

# EMPLOYMENT, GROWTH, AND PRICE LEVELS

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HEARINGS  
BEFORE THE  
JOINT ECONOMIC COMMITTEE  
CONGRESS OF THE UNITED STATES  
EIGHTY-SIXTH CONGRESS  
FIRST SESSION  
PURSUANT TO  
**Sec. 5(a) of Public Law 304**  
**(79TH CONGRESS)**

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MARCH 20, 23, 24, AND 25, 1959

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**PART 1—THE AMERICAN ECONOMY:  
PROBLEMS AND PROSPECTS**

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# EMPLOYMENT, GROWTH, AND PRICE LEVELS

FRIDAY, MARCH 20, 1959

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

The committee met at 10 a.m., pursuant to notice, in room P-63, the Capitol, Senator Paul H. Douglas, chairman, presiding.

Present: Senators Douglas, Sparkman, O'Mahoney, Kennedy, and Bush; Representatives Patman, Bolling, Reuss, Coffin, Curtis, Kilburn, and Widnall.

The CHAIRMAN. The committee will come to order.

The Joint Economic Committee has embarked upon a very difficult task; namely, an attempt to see if we can combine three economically desirable goals: An adequate rate of economic growth, substantially full employment or maximum employment, and substantial stability of prices.

There are those who say that these aims are irreconcilable. It is our hope that they are not irreconcilable but that it may be possible to realize all of these purposes. At the very least we hope that we can get the most satisfactory combination of these goals. To help us discover the facts we have scheduled 4 days of preliminary hearings which in a sense open this broad inquiry.

We have invited four distinguished American economists with different points of view to give us their advice and their counsel.

This morning we are very happy to welcome Dr. Sumner Slichter of Harvard University, one of the most eminent and respected of American economists, with a most distinguished academic background and a continuing record of participation in public affairs.

He is a man who in a unique sense has won the confidence of all groups of the American people even though they do not always agree with him.

Dr. Slichter is a man of great incisiveness of mind, deep scholarship, and of independent judgment. He calls the shots as he sees them without regard to the economic interests involved. I think it is an act of real public service for him to take time from a busy life to come here and testify before us and, in a larger sense, before the country.

We are very glad indeed to welcome you. Won't you proceed in your own way. We will be very happy to listen to you and read your statement.

**STATEMENT OF SUMNER H. SLICHTER, OF HARVARD UNIVERSITY**

Mr. SLICHTER. Mr. Chairman and members of the committee, it is a pleasure to participate in this important inquiry.

My remarks will fall into five parts. In the first place, I wish to point out briefly why economic growth is needed. In the second place, I wish to discuss this problem of achieving growth, distinguishing the short-run problem from the long-run problem. In the third place, I wish to discuss the impact of economic growth on the price level. In the fourth place, I wish to discuss the possibility of reducing the impact of growth on prices. Finally, I wish to discuss briefly some consequences of creeping inflation.

Economic growth is needed (1) because the United States, though the richest country in the world, has many millions of families that must live very modestly; (2) because man is an aspiring being who is constantly raising and broadening the goals for which he strives; (3) because growth means opportunity for individuals, and absence of growth means less opportunity; and (4) because we live in a deeply disturbed and competitive world in which our security demands that we be strong.

1. Millions of families must live modestly. The survey of consumer finances of last year showed that one-fifth of the spending units (groups of related persons living together who pool their incomes) had incomes of less than \$1,890 before taxes, and three-fifths had incomes of less than \$5,139 before taxes. (Federal Reserve Bulletin, July 1958, p. 761.) Only one out of five spending units had incomes of \$7,910 or more. It is not difficult for a family to spend \$7,000 a year, or even \$10,000. No luxurious living is required. Hence, though America may be well off in comparison with other countries, the vast majority of American families must live quite simply.

2. Man is an aspiring being. Human desires are not static. They are constantly growing. Modern man has many wants that primitive man could not dream of having. Wants are related to the chance of satisfying them. Men, as a rule, do not work up strong desires for things that are far beyond their means.

But most people have in mind various things that they hope soon to be able to afford—a trip, a movie camera, more tools for the home workshop, a motorboat, a swimming pool, an encyclopedia, or a vast variety of other things. The survey of consumer finances shows that families in the top fifth of income recipients spent over six times as much on durable consumer goods in 1957 as families in the bottom fifth. (Federal Reserve Bulletin, July 1958, p. 763.) A rise in production and incomes would mean an enormous increase in demand for durable consumer goods.

The strong desire for more goods causes money incomes to outrun the physical increase in production. Between 1954 and 1957, for example, the physical volume of production, expressed in 1954 dollars, increased by \$43.9 billion. But in the same period labor income, largely as the result of wage advances, increased \$44.6 billion, or a little more than the volume of physical production at 1954 prices, and total personal incomes increased by \$58.1 billion, or considerably more than total physical production. Thus, men's desire to live better is causing men to increase their claims on the output of the economy faster than the economy has been raising its output.

Growth is needed to help the economy meet the growing claims on its product.

The strong desire of the people for more goods affects the Government's finances because it subjects the Government to strong pressure for new and larger outlays and subsidies and at the same time stiffens the opposition of the people to tax increases. Between the fiscal year 1955 and the present fiscal year, there was an increase of \$1.76 in Federal expenditures for every gain of a dollar in cash receipts.

This means that the Government during the last 4 years has been increasing its spending almost twice as fast as it has been increasing its revenues. Less than one-fourth of the rise in spending was for national security, and yet in this period the United States fell behind the Russians in military strength. The Government badly needs a faster rate of growth in the economy in order to give it larger incomes to tax.

3. Growth means opportunity. Between 1930 and 1940, the country had a deep and prolonged depression. As a result, the country had 1.2 percent fewer skilled male craftsmen in 1940 than in 1930. The next decade from 1940 to 1950 was the period of the war and the post-war boom, and the number of skilled male craftsmen increased by 33.4 percent.

Other parts of the labor force were similarly affected. In the depressed decade of the thirties, the number of male professional workers and technicians increased by 24.2 percent, but in the prosperous decade of the forties professional and technical workers increased by 35.4 percent. The rate of growth determines the rate at which men rise out of the class of common laborer.

The number of common laborers in the country has been diminishing for over 40 years, but the rate of decrease has varied. In the depressed decade of the thirties the number of male common laborers dropped by only 9.1 percent; in the prosperous decade of the forties the number dropped by 27.3 percent.

The unemployment that accompanies a period of slow growth or recession tends to be concentrated among the young people who are seeking to start their careers. Hence, unemployment is concentrated where it is particularly harmful in limiting opportunity.

In January 1959, the average unemployment rate for the male labor force as a whole was 7.2 percent, but among boys of 16 to 17 years of age it was 18.6 percent; among boys of 18 to 19 years of age, 17.7 percent; and among young men 20 to 24 years of age it was 12.6 percent.

The unemployment rate among young people is always high (partly because they have not yet acquired skills), but it is less high in good years when the total unemployment rate is low. This fact is shown in the following table comparing unemployment rates among young males in several recent Januarys:

[In percent]

	January 1956	January 1957	January 1958	January 1959
All males.....	4.3	4.5	7.0	7.2
Males 16 to 17 years of age.....	11.8	15.5	13.9	18.6
Males 18 to 19 years of age.....	12.0	13.8	20.3	17.7
Males 20 to 24 years of age.....	7.7	7.6	14.2	12.6

4. The disturbed state of the world and the great cultural conflict between the free world and Russia makes it important that the economic growth of the United States be rapid. The extent to which the state of the world makes demands that the economy of the United States increase its output depends upon the nature of our foreign policy. The demands on our economy can be either enormous or relatively modest.

Some people apparently expect the United States to be strong enough to practice "brinkmanship" for the purpose of stopping Russian encroachments in Europe or the Near East. This conception of American policy seems to be widely held both in the United States and abroad by persons who have not thought through its implications.

Such a policy would require enormous increases in military spending because the United States is already inferior in military strength to Russia. No democracy can compete with the Russian dictatorship in building military might for the simple reason that no democracy would tolerate the crushing tax rates that would be necessary to divert into military production a large enough proportion of the Nation's resources to match the Russian effort. Furthermore, even when the United States was stronger than Russia, this country was unwilling to risk war over Europe or the Near East. We let Russia seize Czechoslovakia, for example.

Hence, attempt to match the Russian military strength seems somewhat pointless. A more likely American policy is an unwillingness to risk war over Europe or the Near East just so long as the Russians are content with rather modest grabs, and the maintenance of strong enough military forces to deter attacks on this country.

If this view of our probable basic diplomatic and military policy is correct, the demands of that policy on our economy will be fairly modest.

At present the United States is confronted with a short-run problem of growth that is very different from the long-run problem. In the long run the capacity of the economy to grow depends upon the amount and quality of our resources—upon development of science and technology, the supply of enterprising starters of business concerns, the supply of investment-seeking funds, the supply of professional workers and craftsmen. Of these, I think science and technology are the most important.

In the short run at the present time the problem is to get full utilization of the resources that we have. With a seasonably adjusted unemployment rate of 6 percent and with many plants operating below capacity, the immediate shortrun problem is one of increasing the demand for goods.

There are six principal ways in which the demand for goods might be increased:

1. More spending by governments—local, State, and national. Spending by State and local governments has been creeping up for some years and will undoubtedly continue to rise because of the necessity of spending more money on education, roads, utilities, and compensation of employees. But a large proportion of the cities and States are having financial difficulties.

Hence, the rise in State and local spending will be moderate. Spending by the Federal Government will also increase, but the rate of increase will be held down by the reluctance of the Government

either to incur large deficits or to raise taxes. But in view of the high and persistent unemployment, the Government would be wise, in my judgment, to plan a deficit of several billion dollars in the cash budget for the fiscal year 1960.

2. More exports. Merchandise exports in 1958 were considerably higher than in any other year except 1956 and 1957. No great gain in exports is in prospect.

3. More buying for inventories by business. After drastic cuts in inventories during 1958, some expansion of inventories in 1959 and the early part of 1960 is to be expected. But the accumulation of inventories will not significantly exceed the rate of \$3.6 billion a year which had already been reached in January 1959.

4. More investment in plant and equipment by business. In the latter half of 1959 some pickup of investment in plant and equipment by business may be expected. The rise in the first quarter of 1959, however, above the last quarter of 1958 is small, and investment in plant and equipment by nonagricultural industries is running smaller in the first quarter of 1959 than in the first quarter of 1958.

The slow rise of investment in plant and equipment and the persistence of a high rate of unemployment indicates that the Federal Reserve is overdoing credit restraint.

5. Larger expenditures on housing. The present rate of housing construction is high. Hence, no large rise from present levels is in prospect. The demand will be stimulated by the improvement in employment. But the demand for housing depends upon the supply of mortgage money. The tight credit policies of the Federal Reserve tend to limit employment in the housing industry by restricting the supply of mortgage money.

In spite of the present high level of housing construction, Congress is likely to insist on circumventing to some extent the restrictive policies of the Federal Reserve. Part of the effect of more abundant mortgage money will be to help home buyers bid up the prices of real estate, materials, and labor, making home building more expensive.

6. Larger personal consumption expenditures. Personal consumption spending might be increased by tax cuts, but tax cuts are out of the question because the bad state of Government finances will not permit them. Larger personal consumption expenditures may result from a smaller rate of personal savings.

But in the fourth quarter of 1958 the rate of personal savings had already dropped to 6.3 percent, which is less than the annual average of any year since 1949. Hence, no great further drop in personal savings is likely. This leaves wage increases as the principal source of additional personal consumption expenditures during 1959. Wage increases have an income generating effect because they tend to increase the outlays of the enterprise making the wage increase. The increases in outlays have a multiple effect on other outlays—they produce incomes that are partly spent on consumption. The effects are diminishing, but they go on indefinitely. Hence, wage increases are a strong stimulant to the economy—they generate expenditures and incomes and, of course, they tend at the same time to raise prices.

This analysis indicates that one powerful influence for expansion in recent months, namely inventory policy, has pretty much spent its

force. The analysis also indicates that the economy in the forthcoming months will receive less stimulus from Government spending than it has received in recent months.

It will be dependent for further expansion upon larger personal consumption expenditures and upon larger outlays on plant and equipment. Up to the present, business has shown little disposition to increase its outlays on plant and equipment.

Consequently, the immediate need is for larger personal consumption expenditures. There is little prospect of getting an increase in these expenditures through a further drop in the rate of saving. Consequently, the best short-run prospect for stimulating the economy is through wage increases. The best form of wage increases is rather modest but widespread increases. Such increases would generate considerable income throughout the economy and would not impair the credit of the wage-increasing firms.

It would be strange if growth could occur without pronounced effects upon the price level. As a matter of fact, sometimes rapid growth has been accompanied by falling prices; at other times rapid growth has been accompanied by rising prices. Periods when the price level was stable have been exceptional.

If one examines the decade changes in the wholesale price level beginning with 1798 and ending with 1958, one finds only 4 decades out of 16 in which the net movement of the wholesale price level, up or down, was less than 10 percent. One finds 8 decades in which the net movement was more than 20 percent. In 8 decades the movement of the price level was upward, and in 8 decades it was downward. The longest period that the price level moved in one direction was 3 decades—from 1868 to 1898.

During this period the movement was downward. The economy has demonstrated rather impressively that it has been capable of operating satisfactorily under rising, falling, or stable prices.

Of late years, there have been changes in the economy that create a strong likelihood that economic expansion will be accompanied by rising labor costs and prices. The change is the rise of powerful trade unions. At the present time about half of the blue collar workers in industry are organized. Union membership is concentrated among the largest and most efficient concerns which pay the highest wages and set the wage patterns.

Virtually all of the blue collar workers in the steel industry, the can industry, the glass industry, the men's clothing industry, the women's garment industry, the railroad industry, the airplane industry are organized, and there is a high proportion of organization in the building trades, the coal industry, the printing industry, the electrical industry, the meatpacking industry.

The rise of strong trade unions makes it almost inevitable that economic expansion will be accompanied by rising labor costs. When demand is strong enough to produce virtually full employment (so that the economy is growing rapidly enough to put to work all investment-seeking funds), unions are in a strong bargaining position and are able to raise wages far faster than the increase in output per man-hour.

During the 11 years 1947 to 1958, for example, a period of fairly steady prosperity, hourly earnings in all private industry rose about twice as fast as real product per man-hour.

The rise in hourly earnings was 66.7 percent; in real product per man-hour, 33.6 percent (86th Cong., 1st sess., "Hearings Before the Joint Economic Committee," p. 782). In only 3 out of the last 11 years did average hourly compensation in private industry rise by less than real product per man-hour. With wages rising twice as fast as productivity, not in one year, but in year after year after year, some upward adjustment of prices is necessary.

Some spokesmen for the unions argue that wages were simply chasing prices up, but the evidence does not bear out this claim. In every one of the last 11 years without exception average hourly compensation of employees rose more than the Consumer Price Index, and in 10 out of the last 11 years hourly compensation of workers in private industry rose more than the wholesale prices of finished goods.

The following table shows the changes in compensation of employees per man-hour in private industry, changes in real product per man-hour, and changes in prices during the last 11 years. (The changes in the year-to-year compensation of employees are computed from data in 86th Cong., 1st sess., "Hearings Before the Joint Economic Committee," p. 782.)

[In percent]

	Increases in average hourly compen- sation of workers in private in- dustry	Change in real product of private industry per man-hour	Change in Consumer Price Index	Change in nonfarm wholesale prices	Changes in wholesale prices of finished goods
1947-48.....	8.5	3.6	7.6	8.5	7.9
1948-49.....	2.7	2.9	-.9	-2.0	-2.8
1949-50.....	5.7	7.1	.9	3.7	1.8
1950-51.....	9.3	2.5	8.0	10.4	9.6
1951-52.....	5.8	2.2	2.3	-2.3	-.5
1952-53.....	5.9	4.1	.8	.7	-1.0
1953-54.....	3.5	1.8	.3	.4	.3
1954-55.....	2.9	4.4	-.3	2.2	.2
1955-56.....	6.0	.6	1.5	4.4	2.8
1956-57.....	6.0	2.7	3.4	2.8	3.6
1957-58.....	3.0	1.0	2.7	.3	2.3

The charge is made that the rise of prices in recent years is to be explained by employers arbitrarily raising the prices of their products. The facts do not support this charge. One must expect strong sellers' markets to be accompanied by some arbitrary price increases. I would not deny that there have been such increases.

Nevertheless, such increases do not explain much of the rise in prices in recent years because profit margins have dropped, not increased. Between 1947 and 1956 the ratio of profits after taxes to sales dropped in the case of all nonfinancial corporations in the United States from 6.7 to 5.3 percent (85th Cong., 1st sess., joint committee print, "Productivity, Prices, and Incomes," p. 118).

Since corporations in recent years have greatly increased their depreciation allowances, one may argue that the comparison should be the sum of profits after taxes plus allowance for depreciation and depletion. Such a comparison also shows a decline. In 1950, the first year for which complete figures are available, the ratio of profits after taxes plus depreciation and depletion allowances to sales for all nonfinancial corporations was 8.7 percent; for 1956, it was less than 8.1 percent.



The tendency of unions to raise labor costs by pushing up wages is not under most circumstances self-limiting (1) because the wages of many nonunion firms are affected by increases in union firms and (2) because when unions gain wage increases, unions also generate larger incomes and expenditures in the rest of the economy. The tendency of trade unions to generate increases in incomes is a characteristic of great importance, but one that economists in general have overlooked. I have explained it briefly in the preceding section. It means that the economy has a greater capacity to expand than we had previously suspected.

It means also that the influences making for inflation are stronger than had been suspected. It means that there is no sharp dividing line between cost-push inflation and demand-pull inflation, since unions, by raising wages in some plants, tend to raise incomes and demand throughout the economy.

Finally, the tendency of trade unions to generate money incomes tends to reduce the severity of recessions. The recession of 1958 illustrates the point. In March 1958, the low point in hours worked by wage and salary employees, hours worked were 4 percent less than in March 1957, but wage and salary payments were down only 1.7 percent, indicating a rise of nearly 2.3 percent in wage and salary payments per hour.

To a small but unknown extent, the rise in wage and salary payments tended to accentuate the drop in employment. Hence, the precise effect of higher wage and salary payments per hour upon payrolls cannot be measured. It is reasonable to suppose, however, that, in the absence of wage increases, the drop in payrolls would have been at least 3 percent.

On the basis of that assumption, the net contribution of wage increases to payrolls at the bottom of the recession was around \$2.6 billion a year. (These figures assume that the short-run elasticity of demand for labor is about minus one-half.)

The tendency of trade unions (1) to push up labor costs and prices and (2) to generate increases in money incomes does not depend upon the attainment of full employment. Unions may be creating inflationary rises in prices and increases in income while the economy has a fairly substantial amount of unemployment.

Thus in 1954, when the unemployment rate averaged 5.6 percent, hourly compensation of employees in private industry rose 3.5 percent and output per man-hour by about half that amount, or 1.8 percent. Again in 1958, when unemployment averaged 6.8 percent, hourly compensation of employees in private industry rose by 3 percent and real product per man-hour by one-third that amount, or 1 percent.

Various steps may be taken to lessen the tendency of economic growth to raise the price level. Only experience will demonstrate the effectiveness of those steps. In my judgment a slow rise in the price level is an inescapable cost of the maximum rate of growth—that is, growth at a rate which puts to work all of the country's resources.

The limiting factor on growth is the labor supply. An employment rate of 97 percent to 97.5 percent of the labor force is probably as high an employment rate as is feasible. This employment rate would leave idle much semiobsolete and high-cost equipment.

The steps that might lessen the impact of growth upon prices may be divided into those that the Government might take and those that private industry might take. It has been proposed that the Government keep prices stable by tight credit policy which would create enough unemployment to prevent wages from outrunning productivity per man-hour.

But this policy does not represent a solution to the problem. It is simply a proposal to subordinate growth to stable prices. The burden of adopting this solution should soon prove intolerable because the loss to the community from a retarded rate of growth would increase at a compound rate. If the economy were capable of growing at 4 percent a year and were held to a growth of only 2 percent a year in order to keep the price level steady, at the end of 10 years the economy would have 26 percent less productive capacity than it would have had at the faster rate of growth.

It has been proposed that the power of unions to push up wages be reduced by breaking up the unions in several parts so that there would be several unions in the same industry. Such an attempt to weaken the monopoly power of unions would not have the intended results. Unions would lose some of their present ability to support strikes by some members while other members worked and paid dues and special assessments. But the employers dealing with the several unions would still be dealing with monopolies able to shut down their operations.

Furthermore, there would be rivalries among the new unions and each would feel a strong urge to make a better settlement than any of the others. Hence, there is little reason to expect that breaking up unions would as a general rule diminish their upward pressure on wages.

The most important step that the Government could take to reduce the tendency of growth to raise prices would be to cut tariffs and abolish quotas, thereby exposing American industry to more competition from abroad. Foreign competition, by making it more difficult for American firms to pass on increases in labor costs to customers, would stiffen the resistance of American employers to wage demands and would retard the tendency for rising wages to push up prices.

Too much should not be expected from foreign competition because, as a general rule, American producers (especially manufacturers) can undersell their foreign rivals. The strong position of American manufacturers is indicated by the fact that exports of finished manufacturers by the United States in 1958 were 2.4 times our imports.

Our exports in 1958 were more than twice as large as our imports in the case of iron and steel products; more than seven times as large as imports in the case of machinery; nearly twice as large as imports in the case of cotton manufactures. The cotton textile industry has done a marvelous job of public relations, misleading the public into believing that the Japanese are about to put it out of business. But actually for every dollar of cotton textiles that comes into this country, we export nearly \$2 of cotton textiles.

Foreign competitors are handicapped by the fact that prices abroad have been rising faster than in the United States. In Britain, the largest manufacturer outside of the United States in the free world,

efficiency in much of industry has been held down by wasteful union rules and, in the metal trades, by an unruly shop steward movement which in many plants has prevented management from exercising proper control.

In spite of these handicaps, foreign competition is becoming more effective. If duties into this country were drastically cut and quotas removed, foreign competition would be of invaluable aid in checking the tendency of wages to outrun labor productivity and in retarding the rise in prices.

In addition, foreign competition would be a wholesome spur to efficiency and to inventiveness in industry. No single step that the Government could take would make such an important contribution toward strengthening the American economy and toward the achievement of rapid growth with stability of prices as a program for reducing tariffs and eliminating quotas.

I suggest that Congress provide for the immediate starting of a program that would gradually eliminate all duties and quotas within the next 10 years. If you are not willing to do that, don't complain about rising prices.

Of the several steps that private management might take to lessen the tendency of economic growth to raise the price level, the most important would be to enlist the active cooperation of all employees from top management to sweepers in reducing the ratio of payroll costs to sales. At the present time, only a few enterprises really succeed in gaining the active cooperation of their workers.

They hire men to do more or less routine physical tasks in ways prescribed by managements. Today the most important capabilities of American workers, their imagination, their ingenuity, their ability to invent and to discover shortcuts, are rarely put to use because methods of management in most plants are not designed to bring out these qualities. Indeed, most managers have little conception of how much ability is going to waste through not being used.

About 20 years ago, there began to be developed new methods of management designed to draw on the unused abilities of workers. The pioneer in this work was the late Joseph Scanlon, first of the staff of the United Steelworkers and later of the staff of the Massachusetts Institute of Technology. Mr. Scanlon's work is being carried on by men trained by him, and his methods are in use in several score plants. The spread is slow because the new methods of management require changes in philosophy by both employees and management and a high degree of mutual confidence. The essence of the arrangement is that workers gain an opportunity to earn a bonus by reducing the ratio of payroll costs to sales.

A system of committees is provided to collect and pass on ideas, to review operating results, and to consider problems.

Experience shows that when men are given an opportunity to earn a bonus by developing teamwork and improving technology, amazing things begin to happen. The workers develop remarkable capacity to make technical suggestions. They become critical of management shortcomings which formerly they did not mind. Their ideas of who is a good supervisor are radically changed.

The new methods of management may or may not be adequate to prevent wages from outrunning productivity, but they hold more

promise for checking rising labor costs than any device that has yet been developed because they enlist the active help of all employees against rising costs.

Since there may be no way of reconciling maximum growth with a stable price level and since, in any event, reconciliation of the two objectives will take time, it is desirable to examine the probable effects of creeping inflation. These effects are by no means as disastrous as they are frequently described. Let us examine briefly the principal allegations made about creeping inflation.

1. Creeping inflation is said to be bad for production. Examination of the experience of various countries in the free world shows no connection between the degree of inflation and the rate of increase in production. The following table shows the increase in the consumer price level and increase in real product per capita in 15 countries:

	Percent increase in consumer price index, 1948-57	Percent increase in real product, per capita, 1948-57		Percent increase in consumer price index, 1948-57	Percent increase in real product, per capita, 1948-57
Austria.....	124.0	93.9	Denmark.....	43.2	16.1
Finland.....	87.5	31.4	Ireland.....	41.8	14.8
France.....	76.7	47.4	Italy.....	27.9	48.1
Spain.....	55.7	34.5	Canada.....	26.2	20.7
Norway.....	51.4	12.6	United States.....	16.9	18.4
United Kingdom.....	50.6	22.7	Belgium.....	12.6	123.0
Sweden.....	46.8	14.6	Switzerland.....	9.4	16.3
Netherlands.....	46.2	20.2			

<sup>1</sup> 1948 to 1955.

<sup>2</sup> 1950 to 1956.

Source: United Nations, "Statistical Yearbook," 1957, p. 485.

Austria, with the greatest increase in the consumer price index, also had the greatest increase in real output per man-hour. Switzerland, with the most stable price level, had one of the smallest increases in per capita real output. Belgium and the United States, which had relatively small increases in their price levels, also had relatively small increases in real per capita output.

The eight countries with the largest increases in the consumer price level had an average increase of 34.7 percent in real per capita output; the seven countries with smallest increase in the consumer price level, had an average increase of 22.5 percent in real per capita output. There is not a close relationship between the change in the price level and the rate of increase in production. The coefficient of rank correlation comes out only a little more than 0.5 in the case case of the 15 companies.

The real conclusion to be drawn is that there is not a close relationship between the increase in the price level and increase in production although there is some tendency for the increase in production to be associated with an increase in the price level.

It is interesting to observe that the United States stands out among the countries of the free world as having been particularly successful in limiting the rise in its price level. But we are near the bottom among the countries of the free world in increasing our output per capita. That is true when one takes, as I took, the period 1948 to 1956 in order to avoid any distorting effect of 1958.

2. Creeping inflation is said to discourage saving. The opposite is true—inflation encourages saving. The reason is that the volume of saving is in the main determined by the volume of investment—not investment by the volume of saving.

Inflation encourages investment by preventing rising labor costs from destroying investment opportunities. By thus encouraging investment, inflation also encourages saving since for every dollar invested there is also a dollar saved.

3. Creeping inflation is said inevitably to become a gallop. This is a widely disseminated bit of nonsense. All of the important industrial countries of the free world have had creeping inflation during the last few years, yet in every case except Switzerland and Belgium the rise in the consumer price index was less in the period 1953-57 than in the period 1948-53, as the following table shows:

	1948-53	1953-57		1948-53	1953-57
	<i>Percent</i>	<i>Percent</i>		<i>Percent</i>	<i>Percent</i>
Austria.....	100.0	12.0	Italy.....	16.3	10.0
Belgium.....	5.3	7.0	Norway.....	35.1	12.0
Canada.....	19.0	6.0	Sweden.....	29.9	13.0
Denmark.....	23.5	16.0	Switzerland.....	4.2	5.0
France.....	66.7	6.0	West Germany.....	7.5	6.0
Great Britain.....	29.9	16.0	United States.....	11.1	5.0

4. Creeping inflation will cause the United States to be priced out of world markets. No one can be sure what the future will bring, but prices in most other industrial countries have been rising even faster than in the United States. Between 1950 and 1957, for example, the increase in the index of wholesale prices in Britain was more than twice as large as in the United States, in Sweden and Norway more than three times as large, in France almost three times as large, in West Germany almost twice as large, in Austria four times as large.

I get a bit fed up with the superior attitude of some foreigners about prices in the United States. They don't realize that we have done a better job than they have in holding down prices.

No one knows, of course, whether prices in other industrial countries will continue to rise faster than in the United States. Since the principal industrial countries are in competition with one another and since they are all more or less subject to the same influences—such as powerful trade unions and an insistent popular demand for social services that precludes important reductions in taxes—all of the industrial countries are likely to experience about the same movement of the price level.

The competitive position of the United States is very strong, especially in manufacturing. This is indicated by the fact that our exports of finished manufactures in 1958 were 2.4 times as large as our imports. But if important industrial countries were to succeed in underselling us on a broad scale, that would help us check inflation by stiffening the resistance of American employers to union demands and by encouraging employers to cut prices.

5. Creeping inflation will cause, it is said, a flight from the dollar. This fear raises the practical question: "Where is the money to go?" Every country in Europe has had creeping inflation during the last

10 years. Other currencies have limited attractiveness because almost any country one might name has economic and political problems as formidable as those confronting the United States.

Flight into commodities is not satisfactory because the future price of each commodity depends upon specific market conditions (supply, demand, competition of substitutes) far more than on what happens to the general price level.

Some shifting of investment is bound to occur and already has occurred, but the process tends to limit itself. For example, if the price level is expected to rise 2 percent a year, a good bond yielding nominally 5 percent has a true yield of 3 percent. Such a bond may be as attractive as a stock that has been bid up to yield only 2.5 percent.

6. Creeping inflation is said to reduce the purchasing power of pensions. This statement is true provided pensions are not raised to offset the rise in prices. Some plans are geared to the wage level—as in the case of some plans in the steel industry which provide for a monthly pension at age 65 equal to 1 percent of the average monthly earnings during the 120 calendar months preceding the month of retirement multiplied by the years of continuous service.

An increasing number of companies, private bodies, and public bodies have put in variable annuity plans under which the assets of the plan are invested in equities that fluctuate more or less with the movements of the price level.

The TVA has such a plan now and some of the public plans in the State of Wisconsin are variable annuity plans. Other pension plans have been liberalized. For example, the General Motors plan, which originally provided for monthly pensions at 65 after 10 years or more of service equal to \$1.50 for each year of service, now provides pension benefits of \$2.25 to \$2.35 a month for each year of service for workers retired prior to September 1, 1958, and \$2.40 to \$2.50 a month for each year of service for workers retired subsequent to September 1, 1958.

The largest and most comprehensive plan of all, the old-age and survivors' plan of the Federal Government, has been substantially liberalized by successive amendments. This has resulted in a substantial rise in the average old-age benefit. The original benefit formula was one-half of 1 percent of the first \$3,000 of cumulative wage credits plus one-twelfth of 1 percent of the next \$42,000 plus one twenty-fourth of 1 percent of the next \$84,000. The present formula is 58.85 percent of the first \$110 average monthly wages plus 21.4 percent of the next \$290. The average old-age benefit is still too small, but it has risen far faster than the Consumer Price Index. At the end of 1946 it was \$24.55; at the end of 1957, \$64.58; and in July 1958 it was \$65.87 (U.S. Department of Health, Education, and Welfare, Social Security Bulletin, Annual Statistical Supplement, 1957, p. 39, and Social Security Bulletin, October, p. 1).

The increase between the end of 1946 and July 1958 was 168 percent. In the same period the Consumer Price Index rose less than 49 percent. Hence, in spite of the fairly substantial rise in the Consumer Price Index between 1946 and 1958, the average recipient of a Federal old-age pension was far better off in 1958 than in 1946—the purchasing power of his pension had gone up by about 80 percent.

Now, Mr. Chairman, I shall be glad to submit to such questions as the committee may wish to ask.

The CHAIRMAN. Mr. Slichter, we want to thank you for a characteristically able and honest statement. The questioning will take place under the 10-minute rule rotating between the majority and the minority.

I should like to compliment you on your reference to the figures on labor productivity and labor payments which were compiled by Dr. Knowles of our staff, and which appear on page 782 of our recent hearings. As you say, they show between 1947 and 1958 an average increase in wage payments per hour of something over 66 percent, an increase in physical productivity per hour of approximately 28 percent, and an increase in labor cost per hour of approximately 33 to 35 percent, very similar to the increase in price per unit of product. I think these facts are very important and that they lay a basis for discussion of the subject.

Some 25 years ago, I started a study of labor costs per unit of output and spent a good deal of time and money upon it. I never published it. I came to the conclusion that while a comparison between wages per hour and productivity per hour was extremely valuable, that the workers, after all, are paid not merely on the physical product, but on the value product, that is, the amount added by the processes of manufacturing or the difference between the gross sales value of the product and the cost of the raw material, and so forth.

During this period from 1947 to 1958, we have undoubtedly had a decline in raw material prices. So that the value margin per unit of physical product has widened. While this does mean that the manufacturing sector of the economy has gained relatively to the raw material producing primary industries of the country, do not these facts indicate that the comparison between labor cost and value product per unit would be less than between labor cost and physical product?

Mr. SLICHTER. Various things have happened to the employer's cost. His taxes have gone up substantially in that period. They will come out of that margin, I take it. The amount left as a profit, either as a net profit or as a gross profit—meaning by gross profit, net plus depreciation plus depletion—has become a smaller proportion of sales rather than a larger proportion of sales. There has been, I should say, a cost-price squeeze over the economy as a whole.

The CHAIRMAN. Is not the squeeze somewhat less than one would infer from a comparison merely of physical product per man-hour and wages per man-hour? Is not this a mitigating factor, if I may put it that way?

Mr. SLICHTER. Yes; it is less because the employer has sought to protect himself and has done so with considerable success by raising his prices.

The CHAIRMAN. I do not mean merely the raising of the prices of the finished product, but the decline in the prices of the raw materials which are fabricated.

Mr. SLICHTER. That may well be. I don't know what happened with the prices of raw material.

The CHAIRMAN. I think it can be shown that they have gone down very markedly during this period.

The second question I should like to raise is this: Have you noticed the increase in prices in the nonunionized sectors of the economy? I have here the Consumer Price Index up to and through January of

this year. This shows a weighted increase for all items over the average for 1947-49 of 23.8 percent. But if you break that down by groups, you find that the biggest increase occurred in the field of medical care, where the rise for the corresponding period was 47.6 percent. Certainly this is a nonunionized sector of the economy, unless the American Medical Association can be termed to be a union, and I make no such charge.

Similarly, if you take personal care, which is certainly not unionized, the increase there was 29.4 percent as compared with the average of 23.8. I wonder what comment you would have to make on that issue.

Mr. SLICHTER. I think the rise in the cost of medical care is explained in substantial measure by great growth of various insurance plans which make it possible for people to pay for medical care which they previously had not paid for, and had not got at all.

The CHAIRMAN. This is not supposed to deal with the quantity of medical care obtained, but the cost of a unit of medical care insofar as a unit of medical care can be measured. That is, it is supposed to be on a constant budget.

Mr. SLICHTER. Yes, but I think the fact that ability to pay for medical care has been greatly improved has led to an increase in the charges for medical care.

The CHAIRMAN. You mean to say that the doctors and hospitals have taken advantage of Blue Cross and Blue Shield to increase their rates?

Mr. SLICHTER. Their costs have gone up. I do not like to use that word "take advantage" in an invidious sense, because I think they needed an increase in what they were getting. There is another aspect of that particular item that is pretty hard to handle statistically. That is the change in the quality of service. But if one looks into the cost of operating hospitals, for example, one discovers that those costs have been raised by the things that have been affecting the whole array of prices.

The CHAIRMAN. This is a nonunionized sector of the economy which apparently has had the greatest increase in prices.

Mr. SLICHTER. I have seen some of these comparisons of highly unionized parts of the economy and parts of the economy in which the percentage of union organizations is low, and it has been pointed out that the rise in prices of some of the parts of the economy in which the percentage of union organization was low has been greater than the percentage in parts of the economy where the percentage of union organizations was high. Those don't seem to me to carry very much significance because higher labor costs affect the entire economy. Take a hospital, for example—the light, the fuel, the food, the laundry service—all of these things which are hospital uses are affected by what is happening in the rest of the economy.

The CHAIRMAN. Dr. Slichter, I don't want to pursue this further. I merely point out that the increase in food has been 19 percent, and the price increase in medical service has been 46 percent. My time has expired. Mr. Curtis.

Representative CURTIS. Thank you, Mr. Chairman. I want to join in the chairman's expression of appreciation for your very stimulating paper. Just how do you measure economic growth? Throughout your



paper there is a constant reference to economic growth, but just how would you go about measuring it?

Mr. SLICHTER. Of the several measures that one might use in measuring economic growth, I would attach greatest importance, I think, to real output, either per man-hour or per capita.

Representative CURTIS. The gross national product, for example.

Mr. SLICHTER. In per capita terms.

Representative CURTIS. Yet that might be the result of a temporary stimulus. Certainly our capital plant assets, plus the skills that exist in society, are probably more basic in measuring growth. They are what produce the gross national product depending upon the extent to which they are put together at a given time. I remember during the Korean war, they said our steel industry was at 110 percent capacity. As someone commented, how can anything be over 100 percent. Well, we can cut down on what should be normal maintenance and actually have a forced draft production figure. I think it is important in considering some of these other basic economic factors, maximum employment, price stability to determine just how we are measuring economic growth. Because if it is merely activity, we can be spinning our wheels. I was wondering if there are any other better criteria we might use to determine whether we actually are growing.

Maybe if I developed it from another angle you could comment on this. For example, in a rapidly growing society technologically we are going to have considerable obsolescence, and yet that time and effort spent in creating what becomes obsolescent would be measured in the gross national product. In fact, we could make a very grave error in how we were applying our resources and yet it would show up that we were growing, using just the gross national product.

I have a little study in a small way that I think is interesting. That is to take a look at the amount of surplus property the Military Establishment generates annually. It is around \$8 billion a year. We get about 7 cents on the dollar on its sale. A great deal of that, of course, is the result of inefficiency. A great deal of it is probably obsolescence. Yet that is a factor, it seems to me, that we have to weigh in considering what kind of economic growth we have been having. I wonder if you would comment on those observations.

Mr. SLICHTER. If we could measure the net national product, that figure would be preferable to the gross national product. But we use the gross national product, not because it is logically preferable, but because as a practical matter we have difficulty in measuring capital consumption each year. In order to get the net national product, we would have to subtract capital consumption from the gross figure. We estimate capital consumption but we don't have as much faith in that particular estimate as we do in the gross figure. Therefore, our emphasis is upon the gross figure. So when you say we use the gross figure we may seem to be growing faster than we really are. That could well be true. Whether the net figure was rising faster than the gross figure would depend upon whether capital consumption was increasing or diminishing. If the rate of technological progress is growing, the rate of capital obsolescence is presumably going up, and the net figure is not climbing as fast as the gross figure. But I think in order to make a guess as to what is happening to the net

figure, one would need broader evidence than one would obtain by the surplus property which the military has to dispose of. I think one would take a second look at the estimates of capital consumption which the Department of Commerce makes, and decide whether or not those estimates are about as good as they can be made.

Representative CURTIS. I wonder if in our studies, though, we don't have to break down what we are talking about when we say economic growth. Possibly break it down and confine it to a specific area such as transportation and see what economic growth there might be there, and then take other big sectors of that nature. We could be going sideways instead of actually growing, or actually we could have made an economic mistake and what we had thought of as being growth ends up in the garbage pail. That is why I was asking this question. I think we can't just talk about growth for growth's sake, as if that were something desirable in itself. Would you agree with that?

Mr. SLICHTER. I think that if you accept the philosophy that the economy should make what consumers desire it to make, then we want growth. We don't question the consumers' choices. Should we perhaps not have more sophisticated consumers? I suppose the answer to that would be yes, but it is only by a slow process of education that we get more sophisticated consumers. At any given moment of time, we have to take the consumers we have. With their limited knowledge of goods and so on, and they are busy people, not spending too much time informing themselves about the qualities of different goods, they are not going to do a perfect job of giving orders to the economy. If they were more sophisticated, better informed, they would make the economy perhaps produce a better selection of goods. I think the problem of improving consumer choice is a different problem from the problem of full utilization of such resources as we have.

Representative CURTIS. For instance, particularly at the Government level, where the Government through bureaucratic decision can make a decision as to a consumer's choice, we could certainly stimulate a lot of activity which would be measured in gross national product, but it would possibly end up in the garbage pail.

Mr. SLICHTER. That is right.

Representative CURTIS. Incidentally, on that point, in this economy founded upon free choice as to consumption, there is always somewhat of a choice as to whether the individual is going to make a consumer dollar out of his dollar or actually make an investment dollar out of that.

Mr. SLICHTER. That is for him to decide.

Representative CURTIS. Yes. But talking from the economic standpoint, that is a consideration we have to bear in mind. As you point out, as you get a more sophisticated consumer, so, too, I hope we will get a more sophisticated person who will make better choices as to spending a dollar or to invest it.

I see my time is up.

The CHAIRMAN. Congressman Patman.

Representative PATMAN. Mr. Chairman, I will pass for the present. I would like to say that Dr. Slichter made a very interesting and thought-provoking statement which I appreciate, and which I expect to give further study.

The CHAIRMAN. Senator Bush.

Senator BUSH. Mr. Chairman, I join with my colleagues here in thanking Dr. Slichter for being with us and presenting a very interesting argument.

I would like to refer your prepared statement, Professor, where you speak of spending by governments, local, State, and national, and note that spending by State and local governments has been creeping up for some years, and will undoubtedly continue to rise because of the necessity of spending more money on education, roads, utilities, and compensation and so forth. But you say a large proportion of the cities and States are having financial difficulty.

I would like to pause right there and ask you whether you have given any thought to these financial problems of the towns and the States. It is an increasing matter of concern to all of us, I think. It is an increasing concern to the Federal Government, because it is resulting to some extent in an attempt by the States and localities to pass on to the Federal Government expenditures and obligations which are quite local in their character and purposes. So I think the financial condition of many of these governments at the State level and local level is quite precarious. I wondered whether you had given any particular thought to that question.

Mr. SLICHTER. I have given some thought.

Senator BUSH. Do you have any comment to make on it?

Mr. SLICHTER. I have given some thought to it, but your emphasis on the word "particular" makes me hesitate to answer by yes. I think the local and State governments need new sources of revenue.

Senator BUSH. Where are they going to look for those?

Mr. SLICHTER. They need to reduce, I think, the proportion of revenue which they obtain from property. The Federal Government has pretty much appropriated the income as a source of taxation. I think that leaves to the States and localities expenditures as a source of taxation. There has been a growth of sales taxes. I think you are going to have to see an increase in the sales taxes. I hope when it comes it will reduce to some extent the burden upon property. The sales tax will have to be collected, I think, in large part by the States and distributed to the localities in the States, because otherwise people will avoid the sales tax by trading in the next town. Some of these responsibilities are perhaps more national than we had been traditionally inclined to think of them.

Take education, for example; certainly at the college and technical level there is much to be said for the idea that an adequate supply of engineers and scientists is a cause of national concern. We have a tradition, I think, in the field of agriculture for national concern with education at the college level.

In the field of transportation, the Federal Government has been assuming broader and broader responsibilities. I am rather inclined to think that is a sound idea.

Senator BUSH. Have you actually written anything on this subject, Dr. Slichter, that you could submit to us, particularly respecting education, which I am very interested in?

Mr. SLICHTER. No.

**Senator BUSH.** In your statement, you also say :

In view of the high persistent unemployment the Government would be wise in my judgment to plan a deficit of several billion dollars in the cash budget for the fiscal year 1960.

That struck me as a specially interesting statement, particularly in view of the fact that we are running along at very high levels of industrial production, very high level of gross national product and national income likely to be higher. All of these figures are apt to be record breaking this year. Yet it is your view that at record breaking or boom levels of the economy that we should plan a Federal deficit. If we are going to plan a Federal deficit at such levels, when would you think it would be a good idea to balance the budget or plan a surplus?

**Mr. SLICHTER.** I want to see employment get up around 97 percent before I would go for a surplus.

**Senator BUSH.** In other words, are you saying that the determination of whether we balance the budget or not should be geared solely to the question of the employment factor? Is that right?

**Mr. SLICHTER.** Yes. I would like to argue that word "solely." The employment rate is as good an indication as we can get as to how adequately we are using the resources of the economy. We had an all time high in retail sales in December. We had an all time high in construction in January. But we still in spite of these all time highs have an unemployment rate, seasonally corrected, of around 6 percent. That is certainly wasteful. It is worse than wasteful. It is inhuman. We can't console ourselves by saying we have quite a high rate of production when we have a 6 percent unemployment rate. We are getting to be each year a bigger and bigger country, and we have to break records in order to have a proper volume of employment.

I should say that our budget for fiscal 1960 should contemplate expenditures of around \$3 billion more, on a cash basis, than receipts.

**Senator BUSH.** My time is up. I am sorry. I would love to pursue this.

**The CHAIRMAN.** Congressman Reuss.

**Representative REUSS.** The record so far, Mr. Chairman, does not show that the witness, Dr. Slichter, is a native son of my State of Wisconsin. I am particularly proud of your achievement, Dr. Slichter, and that of the Slichter family, including those who have stayed in Wisconsin.

I would like to pursue the point that Senator Bush just raised and your thesis that, in the short run at least, we need to increase the demand for goods and that additional expenditures in the 1960 budget on the order of \$3 billion would be a way of achieving that extra demand. You say, however, that tax cuts are out of the question, because of the bad state of Government finances. I surely agree with your views as to the bad state of Government finances.

I have this question: Isn't there a series of tax reforms which are long past due, the enactment of which would not necessarily depress demand, but which might, if not eliminate the budget deficit, at least reduce it? Isn't it desirable that both the administration and Congress address themselves quite promptly to the necessity of tax reform and, particularly, to the question of plugging tax loopholes?

Mr. SLICHTER. I would certainly favor making tax reforms regardless of the cyclical position of the economy. If you wait for the cyclical position of the economy to be right before making tax reforms, the tax reforms will never get made. Even though the immediate effect of the tax reforms is to increase the Government's revenue and even though the Government may need to increase its deficit from the standpoint of its effect upon the economy, I would go ahead and make the tax reforms and would get what seemed to be the proper deficit in other ways.

When I suggest we ought to have a deficit, I am not suggesting that the money should be squandered. I am in favor of spending the money in ways that would strengthen the country.

Representative REUSS. As I understand it, you are urging that the level of expenditure for urgent national purposes be adequate. You do not desire a deficit as such, I trust.

Mr. SLICHTER. I think I do.

Representative REUSS. Even if the revenues could be raised by methods that do not appreciably lessen demand? I am thinking, for example, of the current oil depletion allowance which is in full force and effect at a time when we are, rightly or wrongly, restricting the importation of oil, the continued production of which is in part encouraged by the depletion allowance. Couldn't this allowance at least be reduced, without depressing demand?

Mr. SLICHTER. That is a special question that I am not competent to discuss. As long as we have an unemployment problem, I think that the Government should plan to take away from the people a little less money than it puts into the hands of people through its expenditures. In other words, I think that the deficit should be deliberate. It should have the definite purpose of getting the unemployment rate down to, I should say, 3 percent. Probably you have to tolerate a rate of around 3 percent because people like to take a little time between jobs to look around before committing themselves to the next job, and that sort of thing. But 6 percent represents, I think, quite plainly a problem. We have to have enough pull in the economy, and enough expansion in the economy, to pull some of these people out of Detroit, pull some of these people out of West Virginia, and a modest deficit is a small price to pay for that.

Representative REUSS. I am not totally fearful of a modest deficit. My question rather is that, in view of the difficulties of financing the national debt, isn't it possible to find sources of new revenue, which will not reduce overall demand, and thus aid in debt management? Not every dollar of taxes means a dollar that would otherwise have been spent. Doesn't it depend on whom you tax and on what basis?

Mr. SLICHTER. The problem of the deficit is a problem of making Government securities attractive. I think that means among other things removing the ceiling of 4¼ percent on Government securities.

Representative REUSS. In what other ways can Government securities be made more attractive?

Mr. SLICHTER. The main thing is to pay a decent rate of interest. If you look over the history of the Government security-market since 1946 or 1947, you discover that the general public has not been buying Government securities for around 10 years. You discover that the securities liquidated by the life insurance companies, the savings banks,

and the commercial banks have been bought by the Government trust funds on the one hand, and by State and local pension funds on the other hand. The Government securities held by individuals are about the same in volume today as they were 10 years ago. Why shouldn't the Government of the United States issue securities that ordinary people are interested in buying?

Representative REUSS. You would not be afraid that successive raising of the interest rate on Government securities would merely cause a similar proportionate increase in the interest rate on mortgages, corporate bonds, and other fixed-interest investments, thus leaving Governments in the same unattractive position?

Mr. SLICHTER. Why shouldn't the Government compete in bonds? Don't we believe in competition in this country?

Representative REUSS. Thank you.

The CHAIRMAN. Mr. Kilburn.

Representative KILBURN. Dr. Slichter, under section VI of your statement you apparently demolish the arguments against creeping inflation in six different paragraphs. I would gather from that, that you think that creeping inflation is a good thing.

Mr. SLICHTER. No, I don't think it is as bad a thing as it is usually described to be. It does not bring the disasters that people say it will bring. It may be and probably is a necessary cost. If it is a necessary cost, I am philosophical enough to say, well, if it is necessary let us pay it. There is not much choice. In the previous section I suggested to the best of my ability ways of avoiding creeping inflation. But not having too much confidence that my suggestions are going to be carried out, I went on to discuss how great a problem we might have in the event that inflation continued to creep.

Representative KILBURN. I gathered from your paper, as you read it, that you undertake to demolish the arguments that have been used against creeping inflation.

Mr. SLICHTER. That is right. I tried to.

Representative KILBURN. You made no arguments yourself against creeping inflation that I could see. I just gathered from that—maybe I am wrong—that you think that we can accept, if not seek, creeping inflation.

Mr. SLICHTER. I concede as I think everyone must that creeping inflation works an injustice to some pensioners. I point out that there have been a good many cases in which pensions have been adjusted so that the pensioners have been protected against creeping inflation. But that does not mean that every pensioner has been protected against creeping inflation.

Representative KILBURN. One way to protect them would be to increase the pensions.

Mr. SLICHTER. That is right, but not every pension has been increased. Many of them have been.

Representative KILBURN. One other thing that I am not quite clear about. When you advocate doing away with all tariffs—of course, as you very properly said, our unemployment situation is a bad one and we have to correct it—what happens to employment in those industries that are put out of business because we do away with tariffs?

Mr. SLICHTER. I think you will have some readjustments necessary. That is why I suggest that it be done over a 10-year period. I don't

think that the total amount of employment in the country is diminished by reducing tariffs. I think what happens is that men and capital move into more productive uses and out of the sheltered uses. They need a little time to move and that is why there is a case for gradual reduction of tariffs. We are losing sales abroad at the present time because of our tariffs. We limit in various ways the amount of goods that Japan sends to this country, but the Japanese would like to buy American machinery for moving earth, for use in the construction industry, Japan is having a construction boom.

Japan does not buy as much here as Japan would like to buy because Japan lacks dollars with which to buy. We would expand some of our industries at the same time we would suffer contraction of other industries by letting Japanese goods come in. In other words, we would have a readjustment. Very much the same sort of thing happens inside the country. When you get a new thing like television, for example, television has shut down I don't know how many hundreds of moving picture houses.

Representative KILBURN. That is all, Mr. Chairman.

The CHAIRMAN. Senator Sparkman.

Senator SPARKMAN. Mr. Chairman, I want to thank Dr. Slichter for this most interesting and thought-provoking paper he has presented to us, and also the discussion. I am sorry I had to leave the room during some of the questioning. So it may very well be that questions I should like to ask have already been asked. It is not my purpose to duplicate if any have been asked.

Doctor, you speak a great deal about "creeping inflation." You use the term quite often, or at least several times in your paper. Do we have a situation now that could be described as creeping inflation?

Mr. SLICHTER. Not at the moment. I think the consumer price index has changed very little, or virtually not at all, for about 8 or 9 months.

Senator SPARKMAN. Since about last June, I believe, or July; is that true?

Mr. SLICHTER. Yes.

Senator SPARKMAN. In other words, we are enjoying a period and a pretty good period of stability at the present time.

Mr. SLICHTER. That is right.

Senator SPARKMAN. You do see the possibility of periods of creeping inflation. You think that there will be times when it will be almost inevitable?

Mr. SLICHTER. I think the longrun movement will be for a slow rise in the price level because I think when we have high employment or close to high employment, we are likely to have wages rise faster than output per man-hour.

Senator SPARKMAN. We have considerable unused productive capacity now, have we not?

Mr. SLICHTER. Yes. We always have considerable unused productive capacity. We always have more machines, we always have more equipment than we have people to operate it. You might say that we are producing around 3 percent less than we are capable of producing at the present time. If we put all of our work force to work, or 97 percent of the work force to work—something that is probably as high a proportion as we can put to work except in time

of war—we would still have a lot of machines that would not be operated. They would be semiobsolescent machines, more or less high cost machines, but we always have more machines than we have workers to operate them.

Senator SPARKMAN. Are we oversupplying the demand for commodities of different kinds and consumer goods?

Mr. SLICHTER. At the present time we are suffering from a deficiency of demand.

Senator SPARKMAN. We are suffering from a deficiency of demand?

Mr. SLICHTER. At the present time, yes.

Senator SPARKMAN. Is that the result of not having a sufficient means with which to buy, or are people just adequately supplied?

Mr. SLICHTER. I don't think it is a result of people being adequately supplied. We have no difficulty in consuming everything that we could make. There are various ways in which demand might be increased. I think the most stable way of getting a lasting increase in demand this year would be through modest wage increases spread over a considerable part of the labor force. I suggested that the Government plan a modest deficit for the next year. At the present time the Government has a very substantial deficit. There is no need of increasing the deficit at the present moment. I think we have been overdoing the restrictions on credit. I have not seen the figure this morning, but last week I think net borrowed reserves were well above \$150 million. They have been running above \$150 million in recent weeks. That does not seem to me to make sense when we have a 6 percent unemployment rate. I think there would be some more spending if credit were somewhat more available. However, I appreciate the problems of the Federal Reserve due to the probably high attrition on some of the Government issues which will be maturing in the next few months.

Senator SPARKMAN. I think there has been created throughout the country a psychological reaction to the effect that if the budget is unbalanced at all in 1960, then inflation is inevitable. You do not subscribe to that idea?

Mr. SLICHTER. No. I think what happens to labor costs is more important than what happens to the budget. We may get a little inflation but it would be better to have a little inflation next year and get down to 3 percent unemployment, it seems to me, than to keep the price level perfectly stable and keep unemployment around 6 percent.

Senator SPARKMAN. Did you by chance happen to read the editorial in the New York Journal of Commerce a week ago yesterday, stating 2 or 3 billions?

Mr. SLICHTER. I am afraid I did not see it.

Senator SPARKMAN. The brief of it was that this talk of an unbalanced budget automatically creating inflation is not correct. It would not necessarily do so. It said we could even unbalance the budget by \$2 billion or \$3 billion without creating inflation. But it did bring out that the constant talk of inflation and the fear of inflation built up the fires of inflation.

Mr. SLICHTER. I do not observe any behavior in the business world which indicates fear of inflation at the moment. There is buying for inventory purposes, but that is a hedge against a possible strike in the steel industry. It does not seem to be a hedge against inflation.



Manufacturers were reducing their inventories as late as last December. January was the first month in which the book value of manufacturers' inventories showed an increase. The increase there was pretty much confined to the durable goods manufacturing industries and seems to be related to the fears of the steel strike rather than to the fears of inflation. Whatever people may think about inflation, or the prospects of inflation, that does not seem to be affecting their buying of inventories or commodities at the present time. It may have some influence upon their purchases of equities, but not commodities or inventories.

Senator SPARKMAN. Thank you, Mr. Chairman.

The CHAIRMAN. Congressman Widnall.

Representative WIDNALL. Dr. Slichter, you placed quite an emphasis on the point that we should lower or eliminate our tariffs and abolish quotas. Historically has it proven that here in the United States where these things have taken place prices have actually been reduced here in the United States? Have the price rises been taking place in the industries here that are protected as against those that are unprotected?

Mr. SLICHTER. I have seen no such comparison made. I think it would impose useful competition upon particularly the manufacturing part of our industries if we were to reduce our tariffs. I grant that the foreign manufacturers are not as competitive as we would like them to be. They are pretty much handicapped now by our tariffs and they would be able to produce a little pressure on prices if we were to get our tariffs down.

Representative WIDNALL. Do you believe the American economy would be helped if we eliminated tariffs and quotas on automobiles of all kinds?

Mr. SLICHTER. By all means, greatly helped.

Representative WIDNALL. What would happen to the American automobile business here in the United States?

Mr. SLICHTER. I think General Motors would still be making automobiles.

Representative WIDNALL. Wouldn't they be making them abroad?

Mr. SLICHTER. I don't think so. They make them abroad now.

Representative WIDNALL. But they are limited as to the part of the market they can occupy at the present time.

Mr. SLICHTER. They pay a small duty of 10 percent, I believe, on the cars they bring in. They do not even establish operations in Canada for sending cars and parts into this country.

Representative WIDNALL. Do you believe that the great labor unions of this country would support free trade in automobiles?

Mr. SLICHTER. They would have to supply the answer to that question themselves. Thus far the labor unions, particularly the United Automobile Workers, have been more opposed to trade barriers than the employers have been and have taken a much more realistic view, I think, of our international economic relations than many employers have taken.

Representative WIDNALL. I think that is mainly because they have not felt the competition in the heavy industries that they have felt in some of the smaller industries.

Mr. SLICHTER. I thought that one of our basic principles was a belief in competition. Do we only believe in competition from Americans?

Representative WIDNALL. No. Let me come back to the line of questioning that I started. You stated that the strong position of American manufacturers is indicated by the fact that exports of finished manufactures by the United States in 1958 were 2.4 times our imports. Have you ever broken down realistically the amount of our exports as to how much was actually financed here in the United States through the spending programs of the United States, and how much of that would disappear if we did not have congressional programs that financed those exports?

Mr. SLICHTER. None of these is financed by Government.

Representative WIDNALL. Don't those figures include items that are in the mutual security bill?

Mr. SLICHTER. The figures in the mutual security program are separate and are not included in the figures that I have given.

Representative WIDNALL. Don't those figures include the sale of agricultural surpluses?

Mr. SLICHTER. No. I am talking about finished manufactures here. The Government has gone to a great expense taxing me and a lot of other people to make us noncompetitive in the agricultural field.

Representative WIDNALL. Shouldn't we follow this to its logical conclusion and say that our shipping should be competitive, too, and that we should not have a subsidy of our American ships?

Mr. SLICHTER. I think so. I think the shipping subsidies we are paying are ridiculous. They are perfectly ridiculous. Why should I be taxed, or what right has the Government to tax me to give a subsidy to some shipowner to run a vessel between New York and Europe? What claim does that shipowner have on my income? Why should he be able to use the Government to reach into my pocketbook? It is perfectly ridiculous.

Representative WIDNALL. I say you are oversimplifying the problem when you say the shipowner. It is employment of American people on those vessels and it is the employment of Americans in shipyards that have made that subsidy possible and not just the shipowner.

Mr. SLICHTER. What right does the American sailor have through the Government to reach into my pocket for his wages?

Representative WIDNALL. Dr. Slichter, having seen what foreign competition can do in the shipbuilding field, I would imagine that overnight you would not find a shipyard operating in the United States if you were to eliminate subsidy, and if you were to eliminate tariff. You can build a private yacht in Germany for one-third of the amount in an American shipyard.

Mr. SLICHTER. I would be in favor of this committee making a study which I think has never been made, listing the subsidies of various kinds in the budget, how much they cost, and who gets the subsidy, and then examining in each case the justification for the subsidy. Some of the subsidies may have good reasons for them and others may be pretty hard to justify. But no one knows at the present time how much the American people are being called upon to supply through the form of subsidies and these subsidies ought to be

brought out into the open and examined on their merits. Those which are not meritorious should be discarded. We are going to be called upon to pay tolls for the use of the St. Lawrence Waterway, as we should be. Some of the people around Boston say the tolls are not high enough. I don't know whether they are right on that point or not. Why should we not charge tolls for the use of the locks on the Ohio River? Why should I be called upon, and a lot of other citizens, to furnish free lock service to the barges going up and down the Ohio River?

Representative WIDNALL. My time is up, Dr. Slichter. I would like to follow that up further. I have this in mind. It seems to me that deficit financing and deliberately overspending what you are taking in is a form of subsidy. It is a subsidy to a segment of the American people just as you have a subsidy to the shipyards and a subsidy to those in agriculture.

Mr. SLICHTER. I would agree, but I don't argue because it is a subsidy it is wrong. I think you have to examine each subsidy on its merits and determine whether or not you regard the subsidy as justifiable. I would like to see the subsidies brought out into the open, listed, described, and discussed pro and con. We might not reach agreement with respect to those we like and those we did not like, but I think we would come a lot closer to it, and there might be a strong agreement that we did not like some subsidies and ought to get rid of them, and did like other subsidies and ought to keep them. One defense that could be made of the kind of subsidy represented by budget deficit is that it subsidizes the whole economy, and it is not a handout to a particular group that gets a special benefit free of charge, as to the bargelines, for example, which get free use of the locks on the Ohio River.

The CHAIRMAN. Senator O'Mahoney.

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

Dr. Slichter, like the other members of this committee, I want to pay tribute to your preeminence in your profession. I have appreciated many of your remarks this morning; they were like a breath of fresh air coming into the chamber.

