

But, the drop in construction obligations which I mentioned was much sharper than the seasonal factor would indicate. Conversely, the increase during the January–June 1958 period will also be much more marked. Construction obligations are expected to rise from the $120–$130 million per quarter level in the July–December 1957 period to about $750 million in the January–March 1958 quarter and about $1.1 billion in the April–June quarter, bringing total obligations for the year to some $2 billion, about the same amount as in fiscal year 1957.

The high level of contract placements planned during the January–June 1958 period reflects a catchingup with the lag in contract placements during the July–December 1957 period, as well as the effect of the 1958 supplemental.

In the succeeding fiscal year beginning July 1, 1958, the rate of contract placement per quarter will be at a somewhat lower but more normal level. That means lower than this quarter we are now in and next quarter, but still will be about the same as for the average for the whole year per quarter. The total for the year, however, will be about the same as in fiscal year 1958.

It may be useful in placing the recent trends in Defense Department expenditures and contract placement in proper perspective to take a look at the changes which occurred after the end of the Korean war.

Total defense expenditures dropped almost $8.2 billion from $43.7 billion in fiscal year 1953, the last full year of the Korean war, to $35.5 billion in fiscal year 1955. The drop in total gross obligations was much faster and sharper, from $45.7 billion in fiscal year 1953 to $28 billion in fiscal year 1954, a drop of almost $18 billion in 1 year.

Most of the reduction in expenditures occurred in the procurement-construction area. From fiscal year 1953 to 1955 expenditures for all procurement and construction, including so-called soft goods, dropped from $24.3 billion to $17.4 billion, a fall of almost $7 billion in 2 years.

The reduction in obligations for procurement and construction was even more drastic, from $25.7 billion in fiscal year 1953 to $9.5 billion in fiscal year 1954, a drop of $16.2 billion or almost two-thirds in 1 year. Obligations fell from an average quarterly rate of about $6.4 billion a quarter in fiscal year 1953 to $1.7 billion in the first quarter of fiscal year 1954, and $1.3 billion in the second quarter.

Obligations rose to $2.1 billion in the third quarter and to $4.5 billion for the last quarter of the fiscal year. Thus, it can be seen that the recent adjustments in defense expenditures and obligations are relatively minor when compared to the magnitude of the adjustments which took place in fiscal years 1954 and 1955 following the close of the Korean war.

The impact of defense expenditures on employment in defense-related industries cannot be measured with any degree of precision but it is possible to trace some rough relationships. This can be done by relating the Defense Department budget categories to the Bureau of Labor Statistics employment categories. Since the Defense budget categories and the Labor employment categories are completely independent, one of the other, the degree of comparability varies from high to unknown. At best, it is a rough-and-ready method of comparison, but it does bring out some interesting points.

In the first of these studies we related average monthly expenditures for aircraft and guided missiles to average monthly employment in the aircraft and parts industry for the fiscal years 1951 through 1957. The correlation of the two series is extremely close. Of particular interest is the fact that both expenditures and employment in fiscal year 1957 were 12 to 14 percent higher than the Korean war peak reached in fiscal year 1954. Employment in the aircraft and parts industry declined from a peak of about 800,000 in January 1954 to a post-Korean low of about 730,000 in the summer of 1955. At that point employment in the aircraft industry expanded quite rapidly to a peak of almost 910,000 by April 1957, an increase of about 25 percent in less than 2 years.

This expansion of employment in the aircraft industry was accompanied by a substantial increase in weekly hours and earnings. The use of overtime became extremely widespread in the industry. In the January-March quarter of 1957, overtime payment in a surprising number of aircraft plants accounted for more than 15 percent of the total payroll, and in 1 or 2 plants reached 20 percent of total payroll. In retrospect it is apparent that this increased level of operations both in terms of employment and overtime, could not reasonably be expected to continue over the long pull. The sharp buildup during fiscal year 1957 was counter to the long-term trend. The adjustment of employment in that industry in consonance with the long-pull trend has now been completed and we may see a moderate upturn in employment during the years ahead.

Another interesting point brought out by this analysis of aircraft industry employment is the steady increase since 1953 in the proportion of nonproduction workers in that industry. This phenomenon is a reflection of the increasing importance of engineering in the production of modern weapons. It could also reflect, in part, merely an increase in overhead.

In the second study we related average monthly defense expenditures for shipbuilding and conversion to average monthly employment in the shipbuilding and repairing industry. The two curves run more or less parallel from fiscal year 1951 through 1955, peaking in fiscal year 1953 and declining through fiscal year 1955. Defense expenditures continued to decline through fiscal years 1956 and 1957, but employment increased during these 2 years. We assume that this divergence in trends reflects the increasing importance of the civilian shipbuilding program in the industry. The trend of defense expenditures for ships will turn up during the current fiscal year and continue upward through fiscal year 1959.

Similarly, defense expenditures for electronics and communications were related to employment in the communications equipment industry. Here, again, there is a marked similarity in the two curves.

Finally, defense expenditures for combat vehicles, artillery and ammunition were related to employment in the ordnance and accessories industry. Although the two curves move in the same direction, the expenditures curve falls much more sharply than the employment curve from the peak in fiscal year 1953.

In tracing the impact of the defense program on the private economy, it is useful to examine the relationship between defense expenditures and obligations for military hard goods on the one hand, and sales, new orders, unfilled orders and inventories of the durable goods industries on the other hand. The relationship between the defense program and industry is most clear-cut in this area.

The outbreak of the Korean war in June 1950 produced a vast flood of new orders to the durable goods industries, not only from defense but from the civilian economy. Defense Department obligations for hard goods increased from about \$3 billion in fiscal year 1950 to about \$26 billion in fiscal year 1951, and \$33 billion in fiscal year 1952. This vast increase in defense orders, plus the increase in civilian orders, resulted in a sharp expansion in new orders received by the durable goods industries, as reported by the Department of Commerce, from \$96 billion in fiscal year 1950 to \$155 billion in fiscal year 1951. New orders received declined to \$139 billion in fiscal year 1952, but backlogs of unfilled orders continued to increase from \$20 billion at the end of fiscal year 1950 to \$75 billion at the end of the first quarter of fiscal year 1953.

During fiscal year 1953 the rate of defense order placement declined from \$9.3 billion in the first quarter to an average of about \$4 billion for each of the remaining three quarters. This decline in the rate of defense obligations for hard goods was paralleled by a small decline in unfilled orders held by the durable good industries.

The increase in new orders and unfilled orders in the durable goods industries was accompanied by a substantial increase in inventories, from \$13.8 billion at the end of fiscal year 1950, to \$26.3 billion at the end of fiscal year 1953.

At the end of the Korean war, in July 1953, the beginning of fiscal year 1954, the Defense Department undertook a major reevaluation and reorientation of the defense program for the long pull. During this period, defense obligations for hard goods dropped to a very low level from an average of about $4 billion during the last three quarters of fiscal year 1953 to about $750 million in the first quarter of fiscal year 1954, and to $350 million in the second quarter of that year. By the third quarter, obligations for hard goods had increased to only about $1.2 billion.

New orders received by the durable goods industries declined sharply during these three quarters. Unfilled orders, which began to decline by the second quarter of fiscal year 1953, continued to decline during fiscal year 1954. Inventories rose slightly from the first to the second quarter of 1954 and then began to decline through the first quarter of 1955.

It is difficult to assess the precise impact of this reduction in defense ordering on the durable-goods industries, but I believe it is quite clear that the readjustment in the defense program was a contributing factor to the decline in activity in those industries. However, we must remember that we are speaking of a very sharp decline in the level of defense procurement at that time, and far greater in magnitude and duration than the adjustment made in defense programs last fall.

Although defense obligations for hard goods rose to a more normal level during fiscal year 1955, they were still considerably below the Korean war period. The subsequent expansion in the durable-goods industries, which began in the second or third quarter of fiscal year 1955, was far in excess of the increase in defense ordering. Recognizing that defense expenditures did not drop as fast or as far as order placements, the pattern of sales by the durable-goods industries was much the same as new orders received. This expansion in the durable-goods industries, obviously sparked by civilian demand, demonstrated that the growth of the economy was not dependent upon military production.

In fiscal year 1957, Defense Department expenditures for hard good, and sales by the durable-goods industries both increased. Defense obligations for hard goods were high in the first three quarters of the fiscal year but were lower in the fourth quarter. This was paralleled by a distinct decline in new orders received by the durable-goods industries. The rate of inventory accumulation also showed a marked slowing.

In the first quarter of the fiscal year 1958 the volume of defense orders placed was low—rising somewhat in the second quarter. Planned placement of new defense orders for the third and fourth quarters of the year will be unusually high. It is difficult to say whether the planned increase in defense order placements during this January–June 1958 period will be sufficient to reverse the trend in the durable-goods industries. But this much can be said; the increased rate of defense order placements certainly will be a positive factor in the economic picture, not only during the current 6-month period, but also beyond. This is because the rate of defense-order placement during this period will exceed the rate of deliveries, and backlogs of defense orders will be restored to more normal levels in relation to the size of the procurement program which lies ahead.

There remains one additional aspect of the problem which deserves some discussion—that is the changing distribution of the procurement dollar. The rapid change in the product mix of our major procurement has had, and inevitably will continue to have, a very serious impact on some individual industries and firms, as well as their employees and the communities in which they are located. In fiscal year 1953, the last year of the Korean war, combat and support vehicles took 13.6 cents of each major procurement dollar and conventional ammunition 13.7 cents. In fiscal year 1959 vehicles will take 1.9 cents of each procurement dollar and ammunition 1.6 cents. Similarly, expenditures for production equipment and facilities took 9.7 cents of each major procurement dollar in fiscal year 1953, and will take only 2.7 cents in fiscal year 1959. Even in manned aircraft there has been a distinct change in trend. Aircraft took 43.4 cents of each procurement dollar in fiscal year 1953 and over 60 cents in fiscal year 1955. But, in fiscal year 1959 aircraft will only take about 50 cents of each procurement dollar.

However, missiles, which took only 1.7 cents of each procurement dollar in fiscal year 1953, will take 24 cents of each procurement dollar in fiscal year 1959. The proportion of the procurement dollar spent for ships will increase from 7 cents in fiscal year 1953 to 9.4 cents in fiscal year 1959 and the proportion spent for electronics and communication equipment will increase from 5.8 to 6.3 cents.

Even within these categories very rapid changes in items and models are taking place. As was pointed out in the President's budget message, there is hardly a production model aircraft on the buying list for fiscal year 1959 that was included in our 1955 buying program. Even in missiles, 90 percent of the dollars planned for procurement in 1959 are for models which are not being produced in operational quantities in 1955. The same general pattern is found in the case of ships, electronics equipment, et cetera.

The Defense Department recognizes the hardships these rapid technological changes impose on individual industries, firms, and employees, but this is one of the costs of technological progress.

In closing, I would like to emphasize that while the Government's books, which are kept on a fiscal-year basis, will show that the value of defense orders placed for goods and services will total $21 billion in both fiscal year 1958 and 1959, it is significant that order placements will increase from approximately $18 billion in calendar year 1957 to almost $24 billion in calendar year 1958 and will continue at a high level thereafter.

Mr. Chairman, I recognize that this has been a rather detailed statement, but we were anxious to provide the committee with some specifics concerning the economic and fiscal aspects of the defense program. We have prepared and will be glad to make available to the committee, a rather voluminous appendix of tables and charts in support of the statement I have made here today.

Senator SPARKMAN. The tables and charts connected with your record will be made a part of the record, at this point.

(The tables and charts referred to follow:)

Average monthly defense expenditures for selected budget categories compared with average monthly employment in selected defense-related industries, fiscal years 1951–57.

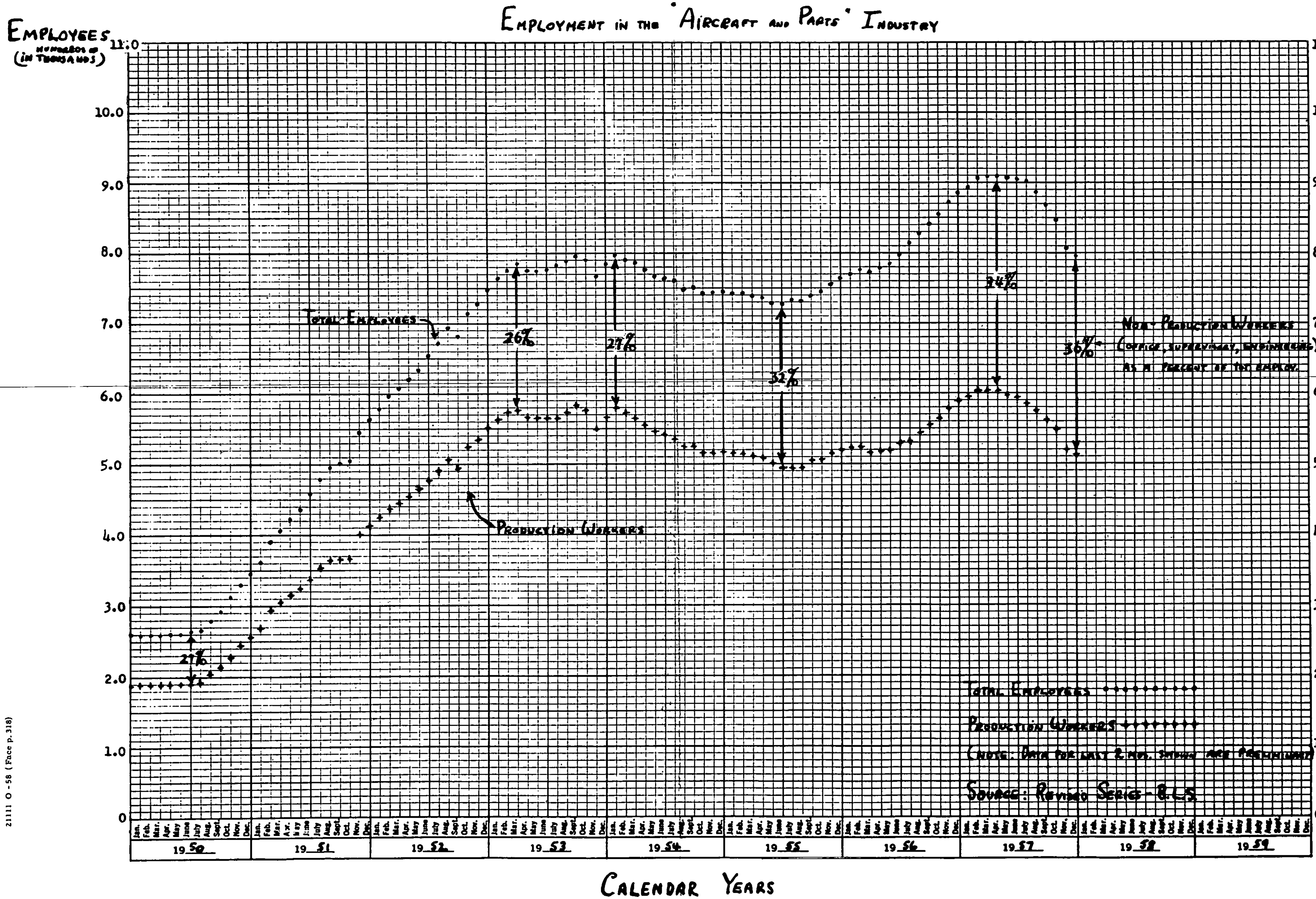
[Millions of dollars, thousands of employees]

Fiscal year	Expenditures for aircraft and guided missiles	Employment in aircraft and parts	Expenditures for ships and harbor craft	Employment in shipbuilding and repairing	Expenditures for electronics and communications	Employment in communications equipment	Expenditures for combat vehicles, artillery, weapons, and ammunition	Employment in ordnance
1951	$203	358.1	$31.8	85.4	$16.1	394.7	$52.9	42.3
1952	421	565.0	52.0	120.0	49.8	425.3	224.2	131.7
1953	643	740.2	99.3	136.1	83.4	533.1	383.6	214.9
1954	737	782.3	90.8	121.6	68.8	518.0	287.8	206.7
1955	730	742.1	84.1	101.3	53.0	494.4	111.2	145.7
1956	693	762.4	74.6	104.0	64.2	539.7	107.6	132.9
1957	839	876.5	74.8	119.1	73.4	570.3	63.4	130.4

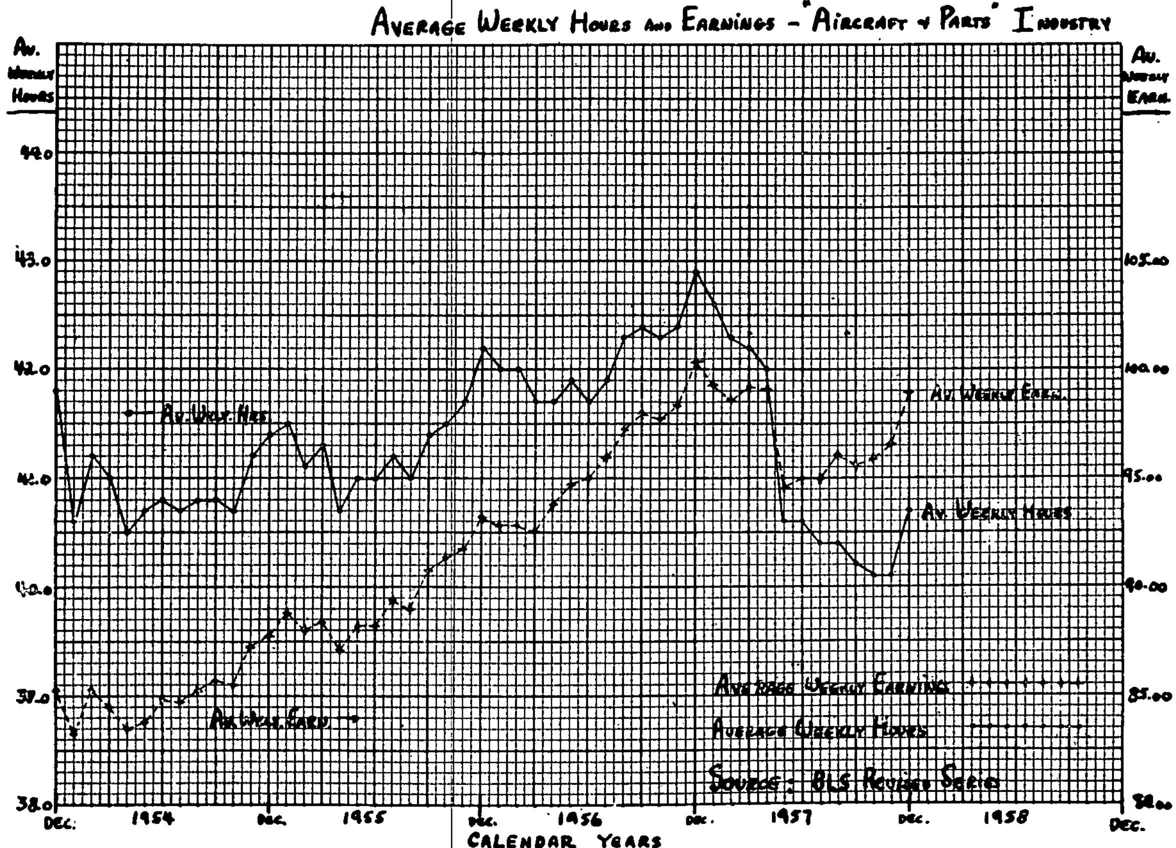
Source: Bureau of Labor Statistics, Monthly Labor Review; Department of Defense, EFAD-220.

NOTE.—Defense expenditure categories are not completely comparable with the BLS industry categories. For example, Department of Defense expenditures for aircraft and missiles contain substantial amounts for electronic components manufactured by the electronics industry. Conversely, the Bureau of Labor Statistics classifies individual firms on a major-product basis which may result in the concealment or understatement of employment in other important activities with a simultaneous overstatement of employment in the major activity. Also, defense expenditures exclude the military assistance program.

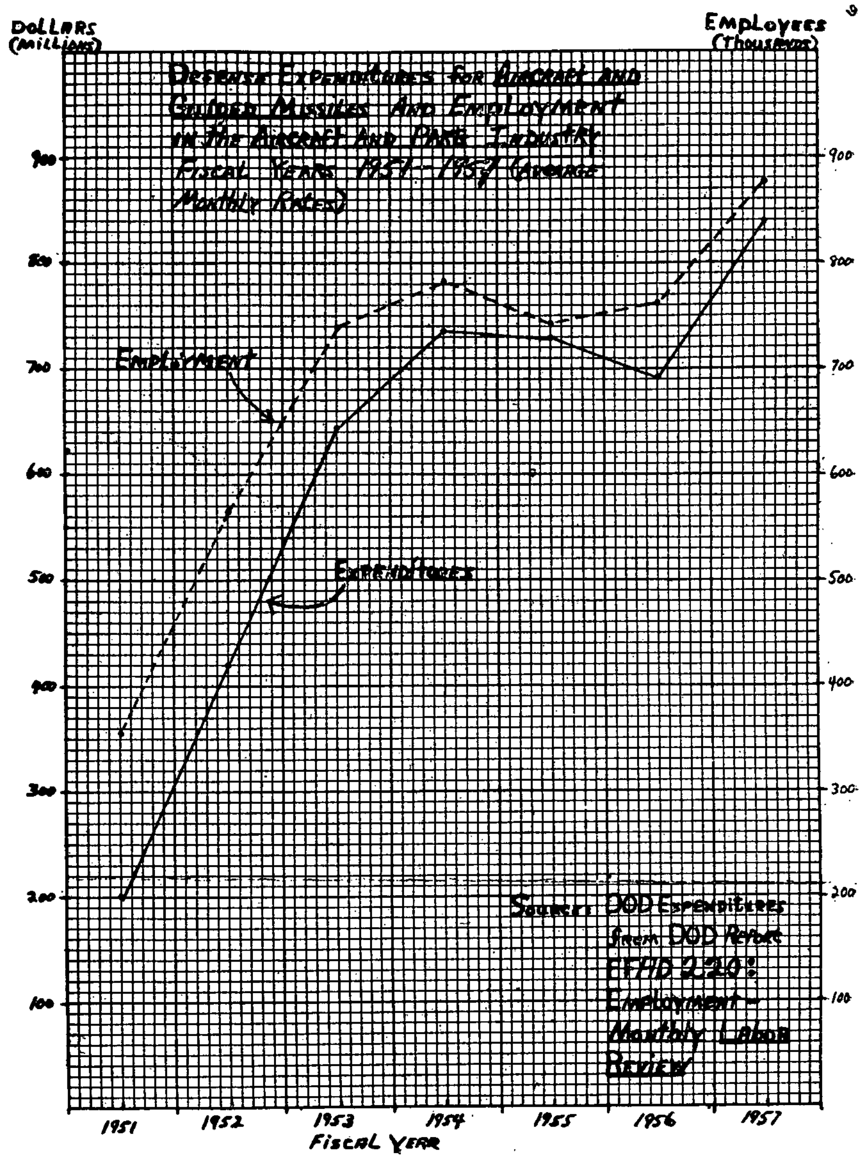
Prepared by Economic and Fiscal Analysis Division, OASD (Comptroller), Department of Defense, Feb. 10, 1958.

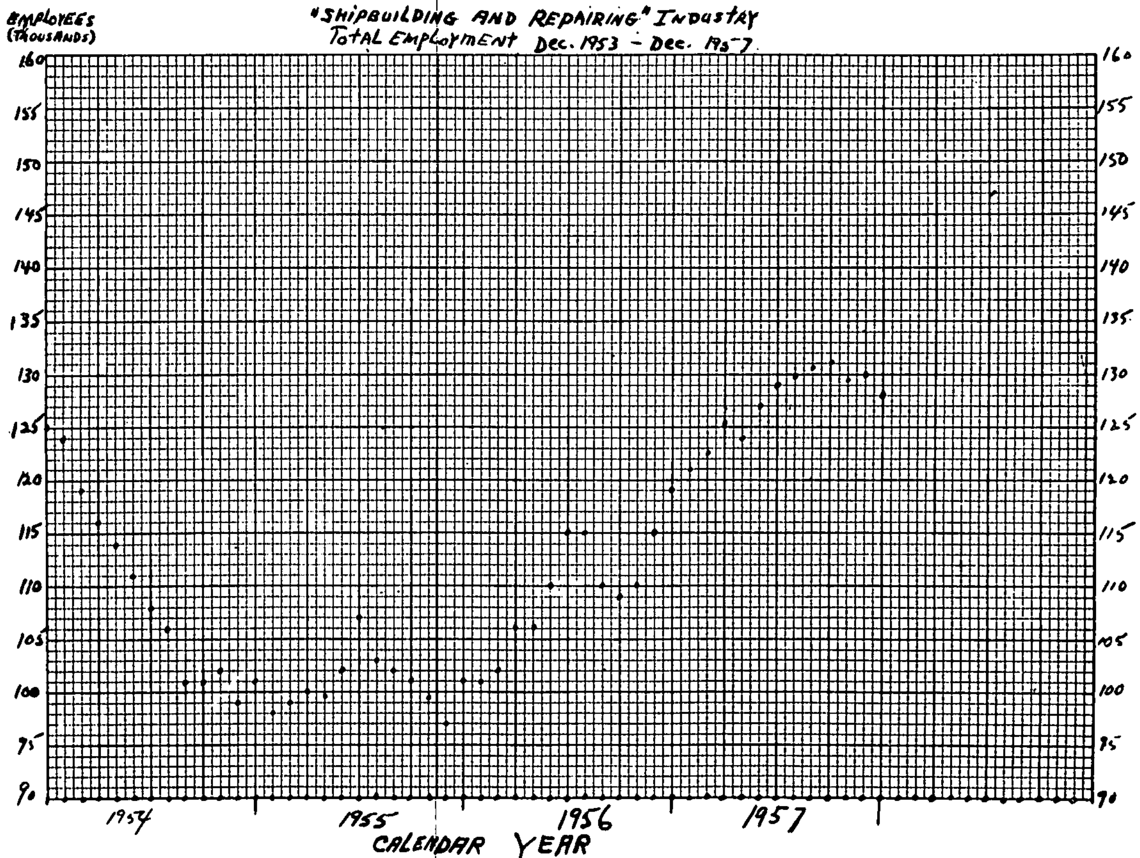


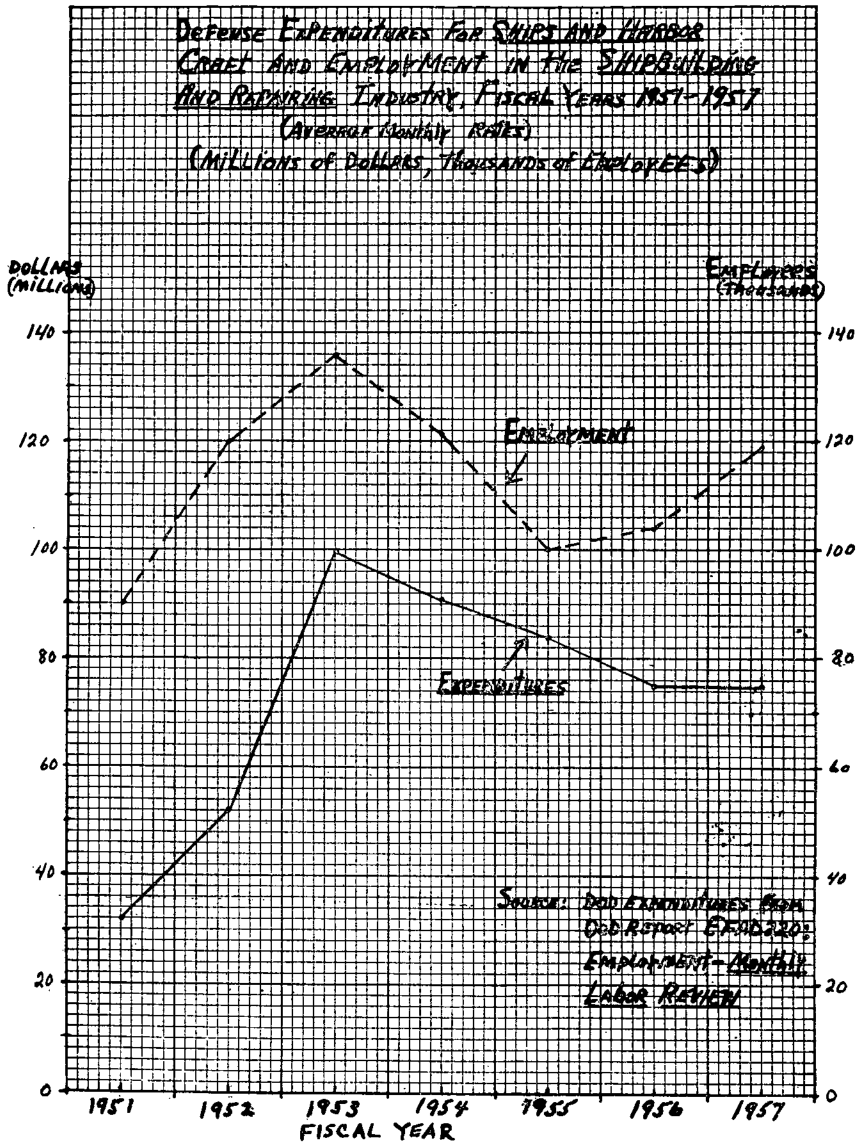
21111 O-58 (Face p. 318)



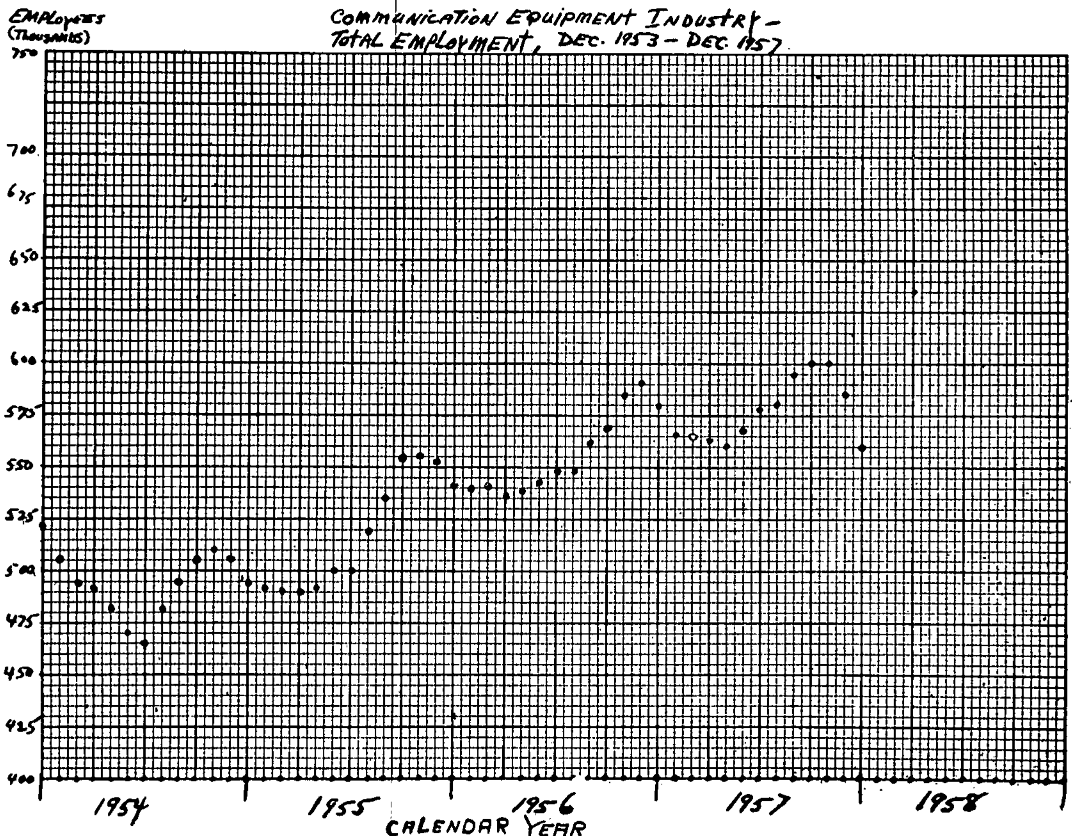
Average Weekly Hours and Earnings – "Aircraft & Parts" Industry
Av. Weekly Hours
Av. Weekly Earn.
43.0
42.0
40.0
38.0
105.00
100.00
95.00
90.00
85.00
Av. Wkly. Hrs.
Av. Wkly. Earn.
Av. Weekly Earn.
Av. Weekly Hours
Average Weekly Earnings
Average Weekly Hours
Source: BLS Revised Series
Dec.
1954
Dec.
1955
Dec.
1956
Dec.
1957
Dec.
1958
Dec.
Calendar Years


DOLLARS (MILLIONS)
EMPLOYEES (THOUSANDS)
DEFENSE EXPENDITURES FOR AIRCRAFT AND GUIDED MISSILES AND EMPLOYMENT IN THE AIRCRAFT AND PARTS INDUSTRY FISCAL YEARS 1951-1957 (AVERAGE MONTHLY RATES)
900
800
700
600
500
400
300
200
100
EMPLOYMENT
EXPENDITURES
SOURCE: DOD EXPENDITURES FROM DOD REPORT EFHD 220; EMPLOYMENT—MONTHLY LABOR REVIEW
1951
1952
1953
1954
1955
1956
1957
FISCAL YEAR


"SHIPBUILDING AND REPAIRING" INDUSTRY
TOTAL EMPLOYMENT DEC. 1953 – DEC. 1957
EMPLOYEES (THOUSANDS)
160
155
150
145
140
135
130
125
120
115
110
105
100
95
90
1954
1955
1956
1957
CALENDAR YEAR



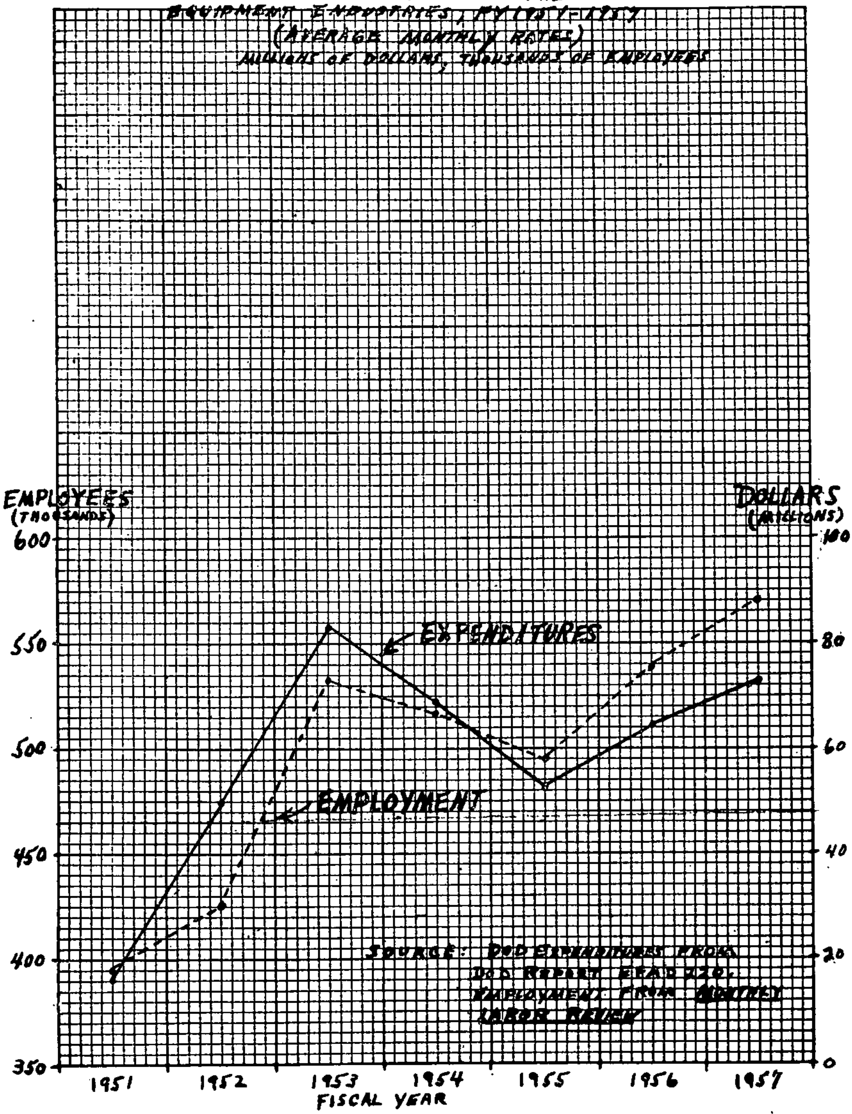
DEFENSE EXPENDITURES FOR SHIPS AND HARBOR CRAFT AND EMPLOYMENT IN THE SHIPBUILDING AND REPAIRING INDUSTRY, FISCAL YEARS 1951-1957
(AVERAGE MONTHLY RATES)
(MILLIONS OF DOLLARS, THOUSANDS OF EMPLOYEES)
DOLLARS (MILLIONS)
EMPLOYEES (THOUSANDS)
140
120
100
80
60
40
20
0
EMPLOYMENT
EXPENDITURES
SOURCE: DOD EXPENDITURES FROM DOD REPORT EFAD220; EMPLOYMENT - MONTHLY LABOR REVIEW
1951
1952
1953
1954
1955
1956
1957
FISCAL YEAR

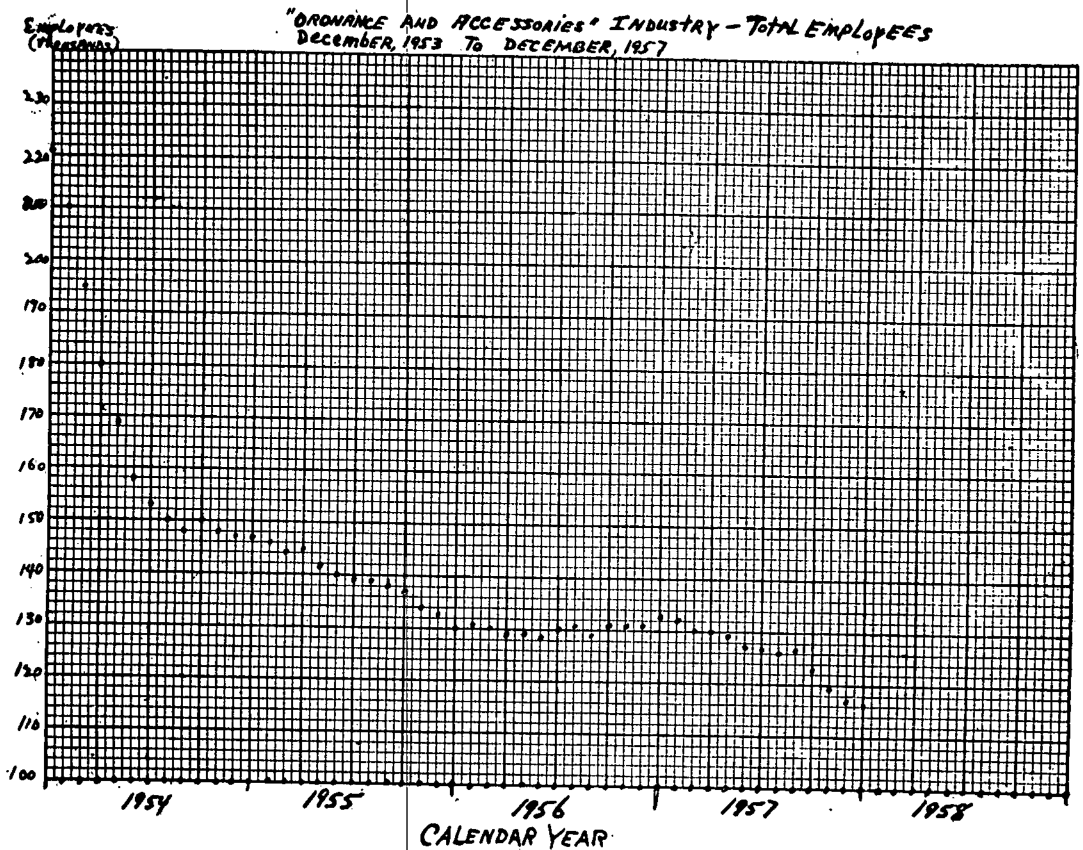

COMMUNICATION EQUIPMENT INDUSTRY -
TOTAL EMPLOYMENT, DEC. 1953 - DEC. 1957
EMPLOYEES
(THOUSANDS)
750
700
675
650
625
600
575
550
525
500
475
450
425
400
1954
1955
1956
1957
1958
CALENDAR YEAR

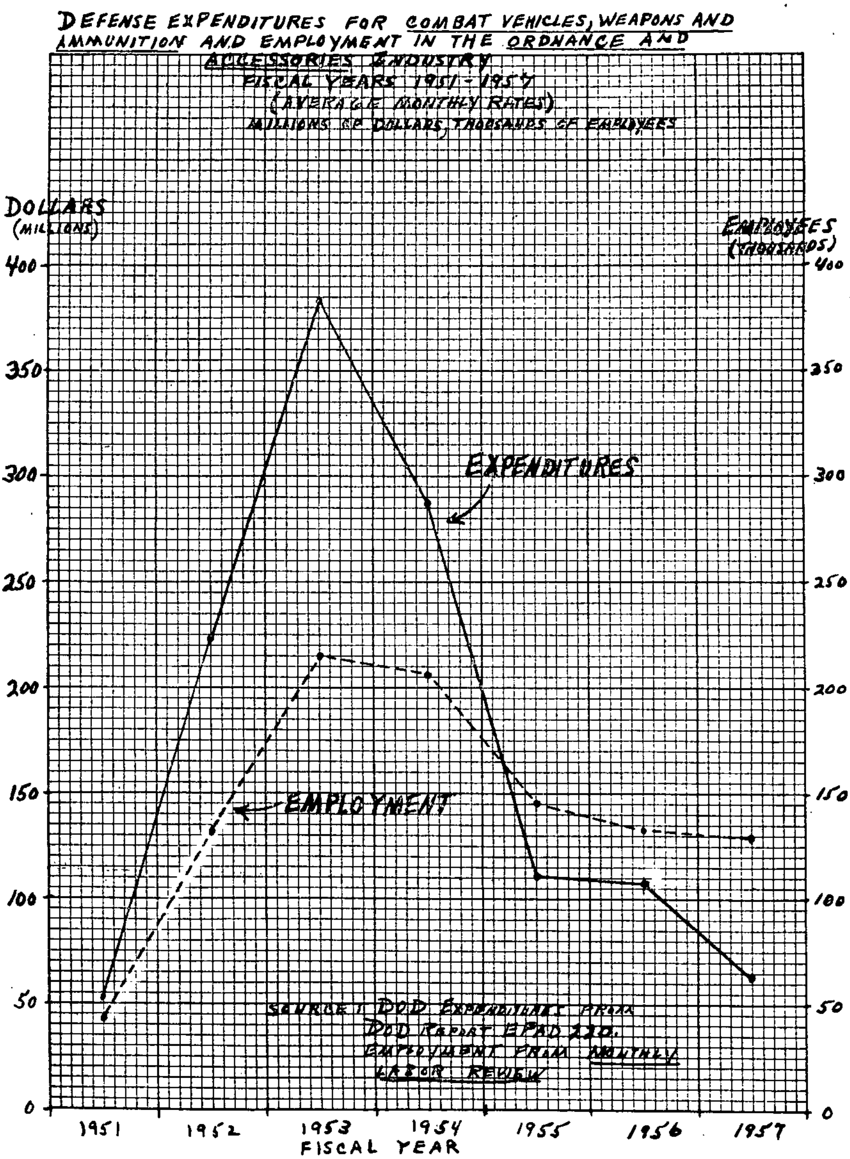
DEPARTMENT OF DEFENSE EXPENDITURES FOR ELECTRONICS AND COMMUNICATIONS AND EMPLOYMENT IN THE COMMUNICATIONS EQUIPMENT INDUSTRIES, FY 1951–1957

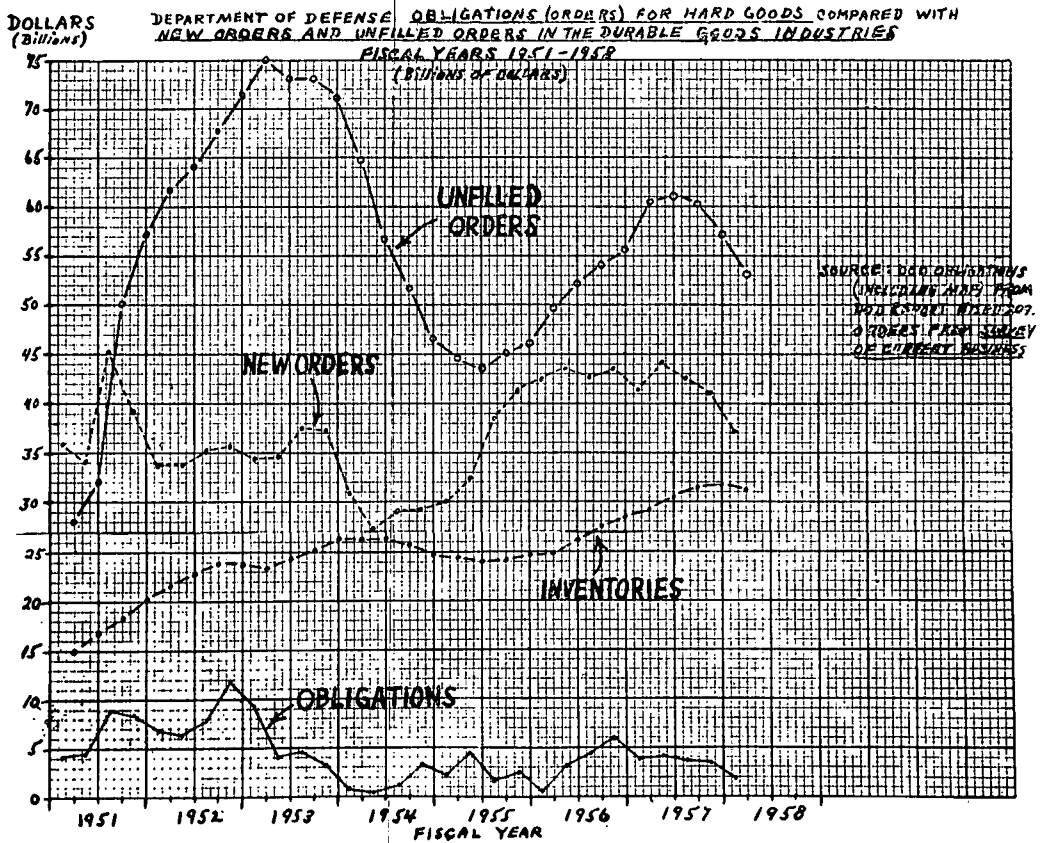
(AVERAGE MONTHLY RATES)

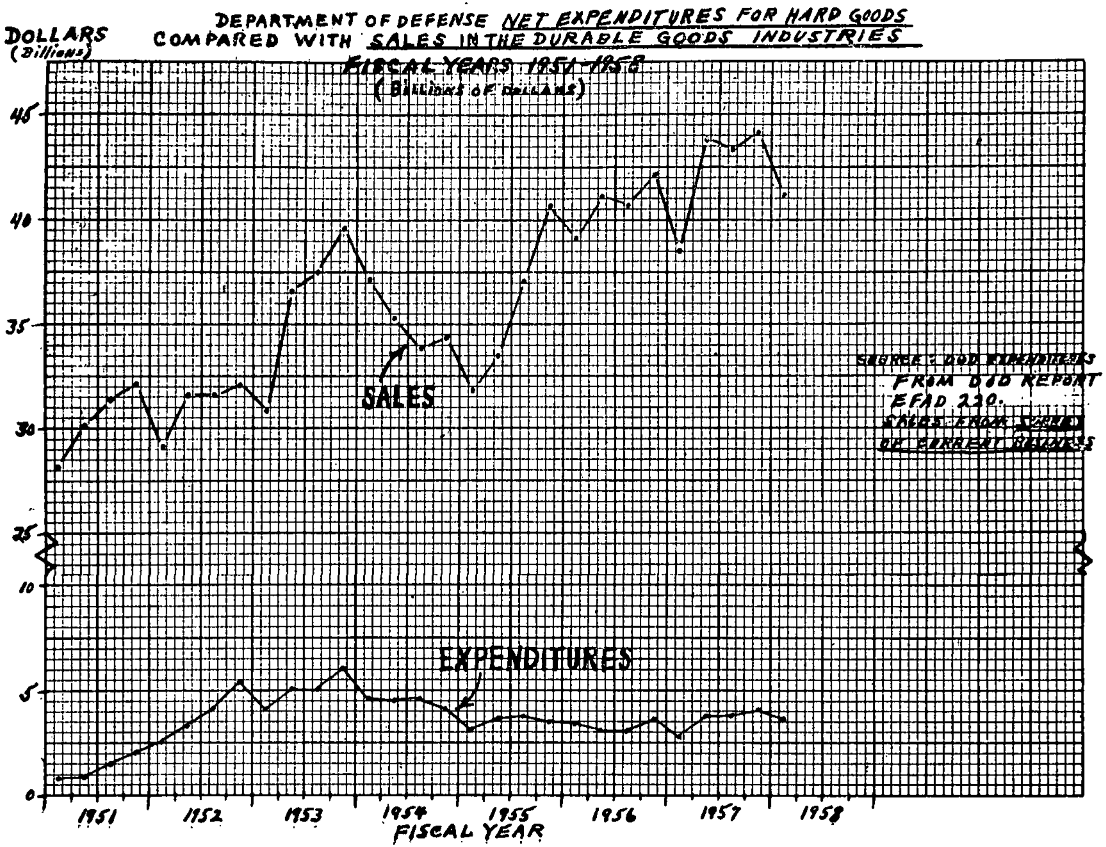
MILLIONS OF DOLLARS, THOUSANDS OF EMPLOYEES




"ORDNANCE AND ACCESSORIES" INDUSTRY – TOTAL EMPLOYEES
December, 1953 To DECEMBER, 1957
Employees (Thousands)
230
220
210
200
190
180
170
160
150
140
130
120
110
100
1954
1955
1956
1957
1958
CALENDAR YEAR


DEFENSE EXPENDITURES FOR COMBAT VEHICLES, WEAPONS AND AMMUNITION AND EMPLOYMENT IN THE ORDNANCE AND ACCESSORIES INDUSTRY
FISCAL YEARS 1951 - 1957
(AVERAGE MONTHLY RATES)
MILLIONS OF DOLLARS, THOUSANDS OF EMPLOYEES
DOLLARS (MILLIONS)
EMPLOYEES (THOUSANDS)
400
350
300
250
200
150
100
50
0
EXPENDITURES
EMPLOYMENT
SOURCE: DOD EXPENDITURES FROM DOD REPORT EPAD 220. EMPLOYMENT FROM MONTHLY LABOR REVIEW
1951
1952
1953
1954
1955
1956
1957
FISCAL YEAR


DEPARTMENT OF DEFENSE OBLIGATIONS (ORDERS) FOR HARD GOODS COMPARED WITH
NEW ORDERS AND UNFILLED ORDERS IN THE DURABLE GOODS INDUSTRIES
FISCAL YEARS 1951-1958
(BILLIONS OF DOLLARS)
DOLLARS
(Billions)
75
70
65
60
55
50
45
40
35
30
25
20
15
10
5
0
UNFILLED ORDERS
NEW ORDERS
INVENTORIES
OBLIGATIONS
SOURCE:
1951
1952
1953
1954
1955
1956
1957
1958
FISCAL YEAR


DEPARTMENT OF DEFENSE NET EXPENDITURES FOR HARD GOODS
COMPARED WITH SALES IN THE DURABLE GOODS INDUSTRIES
FISCAL YEARS 1951-1958
(BILLIONS OF DOLLARS)
DOLLARS (Billions)
45
40
35
30
25
10
5
0
SALES
EXPENDITURES
SOURCE: DOD EXPENDITURES FROM DOD REPORT EFAD 220.
SALES FROM SURVEY OF CURRENT BUSINESS
1951
1952
1953
1954
1955
1956
1957
1958
FISCAL YEAR

Department of Defense obligations (orders) for hard goods compared with new orders, unfilled orders, and inventories in the durable-goods industries

[Millions of dollars]

Fiscal year	Department of Defense obligations for hard goods	Durable-goods industries				
		New orders received	Unfilled orders		Inventories	
			End of quarter	Changes from previous quarter	End of quarter	Changes from previous quarter
1951—Total	26, 054	154, 503				
1st quarter	4, 221	35, 916	28, 070		14, 928	
2d quarter	4, 481	34, 171	32, 190	+4, 120	16, 768	+1, 840
3d quarter	8, 884	45, 117	50, 230	+18, 040	18, 250	+1, 482
4th quarter	8, 468	39, 299	57, 348	+7, 118	20, 171	+1, 921
1952—Total	33, 027	138, 659				
1st quarter	6, 770	33, 754	61, 883	+4, 535	21, 569	+1, 398
2d quarter	6, 341	33, 922	64, 141	+2, 258	22, 815	+1, 246
3d quarter	7, 927	35, 323	67, 813	+3, 672	23, 944	+1, 129
4th quarter	11, 989	35, 657	71, 367	+3, 554	23, 813	−131
1953—Total	21, 119	144, 207				
1st quarter	9, 292	34, 570	75, 113	+3, 746	23, 403	−410
2d quarter	4, 013	34, 700	73, 176	−1, 937	24, 428	+1, 025
3d quarter	4, 646	37, 589	73, 308	+132	25, 303	+875
4th quarter	3, 168	37, 348	71, 053	−2, 255	26, 279	+976
1954—Total	5, 604	116, 370				
1st quarter	751	30, 948	64, 813	−6, 240	26, 276	−3
2d quarter	362	27, 190	56, 673	−8, 140	26, 352	+76
3d quarter	1, 179	28, 917	51, 706	−4, 967	25, 756	−596
4th quarter	3, 310	29, 315	46, 678	−5, 028	24, 756	−1, 000
1955—Total	11, 036	142, 445				
1st quarter	2, 341	29, 994	44, 828	−1, 850	24, 462	−1, 294
2d quarter	4, 528	32, 476	43, 790	−1, 038	24, 047	+585
3d quarter	1, 720	38, 559	45, 274	+1, 484	24, 268	+221
4th quarter	2, 448	41, 416	46, 066	+792	24, 755	+487
1956—Total	14, 113	172, 769				
1st quarter	660	42, 693	49, 649	+3, 583	24, 901	+146
2d quarter	3, 099	43, 565	52, 119	+2, 470	26, 235	+1, 334
3d quarter	4, 454	42, 795	54, 211	+2, 092	27, 592	+1, 357
4th quarter	5, 901	43, 716	55, 679	+1, 468	28, 521	+929
1957—Total	15, 138	169, 681				
1st quarter	3, 851	41, 633	60, 487	+4, 808	29, 154	+633
2d quarter	4, 183	44, 338	61, 015	+528	30, 591	+1, 437
3d quarter	3, 707	42, 697	60, 341	−674	31, 512	+921
4th quarter	3, 397	41, 014	57, 164	−3, 177	31, 749	+237
1958—Total						
1st quarter	2, 249	37, 246	53, 179	−3, 985	31, 306	−443
2d quarter	4, 024	36, 394	48, 445	−4, 734	31, 213	−93

Source: Obligations for hard goods quarterly figures for fiscal years 1951–53 are estimated; annual figures for fiscal years 1951–53 and all figures for fiscal years 1954–58 are from the Department of Defense: Monthly Report on the Status of Funds by Budget Category. Durable-goods industries series (unadjusted) are from Survey of Current Business.

NOTE.—The term "hard goods" as used in the Department of Defense includes (1) major items of equipment such as aircraft, missiles, ships, tanks, vehicles, ammunition, weapons, artillery, electronics, communications, etc., (2) maintenance spares and spare parts for such equipment, and (3) organizational equipment and supplies. It excludes subsistence, petroleum products, and clothing. Amounts will not necessarily add to totals due to rounding.

Prepared by Economic and Fiscal Analysis Division, OASD (Comptroller), Feb. 10, 1958.