I have been impressed by the fact that the entire discussion this morning seems to be carried on in utter disregard of the economic war in which the United States and Soviet Russia are engaged. This committee has been asked to make a study of the economic situation in the light of that outstanding fact, and in light of the effect it has upon the capacity of the Government to pay its way and the capacity of the people to pay their way. So I would like to ask you as a starter, do you agree that we are living in abnormal and not normal times?

Mr. SLICHTER. I think we are living in abnormal times. This is a conflict between the United States and Russia which is one of the great cultural conflicts of all time.

Senator O'MAHONEY. The conflict between communism and capitalism, is that not the simple way of stating it?

Mr. SLICHTER. Yes, it may be even broader than that, Senator, because it is a conflict of philosophies as well as a conflict of economic systems. It is not only capitalism that the Russians reject. It is our whole philosophy of life.

Senator O'MAHONEY. I quite agree with that. I was stating it in two words for the purpose of simplifying it. Of course, I agree that it is definitely a question of contrary philosophies. You spoke in response to the inquiries of Congressman Reuss about the failure of the people to buy Government securities, and you spoke, or you asked the question, should not the Government compete for funds. In the paper, however, in discussing the housing problem, I thought you were a little critical of the tight money policy of the Federal Reserve Board, were you not?

Mr. SLICHTER. I am.

Senator O'MAHONEY. Doesn't the Government suffer from the tight money which is forced upon it in the market for its securities under present conditions?

Mr. SLICHTER. Yes; that creates problems for the Government, too.

Senator O'MAHONEY. Of course, we are here as representatives of the legislative body of the Government trying to solve these questions. It is a fact, then, is it not, that the Government is at this time living beyond its means? That is to say, it is spending more money than it is receiving.

Mr. SLICHTER. That is true.

Senator O'MAHONEY. And isn't that true of many large municipalities in the United States, and true of some of the States?

Mr. SLICHTER. They are borrowing. They keep their accounts in a different way from the way employed by the Federal Government. Many of the local governments, for example, sell bonds to pay for permanent improvement such as schools or a sewage system or a water system. In other words, the local governments distinguish between the capital budget and their current budget, and they are satisfied to balance their current budgets.

Senator O'MAHONEY. I was thinking of the fact that cities like New York are calling upon the State government to pay some of the costs of the municipal operation, and many of the States are calling upon the Federal Government to pay some of the costs of the State operation. Is that not a fact?

Mr. SLICHTER. That is true.

Senator O'MAHONEY. Is it not also a fact that the consumers are living beyond their means largely? Finance companies and credit companies throughout the United States at this time have installment credit at the peak in national history; is that not right?

Mr. SLICHTER. Yes; the outstanding consumer credit is at an all-time high. When you say living beyond their means, you intend to imply that people should not borrow?

Senator O'MAHONEY. No; I don't want to imply that they should not borrow. But I do know from investigations which have been carried on by the Congress that in many instances some of the large selling institutions in the United States, notably some of the municipal department stores, follow a deliberate policy of keeping as large a number of their customers as possible in a constant state of debt, just like the old mine operators in the days of my youth used to make it a policy to have their miner employees constantly in debt to the company store. I was told, for example, Dr. Slichter, just the other day by the representative of a very prominent national finance company, that

Sears & Roebuck have on their books as debtors at least three out of every five families in the United States. Whether that is true, I don't know, because I have not been able to follow it through; but it is an illustration of the overall picture that I am drawing of a Government head over heels in debt, with the Treasury Department promising to come to Congress again this year to ask for an increase in the ceiling upon the national debt, and with consumer credit at its peak. Much of that consumer credit, of course, may be due to increasing population.

This raises a puzzle in my mind when I read on page 8 of your statement, at the top of the page, the second sentence:

Consequently, the immediate need is for larger personal consumption expenditures. There is little prospect of getting an increase in these expenditures through a further drop in the rate of saving. Consequently, the best short-run prospect for stimulating the economy is through wage increases.

What I make from that statement of yours is that you believe the immediate need is for larger personal consumption expenditures. I couple that with your statement—and I am in complete sympathy with your purpose of doing away with unemployment; I think we have an excess level of unemployment now—that the Government should undertake a new deficit in order to do away with this unemployment. What would the benefits of that be, as you see it?

Mr. SLICHTER. The benefits would be a larger production of goods, a larger employment of people.

Senator O'MAHONEY. What puzzles me about this whole problem, Dr. Slichter, is raised by your answer just now. I know that the Federal budget assigns by far the largest amount of its annual expenditures to preparation for war and the maintenance of its Armed Forces, the research and development of missiles and space operations, an endeavor taken up somewhat recently to build continental ballistic missiles on something like the rate at which the Soviet Government is building.

It seems to me that fact throws all of this argument out of balance. It seems to me that the very first thing that we must concentrate upon doing as a legislative body of the Government is finding a way to make it possible for the United States of America to meet Russia in the economic war and hold off Russia in its military potential. All of this, I think, requires discussion not in the technicalities of the time, but in the necessity for individual sacrifice to support the Government in the great task that it has to show that the free government system is better than the Communist system of dictatorship.

Mr. SLICHTER. To meet Russia in the economic war, we need above everything else to do a good job of keeping the people at work and producing goods. We are not going to show up very favorably in competition with Russia in the economic war if we persist in a high rate of unemployment. People will say, "What is wrong with capitalism if it can't put its own people to work?" If we intend to make a good showing in the economic war, let us get unemployment down and let us get unemployment down fairly promptly.

Senator O'MAHONEY. With that objective I completely agree, but I want to ask this: Don't you think it would be of the utmost importance for the Government to try to find a way to make certain that that which is produced is produced for good and constructive purposes, and not for wasteful purposes?

Mr. SLICHTER. By all means. We wish the Government to be a prudent spender, just as we wish individuals to be prudent spenders.

Senator O'MAHONEY. My time is up, Dr. Slichter. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Coffin.

Representative COFFIN. Dr. Slichter, you have assaulted so many bastions of what one of your colleagues called the conventional wisdom, that I have expected to see the busts around the wall fall off of their pedestals. They have teetered but are still standing. I agree with Senator O'Mahoney this has been a most refreshing experience, particularly for me. I have one question that has to do not with this study, but with something perhaps even more important, and that is our foreign policy. What is the basis for your assumption on page 5:

A more likely American policy is an unwillingness to risk war over Europe just so long as the Russians are content with rather modest grabs and the maintenance of strong enough military forces to deter attacks on this country?

Mr. SLICHTER. The basis for that guess is that our behavior up to now has justified it. We have refused to make a war issue of what has happened in Czechoslovakia or Hungary or Poland. I think it is expecting a good deal of us to expect us in the future to make a war issue of such things. I don't think we are going to be willing to do it.

Representative COFFIN. This is not necessarily your judgment as to what should or should not be done?

Mr. SLICHTER. No; I am not expressing approval or disapproval. I am just expressing by view of the facts. I would defend our policy but that is not the reason I state it. The alternative policy would be a very difficult alternative. You cannot get democracies to divert into military preparation resources on the scale that a dictatorship can do it. The rate of taxation which would be required would be so crushing. Our policy, it seems to me, should add two parts. One, we must be strong enough to deter any attack upon North America. Two, we must have a cultural influence in Russia so that the Russians will more and more demand consumer goods, thereby limiting their own military potential. The great advantage of a dictatorship is that it may deny the people consumers goods, except in meager quantities, and put all of the productive effort into military goods. I don't think democracies can compete.

Representative COFFIN. We are facing the mutual security bill which has money in it not only for the military part, but also money for such things as technical assistance and development. Do you think our policy in carrying out the kind of contest you have pictured involves a substantial commitment along those lines?

Mr. SLICHTER. I think we should do what we can to make it unattractive to Russia to attack France and Germany and other parts of the world.

Representative COFFIN. May I change the subject? You state that the charge is made that rise of prices in recent years is to be explained by employers arbitrarily raising prices of their products. Then you say the facts do not support this charge.

There is current quite an increasing corpus of evidence that to some extent inflation is affected by price policies of certain industries. I refer particularly to the thesis of Professor Means, which has re-

ceived some fairly formidable support from officials of the Federal Reserve System recently. You are acquainted with that kind of analysis. What do you think of it?

Mr. SLICHTER. I don't think it bears as much on the problem of inflation as it bears on the problem of monopoly. When this sort of argument is used, I am impressed with the fact that the same two industries are always mentioned—steel and automobiles. Other industries don't seem to be mentioned. Apparently these are the two industries which furnish some evidence in support of the argument.

Representative COFFIN. You remember Dr. Means' chart of the most recent inflation where he said it is the administered industries, not only steel and automobiles, but rubber and a few other industries, which increased prices. In the consumption industries, textiles and foods, prices went down. This led to his general conclusion that it was within these very complicated industries where prices could be determined unilaterally and have an effect on the general price structure.

Mr. SLICHTER. Under the influence of the barber's union, they have just put the price of haircuts in Boston up to \$1.75. I think that is an outrageous price for a haircut. It is certainly far higher than a haircut was a few years ago. There is no concentration there except a monopolistic union.

Representative COFFIN. Prices have gone to their heads.

Mr. SLICHTER. I think you have a problem of lack of effective competition in some industries but I don't think the lack of effective competition results in the problem of inflation. It may result in unfair prices in some parts of the economy. I am not attempting to defend those prices. I don't think that problem should be confused with the problem of inflation.

Representative COFFIN. Doesn't the chart indicate that there might very well be an impact on inflation?

Mr. SLICHTER. I think when you have labor costs across the board rising twice as fast as output per man-hour and in a consolidated income statement of American business labor costs are about 85 percent of all costs, their effective of those labor costs are very pervasive.

Representative COFFIN. On this particular point, Dr. Means also said that in steel you had a price increase of \$11 and something per ton, but a labor increase of \$1.75 per ton in a recent identical period. In those industries wouldn't that be something that is difficult for you to explain in terms of your general observation?

Mr. SLICHTER. Not as completely as those figures you quoted would seem to indicate. You have to consider the labor cost of the coal and coke and the limestone and of the transportation of all the elements in the price of steel as well as the direct labor cost. There is probably more to it than a mere labor cost explanation, but I think one should distinguish between the monopoly problem and the problem of inflation.

Representative COFFIN. Thank you.

The CHAIRMAN. Mr. Slichter, we are certainly grateful to you and in an age of special pleading when most of the witnesses who appear before us either consciously or unconsciously support some political, ideological, sectional, geographical, or industrial interest, it is a great relief to have someone call the shots as he sees them. I don't

think there is a single sacred cow on both sides of the aisle, and in all sections of the country, that you have not kicked at one time or another during this session. I think I speak for nearly all my colleagues when I say that it gives us a great feeling of satisfaction to have that done. We may not always agree that you should kick our particular cow in the particular portion that you do, but we are very grateful that there are some men who do it. You are the type of rugged intellectual individualist that I would like to see more of in this country. I reserve for myself the right to be also a rugged individualist and quarrel with you on certain points. We are certainly most grateful to you, indeed.

Some of the members of the committee, particularly on my right side, have expressed a desire for a session this afternoon. I have said that if we can get representation from both sides of the aisle and if you are willing to come back at 2:30 we could have such a session. I myself cannot come back because I am going to be busy on the floor. I would like to ask if there are any Democratic members who should like an afternoon session.

Senator O'MAHONEY. I should like very much to be here, Mr. Chairman. I have an engagement during the noon hour, one for a luncheon and one for another conference, and it may be that I won't be able to arrive by 2:30 but I will certainly make every effort to come as soon as I can. There are some questions I would like to ask Dr. Slichter about the subject.

The CHAIRMAN. Dr. Slichter, would you be willing or able to come?

Mr. SLICHTER. I would be very happy to come.

Senator SPARKMAN. Mr. Chairman, I had not planned to be here, but I can. I think if Mr. O'Mahoney can get here soon after 2:30, I can get here at 2:30.

The CHAIRMAN. We will recess until 2:30. We shall meet on Monday, March 23, at 10 a.m., in room G-308 of the auditorium of the New Senate Office Building. The witness at that time will be Mr. Neil H. Jacoby, dean of the Graduate School of Business Administration of the University of California at Los Angeles.

(Thereupon at 12:30 p.m., a recess was taken until 2:30 p.m., the same day.)

#### AFTERNOON SESSION

Senator SPARKMAN (presiding). The committee will come to order. Mr. Curtis.

Representative CURTIS. Thank you, Mr. Chairman.

Dr. Slichter, I was going to pick up where I left off when I was questioning this morning. I was asking how we might define growth, and what indexes we might look to. You mentioned that a real GNP per capita might be one of the best.

I raise this point. For example, if real GNP went up 4 percent while the population rises 2 percent, this will show up as a lower growth rate than the situation in which, for example, the gross national product increased by 2 percent while the population fell by 2 percent. There are a lot of other things of that nature that strike me as making the GNP per capita, or even any GNP conception, as the indexes, rather dangerous. I suspect maybe if we looked at growth



more from the capacity to produce valuable goods and services, if we could measure such a thing, that would avoid that particular aspect. Furthermore, growth so defined would depend on increasing our capital facilities and increasing our labor forces and our skills.

It seems to me if we could use some definition like that or some indexes we would sharpen the policy issues in other respects a lot better. I wonder if you would care to comment on those further observations of mine—of how we can measure the growth.

Mr. SLICHTER. I think the committee, or any group, for that matter, would be wise to consider different indicators of progress or growth. When I said that per capita gross national product seemed to me to be the best measure of growth, I meant that particular measure gave a better impression of what was being accomplished or not being accomplished than any other single measure. You might ask what is our capacity to increase our production. We have been increasing per capita real product, let us say, at 2.5 percent a year. Presumably we have been increasing our capacity to increase capacity by about the same rate. We might say for the next 10 years or the next 5 years we wish to step up the date at which we expand our capital goods industries, and therefore we wish to measure the capacity of those industries of that part of the economy—how rapidly is it growing. If we were inclined to do so, we could put half of our total output, or even more than half of our total output into raising our capacity to produce goods.

In the meantime, of course, we would be limiting our consumption. That is the sort of thing that the Russian dictatorship has been able to do. It has been denying its people consumption goods in order to raise the capacity of the country to produce goods of all sorts. It has taken a dictatorship to do it.

Representative CURTIS. We are getting down to why it seems to me we do have to break down what is growth in these studies. And how can we measure it in each particular area. As I suggested this morning, maybe even break it down into various brackets like transportation. In our society where we do depend, as you suggested, on the choice of the consumer to a large degree, a dictatorship such as Russia can more or less channel economic activity as they see fit.

On the other hand, I further suggest, though, that a bureaucracy can make as grave an economic error as can the choice of consumers in a free society. In fact, I suspect they are more apt to make economic errors. That is the reason this morning I suggested that we ought to be looking to and trying to figure out what is real growth; where we might have been spinning our wheels or where we might have been generating obsolescence, or things that will get into the garbage pail.

Mr. SLICHTER. Last year we put a little more than one-eighth of our product into private domestic investment. We put \$54.4 billion out of \$437.7 billion into gross private investment. Of course, there was some public investment also. I don't have the public investment figures, but I would hazard the guess that our total investment, public and private, was approximately one-sixth, or a little more, of our gross national product in 1958.

We were investing at a somewhat lower rate in 1958 than in some previous years. It might be the judgment of the committee that we should be investing a larger part of our gross national product in plant equipment, inventories, and so on. If we were to step up the rate of investment by a moderate amount, the result would probably not be less consumption, but more gross national product. It is one of the paradoxes of economics that we are busiest when we are growing fastest, and we have the most idle capacity, and we seem to have the most excess capacity when we are growing most slowly.

Representative CURTIS. I was going to ask this question which is almost the opposite of what you have said. I was going to ask, isn't the unemployment rate higher in a technologically fast growing economy than in a stable one?

Mr. SLICHTER. I don't think so. There is this element of truth in that observation. In new parts of an economy, which are rapidly expanding, and are attracting labor from other parts, the unemployment rate is likely to be a little above the average. The reason for that is that people who have moved to the new and expanding parts of the economy take a little while to look around before they accept jobs, and they are unemployed because they are looking for work and because they have not found jobs, but that kind of unemployment is not a bad kind of unemployment. It is a healthy kind of unemployment. Unfortunately, it is not the kind of unemployment that we have at the present time in Detroit or West Virginia or New England, and the other places where we have concentrations of unemployment.

Representative CURTIS. Could it not be, as a matter of fact, for example, we have had a shift from textiles to electronics. The shift is creating unemployment. I don't know that it is a bad kind. It seems to me whenever we do have rapid technological change—probably a better example is the farm areas, where we have had such rapid technological advancement in agriculture that we even call it a revolution now, and we have a concomitant unemployment situation in those areas which is directly the result of this rapid growth.

I was also thinking of our society compared to Great Britain where the economists over there seem to think that 2 percent unemployment or anything above 2 percent is something to be concerned about. On analysis, they have a more stable or less rapidly growing, technologically, economy than ours. I have often thought maybe if we want this rapid growth or want real growth, we are going to have to recognize that in that kind of society we are going to have a higher incident of unemployment.

Mr. SLICHTER. We are going to have a higher rate of that kind of unemployment which we call frictional unemployment. That frictional unemployment is a function of the rate of growth and the faster the rate of growth, the higher the frictional unemployment rate. We have much more than frictional unemployment at the present time.

Representative CURTIS. Can we say how much of this unemployment that we have, which is now a little below seven—

Mr. SLICHTER. On a seasonally adjusted basis it is 6.1 percent. On an unadjusted basis it is a little more than 7 percent.

Representative CURTIS. Is there any way we can measure from our statistics how much of that is fictional?

Mr. SLICHTER. The best thing we can do is to go back and look at other years and look at how low we managed to get in the unemployment rate and how we got that low. You have to use a certain amount of judgment and commonsense. If you get a very low rate at the time of war, you must not say that we have a right to expect in time of peace to go equally low. I would say as a rough guess that we might expect to go to 2.5 or 3 percent. We have been lower than that. It has taken a war to do it.

The British, who count unemployment differently, have still lower limits, but their figures are not comparable to ours.

Representative CURTIS. Their statistics are different.

Mr. SLICHTER. Yes. One thing that we don't have, that would be very helpful, is figures on the number of vacant jobs. We do not know how the number of vacant jobs compare with the number of unemployed. If you compare the hours worked by skilled workers with the hours worked by other workers, and those figures are available each month in the P-57 reports issued by the Department of Commerce, you will discover that the skilled workers each month are regularly working longer hours than the other workers. They are regularly working overtime. In other words, there is chronically a shortage of skilled workers. Our facilities in this country for training skilled workers are far from adequate. In order for me to get my automobile repaired I have to call up the garage and make a date. We have built a great deal of equipment of various kinds in the last 10 or 15 years and we have not trained the people to keep it in repair. We are short of repair people of all kinds.

Representative CURTIS. I thought maybe one reason why service costs have been increasing is because of the fact that there is a shortage of skills in the service area.

Mr. SLICHTER. That is partly the reason. There is a lot of unionism in the service areas, too.

Representative CURTIS. The barbers, you mean.

Mr. SLICHTER. And the beauty parlor operators and the garage mechanics.

Representative CURTIS. I often thought this tremendous growth of "do-it-yourself" is a further reflection of shortage of skills in areas such as plumbers and electrical repairmen and that sort of thing.

Mr. SLICHTER. I wish we could develop more adequate arrangements for training skilled craftsmen. Several of the unions have done admirable work in stimulating this sort of thing. The plumbers and the steamfitters, for example, have a program which has cost the union a very considerable amount of money. They hold a week's training conference for their apprentice instructors each year at Purdue University. They offer prizes, a first prize of a thousand dollars for the best apprentice in the plumbing end of the industry, and another prize of \$1,000 for the best apprentice in the steamfitting end of the industry, and a second prize of \$500 and a third prize of \$250, and they have a whole series of contests beginning at the local level. The national contests, which are a combination of practical and theoretical tests, last nearly a week at Purdue.

In the electrical industry there is a very fine program jointly sponsored by the International Brotherhood of Electrical Workers and the Contractors' Association. Bill Damon here in Washington, who

is jointly hired by the union and the employers, heads it. They have been developing skilled electricians.

The boilmakers have moved in the same direction but not quite as far as the electricians or the plumbers.

The machinists have moved in the same direction, but not quite as far as the others.

We are badly in need of ways of training more skilled workers. I would hope in particular that a good many of these unemployed automobile workers can be trained to become automobile repairmen and given a good opportunity to make a living as automobile repairmen. We have had graduate students do very well in making a living while pursuing their graduate studies simply because they knew how to repair automobiles. They don't have to worry about getting through school.

Representative CURTIS. Thank you.

Senator SPARKMAN. Senator Bush.

Senator BUSH. Dr. Slichter, I would like to go back to your original text this morning and refer to my question of this morning concerning your statement that in your judgment it would be wise to plan a deficit of several billion dollars in the cash budget for the fiscal year of 1960.

When you speak of the cash budget, I differentiate that from the administrative budget, and it would be a much larger deficit than the administrative budget. In other words, a \$3 billion deficit in the ordinary budget would be the equivalent of the \$6 billion, approximately, deficit in the administrative budget. Is that not so?

Mr. SLICHTER. Not any longer. The two are not very far apart at the moment.

Senator BUSH. I thought the difference between our cash budget due to the income for the trust funds and so forth from the administrative budget approached \$3 billion. Is that not so now?

Mr. SLICHTER. Several years ago the cash budget would be in balance when the administrative budget was running a deficit of 2 or 3 billions, because the trust funds were running a surplus. The trust funds are about in balance now.

Senator BUSH. They are not improving our cash position annually, then.

Mr. SLICHTER. No. The cash deficit is a little bigger than the administrative deficit this year, and I think it will be the next year. There isn't much difference between the two for the time being.

Senator BUSH. The thing that puzzles me is why do you think we should actually plan a deficit at times when our gross national product, our national income, our savings and other measures of well-being are at such very high levels? You might say at all-time high levels. It is anticipated that in this calendar year we will break the records in these items that I mentioned. What bothers me is that if we can't balance our budget at a time of record breaking national income, record breaking production and so forth, when is a good time to balance our budget? Can you speak to that, and give us your view on that?

Mr. SLICHTER. You are correct that we are at recordbreaking levels in our production. In the first quarter of 1960, the gross national product, according to my guess, will be around \$466 billion as an

annual rate, and the previous alltime high in terms of dollars of present purchasing power was back in the second quarter of 1957 when the gross national product was at an annual rate of around \$454 billion. So we are at an alltime high. We are at an alltime high in personal income. Our retail sales will probably make an alltime high in March, breaking the December record. But in spite of this alltime high in production we have a high unemployment rate of 6 percent. That is the reason why I think we should not get a complete balance in the budget for another year. We are going to have a deficit in fiscal 1960 whether we plan it or not. We shall have a deficit, I should estimate, of around \$3 or \$4 billion. The President's balanced budget proposes some new taxes which he is not going to get. He proposed quite unjustifiably in my judgment to charge the contribution to the Monetary Fund against the 1959 fiscal year instead of the 1960 fiscal year. I don't think that is a good way to inculcate respect for the Government's financial statements, that kind of monkey business. So you will get a deficit of \$1,375 million in the administrative budget from charging that to the proper year alone. The failure of Congress to provide the additional revenues for which the President asks plus charging the contribution to the Monetary Fund to the 1960 budget will produce a deficit at least of \$2 billion in the administrative budget and I suggest a deficit of somewhere around \$3 or \$4 billion in the cash budget.

What I think would be very helpful to the country would be to start in public discussions placing the emphasis on fighting unemployment rather than upon balancing the budget. I think we would come out better in the long run if we would concern ourselves with unemployment rather than with balancing the budget.

Senator BUSH. One would think from what you said that these were not complementary, that these were conflicting aims. It seems to me that they run parallel to each other. In other words, an orderly fiscal procedure and a properly run government with a balanced budget is conducive to employment. In support of that statement, let me ask you to comment on these figures:

From 1921 to 1929 we had stable consumer process. We had a Government surplus every year. We had Federal debt reduced by 36 percent. That is from \$25.5 billion at that time to \$16.2 billion at the end of that period. The growth was almost constant and very substantial during the period, and employment was at high levels all that time.

Whereas in the thirties—and I take the period here from 1933 to 1941—when you had stable prices, you had a deficit every year. Your debt increased by some 200 percent to wit, \$16.8 billion to \$49 billion. You had relatively a period of industrial and commercial stagnation and persistent unemployment. At the end of that period, or in 1939 when the war broke out, you had approximately as much unemployment as you had at the beginning of the period. So certainly that period which is one of constant deficits and one of constant debt increase does not give one any assurance that this is the cure for unemployment.

Would you comment on those observations?

Mr. SLICHTER. I shall be very glad to. I don't think that the volume of employment or the volume of unemployment can be completely controlled by a single specific thing, such as the state of

Government finances. The state of Government finances and Government financial policy are important and affect employment and unemployment. But they are only one influence of various influences which affect employment and unemployment. In the thirties, for example, when we had quite an improvement in employment between 1933 and 1939, but still a very substantial amount of unemployment in 1939, we had in this country an economic disaster of the sort that I don't think we could ever have again.

Senator BUSH. I hope not.

Mr. SLICHTER. I have forgotten how many thousands of bank failures we had between 1929 and 1933. We amended the Banking Act in 1935 in such a way that a repetition of those bank failures would be inconceivable. We had to develop special organizations, such as the Reconstruction Finance Corporation, to extend credit which the regular financial institutions were in no position to give. We were struggling to recover from this great economic disaster. While I will not go into the policies of the Government from 1933 to 1939, in many respects I think they left much to be desired. While they were sincerely undertaken, I don't think they were well calculated in many respects to stimulate recovery. There was a terrific amount of experimentation in those policies. At that particular time I don't believe the economy was in the best shape to be experimented on as it was being experimented on.

The conclusion I come to is that Government fiscal policy is important and can be a useful instrument for fighting unemployment, but cannot be expected to do the entire job.

Senator BUSH. Let me move to another slightly different area of questioning.

In your statement you say that the slow rise of investment in plant and equipment, and the persistence of the high rate of unemployment indicates that the Federal Reserve is overdoing credit restraint. Then you say that tight credit policies tend to limit employment in the housing industry by restricting the supply of mortgage money.

Last year we had certainly one of the greatest housing years we ever had and we seem to be headed for even a greater one this year. Why do you say that the tight money policies of the Federal Reserve are tending to restrict the supply of mortgage money? It seems to me that with interest rates somewhat firm, as they are, relative to recent years, that this is attractive to those who have savings to invest. Last year was a pretty good demonstration of the fact that there was plenty of mortgage money available. It does not seem to me—or it has not seemed to me—that the so-called tight money policies of the Federal Reserve have been a particularly restricting influence on activity. Where there was a good market and a good climate for business, business has gone ahead, despite the fact that interest rates are somewhat higher than the average for the last 10 years. Why do you take issue with the Federal Reserve and claim that it is holding back the economy?

Mr. SLICHTER. I take it that the purpose of the Federal Reserve is to limit the amount of borrowing that goes on. Otherwise, the credit policy of the Federal Reserve does not seem to make any sense.

Senator BUSH. There is some justification at some time, is there not, in the Federal Reserve taking some steps to make credit a little bit tighter? Don't you think there are times when that is justified?

Mr. SLICHTER. I think there are. I question, however, how far the Federal Reserve should go when unemployment is as high as it is. If one looks at the course of net borrowed reserves, one discovers—on page 27 of the Economic Indicators—that last fall the net borrowed reserves were running around the same as the excess reserves. Beginning in December, borrowings had exceeded excess reserves by around \$100 million a month. I think it was February 18, net borrowed reserves were \$183 million, and they have been up in that neighborhood ever since, though I have not seen the figures which were in the paper this morning.

With a 6-percent unemployment rate, how much credit restraint is indicated? There is a dilemma which confronts the monetary authorities today because on the one hand there is this high unemployment rate, and on the other hand there is the problem of financing the Government deficit. Thus far it has been possible to finance the deficit by placing Government securities outside of the commercial banks. But the indications are that there will be a fairly high attrition on these issues as they mature and the banks will presumably have to take a larger and larger part of them. The Federal Reserve may find itself forced to liberalize its credit policy.

Senator BUSH. Here is the point I would like to clarify. You seem to be saying that the Federal Reserve credit policy or their policy of credit control should be guided almost solely by what the unemployment rate is, as though there were no other factors involved.

Mr. SLICHTER. No; I did not say that. I said there is a dilemma. I think you will probably find within the Federal Reserve some difference of view as to what the policy should be. I don't think it is a monolithic organization.

Senator BUSH. I don't think there will ever be a time without a difference of view in that Board and that staff. I agree with that. It seemed to me, and I am not critical of this, I am just trying to get the benefit of your observation out of long experience, you are laying great emphasis on the unemployment factor.

Mr. SLICHTER. That is right, I am.

Senator BUSH. As the controlling element in the judgment of the Federal Reserve on credit policies.

Mr. SLICHTER. I am laying great emphasis upon that. I think that is the proper thing to do. I don't think it is the sole consideration by a long shot. I think the monetary authorities must consider the entire economic situation of the country, and they must consider the problems of the Government.

I criticized the Federal Reserve when it changed its policies last August. I said I thought this was premature. I did that in a little piece on economic trends in the United States, which I do once a month for the Nippon Kezai Shimbum, a financial newspaper in Tokyo. I think subsequent events bore out my criticism just as subsequent events bore out my criticism of a year previous when I found fault with the Federal Reserve for tightening the screws still more in August of 1957. I think the policies should not be one of active ease. I am not advocating a policy of active ease such as was the policy earlier in the year. It seems to me that a policy of neutrality is indicated until we get unemployment down. We now have not a policy of neutrality, but a policy of moderate credit restraint. Not severe credit restraint,

but at least moderate credit restraint. It seems to me that the general economic situation does not justify that policy.

Senator BUSH. I yield to Mr. Kilburn.

Representative KILBURN. In your statement a few minutes ago you spoke about the budget, whether it should be balanced or not. You mentioned the nonrecurring item of \$1,375 million for the increased quota of the United States in the International Monetary Fund. If I understood you correctly, you said that taking care of that now instead of waiting until after July 1 was "monkey business."

In our legislative system, when the Congress passes a bill involving money like that, and it is signed by the President, it is always paid out right away if the Secretary of the Treasury wants to pay it. It seems to me that by postponing it until next year would really be where monkey business would be involved.

Mr. SLICHTER. You are entitled to that opinion.

Representative KILBURN. On top of that, when we pass a law, especially one involving foreign nations, and we don't pay promptly, one of the biggest objects of all, confidence in the U.S. Government is shaken in all the free world. My point is that when we agree to a proposal and it is signed by the President, we owe that money; I think we ought to pay it. When you deliberately postpone budgeting and appropriating unnecessarily after the authorization bill is signed, then I do think there is monkey business.

Mr. SLICHTER. I don't suppose the Monetary Fund will draw upon our contribution until some indefinite time in the future, except perhaps the \$200 million in gold.

Representative KILBURN. \$344 million.

Mr. SLICHTER. Is it \$344 million?

Senator SPARKMAN. If you would yield to me for just a moment there. The testimony before the Foreign Relations Committee—and I am sure you had the same before your committee—was that the only cash payment that would actually be made in the absence of any necessity to draw on the fund would be the \$344 million in gold. That would be paid after all the countries took the necessary steps to approve the change. That probably would be next fall. I was going to suggest a minute ago when Dr. Slichter brought in this full amount affecting the budget, it is my understanding that the full \$1,375 million will be carried in the budget. But the only amount that will be actually spent is \$344 million.

Representative KILBURN. That is right. But somebody has to pay their money in first.

Senator SPARKMAN. Not until they all sign.

Representative KILBURN. I know. But when we pay our money in, it shows all these other countries that we are going ahead. I think that, if for some reason, we postponed payment it hurts the whole thing since the United States is the leader of the whole thing. I can't see any monkey business in recognizing our accepted obligation.

Senator SPARKMAN. I don't care about contesting it, but actually the testimony was that there would be no payment until they all have agreed to the increase. Our act of good faith is passing the act providing for the subscription. Then the others will fall in and make possible their subscription, and after all that is done, we can lead off with our payment of \$344 million in gold.

Congressman Widnall.



Representative WIDNALL. Dr. Slichter, you stated that some spokesmen for the unions argue that wages were simply chasing prices up, but the evidence does not bear out this claim. For the last 11 years without exception average hourly compensation of employees rose more than consumer price index, and in the 10 years the average compensation of employees rose more than the wholesale cost of goods.

I want to relate that to one other statement made by you, and it was stated more than once as I remember, that the best way to improve our situation at the present time was to increase wages. Should not wages be related to productivity? I know you complained about the barber monopoly increasing the price of haircuts to \$1.75. Should not wage increases be related to productivity as well as changes in the cost of living?

Mr. SLICHTER. I think the answer to that question is that if they are not, a rise in prices is bound to result. For a group to get a bigger wage increase than the average gain in productivity of the country—suppose the productivity of the country is going up by 2½ percent—a group which gets a 5-percent wage increase is claiming a bigger share of the output of the country than it was previously getting. I should think it would have to assume the burden of proving that it is entitled to a bigger share of the product of the country. Undoubtedly there are groups which are entitled to a bigger share than they are getting, and if there are such groups then they have a case for their wages going up by more than productivity. The Steelworkers Union wants this, that and the other thing, which are estimated to cost a very large amount. What claim does the Steelworkers Union have on the country to entitle it to those things that it is asking? The compensation of men in the steel industry has gone up faster in recent years than the automobile workers and the rubber workers and almost any group of workers that you can find. Just why should the steelworkers be entitled to have their claims satisfied?

Representative WIDNALL. Dr. Slichter, as we on this committee study the question of inflation and the forces that go into creating inflation in this country, it is important not just to say we have to measure up to the productivity of Russia—Russia is producing 5 percent and therefore we should produce 5 or 6 percent—but in any production of 5 percent we project, are we going to receive from the worker the increased effort or increased participation to merit the expenses that go with it. We fall apart if we don't get that. Isn't that so?

Mr. SLICHTER. I don't know that we fall apart. We get inflation if we don't.

Representative WIDNALL. With large inflation we certainly do.

Mr. SLICHTER. Yes. I don't think we should get large inflation. If we wish to avoid creeping inflation, if we feel very strongly that creeping inflation must be avoided, then we must insist that the rate at which the compensation of employees goes up—that includes wages plus fringe benefits—shall not be faster than the average increase in output per man-hour.

The alternative is inevitably creeping inflation.

Representative WIDNALL. That certainly seems to make sense. I would like to come back to something else we discussed this morning. I wish Senator O'Mahoney had been here while I was speaking about it.

Senator SPARKMAN. Why don't you hold it a few minutes? I am expecting him to be here. In fact, I am waiting for him to come because I have to go.

Representative WIDNALL. If I am sure I will have a chance to ask the question later, fine. I am just thinking about responsibility in connection with long-term credit, and the desire to put the consumer on the books so that he stays there on the books for a period of years to the benefit of the corporation, or something like that. It seems to me that we in the Congress cannot shirk our responsibility with respect to that. We have continually upped the length of credit in housing to 20, 25, 30 years. Then also, reduced the downpayment more and more to 10 percent, 5 percent and less.

At the same time we tie into those terms in the sale of a house items that depreciate in 10 years, and one pays for them over 25, 30, and 35 years, items such as stoves, iceboxes, and other things. I am just unwilling to sit up here and blame it on the corporations. It seems to me Congress itself has shirked the responsibility with respect to holding within bounds certain programs that create the inflationary impact, and the credit impact that has hurt us here in this country.

Don't you feel within the housing field—and I believe you singled this out in your testimony—that there are inflationary impacts because of the credit set up that can be harmful to the country?

Mr. SLICHTER. That is dependent on how much you try to stimulate housing. I think housing is at a pretty high rate at the present time and it may be all right to keep it where it is. I would question the wisdom of trying to push it up above present levels in the immediate future. I am a great believer in people going into debt, particularly young people. Debt is a stabilizing influence. It is a very useful device for encouraging people to save regularly. The enormous debts that people have incurred in this country since the end of the Second World War on houses have certainly tended to make better citizens of them and help them get ahead faster in the world because they have had to begin paying off these mortgages right off. Going into debt has encouraged regular monthly, quarterly savings.

There is a tremendous amount of nonsense in our conventional wisdom, so-called, on the subject of debt. Every young man as soon as he can afford it should go into debt. He should be careful to acquire good assets when he goes into debt, but he will get ahead on his job faster, he will be a more valuable employee, and he will save regularly, and at the end of 5 years or 10 years he will own more property than he would have owned if he had never gone into debt in the first place.

Representative WIDNALL. If I may interrupt for one moment, I think the most important thing in connection with what you said, which I heartily agree with, he must be careful that there are good assets for which he is going into debt. I think in many instances the Congress and others have encouraged getting into debt for other than good assets. That is where it is our responsibility to do a better job than we have done in the past.

In respect to housing, I feel the best program to promote good citizenship in the United States is to encourage ownership of homes. When you give a person buying a house every conceivable thing that goes with a modern operation of a house on a 25, 30, or 35-year basis, it just does not seem to make sense where nothing is left to acquire by saving.

The homeowner has it all at the start, and yet pays for years on items that have fully depreciated and have to be replaced in 10 years. It seems to me that this is part of the key to inflation. There is part of the key with respect to responsibility not only of the Congressmen, but of the average citizen. Don't you think there is something like that which should go into these programs?

Mr. SLICHTER. I do not feel competent to comment on some of the things you said. I might, if I knew more about it, be in agreement with you. You want a certain amount of modern equipment in a house. Of course you want it to be good equipment. I think there are a lot of social advantages in having a good stove and a good refrigerator and the things that more well-to-do people have, even if you owe money on them.

Representative WIDNALL. The social advantages you speak about come when you don't have to be in a home? This has created a lot of problems in the family relationships today, because of the labor saving equipment in the house you don't have to be there very long. You can cook in 15 minutes each night. I think this has helped to create some of the family problems we have.

May I get off this subject, because my time is running short. This morning when we were talking about export and import, and the relationship of quotas and lower tariffs to business here in the United States, I happened to just pick on the automobile industry, and my belief that if we allowed unlimited import of large automobiles into the United States without any tariff arrangements at all in connection therewith, you would soon hear labor crying about it, and they would be very much against that program. You said that you felt that General Motors would exist and keep on regardless of that.

If Congress is to succeed in breaking up General Motors the way it is constituted today, can it succeed against these foreign imports?

Mr. SLICHTER. I don't know how it is proposed to break up General Motors. I did not know it was proposed to break up General Motors.

Representative WIDNALL. There are very definite programs afoot to break up General Motors and bring it down to size. This is with the idea of permitting people in the United States to compete better. Can they compete with the world if they are broken up in the way that you felt they could with no tariff or a very low tariff?

Mr. SLICHTER. I suppose General Motors, if broken up, would compete, although it would have to develop some new cars, I suppose. There is only one Chevrolet, and I think you would need the equivalent of a Chevrolet if there were another General Motors Corp. American Motors which is much smaller seems to be doing all right. I think an automobile company to succeed in the American market must have a bread-and-butter car of the Ford, Chevrolet, Rambler sort, and no matter how many automobile companies there are as a result of breaking up big companies, there will be a bread-and-butter car for virtually every one of these companies. It does not make sense to me to talk about breaking up General Motors. I don't understand what would be accomplished by that.

Representative WIDNALL. I just hope you understand in my asking these questions it is because they are addressed to how far we can go with respect to our relations with other countries in destroying our economy here in the United States without changing it to a point

where it hurts so much that we can't carry on as a strong, first-rate nation with leadership in the world. I think it is extremely important at a time when we are still trying to maintain that leadership and trying to be in the forefront of the free world.

Mr. SLICHTER. If we want to play a big role in the free world, and I hope we do, we must be rather ready to trade with the free world. We are about 40 percent of the world economically speaking. We consume about 40 percent of all the world makes. We think we have a pretty good economy. I think we are right in that opinion. We should not get alarmed if our economy, as good as we think it is, because the foreigners sell us some goods, after all we are selling abroad more than we are buying from abroad. How they can view our alarm at their success in selling us a little stuff when we are already selling more to them than they are to us, I can't understand. If we want to be a real economic leader, let us be a buyer. Let us get rid of these oil quotas and be friendly with Canada. One of the most outrageous things that has ever happened is this notion that we need to shut out Canadian oil in the interest of national defense, or Near Eastern or Venezuelan oil in the interest of national defense. A few machine tools come into this country. We export many times the volume of machine tools that we import. Yet the whole machine tool industry expresses alarm because we buy a few machine tools from abroad. It is ridiculous. We ought to grow up.

Senator SPARKMAN. Dr. Slichter, before I turn back to Senator Bush, I would like to ask a very few questions.

First of all I would like to make this comment with reference to housing. It happens that Senator Bush and Congressman Widnall and I are all on the housing committees or the committees that write the housing laws. You mentioned that the present production of housing is high. It is not abnormally high. It is true at the present time the projected rate is about 1.3 million, whereas several other years past we have produced in the neighborhood of 1.2 million. I think most of us would agree that 1,200,000 is just about the minimum number of units we ought to produce in 1 year.

I am not at all certain that even supplies what might be called the reasonable requirement of housing. I certainly agree that we ought not to give it too big a push. I can only speak for the bill that passed the Senate recently. I certainly do not feel it is too big a push.

In fact, under that bill, if the bill becomes law, I would estimate the number of units to be built this year at approximately the going rate or probably 1,200,000. I think if we build 1,200,000 we will be lucky. I have contended all along and I believe with some reason, that it is not inflationary because certainly the market needs that number of homes. I do not believe, and I think you said this, that the credit arrangement is not within itself necessarily inflationary. It seems to me there is an abundance of labor and abundance of material and plenty of money with which to finance. I just fail to see the inflationary tendencies or pressures in there so long as those conditions exist. Am I far off with that?

Mr. SLICHTER. I am not familiar with the bill.

Senator SPARKMAN. I am not asking you to comment on the bill but just on the general statement.

Mr. SLICHTER. I do not regard a continuation of the present housing rate as inflationary. I would question the wisdom of trying to push immediately the housing construction rate very much above the present rate.

Senator SPARKMAN. I certainly would not quarrel with you in that. I prefaced my remarks by saying that I believe if this bill becomes law we may expect a continuation of the present program or probably 1,200,000 units during 1959.

I want to ask you about something else. I was looking at one of my home State papers, and I saw a column by Sylvia Porter, entitled, "Your Money's Worth", and it says wage earners now received a record share of our income. She breaks the income receiving groups into six different groups.

First is the workingman, the Americans getting wages, salaries, and fringe benefits. She says in that:

If you belong to that group you are getting 71 cents of every dollar of income. This is the highest ratio ever. It compares with a slice of 65 cents at the end of World War II. Wage rates have climbed faster than the national income in the past 13 years.

Then the second group. She writes:

If you are in the unincorporated business or professional group, you are getting only 8.5 cents of every dollar of the Nation's income. This is the smallest slice going to that group since the depression of the thirties, and compares with almost 13 cents back in 1946.

Then she goes on and makes what I think is a rather pertinent statement. She points out that Prentice-Hall emphasizes that the relative squeeze on small business indicated by these figures would be even more evident if professional income, which on the whole has been rising, were treated separately.

As to the third group, she says:

If you are in the farm group, your take is just under 4 cents of every dollar, and even this is high as compared with the all-time low of 3.2 cents farmers were getting in 1957. Although the decline has been partly cushioned by the drop in the number of farm owners, the statistics underline the fact that farmers have been the main laggards in the economic progress of the era.

The fourth group, those who receive interest on money:

If you are in that group—  
she goes on—

you have made a major comeback since the forties, and your share is 3.7 cents of every dollar against 2.2 cents in 1949. A scant 1.7 cents in 1946. Receivers of interest are far from the fat cats that they were in 1929 or even 1939, but they have made an impressive recovery.

The fifth group, if you collect income from rents, your share of each dollar of gray has stayed about the same throughout the entire period, 3.4 cents.

Sixth, finally, if you are in the management group, most concerned with corporate profits before taxes, your take is now 10.1 cents of every dollar, the lowest of the postwar period, and comparing with a slice of almost 17 cents in the Korean war year of 1950, 12.5 cents in 1946.

Then she drops on down and says:

The rising share going to wage earners explains the power of our mass markets for all consuming goods.

I don't ask you to comment on each one of those separately, but I found that to be a most interesting analysis. Would you think generally it is a fair analysis?

Mr. SLICHTER. I think so. Would you mind reading the second group again?

Senator SPARKMAN. The second group, unincorporated business and professional people; she said they were getting 8.6 cents of every dollar.

Senator BUSH. What dollar is that?

Senator SPARKMAN. Of the national income:

This is the smallest slice going to that group since the depression of the thirties and compares with almost 13 cents back in 1946—

she says.

She makes this point, which I think is quite pertinent, that if you take out the professional group whose income has generally been rising in the past several years, we will get a picture of a real squeeze against the small business people.

Dr. SLICHTER. Those figures, I have no doubt, are taken from Government sources. It is true that the proportion going to wages has risen, the proportion going to profits has dropped. The significance to be attached to those facts is open to some question because if you try to standardize the figures by eliminating the effect of the different composition of industries—we are getting new industries all the time, and you compare one year with another, and you are not comparing the industries of equal importance.

There have been some attempts to eliminate the effect of the change in the relative importance of industries and when that is done, it is found that most of this shift is due to changes in the composition of industries rather than to the fact that labor has been gaining at the expense of capital. The overall figures show this rise in the share of labor and this drop in the share of profits. I have before me here the business and professional income figures, only as far back as 1949. I think she is talking about 1946 or some earlier year. This is page 4 of the "Economic Indicators."

Senator SPARKMAN. You notice I called attention there one time to Prentice-Hall. I don't see them mentioned in the earlier part of the statement.

Mr. SLICHTER. Prentice-Hall compile their figures from the official Government figures. This shows that business and professional income rose from 22.7 billion in 1949, which was a year of recession, to 31.0, in 1958, another year of recession. In 1949, business and professional income was a little more than 10 percent of total personal income, and in 1958 it was a little less than 10 percent. That would correspond to the drop in corporate profits, I suppose, also, and would be consistent with the figures you read.

In the Economic Report of the President, on page 150, the income of unincorporated enterprises and the total business and professional income was \$21.3 billion after inventory valuation adjustment, about one-ninth of total national income. In 1958, it was \$31 billion, the same figure that is found in the Economic Indicators, about one-twelfth of the total national income of \$359.6 billion. So the share of unincorporated enterprises has gone down.

The share of corporate profits after taxes is not shown here. Corporate profits before taxes are shown. That is not a very good figure to use, because a good part of the corporate income tax has fallen upon profits. It is being gradually shifted to the buyers, but that is a

gradual process. The rise in corporate income before profits does not correspond with the change in corporate income after taxes.

I think by and large what you might call small business is doing fairly well in the United States. We have a pretty good business birth rate. Of course, the mortality among newly born enterprises has always been high. It is high today. Only a minority of enterprises survive as long as 5 years. There is nothing new about that.

One of the interesting things is the ability of our economy to keep going in spite of the fact that entering business seems to be surrounded with as great hazards as it actually is. But nevertheless people do insist upon going into business and starting new businesses. It is a very encouraging sign, I think.

Senator SPARKMAN. If there is no objection, I believe I shall ask to have this article printed in the record, primarily because although she uses, I suppose, the same official Government figures, she does it in language that I think a layman can pretty well understand. Of course, we all recognize it is subject to the interpretation that Dr. Slichter has given.

(The article referred to follows:)

[The Birmingham News, Mar. 18, 1959]

YOUR MONEY'S WORTH—WAGE EARNERS NOW RECEIVE RECORD SHARE OF U.S. INCOME

(By Sylvia Porter)

Are you among the groups getting an increasing share of the income "gravy" in America during the 13 years since World War II's end?

You are if you work for a wage or salary and get fringe benefits: your share of the national income—the "gravy"—is now at the highest level on record. You are not if you get an income from a farm you own; your slice is less than half what it was only 13 years ago.

You are getting a substantially bigger share of the Nation's total income if you receive interest from money you have out on loan, if you own interest-bearing mortgages or bonds; your take has more than doubled since the World War II era of frozen interest rates. You are not if you are a small businessman or a professional; your slice of the income pile is the smallest since the great depression of 1929-32.

During a TV debate on inflation the other day, I sat in the studio and listened intently as a spokesman for labor and another for management bogged down in a mire of baffle-gab over who has been getting how much bigger a share of the national income in the past decade.

After several minutes of claims and counterclaims designed to indicate how little each side had gained, I felt an irresistible impulse to mumble, "A plague o' both your houses"; and I set out to get some facts for myself and for you. The estimates below come from the research division of Prentice-Hall and are based on Department of Commerce statistics.

If you're among the vast majority of Americans getting wages, salaries and fringe benefits, you are now getting almost 71 cents of every \$1 of income.

This is the highest ratio ever, compares with a slice of 65 cents at the end of World War II. There is no misreading the message. Wage rates have climbed faster than the national income in the past 13 years. Fringe benefits and social insurance have added to the employee's share.

If you're in the unincorporated business and professional group, you're getting only 8.6 cents of every \$1 of the Nation's income.

This is the smallest slice going to your group since the depression 1930's, compares with almost 13 cents back in 1946, and as Prentice-Hall emphasizes, the relative squeeze on small business indicated by these figures "would be even more evident if professional income—which, on the whole, has been rising—were treated separately."

If you're in the farm group, your take is just under 4 cents of every \$1 and even this is "high" compared with the all-time low of 3.2 cents farmers were getting in 1957.

Although the decline has been partly cushioned by the drop in the number of farm owners, the statistics underline the fact that farmers have been the main laggards in the economic progress of this era.

If you get interest on money you have to lend or invest, you've made a major comeback since 1940 and your share is now 3.7 cents of every \$1 against 2.2 cents in 1949, a scant 1.7 cents in 1946.

Receivers of interest are far from the "fat cats" they were in 1929 or even 1939, but they've made an impressive recovery.

If you collect income from rents, your share of each \$1 of gravy has stayed about the same throughout this entire period—3.4 cents.

And finally, if you're in the management group most concerned with corporate profits before taxes, your take is now 10.1 cents of every \$1, the lowest of the postwar period and comparing with a slice of almost 17 cents in the Korean war year of 1950, 12.5 cents in 1946.

Just as there is no mistaking the relative gains of wage earners in this decade, so there is no denying that the relative take of corporate profits has dwindled.

And that's the story of who's getting what of the gravy. The rising share going to wage earners explains the power of our mass markets for all consumer goods. The declining share going to profits explains the mounting resistance of businessmen to wage hikes.

Inherent just in the statistics you've read in this column is the tale of the greatest, bloodless income revolution in world history.

Senator SPARKMAN. Senator Bush.

Senator BUSH. Dr. Slichter, I just want to go back briefly to the question of inflation and then I want to move over for a few moments to your argument in favor of reducing tariff barriers. First on this question of inflation, I confess I find it very difficult to follow your logic or your reasoning on this, although I recognize the integrity of your views thoroughly. I want to read you a little short paragraph by Kenneth Galbraith, who I believe is a colleague of yours at Harvard University, a man who is certainly recognized as able, who said this about inflation. I am reading about your advocacy not only before this committee, but elsewhere, of the so-called creeping inflation philosophy: He says:

Inflation, progressive, unremitting, and unending inflation, is not a pleasant prospect. It undermines all the arrangements that civilized man makes and maintains with the greatest difficulty. Schools, hospitals, churches, public services, law and order, care of the sick and the aged, all suffer. By contrast, speculators, promoters, all who are knowledgeable about making money, do well.

This is from an article by Galbraith which appeared in the Atlantic Monthly of February 1957.

Do you and he ever discuss these matters together? Do you disagree with what I just read?

Mr. SLICHTER. Yes; I disagree.

Senator BUSH. You disagree?

Mr. SLICHTER. Yes; I agree that inflation causes problems for a lot of institutions such as educational institutions, hospitals, as well as individuals; but these problems are not new problems. We have been living under inflation most of the time for the last several centuries. We must not suddenly say that we are confronted with insurmountable problems. I don't think that slow creeping inflation is an encouragement to speculation so much as an encouragement to enterprise. One good thing about creeping inflation to be set over against the problems it causes is that it is a tax, and it is a tax that falls on everyone. It is not a bad kind of tax in many respects. One thing



I like about it is that there are no exemptions. Under our present income tax, 30 percent of the adjusted personal income reported is tax free because of exemptions. Another 12 to 15 percent is tax free because of deductions. I don't object to the deductions because they go to charity. Exempting as much as 30 percent seems to me to be wrong. With a \$600 exemption a family of three children, man and wife, pays nothing on the first \$3,000 of income. Fortunately under inflation they pay a little tax on everything. Nobody puts any exemptions in there to please this, or that, or the other group.

There is a little stimulus to creeping inflation that reaches, I think, the active people, the people who are the most enterprising in the economy, who are starting businesses or running businesses, trying to bring out new products. It is a kind of mild subsidy to enterprise. That is very different from encouraging speculation. If you want to be unorthodox and really look the thing in the face and see what merits it has, it has some very substantial merits as well as some substantial drawbacks. I think Ken Galbraith has overstated the case against it.

Senator BUSH. I would like to pursue that, but in the interest of time and trying to get on to one more subject, I am going to leave that and go to the question of tariffs and quotas at the top of page 14 of your statement where you say:

The most important step that the Government can take to reduce the tendency of growth, to raise prices, would be to cut tariffs and abolish quotas, thereby exposing American industry to more competition from abroad.

Let me say this is one of the most important problems that we have to deal with today. There is a great deal of difference of opinion about this. I am generally sympathetic, I believe, with the thesis which you recommend; to wit, that the more and freer trade we can encourage between our Nation and others, the better for all concerned. But we run into special difficulties, and I would like to illustrate by just one.

We have in this country, for instance, an industry which we call the stainless steel flatware industry. They make knives and forks and spoons and tableware. A large part of that industry, if not all of it, is in the New England area, and you probably know about it. The International Silver Co. and others.

They have been faced in the last few years, since Korea, with a very rapidly increasing influx of stainless steel flatware, so much so that they went to the Tariff Commission for relief, and this resulted in recommendations which the administration did not accept. But the President asked the Japanese to put on a voluntary quota which was about half of what was coming in on an annual basis—in other words, 11 million dozen were coming in, and he cut it to five and a half—and he asked them to adhere to that, which they did not do. They have exceeded that considerably, apparently.

With the cost differential due principally to the fact that labor over there is less than one-tenth on an hourly basis of what we pay, and the labor factor being a very high percentage of the cost factor, there really is not any tariff that you could put on there that would do the job. You could put on 100 percent, and that would not do; 200 percent would not do it. So the quota thing seems to be the only thing that will afford any real measure of protection.

But under your thesis, you would abolish all quotas. In my judgment, this would literally scrap this industry. I have looked into this pretty closely. This would put us in the position of saying that this industry will have to go down the drain and we will buy nothing but imported stainless steel flatware, mostly from Japan. I don't think I am overdrawing that.

Do you think we should be willing to face up to that type of decision in the broader interest of price stability and our relationships with other nations? This is a very serious decision. I wonder whether you are willing to go that far? I realize that you speak of gradual reduction of the quotas or barriers. But once you start you are finished as far as an industry like this is concerned. What is your comment on that?

Mr. SLICHTER. I would emphasize that I would reduce the quota gradually, but then I would make the point that I don't see what claim the stainless steel industry has on the American consumer, has on me. What right does that industry have to tax me so it may continue to make a product which I can buy elsewhere for less? It seems to me it is rather presumptuous on the part of the stainless steel industry to make that claim.

Senator BUSH. I think the claim is based on the unemployment factor that you classify as more or less a key factor to which we should gear all of our operations.

Mr. SLICHTER. When I urge that we make a vigorous and carefully planned attack upon unemployment, I am not urging that we continue to do things in certain ways because if we don't do them in those ways people will be thrown out of work. I had in one of my classes a couple of years ago a man who was the secretary of a cotton manufacturing concern in India. He talked to me at some length about the problems of the cotton manufacturing industry in India. They pay labor there about 10 cents an hour in that industry. One of their problems is that with labor worth only 10 cents an hour they can't afford to use much of the equipment that we can afford to use here, because it doesn't save enough. If you save 10 hours work at 10 cents an hour you save \$1. If you save 10 hours' work in the United States at \$2 an hour, you save \$20. Then he commented on the fact that they are having great difficulty in selling their stuff abroad and getting their costs down so that they could be competitive abroad, because to introduce a technological change they had to get permission from the provincial government. The provincial government would not give permission very readily because the first effect of these technological changes would be to throw some people out of work. The manufacturer would argue, "Well, if we could make the change and get our costs down, we would, in a year or two, be able to supply more jobs, because we could compete with the Japanese and our other competitors abroad." But that involved too much foresight for these provincial bureaucrats and the cotton manufacturers were hamstrung by their inability to make technological changes.

So when I advocate an attack upon unemployment, I am not advocate trying to maintain people working at jobs where they are not economically employed. I don't think that any industry, whether it be the stainless steel industry or any other industry, has a claim upon the consumer's pocketbook. I come from the State of Wisconsin. I

live there in the summertime. We make a lot of cheese there. We ought to import more cheese from Denmark and Holland and get rid of these quotas on cheese. Why should we lead a sheltered life there in Wisconsin, protected by quotas from the Dutch cheese. The Dutch really make better cheese than we make.

Senator BUSH. Isn't it true, Dr. Slichter, as long as you brought that up, that practically every element of our economy, beginning with agriculture, shipping, air transport—you can hardly find a single element, manufacturing, industry, which is not in some way subsidized now by the Federal Government?

Mr. SLICHTER. We are all engaged in sort of mutually exploiting one another, but I don't think that is the way to build a strong economy. Here we are in this great historic conflict between our philosophy of life and the Russian philosophy of life, and we really ought to get away from this provincialism, this parochialism, and be willing to do business with the rest of the world. The Dutch feel very angry at us about our quotas on cheese.

Senator BUSH. I am not unsympathetic about what you are saying. I ask you how you can pull the props out of one side of this many-sided thing that has built up with props all the way around—

Mr. SLICHTER. I am saying we have to do it gradually and not pick on any particular industry and say, "We are going to sacrifice you." We have to do it across the whole economy. The British did it when they reformed their tariff in the days of Peel, and I think we can rise to the occasion. It will not involve a real economic sacrifice on our part. All it involves is a willingness to look ahead. We don't have to be like these little provincial bureaucrats in India who say they can't let this improvement occur because its immediate effect will be to throw some people out of work. We can have more economic foresight and more wisdom than that.

Senator BUSH. I am very sympathetic with your general objective, and I think it is a desirable one, but I still don't see, and you have not helped me too much, how we can take one phase of the economy, which is our imports and suddenly or even over a 10-year period dissolve the protection which over the years has been built up with certain industries, such as the ones I mentioned, without at the same time knocking the props out from some of these other well-subsidized elements of the economy at the same time.

Mr. SLICHTER. If you are suggesting that we ought to take a broad look at all of our subsidies and ask which of our subsidies are good and should be kept, and which of our subsidies are bad and should be eliminated, I am heartily in agreement with you. I think it is hard for us in such a complicated government and such a complicated economy as ours to be cognizant of what is going on.

Senator BUSH. That is right.

Mr. SLICHTER. We probably have many more subsidies than we are aware of.

Senator BUSH. Do you know of any study that has ever been made—I do not—where somebody has tried to take an across-the-board look at the total subsidies?

Mr. SLICHTER. Not a real study. Several years ago the Federal Reserve Bank of Chicago, I believe, published a little article in its

bulletin on the budget in which it tried to classify some of the expenditures, but I don't think the bank would call it a real study. In an article in the Harvard Business Review in July-August 1957, I classified the budget expenditures into four main categories—(1) subsidies, (2) expenditures that provide the country with conveniences and luxuries, (3) expenditures that contribute more or less directly to the efficiency and security of people and industry, and (4) investments, or expenditures that raise the future productivity of the economy. I found, as a rough estimate, that about 30 percent of the budget was subsidies and about one-eighth was investment.

Senator BUSH. Let me ask one more question. My friends have been very patient.

Do you think it would be desirable for this joint committee and its staff to attempt to make such a study of the total subsidy picture and the various elements of the American economy? Do you think it would be helpful to Congress, our citizens, and economists like yourself to have such a study?

Mr. SLICHTER. I think such a study should be made. I strongly suspect that this committee will be the most appropriate one to do it, though I am not sufficiently familiar with all aspects of Government administration to be confident of my answer. Maybe it is a question that one of the Appropriations Committees could better undertake. It seems to me that this would probably be the best committee to undertake such a study.

Representative CURTIS. If the gentleman will yield, I do not know why that should not be a subject of our present set of hearings. It seems to me this fits right in.

Senator BUSH. I thank you, Dr. Slichter. You have been very patient with us. Mr. Chairman, I am finished.

Representative CURTIS. I simply want to put this in the record, if I might, in reference to Dr. Slichter's paper, and his comment on the social security system, that one reason this average has been going up is because the system which was an incipient one is now insuring. I think it is more than a reaction.

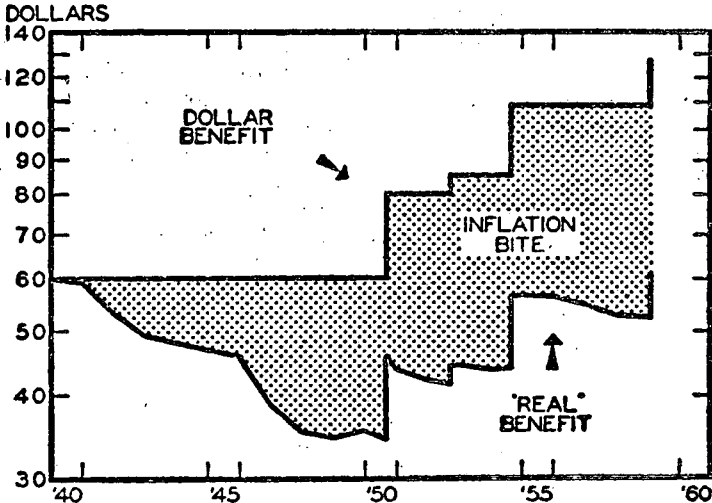
Mr. SLICHTER. I was associate counsel to a Senate committee in the Senate a few years ago which made suggestions which were later adopted. We were preceded by some other amendments. More recently there have been some liberalizing amendments.

Representative CURTIS. I happen to be on the Subcommittee of the Ways and Means Committee on Social Security for several years, and am still on it, so I am very much interested in the same thing. I want to put in the record, if I may, a portion of an item, especially the chart, that appeared in the First National City Bank monthly letter of February 1959 where they were commenting on some of the studies of the Advisory Council of Social Security Financing. The graph, showing the maximum monthly dollar benefits and benefits adjusted for price increases for a single retired worker, I think would be interesting in this connection.

Senator SPARKMAN. Without objection, that will be done.

(The article referred to follows:)

The chart below shows how inflation has gouged the pensioner. In 1940, the first year of payments, the maximum check for a single retired worker was \$60 a month. This has been raised over the years until now it is \$127 a month.



Maximum monthly dollar benefits and benefits adjusted for price increases for a single retired worker

In the meantime, however, consumer prices have doubled so today's \$127 pension is just about equal in buying power to the \$60 check in 1940. The pensioner's gains, because of inflation, are an illusion.

The greatest single thing the Government can do for its senior citizens is to preserve the value of the dollar.

As Lord Beveridge, author of the famous Beveridge plan for cradle-to-grave social security, put it not long ago in the Economic Digest:

" \* \* \* Stable money is the basis of individual liberty and responsibility of each citizen for planning and managing his own life and the lives of his dependents. In a free society, to keep money stable is an inescapable duty of the state to its citizens, a third task ranking with the two familiar ones of peace abroad and order at home."

Senator SPARKMAN. I should like to insert an article following that, that I read the last couple of days. I don't want to flood these hearings with writings of one particular economic analyst, but a few days ago Sylvia Porter dealt with that. Again she has a breakdown which the layman will understand. I would like to insert that article, without objection.

(The article referred to follows:)

[Washington Star, Mar. 16, 1959]

YOUR MONEY'S WORTH: SOCIAL SECURITY "ILLUSION"

(By Sylvia Porter)

How much is the retired worker dependent on social security benefits for food, shelter, and clothing really suffering from the inflation?

It is obvious that Americans hurt most cruelly by inflation have been those living on fixed incomes—people who have no more dollars today than they had 10 or 20 years ago, but who must pay more for everything they need and want.

Responsible sources have stated repeatedly that senior citizens now drawing social security benefits are the worst sufferers. In its last monthly bulletin, for

instance, the First National City Bank of New York declares flatly that the social security "pensioner's gains, because of inflation, are an illusion. \* \* \*

#### PROTEST SUGGESTED

And taking the point one step further, authorities urging strong antiinflation actions insist that if just those already getting social security pensions—about 12.5 million—could be stimulated to organized protest against swelling Government budgets, we'd be well on way to victory over the spiral.

Here's a comparison of benefits and living costs today with 20 years ago, 10 years ago, and last year.

In 1940, the first year of social security benefits, the maximum check a single retired worker could get was \$45.60 a month. Today, the maximum for that worker is up to \$116. The increase in benefits over the year has been 154.4 percent.

Simultaneously, though, the cost of living—as measured by the Bureau of Labor Statistics' Consumer Price Index—has soared 108.4 percent.

Clearly, a giant part of the social security gains has been dissipated by rising living costs. But even over this period, which includes the violent inflation right after World War II, the rise in benefits substantially exceeds the rise in prices.

In 1950, the maximum check a single retired worker could get was up to \$80, and that, in turn, is now up to \$116. The increase in benefits in this decade has been 45 percent.

#### 1958 FIGURES CITED

Simultaneously, the cost of living has risen 23.4 percent. Again, much of the gain has been wiped out by climbing prices, but a 45 percent rise in benefits is still a lot bigger than a 23.4 percent rise in living costs.

In 1958 the maximum check was \$103.50. The rise to \$116 is almost 7 percent. In this past year, living costs have risen a bit more than 1 percent.

Once more, the point can be properly made. The pensioners' gains are not, as the First National City claims, an "illusion."

And the straight statistical comparison doesn't tell the full tale. For the man or woman over 65 depending on social-security benefits does not buy many of the items that have ballooned most in cost, such as new cars, quality meats. This individual does not use the same quantity or quality of goods and services as the average city worker's family upon whose spending patterns the official price index is based, such as daily trips on the bus or subway. Finally, a person over 65 today vividly recalls the pay levels of the thirties and whether or not a younger person can understand it, \$116 a month "feels" a lot bigger than \$45.60 even though the larger check doesn't buy much more than the small one.

"We used to get a lot of complaints about benefits," said a spokesman for the Social Security Administration when I called to check my figures. "We don't any more." People seem to feel they're getting a fair deal.

"You don't get lots of mail grumbling about what inflation has done to the benefits and demanding 'you do something about it'?"

"No."

Senator SPARKMAN. I call attention to the fact that the hearings on Monday, Tuesday, and Wednesday will be in the auditorium, room G-308 in the New Senate Office Building. Mr. Neil H. Jacoby, dean of the Graduate School of Business Administration, University of California, Los Angeles, will be here Monday.

Tuesday it will be at the same hour, and same place, Mr. Leon H. Keyserling.

On Wednesday, the same hour and same place, Mr. Marriner Eccles.

Dr. Slichter, I certainly want to express the thanks of the committee to you for your very fine presentation and your patience and long hours of cooperation with us.

Mr. SLICHTER. It has been a pleasure to have been here.

Senator SPARKMAN. The committee will stand adjourned.

(Thereupon at 4:20 p.m., a recess was taken until Monday, March 23, 1959, at 10 a.m., in room G-308, New Senate Office Building.)

## EMPLOYMENT, GROWTH, AND PRICE LEVELS

MONDAY, MARCH 23, 1959

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

The committee met at 10 a.m., pursuant to recess, in room G-308, New Senate Office Building.

Present: Senators Douglas, Sparkman, and Bush; Representatives Patman, Reuss, Curtis, Kilburn, and Widnall.

The CHAIRMAN. The committee will come to order.

We are very happy to welcome as our first witness Dr. Neil H. Jacoby, former member of the Council of Economic Advisors and dean of the Graduate School of Business Administration of the University of California.

Mr. Jacoby, we are very happy to have you here. Would you come forward.

### STATEMENT OF NEIL H. JACOBY, PROFESSOR AND DEAN, GRADUATE SCHOOL OF BUSINESS ADMINISTRATION, UNIVERSITY OF CALIFORNIA, LOS ANGELES

Mr. JACOBY. Thank you, sir.

The CHAIRMAN. Will you proceed in your own way?

Mr. JACOBY. Senator Douglas and gentlemen, I would like to say that it is a great honor to be invited to testify before this distinguished committee, and I appreciate both the opportunity and the responsibility to make some constructive suggestions for advancing the growth and stability of our economy.

I would like to proceed in any way you feel will advance our discussion.

The CHAIRMAN. Why do you not read your paper, omitting such portions as you may care, amplifying where you desire to do so, and then later I think the members of the committee will probably have some questions to ask.

Mr. JACOBY. Very good. As our country moves forward into the second half of the 20th century, Americans generally are enjoying an unparalleled state of well-being, despite the unemployment which currently afflicts some citizens. The U.S. economy continues to be by far the most productive in the world. It easily excels all others in per capita real output and in widely diffused real income.

Yet we have recently become aware of vital economic problems which demand our earnest attention. I do not refer to those short-run

problems of avoiding serious cyclical booms and recessions. I refer to long-run problems of structural change and adaptation of the U.S. economy.

#### THE ACCELERATING PACE OF WORLD CHANGE

It is manifest to thoughtful persons that both the internal and the external environmental conditions of the U.S. economy are changing rapidly. Moreover, the pace of change seems to be accelerating throughout the world. Scientific and technical knowledge increases at a fantastic rate. Population is exploding. Space is shrinking. Nationalism and demands for economic betterment are rampant in the less-developed regions. Meanwhile, Japan and the advanced countries of Western Europe have become potent competitors of the United States in world markets.

Towering over these powerful forces, which are destroying old political arrangements and are bringing new tensions and instabilities as well as opportunities into the world, is the emergence of the Soviet Union and Communist China as formidable economic, political and military rivals of the United States. By regimenting people to the service of a totalitarian state and by suppressing individual liberties, they have risen greatly in power and influence. Their leaders see in the United States the antithesis to their ideologies. Their hostility threatens our national security.

Only 10 years ago the United States was the most powerful nation in the history of man, relatively as well as absolutely. This cannot be said today. What will be our position a decade hence?

#### SALIENT ECONOMIC PROBLEMS

The salient economic problems which grow out of these kaleidoscopic changes and now confront the American people are the following:

1. Economic provision for national security.
2. Increasing efficiency and economic growth.
3. Fostering economic growth throughout the free and uncommitted world.
4. Strengthening our position in international trade.
5. Defending the purchasing power of the dollar.
6. Invigorating competition throughout the economy.
7. Adapting to rapid population increase.
8. Increasing the geographic and occupational mobility of people and resources.
9. Improving education of all kinds and at all levels.

Obviously, these problems are complex and interrelated and cannot all be treated in a brief statement. The list does not include reference to deep economic depressions, because world conditions and our internal economic arrangements now make them highly unlikely.

The theory has been advanced that the United States is now so affluent that we should place less emphasis upon productivity and increasing output, and should adopt public policies to make unemployment more congenial. I do not regard this theory as being worthy of serious attention. The very opposite is the truth.



Our economy requires vast amounts of capital for educational and transportation facilities, for resource development, for housing and community assets. Huge increases are necessary in the output of consumer goods to meet the demands of a rapidly increasing population of which an increasing fraction will not be in the labor force.

According to a recent survey, \$95 billion is needed merely to modernize our obsolete industrial equipment. U.S. foreign investment should be increased by many bills a year if our country is to play its role as economic leader of the free world.

All these factors, as well as our relatively declining world economic position, now call for increased emphasis on productivity, efficiency, and economic growth.

The agenda of unsolved structural economic problems has been growing. Time is running out. We must find ways of resolving basic economic problems as rapidly as changing technological and cultural factors are creating them.

#### THE KEY PROBLEM: RAPID GROWTH WITHOUT INFLATION

Among the salient economic problems confronting our society I believe that the paramount problem is to maintain reasonable stability of the price level in a vigorously growing free economy. This problem rates a first priority on our attention because solutions of many other problems will accompany a solution to this one.

For example, a primary task of the next generation will be to find the capital to equip our expanding labor force with the most efficient tools and machinery in a world undergoing a second industrial revolution. A stable price level will help solve this problem by strengthening incentives to save and enlarging savings available for capital formation.

Again, enlargement of international investment throughout the free world will be an issue of first magnitude in coming years. The environment will be conducive to active international investment only if the largest capital-supplying country has a monetary unit of stable value. Achieving a reduction of international barriers to trade and payments also forms a salient task of the future. Yet the great enemy of liberal international trading and financing policies is inflation. When, under an inflationary regime, price levels in different countries move upward at different rates, uncertainties increase and restrictions on trade are introduced to protect monetary reserves.

Wherever we turn, a dollar of dependable value immensely simplifies our economic tasks. The structural changes in the U.S. economy necessary to obtain rapid growth with price level stability require public policies which will advance us toward other economic goals; they should be adopted even if the problem of inflation did not exist.

In solving the problem of rapid growth with a stable dollar, we shall strengthen the U.S. economy in many ways.

We assume that the American people want full production and employment and rapid growth of the real incomes along with a dollar of dependable buying power. In the end they will accept neither stunted economic growth nor a network of governmental controls of prices and wages. Nor will they accept gradual inflation as a necessary price of full employment.

I shall not repeat here the arguments against inflation, gradual or otherwise.

In testimony before this Joint Economic Committee a year ago, and elsewhere, I have explained why any persistent rise in the price level would be a drag upon longrun economic progress.

Let me interpolate quickly, that persistent inflation comes to have cumulative influences on people's expectations and behavior of a kind which retards the growth of real output.

First, inflation reduces savings among those for whom fixed dollar assets are the only practical way to save.

Secondly, inflation makes for inefficient investment and distortions in the use of capital, because it pumps up dollar profits even when real profits may be falling.

Third, inflation fosters inefficient management because it prolongs the tenure of poor or mediocre management. Everybody makes some money when the price level is rising.

Fourth, inflation fosters speculation.

Finally, and this is a factor we have come to appreciate the effect of recently, inflation is a potential threat to our national survival in a world whose markets we must serve in order to obtain the material to feed our growing economy. So, in a flexible free-market economy, slow inflation retards growth, whether or not inflation accelerates its pace and becomes fast inflation. This is incidental.

I think during the past year the consensus on inflation has been growing, despite a few dissenters. Here I am going to drop the issue of its desirability, and address attention to what we can do in remedy.

Senator BUSH. Are you coming back and pick it up where you left off here?

Mr. JACOBY. I can proceed right through this paper if you would prefer that.

Representative PATMAN. In view of the Senator's interest, I think you should proceed.

Senator BUSH. I particularly wanted to hear what you said about exports, rising imports, and so forth, immediately following.

Mr. JACOBY. Very well.

The sharp drop in U.S. exports, rising imports, and the outflow of gold has added a powerful new reason for stability of the U.S. cost and price levels.

Inflation was formerly seen only as a costly luxury; now we see it as a potential threat to national survival in a world whose raw materials we increasingly need. Here, we shall assume that gradual inflation is uneconomic as well as inequitable, and we shall confine our attention to rather specific public policies for preventing its recurrence. Direct controls to repress inflation, and escalator clauses to accommodate to it, are now generally seen as evasions of the problem.

Despite general agreement that a stable price level fosters economic growth and should, along with full employment and free markets, be an accepted goal of public policy, surprisingly little has been written on ways and means of achieving this end. There is even much dissension over the causes of inflation.

The popular view is that creeping inflation arises from excessive Federal spending, even when the Federal budget is balanced on a consolidated cash basis, and from wage increases that outrun gains in

productivity and force up prices. Hence the remedies most often suggested are a reduction in Federal expenditure and restraint by union and management officers in making wage agreements. But this diagnosis and remedy are plainly deficient.

Although systematic control of Federal expenditures is important, they cannot be the salient cause of inflation because they form only about 15 percent of aggregate demand. If the pull of excessive aggregate demand causes inflation, we should be more likely to find the culprits among those who spend the other 85 percent.

There have been extended periods of rising price levels when Federal expenditures were falling—for example, 1945 to 1948—and stable price levels when Federal outlays were rising—for example, 1952 and 1953. At present (March 1959) there is no excessive demand and much slack in the U.S. economy.

Granted that the upward push of wages on prices has played an important role in inflation, experience has shown that admonitions to use "restraint" are not very effective in producing noninflationary wage agreements. Restraint must grow out of the bargaining parties' conception of their own interests rather than out of their regard for the general interests of society.

The popular analysis of creeping inflation is not only unsatisfactory, but it leads to futile efforts to assign the blame to particular groups of people, such as aggressive union leaders, monopolistic business executives, congressional spenders, et cetera. As a result, public discussion of the problem becomes emotional and remedial action is stultified. The problem really arises from general systemic faults in economic structure and policy, and not from the misbehavior of certain people.

Let us view creeping inflation in a long perspective, develop a theory to account for it, and then deduce from this theory a feasible program of public policies to prevent it in the future. Time allows us to paint only with broad strokes of the brush; the work of many economists and policymakers will be required to fill in necessary details.

#### THEORY OF CREEPING INFLATION

In formulating a theory of creeping inflation, we do well to recall some simple arithmetic. Inflation is defined as a significant rise in the Consumers Price Index, an average of the prices of 300 commodities and services sold in a sample of retail establishments in 46 cities.

Now, if we are to avoid inflation in the short run, when some individual prices rise it is clearly necessary that other individual prices shall decline. And if we are to avoid inflation in the long run, if the average of prices lifts during the expansionary phases of business cycles, it is necessary that the average level of prices shall decline at other times.

Simple arithmetic demonstrates the need for more two-way flexibility in individual prices and in the average of prices if we are to avoid creeping inflation. It indicates that avoidance of inflation requires attention to what may be called the structural flexibility of our economy as well as to the maintenance of aggregate demand at an appropriate level through time.

The creeping inflation which has marred the performance of the U.S. economy in recent years has resulted from two major defects:

First, insufficiently flexible monetary and fiscal measures to offset cyclical changes in private demand and to hold aggregate demand around full employment levels—defined to mean that at least 96 per cent of the labor force is productively employed as an annual average.

Secondly, insufficient flexibility in prices and in movements of resources, caused by inadequate competition and by the interference of Government with competitive markets.

The remedy for creeping inflation requires both more sensitive and powerful monetary and fiscal actions to regulate aggregate demand, and governmental measures to make the U.S. economy structurally flexible with respect to individual prices and movements of resources.

Recent efforts to stop creeping inflation have been disappointing because they have involved reliance only upon restrictive monetary and fiscal policies, without concurrent actions to increase structural flexibility.

May I say there that this is why today we see an incipient inflationary creep in the country in the face of a 6 percent unemployment ratio.

The Federal Reserve Board has been in the most uncomfortable position of raising the discount rate at a time when 1 out of 16 Americans is unemployed. Surely a very hard decision to make.

Highly restrictive monetary and fiscal measures, which cut governmental expenditures to the bone, raise taxes, and make credit expensive and hard to get, can probably stop inflation. They reduce aggregate demand so severely as to create unemployment, hold down prices, and moderate wage agreements to a point where the wage-cost push on prices is diminished, or perhaps even ended. But in an economy where resource movements have become too slow, competition is not pervasive, and enough individual prices do not decline quickly enough in the face of lowered demand, a highly restrictive monetary-fiscal policy will produce persistent unemployment. It will require a sacrifice of normal economic progress which the American people will not accept indefinitely.

We cannot, therefore, prevent inflation solely by monetary-fiscal measures.

Those who argue that gradual inflation is inevitable, even desirable, as a means of increasing the average rate of growth in the real output of the U.S. economy, tacitly assume that present rigidities in the price and resource structure cannot be reduced. They take them as data. By contrasting the slow growth and unemployment associated with noninflationary monetary-fiscal policy in a structurally rigid economy, with the more rapid growth obtainable under a strongly expansionary monetary-fiscal policy, they conclude that slow inflation must be accepted as the inescapable concomitant of satisfactory economic growth. What they fail to understand is that even more rapid growth would be possible under a reasonably stable average of prices, if the price and resource structure were sufficiently flexible.

The following table provides a schematic representation of the relationships:

Case	Price and resource structure	Monetary-fiscal policy	Rate of real economic growth
I.....	Flexible.....	Noninflationary.	Rapid.
II.....	Rigid.....	Inflationary.	Medium.
III.....	Rigid.....	Noninflationary.	Slow.

This is drawn schematically to contrast the different elements. The most dramatic growth will occur in the long run under flexible price and resource structure with noninflationary monetary fiscal policy.

We do get moderate growth where the price and resource structure is rather rigid, as under case II, only with an inflationary monetary-fiscal policy which expands monetary demand to a point where the price level rises.

If we attempt, in case III, to hold the price level rigid through a noninflationary policy in a price and resource structure that is too rigid, we get too-slow growth.

Senator BUSH. I was going to say that is an interesting table. I wonder how you arrived at those conclusions. Are you going to explain that later?

Mr. JACOBY. Yes, I think some of my further text, Senator Bush, will make it clear; if not, please inquire again.

Senator BUSH. Yes, sir.

Mr. JACOBY. During recent years, the U.S. economy has oscillated between cases II and III. The optimal course of action clearly is to reduce structural rigidities and make the economy conform to case I, in order to have the rapid real growth which a stable price level makes possible.

The restoration of structural flexibility is basically a matter of creating the framework for workable competition in many markets from which it is now absent. Competition in open markets is the fundamental principle of a free versus a centrally directed economy.

If competition is pervasive and resources are mobile, enough prices will decline quickly enough when aggregate demand is shrinking and enough resources will move into more remunerative industries, so that sensitive monetary-fiscal restraints will serve to prevent inflation without creating pockets of unemployment and economic stagnation.

Conversely, an expansionary monetary-fiscal policy will more rapidly induce movements of resources into the most urgent uses, enabling total output to grow for a longer time without producing bottlenecks and inordinate price increases.

If the people of the United States squarely face the need to increase the structural flexibility of the economy as well as to improve monetary and fiscal controls, we will succeed in realizing our full potential of growth without bringing on a debilitating depreciation of the dollar.

I would like to point out that we need not be perfectionists here. Even moderate gains in structural flexibility will suffice to keep the price level reasonably stable, so long as productivity rises steadily.

Let us now outline the elements of a program of public policy which will help solve the problem of creeping inflation.

Because structural flexibility has received relatively little attention in discussion of inflation, it merits fuller attention than improvements in monetary-fiscal policy. Although they do not exhaust the subject, I shall focus attention on necessary reforms in five fields of economic policy: Antimonopoly, agriculture, international trade, stockpiling, and Federal taxation.

Removal of structural rigidities in the economy suggests many additional lines of policy action. For example, private pension and retirement programs tend to impede occupational and geographical changes of employment, by not vesting the employer's contribution in the employee. This problem also requires public attention.

#### ANTIMONOPOLY POLICIES

Actions to make competition more vigorous and pervasive in the United States are an important part of a program for price-level stability. Stern enforcement of the antitrust laws, their extension to all kinds of private economic activity, and other measures to invigorate competition will help to make individual prices and wage rates more responsive to changes in demand, will augment productivity, will moderate the wage-price spiral, and thereby reduce inflationary pressures.

While competition should be enforced in all segments of the economy, labor union activities are of greatest present concern.

The main legal instruments for enforcing competition, the Sherman and Clayton Acts, were designed to apply primarily to business firms and to commodity markets, and labor unions and most professional and cooperative organizations are exempt from most of their provisions.

Meanwhile, some unions have acquired great power over labor markets, which they exercise in a number of ways to push up prices or to prevent prices from falling. While inflationary wage agreements have received most attention, union restrictions upon entry of workers into trades, and union working rules to reduce productivity—"featherbedding"—are also important inflationary factors, especially in transportation and the building trades.

Being exempt from the antitrust laws, unions may do many things to restrain trade which businessmen cannot do. Because labor income comprises 62 percent of national income, it is evident that the impact of wages on the consumer's price level is pervasive. Public regulation of labor unions through special legislation as well as the antitrust laws, is therefore necessary to assure that their activities will be compatible with the public interest in a stable price level, efficient production, and workable competition.

Labor markets differ in many ways from commodity markets, and a fresh body of law needs to be developed to deal with their special problems. These problems include gross inequality of bargaining power between big unions and small employers, organizational and

jurisdictional strikes, undue restrictions upon union membership, picketing, secondary boycotts, union support of price-fixing agreements, and internal union affairs.

Some union activities should be made illegal; others are imperfectly understood and the relevant law would have to be developed on a case-by-case basis, as has already been done in commodity markets.

In any event, it is difficult to understand how objection can be made to the principle that antimonopoly legislation should apply to all kinds of private economic activities whether carried on by businesses, unions, professional associations, cooperatives, or any other individual or group. A comprehensive rather than a fragmentary approach to the maintenance of a competitive order is needed.

Although the extension of antitrust laws to unions could not be expected to produce dramatic results, it would be a symbol of public opinion and policy which would influence union activities as constructively as it has influenced business management in the past. The more obvious application of the antitrust laws to unions would be mitigation of unreasonable conditions of membership and uneconomic working rules as restraints of trade. Union mergers or splits present more difficult areas of application. The antitrust laws presumably would not apply to collective bargaining or wage agreements per se.

#### AGRICULTURAL POLICY

Food and apparel have 30 percent of the weighting in the Consumers Price Index. (See "Average Retail Prices: Collection and Calculation Techniques and Problems," U.S. Department of Labor Bulletin No. 1182, June 1955, p. 62.)

Because prices of most such items are directly or indirectly affected by current agricultural policies, it is clear that our efforts to support prices of basic farm commodities at parity are a potent source of inflationary pressure.

Our agricultural policies have operated to maintain or raise the prices of food and fiber in the face of striking technological advances that have reduced costs of production and would have brought lower prices in the absence of governmental intervention.

At the same time, our policies have built up huge surpluses, whose disposal abroad impairs friendly relations with other countries. Farm prices would have declined in free markets, helping to keep the cost of living stable and removing some of the wage-push exerted on costs via escalator clauses in wage agreements.

About 4 million workers are employed under contracts specifically requiring quarterly or annual adjustment of wages to movements of the Consumers Price Index, and this index is a consideration in virtually every wage determination. (See H. E. Riley, "The Price Indexes of the Bureau of Labor Statistics" in "The Relationship of Prices to Economic Stability and Growth," p. 113.)

A new policy for agricultural adjustment is urgently needed for many reasons. Output per man-hour has been rising more rapidly in agriculture than in the rest of the U.S. economy for at least 20 years. Because technological progress has made the large commercial farm relatively efficient and the small farm inefficient, 44 percent of our farms now produce 91 percent of the value of marketed farm produce.

(See Committee for Economic Development, "Toward a Realistic Farm Program," New York, December 1957.)

It is impossible to provide the remaining 56 percent of the farmers with a satisfactory income by means of farm price supports, because they do not produce enough for sale. Present policies subsidize the affluent farmer while giving little help to the needy one.

It seems to me, parenthetically, that this is a distributive principle more closely approached by Al Capone than by Robin Hood.

The game has continued to the point that the cost of supporting farm prices will be more than \$5 billion in the current fiscal year, Federal payments will comprise about 40 percent of net farm income, and the Federal-held surplus will total about \$9 billion by mid-1959.

A rational agricultural program, as the CED and other objective students of the farm problem now agree, calls for gradual removal within definite time limits of farm price supports, acreage allotments, and marketing controls. Such a program should embrace relocation and retraining grants to assist the submarginal farmer to enter more promising employment, and should assure farmers a minimum income. It must embrace a program to dispose of existing surpluses.

A programmed return to free-market agricultural prices would remove a source of tension in our international relationships and diminish inflationary pressures. Even if a rational farm program cost the taxpayers as much as the present policy, which is most unlikely, the gains would be great.

#### INTERNATIONAL TRADE

An essential element of an anti-inflationary policy is reduction of tariffs, import quotas and other impediments to international trade. These help keep up domestic prices and shelter inefficiency and monopoly.

A truly liberal international trade policy is the best safeguard to high productivity and a stable domestic price level in a world in which the leading trading nations seek monetary stability. The United States makes its economy strong by exposing its producers to fair, that is, unsubsidized, competition from abroad. If we expect to market our products in foreign countries, and ask them to expose their producers to our competition, we must be willing to receive their products.

The recent record of the United States in international trade policy has not been bad. We can applaud the renewal of the Reciprocal Trade Agreements Act. Yet there have been lapses from the path of virtue, in our tariff increases on watch movements and bicycles and our quotas on imports of Middle East and Canadian oil and Japanese textiles and apparel.

There are now powerful reasons for more energetic action to remove trade restrictions. There is the ideological consideration that the United States, as primary exponent of competitive capitalism, cannot preach competition at home and reject it from abroad.

There is the national security consideration that the free world is strengthened when its member nations are closely bound together in a network of trading and investing relationships. There is the economic growth consideration that the United States needs increasing amounts of foreign raw materials to feed its growing industrial



machine and must find ever larger markets throughout the world in which to dispose of its products. These factors constitute a convincing case for a more liberal international trade policy, quite apart from the real contribution it would make to the stability of the dollar.

#### STOCKPILING

Revision of Federal programs of stockpiling defense materials would also contribute to the fight against inflation. Federal stockpiles of strategic and critical materials, in which copper, lead, zinc, and platinum are important items, were valued at \$6.4 billion at June 30, 1958, and the Government also owned \$3.3 billion of machine tools. (See Annual Report of Office of Civil and Defense Mobilization, submitted to the Joint Committee on Defense Production. Washington: Nov. 30, 1958.)

Most of these commodities were purchased when the concept prevailed that World War III would resemble World War II. In the light of present nuclear war potentialities, these huge stockpiles make little sense.

I might add that there may be some other things that we ought to stockpile, other than metal. There is a danger that national security may become a cloak for governmental price-supporting operations for many commodities, as has already been the case for lead and zinc. If so, additional elements of inflexibility in the price indexes would be created.

The United States has wisely refrained from participation in Western Hemisphere price stabilization schemes on the ground that they violate our basic economic tenets, and fail in the end. Clearly, we should not operate domestic schemes of our own under any guise, especially when they contribute to inflation and impede economic readjustment.

#### TAX REFORM

Reform of the Federal tax system is an important part of any effort to increase the efficiency and structural flexibility of the U.S. economy, and to make it less inflation-prone.

In tax reform, the main emphasis should be upon measures that will offer both incentives and means of financing research and development and the modernization of our industrial machinery, and thus help to keep down costs and prices.

The immense cost-reducing potentialities of industrial modernization have been shown by a recent McGraw-Hill survey of American manufacturing industries.

It was found that the cost of replacing all obsolete facilities with equipment of the most modern and efficient type would be \$95 billion—a sum equal to all of the expenditure on plant and equipment by American business, for additional capacity as well as modernization, during the three boom years 1955, 1956, and 1957. (See "How and Why Industry Modernizes," *Business Week*, Sept. 27, 1958, p. 21.)

If we add to this modernization backlog the future capital requirements for replacement, in the light of an accelerating pace of technological change, plus the capital required for additions to our industrial plant to serve the needs of a population that may double

within the next 50 years, U.S. capital requirements are astronomical. Yet they must be met if we are to retain our economic leadership in the face of rapid Sino-Soviet growth in production and influence.

Nor should we forget that other free world nations have become formidable competitors in world markets. Some of them have relatively more post-World War II equipment than the United States possesses.

Americans would be wise to ask themselves how rapidly they wish their economy to grow, and then consider what kind of tax system will be consistent with this rate of growth.

While the present Federal tax system possesses valuable built-in countercyclical powers, as a result of its very heavy reliance upon progressive income taxes, it lays so heavy a burden on both the incentives and the ability to finance risky investment as to reduce the rate of capital formation, innovation, and economic growth.

The main lines of necessary Federal tax reform are reasonably clear:

First, reduction of the top bracket personal income tax rates to realistic levels. The 91-percent rate is really a phantom rate, paid by few and producing little revenue, while deterring productive effort and distorting investment.

Second, inauguration of a workable system of averaging personal incomes over periods of, say, 5 years. This would remove the penalty now imposed upon persons with unstable annual incomes, usually derived from entrepreneurial activities, in comparison with those having stable incomes, usually from salaried employment.

Third, reduction of the rate on corporate income, now 52 percent, which makes the Federal Government, in effect, the majority stockholder of every business corporation of substantial size, which favors wage inflation and inefficiency by charging the bulk of costs to the Government, and which diminishes both the incentive to make, and the means of financing, new investment.

Fourth, modernization of depreciation laws to give business managers wider latitude to write off fixed assets and thus foster earlier replacement of obsolete facilities. Headway was made in this direction in the tax revisions of 1954 and 1958, but the basic U.S. rules continue to be illiberal in comparison with those of other industrialized countries.

These Federal tax reforms would stimulate economic growth, help to reduce costs, and contribute to price-level stability. Our State and local tax systems should be reviewed with the same purposes in view.

#### COUNTERCYCLICAL MONETARY AND FISCAL POLICIES

My discussion of measures to increase the structural flexibility of the U.S. economy has left me time to make only brief observations about increasing the effectiveness of monetary and fiscal measures, upon which we must rely for regulation of aggregate demand.

The recent record of countercyclical monetary action is, I believe, fairly good. This was the consensus of participants in an American Assembly meeting October 16 to 19, 1958. (See "U.S. Monetary Policy" (New York: The American Assembly, 1959) pps. 116, 222) For a contrary view see Ascher Achinstein, "Federal Reserve Policy

and Economic Stability, 1951-57" (A study prepared for the Committee on Banking and Currency, Washington: U.S. Government Printing Office, 1958.) The record fiscal policy is less favorable, although the automatic stabilizers inherent in the Federal tax system have been helpful.

Stabilization policies could be improved in the future by more knowledge of the time lags involved, by augmenting their potency and availability for use, and by better administrative coordination.

The economic stabilization process involves three kinds of time lags:

A lag between the emergence of a stabilization problem and its identification by policymakers;

A lag between problem identification and policy action; and,

A lag between governmental action and its corrective effect on the economy.

The first two lags could be reduced by more accurate and promptly available economic statistics and by better economic analysis. I think we are making headway in both areas.

The third kind of lag probably cannot be reduced in length, being inherent in the institutional structure of the economy, yet the timing of countercyclical actions could be improved if we knew its magnitude. Here is an urgent subject of research.

Increasing the potency and availability of countercyclical policy measures also requires reform of certain monetary and fiscal arrangements.

It is likely, for example, that revisions of the legal reserve system for commercial banks and placement of nonbank financial institutions under some general monetary controls would be salutary. Such matters are now being examined by the Commission on Money and Credit.

In the execution of fiscal policy, a greater flexibility of tax rates is desirable.

May I say parenthetically that I accept the concept of a stabilizing fiscal policy, but I believe experience has shown rather clearly that it must rely mainly upon flexibility on the revenue side and not on the expenditure side of the budget.

Expenditure programs, in their nature, are cumbersome and run a danger of amplifying fluctuations rather than damping them down. It is on the revenue side that we can make headway.

A delegation of congressional power to the President to change personal tax liabilities within specified limits is one possibility.

A system of automatic adjustments in personal income tax rates geared to changes in price or employment levels is another concept worth study.

Finally, we need a better coordination of stabilization policies and actions within the Federal executive, so that the monetary, taxation, expenditure, lending, and loan-insuring operations of Government reinforce each other, rather than frustrate each other. One means to this end would be the establishment of a National Economic Council under the chairmanship of the President, analogous to the National Security Council in the area of defense.

## ECONOMICS AND POLITICS

Creeping inflation can be stopped in a free and vigorously growing economy only by reforms in many fields of public policy. The political obstacles to these reforms are indeed formidable.

Inflation raises the most difficult political problems because it pits the general interest in a dollar of stable buying power against many organized and articulate special interests. They include the farm lobby with a desire for high and rigid supports of farm prices; oil and mining interests with built-in profits from inflation, import quotas, and stockpiling programs; union officials with a desire for unbridled economic power, and business groups seeking protected markets to shelter their inefficiencies or reap monopoly profits.

All of these groups must be educated to understand that their own welfare turns in the long run upon an efficient American economy competing in open markets and capable of flexible adaptation to change.

Let us suppose, however, that the political problems of restoring a greater measure of structural flexibility to the U.S. economy are not surmounted. What, then, is the next best line of public policy for dealing with the problem of gradual inflation?

Should the Nation continue to operate under an expansionary monetary-fiscal policy, but turn to governmental regulation of wages and prices in order to suppress its consequences, as some persons have suggested?

Or should a toughly restrictive monetary-fiscal policy be imposed in the hope of holding down the price level through the generation of unemployment?

On the assumption that present structural rigidities in the U.S. economy cannot or will not be reduced, and this seems to be Professor Slichter's assumption, the best course of action would be to accept the gradual inflation associated with full employment and an expansionist monetary-fiscal policy, and to accommodate as many groups in society as possible to inflation through wider use of the escalation principle.

In these circumstances, it would be desirable to minimize the inequities of inflation in a number of ways.

Escalator clauses could be put in all wage and salary contracts; governmental and private debtors might be required to repay their debts in dollar amounts having constant purchasing power; life insurance companies might be required, not merely permitted, to issue variable annuities.

The escalation principle cannot be generalized to cover all citizens, as a practical matter, and it carries grave risks of accelerating the inflationary process. Yet it is clearly preferable to a network of direct price and wage controls which, history shows, only suppresses the evidence of inflation for a time, reduces economic efficiency, and spells the end of freedom.

I think a consideration of the alternatives must force us to conclude that our ability to solve the problem of creeping inflation within the framework of a free market price system will be a supreme test of the economic wisdom of Americans and of the vitality of our political institutions.

Will good economics prove to be good politics?

American efforts to stabilize the dollar are being observed throughout the world, especially by people in nations yet wavering in their choice of economic development under freedom or under totalitarian control. We must not fail to pass the test.

The United States must form a visible example to the world of an advanced industrial nation operated on the principles of economic freedom and financial probity. Here lies a great challenge to the American people, to the political leaders, and to the economists of our time.

Representative PATMAN (presiding). Thank you, Professor Jacoby for a very interesting statement.

I would like to ask you a few questions within the time limitation that we impose upon ourselves.

You did not mention interest rates. Do you consider high interest rates, which has evidently been the policy of the present administration, to be in the interest of the country? Or would you not rather have a more stable interest rate that was on the lower side?

Mr. JACOBY. Mr. Patman, my opinion about interest rates is really the same as it is about prices in our whole economy. I believe in a free market price system. I believe interest rates should flexibly respond to changes in conditions of supply and of demand for funds.

Representative PATMAN. Do you believe that there is a free money market in this country?

Mr. JACOBY. I think we have a free money market. It is, of course, under overall surveillance and control by our Federal Reserve System.

Representative PATMAN. Let me be more specific. Do you believe there is a free market in Government securities? I mean a free competitive market?

Mr. JACOBY. I think there is a competitive market.

Representative PATMAN. Do you believe it is a free competitive market?

Mr. JACOBY. I believe there is a great element of freedom in it, but the freedom is under the general restraints imposed by the debt management policies of the Federal Reserve System.

Representative PATMAN. Do you go for the view that the Federal Reserve System is a free and independent agency on its own and you might say in effect a fourth branch of the Government?

Mr. JACOBY. No; I wouldn't state it in that extreme form, sir.

Representative PATMAN. That is somewhat extreme?

Mr. JACOBY. As an official of the Government, it was my duty as a former member of the President's Council of Economic Advisors to work with the Federal Reserve System. I believe they make strong efforts to coordinate their policies with the other economic policies of the executive branch of the Government.

Representative PATMAN. If you were to have the controls which you have mentioned, would they go so far as to affect the distribution of credit?

During recession the little man is at a disadvantage in getting credit, but the big man has plenty of opportunities for credit. Would you ration credit?

Mr. JACOBY. No; I would not.

As I understand it, we created a Small Business Administration to provide, among other things, a safety valve for the small businessman who has trouble getting funds from the usual sources.

Representative PATMAN. It will have little fellows step on little fellows' toes, but never provide enough money to help a little fellow step on a big man's toes.

Mr. JACOBY. Maybe we ought to give it more lending authority.

Representative PATMAN. It is very small in comparison. The RFC could make loans that permitted concerns to be in real competition with steel, aluminum; and we have evidence of it today. But when the RFC was repealed and we substituted the Small Business Administration, with the authority to make very limited loans, have a system which, in practice, permits loans to be made to little men to compete and destroy other little men, but never provided enough to permit the small business to step on the toes of the big men or effectively compete with big industries.

Mr. JACOBY. Congress could increase the size of the loans that the SBA is permitted to make, if this is so. I am not sure I agree with you.

Representative PATMAN. There are today distressed areas all over the country because local people have no place to turn to borrow a sufficient amount of money to go into a business that will employ local labor. These distressed areas are becoming a more serious problem. The younger people are leaving them and the older people remain there. It is more difficult than ever to get industries that would fit into these local distressed areas.

Would you have these controls include interest rates?

Mr. JACOBY. I am against controls, Mr. Patman, as I said earlier.

Representative PATMAN. You mentioned their possibilities, I believe, did you not?

Mr. JACOBY. I referred to them as very undesirable possibilities.

Representative PATMAN. Since you mentioned them as something that should be considered, if you are going to have them, would you have them to include interest rates?

Do you not think interest rates influence the cost of living?

Mr. JACOBY. I think that interest rates should represent prices of funds, and should reflect supply and demand conditions. I would allow the interest rate to fluctuate with changes in supply and demand of funds.

Representative PATMAN. If you are going to fix the price of agricultural products, and wages, and things like that would you not fix the price of credit?

Mr. JACOBY. I suppose if you are going to fix one kind of price, you probably end up by fixing most or all of them. I am against fixing any of them.

Representative PATMAN. If you fixed any, you would fix the interest price also? But you would not provide for any rationing of credit?

Mr. JACOBY. I would not either fix the price of credit nor would I seek to ration it. I would let our free financial institutions and markets accomplish that result.

Representative PATMAN. I believe you admitted a statement to the effect that you did not believe in monetary policy as sufficient to control inflation?

Mr. JACOBY. That is correct.

Representative PATMAN. That being true, do you not think that the Federal Reserve has made a serious mistake in recent years by trying to use monetary policies that were insufficient to try to control inflation when just the exact opposite has proven to be true: Prices went up because of higher interest rates?

Do you not think the Federal Reserve has made a terrible mistake in that, Doctor?

Mr. JACOBY. Of course, when you speak of recent years, you are referring to a great many economic conditions, Mr. Patman.

Representative PATMAN. I will take the last 4 or 5 or 6 years.

Mr. JACOBY. I feel that on the whole, the Federal Reserve Board has done a reasonably good job of monetary management in our country during the last 4 or 5 years. It has not been a perfect record. Let me be specific. I want to be very responsive to your question.

I think this recent decision to raise discount rates was a very hard decision to make.

Representative PATMAN. Do you not think it was a wrong decision?

Mr. JACOBY. I think it is a very questionable decision. If I were a member of the Board of Governors, I would have felt rather uncomfortable about it.

Representative PATMAN. I refer to a period of time when we have had two depressions, added to if not caused, by Federal Reserve action in the last 6 years.

Mr. JACOBY. I would not agree with the assertion that they were caused by the Federal Reserve System.

Representative PATMAN. You will admit that we have had two depressions? We will call them recessions to be more modernistic.

Mr. JACOBY. We have had two recessions.

Representative PATMAN. We have had two bad recessions. They have been bad to little folks. The big people have done fine under them. But the little folks have suffered terribly.

The first breakthrough of the ceiling on the long-term interest rates, I believe, was the issuance of 3¼-percent bonds in 1953. Before that we had maintained a rate for at least 10 or 12 years of 2½ percent on long-term bonds.

This 3¼-percent bond seemed to be just clear out of character in that it was so much higher and the Federal Reserve said it was all right to do it. We will accept it as a part of the Federal Reserve policy. But later in 1954 Mr. Martin, the Chairman of the Federal Reserve Board, said that was a mistake, that they should not have done that.

Now then, since they have admitted that mistake, which they were forced to admit on account of the circumstances, I think they should admit this attempt to control the economy through monetary policy should be stopped because it is a mistake. I think it is a terrible mistake.

I am glad that you have had some criticism in here about that particular thing, control by monetary policy.

Dr. Jacoby, do you know what the average annual income of a worker was, we will say, in 1939?

Mr. JACOBY. A nonagricultural worker?

Representative PATMAN. Yes, sir; and an agricultural worker too, if you can.

Mr. JACOBY. I don't have precise figures in mind, Mr. Patman, but as I recall, it was something like a third of what it is today in dollars.

Representative PATMAN. So far as a farm family, living out on the farm as a mode of life as a large part of them are is concerned, if they are making twice or three times as much now as they were in 1939, the depreciated dollar is not hurting them, is it? They have two or three times as much to pay with.

Mr. JACOBY. If they are making twice as much, their real income in the commodities and services they buy are the same. They have not made any progress in the last 20 years. Any family that has not made any progress in the last 20 years is behind the procession.

Representative PATMAN. Those following this mode of living on the farm are fine people and have made a great contribution to this country.

Mr. JACOBY. That is true. I was a farm boy myself.

Representative PATMAN. They are under a great handicap. My time has expired.

The CHAIRMAN. Mr. Curtis?

Representative CURTIS. Thank you, Mr. Chairman.

Dr. Jacoby, I especially appreciated your paper. There is a great deal of room for good thinking about it.

One point I would like to get clear before going further is this: There has been quite a bit of talk about the emphasis on the problem of stability of prices, with the thought that this means a deemphasis or almost an abnegation of the problems of unemployment.

I gathered from your paper that you do not feel that is the case.

Mr. JACOBY. No, I did not, Mr. Curtis.

If we operate an economy that is, as I described it, structurally flexible—if we let our free pricing system do its work—it seems to me there is no conflict between rapid growth and reasonable stability of the price level; in fact we achieve our most rapid growth under a stable price level in a structurally flexible economy.

Representative CURTIS. With rapid growth, you assume that we will then have a minimum of unemployment?

Mr. JACOBY. Yes, sir; I do.

Representative CURTIS. I have often wondered whether or not, during periods of rapid growth, or economies that are rapidly growing, whether we do not have a higher incidence of unemployment than in a society where the economy is not growing as fast.

Mr. JACOBY. I suspect that we do.

What might be called the frictional ratio of unemployment is a little higher in a highly dynamic economy than it is in one that is more settled and stable in its ways.

For example, if the pace of technological progress, automation, increases this will result in displacements of people on a larger scale than if we are in a static situation. I suspect that our own economy has moved into that kind of area in recent years.

Representative CURTIS. That, of course, is the reason and the emphasis, in your paper, on retraining and reeducation; for example, in rural areas?

Mr. JACOBY. Yes.



Representative CURTIS. Or what might be regarded as other depressed areas?

Mr. JACOBY. Urban areas as well, I might add.

Representative CURTIS. That is why I added other depressed areas, such as urban areas.

Getting back to the basic study that this committee is embarking upon—you are the second witness—here we are talking to some degree and placing emphasis on economic growth.

I have wondered just how we do measure or how can we measure economic growth. I have asked that question of Dr. Slichter, and he suggested that per capita GNP was probably the most meaningful figure.

I am wondering if we do not have to break down economic growth into component parts in order to make it meaningful.

For instance, growth in the field of transportation, or growth in other areas. Otherwise, I am afraid if we just look upon what we are producing in any given year or any period of years, we might be including in there a lot of uneconomic growth—things that I have described as that which goes into the garbage pail after we are done. That can be growth, of course, and yet it is waste. How are we to tell that growth which has permanency and is meaningful?

Mr. JACOBY. I don't know, sir, of any better measure than our present gross national production figure, after correction for price changes.

It seems to me that the annual gain or the average annual gain in real gross national output is the best overall measure we have of the growth of our economy.

Representative CURTIS. What if we had something like capital plant and measure of skilled labor. Those are the ingredients that are necessary to produce our gross national product. It depends on whether they come together at given times as to whether we actually get the product.

To try to point up this question, during the Korean war, I recall that our steel plants were at 110 percent capacity, or some figure above 100. Some people said how can that be?

Of course, the answer is that they were not shutting down for routine maintenance. Yet that would show up in our gross national product.

It seems to me that somehow we have to get into this thing of what economic plant we have, plus our skilled labor force, if we are going to get down to some basic economic considerations.

Mr. JACOBY. If I understand your concern, Representative Curtis, it is that we need a measure of what might be called productive capacity in addition to actual production.

Representative CURTIS. Yes.

Mr. JACOBY. I agree with you, it would be a most useful supplement to our knowledge about the potential productive power of the economy.

I have observed that measurements of productive capacity are very slippery concepts. I suspect that a great many of our figures of capacity include a great deal of inefficient high-cost capacity. Therefore, we may exaggerate the efficient productive capacity of a good many industries by taking their overall figures.

Representative CURTIS. Another way of posing it, I have noticed for the past few years that we have been generating about \$7 to \$8 billion a year in surplus properties from our Military Establishment. That is getting to be an annual rate.

At one time that \$7 or \$8 billion was measured in the gross national product. That might be surplus or in the garbage can, you might say, because of inefficiency or obsolescence or many other reasons.

But it seems to me if we are going to consider meaningful economic growth, we have to weigh that factor, too.

Mr. JACOBY. We certainly need to look at the composition of production as well as the dollar value of the total in ascertaining the extent of our growth.

Representative CURTIS. Another figure that you supplied in your paper, which was very interesting to me, was where you said it would require \$95 million to modernize our national plant equipment.

Mr. JACOBY. Yes, sir.

Representative CURTIS. That is a meaningful figure. To take another society, Russia, I understand that they built a great hydroelectric plant, but so far away from where the power was to be used that they ended up with a very inefficient operation.

How do we weigh those kind of economic mistakes in considering economic growth? That is probably what I am trying to get at.

Mr. JACOBY. Of course, in our kind of economy most of these decisions are made by competing private enterprises, and enterprise cannot afford to make too many mistakes or it goes into a bankruptcy court.

Representative CURTIS. We have a good check.

Mr. JACOBY. We have a check on mistakes of that kind.

Representative CURTIS. I see my time has expired. There is one thing I want to come back to, and I will just pose it now. Just as I have suggested, I think our committee has to analyze what we call economic growth, so I hope that we will also analyze what you have described as creeping inflation and I will come back to that question.

Representative PATMAN. Senator Sparkman.

Senator SPARKMAN. Doctor, I have greatly enjoyed your paper. There are many things in it that are thought provoking.

Let me ask you a question to which I do not fully gather an answer in your paper. I mean the situation we are in at the present time. We hear a great deal of talk about inflation. Is this an inflationary period now?

Mr. JACOBY. Not at the present time, if we define inflation as an upward movement of the Consumer Price Index. We haven't had any.

Senator SPARKMAN. I notice you used that definition in your paper. Is that a complete definition?

Mr. JACOBY. Perhaps it is not complete, but I would say it is the best single measure we have.

Senator SPARKMAN. It is practical.

Mr. JACOBY. It is a practical available measure with most meaning to most people.

Senator SPARKMAN. Under that definition then, we have been in a rather stable condition for about 9 months, have we not?

Mr. JACOBY. That is true.

Senator SPARKMAN. Therefore, we can say we have been in a non-inflationary condition for about 9 months?

Mr. JACOBY. This is so.

But may I point out that we have been through a rather sharp recession from which we have recently been staging a recovery.

In our past it has been true that we have had some recession in the consumer's price level. The fact that it has stayed stable in the face of this rather sharp curtailment of total demand, this recession in the general business situation, is, it seems to me, itself a rather ominous fact.

Senator SPARKMAN. Certainly we must always be on the alert against an upsurge that would produce inflation?

Mr. JACOBY. I believe we should.

Senator SPARKMAN. Are there any real threats of inflation at the present time?

Are there any pressures that may be described as being inflationary, or is it just a fear of what might happen?

Mr. JACOBY. At the present moment of time, there certainly is a great deal of slack in our economy.

Senator SPARKMAN. Our productive capacity is much greater than what we are utilizing.

Mr. JACOBY. That is true. That is what I mean by slack. There is an abnormally large number of unemployed people. There are unemployed factories and capital equipment.

It seems to me that in this situation we are not faced on the demand side from the standpoint of an excessive aggregate demand for services in general with an inflationary pressure. I would agree with that. The threat of potential inflation comes from the cost side, from the possibility that we may have increases in wage rates that are too much, also from the fact that there are segments of our price level that we have immobilized. We have made it inflexible.

Now we have put a curb on oil imports. We all are going to pay more for gasoline.

These things may seem like little actions which are individually insignificant, but they accumulate in their effect on our price level. This is the thing that bothers me, Senator.

Senator SPARKMAN. I notice near the end of your paper you give us an idea of some of the things we need to do. It calls for quite an educational program, does it not?

Mr. JACOBY. I grant you that.

Senator SPARKMAN. And a rather ambitious one.

Mr. JACOBY. Being an educator, perhaps that is why I laid emphasis upon it.

Senator SPARKMAN. By the way, you mentioned a minute ago the cost side of this thing. Do you mean by that to imply that the real threat of inflation at the present time is anticipation of wage contracts that will have to be negotiated later this year?

Mr. JACOBY. I think this is the potential threat of most immediate weight. This, along with the fact that we seem to be doing other things to prevent some prices from falling and to raise other prices, so that the whole index has a certain amount of upward pressure being put on it.

Senator SPARKMAN. Getting to the whole field of subsidies, that is where we are going?

Mr. JACOBY. That takes us into the whole field of subsidies.

It seems to me there is no end to it, sir. We subsidize one group, and this gives color and reason for subsidizing another. We all end up by "picking each other's pockets."

What we need, I believe, is a kind of general disarmament on this process.

Senator SPARKMAN. By the way, it was suggested at our hearing the other day when Dr. Slichter was here that this whole subject of subsidy—the whole field of subsidy—be looked into by this committee as a part of these hearings.

I think there was general agreement that will be done. You would recommend that?

Mr. JACOBY. I most certainly would. I think that is a most constructive suggestion.

Senator SPARKMAN. I enjoyed what you had to say about inflexibility of some of our programs, and also the need for getting greater flexibility, also the time lag that you brought in.

Personally, I have always felt that this time lag was a great deterrent to our being able to maintain stability.

For instance, I have often complained that the Federal Reserve had too much rigidity about it. It seems to wait until trouble is on us before it takes any move and then, after it makes a move, it waits too long, I think, to counteract that move.

I do not know whether that is just a criticism or not, but that has been my impression. Is the time lag handicap not true with reference to taxation? Is there not a considerable lag?

We often talk about helping the economy by utilization of the laws of taxation, but there is usually a rather long delay in connection with taxing.

Mr. JACOBY. Yes; I feel there is. That was the basis for my suggestion that this committee might well study ways of making our revenue policy a more flexible one and more flexibly responsive to changes in general economic conditions.

There are a number of possibilities that are worthy of study. One that I suppose the Congress would be rather reluctant to consider would be a delegation to the President of certain discretionary powers within limits to adjust tax liability to help offset changing economic conditions.

Another possibility would be to provide for some automatic changes in tax liabilities which would be signaled by passing certain points in our unemployment index.

Senator SPARKMAN. You also suggested a National Economic Council. Is that what you proposed?

Mr. JACOBY. It seemed to me that this would be a desirable move for the purpose of getting coordination at the very highest level of all aspects of our economic policy.

Senator SPARKMAN. Would that replace largely the powers that the Federal Reserve Board has now?

Mr. JACOBY. It would not replace them, I think, so much as it would assure that they were being coordinated with policies of our Federal lending and loan insurance agencies, and our Treasury pol-

icies, and other actions of the Executive that bear on the general economic situation.

Senator SPARKMAN. You referred to the automatic stabilizers inherent in the Federal tax system. What are some of those stabilizers?

Mr. JACOBY. What I had reference to especially was the heavy reliance of our Federal tax system on the progressive taxes on personal incomes, which, as I think is generally recognized, appropriate to the Government a larger share of both the business income and personal income as it rises and which, conversely, imposes on the Government an increasing loss of revenue as incomes fall.

Senator SPARKMAN. You would have the top levels lowered, but you would retain the progressive or the graduated system?

Mr. JACOBY. I would certainly retain the principle of progression in our tax rate system.

I think, however, that it has gone to absurd extremes.

Senator SPARKMAN. Now a question with reference to the stockpile: You said maybe we needed to stockpile some other things. What are some of those things you had in mind?

Mr. JACOBY. Penicillin, for example. I am not intending to be facetious, sir, but it seems to me that the stockpiles of metals and machine tools and other such items that we now have were predicated on entirely different defense and war situations than the one we are likely to confront. We need to rethink that whole field very carefully.

Senator SPARKMAN. In other words, you think there ought to be a reappraisal?

Mr. JACOBY. I do, sir. I believe when we make that reappraisal, and this is pertinent to our present inflation situation, we will be taking props out from certain prices that have helped to pump the price index and create inflation.

Senator SPARKMAN. You mentioned penicillin. I believe it was true that at the beginning of World War II we were caught short on quinine.

Mr. JACOBY. Yes, we were. We had a rather difficult time of getting quinine.

Senator SPARKMAN. Mr. Chairman, I believe that is all for the time being.

Representative PATMAN. Senator Bush.

Senator BUSH. Mr. Chairman, Dr. Jacoby, I join with my colleagues in congratulating you upon a very excellent and constructive statement that you have made before the committee. I particularly like that paragraph where you speak of the popular analysis of creeping inflation as not being satisfactory, leading to futile efforts to assign the blame to particular groups of people, such as the aggressive union leaders, monopolistic business executives, congressional spenders and so forth.

As a result, the public discussion of the problem becomes emotional and remedial actions stultified.

That is so true, I find from my own experience.

Then you say very truly, the problem really arises from the general systemic faults in economic structure and policy and not from the misbehavior of certain people.

Then you give us a five-point program of what you think should be done, and I consider this one of the most constructive statements that has been made in this whole field. In fact, I do not recall any other program that is really specific and what is sometimes called the bold, forward-looking program, such as you have given.

Mr. JACOBY. Thank you.

Senator BUSH. I want to compliment you particularly on that.

Now I am going to jump a little bit from point to point.

Senator Sparkman was querying on the question of inflation and as to the relative stability of prices in recent months and so forth. But we frequently in debates here get into the question of whether a deficit in the Federal budget is an inflationary force or not. Some people do not think it is, and some people think it is.

It has not been a particularly inflationary force in this fiscal year for reasons that are now pretty well known. We started off with a heavy cash balance and did not finance any substantial part of the deficit through the banking system. But we do face another fiscal year pretty soon, and I would like to ask you the question of whether a deficit of \$3 to \$4 billion, such as some of our friends think we ought to plan, might likely have inflationary effect in another fiscal year, assuming, if we can, that business is good, our gross national product is going to be higher, the national income is going to be higher, retail sales are going to be higher, and we are going to live in an expanding economy.

So I ask you, in view of that prospect concerning which there appears to be little disagreement, whether you think a Federal deficit of \$3 or \$4 billion would be inflationary?

Mr. JACOBY. I presume, Senator Bush, you have in mind the budget for the fiscal year 1959-60.

Senator BUSH. The fiscal year we are approaching, beginning July 1.

Mr. JACOBY. I will try to answer your question specifically, but let me preface it by stating the general principle of fiscal policy that I think wise.

In general, it seems to me that we ought not to shun a budgetary deficit under conditions where we have a good deal of slack in the economy and unemployment and where some increase in aggregate demand for good and services would pull people back into jobs.

On the other hand, where we are in a situation where, for all practical purposes, employment is full and complete and any additional money demand would merely serve to pump up prices, there I think we ought to operate with a surplus and not merely balance the budget. In other words, we should do something more than that.

In the current situation, we have had so far about 10 or 11 months of recovery from a rather sharp recession. We still have considerable amount of unemployment. At the moment expansion is not rapid. It is proceeding. We are getting some increase in employment and output, but it is not rapid.

Under these conditions, if we assume that the expansion proceeds we will, I think, reach something like full employment by perhaps the end of this calendar year. I don't think that under these conditions we ought to seek deliberately to generate a large deficit in the budget.

On the other hand, I am inclined to believe that a small deficit, a billion or \$2 billion, is not going to make much difference. If we are to have a deficit—and I would like to lay emphasis on this—I would far rather see it arise from a beginning of structural reforms in your tax system than I would by increased Federal expenditures.

It seems to me that the level of Federal expenditures at the moment is probably about right. We do need to make a start on some of these reforms of our tax system that would promote more research, development, innovation, risk-taking investment in the economy. I would hope that this process could begin in the fiscal year 1959-60, even if it costs some revenue.

Senator BUSH. There does not seem to be any disagreement in this committee and I do not believe much in the Congress about the desirability of eliminating the unemployment factor which is surprisingly large in view of the state of economy otherwise.

I have a little difficulty trying to measure the connection between the unemployment factor and a budget surplus or deficit. In other words, if the unemployment factor is at  $4\frac{1}{2}$  million people at the present time, are we justified in thinking or in planning a Federal deficit to eliminate that unemployment factor, and if so, how much of a deficit are we to plan?

There seems to be a feeling that you can eliminate unemployment by increasing Federal spending. What is the ratio? Is it \$1 billion of additional expenditures for every million of unemployment? How do we decide this?

Mr. JACOBY. I think there is no simple ratio, Senator.

I agree with you that this would be a gross oversimplification of the problem. We are spending a great deal of money now on purposes that don't create either valuable goods or employment.

I think the \$5 billion a year we are putting into farm subsidies is a case in point. It would be much better to cut those subsidies by a couple of billion dollars, and let us take five points off the corporate income tax rate which would generate an expansion of investment where the unemployment is now existing in cities like Cleveland, and the machine tool industries. Here is where unemployment exists.

We have to give thought, I think, to the particular kinds of spending that are going to affect particular segments of our economy. So the generation of more unemployment is not simply a matter of creating a deficit; it is a matter of redirecting our present Federal expenditure along more useful channels.

Senator BUSH. I agree in general with that, and particularly with your 5-point program in which this matter you just mentioned is involved. It is a tremendous task because, as Senator Sparkman pointed out, these subsidies that we have, like the farm subsidy, the trade subsidies and tariffs and quotas, they form the vast network of subsidies involving almost every phase of our economy.