21111—58——22

Department of Defense net expenditures for hard goods compared with sales, changes in unfilled orders, and inventories in the durable goods industries

[Millions of dollars]

Fiscal year	Department of Defense net expenditures for hard goods	Durable goods industries		
		Sales	Quarterly changes in unfilled orders	Quarterly changes in inventories
1951—Total	5,443	122,022		
1st quarter	870	28,212		
2d quarter	980	30,192	+4,120	+1,840
3d quarter	1,524	31,437	+18,040	+1,482
4th quarter	2,069	32,181	+7,118	+1,921
1952—Total	15,505	124,640		
1st quarter	2,635	29,222	+4,535	+1,398
2d quarter	3,259	31,664	+2,258	+1,246
3d quarter	4,186	31,651	+3,672	+1,129
4th quarter	5,428	32,103	+3,554	−131
1953—Total	20,180	144,521		
1st quarter	4,036	30,824	+3,746	−410
2d quarter	5,045	36,637	−1,937	+1,025
3d quarter	5,045	37,457	+132	+875
4th quarter	6,054	39,603	−2,255	+976
1954—Total	18,232	140,745		
1st quarter	4,739	37,188	−6,240	−3
2d quarter	4,632	35,330	−8,140	+76
3d quarter	4,703	33,884	−4,967	−596
4th quarter	4,156	34,343	−5,028	−1,000
1955—Total	14,182	143,117		
1st quarter	3,228	31,844	−1,850	−1,294
2d quarter	3,658	33,514	−1,038	+585
3d quarter	3,818	37,095	+1,484	+221
4th quarter	3,478	40,664	+792	+487
1956—Total	13,201	163,156		
1st quarter	3,415	39,110	+3,583	+146
2d quarter	3,107	41,095	+2,470	+1,334
3d quarter	3,108	40,703	+2,092	+1,357
4th quarter	3,572	42,248	+1,468	+929
1957—Total	14,573	169,851		
1st quarter	2,824	38,479	+4,808	+633
2d quarter	3,802	43,810	+528	+1,437
3d quarter	3,836	43,371	−674	+921
4th quarter	4,112	44,191	−3,177	+237
1958—Total				
1st quarter	3,684	41,231	−3,985	−443
2d quarter	3,737	41,109	−4,734	−93

Source: Net expenditures for hard goods quarterly figures for fiscal years 1951–53 are estimated; annual figures for fiscal years 1951–53 and all figures for fiscal years 1954–58 are from the Department of Defense: Monthly Report on Status of Funds by Budget Category. Durable goods industries (unadjusted) are from the Survey of Current Business.

NOTE.—The term "hard goods" as used in the Department of Defense includes (1) major items of equipment such as aircraft, missiles, ships, tanks, vehicles, ammunition, weapons, artillery, electronics, and communications, etc., (2) maintenance spares and spare parts for such equipment, and (3) organizational equipment and supplies. It excludes subsistence, petroleum products, and clothing.
Amounts will not necessarily add to totals due to rounding.
Prepared by Economic and Fiscal Analysis Division, OASD (Comptroller), Feb. 10, 1958.

Department of Defense military and civilian personnel strengths, fiscal years 1958 and 1959

	June 30, 1957 (actual)	Dec. 31, 1957 (actual)[1]	June 30, 1958 (planned)	June 30, 1959 (planned)
Military personnel, total	2,794,883	2,616,931	2,608,000	2,525,000
Department of the Army	997,079	918,111	900,000	870,000
Department of the Navy	877,969	820,163	833,000	805,000
Navy	677,108	629,476	645,000	630,000
Marine Corps	200,861	190,687	188,000	175,000
Department of the Air Force	919,835	878,657	875,000	850,000
Civilian personnel (direct hire), total	1,160,915	1,085,162	1,110,663	1,100,752
Office of the Secretary of Defense	1,655	1,604	1,605	1,605
Department of the Army	429,217	406,778	413,859	407,035
Department of the Navy	389,717	365,258	372,986	369,399
Department of the Air Force	340,326	311,522	322,213	322,713

[1] Estimated.

Source: Department of Defense Reports, P. R. & S. P10, Jan. 22, 1958; P22.1, Jan. 22, 1958; P30.2, Jan. 24, 1958.

Prepared by Economic and Fiscal Analysis Division, OASD (Comptroller), Feb. 10, 1958.

Department of Defense—Military Functions Only

Percentage distribution of expenditures for major procurement and production by principal subcategories, fiscal year 1951–59

	Fiscal year 1959 estimated	Fiscal year 1958 estimated	Fiscal year 1957 actual	Fiscal year 1956 actual	Fiscal year 1955 actual	Fiscal year 1954 actual	Fiscal year 1953 actual	Fiscal year 1952 actual	Fiscal year 1951 actual
Major procurement and production	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Aircraft	50.2	54.3	58.5	58.7	61.8	52.2	43.3	42.6	60.7
Missiles	24.1	21.1	15.3	9.6	5.5	3.2	1.7	1.5	.5
Ships and harbor craft	9.4	8.0	6.6	7.3	7.8	6.8	7.0	5.4	9.6
Combat and support vehicles	1.9	1.9	2.8	2.0	8.0	5.7	13.6	16.6	6.2
Ammunition	1.6	2.3	3.5	11.3	5.1	17.1	13.7	11.5	10.1
Electronics and communications	6.3	6.1	6.5	6.3	4.9	5.2	5.8	5.2	4.9
Production equipment and facilities	2.7	4.0	3.4	3.6	4.9	7.0	9.7	8.8	1.9
Other	3.7	2.3	3.5	1.1	2.0	2.7	5.2	8.2	6.2

Source: EFAD-220, Jan. 6, 1958.

Feb. 4, 1958.

DEPARTMENT OF DEFENSE—MILITARY FUNCTIONS

New obligational authority, direct obligations, and net expenditures, fiscal year 1957–59

[Millions of dollars]

	New obligational authority			Direct obligations			Net expenditures		
	Fiscal year 1957	Fiscal year 1958	Fiscal year 1959	Fiscal year 1957	Fiscal year 1958	Fiscal year 1959	Fiscal year 1957	Fiscal year 1958	Fisdal year 1959
Department of the Army	7,672	7,694	9,036	9,758	9,540	9,506	9,063	9,043	8,880
Department of the Navy	10,220	10,469	10,720	10,803	11,345	11,472	10,398	10,640	10,913
Department of the Air Force	17,697	17,739	18,044	18,420	19,179	18,883	18,363	18,441	18,736
Office of the Secretary of Defense	666	702	1,140	552	709	1,075	615	737	1,045
Civilian personnel pay adjustments			205			205			205
Total	[1] 36,255	[1] 36,605	[1] 39,145	39,534	40,772	41,141	38,439	38,861	39,779
Deutschemark support (dollar equivalent)	168	54		168	54				

[1] Excludes new obligational availability derived by transfer from unobligated balances as follows:

[Millions of dollars]

	Fiscal year 1957	Fiscal year 1958	Fiscal year 1959
Army	229	400	225
Navy	258	190	100
Office of the Secretary of Defense			20
Total	487	590	345

NOTE.—Amounts may not necessarily add to totals due to rounding.

Jan. 8, 1958, revised.

Department of Defense—Military Functions

Fiscal year 1959 budget summary

[Millions of dollars]

	New obligational authority					Direct obligations					Net expenditures				
	Total	Army	Navy	Air Force	OSD	Total	Army	Navy	Air Force	OSD	Total	Army	Navy	Air Force	OSD
I. Military personnel costs	10,550	3,494	3,136	3,919	....	10,550	3,494	3,136	3,919	....	10,523	3,487	3,117	3,919	....
II. Operation and maintenance	9,322	2,723	2,489	4,109	....	9,322	2,723	2,489	4,109	....	9,292	2,707	2,507	4,077	....
III. Major procurement and production	13,447	1,386	4,026	8,035	....	14,943	1,601	4,643	8,694	5	13,753	1,275	4,127	8,349	2
Aircraft	5,866	136	1,739	3,991	....	6,832	136	1,889	4,807	....	6,904	104	1,830	4,970	....
Missiles	3,836	519	613	2,704	....	3,780	626	654	2,500	....	3,314	756	446	2,112	....
Ships	1,335	....	1,335	....	....	1,557	2	1,551	(1)	5	1,296	2	1,292	(1)	2
Other	2,411	731	339	1,340	....	2,774	838	549	1,387	....	2,239	413	559	1,267	....
IV. Military construction	1,577	320	282	955	20	1,784	320	309	1,135	20	2,066	325	364	1,337	40
V. Reserve components	1,113	593	215	304	....	1,155	628	222	304	....	1,148	632	224	292	....
Reserve construction	20	....	8	12	....	62	35	15	12	....	67	35	16	16	....
Other	1,093	593	207	292	....	1,093	593	207	292	....	1,081	597	208	276	....
VI. Research and development	2,256	471	641	719	425	2,211	466	641	719	385	2,075	460	605	730	280
VII. Establishmentwide activities	971	273	31	3	665	971	273	31	3	665	958	247	30	13	668
Retired pay	600	....	....	....	600	600	....	....	....	600	601	....	....	....	601
Other	371	273	31	3	65	371	273	31	3	65	357	247	30	13	67
VIII. Working capital (revolving) funds	50	....	....	....	50	....	....	....	....	....	−240	−253	−61	19	55
Civilian personnel pay adjustments	205	....	....	....	....	205	....	....	....	....	205	....	....	....	....
Total	39,490	9,261	10,820	18,044	1,160	41,141	9,506	11,472	18,883	1,075	39,779	8,880	10,913	18,736	1,045
Available by transfer	−345	−225	−100	....	−20	....	....	....	....	....	....	....	....	....	....
Total, new obligational authority	39,145	9,036	10,720	18,044	1,140	....	....	....	....	....	....	....	....	....	....

[1] Less than $500,000.

Note.—Obligation amounts reflect $385 million in projected recoveries of prior obligations and exclude the unobligated portions of letters of intent chargeable against the fiscal year 1959 Department of Defense financial plan.

Jan. 8, 1958.

Department of Defense—Military Functions

Fiscal year 1958 budget summary

[Millions of dollars]

	New obligational authority					Direct obligations					Net expenditures				
	Total	Army	Navy	Air Force	OSD	Total	Army	Navy	Air Force	OSD	Total	Army	Navy	Air Force	OSD
I. Military personnel costs	10,401	3,513	3,086	3,802	--------	10,356	3,468	3,086	3,802	--------	10,341	3,473	3,068	3,800	--------
II. Operation and maintenance	9,413	2,834	2,532	4,047	--------	9,323	2,852	2,496	3,975	--------	9,341	2,869	2,485	3,987	--------
III. Major procurement and production	11,413	--------	4,001	7,412	--------	15,251	1,520	4,674	9,052	5	13,837	1,357	3,956	8,512	11
Aircraft	5,759	--------	1,536	4,223	--------	7,943	125	2,012	5,806	--------	7,519	175	1,935	5,410	--------
Missiles	2,293	--------	402	1,890	--------	3,257	675	527	2,056	--------	2,917	626	321	1,970	--------
Ships	1,781	--------	1,781	(1)	--------	1,649	--------	1,644	(1)	5	1,106	8	1,087	(1)	11
Other	1,580	--------	282	1,299	--------	2,402	721	492	1,189	--------	2,294	549	613	1,132	--------
IV. Military construction	2,001	310	265	1,420	6	1,990	341	300	1,340	8	1,935	360	423	1,123	29
V. Reserve components	1,192	698	198	296	--------	1,159	654	211	293	--------	1,168	667	219	282	--------
Reserve construction	67	55	--------	12	--------	52	27	13	12	--------	89	45	17	27	--------
Other	1,125	643	198	284	--------	1,107	627	198	281	--------	1,079	622	202	255	--------
VI. Research and development	1,761	444	549	686	83	1,811	457	549	722	83	1,801	450	573	730	48
VII. Establishmentwide activities	939	295	28	3	614	936	290	28	3	616	948	265	28	46	609
Retired pay	555	--------	--------	--------	555	555	--------	--------	--------	555	563	--------	--------	--------	563
Other	384	295	28	3	59	381	290	28	3	61	385	265	28	46	46
VIII. Working capital (revolving) funds	75	--------	--------	75	--------	--------	--------	--------	--------	--------	−510	−397	−113	−40	40
Total	37,195	8,094	10,659	17,739	702	40,826	9,583	11,345	19,187	712	38,861	9,043	10,640	18,441	737
Available by transfer	−590	−400	−190	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------
Total, new obligational authority	36,605	7,694	10,469	17,739	702	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------

[1] Less than $500,000.

NOTE.—Obligation amounts reflect $587,000,000 in projected recoveries of prior obligations, $54,000,000 in comparative transfers, and exclude portions of letters of intent chargeable against the fiscal year 1958 Department of Defense financial plan.

Jan. 8, 1958.

DEPARTMENT OF DEFENSE—MILITARY FUNCTIONS—Continued

Fiscal year 1957 budget summary

[Millions of dollars]

	New obligational authority					Direct obligations					Net expenditures				
	Total	Army	Navy	Air Force	OSD	Total	Army	Navy	Air Force	OSD	Total	Army	Navy	Air Force	OSD
I. Military personnel costs	10,438	3,594	3,123	3,721	--------	10,404	3,599	3,091	3,714	--------	10,384	3,595	3,080	3,709	--------
II. Operation and maintenance	8,947	2,795	2,406	3,745	--------	9,115	2,942	2,402	3,771	--------	9,214	2,643	2,475	4,095	--------
III. Major procurement and production	11,737	--------	3,748	7,989	--------	14,679	1,748	4,123	8,806	1	13,649	1,534	3,755	8,330	31
Aircraft	6,303	--------	1,483	4,821	--------	7,773	122	2,022	5,628	--------	7,978	166	1,996	5,817	--------
Missiles	2,322	--------	352	1,970	--------	2,855	709	360	1,786	--------	2,095	414	264	1,417	--------
Ships	1,387	--------	1,387	--------	--------	1,378	2	1,374	(1)	1	897	1	864	(1)	31
Other	1,725	--------	527	1,198	--------	2,673	915	367	1,391	--------	2,679	952	631	1,096	--------
IV. Military construction	1,805	202	400	1,198	5	1,938	346	408	1,175	9	1,906	415	370	1,083	38
V. Reserve components	1,210	659	233	318	--------	1,120	608	217	295	--------	1,054	566	226	262	--------
Reserve construction	94	55	10	29	--------	113	51	19	42	--------	78	41	15	22	--------
Other	1,115	604	223	289	--------	1,007	557	197	253	--------	976	525	211	239	--------
VI. Research and development	1,710	433	542	724	12	1,652	427	538	686	--------	1,686	435	523	729	--------
VII. Establishmentwide activities	820	219	26	2	574	797	228	24	2	542	849	206	25	71	546
Retired pay	515	--------	--------	--------	515	511	--------	--------	--------	511	511	--------	--------	--------	511
Other	305	219	26	2	59	287	228	24	2	32	338	206	25	71	35
VIII. Working capital (revolving) funds	75	--------	--------	--------	75	--------	--------	--------	--------	--------	−414	−395	−103	84	(1)
Undistributed	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	111	63	47	--------	--------
Total	36,742	7,901	10,478	17,697	666	39,704	9,900	10,803	18,449	553	38,439	9,063	10,398	18,363	615
Available by transfer	−487	−229	−258	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------
Total, new obligational authority	36,255	7,672	10,220	17,697	666	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------

[1] Less than $500,000.

Jan. 8, 1958 (revised).

Department of Defense—Military Functions (Excludes Military Assistance)

New obligational availability by major budget category, fiscal year 1959 with 8-year comparisons

[Millions of dollars]

Budget category	Fiscal year 1959 President's budget		Fiscal year 1958 includes proposed supplemental		Fiscal year 1957		Fiscal year 1956		Fiscal year 1955		Fiscal year 1954		Fiscal year 1953		Fiscal year 1952		Fiscal year 1951	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
DEPARTMENT OF DEFENSE																		
I. Military personnel costs	10,550	27	10,401	28	10,438	28	10,526	31	10,800	36	11,259	33	11,916	25	10,867	18	8,342	18
II. Operation and maintenance	9,322	24	9,413	25	8,947	25	8,644	25	8,166	27	9,648	28	9,908	21	12,085	20	11,180	24
III. Major procurement and production	(13,447)	34	(11,413)	31	(11,737)	32	(9,653)	29	(7,149)	24	(10,432)	30	(19,956)	43	(29,536)	49	(23,114)	48
(a) Aircraft	5,866	----	5,759	----	6,303	----	6,241	----	4,403	----	4,470	----	13,346	----	13,471	----	8,686	----
(b) Missiles	3,836	----	2,293	----	2,322	----	938	----	345	----	748	----	896	----	468	----	424	----
(c) Ships and harbor craft	1,335	----	1,781	----	1,387	----	1,317	----	1,182	----	782	----	675	----	1,977	----	826	----
(d) Combat vehicles	85	----	----	----	32	----	31	----	25	----	101	----	246	----	3,977	----	2,449	----
(e) Support vehicles	249	----	39	----	77	----	42	----	23	----	94	----	163	----	1,792	----	1,165	----
(f) Artillery	10	----	----	----	(2)	----	1	----	9	----	47	----	13	----	320	----	361	----
(g) Weapons	36	----	2	----	24	----	25	----	21	----	70	----	58	----	338	----	206	----
(h) Ammunition	253	----	114	----	233	----	384	----	448	----	2,790	----	2,850	----	2,544	----	3,693	----
(i) Electronics and communications	1,071	----	703	----	599	----	347	----	406	----	448	----	668	----	1,418	----	1,563	----
(j) Production equipment and facilities	259	----	332	----	402	----	203	----	70	----	642	----	619	----	2,273	----	2,699	----
(k) Other major procurement and production	448	----	391	----	358	----	123	----	216	----	239	----	423	----	958	----	1,041	----
IV. Military public works	1,577	4	2,001	5	1,805	5	1,928	6	820	3	244	1	2,292	5	3,997	7	2,432	5
V. Reserve components	(1,113)	3	(1,192)	3	(1,210)	3	(1,000)	3	(740)	3	(665)	2	(491)	1	(628)	1	(691)	1
(a) Construction	20	----	67	----	94	----	76	----	64	----	67	----	34	----	42	----	24	----
(b) Other	1,093	----	1,125	----	1,115	----	924	----	677	----	598	----	457	----	586	----	667	----
VI. Research and development	2,256	6	1,761	5	1,710	5	1,420	4	1,305	4	1,389	4	1,586	3	1,455	2	1,176	2
VII. DOD establishment wide activities	(971)	2	(939)	3	(820)	2	(766)	2	(749)	3	(836)	2	(821)	2	(1,417)	2	(1,103)	2
(a) Retired pay	600	----	555	----	515	----	495	----	424	----	387	----	357	----	345	----	342	----
(b) Other	371	----	384	----	305	----	271	----	325	----	449	----	464	----	1,072	----	761	----
VIII. Working capital (revolving) funds	50	----	75	----	75	----	----	----	----	----	----	----	70	----	450	1	143	----
Total new obligational availability	[1] 39,490	100	37,195	100	36,742	100	33,937	100	29,728	100	34,474	100	47,041	100	60,436	100	48,182	100
Transfers from unobligated balances, etc.	−345	----	−590	----	−487	----	−750	----	1,059	----	----	----	----	----	----	----	----	----

New obligational authority—budget document	39,145		36,605		36,255		33,187		30,787									
DEPARTMENT OF THE ARMY																		
I. Military personnel costs	3,494	38	3,513	43	3,594	45	3,679	47	4,300	56	4,703	36	5,185	38	4,769	25	4,085	21
II. Operation and maintenance	2,723	30	2,834	35	2,795	36	2,643	34	2,434	32	4,090	32	4,003	30	5,509	26	5,216	27
III. Major procurement and production	(1,386)	15							(1)		(3,161)	24	(2,736)	20	(8,688)	40	(8,238)	42
(a) Aircraft	136										114		25		44		135	
(b) Missiles	519										225		301		253		173	
(c) Ships and harbor craft											1		50		137		86	
(d) Combat vehicles	85										87		98		3,663		2,297	
(e) Support vehicles	185										37		70		1,365		736	
(f) Artillery	10										39		11		320		361	
(g) Weapons	22										29		3		72		16	
(h) Ammunition	67										2,184		1,924		1,353		2,196	
(i) Electronics and communications	193										80		183		550		726	
(j) Production equipment and facilities	116								1		333				600		1,100	
(k) Other major procurement and production	54										32		71		330		413	
IV. Military public works	320	3	310	4	202	3	485	6	4		3		589	4	1,003	5	507	3
V. Reserve components	(593)	6	(698)	9	(659)	8	(520)	7	(382)	5	(347)	3	(247)	2	(370)	1	(428)	2
(a) Construction			55		55		32		33		9		20		24		24	
(b) Other	593		643		604		489		349		337		228		345		404	
VI. Research and development	471	5	444	5	433	5	352	4	363	5	374	3	470	4	436	2	336	2
VII. DOD establishmentwide activities	273	3	295	4	219	3	170	2	175	2	262	2	308	2	865	1	550	3
VIII. Working capital (revolving) funds													70					
Total new obligational availability	9,261	100	8,094	100	7,901	100	7,849	100	7,660	100	12,939	100	13,608	100	21,640	100	19,360	100
Transfers from unobligated balances, etc	−225		−400		−229		−495		104									
New obligational authority, budget document	9,036		7,694		7,672		7,354		7,764									
DEPARTMENT OF THE NAVY																		
I. Military personnel costs	3,136	29	3,086	29	3,123	30	3,138	33	3,032	31	3,272	35	3,383	27	3,082	19	2,321	19
II. Operation and maintenance	2,489	23	2,532	24	2,406	23	2,386	25	2,339	24	2,466	26	2,773	22	3,186	20	2,907	23
III. Major procurement and production	(4,026)	37	(4,001)	38	(3,748)	36	(2,939)	30	(3,648)	37	(2,936)	31	(5,327)	42	(7,825)	49	(6,022)	48
(a) Aircraft	1,739		1,536		1,483		761		1,923		1,276		3,119		3,335		2,304	
(b) Missiles	613		402		352		238		126		159		181		119		130	
(c) Ships and harbor craft	1,335		1,781		1,387		1,317		1,102		781		625		1,802		714	
(d) Combat vehicles					32		31		25		14		148		314		152	
(e) Support vehicles	18		17		30		29		23		35		45		120		78	
(f) Artillery					(3)		1		9		8		1					
(g) Weapons	13		2		23		25		21		41		55		266		190	
(h) Ammunition	96		14		119		296		206		452		607		594		850	

See footnotes p. 340.

Department of Defense—Military Functions (Excludes Military Assistance)—Continued

New obligational availability by major budget category, fiscal year 1959 with 8-year comparisons—Continued

[Millions of dollars]

Budget category	Fiscal year 1959 President's budget		Fiscal year 1958 includes proposed supplemental		Fiscal year 1957		Fiscal year 1956		Fiscal year 1955		Fiscal year 1954		Fiscal year 1953		Fiscal year 1952		Fiscal year 1951	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
DEPARTMENT OF THE NAVY—continued																		
III. Major procurement—Con.																		
(i) Electronics and communications	108		145		189		151		96		67		168		469		730	
(j) Production equipment and facilities	23		32		68		19		23		19		242		611		723	
(k) Other major procurement and production	81		72		65		71		93		83		138		194		151	
IV. Military public works	282	3	265	2	400	4	443	5	98	1			363	3	820	5	470	4
V. Reserve components	(215)	2	(198)	2	(233)	2	(244)	2	(160)	2	(156)	2	(112)	1	(152)	1	(119)	1
(a) Construction	8				10		28		15		30							
(b) Other	207		198		223		216		145		126		112		152		119	
VI. Research and development	641	6	549	5	542	5	474	5	434	4	448	5	498	4	507	3	432	4
VII. DOD establishmentwide activities	31		28		26		25		54	1	56	1	77	1	76		68	
VIII. Working capital (revolving) funds															450	3	143	1
Total, new obligational availability	10,820	100	10,659	100	10,478	100	9,648	100	9,766	100	9,333	100	12,533	100	16,098	100	12,481	100
Transfers from unboligated balances, etc.	−100		−190		−258				455									
New obligational authority, budget document	10,720		10,469		10,220		9,648		10,221									
DEPARTMENT OF THE AIR FORCE																		
I. Military personnel costs	3,919	22	3,802	21	3,721	21	3,709	24	3,467	30	3,285	29	3,349	16	3,017	14	1,936	12
II. Operation and maintenance	4,109	23	4,047	23	3,745	21	3,615	23	3,392	29	3,092	27	3,132	15	3,390	15	3,058	19
III. Major procurement and production	(8,035)	44	(7,412)	42	(7,989)	45	(6,614)	42	(3,419)	30	(4,085)	36	(11,893)	59	(13,023)	59	(8,854)	56
(a) Aircraft	3,991		4,223		4,821		5,480		2,480		3,080		10,202		10,091		6,247	
(b) Missiles	2,704		1,890		1,970		700		219		364		414		95		121	
(c) Ships and harbor craft			[2]												39		26	
(d) Combat vehicles																		
(e) Support vehicles	46		22		47		14				21		48		306		351	

(f) Artillery																				
(g) Weapons	2				1															
(h) Ammunition	89		100		115		88		242		154		320		597		647			
(i) Electronics and communications	770		557		410		197		309		301		318		399		108			
(j) Production equipment and facilities	120		300		334		84		46		41		377		1,062		876			
(k) Other major procurement and production	313		319		293		52		123		124		214		435		477			
IV. Military public works	955	5	1,420	8	1,198	7	994	6	630	5	241	2	1,200	6	2,174	10	1,456	9		
V. Reserve components	(304)	2	(296)	2	(318)	2	(236)	1	(199)	2	(162)	2	(132)	1	(107)		(144)	1		
(a) Construction	12		12		29		16		16		28		14		18					
(b) Other	292		284		289		220		183		134		118		89		144			
VI. Research and development	719	4	686	4	724	4	593	4	499	4	511	4	606	3	511	2	408	3		
VII. DOD establishmentwide activities	3		3		2		10		30		34		33		43		42			
VIII. Working capital (revolving) funds			75																	
Total new obligational availability	18,044	100	17,739	100	17,697	100	15,772	100	11,637	100	11,410	100	20,346	100	22,265	100	15,896	100		
Transfers from unobligated balances, etc.							−255		500											
New obligational authority, budget document	18,044		17,739		17,697		15,517		12,137											
OSD AND INTERSERVICE ACTIVITIES																				
I. Military personnel costs																				
II. Operation and maintenance																				
III. Major procurement and production							(100)	15	(80)	12	(250)	32								
(a) Aircraft																				
(b) Missiles																				
(c) Ships and harbor craft									80											
(d) Combat vehicles																				
(e) Support vehicles																				
(f) Artillery																				
(g) Weapons																				
(h) Ammunition																				
(i) Electronics and communications																				
(j) Production equipment and facilities							100				250									
(k) Other major procurement and production																				
IV. Military public works	20	2	6	1	5	1	6	1	89	13			140	25						
V. Reserve components																				
(a) Construction																				
(b) Other																				
VI. Research and development	425	37	83	12	12	2	[2]		8	1	57	7	12	2						
VII. DOD establishmentwide activities	(665)	57	(614)	87	(574)	86	(561)	84	(489)	74	(485)	61	(403)	73	(433)	100	(444)	100		
(a) Retired pay	600		555		515		495		424		387		357		345		342			
(b) Other	65		59		59		66		65		98		46		88		102			

See footnotes p. 340.

DEPARTMENT OF DEFENSE—MILITARY FUNCTIONS (EXCLUDES MILITARY ASSISTANCE)—Continued

New obligational availability by major budget category, fiscal year 1959 with 8-year comparisons—Continued

[Millions of dollars]

Budget category	Fiscal year 1959, President's budget		Fiscal year 1958, includes proposed supplemental		Fiscal year 1957		Fiscal year 1956		Fiscal year 1955		Fiscal year 1954		Fiscal year 1953		Fiscal year 1952		Fiscal year 1951	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
OSD AND INTERSERVICE ACTIVITIES—con.																		
VIII. Working capital (revolving) funds	50	4	-----	-----	75	11	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total new obligational availability	1,160	100	702	100	666	100	667	100	665	100	791	100	555	100	433	100	444	100
Transfers from unobligated balances, etc.	−20	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
New obligational authority, budget document	1,140	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----

[1] Includes $205 million for proposed civilian personnel pay adjustment, not distributed by category and service.
[2] Less than $0.5 million.

NOTE.—Amounts will not necessarily add to totals due to rounding. Fiscal year 1955 to fiscal year 1959 include appropriations to special fund accounts. Data for prior years have not yet been revised to include special fund accounts.

Department of Defense—Military Functions (Excludes Military Assistance)

Expenditures by major budget category, fiscal year 1959 with 8-year comparisons

[Millions of dollars]

Budget category	Fiscal year 1959, estimated [1]		Fiscal year 1958, estimated [1]		Fiscal year 1957, actual		Fiscal year 1956, actual		Fiscal year 1955, actual		Fiscal year 1954, actual		Fiscal year 1953, actual		Fiscal year 1952, actual		Fiscal year 1951, actual	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
DEPARTMENT OF DEFENSE																		
I. Military personnel costs	10,523	27	10,341	27	10,384	27	10,666	30	10,643	30	10,961	27	11,556	27	11,152	29	7,148	36
II. Operation and maintenance	9,292	23	9,341	24	9,214	24	8,519	24	7,905	22	9,357	23	10,379	24	11,682	30	6,715	34
III. Major procurement and production	(13,753)	35	(13,837)	36	(13,649)	36	(12,182)	34	(12,997)	37	(15,958)	39	(17,123)	39	(11,478)	29	(3,976)	20
(a) Aircraft	6,904	-----	7,519	-----	7,978	-----	7,146	-----	8,037	-----	8,335	-----	7,417	-----	4,888	-----	2,412	-----
(b) Missiles	3,314	-----	2,917	-----	2,095	-----	1,168	-----	718	-----	504	-----	295	-----	169	-----	21	-----
(c) Ships and harbor craft	1,296	-----	1,106	-----	897	-----	895	-----	1,009	-----	1,090	-----	1,191	-----	624	-----	382	-----
(d) Combat vehicles	103	-----	137	-----	266	-----	48	-----	740	-----	677	-----	1,926	-----	1,014	-----	189	-----
(e) Support vehicles	169	-----	129	-----	124	-----	190	-----	296	-----	240	-----	408	-----	900	-----	57	-----
(f) Artillery	13	-----	−1	-----	24	-----	28	-----	17	-----	187	-----	−56	-----	235	-----	44	-----
(g) Weapons	5	-----	15	-----	(2)	-----	−165	-----	−92	-----	−146	-----	389	-----	120	-----	--------	-----
(h) Ammunition	224	-----	321	-----	471	-----	1,380	-----	669	-----	2,736	-----	2,344	-----	1,322	-----	402	-----
(i) Electronics and communications	864	-----	839	-----	881	-----	770	-----	636	-----	826	-----	1,001	-----	597	-----	193	-----
(j) Production equipment and facilities	368	-----	550	-----	462	-----	440	-----	631	-----	1,122	-----	1,654	-----	1,007	-----	74	-----
(k) Other procurement and production	494	-----	306	-----	451	-----	282	-----	335	-----	388	-----	554	-----	602	-----	202	-----
IV. Military public works	2,066	5	1,935	5	1,906	5	2,005	6	1,582	4	1,706	4	1,913	4	1,819	5	440	2
V. Reserve components	(1,148)	3	(1,168)	3	(1,054)	3	(854)	2	(717)	2	(584)	2	(522)	1	(476)	1	(537)	3
(a) Construction	67	-----	89	-----	78	-----	59	-----	59	-----	37	-----	34	-----	15	-----	27	-----
(b) Other	1,081	-----	1,079	-----	976	-----	796	-----	658	-----	547	-----	488	-----	461	-----	510	-----
VI. Research and development	2,075	5	1,801	4	1,686	4	1,491	4	1,391	4	1,385	4	1,412	3	1,164	3	758	3
VII. DOD establishmentwide activities	(958)	2	(948)	2	(849)	2	(688)	2	(654)	2	(771)	2	(759)	2	(729)	2	(628)	3
(a) Retired pay	602	-----	563	-----	511	-----	477	-----	419	-----	386	-----	357	-----	329	-----	321	-----
(b) Other	357	-----	385	-----	338	-----	211	-----	236	-----	385	-----	402	-----	400	-----	307	-----

See footnotes at end of table.

DEPARTMENT OF DEFENSE—MILITARY FUNCTIONS (EXCLUDES MILITARY ASSISTANCE)—Continued

Expenditures by major budget category, fiscal year 1959 with 8-year comparisons—Continued

[Millions of dollars]

Budget category	Fiscal year 1959, estimated [1]		Fiscal year 1958, estimated [1]		Fiscal year 1957, actual		Fiscal year 1956, actual		Fiscal year 1955, actual		Fiscal year 1954, actual		Fiscal year 1953, actual		Fiscal year 1952, actual		Fiscal year 1951, actual	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
DEPARTMENT OF DEFENSE—con.																		
VIII. Working capital (revolving) funds	−240	-----	−510	−1	−414	−1	−635	−2	−501	−1	−317	−1	80	-----	295	1	−159	−1
Undistributed	[3] 205	-----	-----	-----	111	-----	−66	-----	149	-----	79	-----	−31	-----	26	-----	-----	-----
Subtotal, Standard Form 133 basis	39,779	100	38,861	100	38,439	100	35,705	100	35,539	100	40,484	100	43,713	100	38,822	100	20,043	100
Adjustment to Treasury combined statement	-----	-----	-----	-----	-----	-----	86	-----	−6	-----	−148	-----	−2	-----	150	-----	−271	-----
Total, Treasury basis	39,779	100	38,861	100	38,439	100	35,791	100	35,532	100	40,336	100	43,711	100	38,972	100	19,772	100
DEPARTMENT OF THE ARMY																		
I. Military Personnel costs	3,487	39	3,473	38	3,595	40	3,836	44	4,161	47	4,652	36	4,836	30	5,119	33	3,255	44
II. Operation and maintenance	2,707	31	2,869	32	2,643	29	2,541	29	2,418	27	3,741	29	4,330	26	5,695	36	2,960	40
III. Major procurement and production	(1,275)	14	(1,357)	15	(1,534)	17	(1,339)	15	(1,196)	14	(3,448)	27	(5,794)	35	(3,976)	25	(359)	5
(a) Aircraft	104	-----	175	-----	166	-----	134	-----	67	-----	83	-----	95	-----	51	-----	7	-----
(b) Missiles	756	-----	626	-----	414	-----	333	-----	238	-----	187	-----	119	-----	46	-----	-----	-----
(c) Ships and harbor craft	2	-----	8	-----	1	-----	1	-----	33	-----	163	-----	258	-----	41	-----	12	-----
(d) Combat vehicles	60	-----	85	-----	221	-----	−88	-----	623	-----	582	-----	1,870	-----	993	-----	99	-----
(e) Support vehicles	118	-----	81	-----	59	-----	118	-----	138	-----	−66	-----	214	-----	754	-----	2	-----
(f) Artillery	5	-----	−11	-----	24	-----	−5	-----	23	-----	187	-----	−56	-----	235	-----	44	-----
(g) Weapons	8	-----	2	-----	3	-----	−197	-----	−145	-----	−283	-----	222	-----	9	-----	3	-----
(h) Ammunition	25	-----	80	-----	251	-----	718	-----	29	-----	1,923	-----	1,807	-----	930	-----	−44	-----
(i) Electronics and communications	70	-----	109	-----	216	-----	153	-----	28	-----	231	-----	512	-----	266	-----	53	-----
(j) Production equipment and facilities	84	-----	173	-----	150	-----	164	-----	172	-----	433	-----	583	-----	421	-----	64	-----
(k) Other procurement and production	43	-----	30	-----	30	-----	7	-----	−8	-----	8	-----	168	-----	230	-----	119	-----
IV. Military public works	325	4	360	4	415	5	394	4	350	4	361	3	517	3	347	2	80	1
V. Reserve components	(632)	7	(667)	7	(566)	6	(426)	5	(347)	4	(326)	2	(303)	2	(303)	2	(313)	4

(a) Construction	35		45		41		23		25		17		18		7		16	
(b) Other	597		622		525		403		322		309		285		296		296	
VI. Research and development	460	5	450	5	435	5	410	5	400	4	396	3	382	2	288	2	162	2
VII. DOD establishmentwide activities	247	3	265	3	206	2	173	2	187	2	237	2	256	2	220	1	172	2
VIII. Working capital (revolving) funds	−253	−3	−397	−4	−395	−4	−370	−4	−345	−4	−225	−2	36		−267	−1	120	2
Undistributed					63	1	−57		160	2	−3		−31		26			
Subtotal, Standard Form 133 basis	8,880	100	9,043	100	9,063	100	8,693	100	8,875	100	12,933	100	16,424	100	15,706	100	7,421	100
Adjustment to Treasury combined statement							9		24		−23		−87		2		57	
Total, Treasury basis	8,880	100	9,043	100	9,063	100	8,702	100	8,899	100	12,910	100	16,337	100	15,708	100	7,477	100
DEPARTMENT OF THE NAVY																		
I. Military personnel costs	3,117	29	3,068	29	3,080	30	3,059	31	2,986	31	3,140	28	3,323	29	3,027	30	2,139	36
II. Operation and maintenance	2,507	23	2,485	24	2,475	24	2,319	24	2,244	23	2,558	22	2,820	24	2,866	29	1,994	34
III. Major procurement and production	(4,127)	38	(3,956)	37	(3,755)	36	(3,627)	37	(3,725)	38	(4,762)	42	(4,253)	36	(2,653)	27	(1,453)	25
(a) Aircraft	1,830		1,935		1,996		1,831		1,676		1,098		1,735		1,205		594	
(b) Missiles	446		321		264		195		176		141		95		56		5	
(c) Ships and harbor craft	1,292		1,087		864		892		895		912		925		581		370	
(d) Combat vehicles	43		52		45		136		116		94		56		21		90	
(e) Support vehicles	27		28		28		27		44		91		37		32		23	
(f) Artillery	8		10		(2)		33		−6									
(g) Weapons	9		16		12				36		135		166		111		−2	
(h) Ammunition	172		189		278		298		391		674		459		258		254	
(i) Electronics and communications	160		156		119		103		159		274		235		121		50	
(j) Production equipment and facilities	50		76		68		60		158		314		432		118		2	
(k) Other procurement and production	91		88		82		53		80		127		114		149		68	
IV. Military public works	364	3	423	4	370	4	218	2	147	1	352	3	489	4	380	4	124	2
V. Reserve components	(224)	2	(219)	2	(226)	2	(211)	2	(163)	2	(108)	1	(105)	1	(96)	1	(104)	2
(a) Construction	16		17		15		17		9		1							
(b) Other	208		202		211		194		154		107		105		96		104	
VI. Research and development	605	5	573	5	523	5	449	5	467	5	476	4	499	4	448	4	327	5
VII. DOD establishmentwide activities	30		28		25		24		52	1	61		73	1	79	1	56	1
VIII. Working capital (revolving) funds	−61		−113	−1	−103	−1	−168	−1	−75	−1	−148	−1	111	1	436	4	−280	−5
Undistributed					47		−9		−11		82	1						
Subtotal, Standard Form 133 basis	10,913	100	10,640	100	10,398	100	9,730	100	9,697	100	11,390	100	11,672	100	9,985	100	5,920	100
Adjustment to Treasury combined statement							14		35		−97		206		176		−336	
Total, Treasury basis	10,913	100	10,640	100	10,398	100	9,744	100	9,733	100	11,293	100	11,878	100	10,161	100	5,584	100

See footnotes on p. 345.

Department of Defense—Military Functions (Excludes Military Assistance)—Continued

Expenditures by major budget category, fiscal year 1959 with 8-year comparisons—Continued

[Millions of dollars]

Budget category	Fiscal year 1959, estimated [1]		Fiscal year 1958, estimated [1]		Fiscal year 1957, actual		Fiscal year 1956, actual		Fiscal year 1955, actual		Fiscal year 1954, actual		Fiscal year 1953, actual		Fiscal year 1952, actual		Fiscal year 1951, actual	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
DEPARTMENT OF THE AIR FORCE																		
I. Military personnel costs	3,919	21	3,800	21	3,709	20	3,770	23	3,496	21	3,169	21	3,397	22	3,006	24	1,754	28
II. Operation and maintenance	4,077	22	3,987	22	4,095	22	3,659	22	3,243	20	3,058	20	3,228	21	3,122	24	1,760	28
III. Major procurement and production	(8,349)	45	(8,512)	46	(8,330)	46	(7,216)	43	(7,999)	49	(7,748)	49	(7,076)	47	(4,849)	.38	(2,164)	34
(a) Aircraft	4,970		5,410		5,817		5,181		6,295		6,254		5,586		3,633		1,812	
(b) Missiles	2,112		1,970		1,417		641		305		176		81		66		16	
(c) Ships and harbor craft					(2)		1		4		15		8		2			
(d) Combat vehicles																		
(e) Support vehicles	24		20		37		44		114		215		157		114		32	
(f) Artillery																		
(g) Weapons	−12		−4		−14		33		17		2		1					
(h) Ammunition	27		52		−57		364		249		139		78		134		193	
(i) Electronics and communications	634		574		545		514		450		320		254		210		90	
(j) Production equipment and facilities	234		302		245		217		301		375		639		467		8	
(k) Other procurement and production	360		188		340		222		263		253		272		223		15	
IV. Military public works	1,337	7	1,123	6	1,083	6	1,328	8	1,037	6	961	6	907	6	1,092	9	236	4
V. Reserve components	(292)	1	(282)	1	(262)	1	(217)	1	(207)	1	(150)	1	(114)	1	(77)	1	(120)	2
(a) Construction	16		27		22		19		25		19		16		9		11	
(b) Other	276		255		239		199		182		131		98		68		109	
VI. Research and development	730	4	730	4	729	4	632	4	524	3	513	3	530	3	429	3	269	4
VII. DOD establishmentwide activities	13		46		71		−15		−41		41		22		37		41	
VIII. Working capital (revolving) funds	19		−40		84		−97	−1	−81		56		−66		126	1	1	
Undistributed																		
Subtotal, Standard Form 133 basis	18,736	100	18,441	100	18,363	100	16,711	100	16,385	100	15,696	100	15,208	100	12,738	100	6,344	100
Adjustment to Treasury combined statement							38		22		−28		−121		−27		5	
Total, Treasury basis	18,736	100	18,441	100	18,363	100	16,749	100	16,407	100	15,668	100	15,087	100	12,711	100	6,349	100

OSD AND INTERSERVICE ACTIVITIES																		
I. Military personnel costs																		
II. Operation and maintenance																		
III. Major procurement and production	(2)		(11)	1	(31)	5			(77)	13								
(a) Aircraft																		
(b) Missiles																		
(c) Ships and harbor craft	2		11		31				77									
(d) Combat vehicles																		
(e) Support vehicles																		
(f) Artillery																		
(g) Weapons																		
(h) Ammunition																		
(i) Electronics and communications																		
(j) Production equipment and facilities																		
(k) Other procurement and production																		
IV. Military public works	40	4	29	4	38	6	65	11	48	8	32	7	1					
V. Reserve components																		
(a) Construction																		
(b) Other																		
VI. Research and development	280	27	48	6														
VII. DOD establishmentwide activities	(668)	64	(609)	83	(546)	89	(506)	89	(457)	79	(432)	93	(408)	100	(393)	100	(358)	100
(a) Retired pay	602		563		511		477		419		386		357		329		321	
(b) Other	66		46		35		28		38		46		51		64		38	
VIII. Working capital (revolving) funds	55	5	40	6	(2)													
Undistributed																		
Subtotal, Standard Form 133 basis	1,045	100	737	100	615	100	571	100	581	100	464	100	409	100	393	100	358	100
Adjustment to Treasury combined statement							25		−87						−1		4	
Total, Treasury basic	1,045	100	737	100	615	100	596	100	494	100	464	100	409	100	392	100	362	100

[1] Based on fiscal year 1958 supplemental and fiscal year 1959 budget submitted to the Congress in January 1958.

[2] Less than $0.5 million.

[3] Proposed civilian personnel pay adjustment not distributed by service.

NOTE.—Amounts will not necessarily add to totals due to rounding.

Department of Defense—Military Functions

Estimated expenditures and amounts available for expenditure, summary by service, fiscal years 1951–59

[Millions of dollars]

Available for expenditure	Total	Army	Navy	Air Force	OSD and inter-service activities
Fiscal year 1951					
Unexpended balance, July 1, 1950	9,854	2,436	3,584	3,823	10
Plus:					
New expenditure availability	48,179	19,282	12,396	15,816	684
Transfers (net)	--------	94	84	62	−240
Equals total available	58,033	21,813	16,064	19,702	455
Less:					
Expenditures, actual (combined statement)	19,772	7,478	5,584	6,349	362
Lapsed funds	115	31	67	18	(1)
Equals unexpended balance, June 30, 1951	38,145	14,304	10,413	13,335	93
Fiscal year 1952					
Plus:					
New expenditure availability	60,494	21,633	16,088	22,244	529
Transfers (net)	−2	−24	+30	+76	−83
Equals total available	98,638	35,913	26,531	35,655	539
Less:					
Expenditures, actual (combined statement)	38,972	15,708	10,161	12,711	392
Lapsed funds	322	93	138	89	2
Equals unexpended balance, June 30, 1952	59,344	20,113	16,232	22,855	145
Fiscal year 1953					
Adjustments to unexpended balance brought forward [2]	178	180	−3	1	(1)
Equals revised unexpended balance brought forward	59,522	20,292	16,229	22,856	144
Plus:					
New expenditure availability	47,028	13,232	12,651	20,596	550
Transfers (net)	(1)	+277	−96	−173	−8
Equals total available	106,550	33,801	28,784	43,279	687
Less:					
Expenditures, actual (combined statement)	43,711	16,337	11,878	15,087	409
Lapsed funds	573	162	250	118	43
Equals unexpended balance, June 30, 1953	62,267	17,302	16,656	28,074	235
Fiscal Year 1954					
Adjustments to unexpended balance brought forward [3]	−115	−95	−14	−6	---------
Equals revised unexpended balance brought forward	62,152	17,207	16,642	28,068	235
Plus:					
New expenditure availability	34,507	12,947	9,372	11,418	770
Transfers (net)	−174	−138	−50	−7	+21
Rescissions	−535	−285	−250	---------	---------
Equals total available	95,950	29,731	25,715	39,479	1,026
Less:					
Expenditures, actual (combined statement)	40,336	12,910	11,293	15,668	464
Lapsed funds	527	189	118	155	65
Equals unexpended balance, June 30, 1954	55,087	16,631	14,305	23,655	496
Fiscal Year 1955					
Plus:					
New expenditure availability	29,728	7,660	9,766	11,637	666
Transfers (net)	−68	−210	−8	250	−100
Rescissions	−1,050	−800	−225	−25	---------
Equals total available	83,698	23,282	23,838	35,517	1,062
Less:					
Expenditures, actual (combined statement)	35,532	8,899	9,733	16,407	494
Lapsed funds	2,804	1,724	735	326	19
Equals unexpended balance, June 30, 1955	45,362	12,658	13,370	18,784	549

See footnotes at end of table.

***Estimated expenditures and amounts available for expenditure, summary by service, fiscal years 1951–59*—Continued**

[Millions of dollars]

Available for expenditure	Total	Army	Navy	Air Force	OSD and inter-service activ-ities
Fiscal Year 1955—Continued					
Memo: Anticipated reimbursements from undelivered MAP orders	(4, 178)	(902)	(245)	(3, 031)	----------
Fiscal Year 1956					
Plus:					
New expenditure availability	33, 937	7, 849	9, 648	15, 772	667
Transfers (net)	−816	−750	−66	−85	+85
Rescissions	−1, 658	−700	−503	−455	----------
Equals total available	76, 825	19, 057	22, 450	34, 016	1, 301
Less:					
Expenditures, actual (combined statement)	35, 791	8, 702	9, 744	16, 749	596
Lapsed funds	2, 544	1, 779	320	178	266
Equals unexpended balance, June 30, 1956	38, 490	8, 576	12, 386	17, 089	439
Memo: Anticipated reimbursements from undelivered MAP orders	(2, 642)	(572)	(220)	(1, 850)	----------
Fiscal year 1957					
Plus:					
New expenditure availability	36, 742	7, 901	10, 478	17, 697	666
Transfers (net)	−114	−169	−49	+81	+23
Rescissions	−718	−467	−201	−50	----------
Equals total available	74, 400	15, 842	22, 613	34, 816	1, 128
Less:					
Expenditures, actual (combined statement)	38, 439	9, 063	10, 398	18, 363	615
Unobligated balances withdrawn	1, 301	476	377	138	309
Equals unexpended balance, June 30, 1957	34, 660	6. 303	11, 838	16, 316	204
Memo: Anticipated reimbursements from undelivered MAP orders	(2, 252)	(649)	(229)	(1, 373)	----------
Fiscal year 1958 (estimated) [4]					
Plus:					
New expenditure availability	37, 195	8, 094	10, 659	17, 739	702
Transfers (net)	−590	−400	−190	----------	----------
Equals: Total available	71, 265	13, 997	22, 307	34, 055	906
Less:					
Expenditures	38, 861	9, 043	10, 640	18, 441	737
Unobligated balances expiring on June 30, 1958	[5] 216	104	25	84	3
Equals unexpended balance, June 30, 1958	32, 188	4, 850	11, 642	15, 530	166
Memo: Anticipated reimbursements from undelivered MAP orders	(2, 299)	(1, 003)	(315)	(981)	----------
Fiscal year 1959 (estimated) [4]					
Plus:					
New expenditure availability	[6] 39, 490	9, 261	10, 820	18, 044	1, 160
Transfers (net)	−345	−225	−120	----------	----------
Equals total available	71, 333	13, 886	22, 342	33, 574	1, 326
Less:					
Expenditures	[6] 39, 779	8, 880	10, 13	18, 736	1, 045
Defense housing revenues transferred to Treasury receipts	1	1	([1])	----------	----------
Equals unexpended balance, June 30, 1959	31, 553	5, 006	11, 428	14, 838	281
Memo: Anticipated reimbursements from undelivered MAP orders	[7] (2, 281)	(570)	(225)	(1, 075)	----------

[1] Less than $0.5 million.

[2] Adjustment to reflect change in accounting procedure throughout Government in handling of Economy Act working funds.

[3] Reflects reclassification of certain appropriations from "military" to "civil functions."

[4] Data include transactions relating to amounts proposed for later transmission as shown in fiscal year 1959 budget document.

[5] The fiscal year 1959 budget document shows $50 million of this amount as reappropriated in fiscal year 1959. Also, up to $128 million of these balances could be utilized for transfer to the OSD emergency fund if the pending supplemental request for $100 million additional transfer authority is granted by the Congress.

[6] Includes $205 million for proposed civilian personnel pay adjustments, not distributed by service.

[7] Includes $1,075 million anticipated fiscal year 1959 MAP orders, not distributed by service.

NOTE.—Amounts will not necessarily add to totals due to rounding.

DEPARTMENT OF DEFENSE—MILITARY FUNCTIONS

Financial plan for fiscal year 1958—Obligation plan for general and special fund appropriations based on data in the budget document for fiscal year 1959

[Thousands of dollars]

Appropriation title	Funding analysis of unobligated balance brought forward			Resources available for obligation in fiscal year 1958									
	Appropriations and reimbursements earned	Anticipated earnings from orders undelivered as of June 30, 1957		Unobligated balance brought forward	Appropriations and reappropriations enacted to date	Supplemental defense appropriation bill (H. R. 10146)		Other transfers	Anticipated reimbursement based on orders to be received in fiscal year 1958			Estimated recoveries of prior obligations	Total obligational availability (cols. 5+6+7+8+9+12+13)
		From MAP common item orders	From other customer orders			Appropriations	Transfers		From fiscal year 1958 MAP common item orders	From all other sources	Total anticipated reimbursements from new orders		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
OFFICE OF SECRETARY OF DEFENSE													
Salaries and expenses, OSD					15,900								15,900
Salaries and expenses, OPA					450								450
Salaries and expenses, Advanced Research Projects Agency							10,000						10,000
Claims					12,000								12,000
Construction of ships, MSTS	10,255			10,255									10,255
Contingencies					30,000								30,000
Emergency fund					85,000		(1)	−46,626					38,374
Retired pay					555,000								555,000
Salaries and expenses, court of military appeals					375								375
United States scientific satellite								34,200					34,200
Access roads	2,027			2,027									2,027
Family housing	3,311			3,311									3,311
Loran stations					5,500								5,500

Total, Office of Secretary of Defense (appropriated funds)	15,593			15,593	704,225		10,000	−12,426					717,392
Deutschemark support (dollar equivalent)					3,000								3,000
Total, Office of Secretary of Defense	15,593			15,593	707,225		10,000	−12,426					720,392
DEPARTMENT OF THE ARMY													
Military personnel					3,113,000		−40,000	400,000		175,967	175,967		3,648,967
Operation and maintenance		63,163		63,163	3,215,000		−10,000		98,617	342,072	440,689		3,708,852
Procurement and production	673,261	468,036	454,594	1,595,891			20,000		527,409	156,000	683,409	100,000	2,399,300
Military construction	161,262			161,262	310,000					10,000	10,000		481,262
Military construction, Army Reserve Forces	28,076			28,076	55,000								83,076
Reserve personnel					207,000					500	500		207,500
Army National Guard					333,800					800	800		334,600
Research and development	30,592		3,236	33,828	400,000		20,000	43,852		3,000	3,000		500,680
National Board for Promotion of Rifle Practice					250								250
Operation and maintenance, Alaska Communication System, Army, 1957-58 and 1958-59	35			35	5,500								5,535
Construction, Alaska Communication System	857			857									857
Preparation for sale or salvage of military property					21,000								21,000
Total, Department of the Army (appropriated funds)	894,083	531,198	457,830	1,883,111	7,660,550		−10,000	443,852	626,026	688,339	1,314,365	100,000	11,391,878
Deutschemark support (dollar equivalent)					42,487								42,487
Total, Department of the Army	894,083	531,198	457,830	1,883,111	7,703,037		−10,000	443,852	626,026	688,339	1,314,365	100,000	11,434,365
DEPARTMENT OF THE NAVY													
Military personnel, Navy					2,295,000			182,000		32,359	32,359		2,509,359
Reserve personnel, Navy					86,000			−2,732		200	200		83,468
Navy personnel, general expenses		3,994		3,994	87,000			−2,000	3,994	4,000	7,994		96,988
Military personnel, Marine Corps					630,000			−20,551		6,582	6,582		616,031
Reserve personnel, Marine Corps					23,200			−700		1,823	1,823		24,323
Marine Corps procurement	374,934	12,198		387,132					10,061		10,061	40,000	437,193

See footnotes at end of table, p. 355.

Financial plan for fiscal year 1958—Obligation plan for general and special fund appropriations based on data in the budget document for fiscal year 1959—Continued

[Thousands of dollars]

Appropriation title	Funding analysis of unobligated balance brought forward			Resources available for obligation in fiscal year 1958									
	Appropriations and reimbursements earned	Anticipated earnings from orders undelivered as of June 30, 1957		Unobligated balance brought forward	Appropriations and reappropriations enacted to date	Supplemental defense appropriation bill (H. R. 10146)		Other transfers	Anticipated reimbursement based on orders to be received in fiscal year 1958			Estimated recoveries of prior obligations	Total obligational availability (cols. 5+6+7+8+9+12+13)
		From MAP common item orders	From other customer orders			Appropriations	Transfers		From fiscal year 1958 MAP common item orders	From all other sources	Total anticipated reimbursements from new orders		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
DEPT. OF THE NAVY—con.													
Marine Corps troops and facilities		4,068		4,068	178,000			−5,000	2,148	5,894	8,042		185,109
Aircraft and related procurement	1,667,234	118,638	4,391	1,790,263	1,837,000				59,052	9,000	68,052	162,251	3,857,566
Aircraft and facilities					853,500				11,217	35,641	46,858		900,358
Shipbuilding and conversion	938,802	13,876	3,229	955,907	1,584,000	296,000			20,000	12,725	32,725	5,000	2,873,632
Ships and facilities		6,006		6,006	820,000				4,992	22,880	27,872		853,878
Procurement of ordnance and ammunition	105,909	44,041	7,462	157,412	176,000	31,800			22,962	44,905	67,867	5,000	438,079
Ordnance and facilities					164,000			−6,000	2,839	6,700	9,539		167,539
Medical care					85,200					22,725	22,725		107,925
Civil engineering		4,528		4,528	134,630			−3,630	2,998	48,798	51,796		187,324
Military construction	177,927			177,927	265,000					35,000	35,000		477,927
Military construction, Naval Reserve Forces	25,725			25,725									25,725
Research and development	15,428		7,297	22,725	505,000	22,200		21,731		21,439	21,439		593,095
Servicewide supply and finance		748		748	300,000			−5,500	700	12,614	13,314		308,562
Servicewide operations					107,000			−1,900		5,927	5,927		111,027
Naval petroleum reserves					825								825

Preparation for sale or salvage of military property					14,000								14,000
Ships' stores profits	2,303			2,303	8,100								10,403
Total, Department of the Navy (appropriated funds)	3,308,263	208,095	22,379	3,538,737	10,153,455	350,000		155,718	140,963	329,212	470,175	212,251	14,880,336
Deutschemark support (dollar equivalent)					28								28
Total, Department of the Navy	3,308,263	208,095	22,379	3,538,737	10,153,483	350,000		155,718	140,963	329,212	470,175	212,251	14,880,364
DEPARTMENT OF THE AIR FORCE													
Aircraft and related procurement	3,571,735	910,990	74,121	4,556,846	5,886,000				254,285	73,903	328,188	250,000	11,021,034
Procurement other than aircraft	−69,284	445,069	46,344	422,129	1,171,500	360,000		−5,700	55,900	25,275	81,175	25,000	2,054,104
Military construction, Air Force	363,834		3,178	367,012	900,000	520,000				5,000	5,000		1,792,012
Operation and maintenance		9,336		9,336	4,092,120			−53,000	−2,266	246,333	244,067		4,292,523
Military personnel					3,801,600					26,253	26,253		3,827,853
Research and development	72,992		3,608	76,600	661,000	30,000		−5,293	165	5,039	5,204		767,511
Reserve personnel					55,000			−2,000					53,000
Air National Guard					263,000			−20,000		126	126		243,126
Preparation for sale or salvage of military property					10,000								10,000
Total, Department of the Air Force (appropriated funds)	3,939,276	1,365,395	127,251	5,431,922	16,840,220	910,000		−85,993	308,084	381,929	690,013	275,000	24,061,162
Deutschemark support (dollar equivalent)					8,000								8,000
Total, Department of the Air Force	3,939,276	1,365,395	127,251	5,431,922	16,848,220	910,000		−85,993	308,084	381,929	690,013	275,000	24,069,162
Total, Department of Defense (appropriated funds)	8,157,216	2,104,688	607,460	10,869,364	35,358,450	1,260,000		501,151	1,075,073	1,399,480	2,474,553	587,251	51,050,768
Deutschemark support (dollar equivalent)					53,515								53,515
Grand total, Department of Defense	8,157,216	2,104,688	607,460	10,869,364	35,411,965	1,260,000		501,151	1,075,073	1,399,480	2,474,553	587,251	[3]51,104,283

See footnotes at end of table, p. 355.