It is a little difficult to see how you can pull the props out from under one segment of the economy without at the same time pulling them out all around. In other words, you would run into charges of discrimination and unfairness in doing that and you would be a little bit vulnerable on that unless you could pull them all together and treat them at once. That is why the suggestion was made that we might conduct in this committee in due course, when we get through

with this particular study, a study into the whole question of subsidies, their interrelation and their effect on the economy.

I think we should do that.

Let me ask about a different phase for a moment.

The Federal Reserve Board—there are some who feel that the Federal Reserve Board should not be an independent agency and they should be more subject to domination by the executive branch, or specifically, by the President of the United States.

Would you care to comment on that in the light of your experience and observation?

Mr. JACOBY. It has been my observation, Senator Bush that the present quasi-independence of the Federal Reserve Board has worked pretty well. I had an opportunity to work within this System myself as a member of the President's Council of Economic Advisors, and my observation was that the members of the Federal Reserve Board consistently have sought to coordinate their statutory responsibilities for controlling the supply of money with the actions of the Federal Government in the tax field and lending field, and that there would be nothing especially gained, I think, to change the System in a fundamental way.

The best immediate step, in my judgment, would be to create a National Economic Council, to function in the field of broad economic policy as the National Security Council functions in the defense policy field. You would make the President chairman of that.

The chairman of the Board of Governors of the Reserve System would naturally be a member of that Council. This would assure continuous coordination at the highest level. I would like to see that done before recommending the complete merger of the Federal Reserve System into the Federal Executive as a Cabinet post.

Senator BUSH. My time is up, Doctor. Thank you very much.

Senator SPARKMAN. Mr. Reuss.

Representative REUSS. Dr. Jacoby, I would like to continue the line of questioning of Senator Bush.

Let us start with the proposed National Economic Council to assure coordination of the monetary and other economic policies of the Government.

Isn't the President now, under existing law, and specifically under the Employment Act of 1946, empowered to do all the coordinating necessary, using the advice of the Council of Economic Advisors?

I think he is. I would like your view on it.

Mr. JACOBY. I am inclined to think he has the power to do this, but I believe there would be merit in formalizing the arrangement, by making it an explicit responsibility of the President.

Representative REUSS. Could we be more explicit than we are in section 2 of the Employment Act of 1946?

Mr. JACOBY. I think we could get a little more explicit.

Representative REUSS. You don't think the creation of a National Economic Council would tend to blur the President's already somewhat fuzzy responsibility to coordinate the various economic activities of the Federal Government?

Mr. JACOBY. No, I think not, sir. In fact, I believe that it would have the opposite kind of effect.



There are situations when the Treasury, for example, which has a prime responsibility for tax policy, may have certain strong views that would produce contrary effects on the economy to the views of the Federal Reserve in the monetary field. I think there is merit in having a statutory Council under the chairmanship of the President to bring these officials together and assure a reconciliation of these views before divergence became too crystallized.

Representative REUSS. Of course, it would not really eliminate the divergence of views. Since the Federal Reserve is independent, couldn't it say, "Thank you, no, we will not have any coordination today." that is inherent in the concept of independence, it seems to me.

Mr. JACOBY. I believe the members of the board are appointed by the President.

Representative REUSS. For 14 years.

Mr. JACOBY. For long terms.

I am sure that, as a matter of fact, none of them would ignore the call of the President to a council of this kind.

Representative REUSS. Turning to a related matter, do I summarize your views with reasonable accuracy when I say that you think it a mistake to adopt restrictive monetary policies without taking concurrent action to increase structural flexibility in the economy, at a time like the present, when there is a considerable reservoir of unemployed working people and of unused industrial capacity?

Mr. JACOBY. I think that is a reasonably fair statement of my position; yes, sir.

Representative REUSS. You were once a member—and a valued member—of the Council of Economic Advisors. If you were here today testifying as a member of the Council of Economic Advisors, is there any reason to suppose that your testimony would have been any different from what it was today?

Mr. JACOBY. That is a rather difficult question, sir.

It seems to me that a member of the Council of Economic Advisors is an officer of the U.S. Government, appointed by and subject to the pleasure of the President.

He therefore has the responsibility for representing the administration in a sense in which a university economist like myself does not.

Representative REUSS. Isn't that a polite way of saying—and I think you have been very polite indeed—that your views, at present at least, differ from those expressed by the Council of Economic Advisors in their most recent Economic Report? In the report, far from criticizing the present monetary policy, the Council indicates that it is satisfactory.

Mr. JACOBY. I do not know, frankly, what the present views of the President's Council of Economic Advisors are. I have not recently had close contact with them.

Representative REUSS. As of January 20?

Mr. JACOBY. I would say frankly I was somewhat disappointed in the "Economic Report of January 1959" in failing to point out the importance of some of these structural rigidities, their relation to the inflation question, and to propose some specific steps for starting to do away with them.

Representative REUSS. In your little chart you have as case I, what would seem to be the best of all possible worlds; namely, price and resource structure flexibility; a flexible, noninflationary monetary policy; and a rapid growth rate.

I am wondering if there has ever been a historical period in which this happy situation prevailed.

Mr. JACOBY. Never on a 100 percent basis.

I think we could take the period, let us say, of the middle 1920's, when we had for a number of years running a very high rate of economic growth in real terms, a price level that was not only stable but actually declining a little bit, and an economy in which there was a good deal of change and adaptation. I think this was one period that approaches case I in the table.

Representative REUSS. You don't feel that there were some other things wrong with the economy of the twenties?

Mr. JACOBY. There were plenty of other things wrong with it, sir. They were faults of another kind that made the economy vulnerable to a spiraling upward or downward of total demand. We have corrected those faults. Our economy today is much stronger, I think, in resisting booms and depressions.

But, on the other hand, we have lost, as against the economy of that era, certain elements of structural flexibility.

I do not think we need to sacrifice the one to get the other. We can have an economy that has a built-in stabilizer system as well as an economy that is structurally flexible.

That is what we ought to try to achieve.

Representative REUSS. I certainly agree with your observation that much needs to be done in order to remove rigidities in the agricultural sector of the economy.

I wonder, however, how family income could be maintained under a free price system in agriculture, when good weather can automatically cause bumper yields and when, even under economic stress, you cannot go in and out of business quite as readily as you do in operating a radio repair shop. You do not mention this as one of the things that present a problem.

Mr. JACOBY. Yes. In fact, I think that one fault of our present system of farm subsidies is that we are not subsidizing farm income, but we are subsidizing prices. This means that the man who grows more gets the biggest subsidy and the man who needs income most is the fellow who—because of the infertility of his land or the poorness of his equipment, or other reasons—grows very little and gets very little help.

We have in agriculture today, I am sure, a great reserve of potentially useful manpower if it could be moved to areas where it could be employed.

I believe that a coherent farm program would try to get us out of the whole business of supporting farm prices and interfering with free markets for farm products; and would substitute for this a system of what we might call true agricultural adjustment embracing grants, loans, and so forth, for submarginal farmers in this position.

Representative REUSS. You have spoken of the necessity for assisting marginal farmers to get out of farming. Would you also accept as part of the program of getting rid of artificially high prices, a

system of income payments to family size farmers, who stay on the farm and continue in farming?

Would you consider that?

Mr. JACOBY. I would consider it, but I may say I would be a bit skeptical about it, if this meant really maintaining people in an occupation that were not useful and serviceable to our economy. I think this would be an aspect of that suggestion that would have to be examined very carefully.

Representative REUSS. Unfortunately, my time is up.

Senator SPARKMAN. Mr. Kilburn.

Representative KILBURN. I think your statement, Doctor, was an excellent one. It has given me a great deal to think about.

Mr. JACOBY. Thank you.

Representative KILBURN. Speaking of the Federal Reserve System, there have been those who contend that the Federal System should be under the control of Congress. What do you think of that?

Mr. JACOBY. No; I believe I would hold by my earlier view, that it is best to keep it in its quasi-independent status, independent both of Congress and of the executive branch.

Representative KILBURN. If I understood Dr. Slichter correctly the other day, he proposed that we deliberately spend a lot more than the budget calls for, as if that was going to help the situation.

I do not quite understand why, if we spent, for example, \$5 billion more than the budget, how that would take care of unemployment.

Mr. JACOBY. I think that is a very penetrating question.

We might, for instance, spend \$10 billion on farm subsidies instead of 5, and it is not going to affect our unemployment situation one whit. I think this simple identification of Federal spending with employment is one of the great fallacies we have to keep puncturing. The real issue is, what are you spending on, and who are you employing as a result of the spending?

Representative KILBURN. One thing disturbs me about not balancing the budget and I want to get your views on it.

Regardless of whether prices go up or not, or regardless of the unemployment situation, if we do not balance the budget the people of this country and the investors from foreign countries will tend to lose confidence in our dollar.

Mr. JACOBY. I am sure that it influences their thinking. I agree with you, sir.

Representative KILBURN. It also influences the savers of this country not to save and that is the source from which industry gets a great deal of its money for plant. Is that not right?

Mr. JACOBY. That is right.

Representative KILBURN. So anything that tends to reduce the savings or prevent them from growing at a normal rate, or discourages people from turning savings over to industry to buy plant and equipment seems to me, to enter the unemployment picture. Do you think that is correct?

Mr. JACOBY. I think that is a correct statement.

In fact, it was this line of thought that led me to conclude that we do not need to unbalance the budget in the fiscal year 1959-60 in order to generate a considerable increase in employment.

We could, for example, consider reducing subsidies to the extent of 2 billion a year—to have something to shoot at—and concurrently begin a program of tax reduction and reform that would stimulate a great deal of private investment and still keep a balanced budget in the year 1959-60.

I don't think that unbalancing the budget in and of itself is going to help the employment situation, unless we carefully trace through the consequences of the action we are taking.

Representative KILBURN. Thank you very much.

Senator SPARKMAN. Mr. Curtis.

Representative CURTIS. I could not agree more with your observations on these tax reforms, being a member of the Ways and Means Committee. These very points you have made are points that are close to my heart, and I have been trying to do something about them.

I might ask you one other thing, though, to point up one other thing.

You mentioned the need for the capital investment for replacement of obsolete equipment, some \$95 billion. The effect of inflation on our depreciation allowances in our tax structure has been very deleterious, would you not say?

In other words, under our present tax laws, which have been in effect for many years, the only deduction you get is the cost of the equipment at the time of acquisition. When the time comes for replacement, 10 or 15 years later, the cost of the identical equipment has become twice, and the result has been that through our tax structure we actually have levied a capital tax on business through this depreciation allowance.

Mr. JACOBY. This is certainly true.

Representative CURTIS. This further aggravates the problem.

I did want to get into some aspects of this question of creeping inflation because I wonder whether we have fully analyzed just what this creeping inflation is, or increased cost of the market basket, based on our cost-of-living index, whether we have completely analyzed that. I have raised this point before.

The cost-of-living index does not accurately measure, or does it, the increased quality of goods and services? It attempts to do it to some degree, but it does not do a good job.

Mr. JACOBY. That is my impression, Mr. Curtis.

I have discussed this matter with those in the Bureau of Labor Statistics who are in charge of the index and its construction. They contend that their methods do take quality changes adequately into account, but I have never personally been convinced that they do so entirely.

Representative CURTIS. I thought perhaps it might be worthwhile to take medical costs as a model because there is an area where there has been a tremendous increase in the cost, but concomitantly there has been a tremendous technological advancement. I suspect that one dollar spent for drugs today produces a lot more in the way of health than a dollar spent 10 or 15 years ago for drugs. Yet I do not know how that would be reflected in the cost-of-living index.

Mr. JACOBY. That is a very good point.

Representative CURTIS. The same is true of hospitalization.

Another reason why I think a model of medical costs might be very helpful in this very area of trying to analyze what is so-called creeping inflation is the fact that here we have a very great shortage of technical skills, both of doctors, nurses and other hospital technicians and so on. I suspect that in this area we have the traditional type of inflation, where you have an increased demand and not sufficient supply.

By taking this as a model, we might be able to understand what we are talking about with respect to creeping inflation.

I will give two other illustrations to get across my point, and then ask you to make your observation.

Travel has also intrigued me and I made out a little chart here. It seems to me that the cost-of-living index should show something like blank miles in blank time as a measure.

In other words, mileage from St. Louis to Washington is about a thousand miles. Back around 1750, about the only people who could go would be explorers. Around 1800, it took 100 days. About 1830 it probably took about 30 days, when you had roads and rivers.

Around 1860, with railroads, it took 5 days. In 1900 the rails got us down to two days.

In 1930, with air, about 1 day. Then in air, presently in 3 hours.

When the jets come in, I can get to St. Louis in an hour and a half.

How is that measured in our cost-of-living index?

I would personally be willing to pay a premium to get to St. Louis in an hour and a half instead of 3 hours. Yet the indications are that I will probably get it for the same amount of money.

Certainly I can go to St. Louis in 3 hours today cheaper than I could go by rail, which takes 18 or 20 hours.

The other example is the housewives' market basket, with all these precooked and frozen goods and so on.

Someone computed—I do not know whether I have the exact figures—that nowadays the housewife can spend 2 hours less preparing meals because of all this preparation that is done by the middleman. How is that reflected in the cost-of-living index? Yet it certainly is a tremendous increase in the standard of living of the housewife, and her time is worth something.

How much of this so-called creeping inflation might actually be increased standard of living that we do not accurately measure?

Mr. JACOBY. This is a very complicated and intriguing subject.

My answer to you, Mr. Curtis, is that it is a question that has intrigued me. It is my opinion that the character of changes in this basket of goods and services that enters into the average family's budget has been changing in ways that have not been fully accounted for in the index.

The people who construct the index will tell you that when the average family began to drive a car with the automatic transmission as against the old stick-shift car, they made an adjustment in the index to reflect the fact that a part of the increase in the total cost of this automobile represented new equipment and therefore the automatic transmission did not of itself cause the index to rise. Perhaps that is true in this case.

I think there are many other changes in quality that are more intangible for which statistical correction has not been made.

There is no doubt in my mind that to some extent the behavior of the index has reflected these things. But, even so, there is little doubt that an index that has doubled in the last 15 years or so has gone up in a real sense as well as having our standard of living up. I think a good deal of the rise reflects real inflation of prices and nothing else.

Representative CURTIS. I am sure it does.

Do you feel, though, that it is important enough—since we are talking about relative things—so that this committee might give some study to that aspect?

Mr. JACOBY. Yes, indeed I do. I think this is a subject well deserving of the committee's inquiry.

Representative CURTIS. I might make this comment, which has intrigued me also: As far as the individual person is concerned, it may not make so much difference whether it is increased standard of living if the cost for that standard has gone up. A great deal of human happiness seems to depend on the relationship with the Joneses. Even though we might find a lot of this creeping inflation is increased quality or increased standard of living, we still would have the human problem of not being able to afford the increased standard of living.

Mr. JACOBY. Unfortunately, we have never yet developed an index of human happiness.

Representative CURTIS. That certainly is true. My time is up.

Senator SPARKMAN. Mr. Widnall, do you have any questions at this time?

Representative WIDNALL. No, sir.

Senator SPARKMAN. Mr. Reuss?

Representative REUSS. No.

Senator SPARKMAN. Senator Bush?

Senator BUSH. Yes; I have a couple of questions, Mr. Chairman.

We have before the Banking and Currency Committee an amendment to the Employment Act of 1946, which generally is referred to as the price stability amendment. The effect of it is to indicate that it is the object of national policy as an assistance to maximum employment to recognize that price stability is important. I have forgotten the wording of the amendment, but I think you are familiar with it. It has been written up and discussed a good deal.

Would you care to comment for the committee and would you give us your views about that amendment, or that type of amendment at the present time?

Mr. JACOBY. I think, Senator Bush, that this is a desirable amendment. One can read into the present Employment Act of 1946 an implicit recognition that price stability or the stability of the price level should be an objective of national policy.

As I recall the law, it does call for policies that will promote maximum production and purchasing power—employment and purchasing power—but specifies that they shall be "consistent with other essential considerations of national policy."

I have always thought, and indeed, when I was a member of the President's Council of Economic Advisers, interpreted the act to include reasonable stability of the price level as one of those other "essential considerations." But this was only an implicit requirement and I believe there is merit in making it explicit.

Senator BUSH. Thank you, sir.

There has been some discussion about the powers of the Federal Reserve Board, and at times, as you know, the Federal Reserve Board has had standby authority over other fields of credit besides bank credit.

Mr. JACOBY. Yes, sir.

Senator BUSH. It has had authority over the field of consumer credit.

I have been wondering myself, without having committed myself to the proposition, whether additional standby authority for the Federal Reserve Board in the field particularly of installment credit might not be an additional source of authority to them which at times could be used to the advantage of the whole economy in order to avoid the excess use of credit in boom times through the excessive use of installment credit.

I know you are generally opposed to the question of controls, so I am curious to know what your opinion is about this particular field of credit control—installment credit—as a standby power for the Federal Reserve Board.

Mr. JACOBY. I have reluctantly come to the conclusion—and I say reluctantly because I think there is a presumptive case against special controls of almost any kind and this presumption has to be overcome by very weighty evidence—in the case of consumer installment credit, this evidence did appear in the automotive boom of 1955. It became rather evident that general controls of credit which affect cost and availability may not, under certain circumstances, be sufficient to curb excessive demand for certain durable consumer goods, and particularly automobiles, where apparently it has become the habit of many people to look at only the monthly payment, in which interest is only a negligible fraction and where the extension of terms over a long period of time can reduce this monthly payment to a point where you pull into the market a great many buyers that would not be there if the terms were regulated.

I think it would be desirable to give a Federal agency—maybe the Reserve Board—standby power to regulate the terms of the consumer installment credit. I should hope and expect that power would not be very often invoked.

Senator BUSH. I think that is right. I think they would very seldom use it.

I am very much interested in the fact that you think as a standby power it might be useful in boom times. This is the reason I have been intrigued with this idea. I have thought that the excessive use of installment credit back in 1955 and 1956, as I remember, which resulted in an enormous year for the automobile industry—I think \$7½ million—had a distinct effect upon the recession in business which followed very sharply thereafter.

Mr. JACOBY. It produced a great instability in the automobile industry which was communicated to the rest of the economy.

Senator BUSH. Thank you very much, Doctor. I am very much interested in your view.

Thank you, Mr. Chairman.

Senator SPARKMAN. I would like to comment to this extent regarding that. I remember when we had those regulations, W. X, Y—I do

not believe we ever got to Z—that the Federal Reserve had controls on used automobiles. The situation became so bad, and the Federal Reserve would not modify that regulation, that Congress had to take the authority away by act of Congress.

That is one time I felt that this question of rigidity in the Federal Reserve demonstrated itself quite noticeably and in a manner that was hurtful to the economy.

I would just like to say that in order to emphasize the point you made about the need of flexibility in relation to all of these things. I think it is a good point.

Senator SPARKMAN. The meeting will be at 10 o'clock tomorrow morning in the same room, and Mr. Leon Keyserling will be the witness.

Representative CURTIS. I wanted to pursue a third line of questioning. My first was along the line of how we measured growth. The second has been more or less raising questions of how we measure stability or what was called creeping inflation. The third is any observations you might want to make on the limitations of our employment statistics.

Do you think that in the studies that this committee is going into we need to do a little breakdown work in our unemployment statistics in order to come up to possible answers on this question of growth, stability, and employment?

Mr. JACOBY. This is a subject, as you know, Representative Curtis, that was gone into by a subcommittee of your committee a couple of years ago with some thoroughness. My impression is that our unemployment statistics at the present time are pretty good. They are reasonable reliance indicators for the economic policymaker. I see no serious fault in them.

Representative CURTIS. We are going to hold hearings beginning April 7 in the Ways and Means Committee on unemployment compensation, where I hope to get into more of these details.

One thing that I have been a little concerned about is that I know some States in their unemployment insurance programs do not make any attempt to keep people who are seasonally employed from being on the unemployment rolls.

I do not know how widespread that is, but if it is widespread at all, that would be a factor that would tend to increase the unemployment figures over a period of years.

Those people who formerly, and I would think from an economic standpoint, would not be regarded as unemployed, actually are not in the labor market.

Mr. JACOBY. I agree. This is an area that might be looked into. Another one that occurs to me worthy of the committee's attention is some effort to quantify what might be called the structurally unemployed versus the frictionally unemployed.

Representative CURTIS. I am glad you mentioned that. That is the next question. Is there not something that we could do in that area?

Mr. JACOBY. I believe there is, sir. The problem here would be to take the automobile industry, as a case in point, and try to arrive at some reasonable estimate of the number of people who have been more or less enduringly displaced as a result of automation and who



would probably be unemployed even if the automobile industry should strike another 7 million cars a year production rate, to find out how important that element is versus the frictionally or temporarily unemployed.

I think some empirical research in that field would be most useful.

Representative CURTIS. One other area I thought might be productive is this: I have never yet seen any real studies on the impact of social security retirement on employment. In the last few years we reduced the retirement age of women workers from 65 to 62. I have always been curious to see what results that might have produced. I am not sure it has been meaningful.

Would you not agree those are the kind of things that might affect our unemployment ratios?

Mr. JACOBY. Yes, indeed, they would.

More generally—I am referring to an earlier point of discussion here—it is my belief that the tempo of technological change in our country has been rising, a factor that would probably increase the amount of frictionally unemployed people. Therefore, it gives rise to a need for more attention to what might be called the occupational as well as the geographical mobility of people.

Representative CURTIS. Dr. Slichter pointed out something that was very interesting. He showed the figures of the percentage of unemployment of the 17-, 18-, 19-year-olds, which always is considerably higher, he said, than the average, naturally. He was concerned about the fact that the rate of unemployment was particularly high in that area.

The one question I raised was, What has been the impact of our draft law on that particular group?

Again, that suggested to me something that this committee might go into in trying to understand just what this ratio of unemployment might be.

I believe Dr. Slichter said that he would be content with a 3 percent unemployment rate. Have you ever computed in your own mind as to what a bearable or economically sound unemployment ratio might be?

Mr. JACOBY. I should think under current conditions that it is probably closer to 4 percent than 3, taking into account these forces in our society that are at work: the automation of production, the shift in the occupational needs of the economy; therefore, the necessarily larger number of people in process of relocating or retraining themselves for different sorts of jobs.

I think this has increased to some degree the percentage of unemployed to the total work force that would be consistent with what we might call a state of full employment in a dynamic economy.

Representative CURTIS. Thank you.

Senator SPARKMAN. Mr. Widnall?

Representative WIDNALL. Thank you, Mr. Chairman.

Mr. Jacoby, how do you arrive at that figure of 96 percent of the employed force? Is that plucked out of thin air?

Did you take into consideration those who are in seasonal employment or those normally changing jobs in the total work force?

Mr. JACOBY. It is a figure arrived at after considering those factors and after considering the methods that we use in the making up of our statistics of employment and unemployment.

I think it would be awfully hard to defend 4 percent as against 3.3 or 4.2 percent.

Representative WIDNALL. Is it not the truth that the method of computation of unemployed was changed back in 1957, so that actually you included about 350,000 more in the figures today than you did back in 1957?

Mr. JACOBY. I am not sure I understand your question.

Representative WIDNALL. I think the method of evaluating who is unemployed was changed in 1957, so that today you have a weighted figure 350,000 higher than it was back in 1957. That much of a change in the method of computation.

Mr. JACOBY. Yes. I recall that a change was made in 1954, I believe, in the spring, which automatically added 550,000 to the estimate.

Is this the change you are referring to?

Representative WIDNALL. I believe there was another one in 1957.

Mr. JACOBY. You may be right. I am not aware of that.

Representative WIDNALL. Certainly if those things are so, it is not quite cricket to be comparing a 1959 figure with a 1956 or 1953 figure because they are evaluated in an entirely different way.

I was very much interested in what you had to say about agricultural policy and the technological progress that has been made. Certainly that is the greatest problem facing us in the country on the domestic front, trying to find a sane solution to what is going on.

It seems to me Congress has been trying to freeze the inefficient in business, using the small farmer and trying to take care of the small farmer as a war cry to freeze profits for the big operator. The small farmer certainly has a rightful place in the agricultural program, but to efficiently produce today he has to have a much larger farm. Is that not so?

Mr. JACOBY. This certainly is true. He also needs to make an additional amount of capital investment in order to farm his land most efficiently. The scale in farming in financial terms as well as in geographical terms has increased.

Representative WIDNALL. Have not the existing farm programs tended to take away from the consumer the benefits that could accrue if you permitted the more efficient farmer to operate fully?

Mr. JACOBY. They have very definitely done that.

Representative WIDNALL. There might even be price decreases that would take place as far as the consumer is concerned?

Mr. JACOBY. That is right. The consumer price index would be lower today if we had free market pricing of agricultural products. Not only would that be true, but a good many wage increases that have occurred because the wage rate was automatically linked to the cost-of-living index would not have occurred. This would have removed other inflationary pressure which derived from the original farm policy.

Representative WIDNALL. I like the suggestion you make that there should be a program that would embrace relocation and restraining grants to assist the submarginal farmer to enter more promising employment and assure a minimum income.

That seems to me an enlightened approach to make the change-over as painless as possible.

Mr. JACOBY. Here I repeat something I said earlier, in a dynamic society we will have to give more attention to ways of fostering the mobility of people from one job to another in industry and from the farm to industry. This is going to be a phenomenon we are going to witness on an increasing scale in the next 15 or 20 years, if I am not mistaken. It is going to call for some thought on the part of our Congress and our people to surmount this problem.

Representative WIDNALL. The question of transportation is going to become more and more important as between the urban and suburban areas as we get the increased congestion of automobiles on the highway; is that not so?

Mr. JACOBY. It most certainly is.

Representative WIDNALL. Thank you.

Senator SPARKMAN. Is there anything further?

If not, thank you very much, Dr. Jacoby. We have enjoyed your being here. You have given us a stimulating presentation. We are very grateful to you.

The committee will stand in recess until 10 o'clock tomorrow morning when we will meet here. Our witness at that time will be Mr. Leon Keyserling.

(Thereupon, at 12:15 p.m., the committee recessed, to reconvene at 10 a.m., Tuesday, March 24, 1959.)

# EMPLOYMENT, GROWTH, AND PRICE LEVELS

TUESDAY, MARCH 24, 1959

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

The committee met at 10 a.m., pursuant to notice, in room G-308, New Senate Office Building.

Present: Senators Douglas, Sparkman, Bush, and Javits; Representatives Patman, Reuss, Curtis, Kilburn, Bolling, and Widnall.

The CHAIRMAN. The committee will come to order. We are very glad indeed to welcome as our third witness among the wise men our old friend Leon H. Keyserling, formerly Chairman of the President's Council of Economic Advisers.

Mr. Keyserling, we are delighted that you have taken the time to testify, and we hope you will proceed in your own way.

## STATEMENT OF LEON H. KEYSERLING, FORMER CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS, CONSULTING ECONOMIST AND ATTORNEY, PRESIDENT, CONFERENCE ON ECONOMIC PROGRESS

Mr. KEYSERLING. Mr. Chairman and members of the committee, may I insert at this point an outline guide to my statement?

(The outline guide is as follows:)

### REDIRECTING OUR ECONOMIC EFFORTS TO MEET THE CHALLENGE AT MIDCENTURY

I. A restatement of basic economics for the midcentury.

II. Our gross departure from basic economics.

- (1) We have thoroughly confused ends and means, which results in a sacrifice of ends, and also results in the choice of the wrong means.
- (2) We have not developed and put to use a systematic and integrated portrayal of the capabilities and needs of our economy as a whole, and measured both ends and means in terms of this complete tableau.
- (3) In fiscal policy, our thought and action are among the most serious departures from basic economics as I have defined it.
- (4) The same strictures apply even more vigorously to monetary policy. Our monetary policy in recent years has indeed been a farrago by any test.
- (5) The final departure from basic economics is insufficient stress upon long-range policies and programs.

- III. Huge national costs of our departure from basic economics.  
 Method of estimating national costs or losses.  
 Growth rate trends, and extremely low growth rate 1953-58.  
 Chart.  
 Overall costs of deficient production and employment.  
 Neglect of great priorities of need.  
 Charts (2).  
 Chart.  
 Impairment of economic justice.
- IV. The anatomy of our national economic losses.  
 Private consumption and public outlays lagged behind investment in producers' goods.  
 Importance of deficiencies in public outlays.  
 Charts (2).  
 Deficiencies in wages and farm income.  
 Defects in public and private economic policies.  
 Chart.
- V. Economic goals for the U.S. economy, 1958-64.  
 Attainable growth rates and their significance.  
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 Needed increases in private and public outlays.  
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 Charts (2).  
 Meeting the great priorities of our national needs.  
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- VI. The problem of inflation.  
 Reasonable price stability compatible with other goals.  
 Wartime inflation not relevant to foreseeable future.  
 Chart.  
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 Causes of the so-called new inflation 1952-58.  
 Chart.  
 Administered price increases and their significance.  
 Wage increases did not justify price increases.  
 Chart.  
 Excessive price increases and relatively excessive profits and investment.  
 Charts (4).  
 The real meaning of productivity trends.  
 How to deal with any foreseeable inflation.  
 Charts (4).
- VII. Highlights of policy and program recommendations.  
 Partial relevance of World War II experience.  
 Approaches for the foreseeable future.

Mr. KEYSERLING. Mr. Chairman and members of the committee, I deeply appreciate this opportunity to try to make some contribution to the great enterprise in which you are now engaged—an enterprise which has not only domestic but also worldwide significance.

This enterprise is important because the American economy for a number of years has not been performing in accord with its innate capabilities to meet the needs of the people and the Nation. It is also important because of the current economic situation, which is improving in some respects but by no means satisfactorily. The view of most informed observers is that we shall not achieve quickly enough, nor sustain surely enough, an optimum economic performance. The domestic situation makes this optimum performance desirable. The world situation makes it imperative.

But at least equally important, in my judgment, is the opportunity which this committee has to undertake a basic reappraisal of American economic thought and action at midcentury. While this reappraisal has been called for most insistently since the launching of the

first sputnik, it has been needed for a very long time. The advent of the great depression caught us unprepared. The changes in economic thought and action during the period of recovery therefrom were useful but not sufficient. They produced only an incomplete recovery prior to World War II, and in any event they are not entirely relevant to the problems of midcentury. The economic thought and action applied during World War II, and to an extent during the Korean war, have been largely sloughed off since then. While to an extent this has been appropriate, the lessons of wartime experience are not being applied sufficiently today, as I shall develop later on. Thus we now find ourselves, despite the presence of problems as critical and demanding as any the Nation has ever faced, with a dangerous lack of systematic economic thought and action attuned to the times.

We are still indulging in classical economic approaches which never correctly described nor adequately dealt with the problems of the periods in which these approaches were originally developed, plus economic approaches which were once valid but are now outdated, plus pseudoeconomic approaches which are mere shibboleths or slogans to incite emotions or to take political quick tricks rather than to achieve effective action. The people and the Nation have paid dearly, and are likely to pay even more dearly, if this indulgence continues. This committee is fortunately endowed with the talent, the resources, and the will to make the great reappraisal of economic thought and action which is so long overdue. I am confident that it will be steadfast in this purpose until the end is achieved.

In order to make what small contribution I can toward the achievement of this end, I shall divide my presentation as follows: (1) An attempted restatement of basic economics for the midcentury; (2) an analysis of the main respects in which we have departed in thought and action from this basic economics; (3) a portrayal of the tremendous costs and losses inflicted upon the people and the Nation by these departures from basic economics; (4) an examination of the economic anatomy or structure—or what might be called the functioning economic causes—of these tremendous losses; (5) a portrayal of the optimum performance goals which our economy should seek to attain, responsive to its innate capabilities and its needs; (6) a specific analysis of the problem of inflation, in the appropriate perspective of the functioning of the economy as a whole; (7) a summary of basic recommendations in line with the analysis.

#### I. A RESTATEMENT OF BASIC ECONOMICS FOR THE MIDCENTURY

It seems to me that the three great purposes of practically any economic system, including ours, at the midcentury are these:

(1) To achieve steady and optimum economic growth in real terms. This means calling forth the maximum use of our productive capabilities, including manpower and brains, technology and science, and natural resources. This comports with my interpretation of the maximum production and maximum employment objectives of the Employment Act of 1946. The whole history of economic progress has been founded upon the use of improved technology to increase

production, and especially to increase production per capita. The faster a nation does this, the stronger it becomes in an economic sense, and the better able to do what it needs to do, unless it is burning itself out by going so fast that it depletes its resources. We are in no foreseeable danger of the following the latter course;

(2) To apportion our total national production wisely, in accord with relative priorities of needs, so that we do not get what we need least at the expense of what we need most. While the utilization of our total resources is now so slack that to talk about a choice between more consumer gadgets and more of the things we need most is a fundamental misstatement of our current problem, nonetheless we must always make sure that we do not get more gimcrack gadgets and less defense, international economic cooperation, and schools;

(3) To combine economic progress and efficient use of resources with economic justice, as the American people understand economic justice. To illustrate, the first two great purposes might be attained, even while the farm population lived by eating the economic crumbs.

I am prepared to challenge any economist to indicate how we could fall short in any of our valid economic purposes, if these three great purposes are adequately achieved. For example, any particular inflationary trend could be challenged only on the ground that it interfered with or threatened one of these three great purposes, and I shall have more to say about inflation later on. Further, these three great purposes interpenetrate. For example, it is unlikely, within the contours of the American economy, that we can meet the priorities of our national needs without an optimum rate of economic growth. It is also unlikely that we can maintain an optimum rate of economic growth without meeting these great priorities of our national needs, or without maintaining a distributive system which accords with our concepts of economic justice.

The basic conditions for achieving these three great economic purposes may be stated fairly simply. I do not think that the desire or initiative or enterprise is lacking among our people and their various privately organized efforts to move consistently toward these three great purposes. Certainly, our public institutional devices and our system of free government are equal to their share of the task. However, the central economic condition for the accomplishment of these three great purposes, by no means yet achieved, is that there be a balanced development of (a) investment in the means of expanding production and (b) the private and public consumption—meaning public demand for goods and services—at balanced growth rates which call forth maximum use of total resources and optimum economic growth.

I stress this, because it is quite possible to have an equilibrium between investment and consumption at levels far below maximum use of resources and optimum economic growth. Chronic excessive unemployment is quite conceivable, and in fact we have been suffering this for a number of years and are now in danger of its persistence for a long time ahead. Further essential conditions for the achievement of these three great economic purposes are that the distribution of investment be well-balanced; that the distribution between private and public consumption be consistent with meeting

sufficiently, but not excessively, the great priorities which depend upon public programs; and that the distribution of both private consumption and public services be consistent with the advancement of economic justice.

These salutary economic conditions depend mainly upon maximum purchasing power, as I interpret the true meaning of that term in the Employment Act of 1946. The division of purchasing power between spending and saving is merely a facet of this problem, since saving at one point usually needs to flow into spending at some other point to prevent unemployment. Maximum purchasing power is therefore a volume and distribution of effective purchasing power which brings the various types of private and public spending into line with an investment and consumption pattern consistent with the achievement of the three great purposes of our national economic life as I have set them forth initially.

This flow and distribution of purchasing power is affected by all basic national economic policies, including public spending and taxation, monetary policy, and various other programs including some regulatory programs. Other public programs, including for example the social security system and the wage and hour legislation, importantly affect the private flow of purchasing power. In the field of private economic activity, prices and wages and profits, and in fact practically all conscious private economic policies or automatic private adjustments, are primarily significant in terms of their bearing upon income flow and distribution as these in turn affect the three great purposes of our national economic life. It should be added that public and private developments interact—a fact insufficiently dealt with by current economics. Public policies influence private economic decisions. And private economic decisions can to a large extent “de-compensate” for or cancel out changes in tax policy or other public policies.

## II. OUR GROSS DEPARTURE FROM BASIC ECONOMICS

Except in wartime, to which I shall refer later, it is my view that most of our economic difficulties and shortcomings have resulted preponderantly because our economic thought and action have departed seriously from the basic economics outlined above. This point is so important, that I shall now set forth what seems to me the outstanding departures, which have done and are still doing so much damage:

- (1) *We have thoroughly confused ends and means, which results in a sacrifice of ends, and also results in the choice of the wrong means*

We have not set forth clearly and quantitatively, on both a short-range and a long-range basis, the three great purposes or ends of our economic life. Consequently, we have had no effective way of attuning means initially to the attainment of these ends, nor of readjusting these means pragmatically and quickly when we see that they are improperly attuned to these ends or when changing domestic or world circumstances require that we reevaluate the relative priorities of the ends themselves. Instead, in public spending policy, tax policy, monetary policy, and other policies, we frequently apply criteria of judgment in a vacuum unrelated to the ends.



We tend to talk about budgetary surpluses or deficits as good or evil in themselves, when they are nothing of the sort.

We debate endlessly about the relative trends in wages and prices and profits, without examining what relative trends are conducive to the three great purposes of our national economic life, and without recognition that the same relationships among wages and prices and profits—either in terms of absolutes or of trends—are not desirable at all times under all circumstances.

We think that we have proved a lot when we show that the upward movement of prices in recent years has been in the administered price area, without considering in general whether an administered price system on the average serves our economy better than a price system which is competitive to the point of irrationality, and without considering specifically just how an administered series of price increases have impacted upon our great economic purposes or whether a different set of developments would have worked better.

We assume that stability of the general price level is most conducive to the fulfillment of our three great economic purposes, or we even assume that general stability of the price level should be regarded as a prime economic objective on a parity with all others. While I share the view that general stability of the price level is desirable and reasonably attainable, I believe that bad price results and bad economic results both ensue from putting price stability on an absolute parity with all other economic objectives. Giving price stability more weight than all other considerations is disastrous. A careful examination of our economic experience, over many years, seems to indicate clearly that distortions in the price and income structure are far more serious a problem than the absolute levels or trends of prices per se. It is noteworthy, in this connection, that by far the greatest economic calamity in our history resulted from distortions in the income and investment-consumption structure despite a remarkably stable price level, except for falling farm prices. The chairman of this committee has written perhaps the finest analysis made of the causes of the great depression, and price inflation was not among these causes. I shall have more to say about the whole problem of price inflation later on.

(2) *We have not developed and put to use a systematic and integrated portrayal of the capabilities and needs of our economy as a whole, and measured both ends and means in terms of this complete tableau*

I am firmly convinced that to do this was the original intent of the Employment Act of 1946, but the departure from this intent has become progressively worse in the administration of this act and in the Economic Reports of the President thereunder. But this damaging deficiency is not chargeable only to the administration. With a few notable exceptions, American economists in general, as this committee from long experience must fully recognize, have become segmental specialists who try to study more and more about less and less, instead of helping us to obtain a comprehensive view of ends and means. The shibboleths and slogans which affect economics are so prevalent among laymen because they have become so prevalent among the professionals.

The building of so-called economic models has been a partial step in the right direction, but it is only in its initial stages. The models are usually used to depict where we ought to go in future. But they are seldom used to make a discerning analysis of the past, by examining carefully what went wrong, and where actual performance departed from the model. Possibly one of the reasons why many economists have been reluctant to do this is that it would force them to call a spade a spade, and to indicate certain misbehaviors of private and public economic policy which would involve them in controversy or cause them to be called "politicians". Until we get down to this kind of analysis of past developments, the models do not serve one of their main purposes.

Insofar as these models are used to look toward the future rather than the past, they are not usually equated sufficiently with quantitative policy recommendations to tell us just what kind of private and public means will carry us forward toward the glowing objectives. Another difficulty with the models looking toward the future is that they are generally too aggregative in their approach. They tend to assume that, if we need to achieve a certain gross national product, a deficiency in consumption can be made up for by an expansion of private investment or public outlays, or vice versa. This is quite superficial, because it neglects the problem of workable equilibrium, and also tends to neglect the great priorities of our national needs.

(3) *In fiscal policy, our thought and action are among the most serious departures from basic economics as I have defined it*

The current propaganda that Federal spending is per se odious, that any and all downward trends in Federal spending are desirable per se, and that private spending for more luxurious resort hotels on Miami Beach is per se preferable to public spending for schools or river developments, is hardly worthy of serious comment.

But even what is now called the modern or advanced view of fiscal policy has many superficial and therefore harmful aspects. The customary formulation that we should run a budget surplus when productive resources are overstrained, and run a deficit when there is excessive economic slack, is a risky generalization when not subjected to further refinement.

For example, there is a tendency toward the view that, if a change in the net budgetary position is desirable, it makes little difference—aside from practical political considerations—whether this change is accomplished through a change in spending rates or a change in tax rates. One defect in this position is the assumption that a change in spending or tax rates will automatically produce a change in the net budgetary position, without regard for the impact of both spending and taxation upon the general economy. The major defect in this position, in my view, is that it disregards the second of the three great purposes of our economic life, namely, the allocation of a sufficient quantity of our total productive resources to the great priorities which require public programs. Such a position, indeed, confuses and misstates the respective purposes of public spending and taxation.

The real purpose of Federal spending is not primarily to stimulate or repress the economy, nor to achieve a budget balance. The towering central purpose of Federal spending is to allocate a sufficient proportion of what our total national output would be, under conditions of maximum employment and production and optimum economic growth, to the great priorities of our national security and domestic public needs which can be served only by Federal spending, or served better by Federal spending than in some other way. This means that the level of Federal spending should be determined by estimating first the total potential output of our economy under optimum conditions, and then deciding as a matter of national policy what part of this output we want to allocate through Federal spending to various national priority purposes.

Of course, this allocation should take account of the impact of Federal spending upon the three great purposes of our economic life, and not upon just one of them. It should also take account of our traditional concepts of the division between private and public efforts under our kind of economic system, although we should not freeze this concept to the point where it jeopardizes our national security or starves essential domestic programs. We were realistic about this in wartime, and we should always be realistic about it, even though the results arrived at would be very different in other times than in wartime.

If the national economy as a whole is performing far below optimum levels and has large slack resources, this is certainly no reason for reducing or holding Federal spending to levels below those arrived at by the methods suggested above. It is preposterous beyond words to sacrifice national priorities when idle resources are available to produce them, just because a slack economy is not yielding enough tax revenues to cover all of the bill. Moreover, this preposterous procedure compounds the general economic difficulties of a slack economy instead of reducing these difficulties, and thus is bad even for the net position of the Federal budget in the long run.

On the other hand, if our economy is functioning above optimum use of resources, with excessive strain upon productive capabilities, the level of Federal spending should not be reduced or held below the levels arrived at by the methods suggested above. Any such procedure would be tantamount to the false assumption that the purposes served by the Federal budget have a lower priority than those served in other ways. That kind of assumption is the height of folly, once we properly define the Federal budget as the greatest single identification of—and the greatest single instrument for—what we need to do together as a Nation. If the pressure on our productive capabilities makes it desirable that we cut back somewhere, appropriate measures should be adopted to reduce or restrain other types of spending of a lower priority than the Federal budget, so that the great purposes of our national economic life may not be sacrificed while secondary purposes prevail.

A corollary of this position is that Federal spending should be projected on a long-range basis, covering a period of far more than 1 year. It should be advanced from year to year in absolute terms because of the growing needs of a growing population; and because, if our economy grows adequately in the overall, it should not grow

least in the things we need more of most. Even so, with an optimum rate of general economic growth, such Federal spending may decline as a percentage of total national production.

I believe that such a Federal spending policy would be a much wiser economic policy for growth, and also a much better counter-cyclical policy in the long run, than the application of the viewpoint that Federal spending should be adjusted upward and downward, depending upon shifts in general economic conditions. Such an upward and downward adjustment is irrational in terms of our national priorities, and is ineffective even as a stabilization device because it usually occurs too late or does not occur at all. It is true that, in the advent of a real depression, we might want to lift Federal spending even above the levels arrived at by the methods suggested above; but it is unlikely that we shall have to deal with this problem in the foreseeable future.

Federal taxation represents an entirely different problem. Taxation, unlike public spending for needed purposes, has little or no positive value per se. While it is often said that taxation may help to improve income distribution, it is really the spending that puts income where it is needed; the taxation is for other purposes. Thus, the real purpose of Federal taxation, after the level of Federal spending is appropriately determined, is to use taxation as a means of helping to achieve the desirable flow of income and purchasing power in facilitation of the three great purposes of our national economic life. If we are threatened with excessive pressures upon even optimum use of our resources (that is, inflationary pressures jeopardizing the maintenance of optimum growth and economic justice), then taxation should be high enough to run a budgetary surplus. If we suffer from large unemployment of plant and manpower, then taxation should be at levels which result in a deficit. In other words, it is tax policy, and not spending policy, which should be used to deal with the stabilization problem.

I believe also that we should pay more attention to the composition or incidence of the tax burden, as distinguished from the total size of the tax take. Even from the viewpoint of combating those kinds of inflationary trends which can be dealt with by fiscal policy, I think that the nature of taxation is very important. A deficit arising from one composition of taxation may be less inflationary than a surplus arising from another composition of taxation. The same comment applies, when the purpose of taxation is to stimulate rather than to restrain the economy. And the incidence of the tax burden has great bearing upon relative rates of investment and consumption, and also upon equity and economic justice. The aggregative approach to fiscal policy, with insufficient emphasis upon composition, is one of the gravest defects in our current economic thought and action.

One more point on fiscal policy. I believe that, if both Federal spending and Federal taxation were adjusted properly to the attainment of the three great purposes of our national economic life, the results in the long run would be Federal surpluses, providing some funds for reduction of the national debt. At the very least, we would average smaller Federal deficits than we have been averaging through the neglect of the three great purposes of our national economic life.

This should be comforting to those who want to balance the budget and reduce the national debt, even though for my money I would be willing to run either surpluses or deficits if they were contributive to the optimum achievement of the three great purposes of our national economic life.

It is not entirely clear that the national debt, if well managed, is not a national asset, or that it is undesirable for the national debt to grow absolutely in a growing economy, even while it shrinks in proportion to the size of the total economy. Why, in a growing economy, is it desirable that only private debt should grow? Certainly, in any event, we should gear fiscal policy to the three great purposes of our economy life, instead of conducting it in a vacuum, or in a space filled only with prejudices and preconceptions.

(4) *The same strictures apply even more vigorously to monetary policy. Our monetary policy in recent years has indeed been a farrago by any test*

Monetary policy, in recent years, has been used contrary to all of the three great purposes of our economic life; and, as I shall indicate later on, it has been inflationary to boot. The tighter monetary policy of 1952-53 was not needed to combat inflation, because price stability started in early or late 1951. But this tighter monetary policy did contribute to the recession which developed in 1954. Contrary to the frequent assertions that the economic upturn of 1954-55 was too great, and that monetary policy was too loose to curb it, this upturn, as I have already indicated, did not carry us back to an optimum level of production; and an excessively restrictive monetary policy contributed to a severely contracting rate of economic growth during the period 1955-57.

In early 1957, the tight money policy was defended on the ground that it was needed to restrain a classic excess of demand over available supplies, when in fact there was already far too much economic slack, and when some of us were pointing out that a recession was clearly on the way. Some of us also pointed out that the only kind of price inflation then in being was administered price inflation, and that the monetary policy was not suited to dealing with this kind of inflation. But the Federal Reserve Board insisted that there was really no distinction between administered price inflation and excessive demand inflation. The Federal Reserve Board also insisted, in early 1957, that the tight money policy was needed to induce consumers to save more so that more funds would be available for investment in plant and equipment, when in fact at that time the investment boom in plant and equipment was seriously outrunning private consumption and public demand. Meanwhile, total investment in early 1957, including investment in housing, State and local public investment in essential facilities and services, and investment opportunity on the part of small business, was running much too low to be consistent with the maintenance of the economic advance and the avoidance of recession. Thus, the tight money policy in early 1957 based upon a fundamental misreading of the economic situation, repressed the kind of investment which was already too low, repressed consumption which was already too low, and did nothing to restrain the boom in plant and equipment which was curbed only by the growing deficiencies in private and public con-

sumption relative to productive capabilities. And the administered price increases were stopped not by the tight money policy; they were stopped belatedly by the most serious economic recession since World War II.

Now in early 1959, the Federal Reserve Board is at long last talking about the evils of administered price inflation almost a year after this kind of inflation has ceased, and is finally admitting that the monetary policy is not suited to deal with this type of inflation. The Federal Reserve Board is actually saying now that the monetary policy, if applied to this type of inflation, would only aggravate the distortions it creates. Nonetheless, the Federal Reserve System is now again tightening up on money further, when there is still a tremendous slack in the economy; when unemployment is actually rising; when the States and localities are in dreadful difficulties with respect to financing their vital activities; when overall investment, including investment in plant and equipment, is not expanding sufficiently to restore maximum prosperity; and when the only type of foreseeable inflation is a revival of administered price inflation in steel and other key industries long before they return to reasonably full utilization of their productive capabilities.

To be sure, there is need for the selective and discriminating application of monetary policy. But the blunderbuss methods of the Federal Reserve System are again aggravating the distortions in the credit and investment and income structure which are even more serious than the absolute levels, and again in the overall are repressing production and employment although the urgent need is for expansion. Monetary policy so clearly divorced from the three great purposes of our national economic life needs thorough reconstruction, and instead of being independent needs to be vigorously integrated with the economic policies of the executive branch. It also needs to be more thoroughly supervised by the Congress.

(5) *The final departure from basic economics is insufficient stress upon long-range policies and programs*

We are constantly seeking to make random and improvised adjustments to immediate situations. The idea seems to be that, if we take care of today, tomorrow will take care of itself. I think it is more nearly a fundamental truth that, if we take care of tomorrow, today will take care of itself. A family plans years ahead, a business plans decades ahead, and yet as a great Nation we are trying to live from day to day. We cannot meet our domestic problems this way, and we certainly cannot meet the totalitarian challenge this way.

### III. HUGE NATIONAL COSTS OF OUR DEPARTURE FROM BASIC ECONOMICS

Let us now examine what the people and the Nation have lost, due to private and public economic policies not sufficiently guided by the criteria of basic economics.

#### *Method of estimating national costs or losses*

For the purpose of this portrayal, I am using primarily the period from the end of the Korean war in early 1953 to the end of 1958. The selection of this period seems to me entirely rational, for it is

the period closest in time and circumstance to the likely problems of today and tomorrow. The end of the Korean war brought us into a cold war period unlike either war or peace, and the best that we can hope for over the next few years is that we shall remain in a cold war period instead of getting into a hot war. In addition, partly because of the ending of the Korean war, and partly for other reasons, the period 1953-58 has been marked by a substantially changed set of national economic policies which are in particular need of evaluation because they are still in being. However, it will appear in various parts of my presentation that I go further back where relevant, and look with an equally critical eye upon national economic policies during earlier periods—and their unfortunate consequences. There is nothing partisan in what I have to say.

The method which I have used, in tracing and evaluating developments since the Korean war, needs to be described. In early 1953, I constructed a model economic budget for a number of years ahead, which I called a national prosperity budget. In it, I established goals for the accomplishment of the three great purposes of our national economic life, as I have already defined them. These performance goals were in turn broken down into a meaningful variety of components. This model contained consistent tableaus for income flow and distribution, for private and public spending in the form of investment and consumption, and for savings, likewise broken down into meaningful components. This necessarily involved among other things, the construction of a model Federal Budget for a similar number of years ahead, reconciled both on the spending and tax side with the national prosperity budget. State and local public budgets were also factored in. I also developed a portrayal of private and public economic policies, designed to attain the goals of the national prosperity budget. These goals, of course, were derived from an appraisal of our resource capabilities, along with some priority evaluation of our relative needs. In other words, I did exactly what I believe each Economic Report of the President is required to do under the Employment Act of 1946.

From year to year, I reexamined the model national prosperity budget in terms of actual developments. To the extent that these actual developments showed the model to be erroneous, I reconstructed the model. To the extent that deviations from the corrected model showed that something was going wrong in our economic life, the comparison between the model and the actualities provided a constant indication of where the difficulties lay, and what might have been done or could still be done to correct them. The portrayals which I am about to show are the results of this work.

Obviously, models constructed by other economists would have been different. For while all would have used the same facts as to what actually occurred, they would not all have made the same estimates of what should have occurred, either in the aggregate or in composition. But this seems to me quite unimportant to our purposes here. In the first place, I feel strongly that differences in the details would not have affected materially the qualitative significance or even the quantitative impact of my own portrayal. In the second place, the method is even more important than the precise quantitative results, because it demonstrates the value of applying basic

economics, as I have defined it, toward the improved treatment of our economic problems.

In constructing my model, I first of all had to select some figure to represent an optimum rate of economic growth, steering between underutilization and overutilization of our productive resources. The first chart indicates how I did this, and also sheds much light upon the history of our economic growth and the problems connected therewith.

*Growth rate trends, and extremely low growth rate 1953-1958*

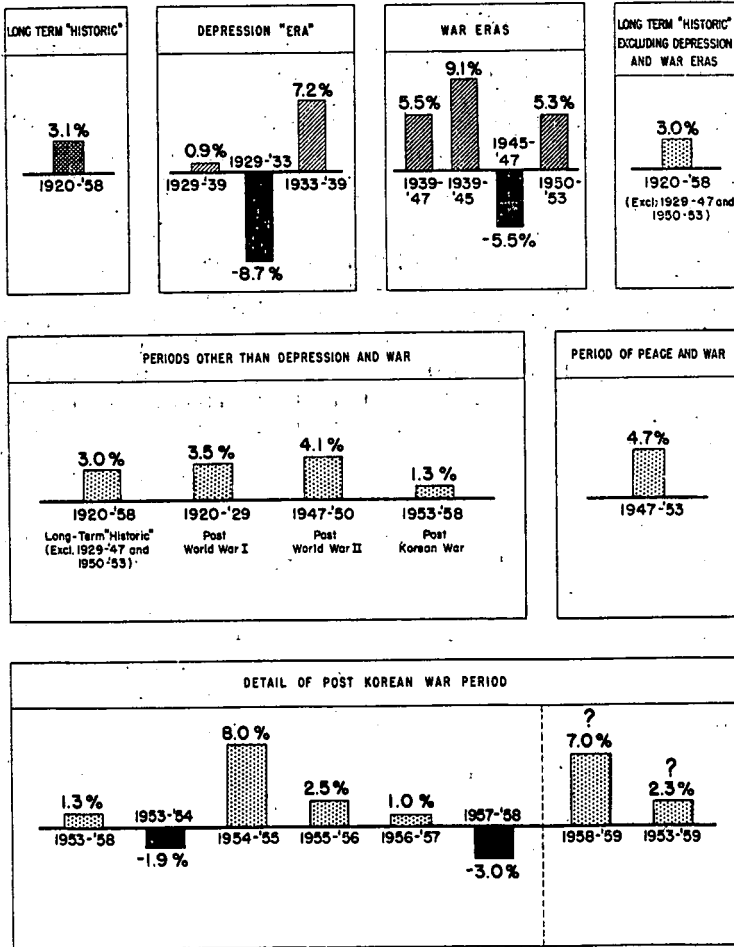
This chart shows a long-term average annual rate of economic growth, 1920-58, of about 3 percent in real terms. (See also tables 1 and 2 at end of statement.)

(The chart referred to follows:)

## GROWTH RATES, U.S. ECONOMY, 1920-1958

Average Annual Rates of Change in Gross National Product

(In 1957 Dollars)





Mr. KEYSERLING. It shows a quite similar average annual rate of growth for this period, if we exclude the era of depression and recovery therefrom, and exclude also the war eras. These depression and war periods, of course, show phenomenal deviations on the upside or on the downside. But it is entirely erroneous at mid-century to accept this 3 percent growth rate as an optimum. First of all, we do not want to attain an average based upon peace and war, prosperity and depression. Second, my analysis which excludes depression and war eras indicates a long-term acceleration in the average annual rate of economic growth, reflecting a long-term acceleration in technology and productivity. A projection which neglected this acceleration would not really be a sensible projection of an historical record which has included this acceleration.

On this basis, the chart indicates that by 1947-50, a nonwar period, the average annual rate of economic growth was in excess of 4 percent in real terms. For the period 1947-53, which includes an admixture of years of peace and years of limited war, the average annual growth rate was 4.7 percent. Moreover, during this 1947-53 period, our productive resources were not at all strained, as I shall subsequently indicate in my analysis of the inflationary problem. To put it in another way, even if there had been no Korean war, we would have had to grow at approximately this rate, in view of the new technology, to avoid excessive unemployment.

On the basis of this analysis, I conclude that an optimum economic growth rate during 1953-58 would have been in the neighborhood of  $4\frac{1}{2}$  percent a year, or slightly lower than the 1947-53 average, and my correlation between the actual deviations from this growth rate and the rise in unemployment tend to corroborate the validity of this needed growth rate. For the future, I estimate a needed annual growth rate of about 5 percent after full economic activity is restored, and many other responsible studies arrive at the same conclusion. After all, we now face a world situation closer to war than to peace. So even if purely automatic projections of past trends did not indicate a 5 percent growth desideratum, the 5 percent rate is entirely moderate—perhaps too moderate—for actually it is much closer to the 1.3 percent rate than to the better than 9 percent rate which we averaged during World War II when so large a part of our best manpower were in the armed services rather than on the production line. The current and foreseeable cold war period requires that we do at least as well as we averaged during 1947-53, a mixed period of peace and limited war.

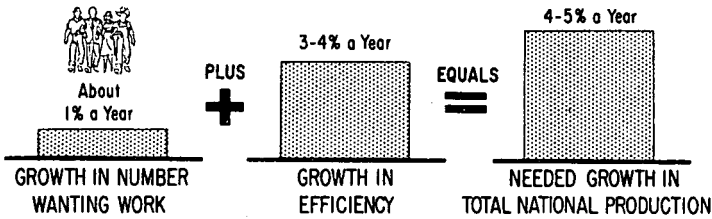
In vivid contrast, our actual average annual growth rate during the period 1953-58 averaged only 1.3 percent a year in real terms. This was only about 40 percent of the very long term 3 percent average. It was only in the neighborhood of a quarter of what the new technology permits, and what current world conditions require. The chart also sets forth optimistically an estimated 7 percent growth rate for 1958-59, which even if achieved would result in an annual average growth rate of only 2.3 percent for the period 1953-59 as a whole. I use this 2.3 percent figure for other purposes later on.

*Overall costs of deficient production and employment*

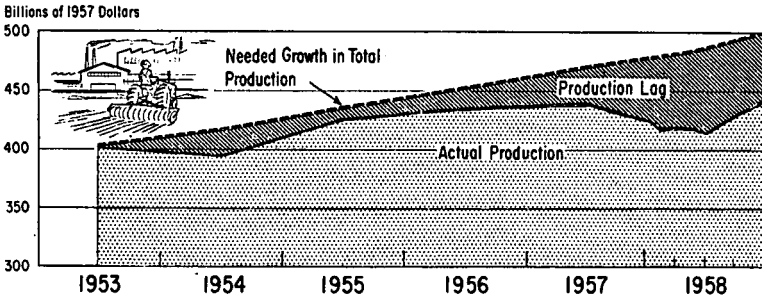
The series of charts which immediately follow highlight the consequences of the 1.3 percent annual growth rate, in terms of the three great purposes of our national economic life. The first chart in this series portrays how the low growth rate, in contrast with an optimum rate, has resulted in vast departures from maximum production and employment. (See also tables 3 and 4 at end of statement.)

(The chart referred to follows:)

**ECONOMIC GROWTH NEEDED FOR ECONOMIC HEALTH**



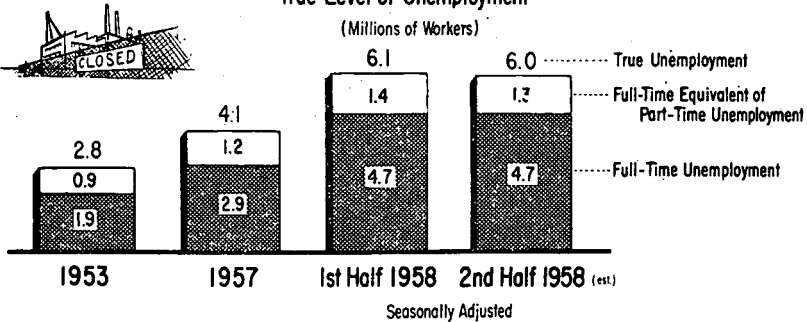
**PRODUCTION HAS LAGGED**



**UNEMPLOYMENT HAS RISEN**

True Level of Unemployment

(Millions of Workers)



Mr. KEYSERLING. These departures have marked a long-term trend, which I was forecasting as early as 1955, when the 1954-55 upturn misled many. As the chart shows, the period 1955-57 carried us further away from optimum production, even though we were moving slightly upward in absolute terms; and the recession commencing in 1957 was more serious than the immediately preceding one. The chart also shows that the true level of unemployment has more than doubled since 1953, and we all know how unfavorable the current unemployment trends are.

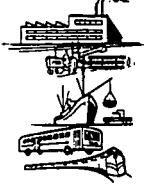
The next chart in this series shows how the long-term departure from maximum employment and reproduction resulted, during the period 1953-58 as a whole, in a production deficit of more than \$150 billion, and a deficit of about 10 million man-years in employment opportunity. (See also tables 4 and 5 at end of statement.)

(The chart referred to follows:)

## LARGE NATIONAL ECONOMIC DEFICITS DURING SIX-YEAR PERIOD 1953-1958

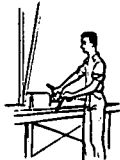
Dollar Items in 1957 Dollars

**TOTAL NATIONAL PRODUCTION**  
(GNP)



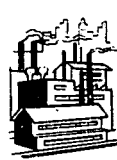
**\$152 Billion**  
Too Low

**MAN YEARS OF EMPLOYMENT**



**10 Million**  
Too Low

**PRIVATE BUSINESS INVESTMENT**  
(Incl. Net Foreign)



**\$39 Billion**  
Too Low

**PRIVATE AND PUBLIC CONSUMPTION** <sup>1/</sup>



**\$113 Billion**  
Too Low

## ... THESE HAVE LED TO LARGE LOSSES TO ALL ECONOMIC GROUPS

**AVERAGE FAMILY INCOME**  
(Multiple Person Families)



**\$2,800**  
Too Low

**FARM OPERATORS' NET INCOME**



**\$31 Billion**  
Too Low

**WAGES AND SALARIES**



**\$98 Billion**  
Too Low

**UNINCORPORATED BUSINESS AND PROFESSIONAL INCOME**



**\$9½ Billion**  
Too Low

<sup>1/</sup> Includes personal consumption expenditures plus government (federal, state, and local) expenditures.

Mr. KEYSERLING. The chart also shows how, in varying degrees, these overall deficits have translated themselves into huge deficits in business investments and profits, in private and public consumption, and in incomes and living standards.

*Neglect of great priorities of need*

These trends have had a most serious effect upon the second of the great purposes of our national economic life, namely, the adequate servicing of our great priorities of need. The next chart shows how utilization of relatively small portions of the production, which we should have enjoyed but didn't, would have enabled us to close or reduce some of the enormous gaps in our national security and other international efforts, as well as in some of the most vital domestic areas including education, health, and social security. (See also table 4 at end of statement.)

(The chart referred to follows:)

# \$152 BILLION LAG IN TOTAL ECONOMIC ACTIVITY, 1953-1958, STUNTED VITAL DOMESTIC PROGRAMS AND DEFENSE

*WITH 8% OF IT*



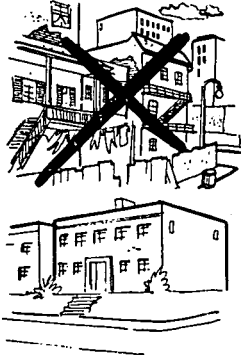
We could have met half the school construction backlog and raised teachers salaries \$1,000

*WITH 3% OF IT*



We could have met one quarter of the backlog in hospital construction

*WITH 8% OF IT*



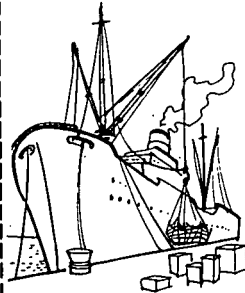
We could have replaced one million slum homes with good homes

*WITH 20% OF IT*



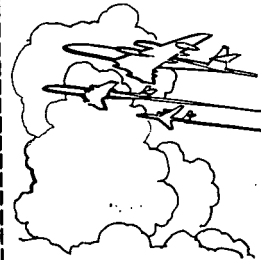
We could have doubled old age assistance payments and old age insurance benefits

*WITH 4% OF IT*



We could have increased international economic assistance overseas by more than half

*WITH 8% OF IT*



We could have more adequately met the Soviet arms challenge

Mr. KEYSERLING. A deficit of \$152 billion in total national production has meant, on the basis of the actual tax rates which have been in effect, a loss of about \$25 to \$30 billion in revenues to the Federal Government. With these additional revenues, obviously, we could have applied much more to the great priorities of our public needs, even without the unbalanced budgets which we have had.

Thus, the Federal budget has been too small because the national economy has been too small. In addition, the national economy has been too small, in part because the Federal budget has been too small to fulfill its share of the task of maintaining maximum production and employment. We have been engaged in a highly damaging circular process, adjusting the Federal budget downward to an inadequately performing economy, while this very adjustment has prevented the economy from performing adequately.

What this upside-down budgetary process has meant in terms of the great priorities of our national public needs requires more detailed scrutiny. In the fiscal year 1954, total Federal outlays were \$492.40 on a per capita basis, and came to 18.73 percent of our total national production. By the fiscal year 1960, according to the President's original budget for that year, the per capita figure had fallen to \$415.57, and the ratio of the Federal budget to total national production had fallen to 16.05 percent despite the deficient size of the whole economy. These figures, and those which follow, are expressed in uniform 1957 dollars to make the comparisons meaningful.

With respect to essential domestic programs, it is desirable to compare Federal outlays for the period 1954-59 as a whole with other periods since World War II. For some purposes of comparison, the period 1947-50 is appropriate, because that was a period before entry into the Korean war made it necessary to cut back upon domestic programs, in view of greatly expanding defense outlays. For other purposes, the period 1947-53 as a whole provides a good basis for comparison, because that period included years of war and peace, and might therefore be regarded as somewhat similar to the cold-war period 1954-59.

During the period 1947-50, average annual Federal outlays for all domestic programs were \$181.59 on a per capita basis, and came to 7.6 percent of our total national production. For the period 1947-53, including the Korean war, the figures were \$166.82, and 6.9 percent respectively. And for the period 1954-59, the figures have fallen to \$151.87 and 5.87 percent respectively.

It should be stressed that the great recent shrinkages in these domestic outlays, relative to our needs as reflected by the per capita data, and relative to our economic capabilities as represented by the ratios to total national production, has not been due to an expansion of outlays for national defense and other international purposes. In 1954, the first fiscal year after the Korean war, outlays for major national security were \$340.78 on a per capita basis, and came to 12.96 percent of our total national production. By fiscal 1960, in terms of the President's original budget for that year, these major national secur-

ity outlays had fallen to \$247.11 and 9.54 percent, respectively. Comparing the same 2 years, the budgetary outlays for economic and technical development overseas fell from \$10.98 to \$9.54 on a per capita basis, and from 0.42 percent to 0.37 percent of our total national production.

#### *Impairment of economic justice*

The same trends have worked against the third great purpose of our economic life, namely, the maintenance and advancement of economic justice. They have borne down disproportionately upon all vulnerable groups: the unemployed, the farmer, the low-income family generally, the small businessman. They have hurt the old people, because we have said that "we could not afford" to provide them with enough social security. And these damaging effects of low economic growth have been compounded because, as shall later be indicated, the low economic growth has tended to incite a price inflation which has been entirely regressive in its impacts.

In summary of this phase of the discussion, we have not been making rational choices among worthy purposes, insofar as even a strong nation cannot do all of everything at once. Instead, we have been sacrificing all of these worthy purposes at one and the same time, due to an interacting set of erroneous private and public policies on many fronts.

#### IV. THE ANATOMY OF OUR NATIONAL ECONOMIC LOSSES

Let us now apply the principles of basic economics to an examination of why what has happened to us happened. It happened because the flow and distribution and utilization of purchasing power created vast distortions throughout the economic structure. Fiscal and monetary policies, price and wage and profit developments, farm income trends, and investment-consumption relationships, all contribute to these distortions because they were not attuned to an appropriate model of requirements for maximum production, employment and purchasing power.

#### *Private consumption and public outlays lagged behind investment in producers' goods*

To start with a summarization, our troubles have resulted basically because private consumption and public programs combined have not kept up with our actual expansion of producer plant and facilities, and much less kept up with an optimum model of balanced economic development on all fronts. The same thing, in essence, happened in the period leading up to the great depression. The only reason why we have been in less trouble more recently is that various improvements in the private and public structure have prevented the distortions from becoming nearly so great as they were in that earlier period. It is vital to observe, also, that the distortions in that earlier period occurred because profits and investment rose too much in ratio to consumption at a stable price level, aside from falling farm prices,



while distortions have risen more recently due to a lag of public and private consumption behind profits and investment in producer facilities under conditions of a rising price level. This illustrates that price-income relationships are more important than the absolute trends in prices.

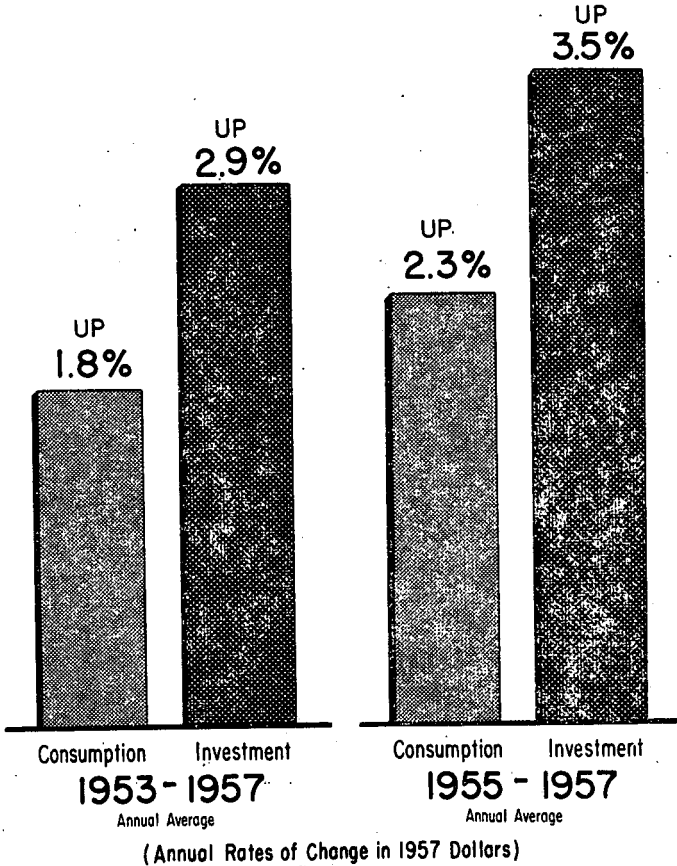
There has hardly been any time since 1953 when private and public consumption combined have caught up with our ability to produce. This statement is applicable even to 1955, when many said that these demand elements were expanding too rapidly and causing inflationary pressures against resources. If the 8 percent overall growth rate of 1954-55 had been spread as some have suggested over a long number of years, particularly with respect to the automobile industry, the irregularities would have been less, but the average growth rate of 1.3 percent for the period 1953-58 as a whole would not have been changed much.

The overexpansion of credit in 1955 did not carry consumption too high; it merely reflected the fact that fundamental incomes and purchasing power were too low, and that credit was being called down to do too large a part of the job. This in fact is why the recovery was not sustained, and why after 1955 we commenced to move toward a constantly shrinking rate of economic growth leading up to the absolute decline commencing in 1957.

The fifth chart shows how private and public consumption combined lagged behind investment in the means of production during key periods within the whole period under review. The sixth chart shows how, for the 6-year period 1953-58 as a whole, the more than \$150-billion deficiency in total production resulted from a deficiency of about \$17.5 billion in public consumption through public programs, a deficiency of about 96 billion in private consumption through private spending, and a deficiency of less than 40 billion in private investment caused when the other two deficiencies made it futile to continue investment in the expansion of productive facilities. (See also tables 4 and 6 at end of statement.)

(The charts referred to follow:)

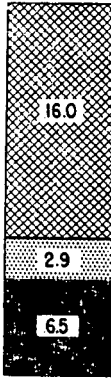
# *CONSUMPTION LAGGED BEHIND INVESTMENT IN MEANS OF PRODUCTION*



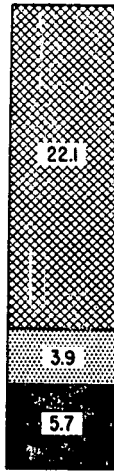
# DEFICIENCY IN CONSUMPTION IS OUR BASIC ECONOMIC TROUBLE

Billions of 1957 Dollars

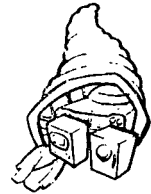
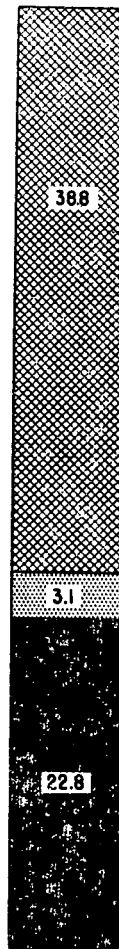
1953-1958<sup>1/</sup>  
Annual Average



1957



1958<sup>1/</sup>



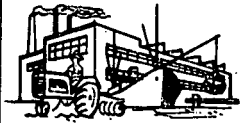
Deficiency in Private Consumption (Personal Consumption Expenditures)



Deficiency in Public Consumption (Public Outlays at All Levels for Goods and Services)



Deficiency in Gross Private Investment



Deficiency in Total National Production (GNP)

<sup>1/</sup>1958 consumption, investment and production estimated by Conference on Economic Progress on basis of data for first three quarters.  
DATA: Actual consumption, investment and production, Department of Commerce; estimates consumption, investment and production deficiencies, Conference on Economic Progress.

*Importance of deficiencies in public outlays*

Mr. KEYSERLING. Despite its seemingly small relative size, the deficiency in public programs of about \$17.5 billion really accounted in addition for about \$35 billion to \$50 billion of the deficiency in private consumption and private investment, because public outlays evoke other outlays. And this deficit in public outlays was practically entirely on the part of the Federal Government, because the States and localities were expanding their outlays up to, or in excess of, their limited power to obtain revenues. This must be borne in mind constantly, as one reads the administration's reported pleas to turn public programs back to the States and localities.

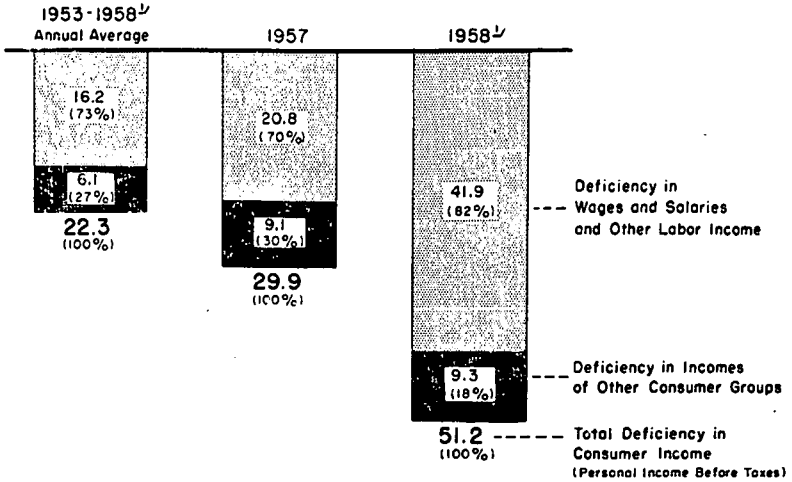
*Deficiencies in wages and farm income*

The deficiency in private consumption did not come about because consumers as a whole spent too little of their incomes and saved too much. On the contrary, as shown by the seventh chart, the \$96-billion deficiency in private consumer spending during the period 1953-58 resulted from a deficiency of more than \$130 billion in consumer income before taxes. Out of this, more than \$30 billion was deficiency in net farm operators' income, and more than \$100 billion was a deficiency in the consumer income before taxes of other groups, made up practically entirely of a deficiency in wages. (See also table 5 at end of statement.)

(The chart referred to follows:)

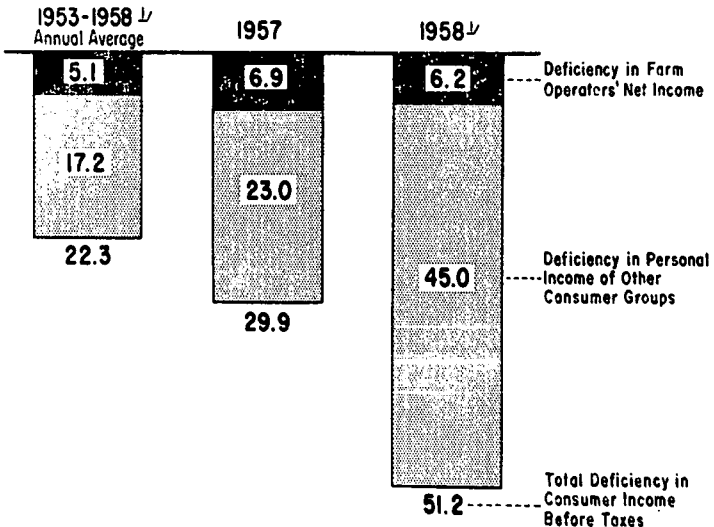
## WAGE AND SALARY DEFICIENCY AS PART OF CONSUMER INCOME DEFICIENCY

Billions of 1957 Dollars



## FARMERS' INCOME DEFICIENCY AS PART OF CONSUMER INCOME DEFICIENCY

Billions of 1957 Dollars



<sup>1</sup>1958 estimated by Conference on Economic Progress on basis of data for first three quarters.

*Defects in public and private economic policies*

Mr. KEYSERLING. These distortions and deficiencies throughout the economy resulted from both public and private action. On the public side, as already indicated, the inadequate outlays of the Federal Government for essential public purposes were of great importance. Regressive and inequitable tax and monetary policies had similar results. Inadequate expansion of social security and other consumer income programs added to the trouble. The deficiency in farm income has been attributable to falling farm prices in contrast with rising non-farm prices, due primarily to a national farm policy which has abandoned the farmer to the "free market," while other markets were not "free." For reasons subsequently to be discussed, all of these defects in national economic policies added to price inflation of a type which swelled the incomes and incomes and investment-spending of those who were moving relatively too fast, and repressed the incomes and buying power of those who were lagging too far behind. The relationships between price and wage policies in the private sector added greatly to the disparity between investment trends and consumption trends, which will be analyzed further in connection with the discussion of inflation.

#### 1. ECONOMIC GOALS FOR THE UNITED STATES ECONOMY 1958-64

Just as I have used a model national prosperity budget to analyze the past, so I now use the same device to project the capabilities and needs of the American economy. These projections utilize an overall economic growth rate of about 5 percent annually after maximum production and employment have been achieved, and a higher growth rate until then. Here again, other economists might arrive at different projections, but this would not change significantly the purpose for which the method is used, nor the conclusions to be derived therefrom.

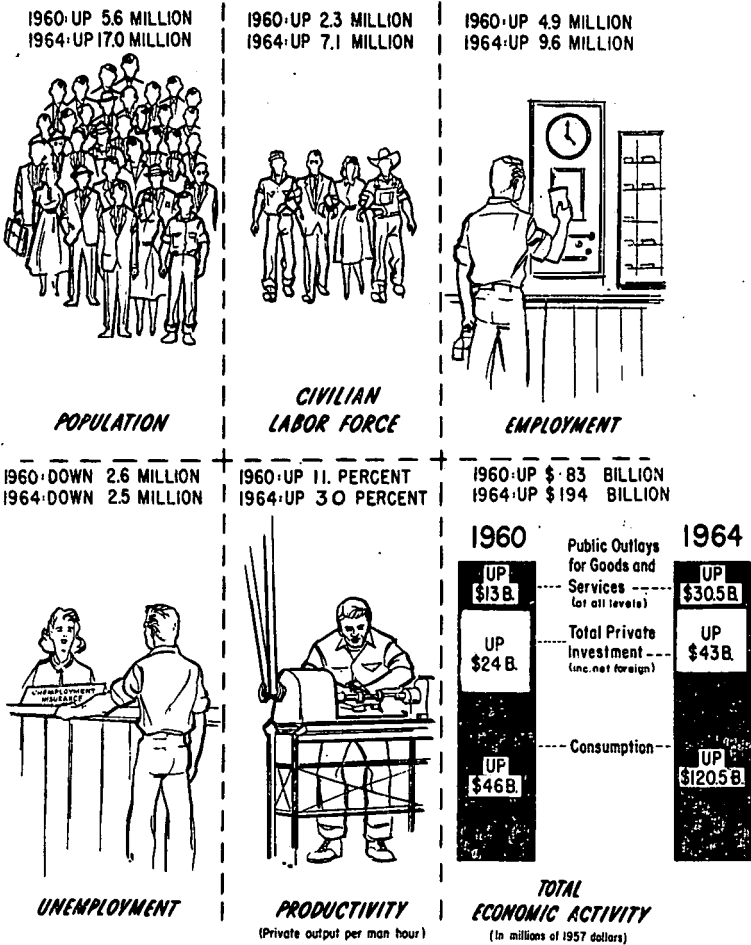
*Attainable growth rates and their significance*

The first chart in this series indicates how optimum utilization of our growing resources would lift our total national production by about \$83 billion above the 1958 level by 1960, and by about \$194 billion by 1964. The main components in this total production, consistent with balanced economic growth, are also depicted in the chart. (See also tables 6 and 7 at end of statement.)

(The chart referred to follows:)

## WE HAVE THE PRODUCTIVE RESOURCES FOR FULL ECONOMIC EXPANSION

1960 and 1964 Goals Compared with Estimated 1958

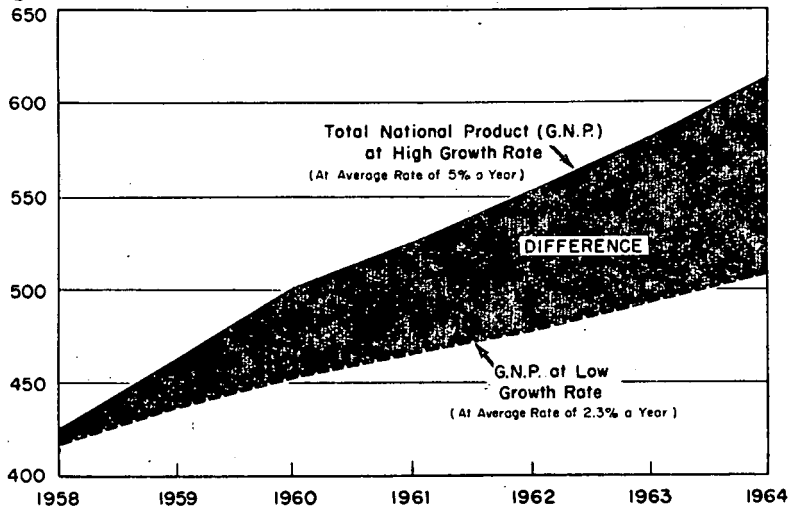


Mr. KEYSERLING. The next three charts depict the differences to be obtained from an optimum growth rate, in contrast with those which would flow from an average annual growth rate of only 2.3 percent a year. (See also tables 8-11 at end of statement.)

(The three charts referred to follow :)

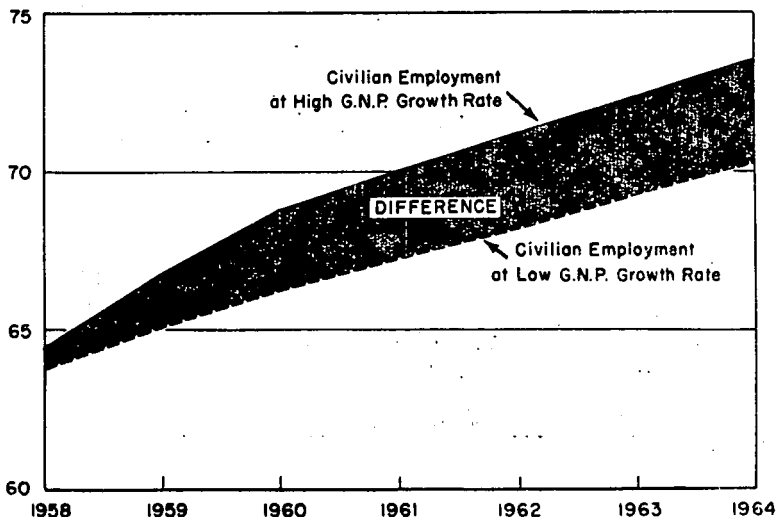
## HIGH GROWTH RATE, 1958-1964, WOULD YIELD \$400 BILLION MORE TOTAL PRODUCTION THAN LOW RATE

Billions of 1957 Dollars



## ...and HIGH GROWTH RATE WOULD PROVIDE EMPLOYMENT FOR MANY MORE PEOPLE

Millions of Persons

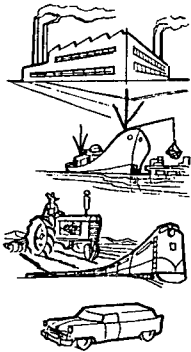


NOTE: Year 1957 is used as projection base year for this chart.



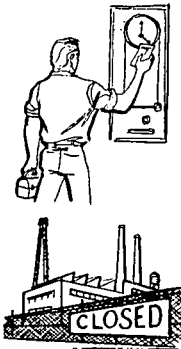
# AGGREGATE DIFFERENCE IN ECONOMIC ACTIVITY — 1958-1964 AS A WHOLE — BETWEEN HIGH AND LOW GROWTH RATES

TOTAL NATIONAL PRODUCTION (G.N.P.)



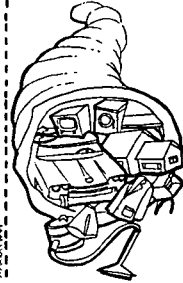
\$397.9 Billion Higher

EMPLOYMENT and UNEMPLOYMENT



EMPLOYMENT  $\uparrow$  UNEMPLOYMENT  $\downarrow$   
16.4 Million Higher ; 11.4 Million Lower

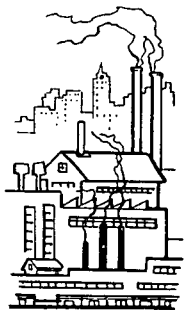
PERSONAL CONSUMPTION EXPENDITURES



\$253.9 Billion Higher

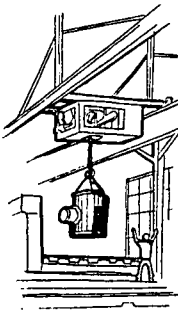
GROSS PRIVATE INVESTMENT DOMESTIC

(Inc. Net Foreign Investment)



\$75.1 Billion Higher

INVESTMENT IN PRODUCERS' DURABLE EQUIPMENT



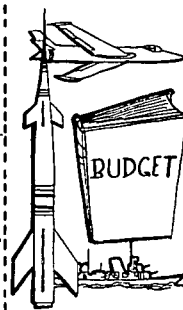
\$20.7 Billion Higher

RESIDENTIAL NON-FARM CONSTRUCTION



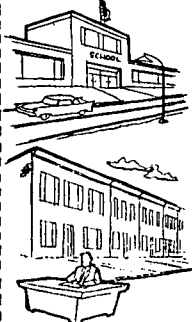
\$36.2 Billion Higher

FEDERAL OUTLAYS FOR GOODS and SERVICES



NATL. SECURITY \$32.9 Billion Higher ; ALL OTHER PURPOSES \$18.6 Billion Higher

STATE and LOCAL OUTLAYS FOR GOODS and SERVICES



\$17.6 Billion Higher

$\uparrow$  High growth rate will draw more people into the civilian labor force.

# AGGREGATE DIFFERENCE IN INCOME - 1958-1964 AS A WHOLE - BETWEEN HIGH AND LOW GROWTH RATES

All Items in 1957 Dollars

**AVERAGE  
FAMILY INCOME<sup>1</sup>**  
(Multiple Person Families)



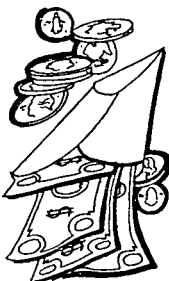
**\$6,200  
Higher**

**TOTAL  
PERSONAL INCOME**



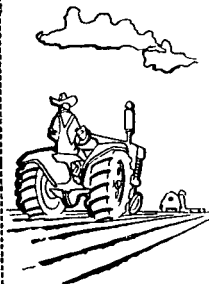
**\$333.9 Billion  
Higher**

**TOTAL WAGES  
AND SALARIES**



**\$226.0 Billion  
Higher**

**FARM OPERATORS'  
NET INCOME**



**\$44.0 Billion  
Higher**

**TRANSFER PAYMENTS  
TO INDIVIDUALS**



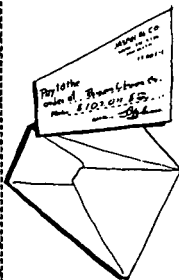
**\$41.3 Billion  
Higher**

**UNINCORPORATED  
BUSINESS and  
PROFESSIONAL INCOME**



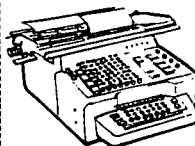
**\$24.2 Billion  
Higher**

**DIVIDENDS, PERSONAL  
INTEREST and RENTAL  
INCOME of PERSONS**



**\$15.7 Billion  
Higher**

**CORPORATE  
PROFITS**



**\$38.1 Billion  
Higher**

Mr. KEYSERLING. I have already indicated that this 2.3-percent figure is the estimated annual average for the period 1953-59, and I have indicated why I believe that this is an optimistic assumption for the future under current private and public economic policies. For the period 1958-64 as a whole, as the charts show, the difference in total national production, comparing the high and low growth rates, would be almost \$400 billion; the difference in many-years of employment opportunity would be close to 16½ million, and in unemployment close to 11½ million. The charts also indicate the differences in various types of private and public incomes and outlays. I feel that we would do much more as a nation to assure the optimum growth rate, if its significance as shown by these charts could be fully appreciated.

*Needed increases in private and public outlays*

The next chart, based upon an integrated tableau of the whole economy in operation, shows the increases in various sectors required by 1960 and by 1964, contrasted with 1958. It shows the vast required increases in private incomes, with special emphasis upon the needed trends in farm income, wages and salaries, and business and professional income. It also shows the needed trends in Government transfer payments, and in Federal outlays for goods and services. (See also tables 6, 7, and 12 at end of statement.)

(The chart referred to follows:

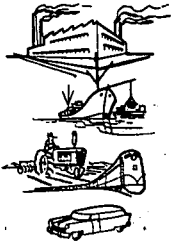
# GOALS FOR FULL PROSPERITY

1960 AND 1964

1960 and 1964 Goals Compared with Estimated 1958

(Money Items in 1957 Dollars)

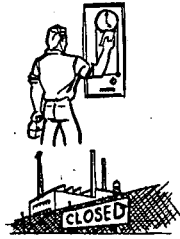
## TOTAL NATIONAL PRODUCTION



(Billions)

1960 UP..... \$83  
1964 UP..... \$194

## EMPLOYMENT and UNEMPLOYMENT



(Millions)

Employment	Unemployment
1960 UP 4.9	DOWN 2.6
1964 UP 9.6	DOWN 2.5

## AVERAGE FAMILY INCOME



1960 UP..... \$780  
1964 UP..... \$1950

## WAGES and SALARIES



(Billions)

1960 UP..... \$47  
1964 UP..... \$105

## FARM OPERATORS' NET INCOME



(Billions)

1960 UP..... \$3.7  
1964 UP..... \$10.2

## GOVERNMENT TRANSFER PAYMENTS TO INDIVIDUALS



(Billions)

1960 UP..... \$3.5  
1964 UP..... \$19.0

## FEDERAL OUTLAYS FOR GOODS and SERVICES



(Billions)

National Security	All Other Purposes
1960 UP \$6.0	UP \$2
1964 UP \$12.5	UP \$4

## BUSINESS and PROFESSIONAL INCOME



(Billions)

1960 UP..... \$16  
1964 UP..... \$32

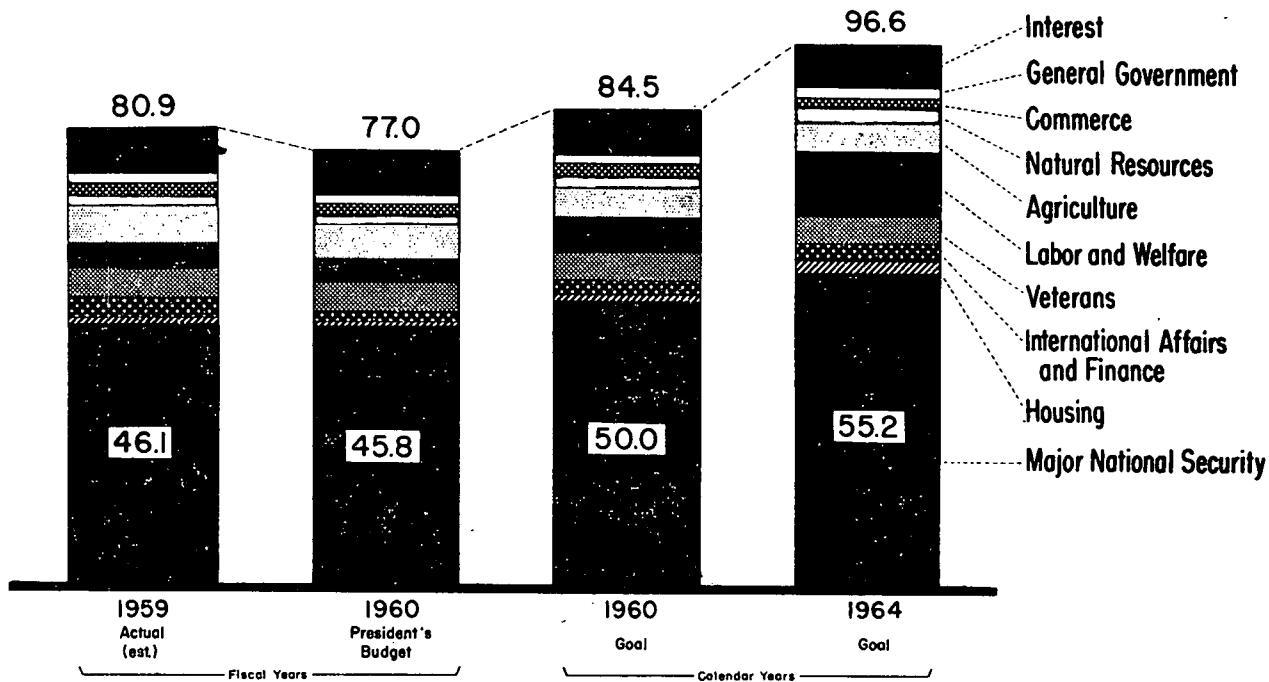
### Needed increases in the Federal budget

Mr. KEYSERLING. Because the Federal budget is the most important single instrument of national economic policy, because the budget deals with the great priorities of our national needs, and because the budget is entirely within the control of the President and the Congress, the next chart projects a Federal budget consistent with the national prosperity budget. (See also tables 13-15 at end of statement.)

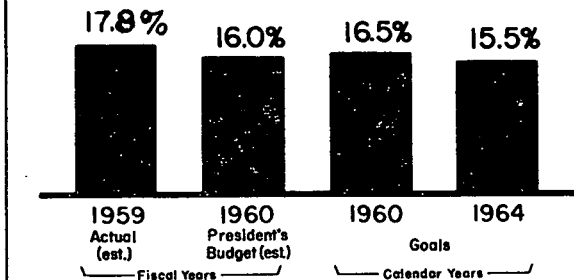
(The charts referred to follow:)

# GOALS FOR TOTAL FEDERAL BUDGET WITH EXPANSION TO MEET MAIN NEEDS

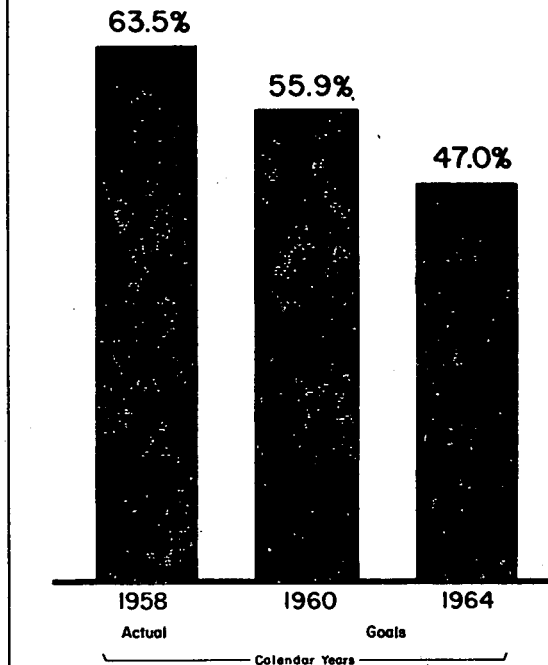
1959 and 1960 in Billions of Current Dollars; Goals in Billions of 1957 Dollars



**FEDERAL BUDGET AS PERCENT OF  
TOTAL NATIONAL PRODUCTION (GNP)**



**NATIONAL DEBT AS PERCENT OF  
TOTAL NATIONAL PRODUCTION (GNP)**



Mr. KEYSERLING. This projection takes account of the needs of the economy as a whole, and of all needs in various programmatic fields based upon examination of a wide range of detailed studies. The chart contains an estimate that the total Federal budget in calendar 1960 should be about \$7½ billion higher than the President's original budget for fiscal 1960, which President's budget is about \$4 billion below the estimated actual budget for fiscal 1959. A calendar 1964 budget of more than \$96½ billion is indicated. The projections assume some adjustments in tax rates, to lighten the tax burdens on low-income families on grounds of economic justice and the expansion of consumption, and some closing of tax loopholes. On this basis, an optimum rate of economic growth would very substantially reduce the Federal budget as a percent of total national production, and reduce even more the national debt as a percent of total national production. Thus, an adequately expanding Federal budget, meeting the essential needs of the Nation and contributing to optimum economic growth, would impose a substantially decreasing strain on the economy as a whole, and leave more and more room for the balanced expansion of private consumption and private investment. It follows that, with optimum economic growth, the proper goal of balancing the Federal budget would be attainable. It is not attainable, as recent experience so vividly demonstrates, in a repressed economy.

*Meeting the great priorities of our national needs*

This budget projection includes a very liberal allowance for the expansion of national security and international outlays which, contrasted with \$48 billion in the President's originally proposed 1959 budget, would involve \$53 billion in calendar 1960, and \$59 billion in calendar 1964. But there would still be room for the expansion of Federal outlays for all domestic programs—excluding not only national defense but also international economic programs — from \$26 billion in the President's original 1959 budget to 31½ billion in calendar 1960, and 38 billion in calendar 1964.

On a per capita basis, as shown by the next chart, the outlays for all domestic programs would rise from \$156.97 in the President's proposed budget for fiscal 1960 to \$175.29 in calendar 1960, and to \$197.91 in calendar 1964. (See also tables 14 and 16 at end of statement.)

Mr. KEYSERLING: However, in a fully expanding economy, the outlays for all domestic programs would be approximately the same percent of total national production in 1964 as in the fiscal year 1960. And total budget expenditures for all purposes would be a smaller portion of a vastly expanded total national production in calendar 1964 than in fiscal 1960, thus imposing a relatively lesser burden upon the national economy as a whole.

It is very important to note the impact of the proposed Federal budget upon some of the programs related closely to the enlargement of our domestic economic strength and human well-being.

The per capita outlays for housing would rise from \$2.09 in fiscal 1960 to \$11.52 in 1964; an increase of about 5½ times. This, combined with much larger expansion of private housing investment, would expand residential construction for all income groups, remove most substandard housing by 1964, and enlarge housing investment and employment as a main substitute for technological displacement in other sectors.

The per capita outlays for education would rise from \$2.58 in fiscal 1960 to \$26.18 in calendar 1964, an increase of more than 10 times. This, combined with feasible expansion of State and local educational outlays, would practically remove the classroom shortage by 1964, raise teachers' pay to decent levels, and allow considerable for higher education, research, and science.

The per capita outlays for public health would rise from \$3.66 in fiscal 1960 to \$14.14 in calendar 1964, an increase of almost 4 times. This, combined with expansion of private and State and local outlays, would bring adequate health services, at costs within their means, to almost all American families.

The per capita outlays for labor and manpower and other welfare services, and for public assistance, would rise from \$14.56 in fiscal 1960 to \$20.94 in calendar 1964. This would close the vast deficiencies in these services, for example, about doubling the miserably low old-age assistance benefits per recipient.

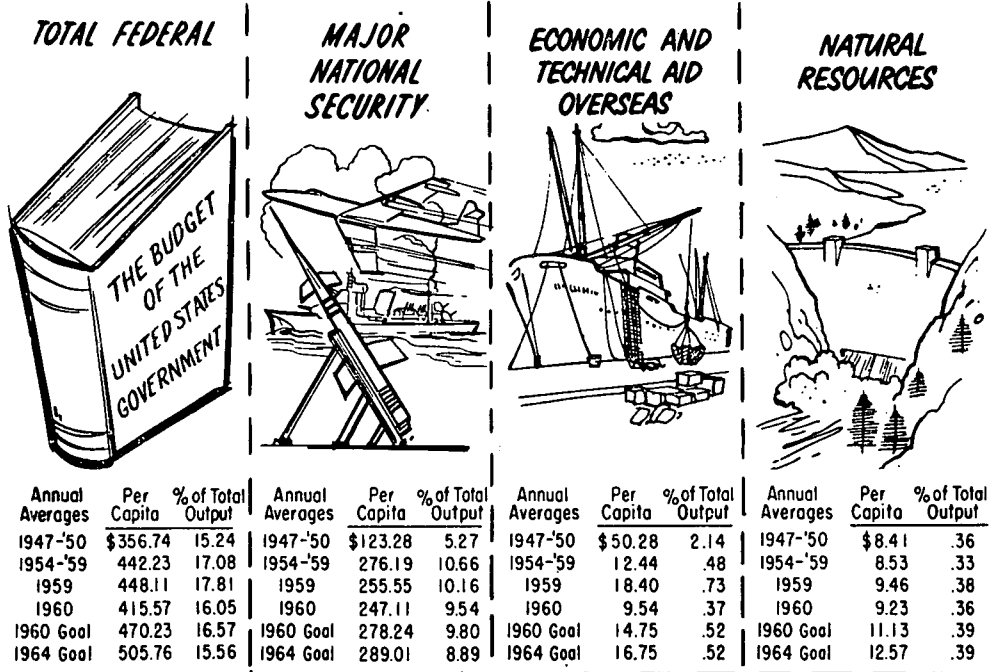
The per capita outlays for natural resource development would rise from \$9.23 per capita in fiscal 1960 to \$12.57 in calendar 1964. This would bring basic resource development more nearly into line with economic growth and population shifts.



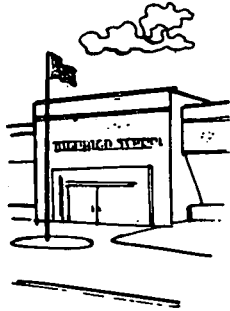
(The charts referred to follow :)

# FEDERAL OUTLAYS SHOULD BE GEARED TO GROWING NEEDS AND CAPABILITIES

1960 and 1964 Goals, Calendar Years; Other Periods, Fiscal Years  
Per Capita Outlays in 1957 Dollars



### EDUCATION



### PUBLIC HEALTH



### HOUSING



### ALL DOMESTIC PROGRAMS AND SERVICES

(Including Natural Resources; Education; Health; Housing; Labor; Agriculture; Soc. Security; Welfare; and General Government)

Annual Averages	Per Capita	% of Total Output
1947-50	\$ 0.62	.03
1954-59	2.00	.08
1959	2.42	.10
1960	2.58	.10
1960 Goal	11.13	.39
1964 Goal	26.18	.81

Annual Averages	Per Capita	% of Total Output
1947-50	\$ 1.65	.07
1954-59	2.66	.11
1959	3.71	.15
1960	3.66	.14
1960 Goal	5.01	.18
1964 Goal	14.14	.43

Annual Averages	Per Capita	% of Total Output
1947-50	\$ 2.33	.10
1954-59*	1.22	.05
1959*	6.85	.27
1960	2.09	.08
1960 Goal	6.12	.22
1964 Goal	11.52	.35

Annual Averages	Per Capita	% of Total Output
1947-50	\$181.59	7.76
1954-59	151.87	5.88
1959	172.01	6.84
1960	156.97	6.06
1960 Goal	175.29	6.18
1964 Goal	197.91	6.09

The proposed Federal outlays set forth above are not derived arbitrarily nor in a vacuum. They are all based upon reasonable expansion goals for the economy as a whole, upon consistent estimates of what part of this expansion should be devoted to meeting the great priorities of our public national needs, and upon what portion of these Federal needs should be met by the Federal Government—taking full account of prospectively available State and local resources for these programs.

Morover, insofar as some programs suggested in my presentation do not involve Federal or other public outlays—for example, the expansion of portions of the social security program supported mainly by payroll taxes—the needed increases in the payroll taxes are integrated with and made consistent with the picture of various income flows for the whole economy in operation. Old-age insurance benefits per recipient should be doubled by 1964. Unemployment insurance protection should be greatly improved at once. The flow and coverage of the minimum wage law should be improved. All of these programs are worked out on the basis of a consistent and workable interrelationship among the various types of production and employment, incomes and expenditures, both public and private, throughout the whole economy.

Thus, my recommendations are all based upon the fundamental concept of balanced growth throughout the economy. The projected programs are all derived from a balanced tableau of an economy expanding in sound proportions, with optimum use of its resources.

#### VI. THE PROBLEM OF INFLATION

##### *Reasonable price stability compatible with other goals*

I believe that the American economy can and should maintain reasonable price stability. I do not share the views of those distinguished economists who hold that a 2 or 3 percent annual price inflation is the burden which we would need to accept in order to achieve optimum economic growth and to maintain maximum production and employment, although if this amount of price inflation were the only way to achieve these other objectives, I think it would be worth the cost under existing world conditions, and in that event we should adopt other programs to deal equitably with those hurt by such price inflation.

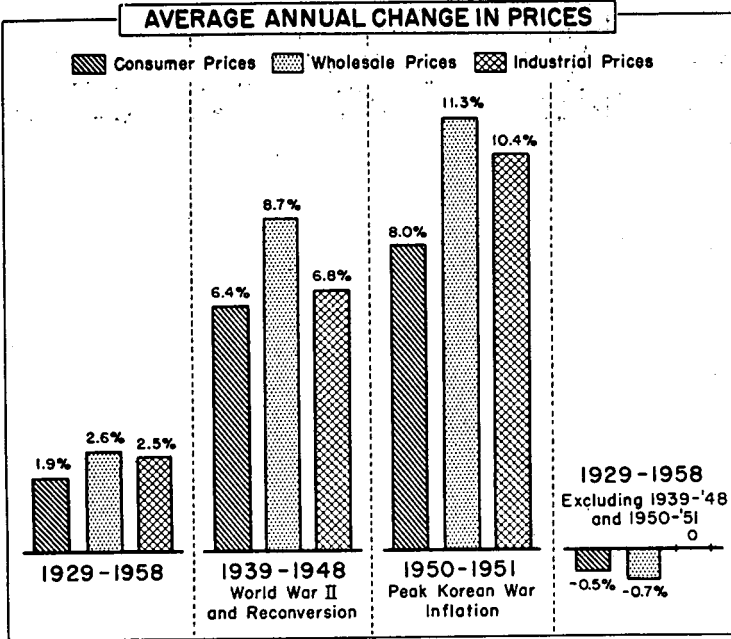
My conclusion that serious price inflation is not a burden we need to assume, in order to achieve the three great purposes of our economic life, is based upon some very intensive studies of this problem which I have been carrying on continuously over a number of years. The series of charts which follow highlight the results of these studies, and I would be glad to furnish the committee with much more detailed and comprehensive data on this whole subject.

##### *Wartime inflation not relevant to foreseeable future*

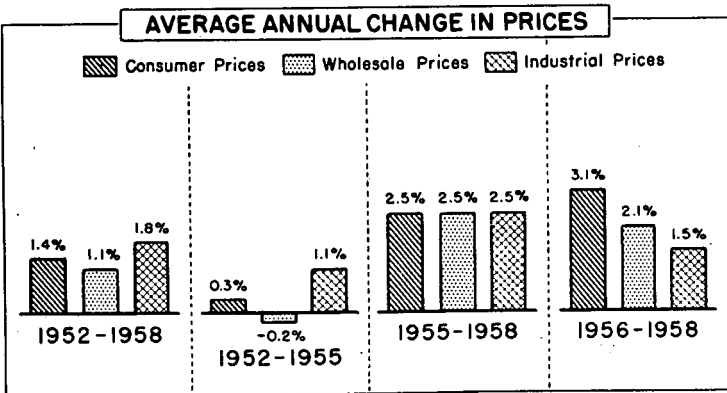
The first chart in this series indicates that most of the serious price inflation which we have experienced during the past 30 years has been due to the impact of transition from peace to war, wartime, and reconversion from war to peace. (See also tables 1 and 2 at end of statement.)

(The chart referred to follows:)

## DURING PERIOD 1929-1958, MOST INFLATION DUE TO WAR



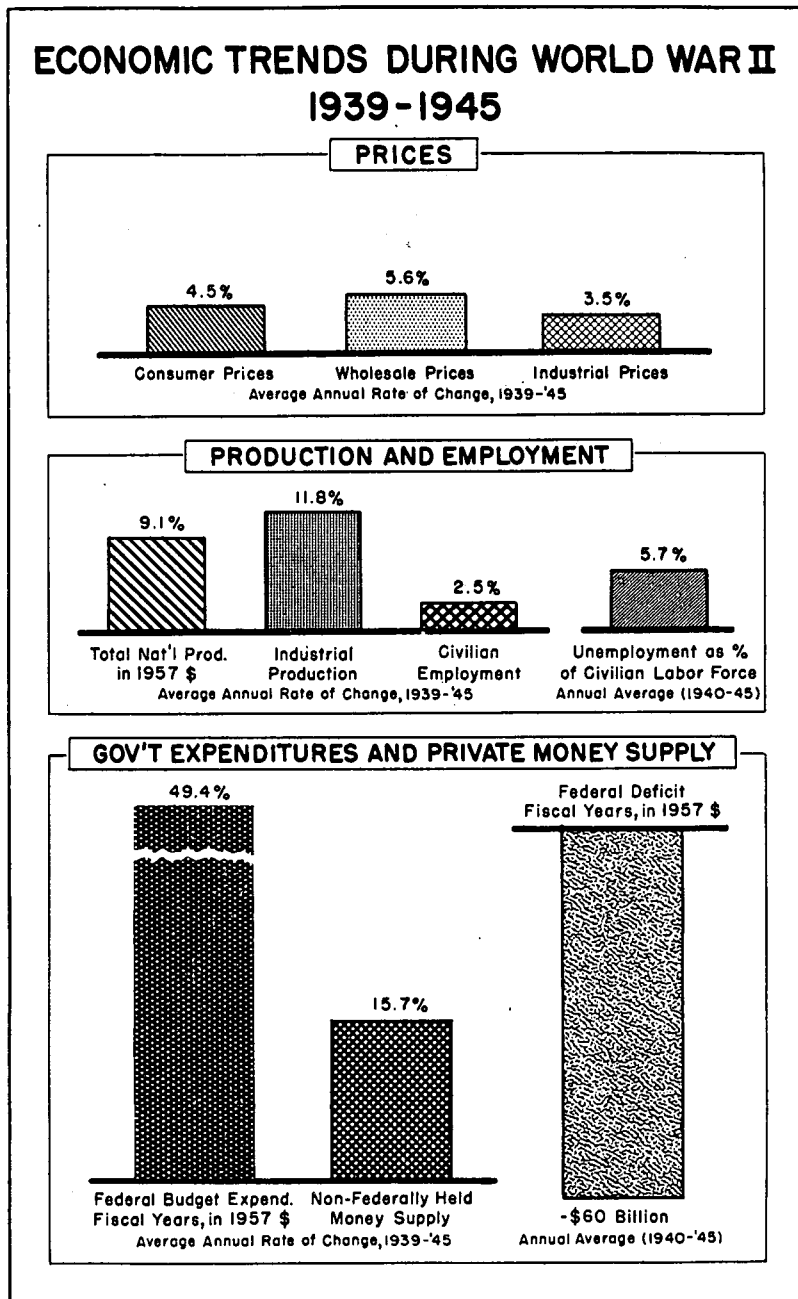
## "THE NEW INFLATION" AFTER 1955



Mr. KEYSERLING. Aside from such periods, the chart indicates that the American economy has been prone to exhibit an almost amazing degree of price stability over the three decades as a whole. This experience simply does not justify the irrational scare campaigns to the effect that, even in the absence of another war, we are threatened with a further depreciation in the value of the dollar in any way comparable to that which has occurred since 1929 or since 1939. The bottom half of this chart portrays the so-called new inflation after 1955, which I shall analyze shortly.

The next chart in this series portrays economic trends 1939-45 during World War II, and indicates clearly why no such price pressures could again arise in the absence of war. (See also tables 1 and 2 at end of statement.)

(The chart referred to follows:)

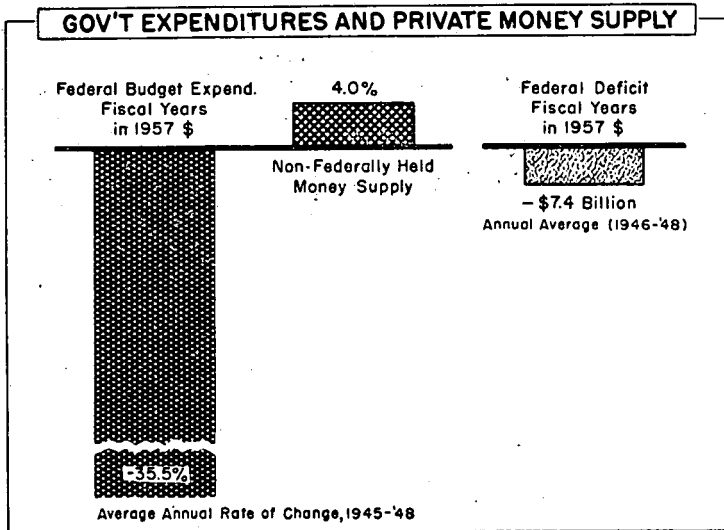
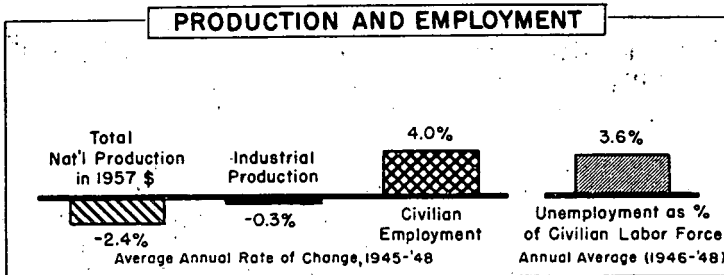
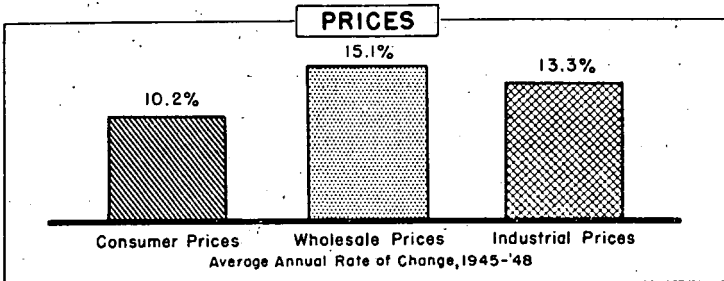


Mr. KEYSERLING. The pressure on our resources during this period was phenomenal. Total national production and industrial production were both rising in the neighborhood of twice as fast as what I have defined as optimum growth rates for the future. Federal outlay expanded about 50 percent a year in real terms. The Federal deficit averaged annually about \$60 billion and the nonfederally held money supply expanded almost 16 percent a year. It is perfectly ridiculous to derive from this experience the oft-repeated conclusion that an optimum rate of economic growth, or maximum employment, or Federal deficits of a size foreseeable in any period short of war, are per se inflationary. It is equally ridiculous to include these wartime trends in any fair portrayal of the susceptibility of the American economy to inflationary developments aside from wartime.

The next chart portrays economic trends during the reconversion period 1945-48. This period showed a really fantastic price inflation. But it was accompanied by a substantial decline in economic activity, by a moderately high rate of unemployment, by Federal deficits averaging only about one-ninth the size of those during World War II, and by a very moderate expansion of the nonfederally held money supply. (See also tables 1 and 2 at end of statement.)

(The chart referred to follows:)

## ECONOMIC TRENDS DURING RECONVERSION 1945-1948





Mr. KEYSERLING. Thus, the violent price inflation of this period was not due to the commonly assigned causes. It was due, rather, to the method of financing World War II about half through taxation and about half through borrowing, which resulted in a great redundancy of spendable funds after the war, and it resulted also from the premature abolishment of the direct controls. While this experience may teach us something about how to deal better with another postwar period, it has but little relevance to the current situation, and it is utterly ridiculous to include this period in any analysis of foreseeable inflationary pressures.

The next chart depicts economic trends during 1949-51, the first 2 years of the Korean war. The last 2 years are not included, because they were not accompanied by price inflation. This period was accompanied by an exceptionally large expansion of basic economic activity and of Federal outlays, far above the optimum rates suggested in my projections for the future. But there was not much of a Federal deficit. The unemployment rate was actually rather high, and it appears that the Korean war did not impose the kind of strains upon our productive resources which were imposed during World War II. In fact, hours of work were substantially reduced during the Korean war. My conclusion is that the price inflation during this period, coming mostly upon the Chinese entry into the struggle, was a speculative price inflation generated by the vast uncertainties as to what we were getting into.

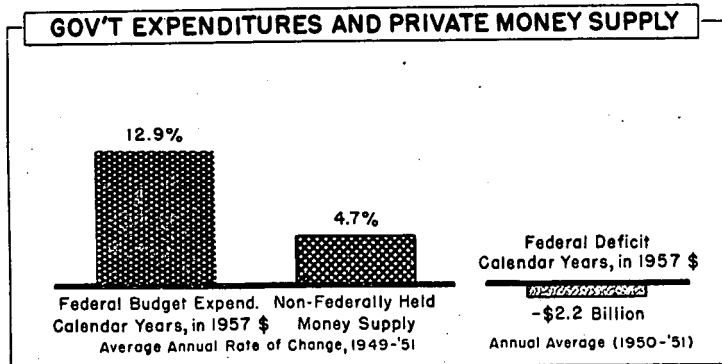
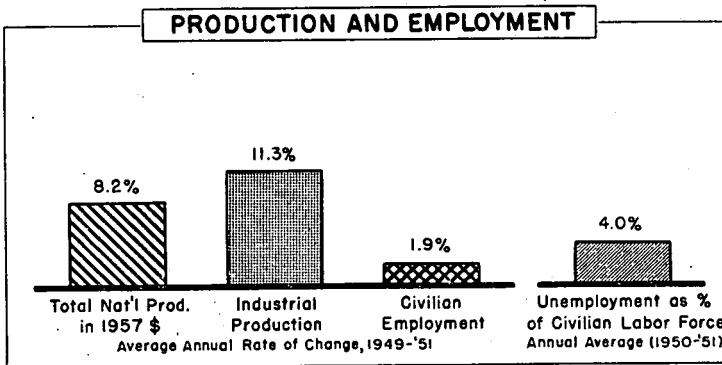
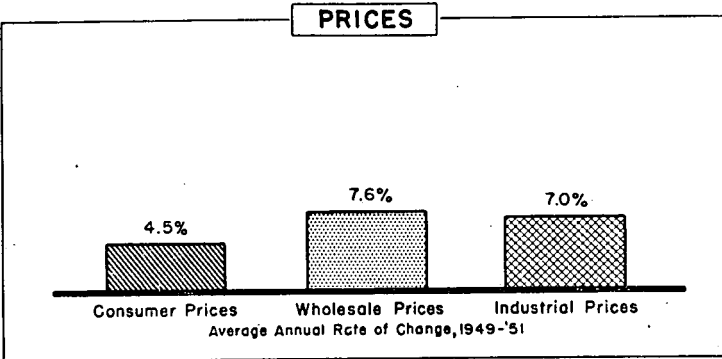
It is also true that the tardy and lax imposition of the direct controls appear now to have been a serious mistake. In general, the causes of the Korean inflation have not much bearing upon the foreseeable future, although they might contain some lesson as to how to deal better with another war of this type. One important lesson of this period, applicable now, is that the excessive speculative price inflation was much aggravated by the overestimate of the real inflationary danger—the unanalytical fear of the inflation, and the excessive loose talk about inflation, which incited a large part of the actual inflation.

*Causes of the so-called new inflation, 1952-58*

The next chart analyzes the so-called new inflation of the most recent years. (See also tables 1 and 2 at end of statement.)

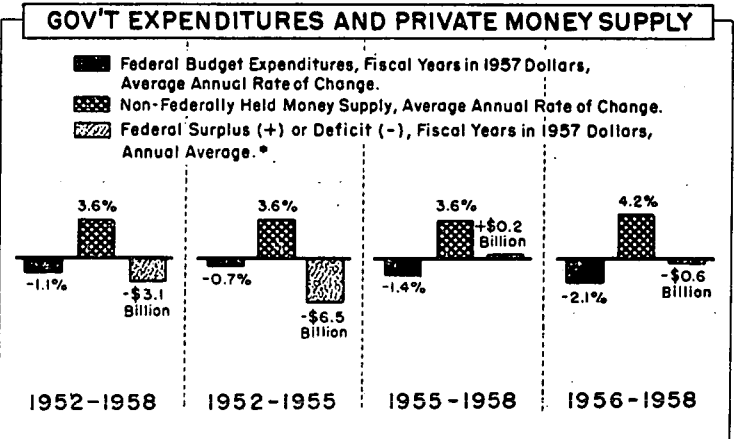
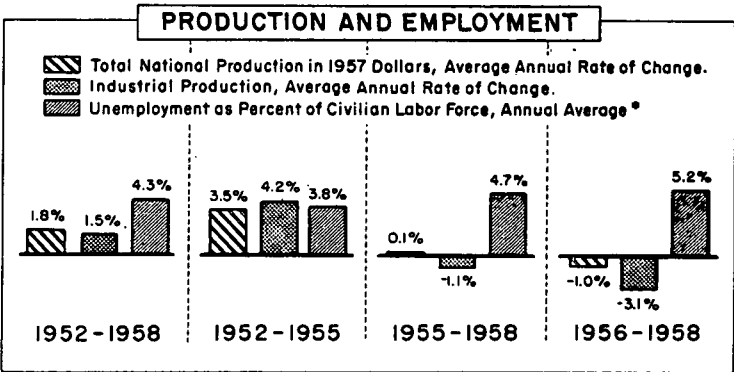
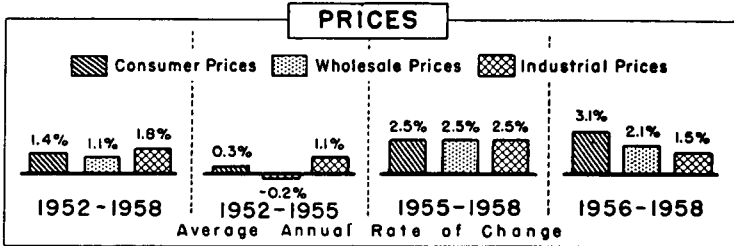
(The two charts referred to follow:)

## ECONOMIC TRENDS DURING FIRST YEARS OF THE KOREAN WAR, 1949-1951 \*



\* Prices stabilized after 1951.