Financial plan for fiscal year 1958—Obligation plan for general and special fund appropriations based on data in the budget document for fiscal year 1959—Continued

[Thousands of dollars]

Appropriation title	Planned apportionment program						Unobligated balance expiring for obligation on June 30, 1958	Unobligated balance available in fiscal year 1959				Funding analysis of unobligated balance available in fiscal year 1959		
	Planned obligations and unobligated portions of letters of intent				Planned for commitment in fiscal year 1958 in addition to col. 16 (to be unobligated on June 30, 1958)	Total planned apportionment program for fiscal year 1958 (col. 18+19)		Planned for commitment in fiscal year 1958		Reserved for carry-over into fiscal year 1959	Total unobligated balance available in fiscal year 1959	Appropriations and reimbursements earned	Anticipated earnings from orders undelivered as of June 30, 1958	
	For service account (direct)		Obligations for customer orders	Total (cols. 15+16+17)				Unobligated portion of letters of intent	Other commitments (contractual actions authorized or directed)				From MAP common item orders	From other customer orders
	Obligations incurred	Estimated unobligated portions of letters of intent												
(1)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)
OFFICE OF SECRETARY OF DEFENSE														
Salaries and expenses, OSD	15,600			15,600		15,600	300							
Salaries and expenses, OPA	450			450		450								
Salaries and expenses, Advanced Research Projects Agency	10,000			10,000		10,000								
Claims	12,000			12,000		12,000								
Construction of ships, MSTS	4,650			4,650		4,650				5,605	5,605	5,605		
Contingencies	30,000			30,000		30,000								
Emergency fund	38,374			38,374		38,374								
Retired pay	555,000			555,000		555,000								
Salaries and expenses, court of military appeals	375			375		375								
United States scientific satellite	34,200			34,200		34,200								
Access roads	2,027			2,027		2,027								
Family housing	562			562		562	2,749							

Loran stations	5,500			5,500		5,500								
Total, Office of Secretary of Defense (appropriated funds)	708,738			708,738		708,738	3,049			5,605	5,605	5,605		
Deutschemark support (dollar equivalent)	3,000			3,000		3,000								
Total, Office of Secretary of Defense	711,738			711,738		711,738	3,049			5,605	5,605	5,605		
DEPARTMENT OF THE ARMY														
Military personnel	3,468,000		175,967	3,643,967		3,643,967	5,000							
Operation and maintenance	3,117,000		403,772	3,520,772		3,520,772	88,000			100,079	100,079		100,079	
Procurement and production	1,594,000		377,000	1,971,000	223,000	2,194,000			223,000	205,300	428,300	−478,339	670,645	235,994
Military construction	340,000		10,000	350,000	131,262	481,262			131,262		131,262	131,262		
Military construction, Army Reserve Forces	27,000			27,000	13,000	40,000			13,000	43,076	56,076	56,076		
Reserve personnel	203,200		500	203,700		203,700	3,800							
Army National Guard	326,700		800	327,500		327,500	7,100							
Research and development	476,900		3,000	479,900	20,780	500,680			20,780		20,780	18,780		2,000
National Board for Promotion of Rifle Practice	250			250		250								
Operation and maintenance, Alaska Communication System, Army, 1957–58 and 1958–59	5,500			5,500		5,500	35							
Construction, Alaska Communication System	257			257		257				599	599	599		
Preparation for sale or salvage of military property	21,000			21,000		21,000								
Total, Department of the Army (appropriated funds)	9,579,807		971,039	10,550,846	388,042	10,938,888	103,935		388,042	349,054	737,096	−271,622	770,724	237,994
Deutschemark support (dollar equivalent)	42,487			42,487		42,487								
Total, Department of the Army	9,622,294		971,039	10,593,333	388,042	10,981,375	103,935		388,042	349,054	737,096	−271,622	770,724	237,994
DEPARTMENT OF THE NAVY														
Military personnel, Navy	2,477,000		32,359	2,509,359		2,509,359								
Reserve personnel, Navy	83,268		200	83,468		83,468								
Navy personnel, general expenses	84,000		7,000	91,000		91,000	1,000			4,988	4,988		4,988	
Military personnel, Marine Corps	609,449		6,582	616,031		616,031								
Reserve personnel, Marine Corps	22,500		1,823	24,323		24,323								

See footnotes at end of table, p. 355.

Financial plan for fiscal year 1958—Obligation plan for general and special fund appropriations based on data in the budget document for fiscal year 1959—Continued

[Thousands of dollars]

Appropriation title	Planned apportionment program: Planned obligations and unobligated portions of letters of intent: For service account (direct): Obligations incurred	Planned apportionment program: Planned obligations and unobligated portions of letters of intent: For service account (direct): Estimated unobligated portions of letters of intent	Planned apportionment program: Planned obligations and unobligated portions of letters of intent: Obligations for customer orders	Planned apportionment program: Planned obligations and unobligated portions of letters of intent: Total (cols. 15+16+17)	Planned apportionment program: Planned for commitment in fiscal year 1958 in addition to col. 16 (to be unobligated on June 30, 1958)	Planned apportionment program: Total planned apportionment program for fiscal year 1958 (col. 18+19)	Unobligated balance expiring for obligation on June 30, 1958	Unobligated balance available in fiscal year 1959: Planned for commitment in fiscal year 1958: Unobligated portion of letters of intent	Unobligated balance available in fiscal year 1959: Planned for commitment in fiscal year 1958: Other commitments (contractual actions authorized or directed)	Unobligated balance available in fiscal year 1959: Reserved for carry-over into fiscal year 1959	Unobligated balance available in fiscal year 1959: Total unobligated balance available in fiscal year 1959	Funding analysis of unobligated balance available in fiscal year 1959: Appropriations and reimbursements earned	Funding analysis of unobligated balance available in fiscal year 1959: Anticipated earnings from orders undelivered as of June 30, 1958: From MAP common item orders	Funding analysis of unobligated balance available in fiscal year 1959: Anticipated earnings from orders undelivered as of June 30, 1958: From other customer orders
(1)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)
DEPARTMENT OF THE NAVY—continued														
Marine Corps procurement	170,000	--------	8,096	178,096	60,000	238,096	--------	--------	60,000	199,097	259,097	240,253	18,844	--------
Marine Corps troops and facilities	173,000	--------	10,104	183,104	--------	183,104	--------	--------	--------	2,005	2,005	--------	2,005	--------
Aircraft and related procurement	[2]2,356,251	--------	59,753	2,416,004	1,050,247	3,466,251	--------	--------	1,050,247	391,315	1,441,562	1,285,466	154,160	1,936
Aircraft and facilities	840,000	--------	45,641	885,641	--------	885,641	13,500	--------	--------	1,217	1,217	--------	1,217	--------
Shipbuilding and conversion	[2]1,714,602	157,000	17,000	1,888,602	243,000	2,131,602	--------	157,000	243,000	742,030	1,142,030	1,109,200	29,601	3,229
Ships and facilities	810,000	--------	24,887	834,887	--------	834,887	10,000	--------	--------	8,991	8,991	--------	8,991	--------
Procurement of ordnance and ammunition	[2]346,800	--------	42,000	388,800	26,480	415,280	--------	--------	26,480	22,799	49,279	−7,353	51,632	5,000
Ordnance and facilities	158,000	--------	7,700	165,700	--------	165,700	--------	--------	--------	1,839	1,839	--------	1,839	--------
Medical care	85,200	--------	22,725	107,925	--------	107,925	--------	--------	--------	--------	--------	--------	--------	--------
Civil engineering	131,000	--------	53,326	184,326	--------	184,326	--------	--------	--------	2,998	2,998	--------	2,998	--------
Military construction	300,000	--------	35,000	335,000	100,000	435,000	--------	--------	100,000	42,927	142,927	109,927	--------	33,000
Military construction, Naval Reserve Forces	13,000	--------	--------	13,000	8,000	21,000	--------	--------	8,000	4,725	12,725	12,725	--------	--------
Research and development	548,931	--------	21,439	570,370	22,725	593,095	--------	--------	22,725	--------	22,725	17,673	--------	5,052
Servicewide supply and finance	294,500	--------	13,362	307,862	--------	307,862	--------	--------	--------	700	700	--------	700	--------
Servicewide operations	104,400	--------	5,927	110,327	--------	110,327	700	--------	--------	--------	--------	--------	--------	--------

Naval petroleum reserves	825			825		825									
Preparation for sale or salvage of military property	14,000			14,000		14,000									
Ships' stores profits	8,100			8,100		8,100				2,303	2,303	2,303			
Total, Department of the Navy (appropriated funds)	11,344,826	157,000	414,924	11,916,750	1,510,452	13,427,202	25,200	157,000	1,510,452	1,427,934	3,095,386	2,770,194	276,975	48,217	
Deutschemark support (dollar equivalent)	28			28		28									
Total, Department of the Navy	11,344,854	157,000	414,924	11,916,778	1,510,452	13,427,230	25,200	157,000	1,510,452	1,427,934	3,095,386	2,770,194	276,975	48,217	
DEPARTMENT OF THE AIR FORCE															
Aircraft and related procurement	[2]7,470,597	274,500	173,903	7,919,000	2,305,000	10,224,000		274,500	2,305,000	797,034	3,376,534	2,742,661	572,349	61,524	
Procurement other than aircraft	[2]1,581,200	115,300	51,811	1,748,311	305,792	2,054,103		115,300	305,792		421,092	−7,840	408,969	19,963	
Military construction, Air Force	1,340,000		5,000	1,345,000	447,012	1,792,012			447,012		447,012	443,833		3,179	
Operation and maintenance	3,960,000		253,403	4,213,403		4,213,403	79,120								
Military personnel	3,801,600		26,253	3,827,853		3,827,853									
Research and development	722,307		5,205	727,512	29,800	757,312			29,800	10,200	40,000	36,409		3,591	
Reserve personnel	50,000			50,000		50,000	3,000								
Air National Guard	243,000		126	243,126		243,126									
Preparation for sale or salvage of military property	10,000			10,000		10,000									
Total, Department of the Air Force (appropriated funds)	19,178,704	389,800	515,701	20,084,205	3,087,604	23,171,809	82,120	389,800	3,087,604	807,234	4,284,638	3,215,063	981,317	88,257	
Deutschemark support (dollar equivalent)	8,000			8,000		8,000									
Total, Department of the Air Force	19,186,704	389,800	515,701	20,092,205	3,087,604	23,179,809	82,120	389,800	3,087,604	807,234	4,284,638	3,215,063	981,317	88,257	
Total, Department of Defense (appropriated funds)	40,812,075	546,800	1,901,664	43,260,539	4,986,098	48,246,637	214,304	546,800	4,986,098	2,589,827	8,122,725	5,719,240	2,029,016	374,468	
Deutschemark support (dollar equivalent)	53,515			53,515		53,515									
Grand total, Department of Defense	40,865,590	546,800	1,901,664	43,314,054	4,986,098	48,300,152	214,304	546,800	4,986,098	2,589,827	8,122,725	5,719,240	2,029,016	374,468	

[1] Supplemental defense appropriation bill (H. R. 10146) also provides $100,000,000 transfer authority for emergency fund, OSD, such transfers to be derived from other appropriations available for obligation in fiscal year 1958.

[2] Provision has been made in planned direct obligations for conversion to obligations of unobligated portions of letters of intent brought into fiscal year 1958 as follows: Aircraft and related procurement, Navy, $208,300,000; shipbuilding and conversion, Navy, $50,800,000; procurement of ordnance and ammunition, Navy, $7,457,000; aircraft and related procurement, Air Force, $274,500,000; procurement other than aircraft, Air Force, $115,300,000.

[3] The total obligational availability is the sum of the amounts available to each individual appropriation account. Consequently, the departmental and DOD totals are overstated by the "duplicate count" of reimbursements arising from intraservice and interservice reimbursement transactions, which in grand total, amount to approximately $900,000,000.

NOTE.—Amounts will not necessarily add to totals due to rounding.

Source: OSD Comptroller EFAD, 21 January 1958. Replaces EFAD-820 dated January 1, 1958.

Department of Defense—Military Functions

Financial plan for fiscal year 1959—Obligation plan for general and special fund appropriations based on data in the budget document for fiscal year 1959

[Thousands of dollars]

Appropriation title	Funding analysis of unobligated balance brought forward			Resources available for obligation in fiscal year 1959								
	Appropriations and reimbursements earned	Anticipated earnings from orders undelivered as of June 30, 1958		Unobligated balance brought forward	Fiscal year 1959 appropriations and reappropriations		Transfers	Anticipated reimbursements based on orders to be received in fiscal year 1959			Estimated recoveries of prior obligations	Total obligational availability (cols. 5+6+7+8+11+12)
		From MAP common item orders	From other customer orders		Recommended	Proposed for later transmission		From fiscal year 1959 MAP. common item orders [1]	From all other sources	Total anticipated reimbursements from new orders		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
OFFICE OF SECRETARY OF DEFENSE												
Salaries and expenses, OSD					15,900							15,900
Salaries and expenses, OPA					500							500
Salaries and expenses, Advanced Research Projects Agency					340,000							340,000
Claims					18,620							18,620
Construction of ships, MSTS	5,605			5,605								5,605
Contingencies					30,000							30,000
Emergency fund					85,000							85,000
Retired pay					600,000							600,000
Salaries and expenses, Court of Military Appeals					380							380
United States scientific satellite												
Access roads												
Family housing							20,000					20,000
Loran stations												
Total, Office of Secretary of Defense	5,605			5,605	1,090,400		20,000					1,116,005

DEPARTMENT OF THE ARMY												
Military personnel					3,105,200	164,000	225,000		170,000	170,000		3,664,200
Operation and maintenance		100,079		100,079	3,040,000				362,270	362,270		3,502,350
Procurement of equipment and missiles	−478,339	670,645	235,994	428,300	1,405,000				100,000	100,000	50,000	1,983,300
Military construction	131,262			131,262		320,000			10,000	10,000		461,262
Military construction, Army Reserve Forces	56,076			56,076								56,076
Reserve personnel					185,000	12,000			500	500		197,500
Army National Guard					298,000	8,000			800	800		306,800
Research and development	18,780		2,000	20,780	471,000				2,000	2,000		493,780
Promotion of rifle practice					300							300
Operation and maintenance—Alaska Communication System, Army, 1958–59 and 1959–60					5,500							5,500
Construction—Alaska Communication System	599			599								599
Preparation for sale or salvage of military property					22,000							22,000
Total, Department of the Army	−271,622	770,724	237,994	737,096	8,532,000	504,000	225,000		645,570	645,570	50,000	10,693,667
DEPARTMENT OF THE NAVY												
Military personnel, Navy					2,301,818	121,000	100,000		32,359	32,359		2,555,177
Reserve personnel, Navy					84,735	4,000						88,735
Navy personnel, general expenses		4,988		4,988	86,305				4,000	4,000		95,293
Military personnel, Marine Corps					593,606	20,000			5,358	5,358		618,964
Reserve personnel, Marine Corps					23,000	1,000			615	615		24,615
Marine Corps procurement	240,253	18,844		259,097	30,000							289,097
Marine Corps troops and facilities		2,005		2,005	168,252				6,135	6,135		176,392
Aircraft and related procurement	1,285,466	154,160	1,936	1,441,562	2,069,105				5,000	5,000	50,000	3,565,667
Aircraft and facilities		1,217		1,217	840,548				43,673	43,673		885,438
Shipbuilding and conversion	1,109,200	29,601	3,229	1,142,030	1,381,000				12,500	12,500	5,000	2,540,530
Ships and facilities		8,991		8,991	789,238				19,100	19,100		817,329
Procurement of ordnance and ammunition	−7,353	51,632	5,000	49,279	460,235				50,000	50,000	5,000	564,514
Ordnance and facilities		1,839		1,839	149,850				6,700	6,700		158,389
Medical care					88,532				22,540	22,540		111,072
Civil engineering		2,998		2,998	126,554				54,555	54,555		184,107
Military construction	109,927		33,000	142,927		281,500			30,000	30,000		454,427
Military construction, Naval Reserve Forces	12,725			12,725		8,000						20,725
Research and development	17,673		5,052	22,725	641,045				20,842	20,842		684,612
Servicewide supply and finance		700		700	312,637				6,893	6,893		320,230
Servicewide operations					113,257				4,902	4,902		118,159
Naval petroleum reserves					1,683							1,683
Preparation for sale or salvage of military property					15,000							15,000
Ships' stores profits	2,303			2,303	8,100							10,403
Total, Department of the Navy	2,770,194	276,975	48,217	3,095,386	10,284,500	435,500	100,000		325,172	325,172	60,000	14,300,558

See footnotes at end of table, p. 363.

Financial plan for fiscal year 1959—Obligation plan for general and special fund appropriations based on data in the budget document for fiscal year 1959—Continued

[Thousands of dollars]

Appropriation title	Funding analysis of unobligated balance brought forward			Resources available for obligation in fiscal year 1959								
	Appropriations and reimbursements earned	Anticipated earnings from orders undelivered as of June 30, 1958		Unobligated balance brought forward	Fiscal year 1959 appropriations and reappropriations		Transfers	Anticipated reimbursements based on orders to be received in fiscal year 1959			Estimated recoveries of prior obligations	Total obligational availability (cols. 5+6+7+8+11+12)
		From MAP common item orders	From other customer orders		Recommended	Proposed for later transmission		From fiscal year 1959 MAP common item orders [1]	From all other sources	Total anticipated reimbursements from new orders		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
DEPARTMENT OF THE AIR FORCE												
Aircraft and missile procurement	2,742,661	572,349	61,524	3,376,534	5,888,800	----------	----------	----------	38,000	38,000	250,000	9,553,334
Aircraft and missile support	−7,840	408,969	19,963	421,092	2,146,000	----------	----------	----------	50,000	50,000	25,000	2,642,092
Military construction	443,833	----------	3,179	447,012	----------	955,000	----------	----------	8,000	8,000	----------	1,410,012
Operation and maintenance	----------	----------	----------	----------	4,100,000	----------	----------	----------	253,867	253,867	----------	4,353,867
Military personnel	----------	----------	----------	----------	3,737,000	182,000	----------	----------	26,253	26,253	----------	3,945,253
Research and development	36,409	----------	3,591	40,000	719,000	----------	----------	----------	5,785	5,785	----------	764,785
Reserve personnel	----------	----------	----------	----------	50,500	3,000	----------	----------	----------	----------	----------	53,500
Air National Guard	----------	----------	----------	----------	238,100	12,600	----------	----------	124	124	----------	250,824
Preparation for sale or salvage of military property	----------	----------	----------	----------	12,000	----------	----------	----------	----------	----------	----------	12,000
Total, Department of the Air Force	3,215,063	981,317	88,257	4,284,638	16,891,400	1,152,600	----------	----------	382,029	382,029	275,000	22,985,667

Department of Defense, identified by appropriation	5,719,240	2,029,016	374,468	8,122,725	36,798,300	2,092,100	345,000	----------	1,352,771	1,352,771	385,000	49,095,897
Civilian personnel pay adjustment	----------	----------	----------	----------	----------	205,000	----------	----------	----------	----------	----------	205,000
Total, Department of Defense	5,719,240	2,029,016	374,468	8,122,725	[4] 36,708,300	2,297,100	345,000	----------	1,352,771	1,352,771	385,000	[3] 49,300,897

See footnotes at end of table, p. 363.

Financial plan for fiscal year 1959—Obligation plan for general and special fund appropriations based on data in the budget document for fiscal year 1959—Continued

[Thousands of dollars]

Appropriation title	Planned apportionment program: Planned obligations and unobligated portions of letters of intent: For service account (direct): Obligations incurred	Planned apportionment program: Planned obligations and unobligated portions of letters of intent: For service account (direct): Estimated unobligated portions of letters of intent	Planned apportionment program: Planned obligations and unobligated portions of letters of intent: Obligations for customer orders	Planned apportionment program: Planned obligations and unobligated portions of letters of intent: Total (cols. 14+15+16)	Planned apportionment program: Planned for commitment in fiscal year 1959 in addition to col. 15 (to be unobligated on June 30, 1959)	Planned apportionment program: Total planned apportionment program for fiscal year 1959 (cols. 17+18)	Unobligated balance expiring for obligation on June 30, 1959	Unobligated balance available in fiscal year 1960: Planned for commitment in fiscal year 1959: Unobligated portion of letters of intent	Unobligated balance available in fiscal year 1960: Planned for commitment in fiscal year 1959: Other commitments (contractual actions authorized or directed)	Unobligated balance available in fiscal year 1960: Reserved for carryover into fiscal year 1960	Unobligated balance available in fiscal year 1960: Total unobligated balance available in fiscal year 1960	Funding analysis of unobligated balance available in fiscal year 1960: Appropriations and reimbursements earned	Funding analysis of unobligated balance available in fiscal year 1960: Anticipated earnings from orders undelivered as of June 30, 1959: From MAP common item orders	Funding analysis of unobligated balance available in fiscal year 1960: Anticipated earnings from orders undelivered as of June 30, 1959: From other customer orders
(1)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)
OFFICE OF SECRETARY OF DEFENSE														
Salaries and expenses, OSD	15,900			15,900		15,900								
Salaries and expenses, OPA	500			500		500								
Salaries and expenses, Advanced Research Projects Agency	300,000			300,000	40,000	340,000			40,000		40,000	40,000		
Claims	18,620			18,620		18,620								
Construction of ships, MSTS	4,500			4,500		4,500				1,105	1,105	1,105		
Contingencies	30,000			30,000		30,000								
Emergency fund	85,000			85,000		85,000								
Retired pay	600,000			600,000		600,000								
Salaries and expenses, Court of Military Appeals	380			380		380								
United States scientific satellite														
Access roads														

21111—58——24

Family housing														
Loran stations	20,000			20,000		20,000								
Total, Office of Secretary of Defense	1,074,900			1,074,900	40,000	1,114,900			40,000	1,105	41,105	41,105		
DEPARTMENT OF THE ARMY														
Military personnel	3,494,200		170,000	3,664,200		3,664,200								
Operation and maintenance	3,040,000		393,000	3,433,000		3,433,000				69,350	69,350		69,350	
Procurement of equipment and missiles	1,620,000		190,000	1,810,000	173,300	1,983,300			173,300		173,300	−358,339	410,302	121,337
Military construction	320,000		10,000	330,000	131,262	461,262			131,262		131,262	131,262		
Military construction, Army Reserve Forces	35,000			35,000	21,076	56,076			21,076		21,076	21,076		
Reserve personnel	197,000		500	197,500		197,500								
Army National Guard	306,000		800	306,800		306,800								
Research and development	466,000		2,000	468,000	25,780	493,780			25,780		25,780	24,780		1,000
Promotion of rifle practice	300			300		300								
Operation and maintenance—Alaska Communication System, Army, 1958–59 and 1959–60	5,500			5,500		5,500								
Construction—Alaska Communication System										599	599	599		
Preparation for sale or salvage of military property	22,000			22,000		22,000								
Total, Department of the Army	9,506,000		766,300	10,272,300	351,418	10,623,718			351,418	69,949	421,367	−180,622	479,652	122,337
DEPARTMENT OF THE NAVY														
Military personnel, Navy	2,522,818		32,359	2,555,177		2,555,177								
Reserve personnel, Navy	88,735			88,735		88,735								
Navy personnel, general expenses	86,305		7,000	93,305		93,305				1,988	1,988		1,988	
Military personnel, Marine Corps	613,606		5,358	618,964		618,964								
Reserve personnel, Marine Corps	24,000		615	24,615		24,615								
Marine Corps procurement	185,000		8,000	193,000	60,000	253,000			60,000	36,097	96,097	82,253	13,844	
Marine Corps troops and facilities	168,252		8,135	176,387		176,387				5	5		5	
Aircraft and related procurement	2,230,000		51,000	2,281,000	1,080,000	3,361,000			1,080,000	204,667	1,284,667	1,166,354	116,377	1,936
Aircraft and facilities	840,548		44,673	885,221		885,221				217	217		217	
Shipbuilding and conversion	[3] 1,655,000		19,000	1,674,000	300,000	1,974,000			300,000	566,530	866,530	840,200	23,101	3,229
Ships and facilities	789,238		20,700	809,938		809,938				7,391	7,391		7,391	
Procurement of ordnance and ammunition	488,000		40,000	528,000	36,514	564,514			36,514		36,514	−1,518	33,032	5,000

See footnotes at end of table, p. 363.

Financial plan for fiscal year 1959—Obligation plan for general and special fund appropriations based on data in the budget document for fiscal year 1959—Continued

[Thousands of dollars]

Appropriation title	Planned apportionment program						Unobligated balance expiring for obligation on June 30, 1959	Unobligated balance available in fiscal year 1960				Funding analysis of unobligated balance available in fiscal year 1960		
	Planned obligations and unobligated portions of letters of intent				Planned for commitment in fiscal year 1959 in addition to col. 15 (to be unobligated on June 30, 1959)	Total planned apportionment program for fiscal year 1959 (cols. 17+18)		Planned for commitment in fiscal year 1959		Reserved for carryover into fiscal year 1960	Total unobligated balance available in fiscal year 1959	Appropriations and reimbursements earned	Anticipated earnings from orders undelivered as of June 30, 1959	
	For service account (direct)		Obligations for customer orders	Total (cols. 14+15+16)				Unobligated portion of letters of intent	Other commitments (contractual actions authorized or directed)				From MAP common item orders	From other customer orders
	Obligations incurred	Estimated unobligated portions of letters of intent												
(1)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)
DEPARTMENT OF THE NAVY—continued														
Ordnance and facilities	149, 850	-----	7, 700	157, 550	-----	157, 550	-----	-----	-----	839	839	-----	839	-----
Medical care	88, 532	-----	22, 540	111, 072	-----	111, 072	-----	-----	-----	-----	-----	-----	-----	-----
Civil engineering	126, 554	-----	57, 553	184, 107	-----	184, 107	-----	-----	-----	-----	-----	-----	-----	-----
Military construction	309, 000	-----	30, 000	339, 000	115, 427	454, 427	-----	-----	115, 427	-----	115, 427	54, 427	-----	61, 000
Military construction, Naval Reserve Forces	15, 000	-----	-----	15, 000	5, 725	20, 725	-----	-----	5, 725	-----	5, 725	5, 725	-----	-----
Research and development	641, 045	-----	20, 842	661, 887	22, 725	684, 612	-----	-----	22, 725	-----	22, 725	17, 725	-----	5, 000
Servicewide supply and finance	312, 637	-----	7, 593	320, 230	-----	320, 230	-----	-----	-----	-----	-----	-----	-----	-----
Servicewide operations	113, 257	-----	4, 902	118, 159	-----	118, 159	-----	-----	-----	-----	-----	-----	-----	-----
Naval petroleum reserve	1, 683	-----	-----	1, 683	-----	1, 683	-----	-----	-----	-----	-----	-----	-----	-----
Preparation for sale or salvage of military property	15, 000	-----	-----	15, 000	-----	15, 000	-----	-----	-----	-----	-----	-----	-----	-----
Ships' stores profits	8, 100	-----	-----	8, 100	-----	8, 100	-----	-----	-----	2, 303	2, 303	2, 303	-----	-----
Total, Department of the Navy	11, 472, 160	-----	387, 970	11, 860, 130	1, 620, 391	13, 480, 521	-----	-----	1, 620, 391	820, 037	2, 440, 428	2, 167, 469	196, 794	76, 165

DEPARTMENT OF THE AIR FORCE														
Aircraft and missile procurement	[3] 6,632,900	274,500	38,000	6,945,400	2,100,000	9,045,400	....	274,500	2,100,000	507,934	2,882,434	2,668,511	212,349	1,574
Aircraft and missile support	[3] 2,060,900	115,300	50,000	2,226,200	415,892	2,642,092	....	115,300	415,892	....	531,192	304,723	198,969	27,500
Military construction	1,135,000	....	8,000	1,143,000	267,012	1,410,012	....	....	267,012	....	267,012	263,833	....	3,179
Operation and maintenance	4,100,000	....	253,867	4,353,867	....	4,353,867	....	....	....	....	....	....	....	....
Military personnel	3,919,000	....	26,253	3,945,253	....	3,945,253	....	....	....	....	....	....	....	....
Research and development	719,000	....	5,785	724,785	40,000	764,785	....	....	40,000	....	40,000	36,215	....	3,785
Reserve personnel	53,500	....	....	53,500	....	53,500	....	....	....	....	....	....	....	....
Air National Guard	250,700	....	124	250,824	....	250,824	....	....	....	....	....	....	....	....
Preparation for sale or salvage of military property	12,000	....	....	12,000	....	12,000	....	....	....	....	....	....	....	....
Total, Department of the Air Force	18,883,000	389,800	382,029	19,654,829	2,822,904	22,477,733	....	389,800	2,822,904	507,934	3,720,638	3,273,282	411,318	36,038
Department of Defense, identified by appropriation	40,936,060	389,800	1,536,299	42,862,159	4,834,713	47,696,872	....	389,800	4,834,713	1,399,025	6,623,538	5,301,234	1,087,764	234,540
Civilian personnel pay adjustment	205,000	....	....	205,000	....	205,000	....	....	....	....	....	....	....	....
Total, Department of Defense	41,141,060	389,800	1,536,299	43,067,159	4,834,713	47,901,872	....	389,800	4,834,713	1,399,025	6,623,538	5,301,234	1,087,764	234,540

[1] Does not reflect any fiscal year 1959 military aircraft procurement common item orders since value and distribution of such orders are not determinable at this time.

[2] Provision has been made in planned direct obligations for conversion to obligations of unobligated portions of letters of intent brought into fiscal year 1959 as follows: Shipbuilding and conversion, Navy, $157,000,000; aircraft and missile procurement, Air Force, $274,500,000; aircraft and missile support, Air Force, $115,300,000.

[3] The total obligational availability is the sum of the amounts available to each individual appropriation account. Consequently, the departmental and DOD totals are overstated by the duplicate count of reimbursement arising from intraservice and interservice reimbursement transactions which, in grand total, amount to approximately $900,000,000.

[4] Excludes $50,000,000 reappropriation to the revolving fund account, "Acquisition, rehabilitation and rental of Wherry Act Housing."

NOTE.—Amounts will not necessarily add to totals due to rounding.

Source: OSD Comptroller EFAD–338, 21 January 1958. Replaces EFAD–338 dated 13 Jan. 1958.

Department of Defense

Guaranteed loan program, as of Oct. 31, 1957

FINANCIAL POSITION OF PROGRAM

	Department of Defense	Army	Navy	Air Force
Assets:				
Cash	$19,902,362.36	$1,635,849.09	$8,239,857.96	$10,026,655.31
Purchased loans receivable, current	2,854,467.81	371,970.00	1,995,000.00	487,497.81
Purchased loans receivable, past due	3,278,815.25	3,069,676.52	209,138.73	
Purchased interest receivable, current	556.25	556.25		
Purchased interest receivable, past due	3,127.16	2,742.26	384.90	
Collection costs receivable				
Total assets	26,039,328.83	5,080,794.12	10,444,381.59	10,514,153.12
Less liabilities: Advances from appropriations	2,375,000.00		2,375,000.00	
Retained income	23,664,328.83	5,080,794.12	8,069,381.59	10,514,153.12

INCOME AND EXPENSES (FROM JULY 1, 1950, TO DATE)

	Department of Defense	Army	Navy	Air Force
Income:				
Guaranty fees, interest	$24,149,503.04	$5,682,111.06	$7,604,339.38	$10,863,052.60
Guaranty fees, commitment fees	1,216,718.54	341,751.45	355,533.86	519,433.23
Interest income on purchased loans	1,243,224.94	369,198.14	799,783.73	74,243.07
Total income	26,609,446.52	6,393,060.65	8,759,656.97	11,456,728.90
Expenses:				
Administrative costs, fiscal agents	2,763,760.18	1,135,005.29	686,573.86	942,181.03
Other expenses	2,733.50	1,936.90	401.85	394.75
Loss on purchased loans charged off	178,624.01	175,324.34	3,299.67	
Total expenses	2,945,117.69	1,312,266.53	690,275.38	942,575.78
Net income	23,664,328.83	5,080,794.12	8,069,381.59	10,514,153.12

STATUS OF PURCHASED LOANS [1]

	Department of Defense	Army	Navy	Air Force
Guaranties purchased	47	30	16	1
Principal	$28,621,954.99	$15,665,808.23	$10,945,854.14	$2,010,292.62
Interest	89,889.33	63,797.63	22,361.37	3,730.33
Collection costs	1,787.73	1,787.73		
Total	28,713,632.05	15,731,393.59	10,968,215.51	2,014,022.95
Less amount liquidated	22,398,041.57	12,111,124.22	8,760,392.21	1,526,525.14
Less loans charged off	178,624.01	175,324.34	3,299.67	
Balance due	6,136,966.47	3,444,945.03	2,204,523.63	487,497.81
Estimated amount uncollectible	2,064,964.08	2,050,767.00	14,197.08	

[1] Amounts include 14 Army and 11 Navy loans liquidated in full. Also 6 Army loans and 1 Navy loan determined as uncollectible and written off as a loss.

Status of guaranteed loan applications

[All data, except where otherwise indicated, are as of Oct. 31, 1957]

Item	Department of Defense			Army		
	Number	Loan value	Amount of guaranty	Number	Loan value	Amount of guaranty
As of Oct. 31, 1957						
		Mil. dol.	*Mil. dol.*		*Mil. dol.*	*Mil. dol.*
Applications received since July 1, 1950	1,729	$2,828.6	$2,283.2	829	$921.2	$743.4
Applications authorized	1,479	2,736.4	2,203.7	674	872.4	700.0
Applications declined	246	81.5	73.1	154	48.5	43.1
Applications pending	4	10.8	6.5	1	.3	.2
10 days and under	2					
11 to 20 days	1					
21 to 30 days						
31 to 40 days	1			1		
41 to 50 days						
Over 50 days						
As of Sept. 30, 1957						
Applications pending	1			1		
Outstanding loan guaranties	157	475.1	346.2	34	40.8	31.6
Less credit outstanding	151	358.4	261.2	32	29.1	22.5
Additional credit available		116.6	85.0		11.7	9.1

Item	Navy			Air Force		
	Number	Loan value	Amount of guaranty	Number	Loan value	Amount of guaranty
As of Oct. 31, 1957						
		Mil. dol.	*Mil. dol.*		*Mil. dol.*	*Mil. dol.*
Applications received since July 1, 1950	408	$645.0	$537.4	492	$1,262.4	$1,002.5
Applications authorized	355	615.1	513.7	450	1,248.9	990.0
Applications declined	50	21.4	19.7	42	11.6	10.2
Applications pending	3	8.5	4.1		2.0	2.2
10 days and under	2					
11 to 20 days	1					
21 to 30 days						
31 to 40 days						
41 to 50 days						
Over 50 days						
As of Sept. 30, 1957						
Applications pending						
Outstanding loan guaranties	44	155.6	109.4	79	278.7	205.2
Less credit outstanding	43	124.7	87.1	76	204.7	151.5
Additional credit available		31.0	22.3		74.0	53.6

NOTE.—Amounts will not necessarily add to totals due to rounding.

Applications authorized, by size of loan

	Department of Defense			Army	Navy	Air Force
	Number	Percent				
Applications authorized since July 1, 1950	1,479	100		674	355	450
$10,000 and under	11	1		3	2	6
$10,001 to $25,000	38	3		15	13	10
$25,001 to $50,000	86	6		43	17	26
$50,001 to $100,000	178	12	22	88	40	50
$100,001 to $300,000	360	24		171	93	96
$300,001 to $500,000	223	15	61	111	54	58
$500,001 to $1,000,000	203	14	75	96	48	59
$1,000,001 to $2,500,000	196	13		84	42	70
$2,500,001 to $5,000,000	102	7	95	37	24	41
$5,000,001 to $10,000,000	38	2		13	10	15
$10,000,001 to $15,000,000	16	1		6	4	6
$15,000,001 to $50,000,000	26	2		6	8	12
Over $50,000,000	2	(1)		1	----------	1

1 Less than 0.5 percent.

NOTE.—Average percent guaranty authorized (by amount).

Applications authorized, by percent of guaranty

	Department of Defense		Army	Navy	Air Force
	Number	Percent			
Applications authorized	1,479	100	674	355	450
100 percent	21	1	8	13	----------
95 percent	42	3	30	12	----------
90 percent	755	51	335	173	247
85 percent	93	6	48	19	26
80 percent	260	18	116	67	77
75 percent	91	6	38	21	32
70 percent	200	14	93	45	62
65 percent	2	(1)	1	----------	1
60 percent and under	15	1	5	5	5

1 Less than 0.5 percent.

Department of Defense

Unliquidated balances of progress payments and advance payments compared with guaranteed loans outstanding, fiscal year 1957 and fiscal year 1958

[Millions of dollars]

Fiscal year	Unliquidated balances of progress payments	Unliquidated balances of advance payments	Guaranteed loans outstanding
1957—July	4,280.8	33.0	344.2
August	3,885.6	29.5	330.9
September	3,888.8	29.4	349.3
October	3,929.9	35.3	343.4
Movember	3,930.9	29.6	354.3
December	3,816.8	44.0	367.7
January	3,853.7	46.1	378.4
February	3,957.2	42.8	375.9
March	3,915.8	39.5	385.8
April	4,025.4	54.8	377.4
May	4,103.1	49.4	379.4
June	4,045.5	40.2	383.4
1958—July	4,037.6	55.2	378.5
August	4,102.9	53.6	354.8
September	4,070.4	46.9	358.4
October	4,056.1	57.8	360.0
November	4,075.1	48.7	353.2
December (preliminary)	3,897.0	43.9	354.5

Feb. 5, 1958.

Estimated Obligations for Contracts Placed With Private Industry

Following is a table which indicates that the volume of procurement of goods and contract services for the period January to June should total $13.4 billion as compared with $7.9 billion for the first 6 months of this fiscal year (July-December). During the early months of fiscal year 1958 only those contracts which required placement or extension were consummated. In November and December—after completion by the military departments of a complete review of the buying programs—the rate of placement of contracts sharply increased. This increased rate is continuing and obligations for these purposes for the last 6 months of this fiscal year of $13.4 billion appear reasonable and feasible.

Department of Defense—Military Functions

Estimated obligations for contracts placed with private industry

[Billions of dollars]

	Major procurement	Other contracts			Total
		Total	Construction	Research and development consumption-type material and contract services	
January-June 1957	6.7	3.2	1.2	2.0	9.9
July-December 1957	5.7	2.2	.3	1.9	7.9
July	.3	.40	.04	.36	.7
August	.6	.30	.02	.28	.9
September	1.2	.33	.05	.28	1.5
October	.7	.39	.05	.34	1.1
November	1.3	.33	.03	.30	1.6
December (projected)	1.6	.45	.11	.34	2.1
Total, calendar year 1957	12.4	5.4	1.5	3.9	17.8
January-June 1958 (projected)	9.7	3.7	1.6	2.1	13.4
July-December 1958 (projected)	7.5	2.7	.6	2.1	10.2
Total calendar year 1958	17.2	6.4	2.2	4.2	23.6

Jan. 24, 1958.

Senator SPARKMAN. Thank you, Mr. McNeil.

We are glad to receive the charts. I am sure they will be useful as a part of our files. Mr. Talle.

Representative TALLE. Mr. Chairman, I will forgo asking any questions at this time. I would like to ask some later on, however.

Senator SPARKMAN. Mr. Bolling.

Representative BOLLING. Mr. McNeil, on page 13 of your mimeographed statement there is a sentence which says:

> This much can be said: The increased rate of defense order placements certainly will be a positive factor in the economic picture, not only during the current 6-month period but also beyond.

I would like to have some discussion of the effect of the lead time of various items. Do you have any notion as to the average lead time in the contracts to be let during January to June 1958 and fiscal 1959? Are these long-lead-time items, short-lead-time items, or what?

Mr. McNEIL. There will be some of all three; some long, some short, some medium. I would say on the average they would be the medium-lead-time type.

However, even on the long-lead-time items where it may take 2 years before you get the first delivered article, work does start almost immediately on components, and the bits and pieces.

There are orders placed for raw material. If it is a brandnew item, maybe the training of certain employees may begin. So the work starts, even though you may not get the end item delivered for 2 years.

Representative BOLLING. Could you put a rough figure of time in months or years on long, medium, and short?

Mr. McNEIL. I would best perhaps do that by example.

I would call a large carrier a very long-lead-time item, although work would begin immediately, first on the propulsion equipment, and next the keel and the hull, and as you go along, perhaps in the second or third year, orders will be placed for certain of the pumps, catapults, and arresting gear, which might be of shorter lead time.

In cases of very large aircraft, I would say for a B–52, a reasonable lead time from placing of the order to delivery is close to 18 months.

In the case of some missiles, it can run from 1 year to 2 years. Although in the development of missiles, in the early stages of missile work, you finance it on a "level of effort" basis until you can actually buy the missile in production quantities. By that, I mean in the case of Navy's Polaris or in the case of the Atlas, it will be financed on the "level of effort" basis for the 12 months immediately ahead. Only when we get the item developed and can order additional quantities does it become a long-lead-time item.

Representative BOLLING. Presumably the difference in lead time shows up in progress payments.

We can expect the average monthly payments to be higher for short-lead time than for long-lead time.

Mr. McNEIL. Progress payments are a pretty good measure of the rate of progress on the long-lead-time item; that is correct.

Representative BOLLING. Well, the question I am getting at is for a given number of dollars in contract you will get a higher monthly payment rate presumably out of the short-lead-time item than you will out of a long-lead time immediately.

Mr. McNEIL. That is correct.

Representative BOLLING. Does the change in the composition of defense procurement which you outlined in your statement suggest a more rapid or a slower economic impact from changes in the rate of obligation. In this shift from one type to another type of procurement does differing lead times suggest that we are going to have a quicker impact this time?

Mr. McNEIL. Well, certainly the impact will be quicker if it is a reorder of something that is already in production. If the change to which I referred is to an entirely new item, the rate of progress on this new item will be slower than if we were reordering.

Representative BOLLING. If I understand the shift in the budget it is from older type items to new and developing items. Therefore, presumably this particular variety of budget, taking into account lead time, would have a slower impact on the economy than if this were a reorder of conventional items and had heretofore been ordered in quantity.

Mr. McNEIL. That is true as a general rule, but there are two things that make it not quite that clear or simple. In the case of new items we are buying ships today of types we could not buy before.

However, we can build them just as rapidly as we could before. In the case of the big missiles, I mentioned a moment ago that in the early stages they are financed, started, or the contract is placed for what I might term a "level of effort" for the months immediately ahead.

Therefore, the obligations represent expenditures which will be made immediately, which will start immediately. And the obligation covers expenditures no longer than a year ahead.

So in that sense they are quick-spending items, or quick-spending types of items.

Representative BOLLING. Is this the development stage?

Mr. McNEIL. Yes; the development stage, or where it has gone beyond the research stage. In certain of our ballistics missiles we are not in full production perhaps, but they are still making a number of missiles per month for test. So it is really not a production item yet. But it is very close to it.

But it still is being financed on what we term a "level of effort" basis, which are the types of obligations which spend out in the 12 months immediately ahead and not over a 2-year period.

Representative BOLLING. Does this mean if when you speed it up you pour in more manpower and energy and money and so on?

Mr. McNEIL. That is right.

Representative BOLLING. Then you have a fast impact even though you are still technically in the development stage?

Mr. McNEIL. That is correct.

Representative BOLLING. Do I assume correctly that a substantial proportion of this shift implied in the budget is toward a high level of effort in the immediate future?

Mr. McNEIL. Yes, sir.

Representative BOLLING. The Secretary, Mr. McElroy, has, I believe, indicated that additional funds may be requested as defense preparations go forward.

Is it likely that such requests in fiscal 1959 may exceed the $500 million which the President presented as a defense contingency fund proposed for later transmission if needed?

Mr. McNeil. Yes, it is quite possible that the request to cover certain programs—that is, if the progress made in development is as good as we would like to see—may result in requests either during this session or early in the next session of the $500 million or something in excess of the $500 million.

Representative Bolling. This then would depend on things that nobody knows now, on success and development, in fact; but in any event, it would be unlikely to have an impact on the economy earlier than the third or fourth quarter of this calendar year?

Mr. McNeil. Except, sir, there is also a psychological impact. I am not perhaps the best one to estimate its effect. But the minute that orders are placed there is a different feeling than if there are no orders received or no hope of getting orders.

I think I detect, when I talk to a good many people from industry, quite a difference in their forward outlook when they see signs of business coming than when they do not see it coming. Particularly after they receive an order, the attitude changes noticeably.

Representative Bolling. Thank you.

Senator Sparkman. I would like to go back to one of the questions that Congressman Bolling asked, which is additional funds that might be requested. I am not sure I fully understood it. Did your answer mean that there may be another supplemental appropriation request this year?

Mr. McNeil. There could be, sir.

Senator Sparkman. That would be fiscal 1958?

Mr. McNeil. It could be for fiscal year 1958; or if it were quite late in the session, it could be a change in the 1959 request.

Senator Sparkman. I do not presume you are prepared at this time to say how much that would be or when?

Mr. McNeil. No, sir.

Senator Sparkman. Nothing more definite than what you have said?

Mr. McNeil. That is correct, sir.

In the President's budget message there was an item to which I think Mr. Bolling was referring, which earmarked for financial planning purposes in the executive department an amount of $500 million which may or may not cover any upward changes in the defense program.

Any amounts requested of Congress under that $500 million will still require submission by the President of a request to Congress for a specific program.

Senator Sparkman. Mr. Curtis.

Representative Curtis. Mr. Chairman, I would first like to ask the Secretary if he is familiar with the papers prepared for the Fiscal Policy Subcommittee of this committee for hearings that were held in December on Federal expenditure policy for economic growth and stability?

Mr. McNeil. No, sir, I am not familiar in detail with those papers. I just knew of them.

Representative Curtis. The reason I asked that is I don't believe the Defense Department has been given an opportunity to comment on those papers. I think they were very fine papers and would be very valuable—it would be valuable to the committee if we could have your comments on them.

Mr. Chairman, I don't think we want to hold these hearings open for that, but I would like to make a request at this time that the Defense Department make comments on these papers and the hearings held on them last November.

Mr. McNEIL. We would be very happy to comment on them, and to submit our comments to the committee, for whatever purpose you choose to make of them.

Senator SPARKMAN. Thank you.

Representative CURTIS. Your paper goes a long way toward making comments on these papers, because it is right in that general area. Now, then, secondly, the charts and other tables as you say will be available to the committee.

I presume these charts are work that you have done in relation to the impact on defense orders on particular industries.

I know you brought in ships, aircraft, and electronics.

Mr. McNEIL. The charts show the trends running from about 1950 through to the present. Because we were interested to see what the relation was between the rate of new orders placed and changes in employment.

We probably would have to add to that the civilian demand. We thought it would be helpful as part of our general knowledge.

Representative CURTIS. I am sure it would be extremely helpful. Now, in these charts I presume you show the—are they based upon when the contract is actually entered into? That point of impact? Or do you use actual expenditures?

Mr. McNEIL. Generally we based it on expenditures which reflect actual employment and the payments for materials. Mr. Bolling touched on progress payments. Expenditures do not mean you wait until the article is delivered; because at all times, with our present level of operation, the outstanding progress payments run in the neighborhood of $4 billion.

So, we are that much closer to registering the effect—long before the item itself is delivered. We have a measure of where effort is going, whether it is to aircraft or missiles, through progress payments.

Representative CURTIS. I presume some of these charts actually will bring that out—these charts and tables?

Mr. McNEIL. Yes.

Representative CURTIS. I think that is going to be extremely valuable. I am sure, after our staff has had a chance to study them, we probably would like to have further information or development of that.

Mr. McNEIL. The two gentlemen here with me have worked with your staff in the past; they have a high regard for them. They seem to know what to do. So, they may be of some help to them.

Representative CURTIS. I am sure they will be.

Now I am going to pose a matter that over a period of years has seemed to me to exist in this problem of budgeting the defense expenditures and actually it lies at the base of some of the economic impact that it has. It seems to me we have really got two budgets. One is on the assumption that we are going to freeze on the design and go into mass production, which, of course, is a much more costly budget than if we continued to develop the design, as you in your paper refer to the fact that in missiles, 90 percent of the dollars planned for procurement are for models.

Mr. McNEIL. That we could not buy in 1955.

Representative CURTIS. Yes.

Actually it seems to me there is a military decision involved in almost all of these. Because if you freeze on design too soon for mass production, you may have your quantity, but you might be deficient in quality. On the other hand, if you freeze too late for mass production, you might have your quality, but would lack the quantity.

Mr. McNEIL. That is the neat trick if you can do it right with a high batting average.

Representative CURTIS. Yes. And I again emphasize that I think it is a military decision largely as to what you do. It is an evaluation of the enemy's potential. But it has tremendous budgetary impact if you decided not to freeze on design and to continue to perfect the design for better quality. And I have been impressed with the fact that maybe if we pursue that thing a little further and its budgetary impact we might get better understanding in this area. Because therein lies a great deal of this basis for rescission and transfer and carryover funds, unobligated funds; am I not right?

Mr. McNEIL. Yes. You, in effect, posed several questions in your statement. I will try to pick them up one by one but I may miss one. I would like to pick up the last one first, if I may.

That is the unobligated funds that get a great deal of advertising.

First, by far the greatest part of the unobligated funds showing in the Department of Defense accounts are amounts definitely earmarked, set aside, to complete articles which are under contract.

Now we do not buy a ship, as you and I would buy an automobile, from a dealer's floor. It is bought in pieces. The propulsion equipment on a heavy ship—the contract for that will be placed directly and furnished, in effect as the Government furnished equipment, to the shipbuilder. The hull will be built by the shipbuilder, of course, and the equipment will be installed.

Let's take a carrier, which is one of the more complex ships. The first thing in an atomic-powered carrier is to order the reactor, which is the longest lead-time item. However, when we place the first substantial order for components of the ship, Congress, under the present system which I think is very good, will have presented to it the cost of the complete article; i. e. will have provided the authority to place obligations for the complete article.

In the first year, however, the actual contracts placed or obligations created may represent only half, or 60 percent, of the total value of the vessel. I think the Department has made great progress in its buying in that respect. For example, if the catapult and arresting gear does not have to be ordered until 1 year later, they will wait to order that, because it is possible that the one they will order a year later will be of improved design.

In the meantime, the money for it is unobligated. If we rushed out and obligated early, everybody would apparently be happy. But because we follow what I think is an intelligent plan and set aside the money for the shorter lead-time item until later, it shows as unobligated.

I think that is healthy, that you are able to run the business and set aside these funds for the articles that you need later.

Representative CURTIS. Let's say you have a situation where actually due to technological advances you completely abandon that method of launching an aircraft, let's say, and go to something else; then you have in effect a complete rescission of that particular obligational authority. And there is where the complexities come in.

What I am pleading for really is that there be a better understanding of the economics involved in this contract placement in relation—and the military problem that I have posed—in relation to the budgetary problem. Because frequently we—and very properly—due to technological advances a contract will be, or an intended obligation purposely will be, completely rescinded. Or you get into the area of transfers where it will be an argument as to whether it actually is a transfer.

The Military Establishment might properly argue that it is, and, therefore, not reported back to the Congress as being a sufficient change to warrant a relook. Yet the Congress in its judgment might think well, that is shifting over and spending money for an entirely different purpose.

In other words, I am pleading that you can have a situation, which I do think exists, with the military perfectly honest in their viewpoint and the Congress perfectly honest in theirs, because of lack of understanding of the complexities, where there isn't a meeting of minds.

And all this, I might say, seems to carry right on over into the economic sector where we are talking about what aircraft companies might do as a result of a decision not to go into mass production for a particular item, but to continue to work with models and perfect the design.

Mr. McNEIL. We certainly can always improve what we are doing. All of us can, I think. I won't say we are always perfect. But on the whole a pretty good job is done in making up the buying list that is being presented to the Congress now which represents the shopping list to be placed under contract, or at least contracting started, beginning July 1.

In this period, between now and the time the contract is placed, there will be changes in the shopping list as it presently stands. It would be nice if it could stay completely stable.

On the other hand Congress—on the whole—has grasped our problem very well and has given us considerable flexibility.

In exchange for that flexibility we have made arrangements that when we do make changes in the substance of the shopping list from what we presented earlier, we make regular and continuing reports of all of these changes. We make them to the Appropriation Committees of both Houses, because we don't think it should be a completely freewheeling affair. The Congress recognizes that something we think may come through development between now and next fall may not be ready for contracting. Yet on something else that we have doubts about, there will be a breakthrough and we can procure it earlier than we thought.

However, we don't juggle between appropriations. But if it is an item of ammunition; aircraft, or missiles, there is flexibility within an appropriation.

Now, the volume of business that is actually canceled once it is placed, is, on the whole, a very low percentage of the total. In 1958 and 1959 I would expect that contract cancellations or adjustments of that type will run in the order of 2 to 3 percent of the total volume.

Those will be for items that either the contractor was late, or finally found he couldn't make it, or would deliver it so late it wasn't of value, or because later developments made it smart to make a change.

Last fall there was a cancellation of one of the big missiles. All the newspaper accounts carried stories that it ran about $700 million. It was not a cancellation, however, of an outstanding contract of $700 million, because that was the value of the accumulated work done since 1946, as I recall. So the part that was canceled was only a small part of the $700 million. In other words, the value of the work going on at the time was very much less. The economic impact in that case was heavy, but only a fraction as heavy as the impression might be from the newspaper account.

Does that answer in part your question?

Representative CURTIS. Yes. Of course this is such a big subject that naturally we can only touch it.

Mr. Chairman, I have taken more time than I wanted. I am going to pose a question that I will bring up later.

Mr. MCNEIL. Mr. Lehrer just pointed out one of the points in the fiscal subcommittee report on the budgetary procedure: to provide an objective analysis for likely effects of Federal programs on the overall level of economic activity.

Perhaps we don't do a complete job on it in Defense, but we do our best to break it out to show where the business is going, by types; that is, missiles, ships, and even within missiles by types, which is translatable at least, I think, into communications, electronics, shipbuilding, the type and character of the industry where the changes are being made and where the emphasis will be placed.

I mentioned in my statement here, for example, that we reduced the procurement of conventional ammunition from 17 cents out of each procurement dollar down to 1.6 cents out of each procurement dollar. We watch it very carefully, and I believe we try to do a decent job, even with our friends of the press here, in showing them the changes in the product mix and in the trends by classes of items.

I can't always tell ahead, of course, exactly what part of the country is going to get what electronic business. It depends on their ability to do the job.

Representative CURTIS. Mr. Chairman, the question I was going to come back later to is: yesterday Senator O'Mahoney and I were questioning—or day before yesterday—the Director of the Budget, and we had a difference of opinion or understanding as to whether or not there was going to be about a $5 billion increase in immediate expenditures affecting the economy. And Senator O'Mahoney, as I understood it, felt that the figures indicated that there was not going to be an immediate impact in the next few months.

I think the Director of the Budget thought there was when I posed the question to him. But it seems to me your paper backs up Senator O'Mahoney. But I won't ask that now. However, I would like to come back to that.

Senator SPARKMAN. Senator Douglas?

Senator DOUGLAS. I wonder if some member of the staff will give Mr. McNeil this pamphlet, The Federal Budget in Brief, because I wish to question on that.

Mr. McNeill, on the last page of your testimony you say that the total value of defense orders placed for goods and services would total $21 billion in both fiscal year 1958 and 1959; saying that the order placements will rise from $18 billion in calendar 1957 to almost $24 billion in calendar 1958 and continue at a high level thereafter.

Now, on page 52 of this pamphlet, at the very end, at the top of the page, the main budget expenditures are projected within the Department of Defense.

And the purchase of aircraft, missiles, ships, and other military equipment is given as $13.8 billion for fiscal 1958, and $13.8 billion for fiscal 1959. Virtually the same.

Now, you give these figures much larger.

Do you include an item of military public works, research, reserves, and so forth?

Mr. McNEIL. Yes, sir. In the middle of my statement I discuss hard goods alone; and expenditures, which tie in these figures.

But our total procurement including soft goods and construction—that is, the contracts for goods and services with the public—result in the figures I use.

Senator DOUGLAS. So that you do include those items of 5.3 and 6.2 billion dollars, which make up the total?

Mr. McNEIL. I haven't identified—yes, I see them. The 1958 columns.

Senator DOUGLAS. The fourth item down under "Department of Defense." Military public works, research, reserves, and others, $5.3 billion for fiscal 1958, and $6.2 billion for fiscal 1959.

What I am asking is: Whether you included these figures in your total of $21 billion for orders placed?

Mr. McNEIL. Only part of it, sir.

Senator DOUGLAS. Even if you included all of these it would amount to $19.2 billion and $20 billion. Where do you get your other billion? Is this stockpiling?

Mr. McNEIL. No. In my statement, I think I covered it. But I think I can reconcile it from this table.

First the $21 billion is the value of orders placed; whereas, the table to which you referred is the estimate of expenditures under contracts which are already outstanding as well as new contracts to be placed. So they include different elements.

But to go to the other part of your question, sir: In making up the $21 billion, if we were talking about expenditures under contracts, we would take a part of the amounts shown for military, public works, and research.

Senator DOUGLAS. But not the amount for the reserve?

Mr. McNEIL. Only very small. Only their "out-of-pocket" amounts for procurement.

Senator DOUGLAS. What other items would you include under the category "Orders placed for goods and services"?

Mr. McNEIL. It would be part of the operation and maintenance of equipment and facilities, that part that related to spare parts and POL, or a contract with some company to do overhaul work. And it would be a part of the amount, a small portion of the amount, shown for military personnel. That would be the amount paid for clothing and food, which is a part of the military personnel category of costs.

Senator DOUGLAS. We are not experts on military policy here. We are trying to deal with the economic situation, but I think Mr. Curtis questioned on a very important point on which Mr. Bolling touched indirectly, namely, how much actual stimulus is going to be given in 1958 by these orders and/or expenditures.

Mr. McNEIL. In the case of orders, Senator, there should be a substantial stimulus. And the reason for that, I think, is this: While, as I noted in my statement, the total amount of orders placed in the two fiscal years, 1958 and 1959 will be almost the same, the orders placed for the 6-month period ended December 31 were very low.

Senator DOUGLAS. For the 6-month period ending when?

Mr. McNEIL. Ending this past December 1957.

Senator DOUGLAS. Yes. That is just what I was saying yesterday and the day before.

Mr. McNEIL. But the contracts to be placed for this current 6-month period, January to June 1958, will be unusually high.

Senator DOUGLAS. Yes. And then thereafter you go back to the figure which roughly prevailed from July 1956 to July 1957; isn't that true?

Mr. McNEIL. Yes, sir. A little higher.

Senator DOUGLAS. So what you roughly do is to make good during the next few months for the decline in orders during the 6 months from July to January, to the end of December of 1957.

Mr. McNEIL. That is correct.

Senator DOUGLAS. Now, that is a very important point to get cleared up.

In other words, what I have been saying: I think economically—we won't go into the defense aspects because certainly this is not a competent group at the moment— but in the economic aspect, this is a one-shot stimulus. And as to when it would come depends (*a*) on the effect of orders as contrasted with actual work, and then (*b*) how long it will be before the orders are translated into actual production.

And from an economic standpoint, I think that is a very crucial question.

Mr. McNEIL. I think you are correct, Senator. But I would just like to emphasize two aspects of that question.

I closed the statement with that remark in order to point it up. But the psychological impact of having this volume of orders during these months will be important. Next, the 1959 budget—and for all the signs we can read ahead—would indicate that volume, even though it is not too far perhaps from the volume of a year ago, is coming up and will stay there in the future, and should have a very reassuring effect because when people see orders drying up they just react naturally. But this unusual volume of orders will be for this 6-months period and then go back to normal, and the normal will be a little bit higher than it was in the 1956–57 period.

It will still be on the "up" side.

Senator DOUGLAS. We have had a great deal of testimony, Mr. McNeil, that this is not an inventory recession. There may be some decline in inventories which has intensified the situation, but the general testimony of all our witnesses thus far, I think, is that this is in the main a capital goods recession, a decline in investment, which is, of course, more serious than a mere inventory recession.

Now, I would like to ask whether as you step up your orders, whether to fulfill—step them up to make up for the cutback which you have previously given—whether this will require much additional capital investment on the part of those who get the contracts; or whether they will be able to produce these goods with the facilities which they already have?

In other words, will there be a stimulus on capital investment in the defense sector?

Mr. McNeil. In large part they will be produced with the capital facilities that presently exist. In my statement I made this remark: That similar expenditures for production, equipment and facilities which took 9.7 of each major procurement dollar in 1953 will take only 2.7 in fiscal 1959. However that 2.7 figure out of each procurement dollar in 1959 was not too different than the figure of the current year or last year.

But we do not—we do not require substantial or huge capital expansion to produce the items on our 1959 shopping list.

Senator Douglas. Thank you very much. That clarifies the situation, even though it removes one source of hope.

Mr. McNeil. Also I want to mention that the percentage that will require capital investment is about the same as this year, and also of last year.

Senator Sparkman. May I ask one question, Mr. Talle, before you start, in order to clear up in my own thinking the implications of the last question.

Do I understand correctly then, that what is really happening is that there is to be a leveling off, a making up of something that was left off in the last half of last year?

Mr. McNeil. In effect; yes, sir.

Senator Sparkman. And the reason I stress that is because it seems to me that a great deal of the thinking in the country and a great deal of the publicity that has been given has been to the effect that because of the newer weapons and the costlier weapons there is going to be a steep increase in the outlay of defense funds.

Mr. McNeil. Not from one year to the other for procurement.

Senator Sparkman. It just happens to be higher now because of the previous dip. But actually it will almost be a leveling.

Mr. McNeil. And that, Senator was a result of other actions and was not a planned program as such. The budget we presented last year contemplated spending at about $38 billion for the year. We were running at a little higher rate in the last few months of fiscal year 1957. There were a number of changes that were being made. And this transition to new weapons is really most rapid.

Sometimes it is said that the Defense Department cannot make decisions. But when 75 percent of the items in the shopping list in 1959 are different from those in 1955, somebody has been making some decisions. But we really had to rework our programs, all of them—procurement, personnel, the whole thing, last fall.

Therefore, it was decided to place only those contracts which had to be renewed in July and August until the plans could be reworked. It was hoped that they could be reworked by the end of August.

In several elements of the military departments, the plans were not completed, the reworked plans, until October.

Therefore, it was really October when the buying plans for the whole year were firmed up.

So, as a result, the orders placed in the first 5 months were very low. December approached normal. But it still meant that the total buying program for defense as contemplated in the Budget last year was going forward. It meant the orders were to be placed later in the fiscal year, and that caused this bulge or this unusual volume in the first 6-month period of calendar 1958.

The next 6-month period, from July to December, should be at a normal rate. That normal rate will be a trifle higher than the average for this fiscal year, and somewhat higher than last year; not tremendously higher.

Senator SPARKMAN. I wonder if you can say how far order placements will fall in calendar year 1959.

Mr. McNEIL. In calendar year 1959—I am looking a bit in the crystal ball, since it will depend on the fiscal year 1960 budget—but my forecast, compared with the $21 billion level that I mentioned for each of these 2 fiscal years, is that it would run a little over $21 billion—$22 billion possibly, perhaps a little higher.

Senator SPARKMAN. In other words, the same level, and slightly higher?

Mr. McNEIL. Yes.

Senator SPARKMAN. Dr. Talle?

Mr. McNEIL. I might add just a word there which will help. We are running into a period here where to keep modern weapons, or to keep modern we have to press forward with any development that will give us the more effective weapons. But they are high cost.

Starting even as early as the fall of 1953 and 1954, an effort was made to look ahead to gear the size of the forces to the forecast of what weapons would cost. You may have noticed there was some change in military strength last fall. A hundred thousand cut was announced early last fall, and the second hundred thousand reduction later.

Well, in effect while our military people are costing more per person as we go along, it was an effort to make some shift into the procurement of more effective hardware which is higher cost. We knew it was coming. And it was an effort to keep the whole thing in balance—between people and weapons.

So it does mean that as we go along, the increased cost is recognized and kept in balance with the number of people.

Senator SPARKMAN. Dr. Talle?

Representative TALLE, Thank you, Mr. Chairman.

If my questions are inappropriate, Mr. McNeil, please feel free to tell me so and I certainly won't press for answers. Maybe this is unrelated to your work as Comptroller. Can you tell us how the military housing program is coming along?

Mr. McNEIL. Not too well in some respects. I am not sure that some of it isn't our fault. The question came up some years ago as to the best method of providing needed housing for military personnel.

One approach, of course, is direct appropriations—the direct appropriations method of building. At the time the Wherry plan was approved by Congress, it seemed to be a solution.

And about 80,000 units were built under the Wherry plan. It went a long way to solve the housing problem. Then the so-called Capehart bill was passed. And that seemed to offer another solution in lieu of the appropriated money or direct approach, and the several Capehart projects were started and went along very nicely.

We, however, ran into the problem of financing and couldn't finance them with the current interest rates, and because of certain limitations on the authority of the FNMA to underwrite the loan during construction. So really it was interest rate during the last year that prevented us from going ahead with some Capehart projects that we would like to have had.

Does that answer your question, sir?

Representative TALLE. Yes, it does.

Last November I saw some off-base housing. I am certain the American people don't want our service men and their families to live in some quarters I saw. On the other hand, I saw very much good housing on our bases. And I want to say that I got a good impression of what was going on at the Redstone Arsenal in Senator Sparkman's State.

Mr. MCNEIL. At some places in the world we are in satisfactory shape. Some places we are approaching it. In others, we still have work to do.

Representative TALLE. You will find some good and some bad in a number of places, won't you?

Mr. MCNEIL. This may not be the time nor the place to mention it, but I have a way that I can find out. I have two sons in the service, and I get direct reports.

Representative TALLE. I can understand that. I would like to say in the same breath that I personally feel very much indebted to General Medaris for the wonderful briefing he gave us at Huntsville, Ala. Likewise, General Yates at Cape Canaveral. And General Sullivan at Ramie Air Field.

Mr. MCNEIL. I think it is nice you had the opportunity to visit those installations.

Representative TALLE. And I should add General Le May, 2 years earlier. I got a very fine impression of his program.

Mr. MCNEIL. There are a lot of good things going on in defense. Even though, when I read the papers, sometimes I wonder.

Representative TALLE. Mr. McNeil, that is why I am saying this, because I read so much about the faults of our defense people, and somebody ought to say a good word for the many persons who certainly are dedicated people, in my opinion.

Just one more thing. This is for my education. It is my impression that Russia put a great deal of emphasis on being first in the satellite field; whereas we in our country put emphasis on a number of things, so that ours was a multiple program instead of great emphasis on a single thing.

Had we chosen to follow the same course, we probably could have been first.

Mr. McNeil. I think I am probably going a little out of my own field. But I think, in retrospect, had the scientific satellite program utilized the progress and advances in military missiles instead of embarking upon a brandnew and separate project, it would have shown results much earlier. But the question was: Would the application of military missile effort to a program of this kind slow down the military missile progress?

The general decision was that the missile effort should not be slowed down. But in retrospect we probably would have been better off if we had used military missiles to boost the thing into the air as one has done.

Representative Talle. Last fall our Housing Subcommittee witnessed the firing of the Jupiter and the firing of the Thor. I am not overlooking this fact. That what we do, we do in a free society; whereas what some other people do they do in a collectivist society. And I will take my chances with the free society.

Mr. McNeil. I will too, sir. But had military missiles been used it would have been up earlier. But the consensus was not to dilute the effort on military missiles

Representative Talle. Yes; thank you, sir.

Thank you, Mr. Chairman.

Senator Sparkman. If we are dealing in retrospect—and I don't believe in a great deal of that—as a matter of fact it would not have slowed down the missile program, because they had Jupiter C ready back there a long time ago. But we won't go into that. I still hope the Vanguard gets one off. And I believe it will, if they keep trying.

Mr. McNeil, I am glad that Mr. Talle brought out this question about the military housing. Of course, this is no place to discuss it in length, but I do hope that the armed services will not simply rest on the present military housing programs, because I am not at all certain that we are using the best method of getting military housing.

Mr. McNeil. I agree with you, sir.

Senator Sparkman. And I think that there will be continuing study and consideration of the whole problem.

Mr. McNeil. Again, we used this word "retrospect." The Congress provided a program of appropriated housing money to us in 1954—I think about $175 million in authorizations and the first year's money was about $75 million. I think in the Department of Defense, many of our people thought this was too slow. But had we continued just about that program each year—because time goes by quickly—we would have been in pretty good shape today.

Instead of that it seems that sometimes in this country we go off on a tangent because it looks easy at the time. We probably went overboard on Wherry. Then we thought Capehart was the solution. And for other reasons—not our own fault but just general conditions—the Capehart didn't work.

So this steady program for several years—maybe it wasn't adequate at the time for that year; but you do that for 6 or 7 years, and you find you get yourself in pretty good shape.

I am sorry we didn't pursue that plan. We would have been better off.

Senator Sparkman. I think you are absolutely right.

Mr. Curtis posed a question for you. I am sorry that he has left. I wonder if you could answer it or if you would supply a memorandum?

Mr. McNeil. I think he said it might be helpful if we commented on the fiscal policy report resulting from the study you made last year.

Senator Sparkman. I have forgotten just what it was.

Mr. McNeil. I might suggest we can probably do a more thorough job by going back and doing some work on it and submitting it in memorandum form and you can use it any way you desire.

Senator Sparkman. If you would do that, I would appreciate it.

Any further questions?

(No response.)

Senator Sparkman. Thank you very much, Mr. Secretary.

Tomorrow we will meet here in this room at 10 o'clock. Mr. William Martin, Jr., Chairman of the Board of Governors of the Federal Reserve System, will be our witness.

On Friday, our meeting will be here at 10 o'clock and Secretary of the Treasury Anderson will be the witness.

The committee stands in recess until 10 o'clock tomorrow morning.

(Whereupon, at 12 m., the committee was recessed, to reconvene at 10 a. m., Thursday, February 6, 1958.)

JANUARY 1958 ECONOMIC REPORT OF THE PRESIDENT

THURSDAY, FEBRUARY 6, 1958

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

The committee met at 10 o'clock, pursuant to recess, in the Senate Office Building, room 457, Hon. John Sparkman (vice chairman of the committee) presiding.

Present: Senators John Sparkman, O'Mahoney; Representatives Bolling, Talle, Curtis, and Kilburn.

Present also: John W. Lehman, acting executive director.

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

We have with us this morning Mr. William McChesney Martin, Jr., the Chairman of the Federal Reserve Board. Because Mr. Martin is the Chairman of the authority which formulates monetary policy for the Nation, it is inevitable that he is a frequent witness before this committee. What Mr. Martin says on this occasion will be extremely interesting to us all, since economic trends in the country have reversed themselves in recent months and the monetary authorities have had to adjust their thinking and action accordingly.

We are interested in Mr. Martin's explanation of how these things came about, and while I know that he always refused to speculate on or predict future actions of the monetary authorities, he knows, and we all know, how vitally interested the Nation is in what those policy actions are going to be in the light of the present recessional aspects of the economy.

We have suggested several questions as representative of the committee's interest, and I know the individual members will have many more questions.

But before turning to them, we would welcome an opening statement from you, Mr. Martin, if you wish.

STATEMENT OF WILLIAM McCHESNEY MARTIN, JR., CHAIRMAN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM; ACCOMPANIED BY RALPH A. YOUNG, DIRECTOR, DIVISION OF RESEARCH AND STATISTICS

Mr. MARTIN. Thank you, Mr. Chairman.

As always, Mr. Chairman, the Board of Governors welcomes these discussions with your committee.

Only 5 years ago, we were exploring the role of credit and monetary policy in some detail and at some length with a subcommittee of this committee charged with making an inquiry into monetary policy and the management of the public debt—their role in achieving price stability and high-level employment. You will recall that one of the issues was the potential contribution of flexible monetary policy in fostering balanced and orderly economic growth.

In our presentation, we emphasized that flexible monetary policy could make a positive contribution to stable economic growth, indeed was indispensable to it, though it could not do the whole job. Although monetary policy was only one of the instruments available to Government policy to help carry out the objectives of the Employment Act of 1946, it needed to be used if we were to have tolerable success in meeting those objectives.

In administering our responsibilities since that inquiry we have endeavored at all times to adjust our policies affirmatively and promptly to the changing economic situation. We have consistently acted to encourage such credit and monetary expansion as would be needed by a growing economy without inflation. We have resisted inflationary pressures by credit and monetary restraints whenever such pressures have mounted. We have relaxed restraints and made bank credit more available and eased credit conditions generally whenever inflationary tendencies have abated.

Anti-inflationary policies and anti-deflationary policies are inseparably linked. To achieve maximum success in contributing to stability, Federal Reserve policies, and indeed all types of government, as well as private, actions must resist excesses on the upside if they are not to complicate the adjustment process on the downside. On the other hand, excessive stimulus during recession can jeopardize long-run stability.

Throughout the period since flexible credit and monetary operations were resumed in early 1951, we have endeavored to shape our policies continuously in accordance with basic economic forces and conditions. The economic situation, to be sure, has been influenced in some degree by our policies, but it has not been created by them. Many other forces are also at work in a dynamic enterprise economy.

This background is relevant to an understanding of more recent developments. A year ago when I testified before your committee, economic conditions were characterized by strong inflationary pressures. This was exemplified by the substantial rise that was occurring in gross national product measured in current dollars compared with the relatively modest increase that was being experienced in product measured in constant dollars. In spite of the preceding credit and monetary actions that had been taken, money was losing its value at a pace that was a matter of deep concern to all.

Inflationary excesses had clearly gotten ahead of us and the economy stood in danger of an inflation crisis. The adjustment problems that the economy is confronting today are the aftermath of those excesses. In retrospect, none of us participating in economic decision-making adequately appraised the speed and force of inflationary boom. Consumer credit rose substantially in 1955. Businesses vastly increased their expenditures for plant and equipment in 1956 and 1957. Bankers and other lenders greatly expanded their commitments to lend. Labor unions sought current wage increases—and commitments for future increases—that pressed against or exceeded gains in productivity. However, inflationary trends seem to have halted before creating maladjustments of such severity to lead to a protracted period of liquidation and structural realinement in the economy.

Inflationary trends continued through the summer months of last year. There was an alarming spread of the belief, not only in this country but also abroad, that creeping inflation under modern economic conditions was to be a chronic and unavoidable condition.

Reflecting this view, common stocks, the most popular hedge against inflation, rose sharply in price in July to a level where for the first time in two decades their yields fell below the yields on high-grade bonds.

Also, credit demands generally continued to show great strength, and interest rates were rising. Large city banks on August 7 raised their lending rate to prime business borrowers from 4 to 4½ percent. In this situation, Federal Reserve bank discount rates, which were below market rates by a widening margin, were raised from 3 to 3½ percent, thus increasing member bank costs of operating on the basis of borrowed reserves.

In late summer and early autumn, however, developing uncertainties here and abroad began to affect the short-term economic outlook. In European exchange markets, widespread expectations of changes in exchange rates fostered large speculative movements of funds between European centers. These expectations in part reflected further accentuation of inflationary developments in some key countries, despite actions to tighten credit that were taken in various countries during the summer. It was not until late September, after the Bank of England established a 7-percent discount rate, that it became clear that key foreign-currency values would be maintained and that inflation would be strongly resisted.

In this country, the unexpected curtailment in defense payments and changes in procurement policies that were inaugurated during the summer, to avoid breaking through the debt ceiling, had an unsettling effect on business. In September, retail trade, which had been at record levels in July and August, began to show signs of sluggishness and this continued. Partly as a result of all of these developments, common-stock prices, which had already begun to react from their extremely low yield relationships to bonds reached in July, broke further and passed in late September through the lower edge of the trading range that had prevailed during the past 2 years.

With changing attitudes toward the economic outlook, adjustments that had been occurring for some months in various lines of activity, including some capital-goods lines, came to be reappraised by businessmen, investors, and the public generally. In contrast to earlier indications of strong credit demands, bank loans to business during early autumn decreased contrary to usual seasonal tendencies.

The pace of business was maintained for a time despite these uncertainties, with employment and industrial output continuing at relatively high levels in August and September.

By late October, the composite of most recent economic information suggested that inflationary pressures might be abating, and open-market operations were modified to lessen restraint on bank credit and monetary expansion.

By mid-November, information becoming available, incomplete though it was, indicated that general downward adjustment was setting in. In response to this evident change in basic economic conditions, Federal Reserve bank discount rates were reduced from 3½ to 3 percent.

Since that time, other successive System actions were taken in accordance with information increasingly indicative of the emergence of recessionary trends. Thus, monetary policy contributed to a marked easing in the credit and capital markets. This is illustrated most dramatically by the very sharp drop in market rates of interest, the sharpest drop for any comparable period of which I have knowledge.

This adjustment in credit and capital markets is helping to facilitate and cushion other adjustments in the economy as well as to strengthen demands in important areas dependent on credit financing. It is thus helping to set the stage for recovery in activity and employment as soon as other developments contribute to revival.

History shows that our market economy has cyclical characteristics, and the consequences of this irregularity in terms of hardship and unemployment are a matter of deep concern to everyone. When downward readjustment becomes unavoidable, it is incumbent on business enterprises, financial institutions, and labor organizations, as well as Government generally, to adjust policies and programs to foster recovery. We have been concerned, for example, at the decline in output and employment while prices generally have been maintained and some prices even have risen further. How soon recession is checked and recovery is resumed will depend in some part at least on the speed with which economic corrections and adaptations are made in factors beyond the province of monetary policy, that is to say, in business pricing, other selling practices and efficiency, in wage bargaining, in various financing arrangements, and in the incentives to consumers to buy.

These general remarks are by way of introduction, for you have requested in advance that I address myself today to four major questions. The balance of this statement is concerned with answers to these questions, but I have rearranged the order in which I will take them up.

1. "What is the current policy of the monetary authorities?"

You very kindly gave a caveat that I do not predict future policy. What I am talking about here is current policy up to today; up to and through today. I am not forecasting what will be done tomorrow or immediately thereafter.

In recent months, the Federal Reserve System has operated to make bank and other credit more available and cheaper.

Over this period, open market and discount policies were used in a complementary fashion. Open market operations provided sufficient reserves to permit member banks not only to repay a substantial portion of their indebtedness to the Reserve banks but also to accumulate some addition to reserves available for bank credit expansion. Discount rates were lowered on two occasions, mid-November and mid-January, from 3½ to 2¾ percent. These reductions in discount rates assured member banks that, if loan operations should require temporary borrowing of Federal Reserve credit for reserve purposes, its cost would be cheaper.

As a result of these developments, bank credit, capital market credit, and mortgage credit have become more readily available to borrowers who have delayed or postponed financing as well as to borrowers seeking to finance new projects. Furthermore, the cost of credit has been reduced as a result both of lower rates of interest and more favorable terms of borrowing. These conditions are favorable to monetary expansion.

At the end of 1957, total stock market credit, that is, total customer credit for purchasing and carrying securities, was 10 percent less than the amount outstanding at midyear and back to the level of early 1955. Thus, the need for preventing an excessive expansion of stock market credit through the higher level of margin requirements, established in the early part of 1955, had abated. The Board of Governors in mid-January reduced margin requirements for purchasing or carrying listed securities from 70 to 50 percent.

2. "What would you regard as the proper division of labor between tax policy and monetary policy as instruments of economic stabilization during the coming year?"

This is a very difficult question to answer specifically, because the general conditions require a different use of both of these instruments. And what I am intending to do here is to summarize the role of both at the present time and to indicate that at the moment I think that both of them are playing an appropriate role.

From the standpoint of economic stabilization, tax policy needs to be reviewed in relation to expenditure requirements. Therefore, it is appropriate to consider monetary actions in the perspective of general fiscal policy rather than just tax policy.

The combination of fiscal and monetary policies that are appropriate at any particular time depends upon the circumstances prevailing and upon the feasibility of action in one field or the other. These policies are most effective in achieving their purposes when utilized in a complementary fashion. Yet, to an extent, each can be used in varying degrees independently of the other.

Fiscal policy is less flexible than monetary policy. Nevertheless, the so-called built-in stabilizers in the Federal budget do come into operation promptly. As personal income and corporate profits decline, tax collections relatively decline more sharply. At the same time, unemployment insurance payments increase. These features of the budget and fiscal systems are already operating to cushion the reduction in private incomes and expenditures.

Whether further action is desirable in either or both of these fields depends on the unfolding economic and financial picture. As of the present, the division of labor between monetary and fiscal policy is about as follows: Through the automatic stabilizers, fiscal operations have provided some offset to the decline in incomes and expenditures.

Monetary policy has actively increased the availability and lowered the cost of credit, thereby encouraging loan-financed expenditures, raising capital values, and enhancing liquidity throughout the economy.

3. "What, if any, elements exist in the current situation which suggest or might permit a resurgence of inflationary forces in the next 12 or 15 months?"

In restrospect, it is now clear that economic activity in the United States reached a peak in the third quarter of 1957 and that it has been receding since then. Thus far, the downward movement has been reminiscent in many ways of the declines that occurred in 1948–49 and in 1953–54. The early stages of all three postwar cyclical contractions have been marked by rather rapid declines in output and employment in industrial sectors. It may be remembered that the two preceding contractions were moderate and short-lived.

Resurgence of inflationary forces in the next 12 or 15 months is contingent on general revival of demands, output, and employment; on the vigor of such a revival; on institutional forces such as wage bargaining, cost-plus purchasing practices, and easy credit terms that may foster price advances; on market pressures of demand in relation to supply in particularly strategic areas; and, finally, on the nature and timing of governmental actions to deal with the developing economic situation generally or with key sectors of it.

No one can speak with certainty about the future course of economic activity. There is, in fact, a range of views currently held regarding the duration and extent of this recession and of the timing and vigor of the ensuing recovery. In my own view, the underlying strengths of the economy are many. After not too long a period of readjustment and realignment of activities, healthy revival should set in, progressing to new records of economic performance and new high levels of national well-being. But everything depends upon the speed with which needed readjustments and realignments of activities are made.

We are all, of course, well aware that reasoning by analogy may be misleading and that history does not repeat itself. In the two preceding postwar recessions, lows in activity were reached in less than a year from the cyclical peak and recovery to new high levels of output, demands, and employment was rapid and substantial. With the exception of the catastrophic depression of the early 1930's the downward phase of every cycle since World War I has been over or virtually over in the course of a year.

As in our other postwar recessions, many basic forces are present in the situation favorable to recovery.

I am listing seven of them here in a topical way because I think each of them has really optimistic elements for the future; and as I have previously testified I don't think we have anything to worry about in the future of this country. We haven't even scratched the surface of the potential development of this country. We are dealing with short-term and long-term problems, and I am stressing here the seven points that I think are quite important.

(1) For instance, as I have already mentioned, credit and capital market conditions have already responded to relaxed monetary policy and are much easier than they were a few months ago. Important financial adjustments also have already been started. By borrowing from the capital market, business firms have been able to repay bank debt, thus rebuilding the liquidity positions of both financing institutions and business enterprise.

(2) Consumer incentives to achieve still higher standards of living are strong, and research continues to provide new products of wide consumer appeal. As a group, businessmen and consumers continue to have confidence in the long-term growth prospects for our economy.

(3) Population increase has been maintained at a rapid pace—the rise of 1.8 percent in 1957 compares with a postwar average of 1.7 percent, and hence the market is expanding steadily.

(4) Consumer incomes have shown some cyclical decline recently, but the decline has been small and moderated by unemployment compensation benefits. Consumer demands are supported by a record volume of financial assets, the ownership of which is widely distributed. Growth in such assets was rapid in 1956 and 1957, while growth in consumer installment and mortgage debt, though not small, was at a much slower rate than in 1955. The availability and terms of mortgage credit have recently become more favorable to borrowers.

(5) At the State and local government level, community demands for schools and teachers, for roads, public buildings, and other community facilities are continuing large and insistent.

(6) For the Federal Government, postwar budgets have been dominated by the need to cope with critical international stresses and tensions and to provide an adequate defense under conditions of major scientific advance and rapid technological change. National security and related problems continue to be urgent.

(7) Insofar as international economic developments are concerned, Western Europe still shows considerable strength. Industrial activity, while no longer expanding, has generally been maintained at or close to record levels. In general, balance of payments positions have improved although in several countries reserves of gold and foreign exchange are not as large as might be desired. Outside Europe, however, raw-materials-producing countries are facing difficulties because of declines in prices or volume of their exports.

A primary uncertainty with respect to the timing and pace of economic revival and renewed growth relates to the course of business outlays for new plant and equipment. Some observers view the business capital goods boom of the past 3 years as having provided a margin of industrial capacity over prospective demands greater than can be absorbed quickly. These observers tend to expect a more protracted period of adjustment than took place in the 2 preceding cycles.

This concern may turn out to have been well founded, but it may be noted that capacity never appears more excessive than in the midst of recession. Cyclical recovery, in due course, can certainly be expected to be accompanied by effective and profitable use of the economy's capacity to produce and by still further additions to capacity. The important factors working to expand business capital investment in the period ahead should not be minimized. The advance in the technology of production, in part the result of the huge investment in research of recent years, has been rapid and can be expected to continue. Incentives to reduce costs, to meet competition, and to sustain or improve profitability are strong.

If revival in overall economic activity becomes vigorous, there will be, of course, the accompanying possibility of resurgence of inflationary pressures. Postwar experience has demonstrated that, in a period of expanding demand, upward pressures on prices and costs can develop quickly. Once under way, inflationary movements tend to spread themselves throughout the economy, not only because of normal market reactions, but also because of a variety of institutional arrangements such as cost-of-living clauses in wage contracts and cost-plus arrangements in business or Government procurement contracts, in part designed to protect one group or another from the ill effects of inflation. Currently, it may be noted, consumer prices reached a new high in November and remained at that high in December, notwithstanding significant declines in activity and employment.

As I said earlier, those charged with responsibility for national economic policies must at all times reckon with the dangers both of inflation and of deflation. The central policy problem, in one sense, is to prevent either inflationary trends or deflationary trends from becoming dominant. Public policies for one objective or another can have effects that go far beyond those that are intended. Both fiscal and monetary policies must be carefully formulated to exert enough pressure but not too much. That is a difficult task.

4. "If the inflationary forces continue to abate during the year, what program would you recommend as to priority and specific actions in the fiscal and monetary fields?"

Everyone hopes that any recession will be moderate and short lived.

One possibility for the year ahead is that revival may develop without renewed inflation, at least in its early stages. Under such circumstances, the task of monetary policy would be to foster revival and resumed growth, but to be ever alert to the potentials of inflationary pressures and to take prompt action should they recur.

Another possibility is that recession may be deeper and more protracted than many now anticipate, with a greater degree of underutilization of manpower and industrial resources and with manifest deflationary tendencies. In such an eventuality, further monetary action would need to be considered, both to increase the liquidity of the economy and to encourage expansion of spending financed by credit. Monetary policy by itself, however, cannot assure resumption of high-level employment and sustainable economic growth, although ready availability of credit at reasonable cost is an essential condition for recovery.

This country is now in the process of reevaluating what share of its potential productive capacity to devote to current consumption and what share to devote to investment in its future—in the form of outlays not only for defense and capital equipment but also for research, education, and foreign assistance. This process of reappraisal will continue for some time and in our thinking we ought not to forget the enormous growth potential that we have over the longer run and the need that we shall have for an adequate volume of savings to finance it.

With respect to fiscal policy, should the present recession appear to justify some action in this field, I should like to emphasize that we should weigh carefully both the need to meet the challenge to our defensive strength and the need to keep our economy strong and progressive.

In short, Mr. Chairman, this is a period when we will have to make some very careful and difficult decisions.

Senator Sparkman. Thank you, Mr. Martin.

Dr. Talle, any questions?

Representative Talle. Thank you, Mr. Chairman.

Mr. Martin, thank you for your statement. I think few, if any people, could have put so much in so few words. The purpose of this committee, as stated by law, is to carry on a continuing study of employment, production, and purchasing power. The committee has recognized, I think, during its life that it is exceedingly difficult to maintain full employment and a stable price level, at the same time.

The question has often been raised, "What can be done through monetary and fiscal policies?" I will state my opinion. And if you will evaluate it, I will appreciate it.

It seems to me that during this relatively short period of recession we have learned that quite a little can be done by monetary policy. Is that right, or wrong?

Mr. MARTIN. I think that is correct. I think that in 1953–54 and to date, in the present recession, we have demonstrated that something can be done. But I want to emphasize what I have repeatedly emphasized, that we have no ability to make the economy in any sense that we want to make it. All we can do is influence the economy in the direction that we would like to see it go.

I have used this phrase "leaning against the wind" probably too often. But I think perhaps we have too much forecasting and not enough evaluation of existing trends, and what we ought to do is to try to throw our weight wherever we can in the direction of stability, growth, and high levels of employment.

Representative TALLE. My personal opinion is that you have done very well. And I am glad to know that it is possible to do what you have done, both in checking inflation and in stimulating an upward movement, when recession sets in. Some people say the monetary policies have no value; other people say they have such powerful effect that if you could do what they say could be done, you would be a dictator. You have never professed to be a dictator, I know.

Mr. MARTIN. That is correct.

Representative TALLE. I think we can learn something from what was done in England when the bank rate was advanced to 7 percent. Prior to that there was a conference, I understand in Europe, and in that conference, according to my information, if it is correct, it was suggested by the British and the French that the Germans weaken their currency.

I believe Western Germany has as strong a currency as there is in Europe right now.

When the British and French learned that the Germans would stay fast, the action referred to was taken in England. And it seems to me that that act shows the effectiveness of monetary policy.

Mr. MARTIN. I think that a sound currency is an indispensable ingredient of any sustainable prosperity.

Representative TALLE. I agree with you a hundred percent.

Thank you for your statement.

Thank you, Mr. Chairman.

Senator SPARKMAN. Mr. Martin, before I turn the questioning over to Congressman Bolling, may I say that I am going to have to leave the committee in a few minutes just for a few minutes. But before I go, I want to ask one question to satisfy my own curiosity.

I hear different ones from time to time speak now of inflation and now of deflation. Do we at the present time have inflation or do we have deflation, or is it a period of being neutral?

Mr. MARTIN. I would say that at the moment it is a period in which recessionary tendencies are in ascendency.

Senator SPARKMAN. Recessionary tendencies are in the ascendancy?

Mr. MARTIN. Yes. I will use the word "deflation."

Senator SPARKMAN. In other words, the tendency is toward deflation rather than toward inflation; is that it?

Mr. MARTIN. That is right.

Senator SPARKMAN. We are not in an inflationary spiral, are we?

Mr. MARTIN. No signs of it as yet.

Senator SPARKMAN. Congressman Bolling, I will have to leave in a few minutes, but I will return shortly.

Representative BOLLING. Mr. Martin, on page 122 of the Economic Report of the President there is a table F-5 which is a table described as "Implicit price deflators for the gross national product, 1949-57."

I have been looking at some other tables. Would you feel this was adequate or as adequate a measure of inflation as we have, this series, this chart?

Mr. MARTIN. Could I ask Mr. Young to comment on this table?

Senator SPARKMAN. Will Mr. Young identify himself?

Mr. MARTIN. Mr. Young is head of our Division of Research and Statistics.

Senator SPARKMAN. Thank you.

Mr. YOUNG. Mr. Congressman, this is one of the ways that summarizes pretty well, I think, just what has been happening in the economy.

Representative BOLLING. This is about as good a summary as one could look for.

Mr. YOUNG. Yes; a comparison of the gross national product in constant dollars, that is, adjusting the current dollar figures by this deflator is one of the ways in which this picture can be summarized, and it is a very effective way. We use it quite often.

Representative BOLLING. Well, then, another question: Would I be correct in my understanding—and I would like to change the phrase if I use the wrong one—that there was substantial restraint exercised by monetary policy throughout most of 1955-56 and most of 1957?

Mr. MARTIN. Yes; I would say so.

Representative BOLLING. In other words, monetary policy was leaning pretty heavily against the inflationary wind during that period?

Mr. MARTIN. I have some question whether it was leaning heavily enough, as you can see from the figures; but it was leaning in that direction, definitely.

Representative BOLLING. That gets me to the base of the question. I have asked you the same question many times over the years. I notice that from 1955 to 1956, using this implicit price deflator as the example, that we have an increase of 3.6 and from 1956 to 1957 an increase of 4.7. The question that I am still very curious about is whether or not you feel that monetary policy has the tools to adequately meet inflation.

Mr. MARTIN. Well, no; I don't think, Mr. Bolling, that monetary policy alone can stop inflation. I think it is an important factor, but I don't think it alone can stop inflation. You have your budgetary policy and you have your debt-management policy. All are a part of this.

Now, monetary policy is just one, really, of those tools.

I think it can certainly exert an important influence, but unless we followed the program of just drying up credit entirely—which I don't believe is consonant with the intention of the Federal Reserve Act—I don't think you could say categorically that monetary policy can stop inflation in its tracks.

Now, if you were willing at any time to dry up credit entirely, that is a different story.

Representative BOLLING. I notice in your statement, not explicitly but certainly implicitly, the thought first that we are reevaluating the expenditures that must be made in proportion between the private good and the public good.

If we were to get through this current recession without it deepening or growing substantially worse, and if on the other hand we came to a situation where we had to have much larger budgetary expenditures in the interest of our defense and survival program, would we not then be in a situation more acute from the point of view of the ability of monetary policy to restrain inflation than we were in the 1955, 1956, 1957 trends?

Mr. MARTIN. You are talking about running a large deficit?

Representative BOLLING. I am talking about running a large deficit with a very substantially larger budget.

Mr. MARTIN. Yes; I think so. I think that is one of the crucial problems that we have to face over the next couple of years.

Representative BOLLING. Now this——

Mr. MARTIN. We have to look at the difference between short-run objectives and longer run objectives. That is where the matter of judgment comes in.

Representative BOLLING. It seems to me fairly clear that in 1955, 1956, and 1957, most of 1957, we had very significant inflation, although with a relatively balanced budgetary situation. If we contemplate a decision on the part of the country to spend substantially more money with at least possibly very substantial deficit, even though we are now very much concerned about the recessions, might not this be a very good time for us to be worrying about the tools that we would need in restraining inflation—tools which are demonstrated to be inadequate by our relative lack of success in 1955, 1956, and 1957?

The point I would like to inquire about is: Is it not clear by now that there are certain kinds of credit that monetary policy doesn't touch? If at a time when we have a generally restraining monetary policy, a consumer credit policy results in the monthly payments being less, is that not in itself a very substantial inflationary force because of the size of the automobile expenditure in the economy?

Mr. MARTIN. Yes, I think it is.

Of course, if monetary policy had been more restrictive during that period there might have been more people that would have been restrained by it, but it might have slopped over into that area to a further extent than it did.

Representative BOLLING. It seems to me that monetary policy may have substantial effect in the housing field; and more effect indeed than some people believe. But it seems to me to have much less effect in the automobile or consumer goods field.

The average person, I suspect, considering the purchase of an automobile or other hard item, doesn't look at the cost over the period of payment, as at the cost to themselves each month in the monthly payment.

It seems to me that monetary policy in that instance is frustrated unless it is accompanied by some sort of consumer credit control. Would you care to comment on that?

Mr. MARTIN. Well, I don't think it is completely frustrated. You mentioned housing. One of our problems in housing is that we have deliberately stimulated credit into the housing area through congressional action, and in terms of the market, when the credit market got out of balance with the current interest rate on FHA mortgages—take the 4½ percent rate on FHA for example, there would have been money available at a higher rate. But what happened was that a segment of the economy, which you had been trying to stimulate, could not be stimulated, because market rates had altered in such way that it was more profitable to put money in other areas.

Now, I don't think that is monetary policy alone. I think that is the result of trying to stimulate housing, an objective which I am not quarreling with. You can't stimulate housing in a free economy unless you give additional incentives to housing.

Representative BOLLING. I voted against one housing bill on a ground similar to the thing I was talking about in the automobile field. I thought in effect the credit stimulation was doing the consumer a disservice because his total bill would end up so substantially larger than he would recognize in his anxiety to buy a house. It doesn't seem to me that we have come up with anything like adequate answers to support monetary policy in restraining inflation.

Inevitably you and the Board have studied the question of the growth of the economy in real terms. I would presume that at some point or another you are concerned about it as a matter of national defense in its relationship to the growth of other economies.

The figures I have seen for this country and the other countries of the free world indicate that most of them had been growing at a substantially larger rate than we have. I am sure there may be some reservations but the studies I have had something to do with specifically have dealt with the comparative growth rates of the United States vis-a-vis the Soviet Union; the free world bloc vis-a-vis the Soviet or Communist bloc.

They give me very real cause for concern. On a conservative basis the data I have seen would indicate that if we continue at the same rate of growth that we have and if they continue at about the same rate of growth that they have—the charts were built on the basis of our having the growth of 3 and 4 percent and theirs of 8 and 7 percent—in about 25 or 30 years they are going to have a bigger economy than we have.

It seems to me that one of the concerns inevitably of the monetary policy group must be long-run trend. There are qualified economists, who say that except for the category "services" the Soviet will have a bigger economy than we have in about 10 or 12 years. I know all the arguments about relative maturity and the much smaller base they start from. Would this be an appropriate area of concern for the Board or not?

Mr. MARTIN. I think it is a real area of concern for the Board. I would like Mr. Young, if you don't object, to comment on that.

Representative BOLLING. Certainly.

Mr. YOUNG. It is indeed a matter of concern. Other groups interested in this matter scientifically are doing a great deal in studying the growth trends of our economy. We haven't necessarily extended our work to the Russian economy although we do a lot with the other economies of the free world to get a comparative picture. It is an extremely complicated sort of study to make. And it is a kind of study that one must be very careful in drawing too broad conclusions. It is true that whoever takes the lead in a technological development always stand the risk of having another chap come along and equal his lead, indeed, leap-frog over him.

Representative BOLLING. What we did in relation to the European industrial revolution?

Mr. YOUNG. Yes.

Representative BOLLING. Since we were unable to effectively restrain inflation—well that is too hard a word—since we were unable to be completely successful in restraining inflation during a period such as the period 1955, 1956, 1957, when we had relatively balanced budgets making fiscal policy relatively neutral and monetary policy was leaning pretty hard against the wind, is it not clear that if we find that we must spend a large part of GNP on public goods as opposed to private desires, we will face a very serious problem in restraining inflation?

Mr. MARTIN. I don't think there is any question of it.

Representative BOLLING. Is this not then a time when we should examine the situation from the point of view of trying to determine what the other tools are that we need?

Mr. MARTIN. Well, I certainly think we should, but I think there is no tool that will be as effective as trying to keep in relationship this budgetary problem. I mean that a budget balance is very important. If I am correct in my thesis that we have a very strong and a robust economy, that the economy is at the moment suffering from indigestion or overexertion—let's put it that way—if I am correct in that theses, then nothing can prevent our recovery and going to higher levels of activity than we have heretofore except our mishandling of the patient by shooting in hypodermics and giving drugs at a point where the patient will continue to overexert himself and eventually put himself in a much worse position than he is at the present.

That is another way of saying that you are indicating that we may have a problem the next couple of years, if I understand you correctly.

Representative BOLLING. From my point of view it is certainly more than the next couple of years.

Mr. MARTIN. Well, I just was pointing it up in the immediate context.

Representative BOLLING. In our current situation we might well have to make a choice between an adequate expansion and inflation. It seems to me a most undesirable choice. I am of the opinion and by now I am convinced that the most serious problem that we face long range is the problem of peaceful productivity expansion. I think Mr. Khrushchev meant just what he said to Mr. Hearst.

It seems to me that an undue emphasis on the negative as opposed to the positive in this may destroy us. I am naive enough to believe that we could meet the kind of expansion goals that I believe necessary and at the same time have reasonable stability. But I don't think there is any real indication from the past that with the tools we now have and the way we use them that we can treat the matter as solved.

It seems to me that the monetary authority is going to have to look at it very carefully this particular point of view.

Mr. MARTIN. Well, let me just say that I share your confidence in our ability to do this. I think we have to recognize that higher taxes with growth could permit us to expand a great deal more than we have. Now it is a hard decision to make to levy higher taxes when your growth begins, you see. I am not sure that any authority you gave monetary policy, even if we were given considerably more authority, would compensate for failure to levy increased taxes in relation to an expansion in expenditures.

Representative BOLLING. Well, this fits very nicely with what I said publicly in December. I recognized we were in a recession but I thought our expenditures should be about $10 billion more than I expected the budget would be, and that we should increase taxes.

Senator SPARKMAN. Thank you, Mr. Martin.

Mr. Curtis.

Representative CURTIS. Mr. Martin, one specific question: I note the importance you give to the capital expenditures sector of the private economy. There is some question in my mind from the testimony of previous witnesses as to whether or not we had a cutback in capital expenditures during this peak in the first three quarters of 1957 due to the tight money situation.

Do you think that there was some shelving of plans for further replacement and expansion during this tight money period,

Mr. MARTIN. Yes; I think definitely there was. I don't think you can pinpoint it too well, but I think that you will see in the next few months some plans that were on the shelf will come forward. I think in the case of State and local governments, for example, that an easier credit area is going to cause them to develop and bring forward some plans that they had on the shelf for some time.

Representative CURTIS. My own personal observation, which of course is limited to the few cases coming to my attention, at least in the area of the small- and medium-sized businesses, is that a great many blueprints for expansion and replacement were shelved because of inability to get capital for that purpose.

Now if that is so, then you have really answered my question. If that is so then this easing of the capital available for this purpose should reflect itself right now.

I noticed in this morning's Washington Post that the amount of money for construction for January 1958 exceeded January 1957. Would that be an indication that this might be taking place right now?

Mr. MARTIN. That figure is very high, but it is down from the previous——

Representative CURTIS. It is down from December but in the article I read it says that there is a seasonal decline from December to January, and that after the seasonal adjustment that we have an upswing.

And it is higher than January, the corresponding January of 1957.

Mr. MARTIN. It is at a very high level. I wouldn't want to say without knowing more about it.

Representative CURTIS. I don't know either. I am quoting an article. I think the authority was the Secretary of Commerce. This was purporting to quote from the Secretary of Commerce on this, but that would be an area we could look to if this were going on.

Mr. MARTIN. Right.

Representative CURTIS. Incidentally the McGraw-Hill survey indicated to me something interesting; that as far as the big businesses—which are the ones they survey apparently—and they don't attempt to get into the smaller and medium sized companies—that it was replacement that they were planning for rather than expanding facilities. I wonder if you would have any comment on the difference that might—of any economic results of an emphasis on replacement expenditures as opposed to expansion.

Mr. MARTIN. There is a lot of deferred modernization and replacement that ought to go forward and some that has been postponed because of the desire, with inflationary trends, not to supplement plant and equipment capacity. I think that now these deferments will be taken up, because it is more efficiency in production that we need.

In a period of declining business, why, efficiency is something that comes very much to the fore.

Representative CURTIS. The other thing that was said was that the amount of moneys planned to be spent in research and development were up. That certainly is encouraging, because from that is going to come—if they utilize the research and development we are bound to have additional capital expenditures as a result of that.

Mr. MARTIN. That is right.

Representative CURTIS. Now, I wanted to examine a little bit further what Congressman Bolling was bringing out about the table on page 122, table F–5, as a measure of inflation.

And as I understood his question that is what he was trying to bring out. First let me ask this: That table, of course, is based upon partly the Cost of Living Index and the Wholesale Index, isn't that it?

Now, a criticism that has been directed against our cost—against the accuracy of our Cost of Living Index has been the fact that it doesn't seem to measure too accurately increased quality. Here we are talking about the problems of growth and stability, of maintaining both at the same time. And I would suggest that the cost of living actually consists of 2 factors, 2 primary factors. One could be inflation, the actual measuring stick of the dollar; but also cost of living can be an increased standard of living or quality.

I am not sure that any of our statistics really measure what has been a cost of living rise; what actually is inflation; and what might be increased quality.

Now, do you think the question I raise is a pertinent one?

Mr. MARTIN. I don't know. May I ask Mr. Young to comment on that? He works with these figures daily.

Mr. YOUNG. Well, that is always a factor. It is an extremely difficult one to deal with technically from the standpoint of measurement by index numbers. Index number technicians are very much alert to the problem and concerned with it. But so far as quality changes are concerned, they work slowly for the big total of items for which consumers spend their money over a period of time.

So in a period of comparisons of 2 or 3 years they would be relatively unimportant, though they are always present, particularly in the field of fabricated items. We are endeavoring to make progress in taking these quality changes into account, but the technical problems are many, and progress is in fact slow.

Representative CURTIS. What you are pointing out, as I understand it is that it is extremely difficult to measure what would be increased quality and what might be the other factors present. That is exactly what I am trying to emphasize. I think it is difficult. But I think that we are—I think if we are going to adequately understand growth and stability we have got to start measuring what is inflation and what is increased quality in our Cost of Living Index.

Let me illustrate. You mentioned soft goods. But I will mention for example in services—medical services, for example.

Take a detailed study of medical services. The dollars spent for a drug today certainly produce a great deal more health.

Mr. YOUNG. It is a different sort of thing that you are getting at.

Representative CURTIS. That is right.

Hospital costs are going up. One reason is that the average hospital stay used to be 3 days because you came out feet first. So now you stay 7 days, but you come out on your feet.

How do we measure things like that?

I think when we are talking about this business of growth and stability we have got to start thinking in terms such as those and do our best to try to measure it and not just look at increased cost of living and say that that is inflationary, because I am satisfied a great chunk of it isn't inflation.

Mr. YOUNG. Well, it is a baffling problem. I think I can say for those concerned with it, that they are very much aware of it, and they are doing all that they can to experiment with different ways of solving the problem.

But they haven't got a good solution up to this point.

Representative CURTIS. I might say this: As far as the consumer's budget is concerned maybe it doesn't make so much difference whether his cost of living is inflation or increased quality, he wants to keep up with his neighbor and his budget has to reflect these things.

Now, one other area that I wanted to discuss a little bit: There have been people talking about our being for the first time in the history of any society coming into an economy of plenty.

I have tried to figure out what that might mean. I just jotted this down. It might mean, when you increase consumer purchasing power that it will not necessarily be immediately converted to consumer spending. I think if that is so, it becomes important to start weighing these things. Now in our hearings on agricultural policy one thing that impressed me very much was the fact that the amount of agricultural product consumption didn't go up with the consumer purchasing power.

It went up as the number of people in our society increased, but the individual person didn't spend much more on agricultural products. Where he did spend it was a little shift from starches to meats, let's say. But essentially agriculture couldn't count on more—or count on a bigger market for their products from the fact that the consumer had more dollars. And if that is beginning to be the case I suspect it might be true in other areas of consumption. If that is so it is going to make a difference in these theories of giving a tax cut in order to stimulate consumer purchasing because they may not immediately purchase. I wonder if you would comment on that?

Mr. MARTIN. Well, I don't know. You can't make a person—if you give a person more money, you can't make him spend it.

Representative CURTIS. As it used to be, if he is in an economy of scarcity, he certainly would spend it. And you can almost count on a very quick reaction. I am not saying that these are extremes. If we are getting into an economy of plenty it is just a gradual movement. If that is so then we can't count on giving the consumer more purchasing power to have the immediate reaction. I imagine we haven't reached the point where we have to worry about that. Maybe just adding more consumer purchasing power is going to immediately produce spending. I have raised the question to—I know in agriculture it won't make a difference, as suggested by the reports of the agricultural economists. Certainly that is a big sector of our economy. And if more consuming purchasing power isn't going to affect that sector, maybe it is something that needs to be weighed in the other sectors too.

Mr. MARTIN. Well, you are dealing there with the price problem, you see. Unless prices are reduced or some incentive is given to the consumer, why, he doesn't need more.

Representative CURTIS. That is right. He has more of a choice now. He has got a choice, one of whether he is going to make that dollar a consuming dollar, or a saving dollar. He then has the choice if he decides to spend it of what he is going to spend it for. It produces a different economic result than when he had to spend it for food, shelter, and clothing.

The reason I raised it was this question of whether it has reached a point where we have to start weighing that in our monetary policies.

Mr. MARTIN. Well, I would seriously question it. I don't think it has reached that point.

Representative CURTIS. You don't think it has reached that point? You think that as soon as we turn on more or give more purchasing power to the consumer we can see the results pretty quickly, still?

Mr. MARTIN. I think if it is going to feed the purchasing power, ~~if it is borrowed money it is another thing, you see, because there you~~ have got the relationship between saving and investment that comes into the picture.

Representative CURTIS. Now, the final thing that I wanted to point up was this. I wanted to point this up because I didn't want to leave it sitting where it was left in Mr. Bolling's questioning. Our recent studies in this committee on Russia's economy had us, say, around 430 billion GNP; and Russia around 140 GNP. I was just roughing out some figures that if we increased as we have been around 3 percent a year, that is 12.9 billion. Russia, if they were doing twice that amount, 6 percent would only increase 8.4 billion.

Actually to reach this dire point that so many people—I hate to use this word, but I am afraid it is accurate—deliberately talk about, this dire threat of Russia in this sector, Russia would have to have at least a 10 percent increase in GNP per year. And here we in this economy wrestle with the problems of growth and stability at a rate of 3 percent.

Furthermore I suspect that their growth hasn't been in areas which lay foundation for further growth to sustain the high rate of 6 percent.

For example, very little in highways, railroads, airlines, pipelines, waterways. I am talking about transportation which of course has to be built up in order to continue any steady growth. And their expenditures haven't been in those sectors. So far as the economics of

Russia vis-a-vis the United States are concerned, I think we ought to stick to what we do know about the economic realities. And I think it would be just impossible under the present setup for Russia in the economic sector to even catch up in 20 years, unless something changed.

Representative BOLLING. I would recommend to him that he read some of the published speeches of Mr. Allan Dulles of the CIA.

Representative CURTIS. I am not so much interested in Mr. Allan Dulles as I am transportation, if you please, which you can't hide from espionage. And knowing that no economy can build without some good system of transportation. You can't hide railroads; you can't hide highways. You can't hide waterways from espionage. I am more interested in the study for example that our staff did in this area of Russia's economic progress. I don't want to underrate them but I will be darned if I want to continue overrating them with a lot of adjectives.

That was a speech.

Senator SPARKMAN. Congressman Kilburn?

Representative KILBURN. I was very much interested in Mr. Bolling's question to you about the 3 years that was mentioned in connection with inflation. While we contracted credit, we allowed longer term payments on small loans so that the purchaser didn't have to spend any more per month. It seems to me that we should have kept the term payments down along with restricting credit. Would you think that would be correct? In a period of inflation, that is.

Mr. MARTIN. I think there is some history on that, Mr. Kilburn.

If you can start at a given time—to use President Wilson's phrase, if you could start with a clean sheet of paper, I would think that market forces could handle the consumer credit considerably better than they handled them in the period right after the postwar period when we had regulation W in effect.

We lost regulation W in the summer of 1952, you see. You had a buildup in consumer credit immediately after it was taken away from us of about $5 billion. That buildup came at an unfortunate period of time. Now, you have got an entirely new ceiling with respect to terms and levels of consumer credit. You wouldn't have had this new ceiling if it hadn't been for the preceding period when things were dammed up.

As a believer in a free market, which I am, I believe that a test of terms, consumer terms, can only come against the market. We made a very careful study—you probably had a copy of our consumer credit study, our six-volume study of it—and I don't know that we were completely conclusive there, but we came to the conclusion that at this particular time, leaving out the time sequence, that we would not be able to achieve anything with consumer credit regulation now. If you are talking about it in an atmosphere of freer markets, which we didn't have really in this country up until the middle of 1951–52, then you have to make a great shift in your thinking.

I remember we discussed that once before, Mr. Bolling. And you had a tremendous shift. I sat with the Defense Mobilization Board during the period of the Korean buildup and everything was set up to control directly. Then about a year and a half later we just took everything off more or less. Now it is the process of taking off wartime controls that causes difficulties.