## ECONOMIC TRENDS DURING THE PERIOD OF "THE NEW INFLATION," 1952-1958



\* The annual averages (as differentiated from the average annual rates of change) are for the periods 1953-'58, 1953-'55, 1956-'58 and 1957-'58 inclusive.

Mr. KEYSERLING. It indicates a very high inverse correlation between the rate of economic growth, the level of unemployment, the condition of the Federal budget, the trends in public outlays, and the process of inflation. I am profoundly convinced that the main lesson of the new inflation is this: Just as excessive rate of economic growth and excessive pressure upon productive resources generate inflation, so excessive economic slack and an excessive rate of unemployment, short of a well-established recession, produce inefficiencies and other factors which generate price inflation. The conclusion, of course, is that the effort to combat inflation by combating an optimum rate of economic growth and maximum utilization of plant and manpower is perverse and self-defeating.

*Administered price increases and their significance*

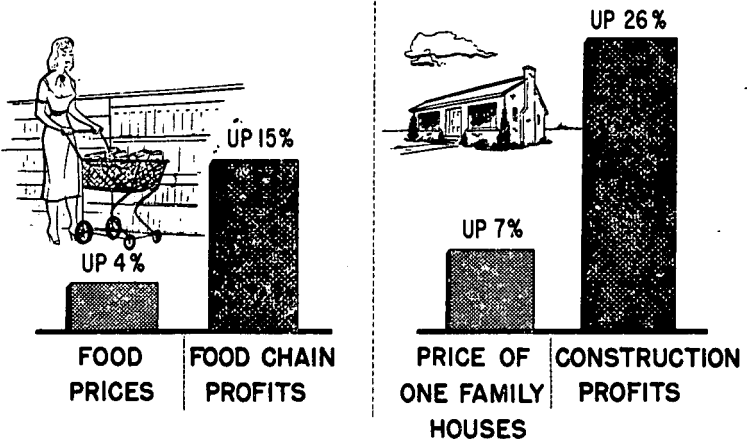
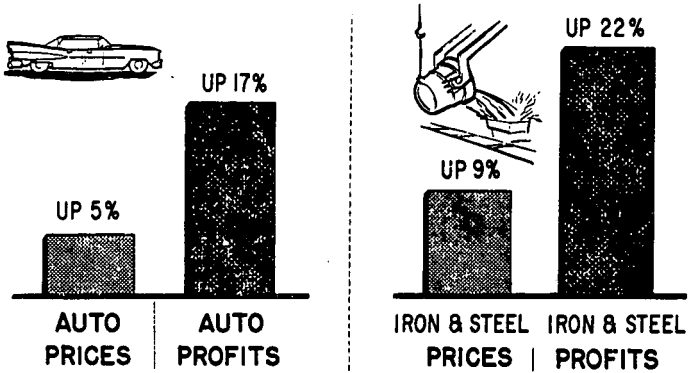
The practice of administered price increases, which marked so large a part of my analysis before this committee and other committees from 1955 forward, and to which many other economists are now calling attention, is essentially related to my thesis that the development of severe economic slack generates more price inflation than optimum economic conditions. A careful examination of this administered price inflation also lends much support to my basic thesis that administered prices and profits and investment tended to grow out of line with private and public consumption. This indicates that the argument that wage changes necessitated the price increases which occurred has no general overall merit.

*Wage increases did not justify price increases*

The next chart shows how, during the year leading up to the full development of the most recent economic recession, price increases in some of the key industrial areas, including not only steel and autos but also retail distribution and housing brought profit increases so large as to negate the claim that the price increases were needed to maintain adequate profit levels in view of wage increases.

(The chart referred to follows:)

# PRICE INCREASES BROUGHT BIG PROFITS



(First Nine Months 1956 - First Nine Months 1957)

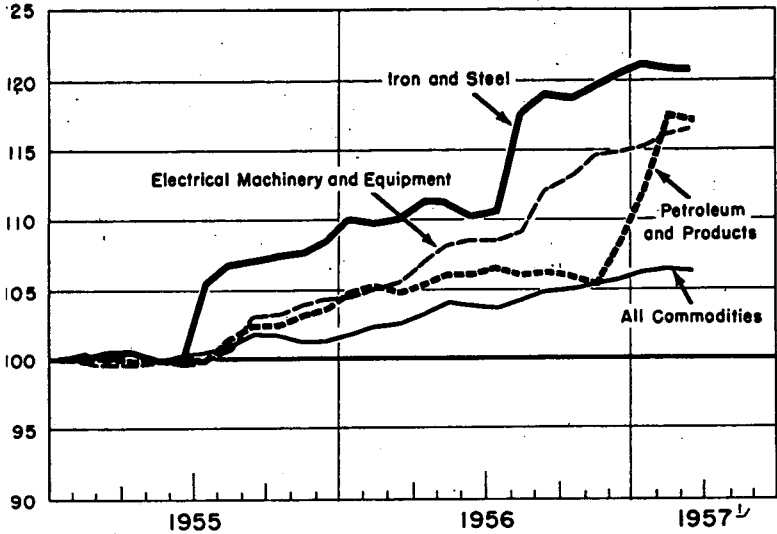
Mr. KEYSERLING. The next chart, closely in accord with the analysis of Gardiner Means, shows how the price inflation, 1955-57, was highly concentrated among the industrial giants who administered their prices, and the chart also shows the excessive profits yielded by these price increases.

The next chart shows how consumer prices continued to rise during the recession, and it shows in a very dramatic way how tremendously large downturns in heavy industry production were accompanied by large price increases. And the next chart shows, for the big concerns in some of our most important industries, how they lifted their prices greatly when their sales were rising, and how some of them commenced to lift their prices even more when their production commenced to decline seriously. This tends to support my theses that, in the administered price areas governed by price policies adjusted to profit and investment objectives, a deficient level of production and sales seems clearly to inspire an effort to compensate for these deficiencies by an accentuated rate of price increases.

(The three charts referred to follow):

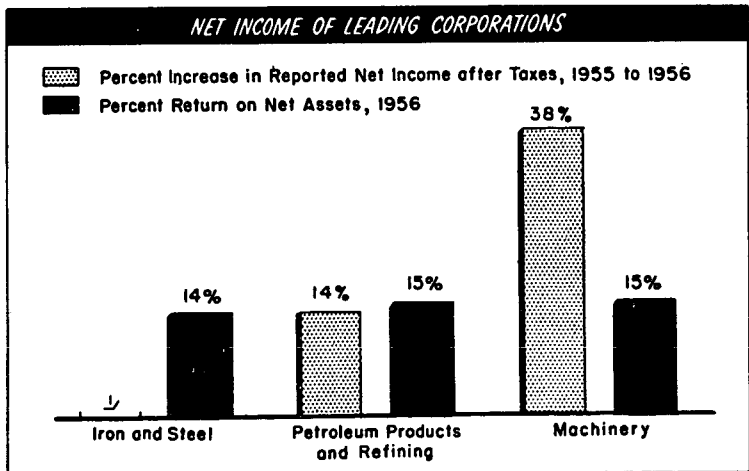
## INFLATION OF WHOLESALE PRICES SEVEREST AMONG GIANT INDUSTRIES

Index: Jan. 1955=100



March 1957, preliminary.  
Data: Dept of Labor

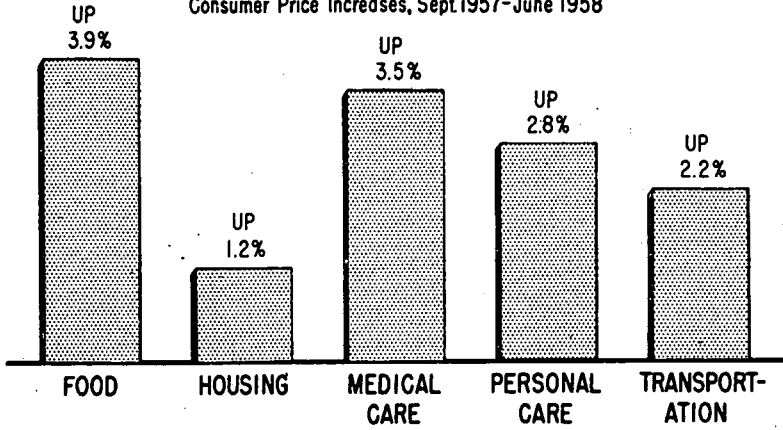
## ...and THE BIGGER PRICE JUMPS HAVE YIELDED HIGH PROFITS



Growth in profits affected by steel stoppage in 1956. Steel profits, fourth Q. 1956 highest on record.  
Data: The First National City Bank of New York.

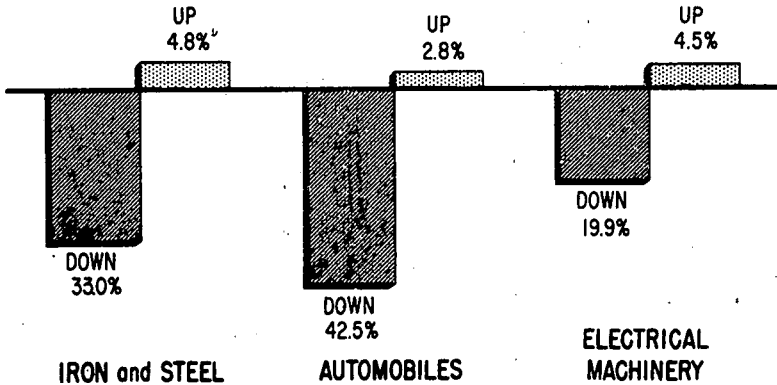
## CONSUMER PRICES CONTINUED TO RISE THROUGHOUT THE RECESSION

Consumer Price Increases, Sept. 1957-June 1958



## DOWNTURN IN HEAVY INDUSTRIES ACCOMPANIED BY PRICE HIKES

Changes in Production and in Wholesale Prices, Jan. 1957-June 1958

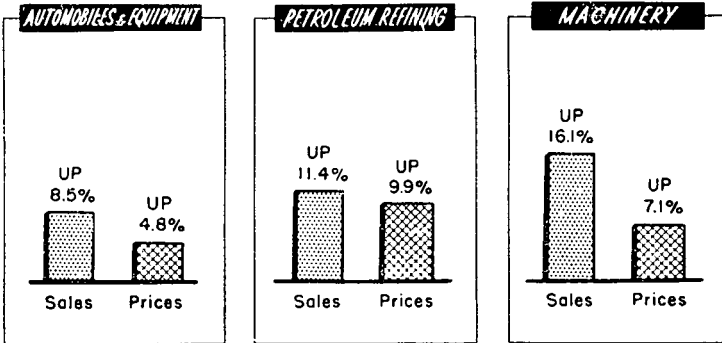


<sup>1</sup>Including price increases anticipated in June and put into effect in succeeding months.



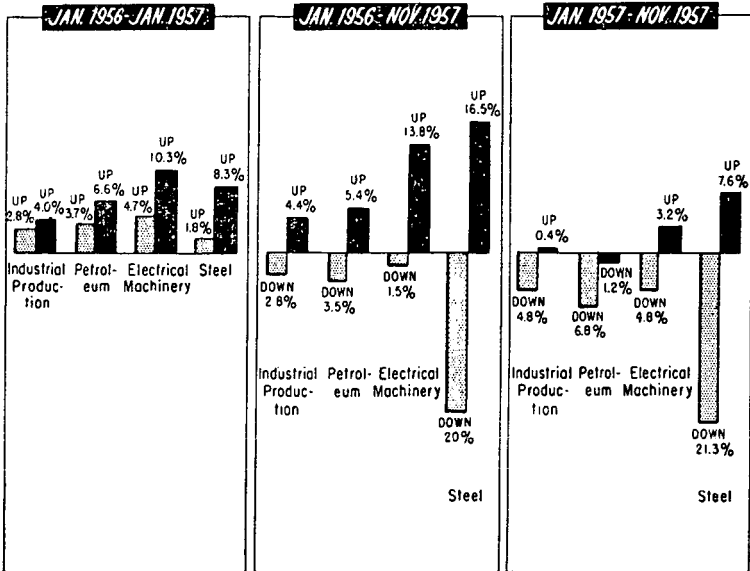
# WHEN SALES OF SOME BIG CONCERNS ROSE RAPIDLY, THEY LIFTED PRICES INSTEAD OF HOLDING THEM STEADY

Percentage Increase in Sales of Large Corporations and in Wholesale Prices in These Industries  
First Half 1956 - First Half 1957



# ...but EMERGING PRODUCTION SLOWDOWN DID NOT BRING PRICE RESTRAINT

Percentage Change in Production (stippled bar) and in Wholesale Prices (solid bar), in Various Industries



Data: Dept. of Labor, and Board of Governors, Federal Reserve System

*Excessive price increases and relatively excessive profits and investment*

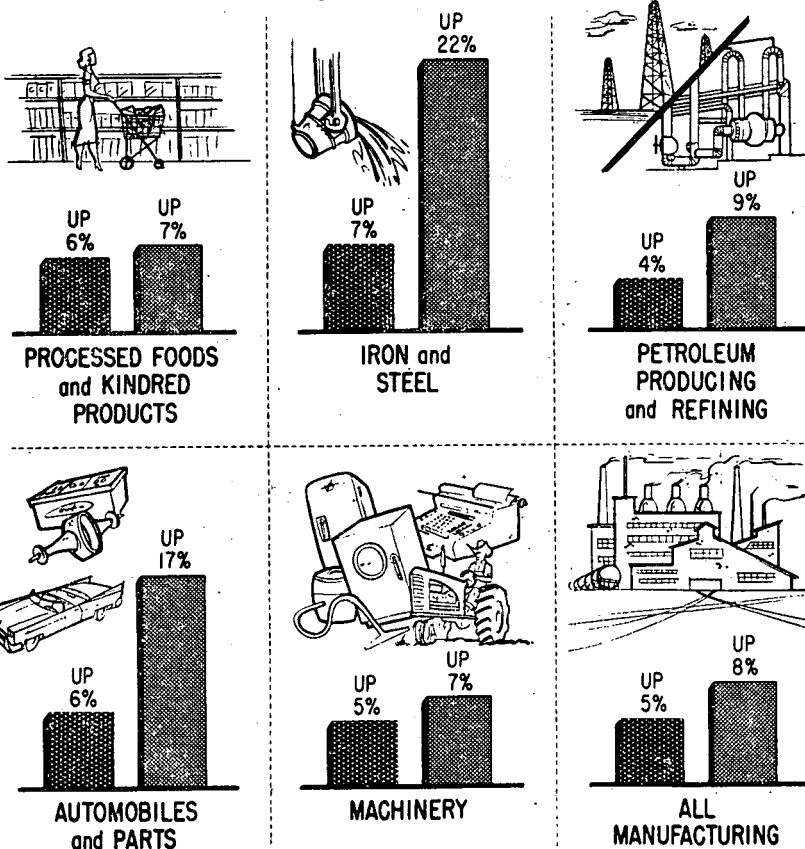
Mr. KEYSERLING. The next series of charts gets into the vital question of how these administered price increases contributed to the excessive investment boom relative to consumption, and negate the insupportable theory that excessive wage rate increases justified or necessitated these price increases. The first of these charts shows how wage rate increases in various key sectors of the economy, during the period leading up to the most recent economic recession, were accompanied by enormously large increases in profits, thus refuting the proposition that the price increases were needed to maintain adequate profits margins.

(The chart referred to follows:)

**WAGE INCREASES, NEEDED TO EXPAND CONSUMPTION, LAGGED FAR BEHIND PROFITS FEEDING INVESTMENT BOOM**

First Three Quarters 1956 - First Three Quarters 1957 in Current Dollars

■ Wage Rates<sup>1/</sup> ■ Profits<sup>2/</sup>



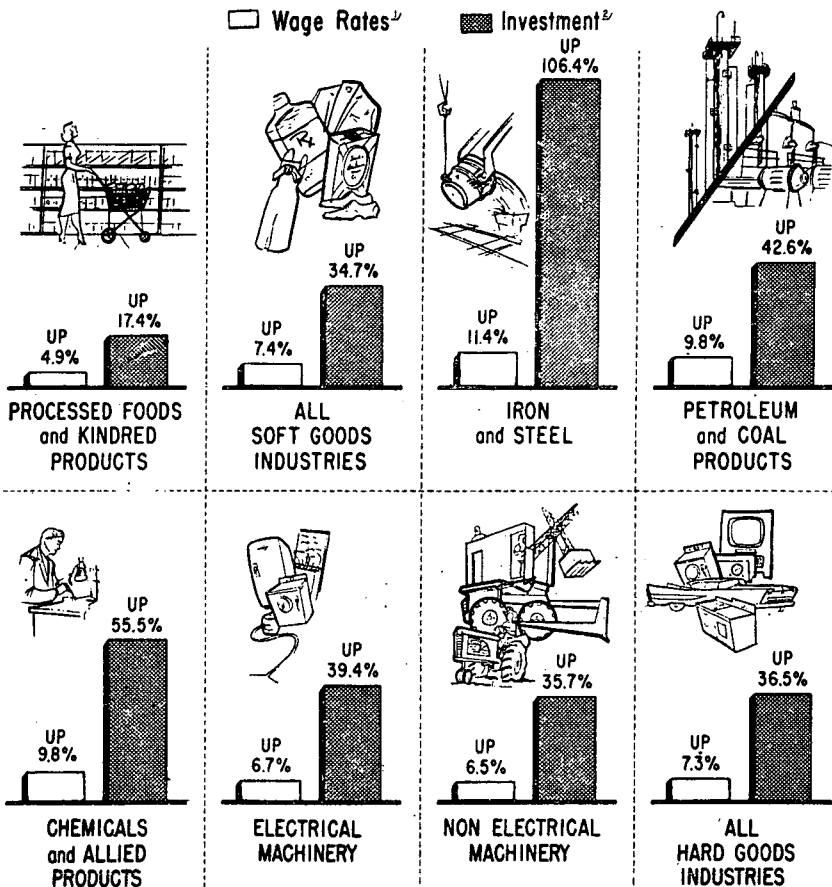
<sup>1/</sup> Average hourly earnings of production workers  
<sup>2/</sup> Profits of large corporations

Mr. KEYSERLING. And the next chart shows how, during the same period, wage rates feeding consumption lagged fantastically behind investment in the means of production.

(The chart referred to follows:)

## WAGE INCREASES NEEDED TO EXPAND CONSUMPTION, LAGGED FAR BEHIND INVESTMENT IN MEANS OF PRODUCTION

First Quarter 1956-Third Quarter 1957 in Current Dollars



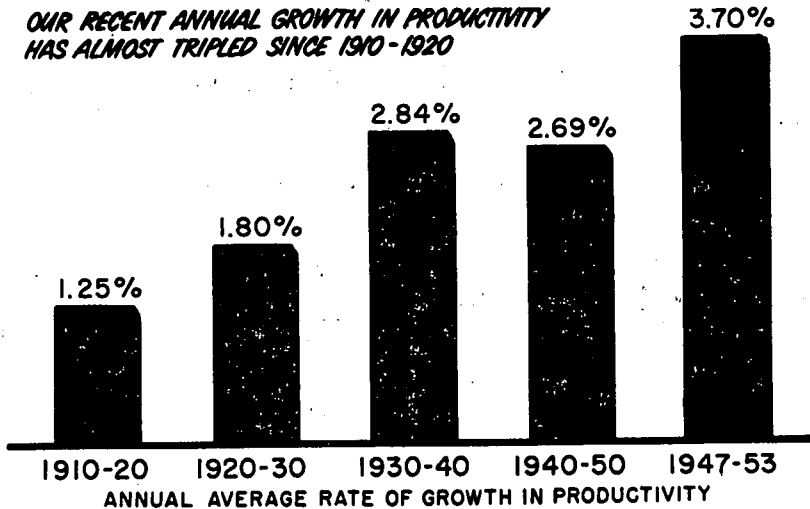
<sup>1/</sup> Average hourly earnings of production workers.  
<sup>2/</sup> Investment in plant and equipment in key industries.

*The real meaning of productivity trends*

Mr. KEYSERLING. This analysis calls for a thorough reexamination of much of the recent talk about productivity trends. In the long run, as shown by the next chart, in a reasonably favorable economic environment, productivity in the American economy has tended to increase at an accelerating rate, and this supports my thesis that overall economic growth needs to increase at an accelerating rate to maintain maximum production and employment.

(The chart referred to follows:)

## OUR PRODUCTIVITY - THE AVERAGE OUTPUT PER MAN HOUR - IS RISING AT A FASTER RATE

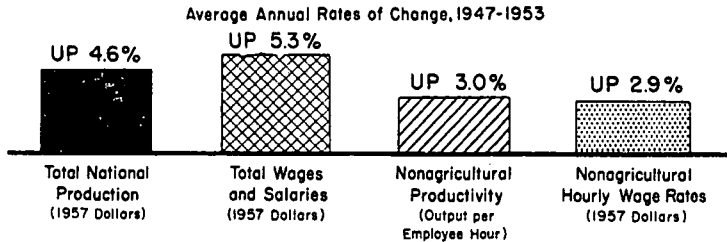


Data: Depts. of Commerce, Agriculture and Labor.

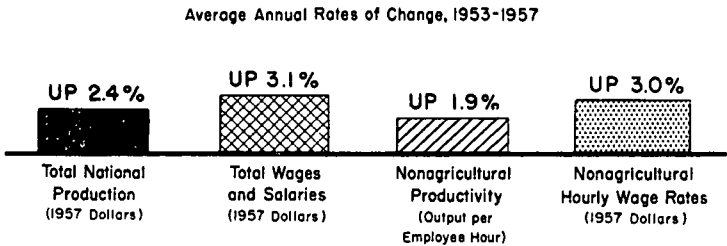
Mr. KEYSERLING. As shown by the next chart, the so-called decline in the rate of productivity growth during very recent years, and the development of a lag in productivity increases relative to wage rate changes, occurred because of an overall economic slack which bred inefficient utilization of resources. This had nothing to do with the real technological trends affecting our productivity potentials. If wages had increased less, the economic slack would have been still greater, as some economists are now beginning to perceive. The very recent high increases in productivity, and the inability of expanding plant operations to absorb substantial numbers of the unemployed, lend enormous weight to the true trends in technology and productivity which I have been stressing during the past few years. These trends present us with an outstanding challenge to expand private consumption and public outlays enough to absorb these trends.

(The chart referred to follows:)

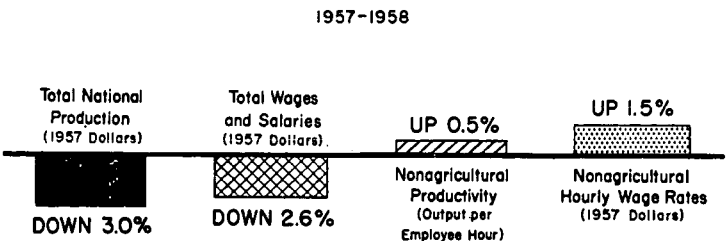
## DURING RELATIVELY FULL PROSPERITY PRODUCTIVITY ROSE AS RAPIDLY AS AVERAGE HOURLY WAGE RATES



## BUT WHEN THE ECONOMY WAS SLACK PRODUCTIVITY GAINS SLOWED DOWN



## AND WHEN RECESSION DEVELOPED PRODUCTIVITY WAS HARD HIT AND WAGE RATES MOVED SLOWER



Data: Actual 1947-1957, and estimates 1958 on basis of preliminary data, Depts. of Commerce and Labor.

*How to deal with any foreseeable inflation*

Mr. KEYSERLING. On the basis of this whole analysis of the inflationary problem, I submit the following conclusions of policy:

(1) There is no merit in the argument that national economic policy should combat optimum economic growth or maximum production and employment in order to restrain price inflation. On the contrary, an inadequate economic performance, short of a big decline, aggravates price inflation.

(2) Fiscal and monetary policies, designed to repress the economy, therefore aggravate price inflation in the long run, even though price inflation may temporarily come to a halt when these misguided policies produce a serious recession. Fiscal policies should be redirected toward magnitudes consistent with optimum economic growth, and with meeting the great priorities of our needs as I have already set them forth. Monetary policy needs to be completely revised; it is now tragically nonsensical.

(3) If national economic policies helped to create a climate favorable to sustained optimum economic growth, I believe that those who administer their prices in the key industries would exercise more restraint than when they are guided either by the desire or the supposed need to compensate for inadequate levels of economic activity, or by their desire to set up profit reserves against an expected recession by lifting their prices and their profits as a precautionary measure. This is another way of saying that, if the Government lived up to the requirement of the Employment Act of 1946, the problem of administered price increases would be reduced. Empirical observation lends great weight to this proposition.

(4) It does not follow, however, that the foregoing approaches would necessarily solve the problem of administered price inflation. The further solution of this problem depends in part upon economic education and public pressures, and here the Government has a large responsibility. I have long urged that, under the Employment Act of 1946, the Economic Reports of the President should not only define quantitatively the needed levels of purchasing power, but should also break these down into meaningful major components, and should also in a general way set forth price-wage-profit and investment-consumption trends consistent with maximum purchasing power as properly defined. In this process, the Council of Economic Advisers should work in close cooperation with advisory groups representing the important functioning sectors of the private economy. This is a way, in accord with our economic psychological and political orientation, to achieve a workable blend of private and public adjournments in a period between peace and war.

(5) I am entirely in disagreement with the plethora of proposals to reinstitute selective price and wage controls, or to set up ad hoc public instrumentalities virtually to supplant or oversee private price-making and the collective bargaining process. These proposals, in my judgment, do not set in balanced perspective the causes of our current economic difficulties, nor evaluate properly the relative priorities of the jobs we need to do. These proposals seem to me to reflect such preoccupation with an exaggerated inflationary threat as to divert attention from sound treatment of our difficulties as a whole. Overemphasis upon these proposals seems to me to represent

a panacea philosophy. Such proposals are unsuited to the long pulls of a cold war era. They are more sensational than constructive.

There is no immediate nor even foreseeable inflationary threat of magnitude to justify such severe wrenches in our system. If the approaches I have set forth are given an adequate test for a sufficient period of time, and if we still have a revival of serious administered price inflation, then would be the time to consider the imposition of direct controls and the intrusion of Government agencies into the entire fabric of private economy adjustments. Let us not swing back and forth incontinently between complacency and hysteria.

#### VII. HIGHLIGHTS OF POLICY AND PROGRAM RECOMMENDATIONS

My basic short-range and long-range recommendations are all implicit, and most of them are explicit, in the foregoing analysis. Hence, I shall conclude my presentation by summarizing the highlights of these recommendations.

##### *Partial relevance of World War II experience*

We are not now in a total war. But we are in a dangerous period, far from total peace. And if we apply with appropriate variations some of the lessons which World War II taught us about how to mobilize our resources effectively, we shall be more likely to avoid another total war, and at the same time achieve some enormously beneficial domestic results.

In World War II:

(1) The Government set quantitative goals for total production and employment, based upon absolutely maximum use of resources, and subdivided into many types of products and jobs. It set goals for consumption or use, both private and public, to match these production goals. It set goals for the flow of income or purchasing power, to help maintain balance between production—supply—and consumption or use—demand.

(2) To make sure that use was in accord with the relative urgency of our national requirements, there was a very detailed "priorities system" covering thousands of items.

(3) The whole machinery of national public policy was coordinated and directed toward achievement of these fundamental goals or purposes. The Federal budget, including both spending and taxation, was used as the major public instrument in guiding both production and use toward achievement of these fundamentals. Specific ad hoc machinery was also used to expand some types of production by incentives toward private expansion of plant or output or by direct public investment, and to restrain other types of production and use.

(4) In fighting inflation, we did not neglect the fundamental production and priority objectives essential in winning the war. Some said that inflation was a greater danger to the United States than Hitler—during the Korean war they said a greater danger than Stalin—but providentially the administration did not listen to them. Nonetheless, anti-inflation controls included not only high taxation, but also savings programs and direct controls. These were successful, insofar as we did not look at price and wage and profit trends as ends in themselves, but rather as means for achieving full production

and simultaneously providing the Nation with what was needed most.

(5) The Government was chary of monetary policy to control inflation, because its excessive use defeats fundamental purposes before it checks inflation.

(6) The difference between sacrifice and inequity was understood. The Government was not placed on the side of those who wanted the people to respond patriotically to the austere challenge but sought to batten at the public's expense.

(7) While all essential freedoms were maintained, we did not suffer the delusion that freedom and government were antithetical, or that the great problem of the Nation and the world could be solved by telling the farmer, the storekeeper, and the laborer that they in their individual capacities had the most to contribute. Instead, representatives of our functioning economic groups were consulted in national policymaking.

#### *Approaches for the foreseeable future*

Now how much of this should we do today and tomorrow? If we are successful in avoiding war, there would obviously be no draft, no breakup of families, no bloodshed. Nor, short of total war, do I see need for the burdens of vexation of direct price and wage controls, detailed "priorities systems," allocations, or rationing, or, with some possible exceptions, special incentive and prohibitory programs.

But while we are not at war, entirely, we are most certainly in the space age, and so also are the Russians. Consequently, our economic policies do need to be as realistic and purposeful, though not as strenuous, as in wartime.

(1) First and foremost, we still need national goals to guide our efforts. The Economic Reports of the President, as categorically required by the Employment Act of 1946, should state specific quantitative short- and long-range balanced goals for maximum production, employment, and purchasing power, geared to consumption or use goals—less detailed as to components than in wartime because the pressures on our resources are less, and more can be left to private adjustments. These goals should point toward national economic growth averaging 5 percent a year after the current economic slack is taken up.

(2) It is equally essential that the Economic Reports define what portion of our growing total production and consumption at full resource use should be devoted to those programs which mean most to us as a Nation. This does not mean that the Federal Government would do the whole job in all of these priority areas. In national defense, it would do practically the whole job (aside from civilian defense). In education, for example, the Economic Report should appraise how much of the job others can do, what part of the balance the Federal Government can help others to do, and how much the Federal Government itself needs to do to fill in the gap.

(3) In this framework the Federal budget should be an instrument toward what a full economy can afford and needs by way of public consumption or use, instead of being adjusted to what a repressed or stricken economy "cannot afford." The budget, like goals for the national economy, should be projected over several years in the Economic Report, even if the Congress approves the budget only yearly.



(4) The tax program should be so devised as to help keep private purchasing power in line with the amount of production available for private consumption. It should also impose the tax burden equitably, which really means to improve the distribution of total private purchasing power. If production and consumption goals were properly quantified in the Economic Reports of the President, and if the expenditure side of the budget were framed accordingly, the appropriate tax program would be clear. Such a tax program would result in a balanced budget whenever our resources were being reasonably fully employed, which should be always.

(5) The tight money policy should be abandoned, because it prevents adequate economic growth, contributes to inflation, and redistributes income unjustly. Monetary policy should be adjusted to the goals in the Economic Report.

(6) Essential Federal legislative programs include the farm program, basic resource development, social security, housing and protective legislation dealing with such matters as minimum wages, education, and health. These programs all need vast improvement, to help expand consumption sufficiently. Foreign economic assistance needs immense expansion. How should the size of these programs be determined? Not by accident, nor by special-interest pressures, but rather by fitting them into their proper place in a consistent Economic Report and budget which balance our total economic capabilities at full production and employment with a corresponding amount of private and public consumption or use, and with servicing of our needs in the order of their importance.

(7) Price trends and income flows within the private economy are maximum purchasing power machinery toward optimum economic growth, meeting our priorities of need, and economic justice. Probably a fairly stable price level makes it easier to manage the other parts of the machinery and to maintain a workable balance among its parts, but this may not be true at all times, nor true of all prices at any time. I do not believe that it is now desirable to invoice direct governmental controls of prices or wages. But I believe that the most useful treatment of this problem would be for the Economic Reports of the President, in addition to setting goals for maximum production, employment, and purchasing power—consumption or use—to include also careful short- and long-range analyses of what kinds of income flow in general to the various segments of the economy would be conducive to these fundamental purposes, and what kinds of price-wages profit policies in general would be consistent with this kind of income flow. The Employment Act of 1946 calls for this now, when it says that the Economic Reports should set "needed levels of purchasing power". It is particularly important that this identification of "needed levels of purchasing power," the very words of the Employment Act, as well as of "needed levels of production and employment," also the words of the act, be undertaken in consultation with private economic leadership.

(8) If sufficient attention were directed toward wage-price-profit relationships, and if business were not fearful of alternative periods of boom and bust, that is, if the Government were to carry out its share in the purposes of the Employment Act, private investment would be likely to be regularized at desirable rates of growth. Ap-

propriate tax policies can be helpful toward this end. The broad definition of needed levels of private investment should be included in the maximum production goals under the Employment Act.

(9) To accomplish these purposes, the Economic Reports of the President cannot remain, as they are now, merely another set of pro forma essays on the state of the economy. This is competently done in many other private and public reports. The Economic Reports are intended to be great state papers on the economic program of the Government, attuned to the full economic needs and capabilities of the United States. Instead of the Economic Reports being written to support a President's budget and legislative program derived in a vacuum, the President's budget and his entire legislative program should be derived from an Economic Report which properly quantifies our goals and productive capabilities, identifies for achievement the great priorities of our national needs, and responds to the basic requirements of economic and social justice.

(10) Above all, if we now become prey to the notion that "inflation is a greater danger to us than Khrushchev", we shall continue to lose more and more ground in the current world struggle. For, in its essence, the current obsession about inflation is a campaign against the positive things we need to do. It plays upon illegitimate fears instead of raising legitimate hopes. It tells that we are weak instead of rallying our strength. It sets up economic Maginot lines instead of developing new economic weapons. It fails to recognize that in our economic policies just as in our international policies, we cannot have safety nor stability by standing still.

What I have said, in essence, is that we have treated monetary policy and tax policy and price policy and wage policy as fighting words, to be argued on the basis of economic predilections, but we have not attempted sufficiently to test these policies against the three great purposes of our economic life.

For the balance of my statement, I am going to talk extemporaneously, and try to summarize briefly what I have said, with the aid of some of these charts, to bring before the Committee some of the high points of interest.

In the first of these charts, and I will go over them very hurriedly, actually, I could very easily spend an hour on this analysis of economic growth alone, because I do not believe it has been done anywhere else.

This chart shows, first of all, that we have an average annual 3 percent economic growth over 30 years. I call that the long-term average.

Then it shows how, during the depression era from 1922 to 1929, we first went down very seriously and then went up. Then it shows what we did during the war eras; the World War and reconversion era, and the Korean era.

Here I have extracted the depression, the recovery from the depression, and the war and reconversion eras, and come up with a long-term average annual growth rate of about 3 percent, which happens to be about the same as if you included these years. However, this 3 percent growth rate has nothing to do with our needs today. We have an advancing technology and, as matter of fact, as this second part of the chart shows, we have in periods other than depression had an

accelerating rate of productivity growth and an accelerating rate of overall growth.

From 1920 to 1929, the overall growth rate was 3½ percent; from 1947 to 1953, it was 4.7 percent, and while this period included 3 years of the Korean war, it nonetheless did not use our resources excessively, as I shall show. I can show how the unemployment which has arisen in more recent years, due to deviation from this higher growth rate, correlates very well with the validity of my assumption of need for this higher growth rate.

The CHAIRMAN. That is concentrated primarily where?

Mr. KEYSERLING. I have tables which will show that. I have copies of the charts in your book, so you can see them very easily as I refer to them.

Now, the conclusion I reach is that, under conditions other than war and recession, the American economy has exhibited a constantly accelerating technology which makes an increasing growth rate possible and also makes it necessary to absorb the annual increments in the labor force.

Now, I have analyzed the period since the ending of the Korean war. I have explained why I use that period in my prepared statement. I will not bother with this too much, except to say very briefly that the war's end brought us into a new cold war period, which is likely to be more similar to the foreseeable future than any previous period, and thus introduced new types of economic problems to be dealt with which we have never had to deal with before.

This bottom part of the chart traces the record of economic growth during the years since the ending of the Korean war. The annual average has been 1.3 percent, which is only about 40 percent of the 30-year average, and which is only in the neighborhood of one-third of what now appears to be the needed growth rate for full use of our resources.

Next, I have traced this year by year, and shown how this 1.3 percent growth rate has been compounded. I want to say something about the 1954-55 period, and tie it in with the method of analysis which I used, which I would like to have the committee examine very carefully in its further work.

Some of the members of the committee may recall—and I say this not pridefully but because I believe it more important to contribute to our economic problems than to display any false modesty—in 1954 and 1955, before various congressional committees, when most people were saying that the big upturn in 1954-55 was excessive and that it had to be restrained, the method I then used in analyzing the whole structure of the economy revealed to me distortions which I then said were creating over the long run what I called a long-term departure from full employment and production. I then said that the recovery in 1954-55 was not removing these distortions; that it was based largely upon an excessive expansion of credit, and the one-shot effects of reduction of taxes in 1954; and I then said we would be looking ahead to an extensive period of contracting growth followed by recession.

The more recent period, if you will have a check-back made, is almost completely in line with this earlier analysis of distortions in the economy. For 1958-59, I am guessing a growth rate of 7 percent.

The CHAIRMAN. Is that what you desire or would expect?

Mr. KEYSERLING. This is more than I expect. I am simply trying not to overstate my case. Even if it should be 7 percent, the annual growth rate over the whole 6-year period 1953-59 would be only 2.3 percent, or less than half of what I think we need now, and in any event very far below the long-term average.

Now, my more important reason for including 1958-59 is this: I see in the recovery of 1958-59, which is less rapid than in 1954-55, a repetition of that experience. If I were being asked now to project ahead the problem of the American economy, I would say the next 6 years will reveal, without correction of the distortions which now exist, a broad repetition of the experience over these 6 years. In other words, a recovery which does not carry us back to the optimum use of resources, followed by a contracting period of growth, followed by another recession perhaps somewhat steeper than the one in 1957-58, just as that one was steeper than the one in 1953-54. In other words, I make exactly the same appraisal, in intensified form, of the structure and contours of the economy now, that I made before this committee and other committees in 1954-55, when some people were blinded by what they called an excessive rate of economic growth and were applying antistimulatory policies at times when they should have been working on the problem of resource use and unemployment.

Running very quickly over these next charts, I have shown here in a different way how our actual performance as a Nation has run below the projection of an adequate growth rate; how this has led to a rise in the true level of unemployment.

The CHAIRMAN. I want to compliment you for introducing the figure on the full-time equivalent of part-time unemployment. I have always felt that this should be included. We have had a battle with the Council of Economic Advisors on this question. We have an unofficial figure which is produced from month to month which is not permitted to get into the official publications, but I think it is extremely important, and I want to congratulate you on recognizing the legitimacy of it.

Mr. KEYSERLING. I began using this figure a number of years ago, and I would say we still do not have an adequate measure of unemployment, because we have no way of measuring the under-utilization which results from slack operations, and which has had so much to do with the inflation, at least the recent type of inflation up to 12 months ago.

Here I have budgeted for the committee—and I will run over this very quickly—very few of us realize what it means over a period of 6 years to have a 1.3 percent of economic growth, and here I have budgeted what is mean in terms of some basic criteria: the production of the whole economy has been about \$150 billion too low; the man-years of unemployment have been about 10 million too high. We have impoverished many of our most important security and domestic public needs, because we "could not afford" them and balance the budget at a very deficient rate of economic growth.

In other words, this is really a very conservative appraisal, getting back to the true wealth of nations. If you have tremendous slack resources, then every part of the economy will be hurt and the vulnerable parts will be hurt first, and our greatest needs will be hurt first because, under the contour of our institutions, we sacrifice the budget before we sacrifice other things more remote from the ambit of gov-

ernment. We seem to think that government does the least important things, when, in fact, it may be doing some of the most important things.

The most important part of my testimony relates to an analysis of why we have gotten into this difficulty. I find that, while some economists construct economic models so to speak of the whole economy in operation, they have almost never used these effectively. They almost never use them, after a period of years, to test the model against what has happened. They always seem willing to make a model which tells what is going to happen, but the real first purpose of the model is to set up a norm of performance against which to test actual performance to see where the deviations have occurred and where the trouble started. The method I used here—and I would not ordinarily tax the committee with methods, but I think it is important here—I constructed a model in 1953, as I had done before, with goals for production, goals for employment, and the kind of investment spending, taxation, income flows, et cetera, which would give us the use of our resources consistent with the purposes of the Employment Act.

Each year, I retested my model against what was happening. What was happening may have shown the model to be wrong; to that extent, I corrected the model from year to year. What was happening may have been shown in part that we were getting certain deviations from a normative condition of economic health; then I measured the deviations, tried to see whether they were being corrected, and adduced certain conclusions. Having done that over a period of 6 years, I come up with these results, in some respects not surprising:

Basically, the problem we had in 1953-58 had been the same problem which the American economy has generated repeatedly under conditions other than wartime. Namely, we have not yet solved the problem of lifting our distribution standards, our standing of living, to absorb our full productive capability. This seems an obvious explanation of how we came to have idle plants and manpower, that one wonders why it is hard for some people to arrive at that conclusion.

Our economy has been characterized over this period by recurrent spurts where investment in plant and producers' equipment outran the buying power of the people, whether represented by private consumption or whether represented by public consumption.

Of course, after you have these recurrent spurts, and when you get into a recession, the profits which feed this investment and the investment itself drops more rapidly because they are more volatile. Investment in new plant and equipment can stop entirely, but this has nothing to do with the causal distortions or imbalances which start the process.

We now happen to be in a stage where investment is very low, but to revive that investment we would, first of all, have to expand as Professor Slichter so well said, both private and public consumption. Anyway, the merit of these charts is that they have not been constructed now. Any chart which is not up to date was constructed as of the time that I was making my model, and, therefore, is not based upon hindsight. Subsequent events showed this model to be a good way of examining the distortions and deviations.

From 1953-57 or 1955-57, as I show on this chart, investment in the means of production recurrently outran consumption. Here, by consumption, I mean private and public consumption combined.

The consumption resulting from private spending, and the consumption resulting from necessary public services—I have combined the two, which most economists seldom do, but which is very important because the expansion in our producers' facilities, which is a private operation and which we want to have remain a private operation, services both the private take and the public take. It must service the armaments program as well as housing. It must service everything. And we have had this periodic outrunning of private and public demand by the advance in investment in producers' goods.

Then I have gone into what I call the income essence of this problem. I have to run over this very hurriedly. The income essence of this problem has been primarily in the area of farm income, wage income, and public spending. Where else could it be? It could not be dividend income, which is not big enough, and in fact has gone up very well. It could not be in interest income, which has done fine. So, we have had three factors making for the recurrent lag of demand behind our producer facilities—first, the sharp decline in farm income, on which I will not elaborate, which has had a profound effect which I wish I could trace in detail. Second, upon careful analysis, if, instead of debating abstractly about wages and prices and profits, or assuming that they should all increase at the same rate, and never relating them to what I call the three great fundamentals of our economy in operation, we actually plot what was happening, we see that the deficiency in that part of consumption which is represented by the real buying power of wages has accounted for almost three-fourths of the total deficiency in consumer incomes 1953-58. And this, along with the deficiency in farm income, and along with the deficient public spending to meet the priorities of our national needs, resulted in the periodic gluts of the market and the periodic cutbacks to which we give the name recession.

Now, I want to emphasize the public part of this. While I show here that the public part of it was only a smart part represented by the red areas, it is tremendously important because the public spending has what is called a multiplier effect. In other words, if we take account of that multiplier effect, I would say very broadly that maybe a fourth or a fifth of the total deficiency in demand which has contributed to the low rate of economic growth and to the current recessions has been the result of using an insufficient part of our resources to do some of the things that we certainly need most as a nation.

Now, I want to say a word about this. Other economists may use a somewhat different analysis, but that is not the basic thing. They might use different figures, or use different desiderata estimates, but they would not get a sufficiently different result to distort the basic purpose of my analysis. The purpose is this: Unless, in accord with the purposes of the Employment Act, you relate your spending and your wages and your profits and your taxes to a tableau which shows the whole economy in operation, and really test the details against what you are trying to do, you are either flying blind or participating in a merely partisan way with respect to the wage question or the profit or the spending question.

There is nothing about spending or wages or prices or monetary prices or taxation that has any relevance, except as they contribute to or detract from the use of our resources, the things we need to do most as a nation, and economic justice.

Now, I have here a set of charts showing what we can do over the next few years. I am going to skip these. Briefly, depending upon an optimum or a deficient growth rate, we will have a differential of 16.5 million man-years of employment, of \$70 billion in Federal, State, and local revenues, of \$400 billion in total production, during the period 1958-64 as a whole.

As you can see, here we have a very serious problem at a time when we are challenged not only by domestic needs but also by imperative world requirements. While I have great admiration for Professor Slichter and many of the things he said, nevertheless, I was amazed when I read in his testimony that we could not think of competing with the Russian military strength, and that perhaps it would not be too bad to let them gobble off Western Europe gradually, provided they do not do it too fast.

I am not here criticizing his economics as such, but economics must be related to what we need to do as a nation, and an economics posited upon that kind of defeatist international policy, can never satisfy me. For it rests upon an assumption that we should go the way, if not of Carthage, at least the way of some of the nations that have been destroyed merely by falling behind.

I am not arguing for any particular defense policy as such. Maybe it should be an economic contest, but I cannot accept an economic analysis which is founded upon the assumption that we should let go by default the great historic struggle when we have the resources to win that struggle.

I hope the committee will bear with me while I tell you what I have done here.

Everybody is arguing about inflation, and everybody is talking about it, but who has taken the trouble to make a careful correlation over the years of when the inflation happened, how it happened, how it related to production, how it related to employment, how it related to the budget? In other words, in order to see the functioning forces in our economy, which I think have caused the inflation, but, in any event, have correlated with the inflation, I have taken a number of periods.

First of all, on this chart, I have taken the whole period from 1929 to 1958, and I have depicted the average inflation per year in wholesale prices, consumer prices, and industrial prices. Then I have shown what a tremendous part of that inflation was concentrated in the war years and in the reconversion years. Then I have shown that, exclusive of these periods, the American economy has been prone to an extraordinary degree of price stability.

From the viewpoint of a pensioner whose dollar has been cut in half, it does not make a tinker's damn, of difference how it happened. He has been subjected to a social injustice and he has to be taken care of. I believe with Professor Slichter that he should be taken care of by compensatory programs. But in looking at the causes of and the prospects of inflation, my analysis is essential.

Here I have taken the period of World War II, and I will hurry through this and show the causes for inflation during this period. I have factored in industrial production, changes in production, civilian employment, changes in the Federal budget, changes in the monetary supply, and the size of the deficit, the Federal deficit.

During World War II, when we had a large part of the inflation, the Federal deficit was increasing in uniform dollars at the rate of 50 percent a year. The Federal deficit averaged \$60 billion a year. The Federal money supply increased almost 16 percent a year, which is about four times the average rate. Total national production expanded 9 percent a year in real terms, which, even allowing for the economic slack in 1939, was almost twice as high as the 5 percent that I referred to as the optimum.

Industrial production expanded almost 12 percent a year; civilian unemployment averaged a high percent of the labor force, because it took awhile to pick up those who had been caught in the recession, but by the end of World War II civilian unemployment, as you will recall, was down to less than 1 million.

Now, certainly a 50 percent increase in the Federal budget, a \$60 billion annual deficit, a 15 percent annual increase in the money supply, the vast distortions and uncertainties of wartime will produce inflation. But we cannot project from this any kind of conclusion that some small budgetary surplus or deficit, some small aberration in the money supply, some rate of economic growth between 9 percent and 1.3 percent, is inflationary.

Next we come to the reconversion period.

In the reconversion period, we had the far greatest inflation of all. This inflation was not due to budgetary policy, because the budget was being shrunk at the rate of 35 percent a year. It was not due to the nonfederally held money supply. It was not primarily due to the deficit, which was one-ninth the size of what it had been during World War II. Yet we had enormous price inflation. This was a peculiar kind of speculative price inflation, resulting largely at the time of the Chinese intervention. We should have employed direct controls faster; we should have done various other things; but here again, we had a unique experience, showing that if the country suddenly gets into a war, and nobody knows how big the war is going to be, you are going to have a quick speculative price use period.

Coming over to the period of the Korean war, we again ran into difficulty.

To go back for a moment, during the period of reconversion, the inflation was due to the policy of financing the war half through taxation and half through borrowing, which left redundant buying power after the war, and was due also to the premature abolition of controls; but that also was a unique situation which could not possibly be repeated unless we had another war. If anybody can tell me what kind of reconversion period we are going to have if we have another war, I would like the economists to tell me.

Aside from these periods, we have had an overall price stability in the long run, but we have had a very unusual situation in certain years between 1952 and 1958. Now, I will summarize this period.

During this period—and I will not go into the details of the chart because of the shortage of time—we have had generally speaking an



inverse correlation between the rate of economic growth, the trends in employment and unemployment, the trends in the Federal budget, the trends in the money supply, and the trends in all of the customary traditional indicia of the causes of inflation, and the inflation which has occurred. I will not document that with evidence. I can provide the committee with plenty of evidence on that.

Take the year during which the Federal budget has run to a Federal deficit of \$13 billion, which has been a year of price stability. The year during which there was a budget surplus was a year of high price instability. There is an almost absolute inverse correlation. What I draw from this is that the central cause of the new inflation is very simple.

The cause is that just as an economy is inflationary when it expands at a hyperrate of growth, the 9 percent of wartime, so it is inflationary when it expands 1.3 or 2 percent a year. This is exactly the same as if you drive an automobile 90 miles an hour, you burn more gasoline per mile; that is inflationary. If you drive 13 miles an hour, which is comparable to a 1.3 growth rate, it will also burn more gas per mile, and more profoundly, if you are going to a fire or a hospital, you want to get there in time.

This is supported by the detailed analysis of price and income trends, and particularly by the administered price inflation analysis.

It is very fine that some economists have talked about administered price inflation. But what does it mean in the final terms of its impact on the economy? What is the significance? The significance is rather simple. The charts which I have, and I am not going to show them to you in detail, I have taken the situation industry by industry, and period by period, and it shows this: It shows that, while the administered prices went up somewhat in various periods, they went up more when the economy fell far below an optimum rate of economic growth than when it was proceeding at an optimum rate of growth. I say this not in criticism of industry. It was a business effort to meet certain profit and investment goals by compensating for a declining rate of production and sales with a higher rate of administered price inflation. This continued at an accelerated rate even after there was an absolute reduction in production and sales in some industries. When the recession continued long enough, the prices leveled off. So what? They always will. If it gets still deeper, they will drop.

At the same time, the low rate of economic growth was breeding inefficiencies, and breeding high costs per unit of production. You can also study this in terms of relations between wages, consumption, and investment. When you correlate the administered price changes with the rates of profit changes, with the rates of wage changes, with the consumption-investment relationship, you see that, prior to the recurrent recessions, the wage take in terms of its buying power fell behind the profit take, not in terms of some moral criteria—that means nothing; not in terms of the arguments between the labor and the business economists of which went faster—which mean nothing; but in terms of functional analysis of how our economy works and what these things mean in terms of how our economy works.

The point is that the wage-price relationship produced an investment boom far outrunning the buying power of the people, the wage

earner, the farmer, and thus we got where we are, and this is what the distortions are all about. This sheds a great deal of light.

While I like what Professor Slichter said about needing to expand wages, I got confused when he said that wage increases in the past prevented the recession from getting worse, and that wage increases are now needed to expand consumption—and at the same time he seemed to say that wages rise too much and force up prices. Ten years from now, some great economist will arise and write a book about this, and come up with the same conclusion that Professor Douglas came up with about the great depression. First, he will be called an iconoclast, and then he will be accepted.

The CHAIRMAN. I hope he never becomes a U.S. Senator.

Mr. KEYSERLING. I hope he does. This is my basic analysis of the situation.

Now, what I would recommend is that we get back to the basic purposes of the Employment Act of 1946, which for many reasons were not adequately carried out when I was on the Council of Economic Advisers, and which have not been carried out since then. I think the joint committee has done a fine job of trying to perform the functions of the executive branch in making studies because the executive branch has not done it. But I suggest that we cannot meet our domestic responsibilities, we cannot have a realistic economic policy, we cannot meet the world challenge, by assuming that the totalitarian states have all of the capacities for planning and for integration and for long-range vision, while we falsely assume that any democratic society which starts to do that is stopping from being democratic.

We must have, as the Employment Act of 1946 requires, and as a vast majority of the Congress approved, a set of economic targets based not on political crosscurrents but on economic analysis of what our potentials are, and a breakdown of these targets sufficient to provide guides at least to the basic elements of national economic policy. Then, even if we do not get prices and wages and profits adjusted to these targets, at least we will get tax policy and spending policy and monetary policy adjusted to these targets, and then we will have an improvement in a large sector of our economy, and we will also create an environment which in terms of the analysis which I have made of the administered price situation will be more conducive to private economic adjustments more closely adjusted to the needs of the economy.

With respect to price controls, I am against them, under current conditions, because I think the controls of prices and wages and profits do not automatically provide the criteria, as war experience showed, for what the relationships should be. So, you merely substitute public mistakes for private mistakes, and if you have the criteria, and if you have the economic environment which would come from a sound fiscal and monetary and other policies, I think that private enterprise will gradually improve within these areas. If it does not, if we still find we have the problem of administered prices, then let's deal with it by whatever kind of direct controls are needed to meet the needs of the American people and their Government, but let's not start with that.

Let's start with having objectives, relating our public policies to them, educating with respect to wages and prices and profits, and I do not mind hearings and things of that kind, except I think the dividing line between hearings and Government responsibility is very precarious.

I thank you very much for this opportunity to be with you, and I hope that the materials which I have submitted in detail, in great detail, will be further helpful in amplifying the broad phases of the analysis which I have covered rather hurriedly.

Senator DOUGLAS. I want to congratulate you not only on a characteristically lucid but indeed brilliant paper. I have to leave shortly, but I would like to ask one or two simple questions if I may.

First, I have always felt that when there was a considerable volume of unemployment in the country that the creation of additional monetary purchasing power, which put people to work, increased the volume of production as well as the quantity of money, and that, hence, a possible increase in prices would either be neutralized or reduced. Some of the errors, I think, in what I would term the naive quantity theorists come from the fact that they have assumed that an increase in the quantity of money would have no effect upon production but merely upon prices. Therefore, I find myself to a large degree in agreement with your position. You made my mouth water, very frankly, at the thought of all the increase in productivity which would come if we could get a 5-percent increase per year. I would like to ask you what things you believe as legislators or what others should do as executives to get this increase of 5 percent. You have painted us a beautiful picture. Now what is the hard road toward that 5 percent?

Mr. KEYSERLING. With my customary lack of becoming modesty, the statement which I have prepared in detail sets forth a detailed quantitative program of the private adjustments and public adjustments which I believe would be consistent with this objective.

Let me develop that a little more. What I do—and what I do is really what Congress in the Employment Act of 1946, in my profound judgment, required the executive branch of the Government in the formulation of national economic policies to do, is this: First, I have estimated our growth potentials, in terms of labor force, productivity, and technology. Second, I have tried to work out a tableau of what balance between investment and consumption would keep us in reasonable equilibrium, instead of in a series of ups and downs. Third, I have carried that through to the flow of purchasing power, wages, taxes, farm income, business income, and I have tried to develop a consistency between the income-flow pattern and the consumption-investment pattern. Then I have set against that the screen of private and public economic policies, and asked what kind of adjustments in these policies, not in the vague generalities of economic discourse but in quantitative terms, would give us the adjustments. This does not imply that in the American economy the Government should control all these things. All it implies is that economic analysis should look at the whole picture in measuring what it does. In terms of that, take the budget—

The CHAIRMAN. May I interrupt at that point. I notice that you recommend increased expenditures for education, housing, health, and

so forth. These are purposes which are all very dear to my heart. May I ask if what you are saying is that you believe that when the volume of unemployment is appreciable, and we have to get a definition of what appreciable would be, that you believe that a public works program should be carried out to stimulate activity in these fields?

Mr. KEYSERLING. Yes, to a degree, except I also believe that if we stabilize these profoundly important programs at long-range rates consistent with the adequate stable growth of the economy, we would achieve a better stabilization purpose and a more rational purpose instead of trying to swing them back and forth.

The CHAIRMAN. Assuming this increased rate of expenditures for these purposes, how would you have the expenditures met, by taxation or by financing out of a deficit?

Mr. KEYSERLING. Here I would distinguish between short range and long range. In the long range, the tableau of economic growth which I have presented, and the policies which I blend into it, including a detailed Federal budget for the years ahead, point the answer to your question.

I arrived at the expenditure pattern this way: I take into account basic needs, national security, housing, education, but I do not do what those do who measure the pattern only by the need. A housing man would say it would be fine to clear up the housing problems in 1 month, for example.

The CHAIRMAN. If you meet these expenditures by taxation, the question can be raised as to whether you are not merely transferring purchasing power from expenditure by private persons to expenditure by public persons. If you finance these expenditures by deficits and the creation of monetary purchasing power by the banks through borrowing, the complaint will be made that you will get an increase in prices.

Mr. KEYSERLING. My tableau in the long-run finances these programs out of economic growth, and here is where I disagree with those who assume that the cutting of the pie along different lines will give us economic balance or real strength or political accord under our system. I finance it out of economic growth.

The CHAIRMAN. In other words, by utilizing idle labor, you would get increased productivity which you believe will yield increased income to the Government?

Mr. KEYSERLING. It is not simply a belief. The tableau which I present over the last 6 years shows a \$25 to \$30 billion loss of Federal revenues alone, under the existing tax structure, solely from idle resources. Taxes come from production and employment and economic activity. The differential between the high growth rate and the low growth rate, in the amounts that I assume—you can modify them some and get somewhat different results—over the next several years, would be \$70 billion, at no increase in taxes or decreases.

I have a parenthetical remark on that, too. You would get \$70 billion more of revenues, and you would move more rapidly toward a balanced budget, assuming that to be a desirable criteria, than we have moved in an effort to balance the budget by compounding an economic slack. I have covered your question.

Representative CURTIS. I am a little at a loss in 10 minutes to know just how to grapple with a paper that is so full of ideas and new suggestions as this paper is. I would say, though, that the difficulty I see is this:

Your syllogisms are advanced by so many begged questions and based upon the debris of so many strawmen you have created and then demolished that it is hard to separate the ideas out.

Furthermore, it is difficult to separate the attacks that you have made on the existing economic concepts from the constructive suggestions that are contained in here. I will say I always enjoy your statements and I am going to spend a little time to see if I can't separate a few of these.

Let me illustrate what I mean by some of your strawmen. You make the remark, which was rather basic "giving price stability more weight than all other considerations is disastrous." I do not know anyone who is saying that the price stability should have more weight than these others.

That to me is a strawman.

Mr. KEYSERLING. If nobody says that, I agree with you. We are not in disagreement there.

Representative CURTIS. You go on and your thesis builds on the assumption that those who argue against you are saying that. Now, you say, "The current propaganda that Federal spending is per se odious." I know of no one who says that. I know some who possibly because they think there is propaganda that Federal spending is a solution of some of these things might counteract that, but I do not know one who says that. I just happened to pick out a few here.

One of the basic ones that runs throughout, and I happened to pick one spot:

In early 1959 the Federal Reserve Board is at long last talking about the evils of administered price inflation.

That is still a very questionable thing as to whether there is such a thing.

In my own mind, I do not even know for sure that there is such a thing as an administered price. I think it is a subject for very serious discussion and it has been the subject of some hearings, but you build your thesis on the assumption that those things have been proven and that is one of my problems in dealing with your paper.

It is chock-full of these, I would say, questionable points, and you build upon that, so I am going to have to go through the whole paper to see if I can separate these attacks that you make on conventional economic theories from what might be constructive proposals of your own to see just what is there.

Mr. KEYSERLING. On the administered price thing, I, like anybody else, may be faulty and may have drawn a wrong conclusion. But it is not an assumption that we have administered prices in our economy. If I had time to show the very charts which I have here, much less the additional data which I will be glad to furnish the committee, they will leave no doubt in anyone's mind that there are operations in important sectors of our economy which defy all the classical causes of what makes prices rise and fall. There are administered price increases.

Representative CURTIS. You and I can join in disagreement there. You may be able to prove it. I want to sit and listen and learn in these things, but I personally feel that the laws of economics over which no group of men yet have gained control, still enter into those areas which you and others have chosen to call administered prices.