Representative KILBURN. And another thing Mr. Bolling brought out is that in the housing field the FHA mortgage rate was out of line with the market. That was unfortunate for us in that we didn't get as many houses as we wanted but that actually was against inflation.

Mr. MARTIN. That is right.

Representative KILBURN. Of course these statistics baffle me. But I thought Mr. Curtis' comment was a good one. And that is that if we do maintain an ever higher standard of living which we all want, why, of course the cost of living is bound to go up. One thing that he didn't mention which I don't know if the statisticians have taken into account, is new products. I mean 50 or 60 years ago we didn't spend any money for automobiles. About 15 years ago we didn't spend any money for television. In the next 15 years we will be spending on space ships or suits or so on.

Mr. MARTIN. I think Mr. Curtis made a valid point on this quality standard of living. It is a very difficult one to measure.

Representative CURTIS. Don't you think though that if we are going to go ahead with these things we have to start trying to take that into account?

Mr. MARTIN. I do indeed.

Representative KILBURN. Mr. Martin, it is always very stimulating and instructive to me to have you appear before this committee or any other committee that I am on.

Mr. MARTIN. Thank you.

Senator SPARKMAN. Mr. Martin, perhaps the questions I wanted to ask have been asked while I was out. If I ask you any questions that you have already answered just tell me so. I was interested in your written statement on page 4 where you referred to the unexpected curtailment in defense payments and changes in procurement policies as being inaugurated in order to avoid breaking through the debt ceiling. Do you feel that that was the decisive factor?

Mr. MARTIN. I think it was one of the factors; yes. And I deliberated whether to put that in. But it seemed to me it was an important enough factor that it ought to be mentioned.

Senator SPARKMAN. Well, I assumed from that then that you would be an advocate of increasing the debt ceiling.

Mr. MARTIN. Well, that isn't related to whether you are for or against the debt ceiling.

Senator SPARKMAN. It seems there is implied in it this: That had the debt ceiling been higher there would have been more flexibility; they would not have been in danger of breaking through; and they could have maintained that high level of defense contracts. Isn't that implied in your statement?

Mr. MARTIN. Also implied in the statement is that their expenditures, since their expenditures evidently were exceeding what they had anticipated——

Senator SPARKMAN. We might have gone too far.

Mr. MARTIN. Without the debt ceiling, we might have gone further and increased the deflation and the adjustment would have been that much more severe. So it works two ways.

Senator SPARKMAN. That illustrates the difficulty of applying the brakes, doesn't it, and of releasing them at the right time?

Mr. MARTIN. That is right. I think that was an unfortunate incident that occurred at a difficult time. We got lots of calls from suppliers and others that if they could just borrow a little bit more money—they got all upset in that period. And coming at that particular time, it was unfortunate. And I thought it was worth mentioning for that reason.

Senator SPARKMAN. That came about in September, did it?

Mr. MARTIN. In about September or October, I would say.

Senator SPARKMAN. Now, we had testimony yesterday from Assistant Secretary McNeil, Comptroller of the Defense Department. His testimony was a little surprising to me. Others may have been aware of it, but I have felt that the general sentiment and a feeling of the people out over the country has been that we are going to have a rather steep upsurge in defense expenditures. He testified that there would be increased spending but that it would really amount to about what was left out during the last half of last year.

In other words, it amounts to more of a leveling off that it does a steep increase. I have been under the impression that this recession could be handled if we speeded up the new defense contracts, succeeded in getting this tremendous road-building program really going, and could get a strong vigorous home-building program. It seems that those are the three best hopes for quick relief to the present recession.

I rather gather from what Mr. McNeil said—at least I felt after he testified that perhaps we had been relying on defense expenditures too much for that shot in the arm.

Housing is still dragging, and it seems to me that something must be done in order to push it up. And I may be wrong but I am of the impression that the roadbuilding program is not moving along with vigor. So if my understanding is correct on those three things then I would like to know just why the optimism in your statement. At the same time I want to say to you that I am one who has been quite optimistic as to our ability to handle this recession.

Mr. MARTIN. I am not competent to comment on the defense expenditures.

Senator SPARKMAN. I thought in projecting your studies and making your charts and so forth that certainly you would take that into account.

Mr. MARTIN. We certainly have. I merely say that certainly defense expenditures can be a factor in this revival of business. I don't think defense expenditures should ever be directed just toward reviving business or stimulating business.

Senator SPARKMAN. I didn't intend to imply that.

Mr. MARTIN. I know you didn't.

Senator SPARKMAN. But I think a lot of people have expected that as a natural result of a heavily increased defense expenditure this would come about.

Mr. MARTIN. I think that is one of the factors we will have to watch as the spending goes forward. It is related to the other things in the economy. Now I think there is some little revival in housing going on at the present time. I don't know how much. But these things don't happen just overnight.

Senator SPARKMAN. No. As a matter of fact housing applications are being filed now, but it will probably be 6 months before they actually put people to work.

Mr. MARTIN. That is right.

Senator SPARKMAN. So you have got to project it forward by the length of time that it is necessary to get contracts underway.

Mr. MARTIN. That is right.

Senator SPARKMAN. What about the roadbuilding program? Do you know just what progress is being made in that?

Mr. MARTIN. I know very little about the roadbuilding program.

Mr. YOUNG. It is a complicated thing and of course this whole problem of assembly of land parcels takes a great deal of time.

Senator SPARKMAN. I know it is. It is one of those things in which there is quite a lag between planning and execution.

Mr. YOUNG. We were in touch with the people who are following that program here in Government not long ago, and they advised us of their feeling that it was now in a position to pick up and roll with more momentum than has been shown up to this point. But that is an opinion that we received from these sources that I am passing on.

Senator SPARKMAN. It could be one of the most stimulating programs so far as the economy is concerned, couldn't it?

Mr. YOUNG. Yes, it could.

Senator SPARKMAN. As a matter of fact, construction generally is just about the main thing for stimulating economic activity.

Mr. YOUNG. It is widespread and very important; yes.

Senator SPARKMAN. You made some reference to some prices being maintained and some of them even going up. Is that normal in such a period we are in now?

Mr. MARTIN. Well, if demand for your product is not developing, the quicker you make adjustments, either by additional selling pressure or by reducing prices, the better off you are in moving goods off the shelf. Now obviously people never like to cut prices. They hold on as long as they can. And over a period of inflation there has been a tendency for people to keep marking prices up and to say they can just pass it on to the consumer.

Now, we have reached a point where a lot of the consumers still have money but they are not sure they want the product at this price.

Senator SPARKMAN. Isn't the best way to increase the use of unused productive capacity to lower price and sell more units? Isn't that a pretty good economic formula?

Mr. MARTIN. It is certainly one of the most effective means.

Senator SPARKMAN. I think I saw the headline in the paper yesterday—I am sorry, I didn't read the article—in which some official of the Ford Co. was saying that the Ford Co. made a mistake in pricing one of its models too high. Did you see that by any chance?

Mr. MARTIN. No, I don't believe I did.

Senator SPARKMAN. I just wondered if that might be an indication for a downturn in prices.

Representative TALLE. I should like to discuss just for a moment another matter which I consider very important. And that is consumer saving.

It is true, is it not, that the higher rate of interest that came into being some time ago brought a larger return to the saver at the same time that the buyer paid something more—two sides of the same coin?

Would you say something about the history of savings as a result of the rise in the interest rate? My impression is that savings increased considerably.

Mr. MARTIN. That is one of the elements of strength. One of the problems in this inflationary period was the inadequacy of savings to take care of the capital expansion that was going forward and the pressure on banks and on us to create money to fill in this deficiency in savings.

Now there are still people who would argue that the interest rates do not make any difference. But as the rate went up, there are people who argue that prices do not make any difference, too.

But as interest rates on savings—and you must realize that this is a wage to the saver—adjusted upward, there has been a marked increase recently in savings. And I think there are very few people who honestly think that that has not been in some way—is not in some way attributable to the higher return on savings, and on the savings bonds and the better rate of return which the saver has.

I do not know what figures we have recently on savings. I will ask Mr. Young to try to answer that. But there is no question that there has been a definite upsurge in saving, and that that is very much—that that is very desirable if we are going to have the longer-term expansion that I think we are going to have.

Mr. YOUNG. Well, of course, on this matter of savings, we have never had very good figures. We are trying now to put together some new measures of savings which we hope to have available before not too long a period.

Certainly it is clear from the preliminary figures that we have that there was quite an increase in savings in financial form in the period 1956 and 1957 which would include up through the end of last year. We do not have anything, as yet, more recent than that.

Representative TALLE. We need better statistics on construction and farm income, and here is a third field—savings.

Mr. YOUNG. Yes, sir.

Representative TALLE. John Stewart Mill was a man of considerable stature in economics, and he said over a hundred years ago on this matter of loanable funds, quantity, capital formation, and so on, that there are two elements: one, the savable fund, and the other, the effective rate of accumulation.

It seems to me that the rise in interest was required as an effective rate of accumulation, because it did stimulate savings. I think we ought to pay a little tribute here to the people who have promoted the sale of the E-bonds, because I think associated with the E-bonds as an institution there has been the promotion of the habit of saving.

I can point to specific experience in that field. In my district, I have watched month by month, year by year, what difference it made when farm prices were very high, or quite low. I have noted that the percentage of purchase of those bonds has been about the same, always above 100 percent of the quota assigned.

I do not believe that could be achieved without two things. One, that the habit of saving had been stimulated; and, secondly, that the people who saved thought the benefit was great enough so they were unwilling to break their habit of saving.

You said, Mr. Martin, time and time again, and I agree with you thoroughly, that you do not want a higher interest rate than is necessary.

Mr. MARTIN. That is right.

Representative TALLE. Neither do I. But I recognize the value of a rate that will result in accumulation of loanable funds. And, of course, people will not save large quantities unless an attractive price is paid for waiting. That price is the interest rate.

Mr. MARTIN. You mean a rate?

Representative TALLE. I had in mind whether we may expect the rate of savings to hold fast or increase or decrease.

I should not ask you to forecast.

The chairman says according to my formula the rate of savings should decrease.

Mr. MARTIN. I think there has been a volume of additional savings and some of it may go to work in the near future.

Representative TALLE. Just one more thought.

As you suggested earlier, if we spend without having saved, then, of course, we incur deficits. We multiply credit through the banking system. Then we get inflation. And we run into the kind of trouble that we have had, and which we still have in a degree.

Representative CURTIS. Do we include in our figures for savings payoff on debt? That is included?

Mr. MARTIN. That is included.

Senator SPARKMAN. You include in that any investment in purchase—principal and retirement of debt, and so forth?

Mr. MARTIN. That is right.

Senator SPARKMAN. I want to ask a question about these savings bonds. I am not in full accord with the formula stated by my friend. I suppose I ought not to take issue with him. He is a trained economist and I am not.

I have not been fully convinced that raising the rate of interest, to increase it by virtue of the act, may be well among some people. But in the case of savings bonds he points out that the rate of purchase has been about the same in his community. Now that has not been true over the country, has it, through the months and years? As a matter of fact, it went down and down and down, as compared to the cash-ins?

Mr. MARTIN. That is right.

Senator SPARKMAN. Even now I believe it is just barely in advance. Probably purchases are running slightly ahead of the cash-ins.

Mr. YOUNG. The most recent figures suggest quite a decrease in the cash-ins and an increase in the sales.

Senator SPARKMAN. They are running about even now; are they not?

Mr. YOUNG. I think for January they would not yet be on the plus side.

Senator SPARKMAN. You mean the purchases?

Mr. YOUNG. Yes.

Senator SPARKMAN. But very slight.

Representative TALLE. The Lord has blessed my area with good crops. That is one item I should have mentioned. And we are grateful for that.

Another thing I should have mentioned is this: That the E-bond, in my opinion, is the safest investment in the world because dollar for dollar it certainly is safe; and that aspect to anybody who thinks of principal rather than interest is very, very important.

It is bought on a discount basis but dollar for dollar it certainly is the safest in the world.

Senator SPARKMAN. I am not arguing about the value of it. As a matter of fact, I buy one every month. I adopted that automatic system, as you referred to it, and it has been relatively easy—and I believe in it. But I do think that in studying this question of savings, particularly if we are trying to tie it to change in interest rate, we ought to have the full facts in mind.

You know, I am curious about another thing, too. You say the amount of savings has increased. What about the number of savers? Do you know that?

Mr. YOUNG. Well, we would not know that; but I would think that the number of savers has increased. Possibly we may be able to develop some figures later on that.

Senator SPARKMAN. I think it would be interesting to know because I notice the remark of Mr. Talle about it being relatively easy for his farmers to save because of the good crops. Well, we had quite a disastrous crop year down in my State. I know the farmers down there are not able to save. I know many of the small-business people out all over the country certainly are not able to save. And a great many unemployed people out over the country are not able to save. So, it seems to me, we ought to be very careful in trying to base our arguments on this proposition of savings. Certainly it would be interesting to know reliable figures on it.

I have no other questions.

Senator O'Mahoney?

Senator O'MAHONEY. I regret very much being late. My attendance at the Committee on Agriculture was essential this morning. So I have not been here to listen to the testimony of the witnesses.

I was waiting with great interest for the opportunity, Mr. Martin, of listening to you. And perhaps of asking some questions.

I assume, however, that my colleagues here probably appraised this situation pretty well and have left little but repetition for me. However, I note in connection with the question that Senator Sparkman has just made here that the Economic Indicators for January show that the rate of saving has been declining during the third quarter. And I would assume that it would still continue to decline in the fourth quarter, would it not?

Mr. MARTIN. I assume that you are referring to the rate of personal savings?

Senator O'MAHONEY. Yes.

Mr. YOUNG. It is possible that that has declined in the fourth quarter. I have not seen the most recent figures.

Senator O'MAHONEY. Well, savings as a percent of disposable income dropped from 7 percent in the second quarter to 6.4 in the third quarter: In the fourth quarter of a year ago it was 7.4 percent. The fourth quarter of 1957 it went to 6.1 percent estimated. So that there has been a decline of savings.

In view of the fact that the Federal Reserve Board has expected, according to publications in financial journals, to make some additional moves to make money easier, may I ask what your present concept is for the future?

Mr. MARTIN. Well, I just earlier said I would not make any forecasts. But I gave current policy up to today; but I do not think I ought to join the ranks of the forecasters.

Senator O'MAHONEY. Well, the reason I ask it is that members of this committee and the Members of Congress inevitably must fall into the ranks of the forecasters. Because if we are going to recommend any legislation we must be looking ahead.

How can we do our job and how can you do your job without looking into the future?

Mr. MARTIN. I think——

Senator O'MAHONEY. We must have a fiscal policy.

Mr. MARTIN. I think we have far too many forecasters today, and I would suggest respectfully to the Congress that in whatever forecasting you have to do that you be extremely cautious about it.

These shifts occur very rapidly, and you have got to be prepared to have your forecast made very foolish in a very short period of time.

Senator O'MAHONEY. You know, when I looked over the report in the budget of the forecast of income made by the Director of the Budget, or whoever submitted it, I thought perhaps you may be right, that they were right in their forecast of what the receipts of this Government would be. But unfortunately in the condition in which we find ourselves with an increasing interest on the national debt, with the administration asking for a new ceiling $5 billion greater than the present ceiling on the national debt, and with the Treasury now presently conducting the sale of some $16 billion plus of Treasury securities which must be refinanced, and confronted by the prospect of having to meet, including that $16 billion plus, a total of over $82 billion of national securities in the next 12 months, I would think that the Federal Reserve Board, as well as the Congress would find it impossible to avoid casting a look into the future.

If we are going to raise the debt limit we have got to be dealing with the future. And we have come to the best brains we have to ask what the future is to be. The Federal Reserve Board is constituted of fiscal experts who know the game inside and outside. What are we going to do?

Mr. MARTIN. Well, Senator, I stand on this matter of predictions. I think it is a futile process—we have to have forecasters—I used to write a market letter for 2 years——

Senator O'MAHONEY. I am not asking you to get into that category.

Mr. MARTIN. Well, in my judgment it is almost the same thing today. I think there have been entirely too many predictions recently by all sorts of people.

Senator O'MAHONEY. Well, getting away from that subject: I remember very well when you appeared before this committee a year ago and discussed the tight money policy, how we listened to the testimony of official witnesses from the State of New York and elsewhere saying that the tight money policy was preventing school districts in New York, for example, from borrowing money to build essential schools; and when I contemplate now the necessity of improved education, apparently agreed to by the administration and everything else, I think I am justified in asking you to reconsider this closed-door policy.

I do not think that the Reserve Board should erect an iron curtain between itself and the Congress of the United States, do you?

We have got to make the laws. Now, you can issue decrees, of course, and you can exercise a lot of personal discretion. But the discretion that you have exercised in the last year did not turn out too successfully. Or did it?

Mr. MARTIN. Well, that is entirely a matter of judgment.

Senator O'MAHONEY. Well, what is your judgment?

Mr. MARTIN. I have never at any time indicated that I thought the Federal Reserve had behaved perfectly at any time during the time I have been connected with it.

Senator O'MAHONEY. Now, your behavior is all right. I am just talking about the result of your activity.

Mr. MARTIN. Well, I am not going to apologize for our activities. But we are a group of human beings, and we are calling our shots as we see them.

Senator O'MAHONEY. So are we a group of human beings. And I know that all the members of this committee are also trying to make their shots the way they see them.

But when you come before us, we hope to be able to get your advice without limitation. We can go into executive session if you want to, you know.

Mr. MARTIN. I would be perfectly willing to say right in the record that I do not know what the future holds.

Senator O'MAHONEY. Well, your decisions are from day to day, are they?

Mr. MARTIN. They are from day to day and week to week.

Senator O'MAHONEY. And what is your objective?

Mr. MARTIN. Stability and growth in this economy and as high levels of employment as we can have.

Senator O'MAHONEY. All right. Now, that is an overall objective of the whole Government, is it not?

Mr. MARTIN. I certainly think so.

Senator O'MAHONEY. There would be no dispute about the desirability of obtaining that objective, in the executive branch, in the legislative branch—I should have placed that first—in the judicial branch, even, because the judicial branch thinks about the state of the country too. And even in that great "branch," the Federal Reserve Board, we are all agreed.

Now, if that is the objective what are your ideas about the way Congress can best help you to achieve the objective?

Mr. MARTIN. I think hearings of this sort are extremely valuable and I am available at any time that you wish me to come up here.

Senator O'MAHONEY. You are available to come up and refuse to answer the questions.

Mr. MARTIN. You want answers, Senator, to a specific question that is not within my competence to answer. Maybe I am not competent to run the Federal Reserve Board.

Senator O'MAHONEY. Now I dropped the question that I asked you about forecasting. That is behind us. It is behind you. I have recognized the fact that you have dropped "the iron curtain."

I am asking you now what do you think we ought to do in the legislative branch of the Government to secure this stability which you believe should be our objective?

Mr. MARTIN. I think you have to study very carefully what measures you want to take with respect to taxes and all the other problems that confront us.

Senator O'MAHONEY. Would you recommend any measures with respect to taxes?

Mr. MARTIN. I have not studied the tax situation sufficiently to comment on that.

Senator O'MAHONEY. How can you preside over the Federal Reserve Board and pass judgment upon courses of action to preserve stability and not study taxes to an extent to be able to speak about them?

Mr. MARTIN. The Federal Reserve Act gives us a pretty clear framework within which to work. And within that framework we take into consideration all the factors that we think have a bearing on it and make our judgments accordingly.

Senator O'MAHONEY. That you think is right; but this Federal Reserve Act does not constitute a set of blinders on you or any member of the Federal Reserve Board. You still know what is going on. You still make out your own income-tax payment. And you know whether it would be good or bad for you to have a reduction or an increase; or whether it would be good or bad for the country.

That is altogether independent of your activities under the Federal Reserve. Frankly, Mr. Martin, it seems to me from this colloquy the only conclusion I can gather is that you are not willing to cooperate in helping us to see what is ahead.

You can throw some light on this. You can always adopt the saving clause that you cannot guarantee your predictions.

Of course you cannot guarantee them, but you can give us judgment. The fact that you were selected to be the Chairman of the Board seems to me to be proof that a large number of people have confidence in your judgment. I think you are a pretty able man. And I wish you would share your judgment with me.

Mr. MARTIN. I have tried to put down in this paper the best judgment I have, Senator.

Senator O'MAHONEY. Does it look to the future or only to the past?

Mr. MARTIN. I think it gives pretty good clues to what the future may hold.

Senator O'MAHONEY. Oh, some clues? That is fine.

Representative TALLE. There are seven good points listed there in Chairman Martin's statement.

Senator SPARKMAN. It is pretty optimistic.

Senator O'MAHONEY. Seven good points.

Representative TALLE. The whole paper is good. But he lists seven good points that apply to your question, Senator.

Senator O'MAHONEY. Well, let me read this statement:

> In recent months, the Federal Reserve System has operated to make bank and other credit more available and cheaper.
>
> Over this period, open market and discount policies were used in a complementary fashion. Open market operations provided sufficient reserves to permit member banks not only to repay a substantial portion of their indebtedness to the Reserve banks, but also to accumulate some addition to reserves available for bank credit expansion.

Has this worked?

Mr. MARTIN. It takes time. I pointed out in here Senator, that there has been the most dramatic decline in interest rates that has happened in my experience. That certainly is an indication of something.

Senator O'MAHONEY. How long do you expect this decline to continue?

Mr. MARTIN. I do not know.

Senator O'MAHONEY. Well, has it gone far enough now, today, for you to recommend to the Federal Reserve Board that the policy should be reversed?

Mr. MARTIN. I am testifying here right up to today. Today we are satisfied with our policy. As of today we are satisfied that our policy is making its contribution.

Senator O'MAHONEY. The buzzer is calling us to the floor.

I glanced over the 7 points which begin on page 10. I suggest that none of them is of any immediate effect. Am I right in that?

Mr. MARTIN. I think that is correct, yes, sir.

Senator O'MAHONEY. So, you were looking into the future when you outlined these seven points?

Mr. MARTIN. I was talking about principles.

Senator O'MAHONEY. That is what I wanted you to talk about, too.

I will read over this paper, Mr. Martin, and I may assign myself the task of writing you a letter.

Mr. MARTIN. I will be very glad to come up and talk with you about it at your convenience.

Senator O'MAHONEY. Thank you very much. I think I will take you up on that, because it seems to me to be most important.

I believe the facts before us show that we are engaged in an economic cold war in which the stake is the system of private property, and we have not yet taken steps that are necessary to win the cold war for the system of private property.

The Communists are confident that we haven't the sense or the courage to believe in the freedom about which we talk. And the result, as set forth in the President's Economic Report, is that the United States since 1953 has been lagging behind the rest of the world, outside of the Soviets—we do not know anything about them—in the rate of industrial expansion.

The President tells us as much in his report, chapter 3, on foreign affairs, and the table, table No. 7, on page 41. May I ask you after this session to read that chapter 3 and look over table 7.

Now, it is no answer to that to say that these foreign countries started from zero and that therefore their rate of expansion may be expected to be more rapid than ours; that is no answer, because if we are lagging in the rate and still have not the cure for unemployment which has existed in this country, for the agricultural problem which exists in this country, for the failures of small business which exist in this country, we have no certainty unless we have some people willing to look into the future that we can bring about such stability in our economy as to guarantee the income that will pay the interest upon the national debt and enable us to carry increasing debt.

I cannot conceive of any situation more grave than this, because I would say, Mr. Martin, I do not believe that we are not in so much danger of military attack by Soviet Russia. But we are suffering from an economic attack by Soviet Russia which may easily be far more dangerous than a war. The Russians know that we still have nuclear power and that a nuclear war would be destructive of both sides.

But we are fighting for the system of private property—I call it the capitalistic system—but we are not doing a very good job at it. Now, that is what I want to talk about.

I thank you very much, Mr. Chairman.

Senator SPARKMAN. I am informed that there is a vote coming up on the Senate floor. If there are no further questions, the committee will stand in recess until 10 o'clock in the morning in this same room when Secretary of the Treasury Anderson will be before us.

Mr. Martin and Mr. Young, we appreciate very much your appearance and assistance this morning.

(Whereupon, at 12:18 p. m., the committee adjourned to reconvene at 10 a. m., February 7, 1958.)

JANUARY 1958 ECONOMIC REPORT OF THE PRESIDENT

FRIDAY, FEBRUARY 7, 1958

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

The committee met at 10 a. m., pursuant to recess, in the Senate Office Building, room 457, Hon. John Sparksman (vice chaiman of the committee) presiding.

Present: Senators Sparkman, Douglas, O'Mahoney, Representatives Talle, Curtis and Kilburn.

Present also: John W. Lehman, acting executive director, and Norman Ture, staff member.

Senator SPARKMAN. The committee will come to order, please. I assume others will be coming in shortly.

We continue our hearings this morning with Secretary of the Treasury Robert B. Anderson as our witness. Concerned, as this committee is, under the Employment Act with the maintenance of economic stability and growth, we look forward to hearing the Cabinet officer with primary responsibility for Federal fiscal matters. Federal expenditure and tax policy and the management of the public debt represent some of the most potent instruments in the Government's hands for advancing the objectives of the Employment Act.

Before we start the questioning, we should like to give you, Mr. Secretary, an opportunity to make an introductory statement in any way that you desire. We will be glad to hear from you.

At this time you may proceed in your own way.

Mr. ANDERSON. Thank you, Mr. Chairman. I should like, if I may, to first present to the committee those who accompany me. On my right is the Under Secretary for Monetary Affairs, Mr. Julian B. Baird. To my left the Deputy to the Secretary of the Treasury, Mr. Dan Smith. On my extreme right, the Chief of the Debt Analysis Staff, Mr. Robert Mayo. Behind him is the Assistant to the Secretary, Mr. Paul Wren. Directly behind is the Fiscal Assistant Secretary, Mr. Heffelfinger. Over to the left, the Assistant to the Secretary, Mr. Lennartson.

I have a prepared statement.

Senator SPARKMAN. We are glad to have all you gentlemen with us.

Secretary ANDERSON. I have a prepared statement, Mr. Chairman, which I will read. I have indicated to the chairman, if I do not speak loudly enough, I would like for you to tell me because I have a little sore throat.

Senator SPARKMAN. We will do that, sir.

STATEMENT OF ROBERT B. ANDERSON, SECRETARY OF THE TREASURY; ACCOMPANIED BY JULIAN B. BAIRD, UNDER SECRETARY, MONETARY AFFAIRS; DAN THROOP SMITH, DEPUTY TO THE SECRETARY; WILLIAM T. HEFFELFINGER, FISCAL ASSISTANT SECRETARY; PAUL I. WREN, ASSISTANT TO THE SECRETARY; ROBERT P. MAYO, CHIEF, DEBT ANALYSIS STAFF; AND N. A. LENNARTSON, ASSISTANT TO THE SECRETARY

Secretary ANDERSON. I am glad to have this opportunity to appear before the Joint Economic Committee. The Economic Report of the President and deliberations and reports of this committee and its subcommittees, together with the work of the Council of Economic Advisers, are of great value in developing and maintaining coordinated economic policies which will facilitate, to the greatest extent possible, strong and balanced economic growth in our dynamic economy.

Perhaps the one characteristic of our American economy which has persisted since the beginning of our history has been growth by means of constant change. Fluctuations and dislocations are typical of a dynamic, competitive system in which the energies of free individuals have full scope. We must expect that the momentum of our economy will not be the same in all sectors of activity at the same time. Throughout our economic history there has been constant evolution of both our needs and wants and our means of satisfying them.

We have firm grounds for our belief that our Nation possesses the basic ingredients of an economic system which will insure a sound maintainable rate of economic growth.

At present we are passing through a period which is presenting certain difficulties and problems. This requires our continued and careful evaluation, but we must recognize that the need for appraisal—for considered judgment and action—is one of the responsibilities of membership in a free society. One of our great strengths is the dedication of our Government and our people to the task of maintaining the basic health of our economy. Neither inflation nor deflation will be allowed to run a ruinous course.

Our judgments last December in arriving at our estimated budgetary receipts for the period 18 months in advance were admittedly difficult. They took into consideration both the current problems of our economy and a confidence in the strength of the underlying forces of our system contributing to growth. A further consideration was the fact that each of our governmental departments and our monetary agencies would continue to conduct their operations so as to contribute renewed vitality to our economy.

Some of the specific factors contributing to our judgments will be discussed later on.

We have not endeavored to judge the movements of our economic system with exact nicety nor to estimate shifts in the economy at precise moments. Rather, our judgments are predicated upon the belief that the restrictive phases of economic fluctuations would not continue for a protracted period.

It seems most important to us that our economic outlook in terms of future growth should be evaluated from the standpoint of long range factors as well as those of a shorter term.

Let us first review some of the forces underlying our belief in long-term progress.

We have a growing, vigorous population. We have a highly competitive, productive economy. Rapid technological advances have created new products and processes. Long range and careful planning is becoming more predominant. All of these forces are generating new demands and new needs. In order to satisfy these and like requirements, we must look to our natural resources, our expanded industrial capacity, our growing skills, our managerial capacity, and other like contributors to our productive machinery.

When we view our long-term situation in perspective, therefore, it is clear that we have on the one side the expanding needs and wants of our growing population and on the other side the capacity and skill for meeting these wants and needs with an expanding volume of output.

Moreover, we have the two further essentials of continued high level activity in a free-enterprise economy—a relatively stable currency and an efficient financial system.

Our financial system is demonstrating an ability to provide short-term and long-term financing necessary for increasing activity and growth. We must continue to exert every effort to achieve stability in the purchasing power of our dollar.

In order to see just where we stand, it is worthwhile examining the elements of our current strength a little more closely.

First of all, what are the expanding needs of the American economy?

To answer that question, we have only to look around us. Our population is growing at the rate of approximately 3 million a year—the equivalent of adding a State the size of Kentucky to our consumer population every 12 months. We have constantly increasing demands for new products and materials from American business, as the result of scientific and technological advances taking place in almost every area of activity throughout the economy. We have a constant desire on the part of all of our people to improve their standard of living and to expand the opportunities available to their children.

Turning now to our capacity for meeting these needs—America has demonstrated that we have in this country an industrial mechanism capable of meeting any reasonable demands that may be made upon it, both military and civilian. The urgencies of World War II unlocked many new productive powers in the American industrial machine. Nevertheless, in the period since the end of World War II, American industry has made an unprecedented investment in plant and equipment. From 1946 through 1957 such investment totaled over $300 billion—a total outlay equal to United States military expenditures during World War II, 1941–45. And this investment is continuing. Business plans for fixed investment in the calendar year 1958 exceed actual spending in any previous year except 1956 and 1957.

Along with our expanding plant and equipment, our labor force is growing by three-quarters of a million workers a year—a part of our growth in population. Yet we are constantly making more efficient use of the contribution of American workers to output. Output per man-hour in the private nonfarm sector of the economy has been increasing at an average rate of more than 3 percent a year for the postwar period, reflecting again the tremendous expansion of plant and equipment and improved techniques and working conditions.

Moreover, agricultural productivity has been increasing even more rapidly than that of industry.

A further—and very important—factor in the long-term situation is the willingness of our people and our Government to use the mechanisms at our command so as to employ our economic strength in a way which will help assure sustainable growth.

In the short-term area, a number of favorable factors can be discerned. First of all, part of the readjustment has occurred. Reduction of inventory in some lines and certain adjustments in output and prices have already taken place. Possibly in reflection of this fact, both sensitive industrial material prices and the prices reflected in the all-commodity index of the Bureau of Labor Statistics have recently showed considerable stability.

The level of personal income has held up well. There has been prompt and responsive readjustment in certain stock and bond yield and interest rate relationships, and the stock market has shown some elements of strength during the past month.

Residential housing construction has turned upward slightly, and mortgage money is becoming more readily available. A sustaining influence can be expected from the stepped-up pace of certain Federal programs such as highway building, and from a number of State and local projects having to do with community facilities. Increased defense spending and contract placement will also have a stimulating effect on the economy.

Perhaps one of the most important considerations, however—either long-term or short-term—is the fact that the confidence of the American people in the basic strength of our economy has remained strong. There is evidence that this confidence is increasing. The American people are recognizing that the period of adjustment we are now going through is in part the consequence of our rapid expansion during the past several years. Our power for growth remains unimpaired, and justifies a belief that we have the elements needed for a continuing healthy economy, capable of expanding and adapting itself to any new demands which it may be called upon to fulfill.

You are familiar with the contents of the budget message and its recommendations for a continuation of existing tax rates on corporation income and excises on liquor, tobacco, and automobiles for another year.

The economic assumptions underlying our revenue estimates in the 1959 budget, which you requested in your letter of January 20, are as follows:

Personal income was assumed to be $343 billion in the calendar year 1957 and $352 billion in the calendar year 1958.

Corporate profits were assumed to be $42 billion in each of the 2 years.

We do not assume any change in prices from the present.

I should now like to discuss for a moment some of the problems involved in making the basic assumptions which we must make in estimating the Government's income from taxes.

The problem of projecting our revenue receipts, which is a part of the budgetary process, is always difficult. In the months of November and December it becomes necessary, as a part of this operation, to arrive at certain determinations with reference to income tax receipts for a period 18 months in advance.

This task would be much simpler if we could be content with a range of estimates. However, the budgetmaking process does not permit such a procedure. We are required to use a degree of preciseness which involves a number of specific judgments made with the help of the best evidence and the best experts available.

The difficulties inherent in making precise determinations of future tax income are clearly evident in the historical records. These show that various relationships between tax receipts and major economic indicators which might be expected to be fairly constant over the years do not in fact remain constant. They change considerably from 1 year to the next.

The individual income tax and the corporate tax provide the bulk of our revenues; and personal income and corporate profits are the 2 most important bases for estimating receipts from these 2 tax sources. Corporate profits, however, are not uniformly related to any single indicator or combination of economic indicators. There is even a lack of correspondence as to the direction of change between corporate profits and the gross national product.

In 1952, for example, there was a large decrease in corporate profits in spite of a substantial increase in the gross national product.

I might add in passing that the best current data on corporate profits are themselves estimates which are subject to substantial revision, after taxes are collected and tax returns tabulated in Statistics of Income. Again referring to 1952, estimated corporate profits were reported at the end of the year as $40.8 billion. This figure was finally revised to $35.9 billion, long after the end of the year.

Our estimate of $42 billion for corporate profits in both 1957 and 1958 is based on our own best appraisal and on advice which we have sought from staff experts in the Department of Commerce, the Council of Economic Advisers, and the Federal Reserve Board. The estimate is, of course, subject to the same hazards as have been manifest in the past but it represents our best judgment.

With respect to the individual income tax, we have estimated increases in receipts from this source, although these expected increases are substantially less than those which occurred in recent years. Our estimate took into account current economic conditions, as well as our judgment that growth would be resumed during the year 1958 and continued on into 1959. Specifically, the increase estimated for the individual income tax estimated for fiscal 1958 over fiscal 1957 is $1.6 billion; and the increase for 1959 over 1958 is $1.3 billion. Individual income tax receipts increased $3.4 billion in each of the fiscal years 1956 and 1957. Thus the total increase for the 2 years 1958 and 1959 of $2.9 billion in individual income taxes is substantially less than the increase in this category which took place in either 1 of the years 1956 and 1957.

The personal income level for the calendar year 1958 underlying the budget estimate assumes a rise of $9 billion over the personal income of the preceding calendar year. This is about one-half of the annual rate of increase of preceding years.

As in the case of corporate tax estimates and the economic indicators on which they are based, the historical record shows that there have been substantial variations in the relationship between individual income tax receipts and their major determinant, personal income.

These variations reflect changes in the distribution of personal income at different income levels, including varying proportions in the taxable and nontaxable categories, and in the realization of capital gains which affect tax receipts but are not included in the statistical concept of personal income. They indicate the difficulty of attempting to project tax receipts with complete accuracy, even if the underlying figure for personal income could be estimated accurately.

In the committee's invitation to appear before you, you asked that I give attention to four questions. With your permission, I should like to address myself to three of them and ask Under Secretary Baird to address himself to the final question on our outlook for debt management for the coming year.

With reference to your question as to the proper division of labor between tax policy and monetary policy as instruments of economic stabilization during the current year, I should like to suggest the following:

The power of taxation should always first be critically examined as an instrument to provide revenue for the Government upon the most equitable basis possible. Tax changes should be utilized for purposes of economic stimulation only when economic conditions are sufficiently adverse to warrant it.

I have heretofore stated that I can conceive of situations where tax reductions might appropriately be brought into play in order to help the resumption of economic growth.

It is our judgment that the present condition of the economy does not warrant such action now. We continue to believe that growth in our economic system will reassert itself. We continue to be concerned that we should avoid, if possible, adding to our already burdensome debt during periods of high production.

However, we must continue to examine developments as they progress from month to month with a willingness to use this or other methods of stimulation if conditions should require them.

Monetary and credit policy can be used more appropriately during periods of economic change such as we are now experiencing. The recent sharp reduction in interest rates, plus an increase in availability of credit, provides easier financing of business and local government capital projects and projects in other areas of growth, such as residential housing.

With reference to your second question concerning recommendations for general or structural revisions in tax policy at this time, I should like to advise that we are following closely the material which is being developed in the hearings of the House Committee on Ways and Means and our staff is currently reviewing the hearings with the staffs of the House and joint committees. These cooperative efforts will continue.

We have recently reaffirmed the recommendation of the budget message for a continuation of the existing corporation income tax rates and the excises on liquor, tobacco and automobiles for another year. There is about $3 billion in revenue involved. We have also recommended that H. R. 8381 to make certain technical revisions and eliminate some unintended benefits and hardships be enacted with some modifications. This bill has now passed the House and is before the Senate Finance Committee.

We have also suggested to the House Committee on Ways and Means that the question of tax simplification is in our judgment exceedingly important. I have asked the staffs of the Treasury and the Internal Revenue Service to work closely with the staffs of the Joint Committee on Internal Revenue Taxation and the Committee on Ways and Means to determine the most effective way of dealing with this problem. It seems to me to go to the very heart of our voluntary tax system.

I hope that we will be able to develop a mechanism for giving effective consideration to this important matter in the near future.

On the third question as to the relative importance of encouragement of investment and encouragement of consumption, let me be frank to say that our system of competitive enterprise should be such as to encourage increased investment and to provide the generation through savings of adequate capital to finance both replacement and expansion.

At the same time, the utilization of the products of our enterprise is dependent upon effective demand which, of course, is the basis for consumption. It would seem, therefore, that any consideration of tax policy should give weight to both the development of effective capital and the stimulation of effective demand. Here again, in order to maintain our voluntary tax system, we must be concerned not only with the objectives of economic stimulation, but at the same time so act as to insure fairness to all taxpayers and the development of a system of tax forms and calculations which can be fully understood and prepared without undue complications.

I shall now ask Mr. Julian Baird, the Under Secretary for Monetary Affairs, to speak on the fourth and final question concerning our outlook for debt management for the coming year.

Senator SPARKMAN. Thank you, Secretary Anderson.

Mr. Baird?

STATEMENT OF JULIAN B. BAIRD, UNDER SECRETARY OF THE TREASURY

Mr. BAIRD. I, too, have a prepared statement and some charts accompanying it that I think the committee have before them.

Senator SPARKMAN. We have them, yes.

Mr. BAIRD. I am glad to have the opportunity to discuss with you today what we in the Treasury consider to be our most important debt-management problems during 1958.

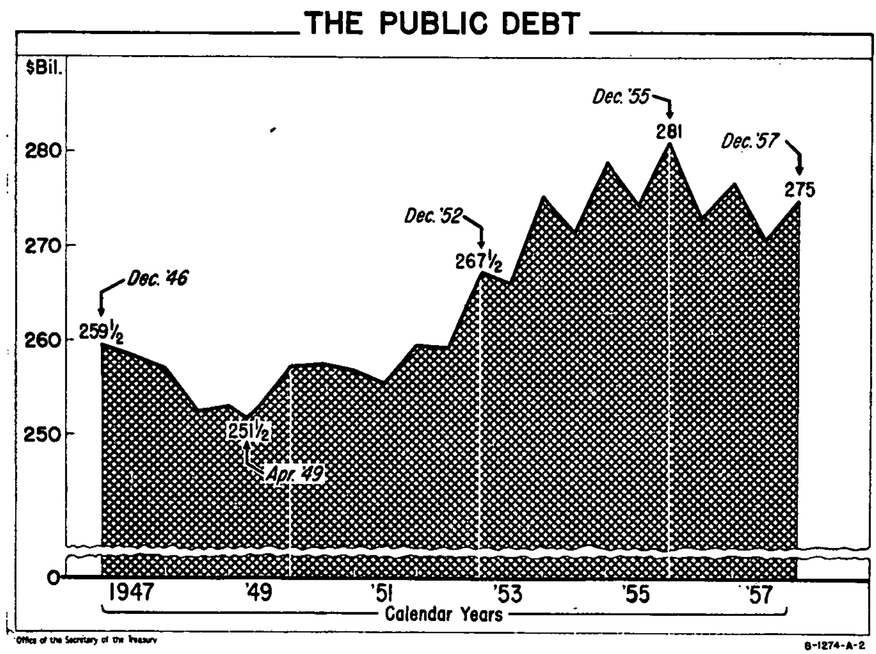
Debt management, of course, does not take place in a vacuum. If it is to make its maximum contribution to sound financial management it must work effectively with the budget and tax policies of the Government and the monetary policies of an independent Federal Reserve System. Even though the Treasury's debt operations run well over $100 billion a year in terms of overall issuances or retirements, good debt management rarely makes headlines. The Treasury is making every effort to handle this very technical and complicated phase of fiscal policy in a way that will contribute to sound and sustainable economic growth and stability.

The environment in which debt management operates consists of many factors, the first of which is the budget outlook. If other conditions are favorable, the debt tends to be more easily managed at times when the Government is taking in more than it is spending. As a result of the budget surpluses during the past 2 years, the public debt has been reduced from $281 billion in December 1955, to $275 billion in December 1957.

As you know, however, the present budget outlook does not allow for further debt reduction in the year ahead, other than the usual seasonal downswing under the impact of heavy tax collections this spring, which will be followed by a seasonal increase in the debt again next fall. Even with a balanced budget, the Treasury has substantial amounts of cash financing to do during the July–December period each year in anticipation of heavy tax payments in the January–June period. The seasonal swings in Treasury receipts are being moderated somewhat from year to year as a result of corporations paying their taxes more currently as provided for in the Internal Revenue Code of 1954, but substantial seasonal movements still occur.

(Chart 1 follows:)

CHART 1



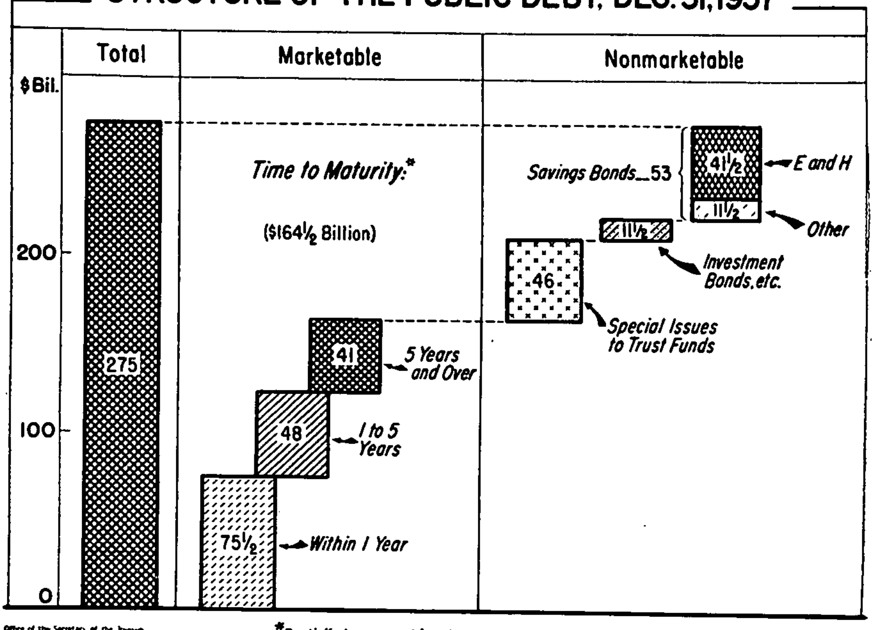
Mr. BAIRD. As chart 1 indicates, there have been only 2 periods since the end of World War II in which sizable debt reduction out of budget surplus has been realized—a reduction of $8 billion in 1947, 1948, and early 1949, and a reduction of $6 billion during the last 2 years. We fully expect, of course, that further debt reduction will be possible as we move beyond the period of time covered by the present budget, always keeping in mind that important as it is, the goal of debt reduction should not interfere with whatever steps are necessary to assure the security of our country.

One of the Treasury's major responsibilities in the field of debt management is to work toward a better structure of the debt within the overall total whenever conditions permit. Chart 2 shows the structure of the debt as of December 31, 1957.

(Chart 2 follows:)

CHART 2

STRUCTURE OF THE PUBLIC DEBT, DEC. 31, 1957



*Partially tax-exempt bonds to earliest call date.

Mr. BAIRD. Most of the Treasury's effect on the structure of the public debt is achieved through its financing decisions affecting the marketable debt, which, on December 31, 1957, accounted for \$164½ billion of the total \$275 billion debt. These marketable issues consist of 91 day bills, 1-year certificates of indebtedness, 1- to 5-year notes, and longer-term bonds—issues which are freely traded in the Government securities market every day.

It would be better to have less of the public debt coming due each year. If the \$75½ billion of under 1-year debt, which is shown as the bottom bar on chart 2, can be cut down, there will be a reduction in both the frequency and volume of Treasury financing. To the extent that progress is made toward this objective, the Treasury will be contributing to a smoother flow of corporate and municipal financing to the capital markets. It also will add to the free time which the Federal Reserve will have to take effective monetary steps without always having to be concerned with a new Treasury financing which is coming up or financing which is still in the process of being lodged with the eventual holders of the securities.

The Treasury would prefer to go to the market less frequently than it had to in 1957. Last year there were financing operations, other than the regular rollover of Treasury bills, in every month except

April, a frequency which reflected in large part the pressure of an increasingly restrictive debt limit.

The remaining $110½ billion of the public debt is not marketable. As shown on the right side of chart 2, this part of the debt includes securities issued to the social security and other Government trust funds. It also includes our savings bonds—which are at the heart of our efforts to achieve a broader distribution of the public debt.

At the present time, approximately 40 million Americans own $41½ billion of E and H savings bonds. We estimate that something like 8 million people are buying savings bonds regularly through payroll savings plans where they work or through the thousands of financial institutions around the country that sell these bonds for us as a public service.

As you know, the rates of interest on series E and H savings bonds were raised last winter from 3 percent to 3¼ percent, along with a substantial improvement in earlier yields in case a bondholder reedems his security before it is due. This added attractiveness of E and H bonds, together with their proven appeal of convenience, safety, indestructibility, and a guaranteed interest rate over a period of years, is already showing up in improved sales. Our sales in January 1958 were $510 million, up 10 percent over January a year ago.

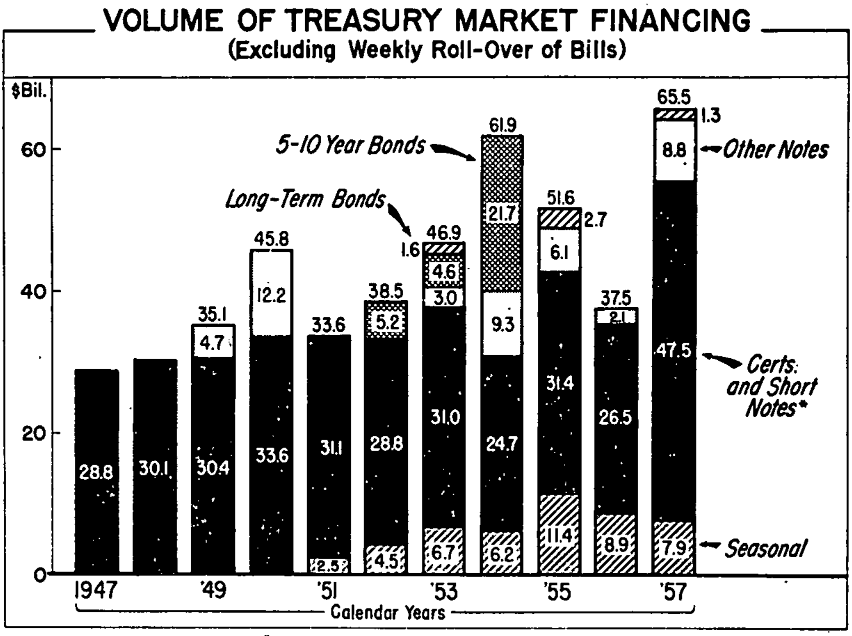
We are now conducting a number of intensive compaigns in leading cities across the Nation to encourage further sales of savings bonds. We are reminding Americans again that they are adding not only to their own financial well-being, but also to that of their Nation, when they buy savings bonds. Even though E and H bonds may be redeemed on short notice by the holder, they in fact remain outstanding about 7 years on the average. As a result, they help to achieve a broader distribution of the debt beyond the short-term area.

The only way, of course, in which the Treasury can reduce the amount of marketable debt coming due within 1 year—short of overall debt retirement—is by replacing some of the maturing short-term debt with new issues that will come due over a longer period of time. That is what we mean by extending the debt, and we try to do that whenever conditions are favorable.

The simple passage of time brings more and more of the debt into the 1-year area so that a substantial amount of debt extension is required even if we are to prevent the under-1-year debt from growing. As has been so often said, we operate in something like Alice's Wonderland, and have to run fast in order to stay in the same place—and even faster if we want to get someplace.

(Chart 3 follows:)

CHART 3



*Notes originally 20 months or less to maturity.

Mr. BAIRD. Chart 3 shows what has been done during the last 11 years not only in terms of the total amount of Treasury financing that has been required, other than the rollover of Treasury bills, but also the amount of debt extension which has been accomplished.

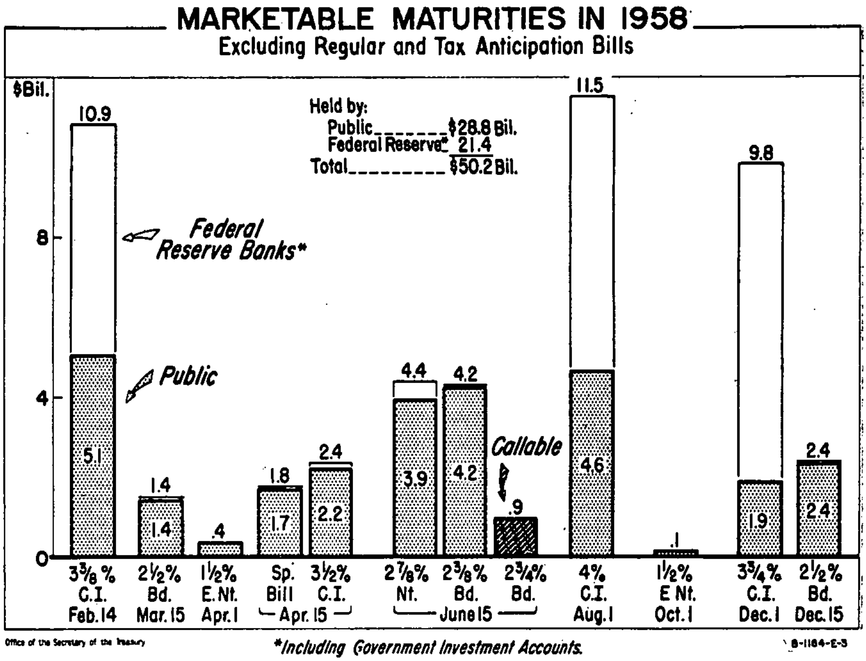
There was some debt extension back in 1949 and 1950, which helped reduce the size of the financing job in 1951 and 1952. There was further debt extension in 1952 and even more in 1953, but the most substantial debt lengthening that has taken place since the war occurred in the calendar year 1954. During a year when the Treasury had a $62 billion financing job to do, $31 billion—half of the total—was extended into securities running more than 1 year to maturity, with almost $22 billion of the extension in 5- to 10-year bonds. This in turn helped to reduce the volume of market financing in 1955 and 1956, but the relatively small amount of debt extension which the Treasury was able to accomplish under the conditions which existed in 1955 and 1956 meant that again in 1957 our problem was more difficult.

The $65½ billion figure shown on this chart for 1957 Treasury financing is inflated by the fact that $10 billion of the August maturities (mostly held by Federal Reserve banks) were rolled over into a December maturity and were, therefore, counted twice during the year. The fact remains, however, that even if this doubling up were excluded, the 1957 job was among the largest in history.

Our financing job in 1958—including our current financing—is expected to be somewhat smaller than in 1957. Chart 4 indicates the marketable maturities, issue by issue, which are facing us during this calendar year. The subscription books on the Treasury refinancing this year have just closed and we hope to be able to announce shortly the result of our offering of a 1-year certificate, a 6-year bond, and a 32-year bond, which was made to the holders of the 5 issues maturing from February 14 through April 15, as shown on this chart.

(Chart 4 follows:)

CHART 4

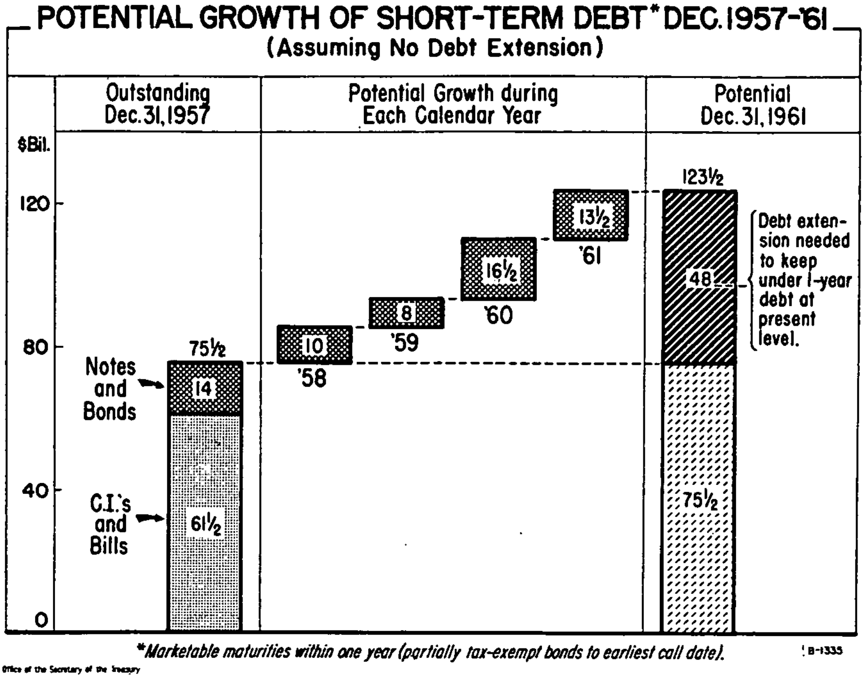


Mr. BAIRD. Although the Treasury decision to include a large block of maturities in the current financing helps to take some of the burden off of our debt management activities in the spring, we still face a heavy schedule.

Total maturities of Treasury certificates, notes and bonds this year amount to $50 billion, of which $29 billion is held by the public. In addition to this $50 billion, the Treasury has an issue of $3 billion of tax-anticipation bills coming due in March (to be paid off in cash), and $22½ billion of regular 91-day Treasury bills which will be rolled over 4 times during the course of the year. This total of $75½ billion outlines the basic dimensions of our job in 1958.

(Chart 5 follows:)

CHART 5



Senator O'MAHONEY. How much did that refinancing amount to?

Mr. BAIRD. The total was $16.8 billion, of which $6 billion was held by the Federal Reserve Bank and the Government's trust funds. ~~So the amount which the public held, sir, was about $10.8 billion.~~

Senator O'MAHONEY. I observe on the top of page 7, this sentence:

> During a year when the Treasury had a $62 billion financing job to do, $31 billion—half of the total—was extended into securities running more than 1 year to maturity with almost $22 billion of the extension in 5- to 10-year bonds.

Now, the record seems to indicate that the financing job which the Treasury faces this year exceeds $82 billion—$82½ billion.

What is your outlook?

Mr. BAIRD. The figure that you mention of $82.6 billion which is quoted in the press, takes into account maturing E, F, and G savings bonds that come due in both 1958 and 1959. We are talking about the $75.5 billion of marketables that we have to refund in 1958.

Senator O'MAHONEY. Making these exclusions of which you speak, although they of course are items of debt on which the public must pay interest, the refinancing job which you will have to do is $75 billion, which of course is $13 billion more than the figure mentioned in your paper for the year 1954.

Does that indicate progress in debt management or regression?

Mr. BAIRD. The $75 billion includes bills which are not in the 1954 figure used in the chart. There was progress made from 1952, 1953, and 1954. There has not been as much progress as we would like made since, Senator. We hope to make some progress now.

Senator O'MAHONEY. Well, frankly, I have been concerned and considerably puzzled about the talk we hear where the overall record shows a constantly increasing debt and a constantly increasing job of extending our Government notes.

On page 1, for example, you said: "As a result of budget surpluses during the past 2 years, the public debt has been reduced from $281 billion in December 1955 to $275 billion in December of 1957."

Of course the debt ceiling is $275 billion. It was that in 1957; it was that in 1955. But we had gone over the debt limit by $6 billion. That feat was achieved by various gimmicks as I understand it. The Government came to Congress and received sort of permission to go into debt above the ceiling, awaiting receipts that were fondly hoped to come in.

And some did come in. I am told there was a steady practice of delaying the payment of obligations owed by the Government on work for which the Government had made contract.

Is that true or not?

Mr. BAIRD. May I get the final question, Senator, again?

Senator O'MAHONEY. I said that you achieved the feat of going over the debt limit by $6 billion by various devices. Congress, for example, was asked to grant a privilege to go above $275 billion, the ceiling, on the theory that perhaps some income would come in before too many months had passed to prolong that violation of the debt limit.

But you talk about surpluses, whereas the record shows, and your testimony shows, excesses of the debt limit at one point and an increasing amount of refinancing that is necessary.

It was in 1954, $62 billion you had to refinance, after the exclusions which you mentioned. Now, you have $75 billion to refinance. In the face, therefore, of increasing debt and increasing problem of yearly refinancing, how can we talk of budget surpluses and how do we explain them?

I have been told—in fact I had instances of it only last year in the Defense Department—orders were given out at Warren Air Base in Cheyenne, Wyo., for example, not to pay certain bills that were due local merchants.

For example, a local merchant installed certain curtains in the Warren Air Base. The payment due to him was less than $3,000, but the commander of the base had received orders from the Defense Establishment not to pay the bill. The businessman had to go to the banks and borrow the money and pay interest on an obligation due from the Treasury of the United States. The payment—the orders forbidding payment were made, we were told, for the purpose of preventing the debt from going above the limit. Now, if that was done at Warren Air Base, it probably was done all through the country. You probably know.

Mr. BAIRD. Well, Senator, the Secretary, on a number of occasions has made clarifying statements on that question of the Government not paying its bills and I think he can answer that for you.

Senator O'MAHONEY. Well, the Secretary hasn't been here on this job long enough to know all of the details. Somebody has briefed him about it, I suppose. But the incident that I speak of took place before Secretary Anderson assumed this very difficult job.

Secretary ANDERSON. Senator O'Mahoney, if I may explain what has been done up to now?

Senator O'MAHONEY. Surely.

Secretary ANDERSON. When I first came into the Treasury, as you know, the debt ceiling had just dropped from $278 billion to $275 billion. Congress was just adjourning. We gave consideration to whether or not we should at that time come to the Congress and ask for an increase in the debt limit. We reached the conclusion that we would make every effort to live within it. And I directed a letter to the chairman of the Senate Finance Committee and the chairman of the Committee on Ways and Means in the House, so indicating, and pointing out that it might be necessary to resort to some more costly expedients such as the financing of some of the obligations by the secondary agencies in the public rather than directly through the Treasury.

Now, then, so far as I know, during my stay, I would say quite frankly that no bill that has ever been presented to the Treasury for payment of a completed product or service has been refused. I would consider this a serious impairment of the credit of the country.

And even if it were necessary to resort to very strong measures such as asking the Congress to come back and reconsider a debt limit, I would consider that of sufficient importance.

What did occur, of course, was that everyone had an awareness of the problems of the debt ceiling during the periods when our income was not as great as our rate of expenditures, which is traditional in the fall and winter.

The Defense Department did, during this period, as I understand it, decrease some of the progress payments on contracts that were supported by regular progress payments, by about 5 percent.

We were disturbed originally when such information reached the Treasury. And there was a feeling that very large amounts of money would be required by private industry to make up the difference, which of course would have to come out of the banking system.

So quite early I sat down and talked with Secretary McElroy and the Secretaries of the respective services to say in the first place, every bill that is presented to the Treasury we are going to pay.

Senator O'MAHONEY. Well, I applaud you for that decision. That was a perfectly splendid decision; it was perfectly proper. It did help to save the credit of the United States. But the fact remains that, while the Treasury paid every bill that was presented to it for payment, arrangements had been made by the Department of Defense to erect obstacles in the path of bills reaching the Treasury for payment.

Secretary ANDERSON. That I could not speak to, sir, except to say that I know there were negotiated rearrangements of some contracts so as to require some more investment by the private enterprise to the extent of about 5 percent.

Now at the time we had our discussions, military departments indicated that this would require an additional 4 or 5 hundred million dollars out of private banking systems over a period of 18 months or something in that neighborhood.

Now also during this same period, Mr. McElroy, coming in new, as I was, suggested to me that he thought it appropriate that some of the expenditures of the Defense Department be expanded over what had been previously planned to the amount as I recall of about $800 million.

Senator O'MAHONEY. Well, may I say that everything I have seen with respect to the operations of the Defense Department under Secretary McElroy and of the Treasury Department under you, has been along an entirely commendable line.

I have no criticisms to make of the policies that you and Secretary McElroy have followed. But I think the situation you have described and which is set forth in the paper of the present witness shows that the Government, prior to your access into office, was doing everything in its power to avoid asking for an increase in the debt limit and was risking the credit of the United States in so doing.

I think that the United States can easily carry an increased debt if we have appropriate debt management.

I am not altogether satisfied that the Federal Reserve Board has properly cooperated with the Treasury Department in managing the debt.

Secretary ANDERSON. I will add one sentence, if I may. The suggested increase of $800 million, or thereabouts, which the Department of Defense made under Mr. McElroy, was absorbed in the current debt limit of $275 billion.

Senator O'MAHONEY. What is the debt at this moment?

Mr. BAIRD. The debt at this moment is $274½ billion.

Senator O'MAHONEY. Thank you.

Mr. BAIRD. Shall I resume reading my statement?

Senator SPARKMAN. Proceed, Mr. Baird.

Mr. BAIRD. Chart 5 spells out our problem of the passage of time adding to the short-term debt over the next few years, on the basis of the total amount of marketable debt as it now stands. If we add up all of the debt that will come into the under-1-year category in 1958, 1959, 1960, and 1961, we would find that the amount of under-1-year debt 4 years from now, instead of being $75½ billion, would be $123½ billion, if all refinancing in those years was in the 1-year area. That would mean about 75 percent of the entire marketable debt would be due within 1 year in 1961, as compared with 45 percent at the present time.

To put it another way, we need a net amount of $48 billion of debt extension in the next 4 years in order to keep even—and more than that if we are to make any progress in cutting down the size of our short-term debt.

We continue to believe that it is in the long-range best interest of this country to offer intermediate- and long-term securities over the next few years whenever conditions are favorable. Our recent refunding operation was based on this principle. It is obvious, however, that a great deal more remains to be done.

In conclusion, I can assure you that the Treasury will continue to discharge its responsibilities of debt management with broad national interest as the first consideration.

Senator SPARKMAN. Thank you, Mr. Baird.

Mr. Secretary, do you have anything further to add?

Secretary ANDERSON. No, Mr. Chairman.

Senator SPARKMAN. Does any other member of the staff have anything to add?

Secretary ANDERSON. No.

Senator SPARKMAN. If there is no objection, I am going to call on Mr. Curtis first since he has to leave early in order to catch a plane.

Representative CURTIS. Thank you, Mr. Chairman.

First I would like to make an observation for further comment with regard to Senator O'Mahoney's questioning.

I think it is only fair to note that Congress imposed the debt limit on the Treasury. In that true?

Secretary ANDERSON. Yes.

Representative CURTIS. As I well remember when you came before the Ways and Means Committee a few weeks ago, in discussing increasing the debt limit one of the very points that you were making was that by imposing too narrow a ceiling we can produce uneconomic results.

I certainly believe that myself. And those who want to save money had better do it, I suggest, through the appropriation bills rather than after it has all been done to come along and in an emotional way try to hold the debt ceiling down. That actually can cost us more money.

Senator O'MAHONEY. What about the interest rate increases that we have been having?

Representative CURTIS. Irrespective of the interest rate. Just merely the difficulty that you impose upon the Treasury in managing the debt.

In fact you can cost the Government more by putting it in a position where it has to pay more interest for the bonds floated.

Would that be a fair observation?

Secretary ANDERSON. The Treasury, in making its request for increase in the debt limit to $280 billion, was motivated really by three considerations.

In the first place we believe that it is reasonable and prudent in a country of this size to have an operating balance equivalent to about 12 days' requirements. This is about $3,500 million. We believe also that we should have awareness that a country of our kind and complexity, and in an uncertain world, can be confronted with contingencies which none of us is quite wise enough to anticipate, and that we ought to have some latitude with which to meet those contingencies.

And finally we believe that we should have some latitude or flexibility within the debt limit within which to manage the debt, as the Congressman has pointed out, and as Senator O'Mahoney has indicated, so that you do not have to make judgments depending upon the amount of attrition that you will have to prepare for, or to go quickly back into the market after meeting the attrition and to compete on a short-term basis with what you have tried to put out on a long-term basis.

Those are the basic considerations.

Representative CURTIS. Thank you, Mr. Secretary.

Now, I would like to get into one other area.

On your estimations on Treasury revenues, you very properly pointed out that those estimates are very difficult to make and require a great deal of judgment.

What do you estimate is the margin of error over a period years? So what allowance do you put in there for this margin of error? How has it ranged in the past?

Secretary ANDERSON. It has been quite erratic in the past. The margin of error has been unexpectedly large and unexpectedly small. And I think that there is not a sufficient uniformity in the margin of error in previous years for us to take a factor that we would say would be calculated as a margin of error.

Representative CURTIS. I wonder have you ever prepared a chart just listing the two elements that you emphasized—the private income and the corporate income? Those are two factors that you use. Have you ever compared their estimates with what was their actuals, just to see what that margin of error has been?

If you have such a chart, I would like to have it. Or if you could prepare it. It would be a relatively simple one.

Say, take 1953, what the estimated corporate profits were; what the actual turned out to be; what the estimated individual income were; what the actual turned out to be. And then do it for the years succeeding, just to see what is it.

Secretary ANDERSON. We have such calculations going quite a way back and we would be glad to put it into the record.

(The information requested is as follows:)

Individual and corporate income tax receipts in a fiscal year are dependent for the most part on income levels of the calendar year ending within the fiscal year. Thus, income tax receipts in the fiscal year 1959 will be mainly based on incomes of the calendar year 1958.

The successive estimates of personal income and corporate profits for the calendar years 1952 to 1958 used in estimating individual and corporate income tax receipts for the fiscal years 1953 to 1959, as well as the actual income levels for each year as now published by the Department of Commerce, are shown below.

[In billions of dollars]

Calendar year of income	As estimated at the time of the budget document: Released at the beginning of the year	As estimated at the time of the budget document: As revised at the beginning of the following year	Actual as now published by the Department of Commerce
	Personal income		
1952	265.5	268.0	271.8
1953	275.0	284.8	286.0
1954	285.0	286.6	287.4
1955	298.5	302.5	305.9
1956	312.5	325.5	326.9
1957	340.0	343.0	(1)
1958	352.0	(1)	(1)
	Corporate profits before tax		
1952	46.6	41.0	35.9
1953	43.0	44.5	37.0
1954	42.6	36.5	33.5
1955	36.4	43.0	42.5
1956	43.0	43.0	43.0
1957	44.0	42.0	(1)
1958	42.0	(1)	(1)

1 Not available.

Representative CURTIS. I think that would be interesting because I think everyone recognizes the difficult job it is to make these estimates. And of course it is essentially a matter of judgment.

Now, one other point on this: You have stated that none of the Economic Indicators that we have of gross national product or national income actually have served too well or do serve to guide you in making these estimates.

Do you know what, if anything, is being done to try to put together groups of statistics that might give you better estimates?

Secretary ANDERSON. I could not speak precisely to the specific efforts which are being made. I am aware that the staffs of the Treasury and Commerce and Labor and others are constantly working at the basis upon which these data are accumulated in order to make them more meaningful.

As I indicated before, the final determinant really comes after the tax has been collected; and calculations are made quite long after the expiration of the year. So that we are relying upon estimates to make estimates.

Representative CURTIS. One area, for example—and this is just a small area—but what is the effect of industrial concentration in a particular segment of the economy on the tax revenues?

I have a theory that is unsubstantiated; but as a concentration in a particular industry becomes greater, the tax revenues, corporate tax revenues, decrease.

I can give many reasons why that would occur if it really does occur. But it would be quite interesting to know if there is any relationship between the two. And another area that I have constantly requested the Treasury to work on this whole complex subject and told the Ways and Means Committee of my concern with it. It isn't just tax rate. We can actually get a rate so high that we are beyond the point of diminishing returns.

And in trying to make those estimates we have to get into some of the economics of these things.

It seems to me it is in those areas that we are going to do a better job in making these estimates that we are attempting to make. And each time we have a budget, we have to make them, as to what will be our income for the ensuing year.

Secretary ANDERSON. I wouldn't have any statistical data at this moment which I think would reflect upon the specific question you raise as to the impact of concentration within an area or an industry upon tax collections.

I agree wholly that in our country one of our problems is to try to develop more meaningful data and to get the data more quickly. This is a problem that we have to work at.

Representative CURTIS. Yes.

Well, I appreciate your saying that. I am going to go on to finish by just one comment. I have raised it before. But I am very disturbed to see cut out of the budget this year about $166,000 of the Bureau of Internal Revenue which they were using to measure some of these statistics, particularly in the area of depreciation under our new depreciation schedules, as set up in the 1954 Code.

Now, it is that kind of information in that area that we don't have that is going to affect your estimates. Or we are going to be more ignorant than we are now. I am very hopeful we won't cut in those areas. I think that is uneconomical.

Secretary ANDERSON. We are continuing accumulation of that data both in the national offices and in the field.

Representative CURTIS. I know that. I have just received a report from the Treasury.

Thank you, Mr. Chairman.

(The report referred to follows:)

DEPRECIATION METHODS—CORPORATION INCOME TAX RETURNS

Under the Internal Revenue Code for 1954, corporations were allowed to claim types of accelerated depreciation, in addition to the straight-line method. Beginning with returns for the accounting period ended in December 1954, a new schedule was printed on Form 1120 for the total depreciation claimed, classified by the following methods: Straight-line, decline-balance, sum-of-the-years digits, and units of production. In connection with the preparation of the annual "Statistics of Income," the Statistics Division of the Internal Revenue Service attempted to assemble these new depreciation methods data by industry groups and by sizes of total assets. To date, the results from a sample of unaudited returns have been unsatisfactory for both research and publication purposes.

1. Information from 1954 and 1955 returns—All active corporations

Since a summary of depreciation claimed by methods is not required for the computation of the income tax, many corporations do not report this information on their income tax returns. For 1954, this nonresponse was widespread among corporations of all sizes, and there was little improvement for the second year for which the schedule appeared on Form 1120.

For 1955, only 494,000, or 62 percent, of the 807,000 active corporations reported depreciation methods data either on the tax form itself or on lists attached to the form. The 1955 account of depreciation claimed, for which methods could be determined, equaled nearly $10 billion. This figure, which should represent total depreciation claimed, is low, as it is less than the $13 billion claimed as a deduction on line 26 of the return. Actually, the correct figure should exceed $13 billion, which does not include depreciation used in cost of goods sold, cost of operations, and possibly other items on the tax return.

2. The 1956 tabulation—Large corporations

As a result of the experience with the 1954 and 1955 returns, a tabulation of depreciation methods reported by only the largest 1956 corporations is in process. In general, these corporations have total assets over $50 million.

Under this arrangement it is expected that the Statistics Division of Internal Revenue Service will examine about 1,000 corporate returns of which perhaps 200 will not contain, when initially submitted, the necessary information about depreciation methods. It is planned to have Internal Revenue Service agents in the district offices follow up with those taxpayers which do not provide sufficient information on the forms 1120. It is recognized that this followup may be slow, since this work does not carry top priority among field assignments. Tables showing 1956 data for this group of largest corporations should be available in the fall of 1958.

3. The 1957 program—All active corporations

Because of the continuing need by the Congress, the President's Council of Economic Advisers, the Department of Commerce, and private research organizations, as well as ourselves, for depreciation methods data for all classes of corporations, it is now planned to try the tabulations again for 1957. These depreciation methods data, prepared from a sample of unaudited returns, will be classified by industry groups and size of total assets—as they were for 1954 and 1955.

Senator SPARKMAN. Senator Douglas?

Senator DOUGLAS. The estimate was sent to Congress on January 13; the Economic Report on January 20.

It had been sent in printed form to the President a few days prior to that, I think in each day, on January 16 and January 17. The printing of it had taken some time before then. Finally proofsheets had been collected for an earlier date. And the estimates were made based on figures no later than December, and probably in many cases, November, with the December figures dumped in after the report was underway.

Now, therefore, a month or more since the information upon which the budget report was prepared, a number of things have happened.

I think everyone admits that employment and production have fallen off.

I now want to ask if in view of the additional month of experience which you have had, you still think that the receipts of the Government will be approximately as were estimated in the budget?

Secretary ANDERSON. Senator Douglas, as we have indicated, we tried to take into consideration at the time that the budgetary figures were being made that we were going through periods in which there were restricting evidences.

There have been changes of degree, as you very rightly pointed out. We continue to believe that the estimates are reasonably good. We recognize the changes that have taken place since the budgets were made. But we do not believe that sufficient change or time has lapsed to cause us to make new estimates.

Senator DOUGLAS. In other words, you still stand on the estimates which were made earlier?

Secretary ANDERSON. We still believe they are reasonable, yes.

Senator DOUGLAS. For the sake of the record we should put the statements which you made on page 884 of the big Budget, in the record at this point.

A rise in personal income is expected to increase receipts from individual income taxes by $1,300 million, to $38,500 million, in 1959.

Virtually unchanged receipts in corporation income taxes for the fiscal years 1958 and 1959 reflect the assumption that corporate profits will be about the same in the calender year 1958 as in 1957.

So this is still the assumption of the administration on the 7th day of February 1958.

Secretary ANDERSON. Yes, we still believe they are reasonable.

Senator DOUGLAS. In other words, that the recession is of very minor proportions, and that there will be virtually full recovery by the middle of the year.

Secretary ANDERSON. I think, Senator, if I may, in my statement which I believe Senator Douglas was not here on——

Senator DOUGLAS. Well, you stated on page 7, you assumed an increase of $9 billion in personal income.

Secretary ANDERSON. That is correct.

Senator DOUGLAS. And corporate profits?

Secretary ANDERSON. We still believe it is reasonable, yes.

Senator DOUGLAS. May I point out that I believe the figure for personal income for December was at the rate of $343 approximately—or rather three-hundred-and-forty-two-and-a-fraction billion dollars for the year?

Now, if we get an average of $352 billion for the year as a whole and assuming an increase during the period you will have to have personal income at the end of the year of $363 billion, or increase in rate of $20 billion during the year.

Secretary ANDERSON. Well, as I indicated earlier, tax receipts don't always vary in the same way as personal income. Of course the longer that a resumption is delayed, the faster it would have to take place to meet our assumed totals.

We think it is too early in the year to spell out particular monthly patterns.

I would like to point out, for example, that there have been times in the past when there have been some very rapid increases—from July 1954 personal income rose from $285.9 billion, to $305.1 billion in 1955, which was a period of 12 months. This increase of $19.2 billion would be the equivalent to a rise of $23 billion if it were adjusted to present higher income levels.

Senator DOUGLAS. In other words, you are still expecting the recession of 1957–58 to follow the pattern of the recession of 1953–54; so that if we had this recovery in 1953–54, we will have a recovery in 1957–58.

Secretary ANDERSON. Senator Douglas, I would say that our calculations are a little more general than trying to relate them to specifically those periods.

Senator DOUGLAS. You just cited this as an example.

Secretary ANDERSON. Yes, I do cite it as an example. We recognize, of course, that there are in each period of cyclical movements some differences between the preceding ones. And perhaps in this current one we have more a problem of capital formation than we had in the 1953 year. It is neither wholly one way or the other.

Senator DOUGLAS. We have had now, something like 15 economists from all walks of life appear before us, and I think almost without exception they agreed that this is not merely an inventory recession, but that it is also largely caused by an appreciable decrease in the rate of capital investment. It is a capital-goods recession too.

I have been checking with my friends in New York and in the investment market. And they tell me that the investment estimates of business have been scaled down in the last 2 months below what they thought they were going to invest at the end of the year 1957, and that this process of scaling down is going on, not so much necessarily in the cancellation of investments, but in the spreading out of investments.

And therefore, the diminution in the amount of capital goods purchased in any period of time.

Now, if there is one fact that has emerged from these hearings upon which people of various groups and differing political complexions seem to agree, I would think it would be this: I know no one likes to admit publicly that they have overestimated; but it would be very humiliating, Mr. Anderson, if you have to come back before Congress adjourns and ask for a raise in the debt limit once again. I may say I am going to vote for an increase in the debt limit to $280 billion. But I beg you don't force us to do this twice. If we are going to do it, do it enough the first time and give yourself enough leeway.

I think you are really heading for the rocks, myself.

Representative CURTIS. Will the gentleman yield?

Senator DOUGLAS. Certainly.

Representative CURTIS. Because you stated a general conclusion of what we heard. We have some area of agreement, Senator; but I do not—I didn't reach the same conclusion at all from these witnesses.

Senator DOUGLAS. I think there has been one witness who testified to the contrary.

Representative CURTIS. No, no. I don't think the witnesses—the conclusion I drew from it is quite different from the conclusion you have drawn.

Senator DOUGLAS. You think it is still an inventory recession.

Representative CURTIS. Here was the point I was making. It is simply that we were at such a high peak of capital investment and there has been some slack off, but we are still at an unusually high peak.

Senator DOUGLAS. Well, how much of a decrease would you have to have, Mr. Secretary, before you revise your estimates? Suppose you were advised that unemployment in January amounted to 4.2 million, and that you had the equivalent of an additional million, 1.2 million, who were working involuntarily part time. Two people working half time is equivalent to one unemployed person. So you had a total, therefore, of well over 5 million. Would you say this is an indication that you should revise your budgetary estimates of receipts, or would you still hold fast to what you said earlier in January?

Mr. ANDERSON. Senator Douglas, I realize that we are dealing with a situation in which reasonable men might very well reach different conclusions. My own feeling is that there have not yet occurred sufficient changes to justify significant modification in our assumptions. I would be very frank to say that I would not be surprised to see even more bad news in certain of the sectors of our economy. These are the sorts of things that we have to take into account. Also, our month-to-month fluctuations in tax receipts are erratic, and the whole pattern of tax collections over the years by months differs. So I would think that we simply have to not try to select a particular time but to accumulate a body of evidence.

Senator DOUGLAS. You see what has happened in the month since the budget was submitted. The director of the employment office in the country appears and asks for an emergency appropriation of some $76 million merely to process the larger number of cases of the unemployed applying for benefits. Now, if that had been foreseen by the administration it would have been included, I am sure, in the budget. But now Mr. Goodwin comes forward some days ago, and with his testimony which was published yesterday says he wants $76 million more to hire staff to process this additional number of cases of unemployment insurance. In other words, the changing conditions are beginning to show up in a request for appropriations merely to handle the increased unemployment. Now, the benefits, of course, amount to only about a third of the wages. Mr. Anderson, we don't like to have you go down in history as the man who lived too long in a fool's paradise.

Mr. ANDERSON. Senator Douglas, I am fully aware of the great hazards that accrue in the budgetmaking process, and as I said earlier I would feel much happier if I could make them in a range rather than the other sort of thing. I, of course, am not an expert in the field of labor and unemployment. I do think that we have to make certain analyses. For example, even in peaks of prosperity, as I recall, in about 1955 and 1956, about 2½ million people were unemployed. We have now the question of labor mobility in our country, and it is important I think to see how long people have been unemployed and how much of it may be attributable to other factors. This is the sort of thing that I am not an expert in. I am quite frank to say to you, Senator Douglas, that I will not be surprised by some additional bad news as well as encouraging factors in the short run. I recognize the importance of these months. I am simply pointing out that rather than trying to select a given factor which we would now say is enough to cause us to reexamine our estimates, that is the sort of thing that we have to keep careful watch on and have a willingness to do it under the circumstances.

Senator DOUGLAS. Suppose next Monday or Tuesday the Census Bureau announces that in their judgment 4.2 million persons in the country are completely unemployed, and of course you have to add to that the involuntary part-timers. Would you regard that as sufficient evidence to redo your budget figures?

Mr. ANDERSON. I would not like to think there was any single statistical percentage or critical indicator which made it necessary.

Senator DOUGLAS. You read the Wall Street Journal. Carloadings are down compared with a comparable period last year. You know what is happening to the volume of production in the various major industries in the country. You know the new automobile models have not caught on, that the salesrooms of the agents are filling up with new models, when they have not disposed of all the 1957 models. You know that in what should be the busy season in the automobile industry some of the plants are on part time. You know that the fabricating plants are operating at reduced capacity. You know all these things. So it is not merely an unemployment figure that I throw at you; it is a complex of what is happening to industry. It is a slowdown in industry. And yet you say that you still think that the estimates which you made in good faith along the first of January are true?

Senator O'MAHONEY. Will the Senator yield?

Senator DOUGLAS. Certainly.

Senator O'MAHONEY. Yesterday I received a telegram from an automobile dealer in Massachusetts who was criticizing the testimony of Harlow Curtice, the head of General Motors Corp., before the Subcommittee on Antitrust and Monopoly. Mr. Curtice had said in response to a query of mine that the position of the General Motors distributors throughout the country was very good. The gentleman from Massachusetts, a dealer in General Motors cars, said to me that Mr. Curtice was sadly mistaken, and in the past week to his knowledge four General Motors dealers had closed their doors in the narrow area of Massachusetts. This is a condition which the National Association of Automobile Dealers reports to be true for the whole country. The average of the automobile dealers in the whole country is that their profits have fallen to a margin of about 1 percent, indicating what you have just said about the national scope of this tough situation.

Mr. KILBURN. Will the Senator yield?

Senator O'MAHONEY. Yes.

Mr. KILBURN. Do you not think that part of that is due to the fact that automobile manufacturers made their cars too long and too big?

Senator DOUGLAS. I have said that for a long time, but it is other factors as well, not merely misjudgment.

Senator O'Mahoney. Mr. Curtice told us that it was public demand that was making them so long, so big, and so wide.

Senator Douglas. Mr. Anderson, as a citizen and not as a Senator, I well remember the oncoming of the slump that started in October 1929. I remember the reassuring statements that were constantly issued from the White House by Mr. Andrew Mellon. Of course, we hope that nothing like that will happen again, thanks to the legislation which was passed during the democratic administrations. If it happens it will be less, but I would hate to have you go down in history as another Andrew W. Mellon, even Ogden Mills.

Mr. Anderson. I realize the full hazards of our present situation. I would only indulge the hope that my judgments would be considered as reasonable ones.

Senator Douglas. Hope is a very blessed thing, and we should not banish it from life, but there is such a thing as having too heavy a dose of it, Mr. Anderson.

Mr. Anderson. Senator, you referred earlier to the Wall Street Journal. The Wall Street Journal yesterday pointed out that the construction in January reached a new high. We have also been examining such things as the visible supply of municipal securities, which for the week ended January 31 was $550 million and a year ago was $260 million. The floating supply was about $258 million this January, and about $140 million a year ago. The Bonds Buyer has suggested that the first full week of February looms as a part of a sensational week if all of the issues which are projected come out on schedule. There are other industries which I think have plans for expansion, particularly in the utility field, rugs, chemicals, and some of the others, and I know very well that the equal balancing of exactness in a field of complexity such as ours is a most difficult one.

Mr. Kilburn. Would the Senator yield once more?

Senator Douglas. Surely, Clarence.

Mr. Kilburn. Do you not also hope, Senator, that you do not have another recession like we had in 1937 under the democratic administration, which was bailed out by the war?

Senator Douglas. I certainly hope we do not have such a recession, of course. We do not want a recession of any kind, but I was just saying to my good friend here that I am trying to save him from what may be a disastrous administration if he persists in the attitude which the administration seems to have as a whole. I am really trying to be his best friend.

Mr. Anderson. Senator, I am grateful for your help, and I hope that I may be saved by a willingness to reexamine problems realistically from time to time.

Senator Douglas. At periodical times we will bring new facts to your attention and ask for a reexamination.

Mr. Anderson. Thank you, sir. It will be helpful.

Senator Sparkman. Mr. Talle.

Mr. Talle. Thank you, Mr. Chairman. At the outset, I want to thank you, Secretary Anderson, and Mr. Baird for their statements, and I will say to you what I said to Secretary Snyder several years ago, and your predecessor, Mr. George Humphrey—that I will not with intent say or do anything that will rock your boat, because I think you have undertaken as difficult a task as any Secretary of the Treasury ever undertook to perform since 1789.

Mr. Chairman, may I have permission to insert in the record a letter addressed to me by a member of the panel who appeared last Tuesday, Emerson P. Schmidt, director of economic research, chamber of commerce. He was invited to supply additional information. This is not a long letter, and it does pertain to his testimony.

Senator SPARKMAN. Would you like to have that inserted at that place in the record where the colloquy took place?

Mr. TALLE. Wherever you believe appropriate.

Senator SPARKMAN. Without objection, it will be inserted.

(The letter referred to appears at p. 306).

Mr. TALLE. Can someone inform me as to the percentage of unemployment at the present time of the civilian labor force?

Mr. ANDERSON. The unemployment figures that Mr. Mayo hands me are 5 percent for the month of December.

Mr. TALLE. What I am looking at is the unemployment as a percent of the total civilian labor force.

Mr. ANDERSON. Yes. This table shows unemployment as a percent of the civilian labor force.

Mr. TALLE. I am looking at the figures from 1946 down the line, and now I would like to address myself to my friend, Senator Douglas, whom I hold in high esteem. I want to say that Professor Douglas was on the faculty of the University of Chicago, when I was a graduate student there.

Senator DOUGLAS. One of my best students.

Mr. TALLE. Unfortunately, I worked in fields that did not bring me in constant contact with him, but he was very popular on that campus. I do not mean to be unfriendly to you, Senator, but I would just like to quote a little statement from your book.

Senator DOUGLAS. Sure. You have quoted it many times.

Mr. TALLE. This was in 1952, and the title of the book is "Economy in the National Government." Here is the quotation:

> I submit as a rough judgment that probably we should not run a governmental deficit unless unemployment exceeds 8 percent, and indeed possibly slightly more than that. When unemployment is between 6 and 8 percent, the governmental budget should at least balance and therefore be neutral in its effects. When unemployment is over 8 percent, we should have a deficit, but when it is under 6 percent there should be a surplus.

Do you stand by that, Senator?

Senator DOUGLAS. Almost but not wholly. In the first place, I would like to point out that the percentage of unemployment should include not only those totally unemployed but also the equivalent of those suffering from part-time unemployment. As I have said earlier, 2 part-time persons will be the equivalent of 1 unemployed person. Now your percentage of unemployment for December was 5.2 percent. We have been computing privately for years the equivalent of part-time unemployment, and that came to a million additional persons, or approximately 1.3 percent of the total working force, raising the real unemployment figure for December to 6.5 percent. As I have said, we are getting close to the danger point. Now if we find the 2 ingredients of unemployment around 7.5 percent for January, then I think it is about time for the Government to take corrective steps.

Mr. TALLE. Thank you, Senator. I do not want to place this material in the record if you do not so desire.

Senator DOUGLAS. I would be very glad to have you do so. Mr. Chairman, I ask that it be placed in the record.

Senator SPARKMAN. That has already been done.

Senator O'MAHONEY. Mr. Chairman, I would like to address a query either to Professor Douglas or to student Talle. When was this book written?

Mr. TALLE. 1952. That is the publication date.

Senator DOUGLAS. I think that probably I may have set too rigorous a standard. Beveridge in England set a standard of 3 percent, and that is altogether, I think, too low for the United States, because of the fact that they have a very low rate of seasonal unemployment and very low rate caused by geographical shifts of population and other shifts of population. Probably if I were to rewrite the book I would reduce the figure from 8 perhaps down to 7½ or 7. But I want to point out that if you take in the equivalent of part-time unemployment you are very close to that figure now, if not about at it.

Mr. TALLE. In this supplemental material there is also a quotation from a Swedish economist. It is not my purpose to single out Senator Douglas.

Senator DOUGLAS. I am perfectly willing to stand on what I have said, and if I have made an error correct it. I thank you for bringing this out.

Mr. TALLE. Thank you, Senator.

Mr. KILBURN. Will you yield? I think it is one of the great opportunities in serving on this committee to be a student of Professor Douglas.

Senator DOUGLAS. I hope I can convince you when additional facts come in as to what should be done.

Senator SPARKMAN. May we proceed with the questioning.

Mr. TALLE. Mr. Anderson, I congratulate you on your suggestion that we should have tax simplification.

Mr. ANDERSON. Thank you, sir.

Mr. TALLE. That is a suggestion I intend to convey to those who manage the State income tax matters in my own State. It is needed there, too.

It would be an advantage, would it not, if your marketable debt could be set up on something approaching a serial basis, so that large blocks did not fall due on a certain date?

Mr. ANDERSON. Congressman, I think we are talking about the same thing. I think of it in terms of balance, so that you have not such a large accumulation in short-term debt which grows just with the passage of time, particularly if you do not from time to time make some extensions. We realize that the frequency with which we have to go to the market, as well as the volume with which we go to the market, does interfere with private businesses and other types of financing, so that it is a worthy objective to get some balance.

Mr. TALLE. In the case of your predecessor, perhaps the first visitor who knocked on his door was a creditor who carried in his pocket over $80 billion in c. o. d.'s. That was a pretty tough greeting to get as he stepped into office, was it not?

Mr. ANDERSON. I do not know the incident.

Mr. TALLE. Refinancing of something over $80 billion.

Mr. ANDERSON. You are referring to the unexpended balances?

Mr. TALLE. I refer to matured debt that required refinancing.

Mr. ANDERSON. Yes, sir.

Mr. TALLE. Next, is refinancing costly?

Mr. ANDERSON. Is refinancing costly?

Mr. TALLE. Yes.

Mr. ANDERSON. The cost, of course, depends largely upon conditions as they exist at one time as to whether or not you pay more or less for the money which you refinance.

Mr. TALLE. I was wondering about the cost of handling, the entire process of issuing new securities for old.

Mr. ANDERSON. The mechanical part of it, yes, is a burden.

Mr. TALLE. Therefore, it would be advantageous if you could have longer term securities?

Mr. ANDERSON. I think it would be advantageous for many reasons.

Mr. TALLE. And set up on a serial basis?

Mr. ANDERSON. Yes.

Mr. TALLE. That is something that probably cannot be done perfectly—but in my mind the idea is very good.

Mr. ANDERSON. When we enter into a financing arrangement, one of the factors which we consider in placing the due dates of new securities is the volume of money which we project will be due because of other issues in this area, and so as to get them, as the Congressman has indicated, on something like a serial basis that does not concentrate your problem more than you have to in a certain year or in a certain period of the year. We select our maturing dates with this in mind.

Mr. TALLE. I can understand the reason for the short-term debt because that is associated with the fact that taxpayments do not occur evenly throughout the year, but short-term lending can become bad. I remember some years ago England got in trouble. She incurred obligations in large sums, all of which were short term, or nearly all, and then she made some loans on a long-term basis which she was not able to collect and got into a nasty position because of it.

Mr. ANDERSON. Short-term debt always presents hazards.

Mr. TALLE. Yes; and I thought perhaps the cost might be appreciable.

Mr. ANDERSON. I think it is appreciable, because take this year. We are going to have to roll over four times $22 billion in securities.

Mr. TALLE. I will not take more time. Thank you.

Senator SPARKMAN. Senator O'Mahoney.

Senator O'MAHONEY. I should like to have inserted in the record at the conclusion of the examination of Mr. Baird, table F–48 from the President's Economic Report, page 171. This table shows the United States Government debt by kind of obligation from 1929 to 1957. It shows, for example, that the national debt in 1950 was $256,700 million. In 1952 it had risen to $267,400 million, and it has continued rather generally to rise ever since, varying between figures like $280,200 million and $275 billion as of December 1957. This last estimate is covered by a note saying:

Of this amount, $274,600 million was subjected to the statutory debt limitation of $275 billion.

There are additional columns in this table which show the kinds of marketable and nonmarketable issues held by the Government, and special issues. The table is very significant in revealing what the national debt situation is. And again I say, as I did to Secretary Anderson while I was interrogating him, that in my judgment the United States has the competence of carrying a much higher national debt than it has been carrying and that much of our difficulty sprouts from the fact that until the change of administration in the Treasury Department and in the Department of Defense the Government was following a policy of trying to carry on within the ceiling, whereas expenditures that had to be made were driving it constantly above the ceiling. They should have made a request for an increase in the ceiling of the national debt much earlier than they did, and there should have been, in my judgment, a much more cooperative system of managing the public debt between the Treasury Department and the Federal Reserve Board.

Senator SPARKMAN. You asked for permission to insert something in our printed record, did you not?

Senator O'MAHONEY. That is right.

Senator SPARKMAN. Without objection, that will be done.

21111—58——29

(The material referred to is as follows:)

GOVERNMENT FINANCE

TABLE F–48.—*U. S. Government debt, by kind of obligation, 1929–57*

[Billions of dollars]

End of period	Gross public debt and guaranteed issues [1]	Interest-bearing public debt: Marketable public issues: Short-term issues [2]	Interest-bearing public debt: Marketable public issues: Treasury bonds	Interest-bearing public debt: Nonmarketable public issues: United States savings bonds	Interest-bearing public debt: Nonmarketable public issues: Treasury tax and savings notes	Interest-bearing public debt: Nonmarketable public issues: Investment bonds [3]	Interest-bearing public debt: Special issues [4]
1929	16.3	3.3	11.3	—	—	—	0.6
1930	16.0	2.9	11.3	—	—	—	.8
1931	17.8	2.8	13.5	—	—	—	.4
1932	20.8	5.9	13.4	—	—	—	.4
1933	24.0	7.5	14.7	—	—	—	.4
1934	31.5	11.1	15.4	—	—	—	.6
1935	35.1	14.2	14.3	0.2	—	—	.7
1936	39.1	12.5	19.5	.5	—	—	.6
1937	41.9	12.5	20.5	1.0	—	—	2.2
1938	44.4	9.8	24.0	1.4	—	—	3.2
1939	47.6	7.7	26.9	2.2	—	—	4.2
1940	50.9	7.5	28.0	3.2	—	—	5.4
1941	64.3	8.0	33.4	6.1	2.5	—	7.0
1942	112.5	27.0	49.3	15.0	6.4	—	9.0
1943	170.1	47.1	67.9	27.4	8.6	—	12.7
1944	232.1	69.9	91.6	40.4	9.8	—	16.3
1945	278.7	78.2	120.4	48.2	8.2	—	20.0
1946	259.5	57.1	119.3	49.8	5.7	—	24.6
1947	257.0	47.7	117.9	52.1	5.4	1.0	29.0
1948	252.9	45.9	111.4	55.1	4.6	1.0	31.7
1949	257.2	50.2	104.8	56.7	7.6	1.0	33.9
1950	256.7	58.3	94.0	58.0	8.6	1.0	33.7
1951	259.5	65.6	76.9	57.6	7.5	13.0	35.9
1952	267.4	68.7	79.8	57.9	5.8	13.4	39.2
1953	275.2	77.3	77.2	57.7	6.0	12.9	41.2
1954	278.8	76.0	81.8	57.7	4.5	12.7	42.6
1955	280.8	81.3	81.9	57.9	(5)	12.3	43.9
1956	276.7	79.5	80.8	56.3	(6)	11.6	45.6
1957	[7] 275.0	82.1	82.1	52.5	(6)	10.3	45.8
1956—January	280.1	81.4	81.9	57.6	(5)	12.2	43.6
February	280.2	81.4	81.9	57.7	(5)	12.2	43.7
March	276.4	77.6	81.9	57.7	(5)	12.2	43.7
April	275.8	77.7	81.8	57.7	(6)	12.1	43.4
May	276.8	77.7	81.8	57.7	(6)	12.0	44.3
June	272.8	73.1	81.8	57.5	(6)	12.0	45.1
July	272.7	73.1	81.8	57.4	(6)	12.0	45.4
August	275.6	75.5	81.8	57.3	(6)	11.9	46.1
September	274.3	75.5	80.8	57.3	(6)	11.9	45.8
October	275.4	77.1	80.8	57.1	(6)	11.8	45.5
November	277.1	78.9	80.8	56.9	(6)	11.7	45.7
December	276.7	79.5	80.8	56.3	(6)	11.6	45.6
1957—January	276.3	79.6	80.8	56.0	(6)	11.6	45.3
February	276.4	80.0	80.8	55.8	(6)	11.5	45.5
March	275.1	79.1	80.8	55.6	(6)	11.4	45.6
April	274.1	79.1	80.8	55.4	(6)	11.3	45.2
May	275.3	79.5	80.8	55.2	(6)	11.2	46.1
June	270.6	74.9	80.8	54.6	(6)	11.1	46.8
July	272.6	77.9	80.8	54.3	(6)	11.0	46.3
August	274.0	79.4	80.8	54.0	(6)	10.9	46.7
September	274.5	81.0	80.8	53.8	(6)	10.7	46.2
October	274.2	80.8	81.4	53.5	(6)	10.5	46.1
November	274.9	81.9	81.4	53.2	(6)	10.3	46.0
December	[7] 275.0	82.1	82.1	52.5	(6)	10.3	45.8

[1] Total includes non-interest-bearing debt, fully guaranteed securities (except those held by the Treasury), postal savings bonds, prewar bonds, adjusted service bonds, depositary bonds, and Armed Forces leave bonds, not shown separately. Not all of total shown is subject to statutory debt limitation.
[2] Includes bills, certificates of indebtedness, and notes.
[3] Includes series A bonds and, beginning in April 1951, series B convertible bonds.
[4] Issued to U. S. Government investment accounts. These accounts also held $9.4 billion of public marketable and nonmarketable issues on Dec. 31, 1957.
[5] Less than $50 million.
[6] The last series of Treasury savings notes matured in April 1956.
[7] Of this amount, $274.6 billion was subject to the statutory debt limitation of $275 billion.

Source: Treasury Department.

Senator O'MAHONEY. Let me ask the Secretary to look at page 7 of his statement. In the latter part of the page you say:

The economic assumptions underlying our revenue estimates in the 1959 budget, which was requested in your letter of January 20, are as follows:

Personal income was assumed to be $343 billion in the calendar year 1957 and $352 billion in the calendar year 1958. Corporate profits were assumed to be $42 billion in each of the 2 years.

It is clear from this statement, Mr. Secretary, that you have reported the estimate of budget receipts upon the assumption that there will be a $9 billion increase in personal income throughout the United States. Will you give us your reasons why you assume that increase of $9 billion in personal income, when you at the same time estimate that there will be no increase in corporate income?

Mr. ANDERSON. The assumptions, Senator O'Mahoney, so far as the personal income is concerned first, were based upon certain both long-term and short-term factors.

Senator O'MAHONEY. I beg your pardon?

Mr. ANDERSON. The assumptions so far as both were concerned were based upon certain long-term and short-term factors. For the long term, we were influenced by the fact that our population is growing at a rate of about 3 million per year, as I pointed out in my statement, making an addition about the size of the State of Kentucky in population; that we have in our country increasing demands for new products, new materials, for businesses, for homes, and that sort of thing; that we have in our country a very competent body of scientific and technological people in industry who are finding new ways of making things and new products; that our history has been characterized by growth and progress through the changes that occur; that we have on the part of our people a desire not only to improve their own standards of living but to expand their opportunities for their children; the fact that our labor force has been growing, and not only has the labor force been growing but its productivity has been growing, in the nonfarm area about 3 percent per year, in the farm area even larger; on the belief that as we go through these periods of ups and downs the monetary authorities and other agencies of the Government will be trying to provide a flexibility in the monetary system and to live up to the responsibilities of the Employment Act of 1946.

For the short-term period, we believe that short-term readjustments are already taking place, and some of them have taken place. Inventory reduction has put better balance in some lines of industry and output; personal incomes, despite our downturn, have held up reasonably well; total income and total retail sales in December were something over last year; there has been a slight upturn in residential housing; there will be additional contracting by agencies of the Government, the Department of Defense rather substantially, the highway projects, and others; business plans for fixed investments in calendar 1958 are higher than in any recent years except for 1956 and 1957, which were the record years. And of course there is always this very important and very intangible quality of our economy, and that is the confidence of the people, the willingness of the people to exert their best efforts in a system of competitive enterprise.

Now, we realized that we had to take into account conditions as they then existed, which were not as good as had existed earlier. And so if you look on the next page—I believe it is on page 9, Senator O'Mahoney—the estimated increase in individual income tax for 1958 over 1957 is 1.6 billion. The increase for 1959 over 1958 is 1.3. We looked back at the years of 1956 and 1957, where the increase was 3.4. We thought it reasonable to believe that the total increase for the 2 years of 1958 and 1959 of $2.9 billion, being less than any one of those previous years, was a reasonable and justified assumption for our economic system; that as we looked at the suggested increase of $9 billion for the personal income for 1958, and that this was about a half of the annual increase in preceding years, that they were reasonable judgments.

We talked with staffs of people in the Commerce Department and in the Federal Reserve System in order to try to say to ourselves, "Are these reasonable and valid assumptions?" We recognized that they have to be judgments, and these, sir, are the judgments we made and for the reasons which I have outlined.

Senator O'Mahoney. Of course, they do have to be judgments, Mr. Secretary, but I still don't understand why, with all of this glowing picture that you have made of the ability of our economy, of business increase, of increased activity, of much better conditions, the glowing picture of the vitality of our economy, you estimate a $9 billion increase for 1959 for individual income but you see no increase in corporate income.

Mr. Anderson. We were influenced by the historical fact that despite the changes which took place in the years of 1955, 1956, and 1957, there was much less movement in corporate profits than in individual income. For example, the corporate profits before taxes in 1955 were $42.5 billion, in 1956 were $43 billion, and we have assumed $42 billion in 1957.

Senator O'Mahoney. Quoting from table F-56 on page 179 of the President's Economic Report—and, Mr. Chairman, I ask that that may be printed in the record at this point.

Senator Sparkman. Without objection, it will be done.

(The table referred to is as follows:)

Corporate Profits and Finance

Table F-56.—*Profits before and after taxes, all private corporations, 1929–57*

[Billions of dollars]

Period	Corporate profits before taxes	Corporate tax liability [1]	Corporate profits after taxes: Total	Corporate profits after taxes: Dividend payments	Corporate profits after taxes: Undistributed profits
1929	9.6	1.4	8.3	5.8	2.4
1930	3.3	.8	2.5	5.5	−3.0
1931	−.8	.5	−1.3	4.1	−5.4
1932	−3.0	.4	−3.4	2.6	−6.0
1933	.2	.5	−.4	2.1	−2.4
1934	1.7	.7	1.0	2.6	−1.6
1935	3.1	1.0	2.2	2.9	−.7
1936	5.7	1.4	4.3	4.5	−.2
1937	6.2	1.5	4.7	4.7	(2)
1938	3.3	1.0	2.3	3.2	−.9
1939	6.4	1.4	5.0	3.8	1.2
1940	9.3	2.8	6.5	4.0	2.4
1941	17.0	7.6	9.4	4.5	4.9
1942	20.9	11.4	9.5	4.3	5.2
1943	24.6	14.1	10.5	4.5	6.0
1944	23.3	12.9	10.4	4.7	5.7
1945	19.0	10.7	8.3	4.7	3.6
1946	22.6	9.1	13.4	5.8	7.7
1947	29.5	11.3	18.2	6.5	11.7
1948	32.8	12.5	20.3	7.2	13.0
1949	26.2	10.4	15.8	7.5	8.3
1950	40.0	17.8	22.1	9.2	12.9
1951	41.2	22.5	18.7	9.1	9.6
1952	35.9	19.8	16.1	9.0	7.1
1953	37.0	20.3	16.7	9.3	7.4
1954	33.5	17.4	16.0	9.9	6.1
1955	42.5	21.5	21.0	11.0	9.9
1956	43.0	22.0	21.0	11.9	9.2
1957 [3]	42.0	21.4	20.6	12.3	8.3
	Seasonally adjusted annual rates				
1955: 1st quarter	39.4	20.0	19.5	10.2	9.3
2d quarter	40.7	20.6	20.1	10.4	9.7
3d quarter	43.6	22.1	21.5	10.8	10.7
4th quarter	46.1	23.4	22.7	12.0	10.7
1956: 1st quarter	43.3	22.1	21.2	11.7	9.5
2d quarter	42.4	21.6	20.7	12.0	8.7
3d quarter	40.8	20.8	19.9	12.1	7.8
4th quarter	45.6	23.3	22.3	11.5	10.8
1957: 1st quarter	43.9	22.4	21.5	12.4	9.1
2d quarter	42.0	21.4	20.5	12.5	8.0
3d quarter [3]	41.8	21.3	20.5	12.6	7.9
4th quarter [3]	(4)	(4)	(4)	11.7	(4)

[1] Federal and State corporate income and excess profits taxes.
[2] $48 million.
[3] Preliminary; 4th quarter by Council of Economic Advisers.
[4] Not available.

Note.—No allowance has been made for inventory valuation adjustment. See table F-9 for profits before taxes and inventory valuation adjustment.

Detail will not necessarily add to totals because of rounding.

Source: Department of Commerce (except as noted).

Senator O'MAHONEY. I want to call your attention to the quarterly analysis of corporate income which appears just below the figures you have just read. For the year 1956, the first quarter corporate profits amounted to $43.3 billion, the second quarter $42.4 billion, the third quarter $40.8 billion, and the fourth quarter $45.6 billion. Now that increase in the fourth quarter is explained by the accounting practices that are followed by corporate taxpayers. They usually in the fourth quarter make adjustment for any mistakes in their own estimates for the first three quarters, and as a matter of fact it goes up. But despite that 45.6 figure for the fourth quarter of 1956 the total corporate income that year was $43 billion, as you have just said, and in 1957 the estimate that you have made is $42 billion, a decrease in corporate income of $1 billion. And yet you estimate that in spite of the decline which appears for the first 3 quarters of 1957, namely, $43.9 billion for the first quarter, $42 billion for the second quarter, $41.8 billion for the third quarter, that this steady progress of decline of corporate income will be reversed and that in 1959 corporate income will be about the same, while personal income increases $9 billion. Do you believe that there can be this divergence between individual income and corporate income?

Mr. ANDERSON. Senator O'Mahoney, let me call your attention to table F-12, on page 129. You will notice in the first column, despite the relative level of the annual rate of corporate income, the individual income increased rapidly. In 1955 it was $305.9 billion. In 1956 it was up $20 billion, to $326.9 billion. In 1957 it was up to $342.9 billion. Now in making the assumptions for the $9 billion, and taking into account the fact that you were dealing with some adverse circumstances at the time you were making the calculation, we made the assumption that the increase would not be as large as 1955, 1956, or 1957 but would be something less than half of it.

Senator O'MAHONEY. And yet, as Senator Douglas has pointed out, the Department of Labor does not seem to hold that optimistic view about an early reduction of unemployment.

Mr. ANDERSON. The Senator is quite right in the reference, and to Senator Douglas' statement as to the problem of some additional money which had been requested.

Senator O'MAHONEY. Would I be incorrect in making this statement: On the basis of your testimony now, to justify your estimates of personal income there would have to be a speedy drop in unemployment and a speedy increase in business activity.

Mr. ANDERSON. Senator O'Mahoney, may I express it this way. Historically—and I say again I am not an expert in the field of labor—I believe that it is normally so that the months of January and February and March present the greatest difficulties from the standpoint of labor. I would not be surprised that some increases in unemployment would show up for January. The calculations which we have had to make take into account a resumption of growth in 1958, extending into 1959, because in fiscal 1959, for example, one might expect, from calendar year 1959 incomes, between $11 billion and $12 billion to come from withheld taxes and some $3 billion to $4 billion to come from individual income taxes other than withheld.

Now I am fully appreciative of the Senator's problem, but as I spoke to Senator Douglas we have not yet tried to establish a monthly pattern because it is too early, I think, for us to make those kinds of calculations. This is a determination, I think, sir, about which reasonable and informed people might very well reach different conclusions in degree.

Senator O'Mahoney. That is one of the things that bothers me. The Secretary of Commerce, Mr. Sinclair Weeks, was quoted in the press a few days ago this year as saying that he felt that the business upturn which would bring an end to our worries would come by June or July. The technicians tell me that in making these forecasts of budget receipts, in order to obtain the figure of $352 billion for individual income it will be necessary to find that upturn taking place not later than March. What is your opinion?

Mr. Anderson. As I said to Senator Douglas earlier, it is very difficult to try to pick out a pattern of monthly operations. You go back historically and you can find quite wide movements in either direction. We are aware of the difficulty of the problem, but we also know that various combinations of month-to-month changes would still be consistent with the total. We have to give weight to what we collect in the 1959 calendar year, and the previous years' shifts have just been such that I find it very difficult indeed to try to say with preciseness that the movement must be along this kind of a formulization.

Senator O'Mahoney. Is it not a fact, Mr. Secretary, that if this $9 billion increase in individual income were to be recorded for 1959 that the upturn, if it did not come until June or July, would have to be almost astronomical in the last 6 months of the year to meet your estimate?

Mr. Anderson. Senator, we would not know, of course, what the current earnings are at this time. I would say certainly that the longer the chain of events takes place the more the upturn must be concentrated in order to sustain the validity.

Senator O'Mahoney. In asking these questions, of course, I hope you understand I am not at all trying to put you or anybody else on the spot. I think Congress is on the spot, and the administration, because we are faced with a fact and not a theory. If we are going to carry the burden which our country has assumed to win political and economic freedom for the people of the world, we have to be certain that the income of the Government shall not falter. Do you not agree with me on that?

Mr. Anderson. Senator, I share very much your concern and realize fully the weight of the responsibility which is not only on the Congress but which I feel very heavily myself. I realize again that well-informed people have differences of opinion. To be more precise it seems to me to require an assumption of being able to evaluate the factors which go into the production of something in the vicinity of $435 billion of gross national product at the present time. We can make an analysis of some of it. We use our statistical evidence as best we can. We recognize that with all of our tools there are lags. We realize that all of us in these periods have a responsibility of examining and reexamining the evidence constantly. We realize that we are dealing with certain intangibles, like the intentions of people, what causes and what motivates the intentions of people, and it is a great responsibility.

Senator O'Mahoney. I have not read the transcript of President Eisenhower's press conference this week, and numerous stories have been published about it, some giving one point of view and others another point of view. But I have seen some stories to the effect that the President suggested that it might be advisable to reduce taxes. Whether he actually made that suggestion I do not know, but may I ask you whether you believe that the administration is now contemplating any new policies designed to stimulate the activity of business and the reduction of unemployment?

Mr. ANDERSON. Senator O'Mahoney, I referred in my statement to the problem of taxation on page 11, sir, in which I said I had heretofore stated that I can conceive of situations where tax reduction might appropriately be brought into play in order to help the resumption of economic growth, but that it is our judgment that present conditions of the economy do not warrant such an action.

I think one has to be mindful of the fact that when such an instrument is used, there may very well be other shifts in the economy which would subsequently require reexamination or modification of the efforts which might be taken now, and that they ought to be used only after the most careful, the most exhaustive kind of an examination.

There are, I think, efforts being made toward the problem of increasing opportunities for employment. For example, in the General Services Administration there has been a relaxation of the previous concept of the interest which might be paid on lease-purchase buildings which would be built over the country. The highway program I think will move with some acceleration. The closing costs, attorney's fees, and other things are now being included in the lending ability for FHA housing. There is more available credit with which people can build. I think there is an awareness on the part of people in the Government that in the pursuance of their separate responsibilities in the departments we must bear in mind the charge that was given in the Employment Act to so conduct ourselves as prudently as we can as to afford these kinds of opportunities.

Senator O'MAHONEY. May I ask you if would care to comment upon the outlook in the domestic petroleum industry. I am receiving all sorts of letters and appeals from independent refineries and independent producers, and domestic producers of crude oil, that the situation is not improving and going from bad to worse.

Mr. ANDERSON. While I do not have at hand sufficient information to speak in authoritative detail, I too have been advised that inventory positions are quite high of both crude and finished products, and that the independent operators are experiencing difficulties in finding markets for all of their products that they would normally market.

Senator O'MAHONEY. I understand that some independent refineries in California have recently been compelled to close. There is great dissatisfaction with the voluntary restriction on imports program. You are aware of that, and it has just been announced that hearings will be held Monday on the applications of some 20 different units for the importation of oil, while the domestic producers of oil are urgently requesting that the voluntary plan be abandoned and that a more definite and specific law be passed to restrict the imports, all because they look with foreboding to the next few months in the oil industry.