Mr. KEYSERLING. Let me try at this point—I don't want to interrupt you; I merely want to help you—but I agree entirely with the laws of economics, but the problem is that it has not recognized sufficiently that the behavior of men and the behavior of the corporate personality are a part of the laws of economics.

What a vast corporation does with prices, under modern economic conditions, is just as much the law of economics as the old law of supply and demand. So long as economists close their eyes to that, and draw upon the theorems of Adam Smith as to how supply and demand work, they are not looking at the modern economy.

Representative CURTIS. I was trying to portray my difficulty in 10 minutes to try to ask some meaningful questions.

One thing that I have observed, and I think perhaps is a basic difference between the approach that your paper seems to take and at least the approach I have in regard to economics—I regard it as essentially a laboratory to try out new ideas to see what works.

When I talk for the private enterprise system, I am trying to preserve that laboratory as a means of testing economic ideas. Referring to your paper, I don't know where you are going to reach your economic decisions, at the Federal bureaucracy level, or where. It would seem that you are substituting the economic decisions that constantly have to be made in the "laboratory" to some group of wise men, I presume.

You lay out these three basic themes, who, how, would we apportion our total national production wisely.

Mr. KEYSERLING. Let us answer it specifically. I would have Federal tax policies decided by the Federal Government. That is point 1.

Representative CURTIS. Based upon what? Based upon congressional hearings?

Mr. KEYSERLING. You have raised a basic question. If your question is not answered, it is going to subject my whole statement to a great deal of misinterpretation. First, I would have Federal tax policies decided by the Federal Government. I would have monetary policies decided by the Federal Reserve System, although I happen not to believe that that system should be as independent of the Executive and the Congress as it is now.

I would have price-wage-profit policies decided by the industrial process and by collective bargaining, and let me read something on that because you have raised a very important point.

Representative CURTIS. In other words, that would be what I have been referring to the private enterprise system as a laboratory.

Mr. KEYSERLING. Yes, sir, and my analysis is merely directed toward the quantification of our economic observations and objectives, so that both those who make the Federal decisions and those who make the private decisions will have better material guides to go by than they have had.

In other words, the process of analysis of how the economy works, and what its problems are, must include both public and private, and

must give you an integrated picture of the machinery as a whole. If you do not have that, you do not have a good guide to private action or to public action.

Representative CURTIS. In your system, do you recognize that there is bound to be a lot of economic waste if you have the laboratory system?

Mr. KEYSERLING. There certainly is. There is a question of how much waste is too much. I think a 1.3-percent annual growth rate for 6 years, which has caused our States and communities to be in terrible financial distress, which has caused our Federal Government to be unable even with the \$13 billion deficit—

Representative CURTIS. I am talking about one that is run well. If it is laboratory system and you are trying out new ideas, you are bound to make mistakes and where mistakes are made there is going to be waste.

Mr. KEYSERLING. I think so, but if I may use a crude simile, there is still a difference between a laboratory and a pigpen. The disorderly methods may be excessive.

Representative CURTIS. That is a fair point. If you think what we have today is a pigpen, and it might be, I can understand that kind of language, but might it not be a very neatly decorated room which has no relation to outside reality.

The point is this, as I see it: In the laboratory system—in fact, I have always liked the idea. Some very famous drug used to be named 606 because 605 times the discoverer did not find the answer and on the 606th he did.

Now, are we going to concentrate on the 605 times that we made the mistakes or are we going to concentrate on the success and the system that permitted that success to come about.

There is the thing. In other words, are our economic decisions going to be made through a testing by this sort of procedure which is going to recognize that there is going to be a lot of waste and error but only through the trial and error do we go ahead?

Mr. KEYSERLING. I think you are trying to create an ideological or political difference between use. You are talking ideology, and I am talking empirical observation of how our economy works, and what we should do.

Representative CURTIS. You have made a statement which I do not think your paper bears out. You have certain economic things that are to be decided. My time is up but I think you have drawn the issue. The issue is how under your system are economic decisions made, because I question whether you actually are using the laboratory system to determine them.

It seems to me you are using a nebulous group of wise men, to make the decisions, although I may be in error in my interpretation.

Mr. KEYSERLING. Under my system, Federal tax and monetary policy would be decided by Government; our prices would be determined by the free enterprise system.

While I believe in your 606 analogy to a degree, I do not believe that we are now facing a world situation where we can be satisfied to rely on the hope that we have one chance out of 606 to get the right answer. I think we have enough economic knowledge, and enough political sagacity, and enough will as a Nation, to have more chance

of getting the right answer more than one time out of 606. And we must.

I think improved economic analysis, and improved examination of our problems, can lead to better answers than those we are now getting. I think we need much better answers than those we are now getting, and this is not inconsistent with the maintenance of our system of responsible free private enterprise and responsible free Government. If you will look at my discussion of price-wage control at the end of my statement of inflation, and I will give you the page reference, or perhaps since it is so important you will permit me to read it.

(5) I am entirely in disagreement with the plethora of proposals to reinstitute selective price and wage controls, or to set up ad hoc public instrumentalities virtually to supplant or oversee private price-making and the collective bargaining process. These proposals, in my judgment, do not set in balanced perspective the causes of our current economic difficulties, nor evaluate properly the relative priorities of the jobs we need to do.

These proposals seem to me to reflect such preoccupation with an exaggerated inflationary threat as to divert attention from sound treatment of our difficulties as a whole. Overemphasis upon these proposals seems to me to represent a panacea philosophy.

Such proposals are unsuited to the long pulls of a cold war era. They are more sensational than constructive. There is no immediate nor even foreseeable inflationary threat of a magnitude to justify such severe wrenches in our system.

If the approaches I have set forth are given an adequate test for a sufficient period of time, and if we still have a revival of serious administered price inflation, then would be the time to consider the imposition of direct controls and the intrusion of Government agencies into the entire fabric of private economy adjustments. Let us not swing back and forth incontinently between complacency and hysteria.

That is not the statement of someone who does not understand the nature of our economic system.

Representative PATMAN. Mr. Curtis will have another opportunity to ask questions.

Senator SPARKMAN. Let me say that I join with the others who express appreciation for the tremendous job you have done in preparing the material which you have presented to us here.

I would like to refer to your statement in your summary, the very last paragraph:

Above all, if we now become prey to the notion that inflation is a greater danger to us than Khrushchev, we should continue to lose more ground in the current world struggle. For, in its essence, the current obsession about inflation is a campaign against the positive things we need to do. It plays upon illegitimate fears instead of raising legitimate hopes.

I gather from that that you probably think there has been an overemphasis on this matter of inflation and it has built up fears rather than being an appreciation of actually existing conditions.

Mr. KEYSERLING. I certainly do feel that, Senator Sparkman, and I feel that a good analogy is the analogy of a car moving along a road. You have guardrails on either side of the road. You have a guardrail on one side to prevent going over into the precipice of inflation.

You have a guardrail on the other side to prevent going over into the precipice of depression. I agree with both of those guardrails, but if you think only about making those guardrails stronger and stronger,



and let the car stall on the road, you are not going over the precipice, but you are not getting anywhere either.

We have to meet the Russian challenge. We have to improve the living standards of our farm people. We have to take care of the old fairly and justly. We have to evoke our full productive power, and take up the slack in our resources, to meet these needs and have a balanced budget at the same time, which is a good thing.

We have become so obsessed with this inflation problem that we are not getting a good solution to the inflationary problem, and we are not getting any solution to the other problems. This is a little overstatement, but I think I have made clear what I mean.

We are erecting protection against a danger to such a high priority, that we are forgetting about the positive things, the things that the Nation needs.

Senator SPARKMAN. Do we have inflation at the present time?

Mr. KEYSERLING. No, sir, we have not had any price inflation, broadly speaking, for a period of about a year. The reason we have not had it is that we are getting the consequences of a rather serious economic recession. In other words, the only way, empirically, that we found—it was the wrong way—but the only we found to stop the kind of inflation we were having was getting into a serious recession.

Secondly, I say the only inflation we have had since the impact of the Korean war wore off, in fact, the only inflation since 1951, occurred during a period when we didn't have overstrained resources, when we did not have demand pressing on supply, when we did not have any of the classical causes of inflation.

This 1955-58 period was an inflation because we had too much unemployment, too much slack in our plant capacity, and the high cost of operating the economic machine at this excessively low rate of operations caused productivity to fall, caused unit costs to go up, and caused administered prices to rise to try to cover the cost of these higher costs or to make a good profit, not through full sales which is the American way, but to make a profit at a breakeven point of 35 percent, which the steel industry has now achieved.

The steel industry, and I do not say this critically of the industry, it is an American phenomenon we have to do something about, they have gotten the breaking point so low, 35 percent of operations, that at 75 percent of operations they make a whale of a profit.

So now they no longer worry about the men who are employed or unemployed. They have found profits in scarcity rather than in abundance, and this breeds inflation. So we have not had any type of inflation with which the tight money policy was properly intended to deal.

The kind of inflation we have had since the Korean war is through a neglect, rather than an excess of putting pressure on our economy. We have had inflation through too much unemployment rather than too little unemployment, through too much waste of our resources rather than through trying to use them too hard.

This is a little counter to the conventional theory but the conventional theory has never examined the matter. I have waded through the realm of economic theories and writing and research, and they never get down to looking at the facts as to how the economy is actually unravelling and what is happening.

They study more and more the books that somebody else has written, which are mere commentaries upon earlier theories, and they make some slight variation and quibble about it. But the simple, bare idea of looking at this vast laboratory, and here is where I think the laboratory idea is right, looking at it, seeing what is happening in it, and basing a practice of policy upon what is actually happening—they do not get to it until 10 years later, and then it is too late.

We have had an inflation resulting from the inefficiencies of low performance. The unemployment and plant slack has caused the inflation. A good example of this is productivity. Let me give that as an example.

Two or three years ago, everybody was saying that the rate of productivity advance was falling. We heard that all over, "the rate of productivity advance is slowing down." We also heard that wages were rising faster than productivity, that the wage rates kept going up while productivity was falling, and that this explained the inflation.

Let's go back to illustrate what I am driving at. I said that the people who were saying this were not distinguishing between technological productivity and economic productivity. Technological productivity is how fast you can increase productivity with better tools and plant, assuming that you are utilizing them well.

Economic productivity is what you actually get if you have an economic slack, and the plant is operating at 50 percent of operations, and retaining 70 percent of the labor force. You divide the 70 into the 50, and you get a low productivity figure.

I said this 2 or 3 years ago, and some of the economists laughed at it. They were talking about cutting back on wages, because they said productivity was low. I said you merely compound the evil of deficient demand.

Now Professor Slichter comes forward and says, not too clearly, but nonetheless he says, that the wage increases which occurred were one of the main forces we had to prevent the economic decline from being worse, and wage increases are one of the main forces we now have to get the expansion we need. That is what I have been saying, because technological productivity is rising.

In the last year or so, the productivity figures show, I think, the validity of what I said to this committee 2 or 3 years ago. We now see, with the great American ingenuity and great American science, that technological productivity has been growing all along. It has been growing so fast that now when we have a little economic upturn, and I say that advisedly because of the reasons I gave at the beginning, the steel and auto industry produce more and sell more, but they take back no comparative amount of the unemployed workers.

That is why, despite the so-called economic recovery, unemployment is still rising.

I am making exactly the same analysis that I made to many members of this committee in 1955 and 1957. We have a raging productivity now in the factory and on the farm, which challenges us as never before to expand both private and public consumption to catch up with it.

Senator SPARKMAN. My time is up, but let me ask you this question: Dr. Slichter gave 97 percent as the figure of total employment that we ought to count on. Dr. Jacoby gave 96 percent. Do you have a percentage figure?

Mr. KEYSERLING. It is a matter of social values. I more nearly agree with Dr. Slichter's figure. I use a figure of 3 to 2½ percent unemployed. I use the figure of about 2 million unemployed.

Representative WIDNALL. If we have a national goal of 5 percent increase in productivity, would that be addressed to every economic field or to particular segments of the economy?

Mr. KEYSERLING. The 5-percent goal is not a productivity goal. It is a goal for the expansion of the total national product in real terms. Actually, for the whole economy, this would mean an increase in productivity of only 3½ to 4 percent, because you get a 1-percent increase in the labor force every year, so the 1 percent increase in the labor force plus 3½ to 4 percent increase in productivity would give you a 5 percent increase potential in total output.

Now, as to the second part of your question as to whether the 3½ to 4 percent productivity figure is applied to every part of the economy, obviously it is not.

It is a generalized figure of what we can accomplish on the average. We have had and always will have vast variations. The part of our economy where productivity is increasing the fastest is actually strange as it may seem, agriculture. That is creating a tremendous part of the farm adjustment problem.

Other parts of our economy, where productivity is increasing rapidly, are in our key major industries, which have the funds for enormous and continued expansion and modernization.

In the service areas, the productivity increases are less, but the 5-percent figure is the overall figure, decidedly.

Representative WIDNALL. When you speak about the farm people and improving the living standards of the farm people, there seems to have been little recognition of the fact that we have been through an economic revolution on the farms in the last few years and it seems rather a fallacy, I think, to think that you have to freeze some of the small farmers on the farms who have reached the point where they cannot efficiently operate their farms in today's economy. Is that not so?

Mr. KEYSERLING. The farm problem is such a big problem that I have been foolish enough to make a rather comprehensive study of it. If I tried to discuss it here, I would intrude on your time even more than I intruded on the time of some of the others questioners.

When we have an economic revolution which enables us to create abundance, which enables us to overcome what has handicapped mankind since the beginning of history—the problem of unavoidable scarcity because nature is cruel—when we have a revolution which enables us to create an abundance, no large segment of our people should be hurt thereby if we have the right policies.

Ways should be found, if they can't be helped on the farm, they should be helped to get off the farm. We should have a system which translates enormously increasing productivity and abundance into enormously increased living standards. Income deflation, not just for a few inefficient farmers, but for millions of farmers, is a very badly performing system.

The problem is the problem of consumption. My whole thesis is based upon the idea that there is nothing outlandish or unrealistic about this growth figure. If we get our private consumption and our public consumption working well, if we budget these to our productivity potentials, we will more or less automatically achieve the productivity growth.

American industry—and I am not critical of American industry—American industry, American businessmen, American entrepreneurs, have plenty of imagination and drive; they will make the investment; they will sharpen the tools; they will modernize their plants, provided that the markets are there. This is a simple and fundamental fact which has been repeatedly demonstrated throughout our economic history, except in wartime. Yet we all seem to be baffled with a new situation which repeats this phenomenon, and we try to explain it on some other ground, because there are some special interests who want to fight the expansion of consumption, who want to be against increased wages, who are worried about lifting farm incomes, and who are, by definition, as I said, crudely biased against public spending.

This country is going to have a lot of economic trouble, short of a war, if it does not realize that we are at the beginning of a second industrial revolution, a revolution moving fast in the factory and on the farm, and it will soon be in the offices.

I remember a few years ago, when I went around the country, the people said the solution of the farm problem was to have all these displaced farmworkers get jobs in industry. So they went to Detroit, and Detroit sent them back to the farm.

The very thing that happened on the farm is now happening in industry. Now, they say we need more people in the service occupations. They are going to be displaced on the farms and in the factory, let them go into the service trades, so it is said.

Well, we are going to have an expansion of the service trades, but only to a degree. You cannot have more and more people engaged in advertising for the sale of fewer and fewer automobiles.

Also, in many of our so-called service industries, the technology is going to hit harder than it has hit the farm and factory.

Representative WIDNALL. Inevitably, what you are saying is we must indulge in more and more Federal spending. If we do that, it can only come in two ways, through taxes or through borrowing and at the present time through borrowing we are finding more and more resistance of the American people to placing their savings in Government bonds.

Thus it is becoming more and more difficult to finance the deficit. What is your solution to that?

Mr. KEYSERLING. Let's take the last part first. If you want me to tell you my idea of why people are more and more reluctant to put their money to Government bonds, I think I can do that. They are more and more reluctant to put their money into Government bonds, first, because a false and irrational and exaggerated scare campaign about the inflationary danger has preceded so far that fear of inflation is taking the place of any rational appraisal of the inflationary danger. That is reason No. 1.

Reason No. 2, which I cannot go into in detail, is that the tight-money policy in all its ramifications and aberrations has played

havoc with the whole management of the national debt—I am going to say something that is very conservative—has transformed what should be the most stable security, the bonds of the Government, into one of the most speculative securities, which is absolutely upside down.

These are some of the reasons why people do not want to put their money into Government bonds.

A third reason is they want to put their money into stocks. Why? One reason is the fear of inflation, which is irrational. The second reason is that we now have, just as we have had over the last few years, in very serious form, a very bad distortion of the income pattern in the United States from the viewpoint of balancing investment and consumption.

To put it another way, and I am not saying this in criticism of anybody, I am trying to make an analysis, we have relatively too much money in the hands of people where it ought not to be, and relatively too little in the hands of people where it ought to be to advance their living standards and expand their consumption. So, because relatively too much of the money is in the wrong places, what are they going to do with it? They can have yachts and all that, but we all know there is a limit to the expansion of consumption. They do not spend as large a part of their incomes as the middle- and low-income families do. They could put their money in fundamental investments, but the distortion in the economy is such that there is not enough opportunity to do this.

So, they are going into the stock market. When this forces stock prices up, those brilliant people over in the Federal Reserve Board say, "Gee, we are threatened with inflation. Look what is happening to the stock market." So, instead of doing anything about the stock market, they start doing something about repressing economic growth, holding back reemployment, repressing the incomes of the people who need it, so they are magnifying rather than reducing the distortions.

All this has happened before.

Representative WIDNALL. You are claiming that you can accomplish this through economic growth. How do you get the economic growth? That has to be either by way of incentives to people to save and provide employment opportunity through their savings or through Government spending. What other approach do you have?

Mr. KEYSERLING. How I get the economic growth is set forth in great detail in the various charts and tables and in the body of my testimony.

You see, the difficulty is this: The difficulty is that I try to cover a lot of subjects when I testify. Others try to cover only one subject. Now, it is very nice to cover one subject and make it simple. The trouble is that this is the oversimplification trouble with our whole economics.

It does not do any good to analyze the monetary problem or the price problem solely. It does not do any good, for until we can look at our economy functioning as a whole, we are not going to have any guide to the specific policies. When you make a presentation of this kind, it becomes more complicated, but I think it is a job to be done, and I think we have to give more time and effort to it. I mean as a Nation.

How do we get to more spending? We get to more spending primarily through more private spending. Let me make myself unalterably clear on that.

The idea expressed in some quarters is that the way to get more public services is by having more unemployment in Detroit, or by cutting back on auto production, when it is now 4 million when it should be 8 or 9, or by imposing sales taxes.

This is a fallacy under current circumstances. Balanced economic growth means, since we live primarily in a private economy, and since the living standards of poor families and middle-income families depend primarily upon private consumption—sure, they need better schools and better public service—but basically, the way a low-income family becomes middle income, or the way a middle-income family becomes upper income, under our system, is through higher real private incomes so that they can buy more of all the things that make a standard of living.

Therefore, my projections for economic growth are based primarily on an expansion of private spending. But they are based also upon a balanced expansion of public spending, because I yield to no one in the view that we are now doing much too little of what we need to do as a Nation, which is what public spending means. Public spending—and I still say that some people call it odious—public spending, the Federal budget, is really the great single embodiment of what the American people as a whole believe should be done because it is important.

There may be timelags between what the people want and need and get, but nonetheless, the Federal budget is the greatest single instrument through which the American people as a Nation have to do the things they think they need most to do as a Nation. So, why look askance at the budget? This great instrumentality, in recent years, has been doing too little and not too much, too little in national defense, too little in basic domestic improvements. With and for adequate economic growth, the Federal budget should also grow.

And here is another point: While it would grow, it would not grow as much as the overall economy when we put our people back to work and used our technology, so that the Federal budget in ratio to private spending would decline.

Representative BOLLING. I have a very simple and naive question to ask. Without going into any of the detail of your very excellent presentation, I take it that its essence is that you believe this country faces a very serious threat from abroad; that we have the information upon which a free society can base action; and that it is possible for a free society with the present gross economic capacity of something like  $2\frac{1}{2}$  times that of its principal obvious opponent in the world to use its information and its wisdom well enough so that it can compete successfully.

Mr. KEYSERLING. I certainly do believe that most profoundly.

Representative BOLLING. That is what you are saying in essence when you try to take an overall approach to the problem. You are not prepared to accept the idea that we cannot improve in the face of this kind of threat, that we cannot do a good deal better than we have?

Mr. KEYSERLING. This is the very essence of what I am saying.

Representative REUSS. Mr. Keyserling, you spoke of public spending as having a multiplier effect. Does not private spending have a multiplier effect, too?

Mr. KEYSERLING. That is true to a certain extent, yes, but I do believe that broadly speaking, a dollar of public expenditure creates—let's put it this way: A dollar of public expenditure can invoke a certain number of dollars of private expenditure. A dollar of private expenditure can never invoke a dollar of public expenditure, because public expenditure is a categorical result of national policy decision.

Therefore, to that extent, at least, regardless of other complicated aspects of what you have said, if the Federal Government spends a billion dollars, it invokes a certain private outlays and certain consumer expenditures, and certain employment in the private sense.

If industry invests a billion dollars, it does not invoke a single penny of public outlays. These have to be voted.

Representative REUSS. Is the question not how many dollars it evokes and is not this true, if the Federal Government builds a dam of concrete and steel for a million dollars or if a private utility builds a dam of concrete and steel for a million dollars, do they not evoke precisely this same multiplier effect and if the Federal Government pays a teacher of rhythmic dancing \$100 a week, does not that evoke precisely the same effect as a payment by a private employer of a similar teacher of \$100 a week?

In other words, in terms of total multiplier and economic evocation, that is not to say one is the better.

Mr. KEYSERLING. I would certainly agree with you in the case of the dancing teacher. Taking the case of the dam, I am not positive. I am not positive that if the Federal Government—I am not recommending this precise thing; I am merely using your example—I am not sure that if the Federal Government says a certain amount of spending is needed in view of our domestic needs and the world situation and announced a program of that size, I am not sure for a wide variety of reasons that that would have exactly the same impact upon the economy as if a private company did it.

I think the impact would be different. But I think you made a good point, too. We certainly should not underestimate the value of private investment.

The main real point I was making in the chart was this: I meant to say that, if this deficit in Federal spending had been closed, the net gain to the economy, I think, would have been much greater than represented just by that number of dollars, because I think it would have had impacts upon the level of business and business investment and so on.

Representative REUSS. So would an increase in similar dollar amounts in the proper kind of private spending?

Mr. KEYSERLING. If it were equally certain, and if the Nation as a whole understood equally clearly why it was being done and that it was going to be maintained, and if it was in fulfillment of a public responsibility rather than in quest of a private purpose which might be ephemeral and pass away quickly, then I think that might be so.

In other words, if all the industries in the United States got together and said we are going to invest whatever is necessary to maintain full employment, if all the industries in the United States got

together and said, "Here, over the next 10 years we are going to employ whatever the amount of private investment is needed to sustain full employment," I think it would have the same effect as if the Government decided to do that, but you have the additional question, which of the two can decide to do it, which, if it declared the intention to do it, would be able to deliver.

If industry did it, it would be fine, but people would say that this is not a matter of national policy. They might cut back next year or next month. If the Government said, "We are really underwriting the purpose of the Employment Act," I think it would have a different effect, but I think you make a very good point that private investment is very desirable, and any given amount of quantitative dollars spent for a specific purpose has the same impact whether it is public or private.

Representative REUSS. Your main point was, if you have both a deficiency of public spending for needed education, health, and similar activities and if you have a deficiency of private spending, public spending happens to be the kind of spending which the National Government can do something about, whereas it is much more difficult to generate by public action the proper amount of private spending.

Mr. KEYSERLING. I think that is true, and in addition, and this is important, in my projections of the desirable levels of private investment and of public spending as they form part of what I call this growth budget, I do it in a balanced way.

First, as to national security. I am not an expert in that field, but I think I am enough of an economist to know that we should not cut back on national defense because people tell us we cannot afford it. Therefore, my national defense projections are adjusted to the best expert opinions of what our national defense needs are, untempered by the feeling that an economy which has these vast unused resources cannot afford it.

When you get into the area of say, education, my proposals on education are related to our educational needs, but scaled down because if you just talked about educational needs, then everybody should be in a nice school and every teacher should get good pay tomorrow. But that is just a phantasmagoria, because if you did that you would not be able to do the other things you wanted to do.

So, I try to create a contour which balances relative needs, and also maintains a traditional balance between private enterprise and Government, between private spending and public spending. In fact, my full-growth model would increase the ratio of private spending to public spending, but I don't want that concept to become so frozen that we think that any dollar spent to build a luxury hotel at Miami Beach is a great progress and any dollar that is spent for schools or through the Federal budget is a nasty thing that we may have to accept but we really don't like.

I don't want to freeze this concept of the balance between private and public to the point where we neglect the most vital of our national needs. We don't do that in wartime, and I think we are now in a cold war, and I think we have to relax these rigid concepts and get the kinds of public spending that we need to do the job that can't be done in any other way.

Representative REUSS. You can get, at a time of considerable underuse of manpower and resources which you describe, a great deal of



waste, frivolous production, whatever you want to call it, in the private economy, and there still would be ample resources to produce the public things that you talk about; is that not true?

Mr. KEYSERLING. That's right, and that is why I say that our Federal budgetary policy, as I point out in my prepared statement, should be a long-range policy. It should project over a number of years, and, second, it ought to reflect the part of our resources which as a nation we think we want to devote to the purposes that the Federal budget serves, no more or less, but under conditions of full employment.

In other words, if we say under conditions of full employment we think X percent of the national product should be devoted to these purposes, then the Federal budget should be X percent.

Representative REUSS. Applying what you just said to Mr. Curtis' imagery of the laboratory, that is the private enterprise sector of the economy, you do not envisage it as the function of Government to keep the laboratory from producing useless smells and other things that are not really helpful to our way of life.

What you would like to avoid is a laboratory in which the bunsen burners are turned off and the laboratories gather cobwebs, and the technicians are not fully occupied.

Mr. KEYSERLING. Useless smells gives me a chance to make a very important point. If you mean that literally, in other words, if there is too much smell in Pittsburgh, and everybody admits that is an evil to have the public breathing the air contaminated with coal and gas—

Representative REUSS. I did not.

Mr. KEYSERLING. Then, of course, I think it is a public responsibility of the people and city of Pittsburgh to clear that up, but here is the important thing: If you are asking, do I believe it to be the function of Government to tell the people they are immoral or they do not comport to some individual's tastes if they like one gadget against another, I say that that is not the function of Government, except when our resources are strained.

In other words, in wartime it is necessary because you need certain things so much you can't have the gadgets. But in a period like the present, I think it is absolutely economic nonsense and every other kind of nonsense to tell the American people that they should prefer public service to gadgets when we need to produce more of both to get our economic machine fully used.

We need more of both, also, because the public want more of both. We need more of both because our economy can provide more of both, and it is not the function of Government, it not the function of people at a university or in the Government to say, "Look, I think we ought to spend more on improving our streets, but you would rather buy a car to go out in the country."

I think that a lot of these gadgets, which some people sneer down their noses at, have been enormously important in lifting the American standard of living.

If you are in a war period, and all your resources are strained, and you can't have the new fenders and the new television sets and the new radio sets at the same time that you are fighting the war, of course, you cut down on the less vital things, and in that kind of situation the Government must necessarily have the responsibilities to

do this. But in a period like the present, when we have a \$60 or \$70 billion deficit in production, when we have been operating under a 20- to 25-percent industrial slack for 5 or 6 years on the average, when we have unemployment in all of our basic industries, then to talk about getting needed public services only by cutting back further on private production is to my mind absolutely nonsense. And it is the business of the American family to do with their income as they please, to meet their own values and not those of somebody else.

Representative PATMAN. Mr. Keyserling, I appreciate your testimony. You have made a good statement. You have dramatized a very dull subject. You have made it very much alive and understandable.

I have not forgotten your interest in and your contribution to the passage of the 1946 Employment Act. The first person who ever mentioned such a bill was me, and of course, I was the author of the bill in the House.

It was yourself who came to see me about another matter and we talked about this employment act and later a bill was prepared and introduced in both Houses and it became a law. The only substantial change in that bill we had full Employment Act of 1946 and we finally had to agree to this change in language to read "maximum Employment Act of 1946," but you have always regarded the obligation and liability and responsibility of the Federal Government the same under one as it would have been under the other; have you not?

Mr. KEYSERLING. Absolutely. In fact, I even use the words interchangeably.

Representative PATMAN. In other words, you cannot distinguish between full employment and maximum employment?

Mr. KEYSERLING. I can't, but the people who wanted to did distinguish. They were really saying that they were committed to the theory that a higher level of unemployment than I would accept was more compatible with the satisfactory functioning of the economy. A large part of my analysis today has been directed toward the proposition that this is not so.

Representative PATMAN. I believe you opposed the breaking of the low interest rate policy—2½ percent interest rate on long-term Government bonds—in 1953 when they projected the issue of 3¼ percent bonds; did you not?

Mr. KEYSERLING. Yes, and further than that, to illustrate how non-political I have been I was one of the most tenacious vocal opponents, and I appeared before your Monetary Committee of what was then the Committee on the Economic Report, in 1952, when I was Chairman of the Economic Council, and was very much against the changes in monetary policy even then.

I think that the whole sweep of the change toward a different kind of responsibility on the part of the Federal Reserve System, toward failure to maintain Federal obligations at some basic price, the whole general sweep toward higher interest rates, have been profoundly bad for the economy.

They have redistributed income in an improper direction; they have not restrained price inflation. In fact, they have contributed to it at times. And the most serious single aspect is this: I believe in a risk economy, and that reward should be proportionate to risk. On this

basis, a stock should be more risky and yield more than a corporate bond, etc. A U.S. Government bond should be the least risky, and yield the least.

Now, we have created an entirely upsidedown situation. A vast Nation, confronted with the obligation to finance and refinance a national debt running between \$250 billion and \$300 billion, has deliberately made the prime securities of the people more speculative than stocks and bonds, and there has been more dabbling and more speculation in Government bonds than in almost anything else. This is most ridiculous, and most dangerous.

Representative PATMAN. There is no control or supervision over the Government bond market whatsoever, none.

Mr. KEYSERLING. That is right.

Representative PATMAN. We have supervision over commodity trading and over the stock exchanges but we do not have any supervision or control or regulation over the Government bond market. That is causing it to be a disastrous thing as you mentioned?

Mr. KEYSERLING. That is right and, also, Congressman, we have no effective, and I say this in all due regard to the Congress, we have no effective sufficient public control over the Federal Reserve System.

Representative PATMAN. That is correct. Of course, the Federal Reserve has declared its independence from the Government. It seceded in 1951; I still hope they don't get by with it. They are getting by with it so far because Mr. Eisenhower happens to agree with them.

I think that in that respect, Mr. Eisenhower is wrong. I think he has the wrong advice but at the present time they are getting by with their secession and their declared independence.

In regard to administered pricing, Mr. Keyserling, do you not think that "administered" pricing is principally for the purpose of having sufficient profits to enable the concerns that are in a position to administer prices to raise their capital from the consumer? To pick the pocket, so to speak, of the consumer?

I say that in a respectful sense. They legitimately charge what they can get away with, but they take the money away from the consumers to provide their own capital for expansion. In other words, they charge so much more for an automobile because they went to take this additional mount to put in their fund for expansion instead of letting the person keep that money himself and invest it in some concern of his own choice and get a return on the money.

Mr. KEYSERLING. I agree with this analysis completely, because the facts show this: Since World War II, broadly speaking, American industry has engaged in a phenomenal industrial boom, and has financed a larger part of this—in fact, an investment boom which has currently gotten out of line with consumption—nonetheless it has financed it to an unusual degree out of so-called retained earnings.

Representative PATMAN. We are compelled to go soon on account of a quorum call in the House. We appreciate your testimony very much and it will be given consideration by every member of this committee and it was very nice of you to come and make yourself available for questioning.

(The following tables, prepared by Mr. Keyserling, amplify materials presented in his testimony and charts:)

TABLE 1.—Selected economic indicators and their year-to-year change, 1929–58 (prepared Feb. 2, 1959)

Year	Consumer prices (1947-49=100)		Wholesale prices (1947-49=100)		Industrial prices (1947-49=100)		Gross national product		Industrial production (1947-49=100)	
	Index	Percent change over previous year	Index	Percent change over previous year	Index	Percent change over previous year	Billions of 1957 dollars	Percent change over previous year	Index	Percent change over previous year
1929	73.3		61.9		65.5		196.5		59	
1930	71.4	-2.6	56.1	-9.4	60.9	-7.0	177.9	-9.5	49	-16.6
1931	65.0	-9.0	47.4	-15.5	53.6	-12.0	164.5	-7.5	40	-18.4
1932	58.4	-10.2	42.1	-11.2	50.2	-6.3	140.0	-14.9	31	-22.5
1933	55.3	-5.3	42.8	+1.7	50.9	+1.4	136.0	-2.9	37	+19.4
1934	57.2	+3.4	48.7	+13.8	56.0	+10.0	149.4	+9.9	40	+8.1
1935	58.7	+2.6	52.0	+6.8	55.7	-5	164.7	+10.2	47	+17.5
1936	59.3	+1.0	52.5	+1.0	56.9	+2.2	187.5	+13.8	56	+19.1
1937	61.4	+3.5	56.1	+6.9	61.0	+7.2	198.5	+5.9	61	+8.9
1938	60.3	-1.8	51.1	-8.9	58.4	-4.3	189.0	-4.8	48	-21.3
1939	59.4	-1.5	50.1	-2.0	58.1	-5	204.7	+8.3	58	+20.8
1940	59.9	+8	51.1	+2.0	59.4	+2.2	221.5	+8.2	67	+15.5
1941	62.9	+5.0	56.8	+11.2	63.7	+7.2	257.6	+16.3	87	+29.9
1942	69.7	+10.8	64.2	+13.0	68.3	+7.2	292.0	+13.4	106	+21.8
1943	74.0	+6.2	67.0	+4.4	69.3	+1.5	325.0	+11.3	127	+19.8
1944	75.2	+1.6	67.6	+9	70.4	+1.6	349.0	+7.4	125	-1.6
1945	76.9	+2.3	68.8	+1.8	71.3	+1.3	343.0	-1.7	107	-14.4
1946	83.4	+8.5	78.7	+14.4	78.3	+9.8	305.2	-11.0	90	-15.9
1947	95.5	+14.5	96.4	+22.5	95.3	+21.7	305.0	-1	100	+11.1
1948	102.8	+7.6	104.4	+8.3	103.4	+8.5	316.7	+3.8	104	+4.0
1949	101.8	-1.0	99.2	-5.0	101.3	-2.0	316.4	-1	97	-6.7
1950	102.8	+1.0	103.1	+3.9	105.0	+3.7	343.4	+8.5	112	+15.5
1951	111.0	+8.0	114.8	+11.3	115.9	+10.4	370.7	+7.9	120	+8.1
1952	113.5	+2.3	111.6	-2.8	113.2	-2.3	384.1	+3.6	124	+3.3
1953	114.4	+8	114.0	-1.3	114.0	+7	401.5	+4.5	134	+8.1
1954	114.8	+3	110.3	+2	114.5	+4	393.9	-1.9	125	-6.7
1955	114.5	-3	110.7	+4	117.0	+2.2	425.5	+8.0	139	+11.2
1956	116.2	+1.5	114.3	+3.3	122.2	+4.4	426.0	+2.5	143	+2.9
1957	120.2	+3.4	117.6	+2.9	125.6	+2.8	440.3	+1.0	143	0
1958	123.5	+2.7	119.2	+1.4	126.0	+3	426.6	-3.1	134	-6.3

TABLE 1.—Selected economic indicators indicators and their year-to-year change, 1929-58 (prepared Feb. 2, 1959)—Continued

Year	Total civilian employment <sup>1</sup>		Nonfederally held money supply (billions of dollars)		Federal expenditures fiscal years		Yearly absolutes only, Federal surplus or deficit (billions of 1957 dollars) fiscal years	Unemployment as percent of civilian labor force <sup>1</sup>
	Millions	Percent change over previous year	Supply (at end of year)	Percent change over previous year	Billions of 1957 dollars	Percent change over previous year		
1929	47,630		54.6		8.0		+1.9	3.2
1930	45,480	-4.5	53.2	-2.6	8.9	+11.2	+2.0	8.7
1931	42,400	-6.8	47.9	-10.0	9.9	+11.2	-1.3	15.9
1932	38,940	-8.2	44.9	-6.3	13.5	+36.4	-7.9	23.6
1933	38,760	-.5	41.5	-7.6	14.0	+3.7	-7.9	24.9
1934	40,890	+5.5	46.3	+11.6	19.0	+35.7	-10.3	21.7
1935	42,260	+3.4	51.3	+10.8	17.3	-8.9	-7.4	20.1
1936	44,410	+5.1	56.4	+9.9	21.7	+25.4	-11.3	16.9
1937	46,300	+4.3	55.8	-1.1	19.1	-12.0	-6.8	14.3
1938	44,220	-4.5	58.1	+4.1	16.8	-12.0	-2.9	19.0
1939	45,750	+3.5	63.3	+9.0	22.1	+31.5	-9.6	17.2
1940	47,520	+3.9	70.0	+10.6	22.4	+1.4	-9.7	14.6
1941	50,350	+6.0	76.3	+9.0	30.1	+34.4	-14.0	9.9
1942	53,750	+6.8	91.3	+19.7	67.7	+124.9	-42.7	4.7
1943	54,470	+1.3	112.4	+23.1	144.6	+113.6	-104.6	1.9
1944	53,960	-.9	130.2	+15.8	169.4	+17.2	-91.7	1.2
1945	52,820	-2.1	150.8	+15.8	177.6	+4.8	-97.4	1.9
1946	55,250	+4.6	164.0	+8.8	102.1	-42.5	-34.9	3.9
1947	58,027	+5.0	170.0	+3.7	58.7	-42.5	+1.1	3.6
1948	59,378	+2.3	169.1	-.5	46.1	-21.5	+11.7	3.4
1949	58,710	-1.1	169.8	+.4	52.6	+14.1	-2.4	5.5
1950	59,957	+2.1	176.9	+4.2	51.7	-1.7	-4.1	5.0
1951	61,005	+1.7	186.0	+5.1	53.9	+4.3	+4.3	3.0
1952	61,293	+.5	194.8	+4.7	76.4	+41.7	-4.7	2.7
1953	62,213	+1.5	200.9	+3.1	86.3	+13.0	-11.0	2.5
1954	61,238	-1.6	209.7	+4.4	79.4	-8.0	-3.6	5.0
1955	63,193	+3.2	216.6	+3.3	73.8	-7.1	-4.8	4.0
1956	64,979	+2.8	222.0	+2.5	73.9	+.1	+1.8	3.8
1957	65,272	+.5	227.7	+2.6	71.7	-3.0	+1.6	4.0
1958	64,252	-1.6	241.0	+5.8	70.8	-1.3	-2.8	6.4
1959					78.7	+11.2	-12.5	
1960					74.2	-5.7	+.1	

<sup>1</sup> Using old (prior to 1957) concept of employment and unemployment, under which those waiting for new jobs or businesses to begin were included as employed. Under the new concept these groups, amounting to about 250,000-300,000 in recent years, are considered unemployed.

Sources: Price data from Department of Labor; gross national product data from Commerce Department and President's Economic Report, 1959; industrial production and money supply data from Federal Reserve Board; employment and unemployment data from the Bureau of the Census; Federal expenditure data from Bureau of the Budget.

TABLE 2.—Averages and average changes for selected economic indicators, various periods (prepared Feb. 2, 1959)

	Arithmetic average of annual percentage changes, selected periods <sup>1</sup>								Annual average <sup>2</sup>	
	Consumer prices	Wholesale prices	Industrial prices	Gross national product (billions of 1957 dollars)	Industrial production	Total civilian employment	Non-Federal money supply	Federal budget expenditures (fiscal year 1957 dollars)	Unemployment as percent of civilian labor force	Federal surplus or deficit (fiscal year 1957 dollars)
1932-58.....	3.0	4.3	3.7	4.6	6.6	2.0	6.9	11.7	8.5	-17.9
1932-58 excluding 1939-45.....	2.6	3.9	3.8	3.2	5.0	1.8	4.2	.5	9.3	-5.2
1932-58 excluding 1939-48.....	1.2	2.0	2.1	4.2	5.9	1.5	4.3	6.8	10.4	-4.8
1932-58 excluding 1939-48 and 1950-51.....	.8	1.4	1.6	4.0	5.9	1.4	4.2	7.0	10.8	-5.4
1932-52.....	3.5	5.3	4.3	5.4	8.1	2.3	7.9	15.6	9.8	-22.3
1932-52 excluding 1939-45.....	3.1	5.1	4.7	3.8	6.5	2.3	4.5	1.1	11.5	-6.1
1932-52 excluding 1939-48.....	1.1	2.4	2.3	5.5	8.3	1.8	4.6	11.1	13.7	-5.7
1932-52 excluding 1939-48 and 1950-51.....	.4	1.5	1.5	5.2	8.5	1.8	4.6	11.8	14.7	-6.7
1939-45.....	4.5	5.6	3.5	9.1	11.8	2.5	15.7	49.4	5.7	-60.0
1939-48.....	6.4	8.7	6.8	5.3	7.8	3.0	11.8	21.1	5.0	-42.5
1945-48.....	10.2	15.1	13.3	-2.4	-.3	4.0	4.0	-35.5	3.6	-7.4
1948-58.....	1.9	1.4	2.1	3.1	2.8	.8	3.6	5.2	4.2	-2.6
1948-53.....	2.2	1.2	2.1	4.9	5.5	.9	3.5	14.3	3.9	-3.6
1948-53 excluding 1950-51.....	.8	-1.3	0	4.1	5.1	.8	3.1	16.8	3.9	-5.5
1952-58.....	1.4	1.1	1.8	1.8	1.5	.8	3.6	-1.1	4.3	-3.1
1952-55.....	.3	-.2	1.1	3.5	4.2	1.0	3.6	-.7	3.8	-6.5
1955-58.....	2.5	2.5	2.5	.1	-1.1	.6	3.6	-1.4	4.7	-2.2
1953-58.....	1.5	1.6	2.0	1.3	.2	.7	3.7	-3.9	4.6	-1.6
1956-58.....	3.1	2.1	1.5	-1.0	-3.1	-.6	4.2	-.2	5.2	-1.6
1953-59.....								-1.4		-3.4
1953-60.....								-2.0		-2.9
1929-32.....	-7.3	-12.0	-8.4							
1929-58.....	1.9	2.6	2.5							
1929-58 excluding 1939-45.....	1.3	1.9	2.2							
1929-58 excluding 1939-48.....	-.1	-.1	.5							
1929-58 excluding 1939-48 and 1950-51.....	-.5	-.7	0							
1949-51.....	4.5	7.6	7.0	8.2	11.3	1.9	4.7	1.3	4.0	+1

<sup>1</sup> These averages of annual percentage changes are the arithmetic averages of the year-to-year changes from beginning year to 2d year, from 2d year to 3d year, etc. Thus, the period 1929-58 covers 29 annual changes and the listed average is merely the arithmetic average of the 29 changes.

<sup>2</sup> The annual averages of these absolute data (i.e., unemployment as percent of civilian labor force and budget surplus or deficit) refer to the period 1 year after the beginning year listed in the stub, with the same ending year. Thus, the average for the period listed as 1929-58 refers specifically to the 29 years from 1930 through 1958, inclusive, but excluding 1929.

TABLE 3.—"True" unemployment, 1953-58 (prepared Jan. 25, 1959)

[In thousands of persons]

Period	Unemployment reported by Census		Full-time equivalent of part-time unemployment <sup>1</sup>		"True" unemployment			
	Actual	Seasonally adjusted	Un-adjusted	Adjusted	Total		Percent of civilian labor force	
					Un-adjusted	Adjusted	Un-adjusted	Adjusted
1953 norm <sup>2</sup> .....	1,835		800		635		4.1	
1953 actual.....	1,870		900		2,770		4.3	
1954.....	3,578		1,400		4,978		7.7	
1955.....	2,904		1,050		3,954		6.0	
1956.....	2,822		1,074		3,896		5.8	
1957.....	2,936		1,149		4,085		6.0	
1958.....	4,681		1,359		6,040		8.8	
1957-January.....	3,244	2,838	1,082	947	4,326	3,785	6.6	5.6
February.....	3,121	2,757	1,126	995	4,247	3,752	6.4	5.5
March.....	2,882	2,661	1,084	1,001	3,966	3,662	5.9	5.4
April.....	2,690	2,717	1,021	1,031	3,711	3,748	5.5	5.5
May.....	2,715	2,756	1,020	1,036	3,735	3,792	5.5	5.6
June.....	3,337	2,877	1,387	1,195	4,724	4,072	6.8	6.0
July.....	3,007	2,850	1,382	1,310	4,389	4,160	6.2	6.0
August.....	2,609	2,912	1,338	1,498	3,947	4,405	5.7	6.5
September.....	2,552	3,071	1,008	1,213	3,560	4,284	5.2	6.3
October.....	2,508	3,195	1,043	1,329	3,551	4,524	5.2	6.7
November.....	3,188	3,338	1,103	1,155	4,291	4,493	6.3	6.6
December.....	3,374	3,422	1,196	1,213	4,570	4,635	6.7	6.8
1958-January.....	4,494	3,932	1,400	1,225	5,894	5,157	8.8	7.5
February.....	5,173	4,570	1,450	1,281	6,623	5,851	9.9	8.6
March.....	5,198	4,800	1,600	1,477	6,798	6,277	10.1	9.2
April.....	5,120	5,172	1,560	1,575	6,680	6,747	9.8	9.8
May.....	4,904	4,979	1,500	1,523	6,404	6,502	9.3	9.4
June.....	5,437	4,687	1,560	1,345	6,997	6,032	9.9	8.7
July.....	5,294	5,018	1,355	1,284	6,649	6,302	9.4	9.2
August.....	4,699	5,244	1,400	1,563	6,099	6,807	8.7	9.9
September.....	4,111	4,947	1,190	1,432	5,301	6,379	7.7	9.3
October.....	3,805	4,847	1,115	1,420	4,920	6,267	7.1	9.1
November.....	3,833	4,014	1,070	1,120	4,903	5,134	7.2	7.5
December.....	4,108	4,166	1,100	1,115	5,208	5,281	7.6	7.8
1958:								
1st quarter.....	4,955	4,435	1,483	1,325	6,438	5,760	9.6	8.4
2d quarter.....	5,154	4,945	1,540	1,480	6,694	6,425	9.7	9.3
1st half.....	5,054	4,690	1,512	1,400	6,566	6,090	9.6	8.9
3d quarter.....	4,701	5,070	1,315	1,425	6,016	6,496	8.6	9.5
4th quarter.....	3,915	4,340	1,095	1,215	5,010	5,560	7.2	8.1
2d half.....	4,308	4,705	1,205	1,320	5,513	6,025	7.9	8.8

<sup>1</sup> Based on data for persons working part time for economic reasons; each figure is a Conference on Economic Progress estimate. The seasonal adjustment factors are those used for reported unemployment.

<sup>2</sup> Full employment level of unemployment for 1953.

<sup>3</sup> Based on data for 1952. Deduction from actual for excessive temporary layoffs in late 1953.

<sup>4</sup> Based on data for 4th quarter of 1952 and 1st 3 quarters of 1953.

Source: Bureau of the Census, "Monthly Report on the Labor Force."

TABLE 4.—*Deficits in gross national product and components, 1947-53 and 1953-58 (prepared Dec. 22, 1958)*

[In billions of 1957 dollars]

Period	Full employment needs				Actual levels				Deficits			
	Gross national product	Personal consumption expenditures	Private investment <sup>1</sup>	Government expenditures	Gross national product	Personal consumption expenditures	Investment <sup>1</sup>	Government	Gross national product	Personal consumption expenditures	Investment <sup>1</sup>	Government
1947	309.6	208.2	57.8	43.6	305.4	205.7	57.1	42.6	4.2	2.5	0.7	1.0
1948	324.7	215.4	58.2	51.1	317.1	209.6	57.4	50.1	7.6	5.8	.8	1.0
1949	339.5	223.9	57.8	57.8	316.6	214.9	43.9	57.8	22.9	9.0	13.9	.....
1950	354.9	234.8	61.1	59.0	344.2	228.1	61.0	55.0	10.7	6.7	.....	4.0
1951	368.8	228.6	65.2	75.0	370.1	229.9	65.2	75.0	-1.3	-1.3	.....	.....
1952	385.3	237.7	56.8	90.8	383.5	235.9	56.8	90.8	1.8	1.8	.....	.....
1953	402.3	249.1	58.3	94.9	401.0	247.3	55.3	98.4	1.3	1.8	3.0	-3.5
1954	417.7	262.5	62.5	92.7	393.3	250.4	55.2	87.7	24.4	12.1	7.3	6.0
1955	436.5	276.4	70.1	90.0	425.1	269.4	70.1	85.6	11.4	7.0	.....	4.4
1956	453.8	291.5	73.0	89.3	435.3	277.5	73.0	84.8	18.5	14.0	.....	4.5
1957	472.0	306.5	74.5	91.0	440.3	284.4	68.8	87.1	31.7	22.1	5.7	3.9
1958 (estimate)	491.7	322.6	75.8	93.3	427.0	283.8	53.0	90.1	64.7	38.8	22.8	3.1
1956: 4th quarter	461.0	297.6	73.6	89.8	439.9	280.2	73.6	86.1	21.1	17.4	.....	3.7
1957:												
1st quarter	465.3	301.1	74.0	90.2	441.5	283.6	70.8	87.1	23.8	17.5	3.2	3.1
2d quarter	469.7	304.7	74.3	90.7	442.6	283.4	71.5	87.7	27.1	21.3	2.8	3.0
3d quarter	474.2	308.3	74.6	91.3	442.7	286.3	70.0	86.5	31.5	22.0	4.6	4.6
4th quarter	478.9	312.0	75.0	91.9	434.5	284.2	62.9	87.4	44.4	27.8	12.1	4.5
1958:												
1st quarter	483.9	315.9	75.4	92.6	418.5	280.5	49.7	88.3	65.4	35.4	25.7	4.3
2d quarter	489.0	319.9	75.8	93.3	419.5	280.5	49.4	89.6	69.5	39.4	26.4	3.7
3d quarter	494.2	324.2	76.1	93.9	430.0	284.0	54.5	91.5	64.2	40.2	21.6	2.4
1947-53:												
Total	2,485.1	1,597.7	415.2	472.2	2,437.9	1,571.4	396.8	469.7	47.2	26.3	18.4	2.5
Average	355.0	228.2	59.3	67.5	348.3	224.4	56.7	67.2	6.7	3.8	2.6	.3
1953-57:												
Total	2,182.3	1,386.0	338.4	457.9	2,095.0	1,329.0	322.4	443.6	87.3	57.0	16.0	14.3
Average	436.5	277.2	67.7	91.6	419.0	265.8	64.5	88.7	17.5	11.4	3.2	2.9
1953-58:												
Total	2,674.0	1,708.6	414.2	551.2	2,522.0	1,612.8	375.4	533.8	152.0	95.8	38.8	17.4
Average	445.7	284.8	69.0	91.9	420.3	268.8	62.5	89.0	25.4	16.0	6.5	2.9

<sup>1</sup> Sum of gross private domestic investment and net foreign investment.

Source: Estimates by Conference on Economic Progress. Note that this table was prepared in late 1958 and hence provides preliminary estimates for 1958.



TABLE 5.—*Deficits in personal income, 1947-58 (prepared Dec. 22, 1958)*

[In billions of 1957 dollars]

Period	Total personal income	Labor income <sup>1</sup>			Farm proprietors' income	Business and professional income	Rental income of persons	Dividends	Personal interest income	Transfer payments	Less personal contribution for social insurance
		Total	Wages and salaries	Supplements							
1947.....	3.7	3.8	3.7	0.1		0.2		-0.2	-0.1		
1948.....	5.3	6.2	6.0	1.3		-5		-0.1	-1	0.2	
1949.....	15.6	16.6	16.2	1.1	0.8		-0.6	-0.3	-4	.5	
1950.....	9.6	11.4	11.3	.4	.4	.3	-5	-1.4	-6		
1951.....	-1.0	-7	-6	-1				-3			
1952.....	.8	.3	.5			.2	-2	.3	.2		
1953.....	2.7	-4			2.5	.5		.6	-1	.4	
1954.....	17.8	13.5	13.7	.4	3.8	1.1	.2	.5	-4	.1	
1955.....	14.6	10.6	11.0		5.2	-4	1.1	-4	-6	.1	
1956.....	17.6	10.6	10.7	.1	6.0	.9	1.6	-1	-6	.3	
1957.....	29.9	20.8	20.9		6.9	2.6	1.7	.4	-1.0	.2	
1958 (estimated).....	51.2	41.9	41.3	1.0	6.2	4.7	2.0	1.2	-5	.6	
1957:											
1st quarter.....	24.2	15.2	15.2		6.7	2.2	1.7		-9	-1	
2d quarter.....	26.0	17.9	18.0	-1	6.8	2.4	1.6	.1	-1.0	.1	
3d quarter.....	30.6	21.8	21.9	-1	6.8	2.6	1.7	.3	-1.0	.3	
4th quarter.....	38.7	28.4	28.3	.2	7.3	3.2	1.7	1.2	-8	.5	
1958:											
1st quarter.....	48.8	38.8	37.6	.7	6.4	4.6	1.9	.9	-7	.6	
2d quarter.....	53.4	44.4	43.0	1.1	5.8	4.9	2.1	1.1	-5	.6	
3d quarter.....	51.2	42.0	42.8	.9	6.1	4.7	2.1	1.2	-5	.5	
1947-53:											
Total.....	36.7	37.2	37.1	2.8	3.7	.7	-1.3	-9	-1.1	1.1	
Average.....	5.2	5.3	5.3	.4	.5	.1	-2	-1	-2	.2	
1953-57:											
Total.....	82.6	55.1	56.3	.5	24.4	4.7	4.6	1.0	-2.7	1.1	
Average.....	16.5	11.0	11.3	.1	4.9	.9	.9	.2	-4	.2	
1953-58:											
Total.....	133.8	97.0	97.6	1.5	30.6	9.4	6.6	2.2	-3.2	1.7	
Average.....	22.3	16.2	16.3	.2	5.1	1.6	1.1	.3	-5	.3	

<sup>1</sup> Not shown are deficits in employers' contributions for social insurance nor deficits in excess of wage accruals over disbursements.

Source: Estimates by Conference on Economic Progress. Note that this table was prepared in late 1958 and hence provides preliminary estimates for 1958.

TABLE 6.—Gross national product: Actual 1953-57, established 1958, and goals for 1960 and 1964 (prepared Dec. 22, 1958)

I. 1953-58 IN BILLIONS OF CURRENT DOLLARS: GOALS IN BILLIONS OF 1957 DOLLARS

	Actual					Estimated, 1958	Goals	
	1953	1954	1955	1956	1957		1960	1964
Gross national product.....	365.4	363.1	397.5	410.2	440.3	437.0	510.0	621.0
Personal consumption expenditure..	232.6	238.0	258.9	269.4	284.4	291.0	330.0	404.5
Durable goods.....	32.9	32.4	39.6	38.4	39.9	37.0	45.0	54.5
Nondurable goods.....	118.0	119.3	124.8	131.4	138.0	142.0	161.5	200.0
Services.....	81.8	86.3	92.5	99.6	106.5	112.0	123.5	150.0
Gross private domestic investment..	50.3	48.9	63.8	68.2	65.3	53.5	78.0	94.0
New construction.....	27.6	29.7	34.9	35.7	36.5	36.3	48.0	55.0
Residential nonfarm.....	13.8	15.4	18.7	17.7	17.0	17.6	25.0	29.0
All other.....	13.8	14.3	16.2	18.1	19.5	18.7	21.0	28.0
Producers' durable equipment.....	22.3	20.8	23.1	27.0	27.8	22.4	28.5	37.0
Change in business inventories.....	4	-1.6	5.8	5.4	1.0	-5.2	1.5	2.0
Net foreign investment.....	-2.0	-4	-4	1.4	3.5	.5	1.0	2.0
Government purchase of goods and services.....	84.4	76.6	77.1	80.3	87.1	92.0	103.0	120.5
Federal <sup>1</sup> .....	59.5	48.9	46.8	47.1	50.8	52.5	59.5	68.0
National security.....	51.5	43.0	41.3	42.5	46.5	46.3	51.5	58.0
Other.....	8.4	6.2	5.9	5.0	4.8	6.6	8.4	10.4
State and local.....	24.9	27.7	30.3	33.1	36.3	39.5	43.5	52.5

2. ALL YEARS IN BILLIONS OF 1957 DOLLARS

Gross national product.....	401.0	393.3	425.1	435.3	440.3	427.0	510.0	621.0
Personal consumption expenditure..	247.3	250.4	269.4	277.5	284.4	283.8	330.0	404.5
Durable goods.....	34.0	34.0	41.6	39.6	39.9	36.3	45.0	54.5
Nondurable goods.....	123.5	123.9	130.3	135.3	138.0	139.0	161.5	200.0
Services.....	89.8	92.5	97.5	102.6	106.5	108.5	123.5	150.0
Gross private domestic investment..	57.8	55.6	70.7	71.4	65.3	52.5	78.0	94.0
New construction.....	31.2	33.5	38.2	37.0	36.5	35.6	46.0	55.0
Residential nonfarm.....	15.0	17.0	20.0	18.1	17.0	17.3	25.0	29.0
All other.....	16.2	16.5	18.2	18.9	19.5	18.3	21.0	26.0
Producers' durable equipment.....	26.1	24.1	26.1	28.7	27.9	22.1	28.5	37.0
Change in business inventories.....	5	-2.0	6.4	5.7	1.0	-5.2	1.5	2.0
Net foreign investment.....	-2.5	-4	-6	1.6	3.5	.5	1.0	2.0
Government purchase of goods and services.....	98.4	87.7	85.6	84.8	87.1	90.2	103.0	120.5
Federal <sup>1</sup> .....	69.7	56.6	52.2	50.1	50.8	51.5	59.5	68.0
National security.....	60.3	49.8	46.1	45.2	46.5	45.4	51.5	58.0
Other.....	9.9	7.2	6.6	5.3	4.8	6.5	8.4	10.4
State and local.....	28.7	31.1	33.4	34.7	36.3	38.7	43.5	52.5

3. CURRENT DOLLAR COMPONENTS AS PERCENT OF TOTAL GNP

Personal consumption expenditure, as percent of GNP.....	63.7	65.5	64.6	64.3	64.6	66.7	64.7	65.1
Gross private domestic investment, as percent of GNP.....	13.8	13.5	16.1	16.3	14.8	12.3	14.9	15.1
Total, private investment as percent of GNP.....	13.2	13.4	16.0	16.6	15.6	12.4	15.1	15.5
Government as percent of GNP.....	23.1	21.1	19.4	19.1	19.8	20.9	20.2	19.4
Federal.....	16.3	13.5	11.8	11.2	11.5	11.9	11.7	10.9
State and local.....	6.8	7.6	7.6	7.9	8.3	9.0	8.5	8.5

<sup>1</sup> Sum of Federal expenditures for national security and other, less Federal sales.

Source: Commerce Department for actual 1953-57 and first 3 quarters of 1958; estimates and goals by Conference on Economic Progress. (Note that this table was prepared in late 1958.)

TABLE 7.—Supply of gross national product—Actual 1956-57, estimated 1958, and goals for 1960 and 1964 (prepared Dec. 22, 1958)

[Values in constant 1957 dollars]

	Actual		Esti- mated 1958	Goals	
	1956	1957		1960	1964
1. Total population of the United States (millions).....	168.2	171.2	174.1	179.7	191.0
2. Noninstitutional, aged 14 and over.....	118.7	120.4	122.0	125.2	133.8
3. Total labor force (millions).....	70.4	70.7	71.3	73.6	78.4
4. Armed forces.....	2.9	2.8	2.6	2.6	2.6
5. Civilian labor force.....	67.5	67.9	68.6	71.0	75.8
6. Total employment.....	64.7	65.0	64.0	68.9	73.0
7. Agricultural.....	6.6	6.2	5.8	5.8	5.5
8. Nonagricultural.....	58.1	58.8	58.1	63.1	68.1
9. Private.....	51.5	52.0	51.1	55.6	59.7
10. General government.....	6.6	6.8	7.0	7.5	8.4
11. Unemployment.....	2.8	2.9	4.7	2.1	2.2
12. Unemployment as percent of civilian labor force.....	4.2	4.3	6.8	2.9	2.9
13. Total labor force as percent of noninstitutional population aged 14 years and over.....	59.3	58.7	58.5	58.8	58.6
14. Private man-hours (billions).....	124.72	123.95	119.00	128.60	133.90
15. Agricultural.....	14.18	13.55	13.00	12.60	11.85
16. Nonagricultural.....	110.55	110.40	106.00	116.00	122.05
17. Private output per man-hour (1957 dollars).....	3.184	3.241	3.261	3.614	4.228
18. Agricultural.....	1.410	1.424	1.577	1.709	2.077
19. Nonagricultural.....	3.411	3.464	3.467	3.822	4.436
20. Gross national product (billions of 1957 dollars).....	435.3	440.3	427.0	510.0	621.0
21. Gross private product.....	387.1	401.7	388.0	464.8	566.0
22. Agricultural.....	20.0	19.3	20.5	21.5	24.6
23. Nonagricultural.....	377.1	382.4	367.5	443.3	541.4
24. Gross government product.....	38.2	38.6	39.0	45.2	55.0

Source: Earlier tables of Conference on Economic Progress for 1956-57. 1958 is estimated. (Note that this table was prepared in late 1958.) Goal for 1960 is a full employment goal with private output per man-hour projected at a growth rate of 3.7 percent per year, average man-hours per worker assumed to decline about 0.6 percent per year, both from 1957 levels, and labor force assumed to grow at census "high" rates. Goal for 1964 is a full employment goal with private output per man-hour projected at a growth rate of 4 percent per year, average man-hours per worker declining at 0.5 percent per year, both from 1960 goal levels and labor force assumed to grow at census "high" rates. Unemployment goals projected at 2.9 percent of the civilian labor force, the 1953 rate. If the productivity rate is slightly high in terms of attainability, the decline in average hours per worker could be reduced accordingly to achieve the output goal.