Mr. ANDERSON. I do not myself, sir, know of the specific instances to which the Senator refers.

Senator O'MAHONEY. If the domestic oil industry is in a bad way, if the automobile industry is in a bad way, as was testified by the head of Chrysler yesterday; if the railroad industry is in such a bad way that it is asking for Government relief, if we find the glut in aluminum growing heavier all the time, do you think it would be out of bounds for me to request the Secretary to look at this estimate of receipts again and make an additional report to the committee on it, because we have to make a report to the Congress on the economic outlook?

Mr. ANDERSON. Senator O'Mahoney, I think that we all have to keep a complete awareness not only of the way in which we judge those factors of general application to our economy, but to have an awareness of those particular ones, such as those to which the Senator referred. I would believe that in the industries that you have referred to that we are concerned not only from an economic standpoint but as well from the standpoint of their various contributions to the national defense capabilities and potentials of this country. I do not now, sir, believe that there have been sufficient changes for us to justify any significant modifications of our current assumptions on a general basis. We are aware that not only at this time but that at other times there have been significant month-to-month fluctuations in which tax receipts are erratic and are the subject of margins of error in estimating. I do believe that we, for example, must also take into consideration the final determinations of this Congress as in the judgment of the Congress decisions are made from time to time. I would hope, sir, that I could at some later date, when the evidence has accumulated a little more, make the kind of reviews I indicated to Senator Douglas, which I think would be of much more value.

Senator O'MAHONEY. Mr. Chairman, I have lived with this Employment Act, which the Secretary has paid some grave respect this morning, and I trust that we shall be able to make recommendations to the Congress that will carry out the essential purpose. I hope, therefore, that perhaps before we are ready to publish our economic report we may have additional advices from the Secretary if the facts indicate that we should have such advices in his opinion, so that we may be guided by the best information we have from the Department of the Treasury as to what the receipts of this country will be as we go along through this very difficult year.

Mr. Chairman, I am very grateful for this opportunity.

Senator SPARKMAN. Mr. Kilburn.

Representative KILBURN. I would just like to say, Mr. Secretary, I am delighted that you came up here this morning. I know what a tough job you have had, and I hope that the Congress on both sides will try to be helpful in that difficult job within the limits of their understanding of your problem.

Senator SPARKMAN. Congressman Bolling.

Representative BOLLING. Mr. Secretary, on page 11 of your statement there is a paragraph, the first sentence of which reads:

> The power of taxation should always first be critically examined as an instrument to provide revenue for the Government upon the most equitable basis possible.

In connection with that and your further statements about the concern of the Treasury with regard to tax revision, it is clear that between three-fourths and four-fifths of the budget receipts are derived from individual income taxes and corporation taxes. Considering the amount of receipts derived from those two sources, and the word "equitable" in the sentence I read; I hope that you and your experts in the Treasury will analye the very interesting document which I have before me. It is an advertisement. It is called A Report from Prentice-Hall, Inc., addressed to the successful businessman who wants to acquire a fortune, and in it it says:

This report has been prepared for the successful businessman who wants to accumulate some real money, the man who wants something more than the $25,000 a year which most people call success.

It goes on to indicate a number of ways in which such an individual may, by using devices connected with taxes, (1) limit the tax rate to 25 percent—this happens to be through capital gains channels. I will not read it all. (2) Increase your take from the company; (3) use your family to cut your tax bill in two; (4) company profits can be credited to your personal account, tax free. This interests me very much, and I will read this particular one.

This one is bringing almost fantastic dollar accumulations. Under this plan a portion of each year's profits is credited to your account, tax free to you and tax deductible by the company. The money then accumulates earnings tax free from investments in other sources.

It goes on:

(5) Cut to a fraction the tax on dividends income; (6) the tax bonanza in the short-term trust; (7) go after tax-sheltered investments.

I do not want to be misunderstood. I am not suggesting I do not approve of the successful businessman acquiring a fortune, but in connection with the equity in our tax system it seems to me that this might be a very fruitful field for the experts of the Treasury and for the Committee on Ways and Means, and I merely commend it to your attention.

Mr. ANDERSON. Thank you very much, sir. As I indicated earlier, we are following the hearings before that committee and working with the technical staffs of both that and the Joint Committee on Internal Revenue Taxation to this very end. In addition, I should like to say I am personally very concerned about trying to get some simplification and understanding into our tax-reporting system, so as not to too much complicate the kinds of problems which go into your voluntary system.

Mr. BOLLING. I should think, sir, if I might add this one word, that the confidence of the ordinary taxpayer in the tax system might be rocked if he got the impression that some were able to enjoy advantages that everybody could not enjoy.

Mr. ANDERSON. That is correct, sir.

Mr. BOLLING. Thank you, sir.

Senator SPARKMAN. Mr. Secretary, I have many questions to ask you, but I am not going to ask them, since the hour is late. I do want to ask just this one thing. You indicated in your statement that as time moves along it may be necessary to do something. Are you able administratively to do much toward handling the tax situation so as to relieve any stress that comes at any time? There certainly is not much tax adjusting you can do, is there?

Mr. ANDERSON. No. I would think, sir, this is primarily a matter of legislation.

Senator SPARKMAN. Of course, it is hoped that Congress will get out rather early this year, this being a campaign year, and I assume it would not be desirable to call Congress back into special session. Do you advocate—and I have heard over the radio, I believe, that some members of Congress have advocated—a standby tax-reduction program?

Mr. ANDERSON. As I indicated in my statement, Senator Sparkman, I think that this current situation does not warrant our dealing with the situation by means of the fiscal instrument of taxation. I can conceive of circumstances where it might. I think that we ought to do it with reluctance, if that is the purpose, and only after the most careful examination. I do not have specific ways which I am prepared to recommend in that eventuality.

Senator SPARKMAN. I realized that you said that, but at the same time you said this other, that it may require adjustment, and I just wondered how that adjustment could come about if you could not do it administratively and Congress should not be in session at the time.

Mr. Secretary, we are certainly indebted to you and to the members who accompanied you. We appreciate the fine cooperation.

The next session of the committee will be on Monday at 10 o'clock, at which time we shall meet in Room 318 of the Senate Office Building. That is the caucus room. At that time there will be a panel of experts to discuss applications of the Employment Act of 1946 to the current situation and prospects.

The committee will now stand in recess until 10 o'clock Monday.

(Whereupon, at 12:25 p. m., the committee was recessed, to reconvene at 10 a. m., Monday, February 10, 1958.)

JANUARY 1958 ECONOMIC REPORT OF THE PRESIDENT

MONDAY, FEBRUARY 10, 1958

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

The committee met at 10 o'clock, pursuant to recess, in the Senate Office Building, room 318, Hon. Wright Patman (chairman of the committee), presiding.

Present: Representatives Patman, Bolling, Talle, Kilburn, and Boggs; Senators Douglas, O'Mahoney, and Flanders.

Present also: John W. Lehman, acting executive director.

Chairman PATMAN. The committee will please come to order.

Today's session concludes a series of 10 days of hearings in which the committee has been gathering material and viewpoints preparatory to our annual report upon the President's Economic Report.

During these proceedings we have found much food for thought which will reserve consideration during our deliberations. This panel of experts has been chosen with a view to giving us in summary form the thinking and ideas of experts as to what changes they believe are desirable in Government economic policy for the year ahead.

The Employment Act declares it to be the policy and responsibility of the Federal Government to utilize all of its plans, functions, and resources for the purpose of creating and maintaining maximum employment, production, and purchasing power in the framework of the free competitive-enterprise system. We commonly refer to these objectives as the maintenance of economic stability and continuing growth in the economy.

In a dynamic economy such as we have and wish to preserve nearly every annual stocktaking presents new and challenging problems. This year is surely no exception and we are all necessarily disturbed about the recession of the last few months and are even more concerned about its depth and duration in the months ahead.

I am sure that the members of this distinguished panel can help Congress and the Nation through the forum of this committee to decide what needs there are and what ought to be done about the present economic situation.

We have today, Mr. Roy Blough, professor of the Graduate School of Business, Columbia University; Mr. Yale Brozen, professor, department of economics, University of Chicago; Mr. Lester V. Chandler, professor of the department of economics and sociology, Princeton University; Mr. John Kenneth Galbraith, professor of economics, Harvard University; and Mr. Ralph J. Watkins, director of economic studies, Brookings Institution.

We are delighted to have you gentlemen. It is very nice of you to participate in this forum. We know we will benefit from your views and suggestions, and we will now commence by calling on Mr. Blough first.

Mr. BLOUGH. Mr. Chairman, I appreciate very much the invitation of the committee to appear before it. I would like to read a brief opening statement, if I may.

Chairman PATMAN. Certainly, sir.

STATEMENT OF ROY BLOUGH, PROFESSOR, INTERNATIONAL BUSINESS, GRADUATE SCHOOL OF BUSINESS, COLUMBIA UNIVERSITY

Mr. BLOUGH. There is scarcely any aspect or viewpoint concerning the President's Economic Report or the economic outlook that has not been presented to your committee in the course of your hearings. I shall limit my remarks to emphasizing a few points.

First, it seems to me that the present recession should be taken more seriously than either the recession of 1949 or that of 1953. The wave of demand from the war can no longer be relied on for stimulation. The velocity of money circulation has risen, liquidity has declined, credit has been heavily expanded for both capital goods purchases and consumer goods purchases and has even been extended into other consumer areas. There has been a long period of accumulation of consumers' durables. The investment boom in which costs have soared far above other price increases has produced excess capacity in some sectors.

Finally, while it may be mythology, it is not necessarily irrelevant that depressions have followed previous great wars. In short, although this recession may turn out to be comparable in mildness and duration to the recessions of 1949 and 1953, there is no particular reason why it should and no assurance that it will.

A resumption of economic expansion is dependent on rising demand. While undoubtedly inventory liquidation will soon end, renewed accumulation rests on the prospect of an expanding demand for goods and services. The outlook for major expansion to be initiated in the near future in the private sector seems rather dim. In Government, however, we face substantial increases in Federal expenditures for defense. Perhaps the amounts will increase far beyond those now being considered by the Congress.

If so, recession may soon shift again to inflation. On the basis of past experience, however, it is difficult to feel any assurance about the direction or stability of thinking on expenditures in Washington.

My second point is that the foreign relations aspect of a deep or long continued recession, let alone a depression, would be a serious matter for this country. We all recall the damage that the 1949 recession did to the economies of other countries and the effect it had on their outlook toward the United States. In these respects a recession is considerably more serious today than it was in either 1949 or 1953. There can be no doubt that the two sputniks have dealt a severe blow to our prestige in the fields of science, technology, industrial development, and military capabilities which has not been overcome.

In the economic field the Soviet Union has long used Marxist arguments in its propaganda position that a depression was bound to occur in the United States. A result of our present recession with its stories of breadlines will be a severe blow to the prestige of our economic system and our industrial strength in the eyes of the uncommitted nations.

In addition, recession here has already meant difficulties for some raw-material supplying countries, and if it continues, will almost certainly be widely felt throughout the world, weakening the economic strength of the free nations.

These considerations lead me to the conclusion that preventing a long or deep recession is an important element in maintaining our defense and diplomatic posture.

The third point which I wish to emphasize is closely related to the second one. It would be a serious mistake to try to meet a recession at home by increasing tariffs and protecting domestic employment. The benefits, if any, on balance of such measures would be miniscule in relation to the national economy while the damage to our foreign relations would be serious. The result of using protection would be to shift unemployment to other countries and would thus be a "beggar thy neighbor" policy. The countries affected would be forced to reduce their purchases of our goods, thus increasing unemployment in our exporting industries. More important would be the effect on attitudes. We have lost many friends in the past by our foreign economic policies. We have talked freedom of trade and have pressed others to adopt it and then have taken steps inconsistent with our talk.

We cannot afford to take a complacent view of the impact of our policies on the economies of other countries or on their attitudes toward us. We need friends; we need a free flow of raw materials; we need foreign markets. Foreign economic policy is not something that we can safely turn from hot to cold and back again as if it were bath water. We cannot get or keep friends by playing fast and loose with tariffs, export subsidies, and other international economic devices.

A fourth point is along a different line. I do not believe that we have yet reached the stage in the downward movement when there should be a deliberate expenditure program for the purpose of stimulating the economy. We do not yet know enough about the nature of the present downturn to engage in expenditure programs that are slow in coming into effect and hard to turn off, once they are started.

However, now that inflation has subsided, we can look at civilian needs more objectively. Postponed programs can be put into effect. New programs can be developed, not on the basis of curing the recession but on the basis of public benefits. If we should get into a real depression, I would favor heavy public expenditures for the purpose of pulling us out, but our job now is to prevent us from going into one, and I do not think this is the time to embark on a special antidepression public expenditure program.

In passing, let me say that I would consider it most regrettable to have the level of defense expenditures raised for the purpose of pulling the economy out of a slump. Defense needs, not economic needs, should determine defense expenditures. It is indefensible economic waste to spend funds on defense that are not needed for defense.

My fifth point is that if further governmental action aside from monetary relaxation is found to be necessary to meet the recession, the next step should be a temporary reduction of individual income taxes. We should be preparing so that such a tax reduction could be effected promptly by reduced withholding in case the economy declines much further or if there has been no considerable upturn by the time Congress approaches adjournment.

It is with great reluctance that I suggest a tax reduction for this purpose because of its irreversibility. Once taxes are cut it seems that all the king's horses cannot get them up again short of war or other emergency. We have no evidence whatever that taxes would be increased again to meet an inflationary situation. Yet tax changes are one of our most effective stabilization devices and we must learn to use them if we are to maintain a stable economy.

For greatest effectiveness and simplicity, any tax cut that is made should be on the individual income tax, either in the form of a simple percentage decrease across the board or with not more than two brackets. It should be limited to the remaining portion of 1958 and 1959, and should expire automatically so that any extension would require new legislation. The reduction should appear on the income tax return clearly labeled as "temporary antirecession tax reduction", and should be subtracted after the final computation of tax. The educational possibilities of using the tax return for teaching the public the fundamentals of fiscal policy should not be overlooked.

This means, of course, that the increase in the debt limit which is under contemplation in Congress may prove to be insufficient. A rigid debt limit is inconsistent with the use of tax and expenditures measures as an antirecession device. It has many other defects as well; for example, it has forced the executive branch to resort to expensive substitutes for borrowing. The debt limit should be made high enough to restore ample room for maneuver by the Treasury since otherwise the use of fiscal measures for attacking the recession could be nullified.

Finally, in the midst of recession when our concern about inflation is temporarily dissipated, I think we should give a great deal more attention and study to the problem of inflation. Inflationary booms certainly accentuate and probably cause depressions. Cost-push inflation appears to be as yet an unsolved problem. Our aim is economic stability with growth and that means avoiding inflations as well as recessions.

Chairman PATMAN. Thank you, Dr. Blough.

Dr. Chandler.

STATEMENT OF LESTER V. CHANDLER, PROFESSOR, DEPARTMENT OF ECONOMICS AND SOCIOLOGY, PRINCETON UNIVERSITY

Mr. CHANDLER. My comments will be largely confined to the second and third questions posed by the committee:

> What, if any, changes in governmental economic policies are called for in the year ahead?

And:

> What would you regard as the proper division of labor between tax policy and monetary policy as instruments of economic stabilization during the coming year?

I shall engage in little economic forecasting, for I understand that others have testified at length on this subject.

My recommendations will be based on the assumptions that the number of unemployed is already around 4 million, that employment and production are still declining, and that the decline may well continue through the end of the year in the absence of effective countervailing policies on the part of Government.

This is clearly a situation calling for Government actions that will arrest the decline of production and employment and raise them closer to capacity levels. Such governmental policies should not only be effective in raising employment and production in the aggregate; they should also foster an allocation of resources and a composition and use of output that will contribute most to our national interest, including our national security.

The principal change in governmental economic policy that I recommend is one whose main purpose is not at all to promote economic stability, but which will have the incidental effect of promoting recovery and perhaps even of creating inflationary pressure before the year is out.

I refer to an immediate and rapid increase in our national security program. I wish to emphasize that the purpose of this stepup in our national security effort should not be to induce recovery. It is to be justified solely on the basis of our national security needs.

These needs are large and they are urgent—so urgent that I would recommend a greatly increased program even if we were now in a period of full employment and inflation. Most evident, of course, are our needs in the fields of missiles and defense against missiles. But probably larger are our needs in other fields—in civilian defense, preparedness against limited wars, submarines, mutual security, education, research, and so on. More investment in developing our people is at least as urgent as more investment in military hardware. After recent studies and reports it should not be necessary for me to document these needs.

I am not in a position to estimate with any precision the magnitude of the needed increase in our various national security efforts, but it is very large. It would involve increases in expenditures in excess of three or four billion dollars a year—perhaps far beyond those figures. These increases, once they are well under way, will be sufficient, along with other measures that I shall mention later, to arrest the decline of economic activity, and they may well create inflationary pressures before Government expenditures reach their peak.

Some may object that such an increase in Government activity, though justified by our national security needs, would be too slow and inadequate to cope satisfactorily with the recession in business. For several reasons I cannot accept this view. In the first place, the urgency of our need for an expanded national security program should bring early and rapidly rising actions by Government. Delay should be kept to a minimum.

In the second place, such a program would have highly stimulating effects on business activity long before actual Government expenditures rose very much. The very announcement of a sharply expanded program would change business expectations, business attitudes toward inventories, and the willingness of business to undertake investment. And a stepped-up pace of contract letting would immediately lead prime contractors, subcontractors, and suppliers to buy more and to offer more employment.

For these reasons I believe that stimulating effects on production and employment would occur quickly.

21111—58——30

As to tax policy, I see no justification for any tax cut in the foreseeable future. It would be most unwise to reduce taxes in the face of our need for an expanded national-security program which might well produce large Federal deficits even if we maintain all present taxes and national income returns to full-employment levels.

On the contrary, we should begin immediately to plan for a sufficient increase of taxes to prevent the needed rise of our national security program from generating significant inflationary pressures in the economy. These tax increases should not become effective while production and employment are so far below capacity levels, but they should be imposed before recovery has carried us into inflation.

I reject the view, which I fear is widely held, that taxes are already as high as they can go without extremely serious effects on consumers and on business. The President states in his economic report: "Whatever our national security requires, our economy can provide, and we can afford to pay."

With this, I agree. A people whose average per capita real income after all taxes and after allowance for all price changes is now 60 percent above its level in 1940 and 20 percent above its level of only a decade ago can hardly be said to be unable to provide more resources for national security or to pay more taxes.

I come now to monetary policy. I believe the Federal Reserve should continue its policy of monetary ease so long as production and employment are well below capacity levels, and that monetary conditions should be made even easier if business deteriorates further. A greater availability of credit and lower interest rates should serve to retard the decline of investment spending and even to induce rises in some lines, such as housing and State and local construction. The possibility that inflationary pressures may reappear some months hence should not prevent the pursuit of easy-money policies under present conditions.

Nevertheless, the Federal Reserve should be ready to reverse its policy and to restrain credit when the rise of demands for national security purposes, together with other demands for national output, threaten to create inflationary pressures.

I hope that when inflationary pressures do reappear the entire burden of preventing inflation will not be thrust upon monetary policy. Taxes should be increased at least enough to balance the Government's budget at levels of national income corresponding to approximately full employment without rising prices.

I believe restrictive monetary policies can probably deal effectively with any inflationary pressures that may remain if the Government's tax collections match its expenditures at such a level of national income. But to ask monetary policy to prevent inflation when the Government itself is contributing strongly to inflationary pressures—especially if fiscal policy is itself inflationary over a long period—is asking too much. Even if monetary policy were successful under such conditions, it might have to be so highly restrictive over such long periods as to multiply complaints against it and jeopardize its acceptability.

Moreover, if we decide, as I believe we should, to devote a much larger volume of our productive resources to national security, it will probably be wise to employ taxes that will have the effect of restraining consumption rather than rely solely on credit restriction whose initial restrictive impact is heavily on investment, though it indirectly restrains consumption demand.

In summary, I have emphasized the role of a markedly increased national-security program which would be undertaken primarily to meet urgent national-security needs, but which would also promote the recovery of production and employment.

I do not claim that this is the only way to induce recovery, or that it is the fastest way, or that it is capable of flexible manipulation for stabilization purposes. We could also get recovery from increased private demands for consumer goods, or from increased private investment unrelated to national security, or from increased Government demands for nonsecurity purposes.

But I submit that what the Nation needs most urgently is a greater output for national-security purposes.

Chairman PATMAN. Thank you, Mr. Chandler.

Dr. Galbraith.

STATEMENT OF JOHN KENNETH GALBRAITH, PROFESSOR OF ECONOMICS, HARVARD UNIVERSITY

Mr. GALBRAITH. Mr. Chairman, members of the committee, today the committee is concerning itself with the steps that should be taken to insure high income and employment in the months ahead. It will be plain that this task is complicated by a serious disagreement between the economists and other experts who have recently appeared before this body. The learned and distinguished men who advise the President on economic matters have said that the economy is sure to turn up later on this year. They have so persuaded the President.

The only important question is when, although there is a broad consensus that everything will get remarkably better in the third quarter. We may hope that these predictions are not the handmaiden either of hope or official position. It would, we may reflect, have created a certain sensation had Dr. Saulnier appeared before this committee to say that things were certain to get much worse.

Be this as it may, another distinguished group has appeared to say that the rosy optimism of the official view has no foundation. It has become one of the unwritten rules of economic debate that a pessimistic forecast must always be expressed more circumspectly than an optimistic one. Yet some have been rather forthright in their gloom. Of one thing we may be sure. Both groups cannot be right.

In fact, no one can be quite certain what will happen. Prediction in economics is not wholly an idle exercise. But, as in the launching of earth satellites, the accidental and the unknowable can always intervene to the embarrassment of those who have gone too far out on a limb. The rarest wisdom in these matters lies in knowing what we do not know. I would especially remind those who are proceeding on the blithe assumption that an upturn is inevitable that the country has a long memory for such gambles when they turn out to be wrong.

We are now having a recession. Since we do not know for sure what the economy will do later in the year, it is elementary commonsense to count not on the best that can happen but on a continuation of present troubles. Generals, at least in the past, did not plan campaigns on the assumption that the enemy would conveniently disappear. But since things may get better, we should also, where possible, favor those measures which can be quickly reversed.

If we gamble on things getting better by themselves, and this turns out to be wrong, the whole country will suffer for the mistake. If we assume that the present recession will continue, then, at most, we shall have been a trifle too zealous in maintaining income and employment.

The administration will be accused of reacting too quickly to events. But I wouldn't suppose that even this charge would be utterly damaging.

What are the elements of such a flexible policy?

The first step, is, indeed, one that will not require later reversal. We must now abandon the hope that the American economy can be regulated in any effective degree by monetary policy or that this policy can be safely used in any decisive way. A few of us have been warning against the dangers of this policy for some time. We are now faced with that supreme test of character which is to avoid finding satisfaction in misfortunes which were predicted and brushed off.

To raise interest rates and try to limit the supply of loanable funds at the banks is not, as we have learned these last 2 years, an effective way of preventing inflation. As the policy was applied with increasing vigor, prices for a long while climbed, if anything, at an accelerating rate. And other necessary policies, including those to deal with the wage-price spiral, were in abeyance while it was hoped that this one would work.

At the same time, there is always the chance that a policy that operates on business investment will eventually curtail this investment too sharply, since investment is the most mercurial of the sources of spending in the economy. Then the policy precipitates or helps precipitate a depression.

Monetary policy, as I have noted, seeks to control inflation by curbing business borrowing and investment. Its friends are now faced with the need to explain how a policy designed to curb such investment did not cause a depression caused by a curtailment of such investment.

The rediscount rate should now be further and substantially cut. Collateral steps should be taken in the open market to ease substantially the supply of loanable funds. The strongest efforts should be made to get down retail borrowing rates, especially on residential mortgages, and for farmers and smaller borrowers.

And having taken these steps, monetary policy should henceforth be held to its decidedly secondary and supplementary role in our armory of controls.

By itself it doesn't work. It is dangerous. And it leads to the everlasting hope that by some monetary magic more difficult measures can be avoided.

I shall not deal further with this problem. With Prof. Seymour Harris I have already communicated my views to this committee, and I have copies, if you would like them.

Chairman Patman. Without objection, we will make it a part of the record.

(The document referred to follows:)

THE FAILURE OF MONETARY POLICY

To the CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS.
To the CHAIRMAN, JOINT COMMITTEE ON THE ECONOMIC REPORT.

DEAR SIRS: In this year of so many strong resolutions concerning our national life, we venture to plead also for a resolve to take a more practical view of economic policy than in the recent past. For here, no less than on matters of science and foreign policy, the desire to believe what is convenient rather than what is, and the tendency to make good public relations the test of good policy, have been doing their ineluctable damage. And here, as in more awesome fields, we have come to the day of reckoning. At least this has had the virtue of making clear what, until recently, was submerged under a deep layer of myth and hope.

Our particular reference is to the belief, in which we have been caught up these last several years, that the modern economy in all its complexity could be regulated by monetary policy—essentially by manipulating the interest rate and the supply of loanable funds available at the banks. Under banking and Federal Reserve pressure this belief made some headway under the last Democratic administration. It has become an article of faith during the last 4 years. The basis for this confidence is far from clear. In the last century high money rates were almost always followed by a slump in business activity—by a remedy that was ordinarily worse than the disease. Although the Federal Reserve shoved interest rates well above recent levels, this action did not curb the great speculative boom of the twenties. Then came the depression and, in reverse, very low rates had no perceptible effect in remedying that. The policy was in abeyance during World War II. On the basis of this dubious record monetary policy had its great postwar revival. And the consequences of the sharp increase in interest rates in 1953 were scarcely reassuring.

In fact, there has been little modern evidence to support either the effectiveness or the wisdom of monetary policy. The postwar revival was based on a massive hope that it might work and thus save us from the troubled task of thinking about more difficult and politically more awkward economic policies. And, as so often, hope was translated into faith.

In face of the great postwar enthusiasm for monetary policy it has not been entirely easy to remain a skeptic. Faith in economic matters has impressive force. And, on the whole, a popular position is more esteemed than a valid one. Nonetheless those of us who have not been captivated by the enthusiasm for monetary policy have continued to emphasize four objections which, in ascending order of importance, are as follows:

(1) The policy is costly.

(2) It discriminates as between the small and weak borrower and the great corporation.

(3) It is ineffective.

(4) If long continued it is dangerous.

The first two points may be passed over briefly. The cost of carrying a roughly constant debt has increased by nearly 1½ billion in 3 years. This is not trivial. And to refinance the national debt at present levels would cost several times this sum. There seems to be a kind of selective myopia which enables men, otherwise much concerned with economy, to ignore this particular public charge.

Unlike the farmer, the small business firm, or for that matter the school district, the large corporation can pass higher interest charges along to the customer. At least for a considerable time it can also contract out of a tight-money policy by turning from the banks to the open market (or through higher prices and retained earnings), to customers and stockholders. In recent years the complaints of smaller businessmen and farmers about monetary policy have been persistent and bitter. Larger corporations, on the whole, have viewed the policy with equanimity or even approval. It would be a mistake to dismiss this as merely reflecting a difference in willingness to suffer financial pain. We note that Chairman Martin of the Board of Governors of the Federal Reserve System has at least tacitly conceded the point. In testimony before the House Select Committee on Small Business last November 21 he observed that "The economy has been undergoing a capital goods boom and capital goods industries as well as industries requiring heavy capital investment are generally characterized by large-scale enterprises." So say that these larger firms were able to have an investment boom is, of course, to say that the tight-money policy was not inhibiting their investment. Quite the contrary.

The last two objections are the more important. A policy should work. In the last analysis no policy can evade the test of results. The aim of monetary policy was to prevent inflation—to protect the value of the citizen's dollar. As monetary policy was applied with increasing severity for the 2 years ending last autumn, prices rose with equal persistence. At this writing they are still rising. If, in February 1956, a physician had begun prescribing for a patient with a chronic fever and if the fever had continued unabated ever since, both doctor and patient would now be wondering about the efficacy of the remedy. We would urge an equally clinical attitude toward monetary policy.

Nor is it an answer that, in the absence of active monetary policy, inflation would have been worse. Other policies which would have worked, or which at a minimum needed to be tried, were in abeyance because of the faith in monetary policy.

Finally, just as the ineffectiveness of monetary policy is now a matter of experience, so, sadly enough, are its dangers. The most mercurial of the sources of spending in the economy is that for business investment. It depends on an estimate of the future. It is subject to a great variety of influences. As a result, it is subject to large swings with large consequences for the economic system.

Those of us who have thought monetary policy dangerous have done so largely out of concern for a policy which tampered with this most unpredictable part of the economic system. There is risk in all economic policy, but if one must handle a loaded gun one needn't play with the trigger. As the counterpart of long-continued monetary restraint, as so often before, we are now suffering a serious shrinkage in investment which is leading on to a sharp drop in incomes, output, and the workweek, to withdrawal from the labor force, and to unemployment. We can only hope that it won't go far.

Experience has a way of underlining her lessons—perhaps out of knowledge of how deeply we are wedded to our economic preconceptions. This time she has excelled herself. We are having the depression which is the inherent risk in long-continued monetary policy without ever having had the price stability which it was meant to provide. If a policy must fail, there is something to be said for having it categorical.

Whether lasting damage has been done by recent events will depend on our reaction to recent experience. Devotees of monetary policy may now begin to argue, and on form this is more than a minor danger, that the recent failure has been really a deeply disguised and highly sophisticated success. If this argument takes effect, we will be no better off than before. Those who use it may wish to consider, incidentally, whether in arguing that monetary policy is ultimately omnipotent they do not risk making the Federal Reserve System responsible for achievements that are beyond its powers and thereby a popular scapegoat for both inflation and depression. This would be to the serious prejudice of the useful if far less spectacular services it does render.

If, however, we now learn that monetary policy is of but slight and supplementary value as an instrument of economic policy, this will be a great gain. For then we shall see that we must have a strong and active fiscal policy—one that even accepts the awkward need to increase taxes as a means of countering inflation and which is reversed to counter-depression. And, at long last, we shall be brought face to face with the even more difficult problem of the wage-price spiral—perhaps it might more neutrally be called the wage-price-profit spiral—with which neither monetary nor fiscal policy fully contend and which, when the economy is near full employment, is a central source of inflationary tendencies.

JOHN KENNETH GALBRAITH.
SEYMOUR E. HARRIS.

JANUARY 15, 1958.

(John Kenneth Galbraith is professor of economics at Harvard University, and Seymour E. Harris is Lucius N. Littauer, professor of political economy, also at Harvard.)

Mr. GALBRAITH. Even the friends of monetary policy have always thought that high interest rates might be more effective in curbing borrowing and investment than low interest rates in stimulating it.

Thus, it would be idle to rely on a reduction of interest rates to bring recovery.

A properly designed system of unemployment compensation is our first defense against recession. The man who loses his job is the man whose income and purchasing power drop the most. This is the drop in purchasing power which we should first seek to arrest. Unfortunately although we have talked much about unemployment compensation as an automatic stabilizer, this remedy is now in poor condition. Rates are low and uneven as between States, and eligibility time is limited. When, as now, the need is greatest, competition between firms and areas is also greatest and there is a great reluctance to improve standards. In this situation legislation for Federal standards along the lines introduced last week by Senator Kennedy and others, would render great service. However, the practical obstacles here, as everyone recognizes, are very great.

Principal reliance in contending with recession will have to be on fiscal measures—on increased public outlays for civilian purposes and on tax reduction. Both have the now well-known effect of adding to the demand for goods and thus raising the rate of output and employment. Both accept the fact that a deficit is to be preferred to unnecessary unemployment. Incidentally, I think we are entitled to take satisfaction in the bipartisan agreement that now exists on the latter point. Those who first argued this case in detail—Prof. Alvin Hansen and notably the late Lord Keynes—were subject to no small amount of criticism and calumny. Now that they have President Eisenhower as their admitted disciple they can be regarded as admirably vindicated. We may hope that the President, who is a generous man, will one day give public recognition to his economic mentors.

In the present situation, however, there is a good deal to be said on the choice between lowering taxes and increasing public outlays. And the choice is very strongly in favor of the latter. Tax reduction, as we all recognize, is a rather irrevocable step. Once taxes are reduced, it will be difficult to raise them again. Should the present recession prove temporary, we would want to have them back and fairly promptly. We can't have a deficit in both depression and boom. Life is not yet that wonderful.

There are other reasons for favoring an increase in expenditures. These have the initial effect of providing jobs and incomes to men who are now unemployed or would become so. Personal tax reduction has the initial effect of providing added income to individuals who already have jobs and incomes and for that reason are taxpayers. Thus, both on grounds of equity and fiscal effect there is much to be said for the first.

If the tax reduction is confined to those in the lowest income brackets—those who are forced by circumstances to spend all their income—the efficiency of funds so released in increasing purchasing power may not be much less than the efficiency of added public outlays. But any talk of tax reduction will bring forward many claimants for attention and with many claims—good, bad, or merely self-serving. They will argue colorfully for the favorable effect of tax relief on their own investment, purchasing power, or morale. The inevitability of debate over who should benefit from any tax reduction is another reason for avoiding this remedy.

But the most important reason for favoring an increase in civilian public outlays as the principal protective device is that we now have so many things that need doing. Let me explain why I confine the reference to civilian outlays. It is because military outlays should be established wholly by need and not at all by fiscal considerations. This is an ironclad rule. To adjust military spending to the fiscal needs of the economy is both reckless and immoral. It is reckless because it means that such expenditures will then be cut, regardless of urgency, whenever inflation threatens. And it is immoral because it means that outlays for these instruments of death would be increased regardless of need when there was unemployment and idle capacity.

Even in the most peaceful worlds, we could not have disarmament if it meant unemployment. Is this what we want the world at large or our own people to believe? Certainly not. And we shall avoid such accusation only as we are honestly determined to decide arms outlays purely on their merits. There has already in these last few weeks been far too much ill-considered talk about defense expenditures as the new form of pump priming.

Let me say a word on present thesis here.

I speak with some feeling on this matter as a result of several months that I spent in the Far East year before last.

As a matter of fact, I think I was even moved to write to you about it, Senator. I don't suppose there is any aspect of communism propaganda that has made so much headway as the conviction in some way that the American economy is dependent on arms expenditures. It is a charge that we should most scrupulously and honestly avoid.

And since it is equally to our own advantage to determine these expenditures on their merits, the case is an extremely strong one.

On the urgency of innumerable civilian requirements, I need not dwell. Schools and aid to education, research support and facilities, health facilities, urban rental housing, urban redevelopment, resource development, metropolitan communications, are all deficient or lagging. It would surely be a mistake to talk of tax reduction to make jobs when so many of our schools are dirty, rundown, overcrowded, understaffed, on double shifts, or scheduled to become inadequate when the next increase in the school population hits them.

Obviously, we should first make jobs building the schools. If any taxpayer needs help, incidentally, it is the hard-pressed local property taxpayer in the new suburbs.

Now this Federal tax reduction, as an alternative to help on schools and other facilities, means a continued squeeze on this man.

It will be said that despite all these arguments, tax reduction is more rapid—it will give the economy a "shot in the arm," to use a phrase that has suddenly become fashionable, as though we were a nation of dope peddlers. If we don't act now and things get worse, I suppose that there is a chance that this will emerge as the only thing to do. But tax reduction, especially for the lower income brackets, has its effect only gradually as income is earned. And, presumably, it wouldn't take effect until next fiscal year. Increased expenditures, planned now, will have at least as prompt effect.

I would also suggest that at a time when so many public services are in such terribly short supply, a tax reduction may not be as politically succulent as some are now supposing. However, on this I am not an expert.

To support the economy by getting ahead with these urgently needed public activities is by no means the easiest course. Although there is a myth to the contrary, to spend public money well and wisely is not easy. Such a policy will almost certainly require willing and aggressive leadership by the Executive. It will obviously require a reversal of the policy on civilian expenditures in the present budget—a policy, broadly speaking, of cutting back all nondefense expenditures that could be cut. We shall have to have a supplementary or emergency program. I very much doubt if Congress can do the job, and certainly it won't be sufficient to proceed simply by increasing this appropriation and that.

The Employment Act places the responsibility for offering a plan on the Executive, and there it belongs. As and when business picks up, the administration will be right in stretching out and tapering off expenditures. In so doing, it will be entitled to the support of those who now urge action. To taper off spending, should business recover, will not be easy precisely because it will be for such urgent needs. But, as noted, a tax cut is even more nearly irrevocable.

Chairman PATMAN. Thank you, Mr. Galbraith.

Dr. Watkins.

STATEMENT OF RALPH J. WATKINS, DIRECTOR OF ECONOMIC STUDIES, THE BROOKINGS INSTITUTION

Mr. WATKINS. Thank you, Mr. Chairman.

Freedom of choice is the hallmark of a free society—freedom to buy or not to buy, freedom as to what to buy, freedom to invest or not to invest, freedom of occupation, freedom of entry into business, and freedom in the management of business enterprise. But these freedoms bear a price tag, and they do not come cheap. Their costs are symbolized by recurrent economic fluctuations that carry with them a train of unfortunate and ofttimes tragic consequences: unemployment, underemployment, business failure, business losses, interrupted careers, cessation of growth, and a general failure to utilize resources.

To identify these costs of economic fluctuations with the freedoms we cherish is not by any manner of means to say that we can do nothing about minimizing economic fluctuations or ameliorating their consequences. We have indeed done much in both directions, and the questions put to this panel today and those put earlier in these hearings testify to the always unfinished business before the American economy in these same directions. Your committee's questions stem from the current economic recession, but in a sense they are concerned more with efforts to minimize future recessions or ameliorate their consequences, say, "the recession of 1961–62" and "the recession of 1966–67." Truly, it is unfinished business that confronts us.

Before essaying that unfinished business, before addressing myself to the question of what changes may be called for in public policy, I owe it to you to give my assessment of the present economic situation. My summary view is that we are undergoing another economic recession roughly comparable with those of 1948–49 and 1953–54;

that the recession is on the average already 6 or 7 months old; that there is a good prospect that recovery will be underway before another 6 or 7 months have gone by; that the total output of the economy for the full year 1958 may well equal or slightly exceed the 1957 output.

This view naturally takes into account the turnabout in Government economic policy that has already occurred and the prospect that policy will continue to be directed toward recovery and resumption of economic growth. Recognizing, however, the fallibility of human judgment in general and my own in particular, I believe that public policy must be alert to any evidence of a worsening or lengthening of the recession and prepared for further and stronger remedial action. Among other possible measures, I would lay plans for a tax cut; although as of now I do not see the need or justification for a tax cut, given the present and prospective demands on the Federal budget. There is so much that needs to be done, in defense, in foreign economic policy, and in the civilian economy. And I would lay the groundwork now for a prompt request to the Congress for repeal of the debt ceiling, to provide room for fiscal maneuver and to allay any lingering doubts as to the degree of resolution in countering recession.

Parenthetically, one wonders how long it will be, recession or no recession, before the executive branch of the Government will summon the courage to recommend to the Congress and fight strenuously for the complete repeal of an arbitrary debt ceiling that so ill serves the Nation at any time and all the more so in a time of such grave peril to our very survival. The debt ceiling at times in the past may have reflected primarily a lack of confidence in the fiscal soundness of the executive branch, but it seems clear that its continuance over the years reflects even more a lack of confidence in the Congress by the Congress—the fear that it may be tempted to spend more than should be spent. The desire for economy is commendable, but it is false economy and shameful as well to put hobbles on a great nation. Moreover, a debt ceiling that has fluctuated since 1917 between $11½ billion and $300 billion cannot be said to have any ultimate significance. There must be a more intelligent way to achieve fiscal soundness.

I have mentioned my assumptions as to governmental policy. Let me add that my views on the economic outlook are influenced also by my confidence in the strength and resiliency of the American business enterprise system. That system has shown in high degree resourcefulness and undogmatic inventiveness in countering and adapting to short-run economic fluctuations; and likewise it has shown skill, vision, and courage in adjusting to long-run trends in the economy, including rising labor costs, population growth, and technological change. This business system, consisting of more than 4 million separate enterprises, is inherently one of change and growth; and I have no doubt that vast currents are flowing through that system today, perhaps undetected in our measures of change but moving strongly toward recovery and resumed growth. Businessmen make mistakes, like all the rest of us, and sometimes they are "whoppers." One of the major influences in this recession is the downturn in business investment, and it is therefore easy to charge business management with overoptimism in 1955, 1956, and early 1957. Taking, however, a perspectice view afforded by population growth of more than 3 million a year, advancing technology and rapid technological obsolescence, and the rising trend in levels of well-being, overcapacity takes on in general the appearance of merely a passing phenomenon.

Nor can business investment decisions be blamed for the crisis of confidence which shook American society last fall. That crisis may well have been precipitated by the cutbacks and stretchouts in military procurement starting in the summer. They affected a wide range of industry all across the country and, added to the impact of evidence of slow payment of bills by Government, could hardly fail to influence business confidence adversely. The real culprit, given our defense needs, may have been the arbitrary debt ceiling; and therefore the finger of blame might be pointed toward the Congress.

Senator Douglas. I must rise in defense of our body and break in the ordinary procedure. You can hardly blame Congress for not increasing the debt ceiling if the administration doesn't request an increase. I must defend the honor of my colleagues in this matter.

Chairman Patman. You may proceed.

Mr. Watkins. With the advantage of hindsight, it is easy to add that courageous action by the administration in calling a special session of the Congress to lift the debt ceiling would have been far preferable to the shock of defense cutbacks and stretchouts. In all fairness, perhaps we have to admit that stop-and-start driving has characterized our defense course throughout the cold war. Perhaps also business sentiment could have survived the shock of the cutbacks if they had not been followed so soon by more profound shocks.

Now let me return to the unfinished business of efforts to minimize economic fluctuations and to ameliorate the consequences of such fluctuations as we may be unable to prevent. Although I would contend that notable progress has been made in both directions over the past quarter century, I believe the time has come to take a fresh look at our institutional arrangements, to appraise the public policy measures available to us in countering instability influences, to measure the effectiveness and adequacy of our built-in stabilizers, and to evaluate the requirements for dynamic growth of the economy. By its complex and many-sided nature, that task must proceed on several fronts. Fortunately, there is high promise in the inquiry planned to be made by the Commission on Money and Credit now being established by the Committee for Economic Development under a grant from the Ford Foundation. The broad sponsorship of that Commission, the complete independence assured it, and the objectivity and integrity of the members of the Selection Committee convey high assurance of work of distinction and usefulness in this key area. Monetary and fiscal policy do not set the limits of public policy aimed at stability and growth, but they do constitute the indispensable framework.

We have in our armory of weapons for combating economic instability many and varied weapons other than those subsumed in monetary and fiscal policy. For example, a vast structure of social security, bank-deposit insurance, farm and home mortgage market supports, farm-price supports, regulation of security and commodity markets, and some controls over credit provisions. All these and similar measures are, I believe, of significance in helping to prevent a moderate downturn from degenerating into a vicious spiral of credit liquidation, insolvency, and financial crisis. They, along with monetary and fiscal and credit policy, are, I believe, already of enough potency that we do not need to fear the repetition of a catastrophic depression such as that of 1929-33. But that is not enough for a dynamic, advancing society. Even a mild recession represents at best a cessation of growth, a failure to use our resources and skills, and a train of unfortunate consequences in privation, failure, despair, and tragedy for altogether too many people, businesses, and institutions. It is imperative, then, that we seek to do better than we have done. We may properly take pride in our avoidance so far of a major postwar depression, but with humility we must note the social and economic toll exacted by the recessions of 1948–49, 1953–54, and now 1957–58. It is well that we take stock of the efficacy of our various measures for countering instability.

In the time remaining to me, I should like to address myself to the field of social security.

Just 20 years ago, at the bottom of the 1937–38 sharp depression, I advanced the view that the then popular goal or political promise of lasting prosperity was a mirage, if not bordering on the fraudulent; and that there was perhaps greater promise in emphasizing the more modest goal of seeking to ameliorate the consequences of such fluctuations as we were unable to prevent; adding, of course, that we should continue our search for causes and preventive measures. Our national system of social security, still moving forward toward its twin goals of broad, if not universal, coverage and reasonably adequate benefits, may be cited as a notable example of ameliorative measures that do not merely lessen the impact of recession on individuals and families but actively shore up the economy, sustain demand, and help to prevent a moderate decline from developing into something worse. Bitterly contested for long years, our social security system is now almost universally accepted as an indispensable part of our economy. It is, however, time to take another look at it, and in particular to appraise that system in relation to our goals of reasonable economic stability and growth. How effective is the system in cushioning a decline? What changes in the system are suggested by 2 decades and more of experience? What extensions of coverage are feasible? To what extent are benefits adequate? What abuses have developed and what are their consequences to stability and growth?

One consequence of our social-security system is that we have accustomed ourselves to the concept of normal employment, or frictional unemployment. We have come to recognize that a dynamic economy implies differential rates of growth among areas, among industries, among companies, and among products; implies birth of new industries, companies, products, and economic areas; and implies also retrogression and perhaps discontinuance of other industries, companies, products, and areas. An enterprise economy is not merely a profit economy; it is a profit and loss economy, and even in the best of times some industries, companies, and product lines are going downhill. Now, a corollary to all these changes and differential rates of change is that people also have their ups and downs. We have come to see that the effective functioning of our enterprise system is dependent on a "cushion" of somewhere around 2 million or so unemployed. Without that cushion there would be little basis for differential rates of growth among areas, industries, companies, and products, and we would have a rigid economic structure, not a dynamic one.

Frictional unemployment being an indispensable element in a dynamic enterprise economy, we have the clearest of all bases in justice and equity for a system of social security designed to protect the individual in some degree against this hazard. This ethical aspect of the problem merits and would receive close attention in a review of our social-security structure; but close attention should be directed also at our various social-security measures from the standpoint of their contributions to both economic stability and growth.

Let us look for a minute at some of the measures of the extent of the need for protection to individuals in the current recession. The Monthly Report on the Labor Force, December 1957, showed unemployment of 3.4 million and a seasonally adjusted unemployment rate of 5.2 percent for the civilian work force. Of the total, 600,000 had been unemployed more than 15 weeks; 1.2 million, between 4-plus and 15 weeks; and 1.6 million, for 4 weeks or less. Another 1.3 million of the regular full-time working force had been cut below 35 hours a week, because of slack work or other economic factors, and still another 1.0 million of those usually working part time were doing so for economic reasons. The report for January 1958, which I understand is due for release tomorrow, will show a further rise in unemployment. On seasonal grounds only, the figure would amount to more than 4 million, and therefore my guess is that it will be close to 4.5 million. In all likelihood, underemployment will also be higher in January. Looking ahead to the February 1958 report, the seasonal factor alone would suggest a further small rise in unemployment.

At mid-December 1957, insured unemployment amounted to almost 1.9 million, and for the week ended January 25, 1958, stood at almost 2.9 million, showing little change for the third successive week, the sharp rises having taken place in the last week of December and the first week of January.

Over and above the unemployment compensation programs, federally aided public assistance as of November 1957 covered about 2½ million aged persons and about 1 million other families or cases. General assistance cases, nonfederally aided, amounted to a little more than 300,000.

The aged beneficiaries of old-age and survivors insurance number more than 8 million.

All these programs taken together do represent a vast structure, and that structure has a close bearing on programs aimed to achieve stability and growth. It is prudent national policy, then, to reexamine the elements of this structure, to appraise their efficiency and to propose such improvements as analysis of our experience may suggest. It is unsafe to take our built-in stabilizers for granted; too much is at stake.

Such a reexamination and appraisal might appropriately be conducted by a Presidential commission, by a joint congressional-executive commission, or by the Joint Economic Committee with assistance from other Federal agencies as on other inquiries in the past. I commend such a program to the committee.

Chairman PATMAN. Thank you, Dr. Watkins.

Dr. Brozen of the University of Chicago. You may proceed.

STATEMENT OF YALE BROZEN, PROFESSOR, DEPARTMENT OF ECONOMICS, UNIVERSITY OF CHICAGO

Mr. BROZEN. Thank you, Mr. Chairman. I must apologize for not having copies of my statement available for everybody. Unfortunately, I am involved in two almost-full-time jobs. I direct the air research and development management program at the University of Chicago and I am also directing the research program of the transportation center at Northwestern University. Between the two of these I didn't find time until the weekend to write this statement.

I want to take the opportunity to emphasize some of the points that Mr. Blough raised here in connection with our foreign economic policy.

Some of the major problems we face today and which dominate the President's report are those in the international arena. Because of the current international situation, the major part of the Federal budget is allocated to defense. The current crises in science and education stem from our needs in connection with the development of weapons necessary to offset Russia's recent gains. Our foreign-aid program is directed toward assisting in the solution of our problems in foreign relations. Our agricultural program is bound by restrictions stemming from the necessity of avoiding actions which harm and alienate our allies whose markets are influenced by our actions in this sphere. Everywhere we turn the international problem intrudes. Even a domestic recession in business and employment has international overtones since "when the United States sneezes, Europe catches cold."

It is in part for this reason that I want to direct your attention to our problems relating to foreign trade. Trade is our most effective device for winning friends, influencing nations, and developing their resistance to Soviet blandishments and threats. Trade has the double advantage of being a device for accomplishing our international objectives and, at the one and same time, increasing the employment and real wage income of American workers and raising our national income.

First, let us look at what trade does in accomplishing our international objectives. We are wooing the other nations by many devices—foreign aid, military assistance, treaties of assistance, alliance, and mutual defense, information services—all directed toward the end of enlisting their support in maintaining a free world and containing the totalitarian threat. However, our firmest friend in South America is one on whom we have exercised few of these means. Brazil is our staunchest supporter in the Southern Hemisphere. One of the important reasons for the support we obtain from Brazil lies in the fact that we are Brazil's biggest customer. We buy more from Brazil than any other nation and, with the dollars Brazil earns in this way, she is one of our more important outlets for American goods. These sales to Brazil are made by our more productive industries, which, as a consequence, are able to provide employment at higher wages than workers in these industries could obtain if they were forced to turn to alternative occupations in other industries.

In North America, our firmest friend is Canada. Again, we have a stanch friend and ally, for reasons other than foreign aid, since none has been extended. We are Canada's biggest customer. The ties arising from this relationship are an important element in creating this mutuality. And because we buy so much from Canada the United States private enterprise invests so heavily in our northern neighbor, Canada is a major customer for the products of United States industry, thus supporting employment at high wages for many Americans.

Our ties with the United Kingdom rest in large measure on our trade with her. We buy English products in extensive amount and, in turn, are thus enabled to find large export sales. This list of friends whose regard has been fostered by our purchases could be extended. The important point is that trade creates friendships which are usually firmer than those based on other ties. In trade, there is a mutual gain to both sides. Where there is a mutual gain, a mutual regard usually follows.

The importance of trade as a means of winning friends and gaining allies has also been recognized by the Communists. They courted Egypt by buying her cotton. They wooed India by offering to buy her hemp. They even are flirting with Brazil by making noises as if they might be interested in purchasing her coffee. And even as firm a friend as Brazil is unable to resist a small twitch of interest. The purchase of a country's goods is a mightier weapon than many appreciate.

This has exceedingly important implications for our trade policy. By reducing barriers to imports, we gain both in terms of accomplishing our international objectives and in terms of increasing wages, employment, and American national income.

The exports whose volume would increase are the very ones produced by the industries which are in trouble now. This committee has heard many statements about the downturn being centered in the capital goods industry and capital formation. Machinery and mining equipment—capital goods—are wanted by areas which now lack the means to purchase. These are now among our softest industries, employmentwise.

An unappreciated aspect of international trade is the fact that it is our high-wage industries which export abroad and compete very effectively with low-wage labor abroad. They are the export industries because they are relatively our most productive. Since wages depend on productivity, they are also our high-wage industries.

The industries which ask for protection are our relatively less productive industries. Because wage rates are driven up by the competition for labor by the very productive export industries, the less efficient industries suffer since they are not productive enough to afford high-wage rates. By getting tariffs imposed, foreign buying is reduced since foreigners' dollar earnings are cut down. The high-wage industries are thus forced to cut back and release labor to the low-wage industries.

Wage rates in the machinery industry—an export industry—in July 1956 were $91.96 per week. In the leather industry, one which asks protection, wage rates were $56.57 per week in July 1956.

These high productivity, high-wage industries are the ones that would gain through increased trade abroad.

We can reduce tariffs, simultaneously cut foreign aid, and end up accomplishing more than the present foreign aid program. By cutting foreign aid expenditures to approximately $1 billion, and using this primarily to supply obsolescent weapons from the Defense Department, the savings make it possible to carry the increased defense burden with which we are faced without incurring deficits or raising taxes. This is no time to increase tax rates. In view of our defense needs, it might be wise to reduce those rates where tax revenues would increase as a consequence. Punitive rates, such as the 70, 80, and 90 percent personal income levies, do not yield appreciable revenues since they serve only to deter people from producing income subject to these rates, and to punish those who are foolhardy enough to make themselves subject to these. A reduction to at least 60 percent would yield more revenue and also serve to increase employment since enterprises would be undertaken which high bracket individuals will not bother with at present tax levels.

If, in the process of reducing our own import barriers, we also succeed in obtaining agreement from other nations to reduce their barriers, then trade will increase all the more and our benefit will be even greater. We would benefit by a unilateral reduction of tariffs. This would pay out for us even though foreign tariffs were not reduced. But bilateral reductions give us even greater yields in trade, friendship, allies, and defense.

The reciprocal trade agreement program proposed by the President has the double action effect of producing reductions in foreign tariffs as well as reductions in our own. By enacting this program and negotiating reductions within the limits allowed, we can accomplish more toward making ourselves secure than the proposed 4 billions in foreign aid can ever accomplish.

These reactions would reduce our defense burdens in three ways. The firmer our allies, the less the level of expenditures for national defense required to provide any given degree of security.

Secondly, the higher our national income, the more capable we become in carrying the defense burden and the greater our mobilization potential in case of war.

Thirdly, an increase in trade strengthens our allies and gives them greater defense capability just as it increases our defense capabilities. To this extent, they become capable of carrying a greater share of the mutual defense burden.

This program not only can do more than the grants provided under foreign aid toward accomplishing our objectives; it can also do more toward developing the economically less developed areas than any technical assistance program can ever do.

To illustrate this, we might consider the experience of Sweden after the English repealed their tariffs in the 1840's.

Sweden, before the middle of the 19th century, was an economically backward country whose people lived in circumstancs which cannot be adequately described. Suffice it to say that the condition of the average man was one of abject misery. Average income per person per year was much less than $50. This may shock those of you who are acquainted with modern Sweden and appear absolutely unbelievable. These statements are well documented, however, and are common knowledge among Swedish economic historians.

What was it that brought about the economic revolution which occurred in the last half of the 19th century? In the 1840's, England repealed her tariffs. At that time, England was the world's major market. It had a higher national income than any other section of the world. The opening of her markets to Swedish products awakened that country and brought it from feudal misery to the modern, prosperous country that she is. The opening of trade presented economic opportunities to Sweden which attracted English, German, and Dutch entrepreneurs who sparked an economic renaissance. They converted natural capital in the form of forests and mines into factories, railroad, and powerplants. The export of timber and iron to England developed both a supply of businessmen who could create productive opportunities for employment and who were enabled thereby to obtain the capital to use in providing equipment and tools with which workers could produce abundantly and earn good wages.

Reductions in our own tariffs would similarly open markets to other areas of the world in need of development. It could similarly provide economic opportunities which would develop business and businessmen. And these are the men who will provide the backbone of resistance to communism.

If we want economic development abroad in ways which will win allies, this is the way to do it.

Chairman PATMAN. We are honored to have such a distinguished panel this morning, and I know each and every member of the Joint Economic Committee is anxious to interrogate one or more of them.

Without objection, the chairman would like to alternate from side to side, from the majority to the minority. And in view of the shortness of the time this morning—I don't know what arrangements could be made about an afternoon session—it is suggested that we give each member an opportunity by confining the first go-round to say, 5 minutes each.

Is there any objection to that?

Without objection, the chairman recognizes first Senator Douglas.

Senator DOUGLAS. The question that I would like to put should really be addressed both to Mr. Blough and to Mr. Galbraith.

Assuming that some economic stimulus is needed when you get unemployment to the point where it now is, which will be more effective, a reduction in taxes or an increase in expenditures? I must say that after the experience that we had with public works during the depression, we found then that the stimulus of public works was relatively slow, whereas, the benefits of a tax cut, if distributed properly, can be immediate and direct.

I would like to ask first Mr. Blough, and then Mr. Galbraith to reply to that.

Mr. BLOUGH. Senator Douglas, there is no doubt in my mind that dollar for dollar an increase in public expenditures will give a greater stimulus than a decrease in taxes.

The reason I would not at this time rely on increasing public expenditures is the slowness which in our history has marked the carrying out of public expenditure programs. If someone can find a way to cut down that time lag and give us immediate action, efficient but

21111—58——31

still effective action, I would certainly say let us take the expenditure route.

I don't see that in the cards. And, therefore, it seems to me we should do what perhaps is less effective theoretically, but practically more effective.

Senator DOUGLAS. Thank you.

Chairman PATMAN. Dr. Galbraith.

Mr. GALBRAITH. I basically agree with that. I have one or two further comments.

In the first place, with Dr. Griffith Johnson, I made an extensive study of the experience of the 1930's. I don't think one should oversimplify that experience.

The big public projects were very slow. On the other hand, there were a great many small projects, smaller school building, road building, housing, and so forth, which came in very rapidly. The time lag was very short.

The other thing that would make me question that experience as a guide is this: At that time it was necessary in some degree to contrive things to do. Municipalities and States were not equipped with a great backlog of things.

Now, I suspect, for example, that school construction as one example would really go quite rapidly. And that would be true in urban redevelopment, public housing, and quite a lot of other things for which there is a reservoir of projects on hand.

Another thing I would mention on taxes.

While the Congress—saving the debate as to who gets the benefits—enacts on taxes fairly quickly, if the tax relief is in the lower brackets it has its effect only as the income is earned.

So there is something a little phony about the talk that is currently going around about a "shot in the arm." It is a shot in the arm manifested only over the whole year. We should not think of that as being quite as prompt as the semantics make it out to be.

Chairman PATMAN. Thank you.

Dr. Talle.

Representative TALLE. Thank you, Mr. Chairman.

First I should like to say thank you to all of you gentlemen on the panel.

Now, if we travel over a highway that we may call the price curve, we see what we might call four billboards, I think. One is the seasonal aspect of the price curve; another, the business-cycle aspect; the third, the high peaks and low valleys during and following major wars; and fourthly, the long-term trends.

Just how to characterize our present situation, I don't know. But I would like to ask this question: Keeping in mind that economists have developed a number of theories about business cycles, such as the psychological theory, the overproduction theory, the sun-spot theory, and so on, and there may be some truth in all of them. What, in the opinion of the panel, is the generating force of a business cycle?

I think Professor Brozen is eager to answer this question.

Mr. BROZEN. Well, one of the generating forces that certainly has been at work in a number of cycles in the past is the rigidity of wage rates. I have paid some attention to the correlations between real wage rates, productivity and cycles. And I find that those times where there have been increasing unemployment have been times that real wage rates have risen more rapidly than the general trends in productivity would justify.

In the downturn of 1953–54, for instance, there was in the prior year between a 5- and 6-percent increase in real wage rates, and there was only about a 3-percent increase in productivity.

The result was that labor had simply been priced out of the market.

And as a consequence, we had a great many people laid off simply because it was not worth employing high-priced people with less productive, older machinery.

So the semi-obsolescent equipment was shut down, and the newer, very productive equipment was maintained in operation. And it wasn't until during 1954 as we put more modern productive equipment into place that the high-priced people began to be reemployed. It wasn't worth employing people until you had very productive equipment to use them on.

The same was true in, for instance, the 1937 downturn. That downturn was a marked case of labor being priced out of the market. Between November of 1936 and March of 1937 there was an increase in manufacturing wage rates from about 60 cents an hour to 70 cents an hour at that time. That is about a 16 percent increase in wage rates and in a 6-month period.

We had the sharpest recession that we have ever had before or since that time at that point simply because of that very marked increase in wage rates which again priced labor out of the market. We had employment spurting to about 11 million by the middle of 1937, because of the rise in wage rates which had taken place during the prior 6 months.

In almost every instance that you look at in history, you find that large unemployment is associated with a rise in real wage rates not matched by a rise in productivity.

Representative TALLE. Thank you very much, Professor Brozen.

I see Dr. Galbraith is eager to have a word.

Mr. GALBRAITH. I would like merely to address a question to Professor Brozen.

Last summer, steel prices went up about $6 a ton. I do not think even the steel firms concerned attributed more than about $3 to increased wage costs. And steel now is down around 60 percent of capacity. And this is not a notably flexible price, is it?

Wouldn't you want, in all fairness, to go on and say that rigidity of steel prices had also resulted in that industry pricing itself out of the market?

Mr. BROZEN. I would say rigidity in any set of prices is going to make it more difficult to maintain employment.

Mr. GALBRAITH. Why did you single out wages then?

Mr. BROZEN. If we examine the particular industries that were hit, for example in the 1930 to 1933 downturn, you find two varieties of industries that had an increase in unemployment during that time. One of those was the industries which were highly unionized and where wages were very rigid on the downside. As a matter of fact in the building trades for example, there were increases in wage rates in 1930 and again in 1931 in the face of deflation and falling prices. By 1932, you had 85 percent of building trade unions' members unemployed.

Now, in the case of the steel industry in 1933, the steel industry had granted wage increases—no union in the industry—they had voluntarily granted wage increases in 1930 partly in response to Mr. Hoover's appeal at that time which he made in his famous address saying that American prosperity was based on high American wage rates.

Some employers patriotically responded not only by not cutting wage rates, but by actually increasing wage rates in the face of a deflationary situation. That is possibly the worse thing that can be done.

The unemployment was severely worsened by those wage increases.

Now the second class of industries where we find that there is large unemployment were those industries where the selling prices were very rigid. The price of steel was one of the rigid prices at that time. The price of steel didn't crack until 1932 despite the long pressure of declined demand from 1929 on. The price of cement, the price of fertilizer, the price of farm equipment, all had stayed very high, all had not decreased up to 1932. These were the industries where unemployment was concentrated.

It was a combination of the industries whose costs were rigid because their wage rates did not decline in that period and industries where their prices were rigid where you had the unemployment concentrated. In those industries where wage rates and prices fell from 1929 to 1933 they had very little decline in unemployment. Industries such as leather goods, for example.

And, as a matter of fact, in the case of the most flexible industry, the agricultural sector, you had an increase in employment between 1929 and 1933.

Representative TALLE. I do not want to violate the time rule, Mr. Chairman. Perhaps I can resume later.

The CHAIRMAN. Mr. Bolling?

Representative BOLLING. I pass.

The CHAIRMAN. Senator Flanders of Vermont.

Senator FLANDERS. Mr. Chairman, I find this a most stimulating panel. It has raised so many questions that I hardly know which one to ask in my preliminary 5 minutes. However, I will take the first paper and the first passage that I have marked in it and use that as the basis for beginning.

In your statement, Mr. Blough, you say:

> The third point which I wish to emphasize is closely related to the second one. It would be a serious mistake to try to meet a recession at home by increasing tariffs and protecting domestic employment.

With that I, of course, completely agree. There might be some who will disagree, but I do not.

That does, however, bring up my serious concern about any endeavor to decrease duties during a period of low employment. I have long felt that could only be done successfully during a period of high employment. And I have been having my own panel of young men from the State Department, the Department of Commerce, and the Economic Council. These young men have been of intelligence and intellectual honesty. It has been a privilege to meet with them. They agree, as any intellectually honest economist must agree, that to get the advantages which you, Professor Brozen, indicated as resulting from lower tariffs and increased foreign trade, you had to resign yourself to corresponding changes in the economy of the countries involved which results in some industries going down and others going up.

And the question is what industries shall we select to go down if we pursue our foreign trade and reduction in customs during this period?

So, that is the question I am asking you: what industries shall we select to go down?

Mr. BROZEN. I do not think I am prepared to answer that without going through the sort of hearings that are generally gone through before a reciprocal trade agreement is negotiated. That is, I think you have to develop the conditions of the particular time at which you are negotiating the agreements so you will know what industries are able to take the tax reduction without suffering any serious damage.

We have a procedure set up for the hearings ahead of negotiation of trade agreements and for gathering the necessary data. Also tariff decreases are limited to 5 percent per year. This permits any affected industry to adjust through normal retirements and quits and avoids forcing any unemployment on any.

Senator FLANDERS. Is it not true, however, that the success of the reciprocal trade agreement does involve some industries going down while others go up?

Mr. BROZEN. Yes, there would be a change in the industrial structure. And it would mean then that certain of our more productive industries would be expanding, and they would be bidding labor away from the less productive industries.

Senator FLANDERS. You do not have to bid labor away.

Mr. BROZEN. Or reemploying some labor at these high wage rates characteristic of our export industries.

Of course, there is the advantage that our export industries are our more productive industries. They are our high-wage industries because they are our more productive industries. So, when they reemploy labor, they are reemploying it at higher wage rates. This increases our domestic income and generates additional demand.

Take our machine industries which would expand if they had more foreign trade. They employ labor at an average rate of around $92 a week, taking the 1956 figures. If the leather industry declined, the job demand that is drying up is for people at $56.

Senator FLANDERS. My own old industry, in which I was active for 50 years, the machine-tool industry, before I came to the Senate, is now establishing plants abroad because it finds it very difficult indeed to compete abroad with American wage rates.

Mr. BROZEN. Part of the reasons for the establishment of plants abroad lies in the fact of the existence of these trade barriers which makes it difficult to ship across them. So, in order to get around the trade barriers, plants are established inside the trade barriers. If they were reduced, this would reduce the motivation for establishing the plants abroad.

Senator FLANDERS. My impression is based on some contact with the industry, and my impression is that comparative wage rates have much to do with the movement. And personally it does not look to me like a bad thing to do to have American equipment and American experience migrating all over the world.

But that does have its effects upon trade policy.

Mr. Chairman, I will cease now. I have about 10 separate questions to ask. This was but one of them.

The CHAIRMAN. We will get to you later on.

Senator O'Mahoney.

Senator O'MAHONEY. Mr. Chairman, yesterday I listened to a television program in which the Secretary of Commerce, Mr. Sinclair Weeks, answered, or attempted to answer the interrogations of a group of college students. One of these young women asked him the question in somewhat this form:

"During the campaign in 1956 we heard a great deal of peace and prosperity. Do you, Mr. Secretary," said the young woman, "expect to have peace and prosperity in the campaign of 1958?"

Mr. Weeks' answer was: "Well, we have peace, and I expect that by election time we will have prosperity."

This seems to me to indicate that we ought to have an answer from source to the question of whether or not the recommendations that this committee will make and the comments that it will make upon the President's Economic Report are directed to symptoms or to causes. It seems to me that almost all of the members of the panel—and I was not here at the beginning—have agreed that we are in a recession.

Doctor Watkins referred to the turnabout of the Government, that is, the executive branch of the Government, in its attitude. Are you all agreed on this matter, that we do have a recession?

It is a unanimous assent, that we do have a recession.

Now, can you tell us what the cause of the recession is?

If we are going to apply a remedy, we have got to have the cause. Who is the volunteer?

Mr. CHANDLER. It seems to me that the initial downturn resulted from a combination of factors:

First, the cutback in the military program in the autumn; secondly, a cutback in business investment plans on plant and equipment. And, thirdly, a movement from inventory accumulation to one of inventory decumulation. These three factors worked together to send us in the downward direction.

Senator O'MAHONEY. Dr. Galbraith.

Mr. GALBRAITH. I think I would agree with that. But I think I would go a step further. It seems to me that the American economy requires vigorous, constant, and full-time attention. And it needs a rather broadly based policy.

During the last several years, we have had just one policy, one active policy—monetary policy. I would say that to confine our attention to this policy is to base our economic guidance on much too narrow a base.

It should have been evident months ago that there were accumulating weaknesses in the economy, the continuing decline in agricultural economy, for example, the continuing decline in new housing starts, the very serious complaints of the small business community, which, however, were dismissed largely as being of a chronic reaction of this group.

And so, I would go a step beyond my good friend, Professor Chandler, and attribute responsibility to a casualness of attitude toward economic behavior. And I would blame the accumulating effects of high interest rates on the weaker part of the economy.

Senator O'MAHONEY. You do agree that the cutback in military expenditures had a substantial part, do you not?

Mr. GALBRAITH. Yes. I am just adding these other factors. I am sure that Dr. Watkins would want to add a reference to the decline in exports too. It has had some effect this past year.

Mr. WATKINS. The point I would add is that the record, I think, shows beyond any doubt that economic fluctuations inhere in a free economy. We get one of these downturns about every 4 or 5 years on the average. They are never very much alike. They always develop from a different set of circumstances. And I think the sound public policy is to recognize that we are confronted with fluctuations from time to time, and we have got to adopt policies which are aimed, at the minimum, at ameliorating the consequences of these fluctuations.

I would agree in general with what Professor Chandler has said as to the factors that led to at least the initiation of this recession. I would point out, however, that up through the fourth quarter of 1957 there was no actual decline in business investment of any significance. There was a decline in plans to invest.

Undoubtedly there will be an actual decline in the first quarter, this current quarter of 1958.

Now, it seems to me that much of that decline in plans to invest stems back to this really profound crisis of confidence that shook the American people during the fall of 1957.

Senator O'MAHONEY. What was the cause of that crisis of confidence?

Mr. WATKINS. That is a very long story. And parts of it I would not care to go into. I made the statement in my paper that I think it was precipitated by the cutbacks in the military program. Not merely in the fall of 1957, but starting in July of 1957.

And that, added to the already present evidence, the then evidence, of the Government's inability to pay its bills, I think that had a very serious effect. And then, of course, a number of developments, including the President's illness, and the sputniks, took place.

Senator O'MAHONEY. Well, then, let me ask this question: Should we regard military expenditures as a factor in stabilizing the economy?

Mr. WATKINS. Very definitely we should not, in my judgment.

I agree entirely with the statement made by members of this panel, that military expenditures should be based on the security need. And we must rely on other means of stabilizing our economy.

Senator O'MAHONEY. Do you all agree with the statement of Dr. Watkins?

Please raise your hands if you do.

Again we have a unanimous opinion.

Mr. BROZEN. I would like to add this: I would like to emphasize Dr. Watkin's point that the decline in military expenses added to this situation rather than caused it. The situation was something that seemed to be becoming apparent late in 1956. The surveys of plans for investment expenditures for plant construction and equipment purchases that appeared in the survey such as McGraw-Hill's survey in late 1956 indicated then that plans for 1958 were for a rate of investment below the 1957 level.

Senator O'MAHONEY. Well, I would like to remark, if I may be permitted to do so, that this lack of confidence seems to have been the result of a final dawning upon the business community that the campaign talk of peace and prosperity was a phony.

Mr. BROZEN. If this is what they concluded, they arrived at that during the campaign, because these plans for plant construction and for equipment expenditures were drawn before the survey and then showed up in the survey late in 1956 during the campaign.

Senator O'MAHONEY. I would be very much interested in pursuing this but I shall content myself, if I may, by asking another question to all of these panelists.

Is it not a fact that military expenditures——

Senator FLANDERS. The Senator is getting overtime.

The CHAIRMAN. I think under the circumstances it is justified.

Senator FLANDERS. Well, in that case, I will justify myself also the next time around.

I would like to call attention to the fact that one hand was raised. Professor Chandler apparently had a different opinion from the rest of the panel.

Chairman PATMAN. Will you permit the other two members to ask questions and then we will get back to you.

Senator O'MAHONEY. Mr. Chairman, I was merely asking unanimous consent that I might ask an additional question.

Chairman PATMAN. Is there objection?

Representative KILBURN. Yes, I object.

Senator O'MAHONEY. Then I shall not.

Chairman PATMAN. Mr. Kilburn.

Representative KILBURN. I don't see that this committee serves much useful purpose to bring in campaign slogans from either party back over the years.

Now, what is meant by "frictional unemployment," Mr. Watkins?

Mr. WATKINS. Well, when one company declines or goes out of business, people are laid off or lose their jobs. And it is some little time before they can get placed somewhere else. Let's say a man decides to move from New York to California because he thinks the prospects are better in California. Well, he is going to be unemployed for a certain length of time. I am merely talking about what I think is the cushion that we have got to have to provide flexibility. One company has no basis for advancing, there is no possibility of advancing, a new product line unless there is a reservoir from which you can draw labor.

Representative KILBURN. Thank you.

Mr. Blough, I think you made a very fine statement but I am not clear about just what you mean about foreign policy.

As I understand our foreign policy, the first objective is to not get into another war.

Mr. BLOUGH. True.

Representative KILBURN. And it does seem to me that the fluctuations—I think that Secretary Dulles—and I don't want to get into an argument about him especially—has tried to have a logical firm foreign policy, but fluctuations occur, to some extent at least, in Congress where they do not perhaps appropriate all the money needed or wanted for foreign aid and reciprocal trade. I would just like to have you explain that just a little bit.

Mr. BLOUGH. I didn't mean in any way in this statement to assign responsibility.

Representative KILBURN. I know.

Mr. BLOUGH. I did want to point out that the United States, since the war has had a foreign posture in which we have been trying to get other countries to liberalize their trade further, to cut down on import quotas, to free their exchanges; and we have actively promoted organizations for that purpose.

We have spent a lot of effort on it. But when it comes to our own behavior in this respect, we seem to turn around in many cases and move in the other direction.

For instance, by putting import quotas on petroleum products and raising taxes on certain mineral products; and through our export subsidies on agricultural products; and in other ways we behave the opposite of the way in which we have tried to get other countries to behave. In the case of the other country, we know it will be good for it and good for us.

So we have been preaching, not practicing.

Representative KILBURN. Mr. Watkins, in your statement about the debt ceiling—I have been down here about 18 or 19 years—and I remember several times we have boosted the debt ceiling maybe by 20 or 25 billion and nobody said a word. It went through like that. It is only in the last 5 or 6 years that we have talked so much about it. I agree with what you say about that.

Mr. WATKINS. I think, sir, the debt ceiling is one of the indirect causes of this recession, because I think it had a good deal to do with the slowdown in the defense program, for example.

It was a part of the background. Debt ceiling, you know, goes back to only 1917.

As I pointed out it has fluctuated all the way from $11½ billion to $300 billion. And what ultimate significance it has, I can't see. It is, I think, a very costly thing in terms of national policy.

Representative KILBURN. I am not sure—I think you and I will agree with one thing about stimulating recovery, through civilian projects. We agree, I take it, that we don't want to get into anything we don't need. On top of this the Federal Government sees a need to start pouring money in here or there, taking over in some cases in my judgment the duty of the States, and the Federal Government never lets go. They always stay in, even if it is first begun for a temporary reason such as trying to stimulate recovery. Do you care to comment?

Mr. GALBRAITH. I do not quite agree with the Congressman. There is reversibility about spending programs that there is not about tax reductions.

Representative KILBURN. Not just spending. But the activity itself. They start a bureau down there with 50 people and in 5 years they have got 5,000 people.

Mr. GALBRAITH. I think that is a trifle unfair. If one were to examine the record it isn't quite that bad. There have been quite an extraordinary number of Federal enterprises that have flourished, declined, and even disappeared. For example, the RFC, the disappearance of which I happen to regret. I think it had a useful function. But it has gone.

A great many of our emergency activities of the 1930's went away and disappeared, from the WPA to the Bituminous Coal Commission. I am making the point that the rule you lay down is not quite as flat as you make it.

I would say also that unlike the 1930's, there is no occasion now for any emergency work. The number of things that are waiting to be done in this country from schools to housing, is so great that we should not be alarmed about the need to do anything that we don't require.

Representative KILBURN. That is my point. Should it be done by the Federal Government? Then they stay in the field forever.

Mr. GALBRAITH. I would say without any hesitation on the question of schools that unless the Federal Government comes to the help of the very hard-pressed States and municipalities which are struggling with the school problem, the schools just won't be built. And it is between arguing over the question of principle and getting the schools. I frankly would say, let's get the schools.

Mr. BROZEN. I think there is some misemphasis here in this discussion of schools. The way the Federal program would operate would be primarily to drain money from the higher-income States and provide it to the lower-income States. Typically, New York and Illinois and California would be paying in say, about $3 for every $1 to $2 they get back. On the other hand, Mississippi and Georgia and Alabama would be getting back about $3 for every $1 or $2 they pay in.

Now, the point is that the real school problem, the school construction problem, is in the high-income States. And you are taking the money from the very place where it is needed and putting the money in a place where it is less needed. People have migrated from the low-income States to the high-income States. The increase in school-age population is occurring in the high-income States. There is very little increase in school-age population in the low-income States. There is much less of a school construction problem in the low-income States.

If you proceed to refunnel the money from the high-income to the low-income States, you will hurt school construction more than you help it by taking the money away from where additional schools are very much worse needed than where the money will go.

Mr. GALBRAITH. I would certainly disagree with that and say it is a gross oversimplification. I would remind Professor Brozen of what I am sure he knows, namely, that States and localities rely on different revenue bases from the Federal Government. They rely on sales taxes and property taxes. The Federal Government relies on income taxes. We have by and large a different set of taxpayers involved.

Chairman PATMAN. Before recognizing Mr. Boggs of Louisiana, I would like to state that Maj. Gen. John S. Bragden, Special Assistant to the President, who is responsible for coordinating the public works plans of the administration is being requested to file a statement in regard to the discussion that we had here today about plans that the administration has to create jobs through public works.

We are asking that the statement be filed by next Monday if possible. Mr. Boggs.

Representative BOGGS. Mr. Chairman, I have one question which I will direct to the panel. And I will ask for volunteers. I, too, heard Secretary of Commerce Weeks on yesterday and Senator O'Mahoney asked the first question about what brought on this present condition.

I would like to ask this question: Under present administration policies; money, agriculture, defense, trade, and so on, is there any reason to believe that Mr. Weeks' prediction of prosperity in November will come true?

Mr. BROZEN. I will stick my neck out on the basis of a general feeling that I have about the situation without having had the time in recent months to really analyze the data properly.

But the sort of impression that I get from you might say a cursory view of the data is that at the moment we are approaching a bottom; probably we will be leveling out within a month or so and we will be then bumping along on that bottom until about spring of 1959. We can't expect the upturn to come with the vigor we would like to have until approximately that time.

Representative BOGGS. You don't agree on the November date?

Mr. BROZEN. No.

Representative BOGGS. Let me get some other comments. How about you, Dr. Galbraith?

Mr. GALBRAITH. Well, I am, of course, reminded that Secretary Weeks has made a great many forecasts in the 5 years he has been in office. And there has been one interesting and attractive feature of them. They have all been extremely favorable.

So that one can't as a result, conclude from the record that he is always right. My own reaction, Congressman Boggs, is very simple. I really don't know. My disposition in the last 2 or 3 weeks, in the last month has been to think that this is more serious than we first took it to be.

But my basic feeling is that we should not make policy on a forecast. We should make policy on the present situation. The present situation is we are having quite a slump in employment and in incomes, and that this is the thing that we should base our policies on. We should do something about it.

If we act now, we may have to reverse the course later on. But we at least will have taken preventive action. If we don't act now, and don't take preventive action, then we may have a lot of unnecessary suffering.

Representative BOGGS. My question was based on present policies. I said I didn't know what they were. But do I gather that you remember certain other policies?

Mr. GALBRAITH. By all means, yes.

Representative BOGGS. Would you care to comment, Mr. Watkins?

Mr. WATKINS. Yes.

As you know from the statement I have already presented, my view is a more optimistic one than the view of Professor Brozen and perhaps also more optimistic, I am pretty sure, than the view presented by Professor Galbraith.

I don't think there is any likelihood that we will be in prosperity by November, but I do express the view that we will be in the recovery stage.

But I would agree also that current policy should not be based merely on an optimistic forecast. There are a lot of things that have been done already in the way of turnabout of public policy. I think there are lots of other things that can be done.

Mr. CHANDLER. My position is essentially the same as that of Professor Galbraith. It seems that in the absence of more vigorous measures than have yet been announced, we have no assurance that we will even have started on the recovery by November, though that is quite possible.

Representative BOGGS. You wouldn't use the word "prosperity" either. No one has used that word yet.

It seems rather unlikely that we would have prosperity by November. Although this is not beyond the realm of possibility.

Would you care to comment, sir?

Mr. BLOUGH. I think my view has been adequately expressed by Professor Galbraith, and Professor Chandler. We all live in hope but we ought not to base policy on hope. We should not count on prosperity by November, and I think our policies ought to be made with a more pessimistic expectation in mind.

Representative BOGGS. So it appears that Mr. Weeks expressed a hope more than a reality.

That is all, Mr. Chairman.

Mr. BROZEN. Part of the thing we should look at is the reason why the recession is likely to last until next year. And that is in part because the recession stems from the fact that we have had wage increases in the past year and a half to 2 years which have exceeded our productivity gains. It is going to take us a while to build the more productive equipment which will make it worth reemploying this high-priced labor. And because of the interval required to build that more productive equipment, because it will take at least a year to do it in, we can expect that this will last into next year.

Anything we can do to stimulate the rate of capital formation, anything we can do to stimulate the rate at which more productive equipment comes into existence will more rapidly restore us to prosperity. If we would regear the tax structure in order to provide more savings, more incentive to invest those savings, then we will recover more quickly.

Mr. GALBRAITH. I thought I had persuaded Mr. Brozen to take a somewhat more eclectic view of this. I don't want to appear to be the defender of the unions, because they don't need my help. I thought he had conceded that price increases that outran wage increases and were equally rigid were also a weakness in the economy. And I again inquire as to why he doesn't continue to add in this further part of his diagnosis.

Mr. BROZEN. I was talking about the increase in real wage rates that outrun the increase in productivity. I was talking about the money rates.

The price increases are already in the price levels that we are dividing into the money wage rate to get real rates. To the extent those price increases haven't been great enough, it isn't worth employing the labor. Of course, in the present monetary situation, further price increases would decrease sales and employment. Price cuts and wage cuts would restore demand, sales, and employment.

Senator O'MAHONEY. I am sorry that Congressman Kilburn isn't here. But I want the record to show that I have never been able to draw any distinction between campaign oratory and sincere expressions of views of public men and those who aspire to be public men on what is the best policy for their country. I have always also made it a practice to be as utterly fair as possible with all of the witnesses who have appeared before the committee and with all the members of the committee. I would like to ask you, Professor Chandler, if I cut you off, or if I misunderstood your answer to any of my questions?

Mr. CHANDLER. I was not objecting to the position taken by the members of the committee. I only wanted to make it quite clear that considering defense expenditures on their merits and only on their merits, I believe that there is an urgent need for an increase in those expenditures at this time and that I would still feel that way even if we were in a period of inflation.

I think we ought not to hold back on increasing those security expenditures, just because someone, somewhere else in the world, might possibly interpret these as being an antirecession device.

Senator O'MAHONEY. Well, then, you are of the opinion as were the other members of the panel that the security expenditures were cut back?

Mr. CHANDLER. Yes. I think that was a factor in the recession.

Senator O'MAHONEY. And there is no question that the cut was made?

Mr. CHANDLER. There seems to be none.

Senator O'MAHONEY. Does anyone wish to disagree with that conclusion?

Mr. WATKINS. I should like to point out that the reduction in prospective expenditures in the Defense Department was greater than the reduction in actual expenditure. I believe the technical term is "obligations" or "contracts placed."

I have before me a Department of Defense release dated January 24, 1958, and it states that "during the early months of fiscal year 1958 only those contracts which required placement or extension were consummated." By way of clarification, I understand what this meant was that only a minimum of contracts were placed for new items, and for only such new items as were considered essential; and in general that contract placements were limited to those considered necessary at that time. The consequence was that the usual upsurge following passage of appropriations did not occur.

The table of figures in the release shows that that the total of estimated obligations for contracts placed with private industry amounted to only $700 million in July, $900 million in August, and $1.5 billion in September, or a total for the quarter of $3.1 billion, in contrast with a total of $9.9 billion for the first 6 months of 1957.

The purpose of the release was, of course, to emphasize the sharp increase in procurement in November and December 1957 and projected for the first half of calendar 1958.

Senator O'MAHONEY. Well, there are two phases of this—budget expenditures and new obligational authority. These figures are set out in the Federal budget in brief on page 16. And I shall put that little table in the record at this point.

It shows, forgetting 1953, that in 1954 the budget expenditures were $47,872 million; that the 1959 estimate, when this document was prepared, was $45,836 million, or a reduction since 1954 of more than $2 billion; although the estimate for 1959 is almost $1 billion more than the estimate for 1958. Of course, this has been altered by recent events.

Now, under the heading of "New obligational authority," in 1954 the request was for $40,079 million. It was estimated for 1959 at

$44,298 million, an increase of over $4 billion in request for new obligational authority.

But everybody who knows anything at all about budget estimates and budget expenditures knows that the requests for new obligational authority are for funds to be expended over a period of years, and, therefore, for funds which will not be immediately affected on the economy one way or the other. There is full agreement, I suppose, about that statement.

I see no dissent.

Now, what I was headed for was to find out whether or not you gentlemen believed that we are dealing with the causes of the condition that confronts us when we seem to depend upon military expenditures to carry the burden of the economy. Or let me put it in another way.

Can we conceivably hope to create a stable economy of civilian activity while we are under the obligation of making expenditures for war and preparation for war greater by far than any other expenditure in the budget? Are we not dealing with a conflict of two purposes?

Mr. CHANDLER. I think one of the points that has to be made and accepted by everyone in the country is that an adequate military effort is not inconsistent with the maintenance of stability.

The action taken last year in cutting back the defense program even temporarily was not in the interest of either our national defense need or of stability.

Senator O'MAHONEY. I agree with that answer.

Mr. CHANDLER. It seems to me that we must get rid of the sense that we are bouncing against a tax ceiling and that taxes cannot be increased. We can increase our expenditures and cover the increase fully by tax receipts, or more than fully if that seems to be necessary for stabilization purposes.

I believe that economists and others are doing a great disservice to the country when they come before any congressional committee and intimate that upward flexibility of taxes is impossible.

I certainly agree with Dr. Watkins that we must also get rid of the debt ceiling which may force us into silly actions such as were taken in the fall of 1957 and on several occasions in years before that.

Senator O'MAHONEY. Professor Galbraith——

Mr. GALBRAITH. I would agree that economic policy should be accommodated to the requirements for security expenditures, not the reverse.

This means that that accommodation should be made where necessary to increases. And if we are ever so fortunate to be able to reduce defense expenditures we should accommodate policy to that.

Senator O'MAHONEY. You agree, do you not, that the necessary military expenditures to preserve the Nation and the principles for which it stands can be carried out with a stable economy, too?

Mr. GALBRAITH. Yes.

Senator O'MAHONEY. Is there any disagreement on that point?

Mr. GALBRAITH. May I make one point?

Senator O'MAHONEY. Certainly.

Mr. GALBRAITH. I want to clarify one point with Mr. Chandler. In doubting the wisdom of a tax decrease at this time and in doubting it in considerable part because of inflexibility——

Senator O'MAHONEY. May I say I think that is a detail, Doctor?

Mr. GALBRAITH. I want to clarify this point with him, however. I don't want him to suppose that I am arguing against the possibility of increasing taxes were this required. I don't think we are bumping an upper ceiling.

Mr. BROZEN. I think one point that should be made, however, is: I think we have overemphasized the control of the debt ceiling on whatever happened to military expenditures last fall.

Because of poor controls in the Defense Department they had programed expenditures at a certain rate, while the actual expenditures turned out to be a good deal higher than the programed rate. The regearing of expenditures was an attempt to get actual expenditures back to the programed rate and was not simply a matter of trying to stay within the debt ceiling. Rather, it was the poor controls of the Defense Department suddenly catching up with them.

Senator O'MAHONEY. I wouldn't want to express any opinion on that, because I might be accused of playing partisan politics and that I don't want to do with this subject.

Mr. BLOUGH. I would like to add a few comments to what has been said.

First, I think the point you made that the necessity for dealing with our military problems makes more difficult the stabilization of the economy, is correct. One can't anticipate just when the defense needs will arise or how much they will be. That uncertainty complicates the stabilization problem.

In the second place, I agree that within the limits of the needs as we now see them, it is possible to maintain a reasonably stable economy, although I would not say a completely stable economy, and still meet these defense needs; that within the prospective range of expenditures, it is possible to, through higher taxes. The level of taxation is still well below the economic limit. I would not wish to say that some magnitude of defense expenditures might not some day arise which would make it difficult if not impossible, to maintain economic stability by taxation. For example, although we could have done better, I do not think it would have been possible to have maintained complete economic stability through taxation during the war, when the level of expenditures reached a very high proportion of the total national product.

Mr. WATKINS. I would like to make it clear, Mr. Chairman, that I have not stated here that the decline in military expenditures or the decline in military procurement contracts was the sole cause of this recession that we are in.

What I did say was I thought there were grounds for believing that it may well have precipitated this crisis of confidence, and, therefore, may have had an effect on business and investment decisions.

I would agree also that perhaps the specific factor of the debt limit may not have been crucial there. But it is certainly a part of the whole national picture of a government that finds itself essentially in a straitjacket, particularly the Treasury, because of the existence of a debt limit at a time when we may have to move forward into very much larger expenditure patterns.

Senator O'MAHONEY. Well, do you agree that expenditures for defense were a substantial factor; that is, the reduction of those expenditures was a substantial factor in bringing about the recession?

Mr. WATKINS. I think it was one of the things that triggered this crisis of confidence which I think in turn was one of the——

Senator O'MAHONEY. There are many factors.

Mr. WATKINS. Yes.

Senator O'MAHONEY. Now, it seems that we have a pretty solid agreement among all of you panelists on these basic questions which I think go to the very heart of our problem. We are dealing with the President's Economic Report, and in this report he has sent to Congress his recommendations. Have you gentlemen all examined it?

Mr. WATKINS. Yes.

Mr. GALBRAITH. Yes.

Senator O'MAHONEY. Everybody has examined it.

Now another unanimous answer.

How about the recommendations that are made in this report? Will they preserve defense and stabilize the economy? Or should we go further than the President's Economic Report goes?

Mr. GALBRAITH. It will be clear from my testimony, Senator O'Mahoney, that I both doubt the adequacy of the recommendations or the policy——

Senator O'MAHONEY. Yes, but I am trying to get an area of agreement here, not an area of disagreement. I find in the summary of the President's recommendations which begin on page—page 77 of the Economic Report—that the first recommendation is:

Extend the present tax rate of income of corporations and the present excise rates on automobiles and parts, cigarettes, distilled spirits, wines, and beer, for 1 year beyond July 1, 1958.

Is that sufficient?

Mr. BLOUGH. It isn't perhaps a question of is it sufficient. I agree with that recommendation.

Senator O'MAHONEY. As far as it goes.

Mr. BLOUGH. But it is not a measure for promoting the economic stability of the country.

Senator O'MAHONEY. Does anyone else want to make a comment?

Mr. BROZEN. Yes. I would suggest that we permit the temporary portion of the corporate income tax to expire. Part of the reason I suggest this is that we will more rapidly put equipment into place if there is more incentive to invest and there is more wherewithal to invest.

Senator O'MAHONEY. I didn't get the beginning of your sentence.

Mr. BROZEN. I would suggest that we permit the temporary 5-percent portion of the 52-percent corporate income tax to expire and permit the corporate income tax to drop to the 47-percent level. The reasons for this lie in the fact that if we were to make more funds available for investment and increase the incentives to invest—this would have that doublebarreled impact if we permitted the corporate income tax to drop to the 47-percent level—the result would be that more productive equipment would be put into place more rapidly and high-priced labor would be reemployed more rapidly on this more productive equipment because it would be worth employing on it.

Senator O'MAHONEY. Wouldn't that depend on the appearance of a market?

Mr. BROZEN. Part of the reason for the current lack of market is that people are too high priced to use on obsolescent equipment. So they have been laid off. They provide no market as long as they are laid off. If they can be reemployed they will provide a market. And they will be reemployed if there are productive opportunities in which to use them where they are worth reemploying.

Senator O'MAHONEY. Does anyone else desire to make a comment?

Mr. GALBRAITH. Could I ask my colleague if there was a shortage in incentives during the great investment boom that ended last year?

Mr. BROZEN. Yes; there definitely was a shortage of incentive, such a shortage of incentives that the so-called great investment boom used only about 15 percent of the gross national product for gross private capital formation as compared to about 20 percent back in the 1920's. It is for that reason that productivity has not been rising as fast in manufacturing during the postwar decade following World War II as it did in the postwar decade following World War I. In the 1920's, it rose 5 percent per year. In the post-World War II decade, it rose about 3 percent per year.

If it had risen as rapidly in the last decade we could have raised wage rates more rapidly without any serious unemployment effects.

Mr. GALBRAITH. One more brief question of Mr. Brozen. I am curious as to whether your conclusions proceed from your analysis or your analysis from your conclusions? Because there is a certain predictability about the point you reach.

Mr. CHANDLER. It is worth pointing out that in the McGraw-Hill survey, as well as in various others, it came out that one of the major reasons for the cutback in business plans to spend for plant and equipment was that their capacity was already so high relative to their current rate of operations, and that this was true even before the rate of national production turned downward.

This doesn't exactly suggest underinvestment in the preceding period.

Mr. BROZEN. I would like to point out that in the McGraw-Hill survey that the spending for modernization purposes has increased over the previous years.

Now, if we could increase the spending for modernization purposes even more, we would have these effects that I was talking about.

Senator O'MAHONEY. Mr. Watkins, do you have any comment to make?

Mr. WATKINS. I don't think there is any need to prolong the argument.

Senator O'MAHONEY. All right.

I notice that (b) is this—I would like an answer.

It is under "Government Finance."

Enact legislation temporarily increasing the statutory debt limit.

Should this be a temporary thing?

Mr. CHANDLER. I suggest, Mr. Chairman, that they should abolish the debt limit or raise it so much that this would become ineffective as a ceiling.

Mr. GALBRAITH. I would agree on that.

Mr. WATKINS. Yes; agreed.

Mr. BLOUGH. Agreed.

Mr. BROZEN. I am afraid I can't quite agree with the panel. I think to some extent there has been a salutary effect from the existence of the debt ceiling inasmuch as the administration does tend to think a little more seriously about its overall spending program.

Senator O'MAHONEY. It is 4 to 1.

Senator Flanders?

Senator FLANDERS. I was wondering. I suppose this second time around we are not following the 5-minute rule.

Senator O'MAHONEY. No. Never the 5-minute rule the second time around. I yield to the Senator from Vermont.

Senator FLANDERS. I did want to get in before the closing. Let me say first to the chairman, that I have known Mr. Galbraith for 25 years. He was a consultant on a book which four businessmen produced, entitled "Toward Full Employment."

I have been stimulated by my acquaintance with him. One of the things that we left out of that book was the effect of war preparations and armament and all the rest of it on maintaining prosperity. That was a different world we were living in at the time than the world we are living in now where that thing looms so large.

I would like to ask the panel whether they think there is any reason for a careful study by this committee, as I have been trying to urge it to do for some time, on the specific question of whether it is going to be easy or even possible to shift from our high war expenditures to a complete or more or less complete peacetime economy.

In a way, it is now a moot question, using the word "moot" in its proper definition. But does the panel think that that needs specific investigation?

Mr. BLOUGH. Senator Flanders, I believe that if we should reach the happy condition of being able to make very substantial decreases in military expenditures, we would be faced with a serious problem of readjustment and transition to a fully peacetime economy. It can be done; I don't think we need to be unduly worried about that; we did it before and we can do it again. But it certainly would require a great deal of planning and an understanding of what was involved. And if we can be so optimistic as to expect something of this kind in a future close enough that the investigation would not become completely obsolete, I would certainly favor an investigation of the kind you mentioned.

Mr. BROZEN. I think probably the important relationship that should be investigated is a timing of tax reduction along with expenditure reductions. After all there will have to be some replacement of Government spending by private spending if there is going to be maintenance of full employment.

And that being the case, it is necessary that the tax reduction be timed in such a way that the funds are left in the hands of individuals so that they can do the spending as rapidly as Government spending declines. Also, any surplus in Government hands at such a time should be used rapidly to pay off long-term debt rather than short term.

Senator FLANDERS. Mr. Chandler?

Mr. CHANDLER. Senator Flanders, I believe it would be quite valuable to have such a study. I would hope that it would be broad enough to cover cases of increases in the security program as well as decreases, because we have had great difficulty in the past in evaluating the relationship between the security program and our stabilization goals. I would like special reference, as Professor Brozen has indicated, to the relationship of taxes to the program.

Senator FLANDERS. Then you are suggesting a relationship up and down?

Mr. CHANDLER. That is right.

Senator FLANDERS. Mr. Galbraith?

Mr. GALBRAITH. I have talked with the Senator about this before. So he is generally acquainted with my views. I do not think that the problem of adjusting to a fully peacetime economy would be insuperable. Here I think I differ with Roy Blough. I do not think overall it would be especially difficult. The adjustment would not be comparable with that which we went throughout, without excessive hardship and difficulty in 1945 and 1946.

Senator FLANDERS. Except that there was great purchasing power in the hands of the people, and a great lack of things to be bought.

Mr. GALBRAITH. That is right. It seems to me that the thing to insure is that there is adequate replacement purchasing power. Here I find myself happily, for once, in agreement with Mr. Brozen. It seems to me that this would guide our attention both to the replacement income that comes by tax reduction as well as in the opportunity that would be provided for needed public activities.

I think the main problem, Senator, is not—to use some economic jargon—a macroeconomic one, but a microeconomic one. The problems that would arise in particular areas like southern California, and around some of the other large defense establishments which would be serious. We should have in mind a particularly good and generous program for this.

Now, as to the study itself, I would certainly like to see such a study go forward. It seems to me that the conclusions that it would almost certainly reach would be a very good thing for countering the poisonous notion that exists through the world that our economy depends on military spending.

Senator FLANDERS. That is just the point—that poisonous notion to which our discussion in a way seems to contribute. And unless we have an antidote for that poison, I think it is an exceedingly serious situation. Excuse me, for interrupting.

Mr. GALBRAITH. Just a footnote—in India a couple of years ago I was chatting with a distinguished Polish economist. He said quite casually that his country's economy required a very large investment outlay by the state to sustain it much the same as ours requires the same investment for military purposes. He equated the two almost as a matter of course.

Senator FLANDERS. We really haven't erected any defense to that general point of view of both opponents and neutrals.

Mr. BLOUGH. If I may say, there are also pacifist religious groups in this country whose attitudes are influenced by the belief that our economic prosperity has resulted from and requires large outlays for military expenditures.

Senator FLANDERS. Mr. Watkins?

Mr. WATKINS. I don't think I have anything to add to the point, but I would like to emphasize again that there is a vast difference between citing a reduction in defense contract, let's say, as an operation that triggered or precipitated a crisis in confidence; there is quite a difference between that and saying that our defense expenditures are essential to the stabilization of the economy.

Senator FLANDERS. I have just one more question, Mr. Chairman. And I would like to address—I have 10 more, 15 more, but I am only going to ask 1. I am addressing myself this time to Mr. Brozen.

For a machine tool industry, and an ex-machine tool man, as I am, you made a wonderful presentation of the causes and cures of the depression. I listened to it with intentness and a feeling of warmth and pleasure. But, the thing which raises doubts in my mind with regard to it is that the very industries which seem to be the lowest down or almost to precipitate these recurrent depressions are the equipment industries. That is where the depression in general seems to be centered.

Can you equate that or correlate that—I am trying to use technical language now—I may not be properly using it—can you correlate that fact with your theory?

Mr. BROZEN. Yes. In looking at the overall investment expenditure, I think that we have to look at two parts of it. One, for the expansion of capacity. The other for replacement and modernization.

Senator FLANDERS. I am glad you brought that point up because they are generally lumped and they are not the same.

Mr. BROZEN. That is correct.

Now, then, in terms of what has been happening to the expansion of capacity, we find that there is less interest in expanding capacity now, than there was a year ago. Part of the downtown is attributed to this.

Now, the reason for it, I think, was in the fact that we had two different sorts of factors operating, which are both influenced by wage rates on the overall investment expenditures.

Taking a look at modernization expenditure, the increase in wage rates tends to increase the amount of modernization expenditure; or the relationship of wage rates to machinery prices, is what determines the amount of expenditure.

As the ratio rises we get an increase in modernization expenditure. That is exactly what has been happening the last year.

On the other hand, as the wage rates go up by more than productivity they reduce corporate profits. We find from statistical studies that the amount of spending for expansion purposes is very much influenced by the ratio of corporate profits to interest rates. But we have been having a downturn in corporate profits along with a rise in interest rates. So this ratio has dropped. This has tended to reduce the amount of spending for expansion purposes.

Now, as wage rates go up, the upward influence on modernization expenditure is not as great as the downward influence on expansion expenditure.

So the net result is that unwarranted increase in wage rates, that is wage rate increases greater than the rise in productivity, tends on net balance to reduce the total expenditure, since the increase in modernization expenditure is not sufficient to offset the decline in expansion expenditure.

Does that answer the question that you had in mind?

Senator Flanders. That is a very good answer to my question. I want to get some other answers as well.

Mr. Blough. I am not sure that I caught all of Mr. Brozen's argument, but if I did I would conclude from it that there is on balance no force operating to bring about an upward movement in the economy.

I wonder if he would agree to that, as a conclusion from the reasoning that he has just been setting forward?

Mr. Brozen. Interest rates have been declining since November. This is tending to move the ratio of corporate profits to interest rates. Corporate profits are continuing to decline the problem is whether they are declining as rapidly as interest rates decline. In that case there will be no moderating influence on the expansionary side. On the other hand, the price of the machine tools are softening very considerably. There was about a 15-percent jump in the price of machine tools a year ago. I think that is one of the reasons that investment plans turned down over a year ago. Now, machine-tool prices have in effect jumped backward 15 percent, and this is tending to encourage at least modernization investment.

Senator Flanders. Professor Chandler?

Mr. Chandler. I am somewhat worried by Dr. Brozen's explanation based pretty largely on correlations. For example, one would expect, I think, that in the latter stages of a boom, especially if it is a strong boom with practically full employment, that real wages would rise, and that, owing to the well-known inflexibility or at least slow flexibility of wages downward, one would expect real wage rates might go up in the early stages of a depression.

But I don't see in this any ultimate cause of the downturn. It seems to me more likely that the downturn comes from some decrease of demand that may not at all be brought about by the rise of real wage rates at that point. I am just not convinced by the correlation.

Mr. Brozen. There is more than a correlation involved here. There is also the timing factor which indicates a causal effect. The downturn in 1953–54 for instance was one that was preceded by a real wage-rate increase greater than the productivity increase.

The same thing was true of the 1937 downturn I spoke of.

The wage-rate increase preceded the downturn. It was not something that occurred after prices started to soften.

Senator Flanders. May I ask Mr. Brozen whether the completion of the armament program for the Korean war had any effect at all on that downturn?

Mr. Brozen. I think we had a——

Senator Flanders. I have difficulty in thinking of the wage rate as being the only thing. We did decrease our military expenditures at that time.

Mr. Brozen. In part we have the problem also of an adjusting of the economy to changes. And our adapting mechanism is a free price mechanism where prices, including the price of labor, are free to move. To the extent that the price of labor is not free to move or to the extent that any other price is rigid, then to that extent we fail to use our adaptive mechanisms to adapt to changes like the downturn in armament expenditures following the Korean episode.

If we had less rigidity, if our adaptive mechanism had been free to work, then our economy could have better responded to that situation.

Senator FLANDERS. Mr. Galbraith?

Mr. GALBRAITH. I have two comments. I am delighted to have Mr. Brozen's support on one point, namely, that the aggressive shoving up of interest rates may have an adverse effect on business investment. And that, therefore, we may explain some part of the recent downturn to the unwise or excessive use of monetary policy.

Mr. BROZEN. I prefer you emphasize "unwise" rather than "excessive."

Mr. GALBRAITH. I will accept whatever limited support you can give me on that point and not quibble. I would draw attention not wholly in admiration, although it may deserve it, to another example of his selective use of statistics. This is where he points out that wage increases have been coming out of profits and that this has inhibited modernization expenditures. But surely until the last year we have had both increasing wages and increased corporate profits.

Mr. BROZEN. I was not saying the wage increases come only at the expense of profits.

I indicated earlier that rising productivities is the primary cause of wage increases that can be maintained without causing unemployment. Now, to the extent that wage increases occur without rising productivity and without inflation, then they do come at the expense of profits and do have these investment reactions.

Mr. GALBRAITH. It seems to me, Mr. Chairman, that one of the admirable things about Mr. Brozen is that it is possible to get the truth from him with a little extra work.

But it does seem to me that there will be general agreement that it is a very, very tedious process.

Senator O'MAHONEY. I wouldn't say that. I don't agree with that statement at all.

Senator FLANDERS. Let me get to Mr. Watkins next and then I will come back, Mr. Chairman.

Mr. WATKINS. Mr. Chairman and Senator Flanders, I am suspicious by nature of a rigid mechanistic set of theories having to do with the causes of fluctuation—the causes of recessions and having to do also with the forces that might lead to a recovery. I should like to point out that if we double the rate of decline forecast by the McGraw-Hill survey last October in plant and equipment expenditures from 7 percent, say to 15 percent, that decline would be more than offset in 1958, calendar year 1958, by the almost certain increases in State and local expenditures and Federal expenditures.

In fact, I will go further and say that the almost certain increases in governmental purchases of goods and services may well be about 50 percent more than the decline in producers' durable equipment expenditures for 1958, even if we double the rate of decline stated in the forecast in the October survey. It isn't a mechanistic system. The forces that can bring recovery in this economy can come from many, many sources. And I would anticipate that the increased expenditures by State and local governments, by the Federal Government, and in several other aspects of the economy, including increased expenditures for residential construction, may well bring recovery despite a mechanistic set of theories that would appear to make it impossible.

Senator FLANDERS. Mr. Chairman, I do want to give Mr. Chandler a chance. Now, Mr. Blough raises his hand. I think I had better resign the command of this platoon here to the chairman's hands. But I did say that I would give Mr. Chandler a chance.

So from now on I resign.

Mr. CHANDLER. I don't care to discuss here the wisdom, or adequacy, or excessiveness of the restrictive monetary policies followed from 1955 to 1957. However I can't let pass what I gathered to be Dr. Galbraith's argument that monetary policy should not become restrictive in the face of an investment boom of the type that we experienced in those years.

All of our knowledge of business cycles indicates quite clearly that investment demand from business and others is subject to very wide variation; that at some times there are great surges upward and at other times a decline in these demands.

It seems that any policy that would fail to exercise restriction in the face of a rise of demands of such dimensions that would be unlikely to be sustained could only be destablizing in the economy.

This leaves open the whole question of whether in fact the monetary policy was too restrictive or not restrictive enough or badly timed or well timed. But the general principle——

Senator O'MAHONEY. If Senator Flanders will permit me I will ask you a question there.

Do you think that the maintenance, the management of the national debt, is an important factor in determining what the Federal Reserve Board should do with respect to the interest rates? Now bear in mind that the action of the Federal Reserve Board is increasing the interest rates, in setting forth the tight money policy, did result in a big increase in the interest upon the national debt; and since the policy has been reversed, the obligations of the United States are drawing bigger prices in the stock market, in the bond market?

Mr. CHANDLER. We have now reached a time when the national debt is of such proportions that the national debt itself should be managed to make what contribution it can to stability in the economy. There must be coordination between the monetary policy and debt management policy. But this does not mean that the major objective of monetary policy should be to keep down interest rates on the national debt.

This is a very minor objective as compared with the others toward which monetary policy can and should be directed.

Senator O'MAHONEY. May I suggest to you that an examination of the budget shows that the interest upon the national debt now next to major national security is the greatest expenditure that the Treasury makes?

Mr. CHANDLER. It is made for a purpose, sir. It is made for the purpose of keeping the national debt from being an inflationary factor at all times.

Senator O'MAHONEY. That is right.

Mr. CHANDLER. For example, if we want to escape interest on the debt it is very simple to do so by replacing the bonds with non-interest-bearing demand obligations which would probably be known as greenbacks.

Senator O'MAHONEY. That was done once in the Civil War.

Senator FLANDERS. I just wanted to say that I have refrained from introducing the word "inflation" into this discussion, because I felt that that was in the interests of our having something to eat some time.

As a matter of fact, the Federal Reserve policy was largely based on inflation. The question of controlling inflation we haven't mentioned. And I am not going to.

Senator O'MAHONEY. Well, I agree with you. I shall not go into it either.

But it seems to me that this session which is the last session that the Joint Economic Committee has planned in its attempt to gather information to enlighten itself upon the report that it will make to Congress upon the President's report, should not conclude without an attempt at least to bring the points we were discussing here this morning together.

Now, there has been a substantial unanimity of view among all five panelists; with respect to the questions that as a member and later as an acting chairman I asked you. I am trying to find out finally, what we should recommend to Congress to stabilize the economy while at the same time spending the money that we ought to spend to defend the Nation.

I have no doubt from my own examinations that we have been wasting a tremendous amount of money under the symbol of mutual security. I have read the report of OEEC, the eighth annual report, and there seems to be no doubt about it that our allies in Europe have for the most part been restored by the economic aid we have given them and by the military aid too, have been restored to a much better economic level than they were before World War II started.

The whole program of economic aid, the Marshall plan, was initiated for the purpose of helping Europe to restore the damage that was wrought. That task has been completed as far as it can be completed without the cooperation of Soviet Russia. Soviet Russia has not cooperated and the difference between East Berlin and East Germany and West Germany is in itself proof of that fact.

Now, we are looking forward to the solution of this recession, and there are all sorts of differences of opinion as to when and how far we will have to wait before it comes to an end. Yesterday I received Barron's Weekly for February 10, and I find on page 7 under the heading "The World at Work" this paragraph:

> While the administration clings to its hope that the business slump will hit bottom this spring, businessmen tend to be skeptical. Thomas Stohrs, vice president of the Federal Reserve Bank of Richmond, last week called such predictions the "fad forecast." Any look must start from the fact that business is in a widespread depression which is not a rolling readjustment "by any accepted definition."

In its January appraisal of economic conditions the Chase Manhattan Bank argues that the—

> current problem of excess capacity could be worked off in approximately 18 to 24 months.
>
> A period that might be shortened by the accelerated retirement of obsolete facilities or lengthened by a continued lag in demand. Except for these two qualifications this analysis would place the trough of the cycle some time in 1959.

Testifying before the Joint Economic Committee of Congress, Federal Reserve Board Chairman William McChesney Martin also warned that a further decline accompanied by increased unemployment of resources would precede the upturn. Monetary policy would contribute to fighting manifest deflationary tendencies, but it could not in its own reverse the cycle. Mindful of the errors of 1954 he warned that "excessive stimuli during recession can jeopardize long-run stability for business."

With that reading, may I ask the members of the panel to look over the recommendations to Congress presented to us by the President's Economic Report and invite you to submit to the committee, if you have time, your summary views as to the value of the suggestions and what changes you would recommend if you were recommending to Congress a course of action that would enable the country to economically, without waste, maintain the national defense and at the same time stimulate a stable economy.

It is always stimulating to the intellect to sit with you gentlemen while you give forth with views. The committee is very much obliged to you, and I hope that those of us who have survived the end will have profited for it.

Thank you very much.

(Mr. Blough later submitted the following statement in response to the request of Senator O'Mahoney:)

Senator O'MAHONEY. The meeting is now adjourned.

(Whereupon, at 12:40 p. m., the committee was adjourned.)

SUPPLEMENTARY STATEMENT BY ROY BLOUGH IN RESPONSE TO THE REQUEST OF SENATOR O'MAHONEY

A number of the recommendations in the President's Economic Report have a bearing on the problems of how to maintain national defense and how to deal with recession, although they may not have been designed specifically to meet those problems. The analysis of the various recommendations of the report would require more time than is available to me, and I shall limit my response to Senator O'Mahoney's request to suggesting the following 10-point program for congressional action.

1. Prepare now for a temporary reduction of individual income taxes and tax witholding, and apply the reduction promptly in case the economy declines much further or there has been no considerable upturn by the time Congress approaches adjournment. The amount of the reduction should be determined in the light of anticipated increases in Federal spending under defense and other programs.

2. Consider the needs and adopt programs for constructing schools, hospitals, highways and other public works, and for other Federal activities, with a view to accelerating work on such programs in case the recession continues to worsen.

3. Raise the debt limit high enough to give the Treasury ample flexibility in meeting deficits incurred in the course of the recession.

4. Take action to give the States powerful incentives to liberalize their unemployment insurance programs, in the meantime providing supplementary Federal unemployment insurance.

5. Determine defense programs and expenditures on the basis of national security needs, without modification because of fear of inflation or of depression.

6. Maintain the military assistance and economic support components of the mutual security program at optimum levels, recognizing the savings and other benefits to the United States which result from providing for national security in this manner.

7. Greatly expand the economic aid programs of grants and loans to economically less developed countries, both directly and through international organizations, in recognition of the importance of such aid in helping these countries resist the spread of Soviet power through other than military means.

8. Extend for 5 years the Reciprocal Trade Agreements Act in liberalized form as a means of promoting the economic well-being of the free world, including

ourselves. Avoid increasing restrictions on imports, especially during periods of recession, in view of the damage such restrictions would inflict on our international economic and political interests.

9. Study, with a view to legislation, the possibilities of improving monetary and credit control as a method of dealing with economic instability, having in mind that general credit control does not have a uniform impact on different sectors of the economy.

10. Study, with a view to legislation, cost-push inflation as it may result from actions taken by labor or actions taken by business, together with possible ways and means by which such actions can be harmonized with the maintenance of stable prices.

×