TABLE 8.—Differences between low and high growth rates—Employment, unemployment, gross national product (prepared Apr. 21, 1958)

[Labor force in millions of persons, GNP in billions of 1957 dollars]

	1958	1959	1960	1961	1962	1963	1964	1958-64
(1) Low growth rate assumption:								
Civilian labor force.....	68.6	69.3	70.2	71.3	72.4	73.6	74.8	-----
Total employment.....	63.9	65.2	66.3	67.3	68.3	69.3	70.3	-----
Agricultural.....	6.0	5.8	5.7	5.6	5.5	5.4	5.3	-----
Nonagricultural.....	57.9	59.4	60.6	61.7	62.8	63.9	65.0	-----
Private.....	51.0	52.3	53.4	54.4	55.4	56.4	57.4	-----
General government.....	6.9	7.1	7.2	7.3	7.4	7.5	7.6	-----
Unemployment.....	4.7	4.1	3.9	4.0	4.1	4.3	4.5	-----
Gross national product.....	417.5	437.5	452.5	466.0	479.9	494.2	509.0	-----
(2) High growth rate assumption:								
Civilian labor force.....	68.8	69.8	71.0	72.1	73.3	74.5	75.7	-----
Total employment.....	64.4	66.7	68.9	70.0	71.2	72.3	73.5	-----
Agricultural.....	6.1	6.0	5.9	5.8	5.7	5.6	5.6	-----
Nonagricultural.....	58.3	60.7	63.0	64.2	65.5	66.7	67.9	-----
Private.....	51.3	53.5	55.6	56.6	57.7	58.7	59.7	-----
General government.....	7.0	7.2	7.4	7.6	7.8	8.0	8.2	-----
Unemployment.....	4.4	3.1	2.1	2.1	2.1	2.2	2.2	-----
Gross national product.....	423.0	461.0	500.0	525.7	552.7	581.1	611.0	-----
(3) Differences (2)-(1):								
Civilian labor force.....	.2	.5	.8	.8	.9	.9	.9	5.0
Total employment.....	.5	1.5	2.6	2.7	2.9	3.0	3.2	16.4
Agricultural.....	.1	.2	.2	.2	.2	.2	.3	1.4
Nonagricultural.....	.4	1.3	2.4	2.5	2.7	2.8	2.9	15.0
Private.....	.3	1.2	2.2	2.2	2.3	2.3	2.3	12.8
General government.....	.1	.1	.2	.3	.4	.5	.6	2.2
Unemployment.....	-.3	-1.0	-1.8	-1.9	-2.0	-2.1	-2.3	-11.4
Gross national product.....	5.5	23.5	47.5	59.7	72.8	86.9	102.0	397.9

Source: Earlier tables of the Conference on Economic Progress, plus interpolations at uniform rates for years between 1950 and 1964. (Note that this table was prepared early in 1958 and hence does not reflect later data nor revisions in data.)

TABLE 9.—Differences between low and high growth rates—Gross national product and components (prepared Apr. 24, 1958)

[In billions of 1957 dollars]

	1958	1959	1960	1961	1962	1963	1964	1958-64
(1) Low growth rate assumption:								
Gross national product.....	417.5	437.5	452.5	466.0	479.9	494.2	509.0	-----
Personal consumption expenditure.....	274.5	285.5	294.0	303.0	312.5	322.6	333.0	-----
Gross private domestic investment.....	53.5	60.0	64.0	67.0	69.5	71.7	74.0	-----
New construction.....	32.2	33.0	34.5	35.8	37.0	38.2	39.5	-----
Residential nonfarm.....	14.2	14.5	15.2	15.8	16.4	17.0	17.6	-----
All other.....	18.0	18.5	19.3	20.0	20.6	21.2	21.9	-----
Producers' durable equipment.....	25.5	27.0	28.5	30.0	31.0	32.0	33.0	-----
Change in business inventory.....	-4.2	.0	1.0	1.2	1.5	1.5	1.5	-----
Net foreign investment.....	1.1	1.0	1.3	1.3	1.5	1.5	1.5	-----
Government purchase of goods and services.....	88.4	91.0	93.2	94.7	96.4	98.4	100.5	-----
Federal.....	49.6	51.0	52.0	52.5	53.1	53.8	54.5	-----
National security.....	44.8	46.0	47.0	47.5	48.0	48.5	49.0	-----
Other.....	5.1	5.3	5.4	5.5	5.6	5.8	6.0	-----
State and local.....	38.8	40.0	41.2	42.2	43.3	44.6	46.0	-----
(2) High growth rate assumption:								
Gross national product.....	423.0	461.0	500.0	525.7	552.7	581.1	611.0	-----
Personal consumption expenditure.....	278.0	300.5	324.5	340.7	358.8	378.0	398.5	-----
Gross private domestic investment.....	54.5	64.0	73.0	78.0	82.7	87.6	92.5	-----
New construction.....	32.5	35.5	40.5	43.5	46.0	48.6	51.2	-----
Residential nonfarm.....	14.4	16.5	19.8	21.8	23.3	24.8	26.3	-----
All other.....	18.1	19.0	20.7	21.7	22.7	23.8	24.9	-----
Producers' durable equipment.....	25.7	28.0	30.5	32.5	34.7	37.0	39.3	-----
Change in business inventory.....	-3.7	.5	2.0	2.0	2.0	2.0	2.0	-----
Net foreign investment.....	1.2	1.0	1.5	2.0	2.0	2.0	2.0	-----
Government purchase of goods and services.....	89.3	95.5	101.0	105.0	109.2	113.5	118.0	-----
Federal.....	50.3	55.0	58.5	60.5	62.5	64.5	66.5	-----
National security.....	45.3	48.4	51.0	52.5	54.0	55.5	57.0	-----
Other.....	5.3	7.0	8.0	8.5	9.0	9.5	10.0	-----
State and local.....	39.0	40.5	42.5	44.5	46.7	49.0	51.5	-----
(3) Differences (2)-(1): Gross national product.....	5.5	23.5	47.5	59.7	72.8	86.9	102.0	397.9
Personal consumption expenditures.....	3.5	15.0	30.5	37.7	46.3	55.4	65.5	253.9
Gross private domestic investment.....	1.0	4.0	9.0	11.0	13.2	15.9	18.5	72.6
New construction.....	.3	2.5	6.0	7.7	9.0	10.4	11.7	47.0
Residential nonfarm.....	.2	2.0	4.6	6.0	6.9	7.8	8.7	36.2
All other.....	.1	.5	1.4	1.7	2.1	2.6	3.0	11.4
Producers' durable equipment.....	.2	1.0	2.0	2.5	3.7	5.0	6.3	20.7
Change in business inventory.....	.5	.5	1.0	.8	.5	.5	.5	4.3
Net foreign investment.....	.1	.0	.2	.7	.5	.5	.5	2.5
Government purchase of goods and services.....	.9	4.5	7.8	10.3	12.8	15.1	17.5	68.9
Federal.....	.7	4.0	6.5	8.0	9.4	10.7	12.0	51.3
National security.....	.5	2.4	4.0	5.0	6.0	7.0	8.0	32.9
Other.....	.2	1.7	2.6	3.0	3.4	3.7	4.0	18.6
State and local.....	.2	.5	1.3	2.3	3.4	4.4	5.5	17.0

Source: Estimates by Conference on Economic Progress. (Note that this table was prepared early in 1958).

TABLE 10.—Differences between low and high growth rates—Gross national product, national income, personal income (prepared Apr. 14, 1958)

[In billions of 1957 dollars]

	1958	1959	1960	1961	1962	1963	1964	1958-64
(1) Low growth rate assumption:								
Gross national product.....	417.5	437.5	452.5	466.0	479.9	494.2	509.0	-----
Less:								
Capital consumption, allowance.....	38.5	40.2	41.7	43.2	44.8	46.4	48.1	-----
Indirect business tax, etc.....	37.0	38.5	39.9	41.1	42.3	43.6	44.9	-----
Business transaction payments.....	1.3	1.3	1.4	1.4	1.5	1.5	1.5	-----
Plus: Subsidies less current surplus.....	1.3	1.5	1.5	1.5	1.5	1.5	1.5	-----
Equals: National income.....	342.0	359.0	371.0	381.8	392.8	404.2	416.0	-----
Less:								
Corporate profits and IVA.....	34.5	37.6	40.0	42.0	43.5	44.8	46.0	-----
Contributions for social insurance.....	14.6	15.8	18.0	18.8	19.6	20.4	21.2	-----
Plus:								
Government transfer payments.....	22.5	23.5	24.7	26.0	27.2	28.4	29.6	-----
Net interest paid by Government.....	6.0	6.0	6.0	6.0	6.0	6.0	6.0	-----
Dividends.....	11.8	12.1	12.4	12.8	13.1	13.4	13.6	-----
Business transaction payments.....	1.3	1.3	1.4	1.4	1.5	1.5	1.5	-----
Equals: Personal income.....	334.5	348.5	357.5	367.2	377.5	388.3	399.5	-----
(2) High growth rate assumption:								
Gross national product.....	423.0	461.0	500.0	525.7	552.7	581.1	611.0	-----
Less:								
Capital consumption allowance.....	38.7	40.5	42.3	44.1	45.9	47.9	50.0	-----
Indirect business tax, etc.....	37.5	40.1	43.2	45.4	47.8	50.2	52.8	-----
Business transaction payments.....	1.3	1.4	1.5	1.5	1.5	1.5	1.5	-----
Plus: Subsidies less current surplus.....	1.5	2.0	2.0	2.5	2.5	2.5	2.5	-----
Equals: National income.....	347.0	381.0	415.0	437.2	460.0	484.0	509.2	-----
Less:								
Corporate profits and IVA.....	36.0	40.5	45.0	47.5	50.0	52.5	55.0	-----
Contributions for social insurance.....	15.0	18.0	21.0	24.0	27.3	30.6	34.0	-----
Plus:								
Government transfer payments.....	22.7	24.6	27.5	31.0	35.0	39.0	43.1	-----
Net interest paid by Government.....	6.0	6.0	6.0	6.0	6.0	6.0	6.0	-----
Dividends.....	12.0	12.5	13.0	13.5	14.0	14.6	15.2	-----
Business transaction payments.....	1.3	1.4	1.5	1.5	1.5	1.5	1.5	-----
Equals: Personal income.....	338.0	367.0	397.0	417.7	439.2	462.0	486.0	-----
(3) Differences (2)-(1): Gross national product.....	5.5	23.5	47.5	59.7	72.8	86.9	102.0	397.9
Less:								
Capital consumption allowance.....	.2	.3	.6	.9	1.1	1.5	1.9	6.5
Indirect business tax, etc.....	.5	1.6	3.3	4.3	5.5	6.6	7.9	29.7
Business transaction payments.....	.0	.1	.1	.1	.0	.0	.0	.3
Plus: Subsidies less current surplus.....	.2	.5	.5	1.0	1.0	1.0	1.0	5.2
Equals: National income.....	5.0	22.0	44.0	55.4	67.2	79.8	93.2	366.6
Less:								
Corporate profits and IVA.....	1.5	2.9	5.0	5.5	6.5	7.7	9.0	38.1
Contributions for social insurance.....	.4	2.2	3.0	5.2	7.7	10.2	12.8	41.5
Plus: Government transfer payments.....	.2	1.1	2.8	5.0	7.8	10.6	13.5	41.0
Plus:								
Net interest paid by Government.....	.0	.0	.0	.0	.0	.0	.0	.0
Dividends.....	.2	.4	.6	.7	.9	1.2	1.6	5.6
Business transaction payments.....	.0	.1	.1	.1	.0	.0	.0	.3
Equals: Personal income.....	3.5	18.5	39.5	50.5	61.7	73.7	86.5	333.9

Source: Estimates by Conference on Economic Progress. (Note that this table was prepared early in 1958.)

TABLE 11.—Differences between low and high growth rates—Personal income  
(prepared Apr. 24, 1958)

[In billions of 1957 dollars]

	1958	1959	1960	1961	1962	1963	1964	1958-64
<b>(1) Low growth rate assumption:</b>								
Labor income.....	236.3	248.4	256.0	263.4	271.5	280.2	289.4	-----
Wages and salaries.....	228.6	240.2	247.4	254.4	262.1	270.4	279.2	-----
Other labor income.....	7.7	8.2	8.6	9.0	9.4	9.8	10.2	-----
Farm operators' income.....	12.4	12.2	12.0	11.8	11.6	11.4	11.2	-----
Business and professional income.....	27.5	28.3	28.9	29.5	30.0	30.5	31.0	-----
Rental income of persons.....	10.1	10.3	10.4	10.5	10.6	10.7	10.8	-----
Dividends.....	11.8	12.1	12.4	12.8	13.1	13.4	13.6	-----
Personal interest income.....	19.4	19.8	20.2	20.7	21.3	21.9	22.5	-----
Transfer payments.....	23.8	24.8	26.1	27.4	28.7	29.9	31.1	-----
Less: Personal contributions for social insurance.....	6.8	7.4	8.5	8.9	9.3	9.7	10.1	-----
Equals: Personal income.....	334.5	348.5	357.5	367.2	377.5	383.3	390.5	-----
Less: Personal tax payments.....	42.0	43.5	44.6	45.8	47.0	48.2	49.4	-----
Equals: Disposable income.....	292.5	305.0	312.9	321.4	330.5	340.1	350.1	-----
Less: Personal saving.....	18.0	19.5	18.9	18.4	18.0	17.5	17.1	-----
Equals: Personal consumption expenditure.....	274.5	285.5	294.0	303.0	312.5	322.6	333.0	-----
<b>(2) High growth rate assumption:</b>								
Labor income.....	239.0	262.5	285.5	299.0	313.5	329.2	345.9	-----
Wages and salaries.....	231.2	254.0	276.5	289.5	303.5	318.7	334.9	-----
Other labor income.....	7.8	8.5	9.0	9.5	10.0	10.5	11.0	-----
Farm operators' income.....	12.6	14.5	16.5	18.5	20.0	21.5	23.0	-----
Business and professional income.....	27.8	29.5	31.5	33.1	34.5	36.0	37.5	-----
Rental income of persons.....	10.2	10.7	11.3	11.9	12.5	13.1	13.8	-----
Dividends.....	12.0	12.5	13.0	13.5	14.0	14.6	15.2	-----
Personal interest income.....	19.4	19.8	20.2	20.7	21.3	21.9	22.5	-----
Transfer payments.....	24.0	26.0	29.0	32.5	36.5	40.5	44.6	-----
Less: Personal contributions for social insurance.....	7.0	8.5	10.0	11.5	13.1	14.8	16.5	-----
Equals: Personal income.....	338.0	367.0	397.0	417.7	439.2	462.0	486.0	-----
Less: Personal tax payments.....	40.5	43.5	47.0	49.5	52.0	54.8	57.5	-----
Equals: Disposable income.....	297.5	323.5	350.0	368.2	387.2	407.2	428.5	-----
Less: Personal saving.....	19.5	23.0	25.5	27.5	28.4	29.2	30.0	-----
Equals: Personal consumption expenditure.....	278.0	300.5	324.5	340.7	358.8	378.0	398.5	-----
<b>(3) Differences (2)-(1):</b>								
Labor income.....	2.7	14.1	29.5	35.6	42.0	49.0	56.5	229.4
Wages and salaries.....	2.6	13.8	29.1	35.1	41.4	48.3	55.7	228.0
Other labor income.....	.1	.3	.4	.5	.6	.7	.8	3.4
Farm operators' income.....	.2	2.3	4.5	6.7	8.4	10.1	11.8	44.0
Business and professional income.....	.3	1.2	2.6	3.6	4.5	5.5	6.5	24.2
Rental income of persons.....	.1	.4	.9	1.4	1.9	2.4	3.0	10.1
Dividends.....	.2	.4	.6	.7	.9	1.2	1.6	5.6
Personal interest income.....	0	0	0	0	0	0	0	0
Transfer payments.....	.2	1.2	2.9	5.1	7.8	10.6	13.5	41.3
Less: Personal contributions for social insurance.....	.2	1.1	1.5	2.6	3.8	5.1	6.4	20.7
Equals: Personal income.....	3.5	18.5	39.5	50.5	61.7	73.7	86.5	333.9
Less: Personal tax payments.....	-1.5	0	2.4	3.7	5.0	6.6	8.1	24.3
Equals: Disposable income.....	5.0	18.5	37.1	46.8	56.7	67.1	78.4	309.6
Less: Personal saving.....	1.5	3.5	6.6	9.1	10.4	11.7	12.9	55.7
Equals: Personal consumption expenditures.....	3.5	15.0	30.5	37.7	46.3	55.4	65.5	253.9

Source: Estimates by Conference on Economic Progress. (Note that this table was prepared early in 1958.)

TABLE 12.—*Personal income, disposable income, and saving, actual 1953-57, estimated 1958, and goals for 1960 and 1964 (prepared Dec. 22, 1958)*

[Aggregates in billions of 1957 dollars: per capita in 1957 dollars]

	Actual					Estimate, 1958	Goals	
	1953	1954	1955	1956	1957		1960	1964
Labor income.....	217.5	213.3	228.9	242.9	247.1	240.8	288.5	349.0
Wages and salaries.....	211.1	206.8	221.4	234.8	238.1	232.0	279.0	337.5
Other labor income.....	6.4	6.5	7.5	8.1	8.9	8.8	9.5	11.5
Proprietors' income.....	44.0	43.3	44.8	44.1	43.0	43.0	51.0	63.5
Farm.....	14.1	13.2	12.3	12.0	11.6	12.8	16.5	23.0
Business and professional.....	29.9	30.1	32.5	32.1	31.4	30.2	34.5	40.5
Rental income of persons.....	11.5	11.8	11.4	11.4	11.8	11.9	13.0	15.0
Dividends.....	10.2	10.8	12.2	12.4	12.4	12.1	13.0	15.3
Personal interest income.....	14.4	15.5	16.6	17.6	18.8	19.0	20.2	22.2
Transfer payments.....	15.5	17.3	18.3	19.2	21.5	25.6	29.3	45.0
Federal.....	10.5	12.3	13.0	13.9	15.9	19.8	22.0	34.0
State and local.....	3.4	3.5	3.7	3.8	4.0	4.2	5.5	9.0
Business.....	1.6	1.5	1.6	1.5	1.6	1.6	1.8	2.0
Less: Personal contributions for social insurance.....	4.1	4.9	5.5	5.9	6.6	6.6	11.0	17.0
Equals: Personal income.....	309.0	307.1	326.7	341.7	347.9	345.8	404.0	493.0
Less: Personal tax payments.....	40.7	36.8	39.0	42.2	42.7	42.0	47.5	58.5
Equals: Disposable income.....	268.3	270.3	287.7	299.5	305.1	303.8	356.5	434.5
Per capita disposable income <sup>1</sup> .....	1,681	1,604	1,741	1,781	1,782	1,745	1,984	2,275
Personal consumption expenditures.....	247.3	250.4	269.4	277.5	284.4	283.8	330.0	404.5
Personal saving.....	21.0	19.9	18.3	22.0	20.7	20.0	26.5	30.0
Saving as percent of disposable personal income (percent) <sup>2</sup> .....	7.8	7.4	6.4	7.3	6.8	6.6	7.4	6.9

<sup>1</sup> The constant dollar per capita estimates for 1953-56 are slightly different from those which make use of the Conference of Economic Progress deflator; these latter are \$1,662, \$1,657, \$1,743, and \$1,786, respectively, for the 4 years.

<sup>2</sup> The saving/disposable income ratios for 1953-56 based on current dollar data are 7.9, 7.3, 6.4, and 7.2, respectively.

Source: Estimates by Conference on Economic Progress. (Note that this table was prepared in late 1958.)

TABLE 13.—Federal conventional budget—Actual fiscal 1955–60 and goals for calendar 1960 and 1964 (prepared Jan. 20, 1959)

[Fiscal years in millions of current dollars and goals in millions of 1957 dollars]

	Actual			Estimated <sup>1</sup>			Goals for calendar—	
	Fiscal 1955	Fiscal 1956	Fiscal 1957	Fiscal 1958	Fiscal 1959	Fiscal 1960	1960	1964
Major national security <sup>2</sup> .....	40,626	40,641	43,270	44,142	46,120	45,895	50,000	55,200
Internal affairs and finance.....	2,181	1,846	1,976	2,234	3,708	2,129	3,000	3,600
Economic and technical development <sup>2</sup> .....	1,960	1,616	1,686	1,909	3,321	1,768	2,650	3,209
Other.....	221	230	290	325	387	360	350	400
Veterans' services and benefits.....	4,457	4,756	4,793	5,026	5,198	5,038	5,000	4,500
Labor and welfare.....	2,575	2,821	3,022	3,447	4,380	4,129	6,400	11,900
Labor and manpower.....	328	475	400	458	827	425	550	600
Public assistance.....	1,428	1,457	1,558	1,797	1,937	2,022	2,400	3,000
Public health.....	275	351	469	546	669	678	900	2,700
Education.....	324	279	290	315	438	479	2,000	5,000
Research, libraries, penal.....	82	87	103	106	174	273	200	200
Other welfare services and administration.....	137	171	203	225	287	251	350	400
Agriculture and agricultural resources.....	4,389	4,868	4,526	4,389	6,775	5,996	5,500	5,000
Natural resources.....	1,202	1,194	1,296	1,543	1,708	1,710	2,000	2,400
Commerce and housing.....	1,504	2,030	1,455	2,109	3,509	2,243	3,200	4,000
Housing.....	211	54	49	357	1,237	387	1,100	2,200
All other.....	1,293	1,976	1,406	1,752	2,272	1,856	2,100	1,800
General government.....	1,199	1,627	1,787	1,356	1,673	1,735	1,650	1,800
Interest.....	6,438	6,846	7,308	7,689	7,601	8,096	7,750	7,900
Allowance for contingencies.....					200	100		
Net budget expenditures.....	64,570	66,540	69,433	71,936	80,871	77,030	84,500	96,600
Individual income taxes.....	28,747	32,188	35,620	34,724	36,900	40,700	41,500	51,000
Corporation income taxes.....	17,861	20,880	21,167	20,074	17,000	21,448	23,200	28,000
Excise taxes.....	9,131	9,929	9,055	8,612	8,467	8,945	8,750	10,800
Employment taxes.....	579	322	328	333	323	340	375	400
Estate and gift taxes.....	924	1,161	1,365	1,393	1,365	1,415	1,750	1,900
Customs.....	585	682	735	782	840	900	825	950
Miscellaneous receipts.....	2,562	3,004	2,760	3,200	3,100	3,352	3,500	3,750
Net budget receipts.....	60,390	68,165	71,029	69,117	68,000	77,100	79,900	96,800
Surplus (+) or deficit (-).....	-4,180	+1,626	+1,596	-2,819	-12,871	+70	-4,600	+200

<sup>1</sup> Estimates as proposed in the President's budget in January 1959.<sup>2</sup> Defense support, previously in national security, now in economic and technical development. The 1959 budget includes a nonrecurring item of \$1,375,000,000 for investment in the International Monetary Fund (authorization to expend from debt receipts).



TABLE 14.—Proposed calendar 1960 and 1964 budgetary outlays, compared with fiscal 1954-59, 1959, and 1960 (prepared Jan. 22, 1959)

(As per capita in constant 1957 dollars and as percent of gross national product)

	Fiscal years (administration)						Calendar years (Conference on Economic Progress goals)			
	1954-59 average		1959		1960 <sup>1</sup>		1960 goal <sup>2</sup>		1964 goal <sup>3</sup>	
	Per capita	Percent of gross national product	Per capita	Percent of gross national product	Per capita	Percent of gross national product	Per capita	Percent of gross national product	Per capita	Percent of gross national product
Total budget expenditures.....	\$442.23	17.08	\$448.11	17.81	\$415.57	16.05	\$470.23	16.57	\$505.76	15.56
Major national security.....	276.19	10.66	255.55	10.16	247.11	9.54	278.24	9.80	289.01	8.89
Other.....	166.04	6.42	192.56	7.65	168.46	6.51	191.99	6.77	216.75	6.67
Selected items, total.....	40.99	1.59	58.03	2.31	41.65	1.61	66.50	2.34	102.09	3.14
Economic and technical development <sup>4</sup> .....	12.44	.48	18.40	.73	9.54	.37	14.75	.52	16.75	.62
Housing.....	1.22	.05	6.85	.27	2.09	.08	6.12	.22	11.52	.35
Natural resources.....	8.53	.33	9.46	.38	9.23	.36	11.13	.39	12.57	.39
Education.....	2.00	.08	2.42	.10	2.58	.10	11.13	.39	26.18	.81
Public health.....	2.66	.11	3.71	.15	3.66	.14	5.01	.18	14.14	.43
Labor and manpower and other welfare services.....	4.04	.16	6.17	.25	3.65	.14	5.01	.18	5.23	.16
Public assistance.....	10.09	.39	11.01	.44	10.91	.42	13.35	.47	15.71	.48
All domestic programs <sup>4</sup> .....	151.87	5.87	172.01	6.84	156.97	6.06	175.29	6.18	197.91	6.09

<sup>1</sup> President's proposed budget for fiscal 1960.<sup>2</sup> The population is projected at 179.7 million persons in 1960 and 191 million in 1964 and the goals for gross national product are \$510 billion in 1960 and \$621 billion in 1964.<sup>3</sup> In fiscal 1959, includes funds for International Monetary Fund amounting to \$1,375 million; also \$125 million for Development Loan Fund.<sup>4</sup> Total budget expenditures other than major national security less international affairs and finance.

TABLE 15.—*Budgetary outlays and the public debt in relation to gross national product, 1953-58 and projected 1960 and 1964 goals (prepared Jan. 23, 1959)*

[1953-58 in billions of current dollars; 1960 and 1964 in billions of 1957 dollars]

Calendar year	Federal conventional budget	National debt <sup>1</sup> (average)	Gross national product	Budget outlays as percent of gross national product	National debt as percent of gross national product
1953.....	73.0	270.0	365.4	20.0	73.9
1954.....	64.9	274.4	363.1	17.9	75.6
1955.....	66.1	277.8	397.5	16.6	69.9
1956.....	67.2	276.2	419.2	16.0	65.9
1957.....	71.7	274.4	440.3	16.3	62.3
1958 (estimate).....	75.8	277.3	437.7	17.3	63.4
1953-58 average.....	69.8	275.0	403.9	17.3	68.1
1960 goal.....	84.5	285.0	510.0	16.6	55.9
1964 goal.....	96.6	292.0	621.0	15.6	47.0

<sup>1</sup> Gross public debt and guaranteed issues. The public debt subject to statutory limitation is slightly less.

Source: 1953-58, Treasury bulletins and President's Economic Report; 1960 and 1964 estimated by Conference on Economic Progress.

TABLE 16.—Summary of budget expenditures, per capita (1957 dollars) and as percent of gross national product; total, national security and selected welfare items (prepared Jan. 26, 1959)

[Fiscal years]

	1947-50 average	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1947-53 average	1954-59 average
<b>Total budget expenditures:</b>													
Per capita.....	\$356.74	\$351.75	\$490.63	\$544.65	\$492.40	\$447.67	\$432.86	\$422.35	\$409.99	\$448.11	\$415.57	\$402.00	\$442.23
Percent gross national product.....	15.24	14.18	19.32	20.65	18.73	17.10	16.25	16.07	16.52	17.81	16.05	16.45	17.08
<b>Major national security:</b>													
Per capita.....	\$123.28	\$179.19	\$329.87	\$369.31	\$340.78	\$281.66	\$264.39	\$263.20	\$251.58	\$255.55	\$247.11	\$195.93	\$276.19
Percent gross national product.....	5.27	7.23	12.99	14.00	12.96	10.76	9.92	10.01	10.14	10.16	9.54	7.90	10.66
<b>Other:</b>													
Per capita.....	\$233.46	\$172.56	\$160.76	\$175.34	\$151.62	\$166.01	\$168.47	\$159.15	\$158.41	\$192.56	\$168.46	\$206.07	\$166.04
Percent gross national product.....	9.97	6.96	6.33	6.65	5.77	6.34	6.33	6.06	6.38	7.65	6.51	8.55	6.42
<b>7 selected items, total:</b>													
Per capita.....	\$74.70	\$58.71	\$50.50	\$46.11	\$34.48	\$40.66	\$35.82	\$36.20	\$40.74	\$58.03	\$41.65	\$64.88	\$40.99
Percent gross national product.....	3.19	2.37	1.99	1.75	1.31	1.55	1.35	1.38	1.64	2.31	1.61	2.70	1.59
<b>Economic and technical development:</b>													
Per capita.....	\$50.28	\$27.99	\$19.38	\$14.37	\$10.98	\$13.58	\$10.52	\$10.26	\$10.88	\$18.40	\$9.54	\$37.55	\$12.44
Percent gross national product.....	2.14	1.13	0.76	0.54	0.42	0.52	0.39	0.39	0.44	0.73	0.37	1.57	0.48
<b>Housing:</b>													
Per capita.....	\$2.33	\$4.80	\$5.06	\$3.57	-\$3.68	\$1.47	\$0.35	\$0.30	\$2.04	\$6.85	\$2.09	\$3.25	\$1.22
Percent gross national product.....	0.10	0.19	0.20	0.14	-0.14	0.06	0.01	0.01	0.08	0.27	0.08	0.13	0.05
<b>Natural resources:</b>													
Per capita.....	\$8.41	\$10.12	\$10.25	\$10.83	\$9.55	\$8.33	\$7.18	\$7.88	\$8.79	\$9.46	\$9.23	\$9.26	\$8.53
Percent gross national product.....	0.36	0.41	0.40	0.41	0.36	0.32	0.27	0.30	0.35	0.38	0.36	0.38	0.33
<b>Education:</b>													
Per capita.....	\$0.62	\$0.72	\$1.31	\$2.13	\$1.98	\$2.25	\$1.81	\$1.77	\$1.79	\$2.42	\$2.58	\$0.95	\$2.00
Percent gross national product.....	0.03	0.03	0.05	0.08	0.08	0.09	0.07	0.07	0.07	0.10	0.10	0.04	0.08
<b>Public health:</b>													
Per capita.....	\$1.65	\$2.44	\$2.48	\$2.34	\$2.11	\$1.91	\$2.28	\$2.85	\$3.11	\$3.71	\$3.66	\$1.98	\$2.66
Percent gross national product.....	0.07	0.10	0.10	0.09	0.08	0.07	0.09	0.11	0.13	0.15	0.14	0.08	0.11
<b>Labor, manpower, and other welfare:</b>													
Per capita.....	\$3.37	\$3.17	\$3.18	\$3.11	\$3.08	\$3.23	\$4.20	\$3.67	\$3.89	\$6.17	\$3.65	\$3.28	\$4.04
Percent gross national product.....	0.15	0.13	0.12	0.12	0.12	0.12	0.16	0.14	0.16	0.25	0.14	0.14	0.16
<b>Public assistance:</b>													
Per capita.....	\$8.04	\$9.47	\$8.85	\$9.77	\$10.45	\$9.90	\$9.47	\$9.48	\$10.24	\$11.01	\$10.91	\$8.61	\$10.09
Percent gross national product.....	0.35	0.38	0.35	0.37	0.40	0.38	0.36	0.36	0.41	0.44	0.42	0.35	0.39
<b>All domestic programs:</b>													
Per capita.....	\$181.59	\$142.73	\$139.57	\$159.09	\$139.03	\$150.89	\$156.47	\$147.13	\$145.68	\$172.01	\$156.97	\$166.82	\$151.87
Percent gross national product.....	7.76	5.76	5.50	6.03	5.29	5.77	5.87	5.60	5.87	6.84	6.06	6.91	5.87

NOTE.—Per capita data are in estimated 1957 dollars; percent of gross national product data are based on current dollars. Defense support is included in economic and technical development.

Source: Budget documents for 1960 and earlier years.

Representative PATMAN. Tomorrow morning at 10 o'clock we will have Marriner Eccles, chairman of the First Securities Corp. of Utah, and I might add that he was for 15 years chairman of the Federal Reserve Board. I think he held that position longer than any other person.

Without objection, we will stand in recess until 10 o'clock tomorrow morning.

(Whereupon, at 12:10 p.m., the hearing in the above-entitled matter was recessed, to be reconvened at 10 a.m., Wednesday, March 25, 1959.)

# EMPLOYMENT, GROWTH, AND PRICE LEVELS

WEDNESDAY, MARCH 25, 1959

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

The committee met at 10 a.m., pursuant to recess, in room G-308, New Senate Office Building.

Present: Senators Douglas, Sparkman, O'Mahoney, and Bush; Representatives Patman, Bolling, Coffin, Curtis, Kilburn, and Widnall.

The CHAIRMAN. The committee will come to order.

We are very happy to welcome today an old friend, Mr. Marriner S. Eccles, formerly Chairman of the Board of Governors of the Federal Reserve System, now chairman of the First Securities Corp. of Utah, a man who developed independently many of the theories of John Maynard Keynes before Keynes' theories were known in this country, and who in addition is a very practical banker.

Proceed in your own way, Mr. Eccles.

## **STATEMENT OF MARRINER S. ECCLES, CHAIRMAN, FIRST SECURITIES CORP., UTAH, FORMER CHAIRMAN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**

Mr. ECCLES. Mr. Chairman and members of the committee, I was complimented, and thus too easily persuaded, by a telephone conversation with the chairman of your committee, to accept an invitation to appear here today. Due to the short notice, and many other commitments and responsibilities, I have had little time and no staff to help me prepare a statement that would do justice to the importance of this committee and the economic inquiry it is undertaking. This inquiry aims to cover three objectives: "To provide substantially full employment; to achieve an adequate rate of economic growth; to maintain substantial stability in the price level and thus prevent inflation." The trick, however, is to reach these objectives under the system of democratic capitalism. I, for one, do not believe in the millennium, which does not mean, however, that we should not set our sights high, far beyond our present achievements.

There has been no economic subject which has been more fully discussed, and with disappointing results, by the Government as well as many other groups of our society and also every other democratic country. There is little, if anything, that I might add to what has been presented to this committee by an extremely able staff and outstanding

experts who have preceded me. The documentation and statistical information has been so formidable that I neither knew where to begin or end. I, therefore, decided that possibly my greatest contribution to this inquiry would be to add nothing further to your confusion—lest it should equal mine. But, seriously, I have never ceased to be deeply concerned about the problems under consideration and their inherent complexity. I profoundly wish that I could have made some real contribution to their solution. However, the short statement that I make and the interrogation which may follow I hope may, at least, help to clarify some of the aspects of the dilemma with which we are confronted.

In this inquiry, we should recognize that our objectives of full employment and an adequate rate of economic growth are also the Communist goals. We must concede that there is no unemployment in Russia and China—and they are achieving a startling rate of economic growth. The stability of the price level or inflation is not vital under their system because they are not concerned about profits, wages, fringe benefits, or savings. And, neither are they concerned about the freedom of the individual—which is the very cornerstone of our society.

I have said it before, and want to say again, that to achieve our objectives will always be a source of great political and economical controversy because everyone wants a greater share of the economic pie that it contains. Government and other public bodies want more money to spend; the leaders of organized labor want more pay and fringe benefits for less hours of work; business presses for further profits; and increasing ranks of oldsters call for higher pensions. However, everyone expects these benefits in dollars of stable purchasing power. Unfortunately, all the economy has to divide are the goods and services it is able to produce, and not the amount of money it could create which is, of course, limitless.

In our society, this situation is creating a dilemma for the Members of Congress whose constituents want easy money, lower prices, higher wages, greater profits and fewer taxes. Only a combination of the Government, Congress and the Federal Reserve can successfully deal with these diverse forces. To do this adequately it would be necessary for them to agree on the problems and have the courage to act, regardless of political considerations. This is possibly more than we can expect.

During the bottom of the recent recession, with more than 5 million unemployed and a large excess productive capacity, for the first time the country was confronted with increased wages and fringe benefits on the part of organized labor, and increased prices on the part of big business. In order to meet recession problems, the Government expenditures were substantially increased. I preferred at that time a decrease in taxes. This, together with the reduction in the tax intake, brought about by the recession, will create in the fiscal year of 1959 a cash deficit of about \$13 billion. The Federal Reserve supplemented the Government's fiscal policy by an easy money policy which brought about a material growth in the money supply. Although the fiscal and monetary policy on the part of the Treasury and the Federal Reserve has brought about a rapid and substantial recovery, there are still over 4 million unemployed and considerable excess

capacity. Notwithstanding this situation, new demands on the part of organized labor are in the offing—no doubt to be followed by further price increases.

The large Government deficit and the Fed's easy money policy together with increased wages and prices despite the unemployment and idle facilities, has created a dangerous inflation psychology. This is reflected in the strength of real estate prices and especially in the soaring prices of stocks. Concurrently, we have seen the skidding market for bonds and mortgages, particularly the securities of the Federal Government. This developing situation caused the Federal Reserve to reverse its easy money policy, thus slowing down the growth of the money supply. On the other hand, the Federal Government is promising to bring about a balanced Federal budget, which I don't expect it to achieve soon.

To continue an easy money policy and substantial budgetary deficits until the economy had reached its full potential of employment and production would inevitably bring about a serious inflationary situation. I do not believe it possible to have all of the freedoms which we demand, on a basis of stable prices and, at the same time, have full utilization of our manpower and productive facilities. The Communist world meets this problem by the sacrifice of the personal freedoms.

Our unemployment situation is very spotty. In some areas there is serious unemployment, some of which is no doubt due to union demands pricing the workers out of the market. In other areas, however, shortages are developing, particularly among skilled workers. Russia would manage this situation by moving the workers to where the work is, or would develop work where the people are, whichever was the most economically desirable. The wishes of the people would not be a factor in the decision.

It may be desirable for the Government to give assistance in those depressed areas where there is serious unemployment by making funds available where new industries can be developed or old industries be revived. This, however, can only be successfully done through the combined efforts of private enterprise and the local and State governments, assisted by the Federal Government. An extension of unemployment insurance payments, as a temporary expedient, seems to me to be indicated in the present situation.

I believe that the present inflationary dangers confronting the country call for the monetary and credit policy being now carried out by the Federal Reserve and the fiscal policy announced by the Government, of achieving a balanced budget at the earliest possible date.

The Government's only source of income is what it takes from the economy in taxes and what it can borrow from the savings of the public. If this is insufficient, they must rely upon credit from the commercial banking system made possible by the Federal Reserve. This operation creates new money and, under present conditions, is inflationary. The Government is having great difficulty in refunding its huge maturities, as well as raising new money to meet its deficit—even though it is paying the highest interest it has paid for many years. This indicates that the public is losing confidence in the stability of our currency. This loss of confidence forces the Government to rely increasingly upon very short-term financing through the commercial banking system with the assistance of the Federal Reserve,

which only adds further to inflationary pressures, under present conditions.

The long-term interest rate is not greatly influenced by the monetary policy of the Federal Reserve. It depends primarily upon the amount of investment and savings funds available in the market and the choice made in how these funds shall be invested. The rates offered on bonds and mortgages have been going steadily up in an attempt to attract investment funds away from other markets. These funds are going into stocks and real estate at an accelerated pace in an effort to hedge against our depreciating dollar. From this situation it should be apparent that the Government cannot continue to finance heavy deficits unless it is to ignore the inflationary impact of such financing. It certainly cannot finance more than a \$40 billion defense program—which, in my opinion, is beyond the needs for adequate defense—and at the same time meet all of the other demands made upon it, unless the American public is willing to further increase its tax burden. This, however, is already excessive when the total tax take, National and State, is considered.

We all recognize the many new economic and social problems which are crowding in upon our economy from every direction. These are due to the rapid population growth, as well as the need to maintain and improve our position of strength throughout the world. Worthy, as are the many programs the Government is called upon to sponsor and support, such as highway programs, foreign aid, health, aid to education, agriculture, conservation, and many others, the country does not have capacity to meet all the demands made upon it at this time. The Members of Congress who are so willing to sponsor and vote for programs which unbalance the budget should be just as willing to vote for unpopular tax increases necessary to pay for them.

There is an increasing laxity and waste in the appropriation and expenditure of public funds. There always seems to be a tendency on the part of governments and public bodies to go on increasing expenditures and taxes, thus helping to feed the endless self-serving demands of their influential constituents, very often not in the public interest.

In my opinion, now is the time to face this budget problem. I realize that every appropriation represents a political struggle. Nevertheless, each should be considered only in the light of its present need and the real public interest. We all know there is a place in a budget of \$78 billion for substantial economies in the aggregate. No doubt the defense program, which represents nearly 60 percent of the budget, is a good place to begin. It is hard for me to believe that a realistic streamlined program for adequate defense, eliminating duplication and obsolescence, would not strike plenty of pay dirt. Likewise, there needs to be a close reappraisal of the foreign aid program with an eye to eliminating waste, duplication and greatly reducing its tremendous overhead. The huge and increasing cost of the farm program, running at a rate of more than \$6 billion net this year, is no longer justified on any basis. A solution must be found which will greatly lessen this burden on the taxpayer.

If one can credit the reports in the press, a good place to set an example for economy would be in the White House where over \$5 million is being spent this year to run that establishment, with a re-



quested increase for next year of \$332,000. This is more than twice the Truman budget for the same purpose during his last and most expensive year.

Further, the nepotism in Congress and other extravagances are shaking the public confidence in the good judgment of our lawmakers. I note that the chairman of this committee is aware of some of the extravagances and abuses since he proposes to sharply reduce the number of limousines and chauffeurs used by the Government, from 99 to 35.

It is being said recently that an adequate defense is more important than a balanced budget. I don't believe they necessarily have any relationship. If we need a deficit in order to maintain economic stability because of deflationary developments, we should have a deficit—whether for defense or any other purpose. We may need a deficit without a large defense program to maintain production and employment, but we should not permit a deficit solely for the purpose of maintaining an adequate defense program—I should say in peacetime—if the effect of so doing is inflationary. Such a situation demands an increase in taxes or a reduction in other expenditures, or both, if the objective is stable money.

I have attempted to show, in a general way, the uses that can be made of the fiscal policy of the Government and the monetary and credit policy of the Federal Reserve to maintain economic stability. However, it is becoming increasingly clear that even with a balanced Federal budget, monetary and credit policy are entirely inadequate to maintain reasonably full employment and production, on the basis of stable prices. With the economy running in high gear there is little or no resistance to labor demands on the part of business, because business finds it easier to pass on to the public their increased costs. Competition for labor, as well as the products of big business, largely disappear under conditions of full production and employment. Under these conditions, unless the Federal Reserve curbs the growth of the money supply, or the Federal Government develops a substantial budgetary surplus, the wage-price spiral would continue with devastating inflationary effect. On the other hand, the dilemma is, that by curbing these inflationary pressures, recession is brought on with resulting unemployment and idle facilities.

It has been said that "creeping inflation" is the best answer to this dilemma. I do not believe it is any answer, for the reason that the cornerstone of capitalistic democracy rests upon the savings of the public. These constitute the principal source of capital accumulation upon which the growth of our system depends. Why should anyone buy life insurance or annuities, Government or municipal bonds, utilities or railroad bonds, mortgages, or any other kinds of fixed interest-bearing obligations payable at a future date in dollars depreciated at the admitted creeping inflation rate of 2 or 3 percent a year? For the Government to sell such obligations and to permit conditions to develop where not only their obligations but all other fixed dollar obligations are being paid, including interest, in dollars depreciated from 2 to 50 percent, depending upon the maturity dates, is, to say the least, immoral if not downright dishonest.

The reason the public has bought such a vast amount of insurance and saved tens of billions of dollars in other forms of fixed income is

because they believed their Government would protect the integrity of their savings. The real danger confronting the country now is that our people, as well as foreigners, are beginning to expect creeping inflation and, maybe worse, that our Government will do nothing about it. Their preference for low-yielding stocks rather than high-yielding bonds and mortgages is an indication of their fears of further inflation.

Escalation has been suggested as a means of equalizing the depreciation in the purchasing power of the dollar, in the case of pensioners and owners of fixed-income obligations. This is an interesting idea, but it constitutes built-in inflation. It takes away all restraint and would, therefore, accelerate it. And what would become of people and institutions that have bought in good faith, and own present outstanding obligations? And what would happen to the needed stability of the American dollar in the world market under these conditions—when it took more than \$2 billion in gold last year to stabilize it?

Nothing is more urgent, unless it be an adequate defense, than to arrest the growing belief in the inevitability of inflation, and to organize our economic affairs so that faith in the integrity of our dollar be reestablished at home as well as throughout the world.

We all agree with the desirability of the objectives which this committee is considering—substantially full employment and an adequate rate of economic growth, while at the same time preventing inflation. However, I must confess that in the light of developments I see some formidable hurdles ahead, requiring courageous decisions by Government, if we are to have any degree of success in attaining them.

The leaders of the huge labor union organizations and their affiliates, representing more than one-fourth of the working force, largely dictate the wages and fringe benefits without control of any kind, in all of America's basic industries. Through their monopolistic power they have been able to wring from the economy benefits far in excess of their contribution to it. These excess benefits have largely been passed on to the public in increased prices. This development is and for some time has been the principal reason for inflationary developments. I understand that the Steelworkers Union, numbering 1,250,000 workers, will demand from the steel industry when its present contract expires June 30, a billion-dollar package as a price for renewing its contract. If all of the other workers of America—more than 65 million—were to demand and receive these same benefits it would add \$52 billion to the costs of goods produced. There would be nothing creeping about the resulting inflation.

The rate of growth in national productivity should be the basis of wage increases and fringe benefits. I am going to repeat that. The rate of growth in national productivity should be the basis of wage increases and fringe benefits. This is in the range of from 2 to 3 percent annually. Such limits would permit a just share of productivity gains to go to the consumer, and leave a fair return on invested capital without increasing prices.

It may be expected that the employer could and should absorb most of these added costs; however, let us consider what the amount of business profits are and what happens to them. According to a study by the Twentieth Century Fund, total wages and salary disburse-

ments were 50 percent of the national income in 1929, and 73 percent of it in 1955, whereas dividends decreased over the same period from 5.8 to 3.9 percent of that income. The workers' share of the national income from 1950 to 1957 increased by 10 percent, whereas the business share, represented by profits of all corporations, has decreased by about 33 percent. It is apparent from these figures that business cannot absorb out of profits, as organized labor contends, increased wages without increasing prices. Retained corporate earnings is the greatest source of new capital for industry.

If corporate profits were eliminated, as is the case in a communistic society, there would be very little difference in the prices paid by consumers for goods and services. Corporate profits, after income taxes, amount to about 6 percent of the national income. Approximately one-half of this amount, or 3 percent, is disbursed as dividends. The balance, or 3 percent, is retained in the business. Of the dividends disbursed, it is estimated that the Federal Government collects between 1 and 1½ percent, leaving the remainder to the shareholder to spend, or to save.

If the corporations and their shareholders did not exist, the amounts collected by the Government from them in taxes and the amount retained in the business would have to come out, in one way or another, of the national product. Therefore, the total consumer purchasing power would not be increased more than 1½ or 2 percent even if business profits were eliminated entirely. I think this is an extremely cheap price to pay for the benefits we reap from the system of capitalistic democracy.

It should be apparent that unless the Government and the Congress has the courage to control the rapidly growing monopolistic powers of organized labor, further inflation is inevitable. The only alternative is to stop the growth of the money supply; ultimately bringing with it heavy unemployment and idle facilities.

We cannot tolerate having private groups dominate our Government and our economy by means of organized monopolies. For a few men at the top to exercise such power in effect constitutes a private dictatorship of public policy and must, in the interest of our country, as well as in the real interest of the rank and file of labor itself, be courageously dealt with by both our political parties. This can no longer be considered a party issue. It has assumed the proportions of a national issue, almost as important as defense.

In closing, I wish to thank the committee for the opportunity of appearing here today. I realize that my statement is very sketchy and leaves much to be said on all of the issues discussed. It does, however, have the merit of raising many very controversial questions. I do feel that it is necessary to face up to the basic issues, whether popular or unpopular, and that this is neither the time nor the place for timidity.

This committee has great power and prestige and I believe it will stand up to its responsibilities and not permit itself to be intimidated by fear of political retaliation from any source, nor are its members likely to be lured away from basic principles by short-run interest and attractive promises.

I thank you.

The CHAIRMAN. Thank you, Mr. Eccles, for a characteristically honest and independent statement. There are just a few questions which I would like to ask you; specifically, in the early part of your statement about an inflation psychology. Is not that more of a psychology than a reality? If you go into the history of prices—and that will come in a few weeks—the big increases came during the Civil War, the First World War, the Second World War, the Korean war, and, with the exception of the period 1898 to 1914 when the gold supply was increasing and in the period, 1953–1957, the increases have been confined almost entirely to those periods. And during the last year prices have been relatively stable, with an increase in the retail cost of living of only about one point largely caused by a rise of six points for medical care and the rise of five points for transportation.

Now, isn't it important that the reality be considered and not merely the fact that people have been excited about the danger of inflation?

Mr. ECCLES. I think that that is true in a temporary situation. However, from 1953 up until 1957 we did have a substantial inflation. The recession began in September of 1957 and lasted until last summer.

The CHAIRMAN. Do you think it is over?

Mr. ECCLES. It had the effect of slowing down the inflationary pressures. I think that the present situation of steady prices in the referred to index is temporary. I think that, because such a substantial amount of cost of living index is made up of food and clothing, it really does not reflect the full amount of the inflationary pressures that exist in consumer durable and capital goods, and also in some of the services of various kinds. There is a lag, and I think you have such a lag in inflationary pressures.

The CHAIRMAN. The second question that I want to ask is directed at the proper credit policy in a period when there is a large volume of unemployment. We have now close to 5 million unemployed: 4.74 million in February, and a large volume of involuntary part-time unemployment. I can remember in the months of the winter of 1933, when the Senate Finance Committee held a symposium on what should be done to get out of the depression, that all witnesses except one testified that the one remedy that was needed was a balanced budget. One exception to this was a young banker from Utah by the name of Marriner Eccles, and he argued with great cogency that what was needed at that time was a governmental deficit to put the unemployed to work; that this would increase productivity at the same time that it increased the circulating medium, and that therefore there would not be an increase in the price level.

This was substantially the theory of Mr. Keynes, not in his later book, but in his "Treatise on Money," and you had, as a matter of fact, I think, privately developed this theory prior to the publication of Mr. Keynes' book. You know the great affection which I hold for you personally and the high esteem in which I hold you, but I would like to ask, What happened to the Eccles of 1933; was he not perhaps closer to the mark than the Eccles of 1959?

Mr. ECCLES. If I had it to do over, I don't think I would modify to any extent the statement I made in 1933. I believe as thoroughly today as I did then in the basic principle discussed—that of using fiscal

and monetary policy to the fullest extent possible to maintain production and employment within the framework of a stable money. I have never believed in depreciating our currency. Our currency in 1933, and during the entire period of the thirties, was actually appreciated to a very great extent. The people that were injured at that time were the debtors. The savers reaped a very substantial benefit, and I don't think that the savers or those who held dollar obligations were entitled to take over the economy as they were doing in the depression.

The situation at the present time is, of course, very, very different from the situation that existed then. In the first place, the number of the unemployed people in relation to the total labor force is small in relationship to what it was at that time. It is spotty today; at that time it was general. It was universal. There is that very basic difference. At that time you didn't have wages and prices going up with idle facilities and mass unemployment. As a matter of fact, both wages and prices were going down. The demand and the supply factors were very effective.

As of today neither the demand nor the supply factors are effective. We have today a rigidity in our economy which tends only in one direction, and that is the direction of inflated prices. This tends, of course, to work very great hardship on the savers and the people who have been taught to believe that the American dollar could be depended upon.

The CHAIRMAN. Mr. Eccles, I had no mischievous desire to embarrass you on this point.

Representative KILBURN. I don't think you have embarrassed him.

The CHAIRMAN. However, I wanted to raise a very important theoretical point and practical point; namely, when you have idle resources in the community, a large quantity of unemployed labor, and idle capital plant, and the monetary purchasing power is created, whether by the Government or by the banking system, and it serves to put the unemployed to work and the idle resources produce commodities which otherwise would not be produced, does it not increase the goods side of the price equation as well as the money side and hence serve to either prevent inflation or at least to lessen it? And the question is, What would be the relative effect?

Mr. ECCLES. I think, generally speaking, that is true, and that is why I was very much in favor of a substantial budgetary deficit and of a reversal of the monetary policy of the Federal Reserve in late 1957 and a budgetary deficit on the part of the Government in 1958 and 1959. The objection I raised to the method of creating the deficit was that consumer taxes are primarily the taxes which tend to affect prices. I advocated a reduction in railroad rates. I advocated reduction in taxes on some of the consumer durable goods. I advocated a decrease in the 52 percent corporate tax because I thought under the present conditions that would immediately be reflected in the price level. I advocated reduction in the taxes of the mass public by increasing the exemptions from \$600 to \$700 or \$800 as a temporary measure, so that the minute this got back you would put back the taxes. But I felt that by creating a substantial deficit through a reduction of taxes that would be announced upon possibly a temporary basis to be reversed, this would immediately go into the

spending stream. It would give to the people the opportunity to spend their own money instead of the Government appropriating funds, which takes a long time to get into action. Government expenditures would, moreover, not necessarily be widely distributed. Many of them go in areas that take a long while before it is nationally diffused.

I did propose that, and I strongly believed in the necessity of consciously creating an unbalance in the budget of as much as \$12 billion.

The CHAIRMAN. Of course, tax cuts last year were the proposal of the Senator from Illinois also. We didn't seem to make many converts. My time is up.

Mr. Curtis may continue the questioning.

Representative CURTIS. Thank you, Mr. Chairman.

As you know, Mr. Eccles, the committee had been embarking on a study, as I visualize it, to a large degree to see how we are attaining the objectives of the Employment Act; in other words, maximum employment with a sustained rate of economic growth.

I understand from your paper, if I listened to it correctly and read it correctly, that you do believe that price stability is an essential ingredient in order to maintain a sustainable rate of economic growth plus maximum employment. Am I correct in that interpretation?

Mr. ECCLES. I do. I think that is true over the long run; yes. I think that to maintain production and employment over the long run it is necessary to have confidence in the purchasing power of our dollar so as to induce the public to generate sufficient savings to take care of the great need for investment in a rapidly growing economy. Without that confidence people feel that there is no point of saving funds and spend everything currently. You would have no basis for the accumulation of capital, which is already inadequate. There are not now sufficient savings by industry and by the public as a whole, to meet the demands.

Representative CURTIS. The reason I worded it that way is, that there has been some attempt—and I hope that it will cease—to try to create the impression that those who are concerned about price stability, particularly in these times, are setting up an alternative goal to maximum employment and economic growth, rather than a necessary ingredient to attain those two goals. That is the reason I worded it that way, and I interpret your paper that way.

One thing that is concerning me a little bit as we go into these studies, and yours is the fourth general presentation, is when we get into this business it seems to me important to try to find out what we mean by growth. What is the economic growth and how might we best measure, because, just to illustrate to some degree, I remember Dr. Slichter said that the per capita gross national product is probably the best way to measure it. I think it is one way, but the thing that worries me about that is that that measures activity, even though it might be economic activity where we are spinning our wheels, or might be activity that is ended in waste because of an error in judgment.

I was wondering if you would care to discuss the question of what you mean by economic growth and what economic indicators in your judgment we might best look to to measure, or there are other indicators that we presently don't have that we might develop which might measure it?

Mr. ECCLES. I think the general national product on the basis of stable prices is possibly the best indicator that you can take. There would be a great variation in ideas, I think, as to what constitutes growth; because in a free economy the people, if they are employed and if they are getting their fair share of the purchasing power of the national product, will pretty much determine what they want to spend their money for and how much they want to save.

Aside from what the Government, and the cities, counties, and States take in taxes, they are going to pretty much determine, it seems to me, in which direction the growth is going to go, whether automobiles or homes, for example. And our productive facilities in our type of economy are built pretty largely to take care of the demands.

Representative CURTIS. Just to pinpoint it, for example, you make the point "There are still over 4 million unemployed"—and here is the point—"and considerable excess capacity."

Mr. ECCLES. That is right, although I shouldn't have said excess. I should have said idle capacity. Those are better words.

Representative CURTIS. Maybe it is idle because it has been wasteful in the beginning. Maybe the idleness in Detroit has been an economic error that has been created and that which we looked upon as a desirable economic growth has turned out to really be an error. And that is why I say it seems to me it is very important that we talk about or get into this question of what we mean by economic growth. If I could go to another point of your paper to further illustrate what I am driving at, you start out and talk about the startling rate of economic growth of Russia and China. I wonder just where that economic growth is going, because you point out that if they happen to make an economic error, or at least that is my interpretation, and have idle men in one area and idle plant capacity in another, it simply moves them over there. But the point there is, How is that economic decision made? It is made by some bureaucrats. The bureaucrats are just as apt to make an economic error, are they not, as the free market system that we have here? Would you not agree?

Mr. ECCLES. No; I think if they do make the error it doesn't develop in unemployment and idle facilities.

Representative CURTIS. Is that meaningful economic growth? That is what I am getting to.

Mr. ECCLES. Economic growth, of course, is a very general term, and the economic growth in a Communist country naturally depends upon what the leaders of that country determine is in the best interest of their philosophy of communism.

Representative CURTIS. That is right, and they can make errors, can't they?

Mr. ECCLES. Oh, yes.

Representative CURTIS. Maybe we can't and maybe this is purely subjective, but how are we going to determine what economic growth is really meaningful? In other words, I think there is bound to be in any system, Communist or ours or any other, some economic errors and therefore economic waste. And yet, if you just use the gross national product figure, you are going to consider that as growth, and I wonder is that what we mean. Is that the sole thing that our committee should be measuring?

Mr. ECCLES. I think that is about the only thing you can use in our type of society. You have to let the market make its mistakes and pay

its price. That is true. Prices are paid by innocent people as well, but that is part of the penalty of freedom.

Representative CURTIS. No; this is a study group. We have the opportunity of looking backward or, as I have expressed to previous panelists, we are generating \$7 to \$8 billion annually in surplus property, so-called, by the military that has come on the market again and we get about 7 cents a dollar. It is apparently economic waste, whether it was obsolescence that created it or errors, but certainly that is an important thing to consider if we are trying to get to a meaningful economic growth.

We can't regard the generation of 7 or 8 billions of dollars of waste, in my judgment, as meaningful economic growth, and yet it would show up that way if we didn't use some other criteria in determining what is economic growth.

Mr. ECCLES. What the military has, of course, would be reflected in the tax take, and the appropriators of money within the Government and within the States are the ones that are going to determine how the tax take is to be spent. The public has very little to say about it except through their representatives, and it may well be that the avenue of the greatest waste that could not be considered a growth is public expenditures.

Representative CURTIS. I suspect the error made in Detroit—at least I regard them as errors—in the automobile industry at one time was what would be termed economic growth under these criteria, but in looking backward I think we well might say that there were some economic errors made which have meant that that was not real economic growth.

Mr. ECCLES. I agree with that. I am sure that private business is making mistakes constantly and I think they pay the price in the losses that are sustained as a result of it. I think that this situation where we have one industry or two industries in a community and the entire community is built up around those industries and they either go out of business or they move the industry, is a very great problem. There is no question about it. It is a terrific price that is paid by that community and by the economy as a whole.

The mistakes of an individual in business, of course, not only have to be suffered by the individual and the business, but by the economy as a whole. How to get around that one, I don't know. I feel sure that the concentration of the automobile industry is not good for Detroit or good for the country. And the idea of, say, a continuing further unbalanced budget to cover the huge unemployment situation in some of these specialized areas would not solve those problems, but it may tend to create real shortages in other areas. That is why I pointed out the difficulty here of a spotty situation such as we have and why I go along with the need of meeting those special problems maybe in a special way to the best of our ability.

I don't think that as a Government we can ignore a lot of unemployed people. I think we must do something about it. We are certainly not justified in spending for defense what we are trying to spend to maintain a free world and have be pointed to as an example with millions of unemployed. We have to do something about, it seems to me, that problem. How can we be justified in a foreign aid program at all to backward countries and have the situations that exist here continue.



I think that some of the expenditures we are making may be less justified from a standpoint of a democratic society than like expenditures to help out some of these stricken areas and situations. And I don't think that merely a huge expenditure of funds, an unbalanced budget, is the solution for that, because that would mean creating an inflationary situation in the country as a whole to solve isolated situations.

Representative CURTIS. I see my time has run out.

The CHAIRMAN. The chairman shouldn't make any comments, but it is almost impossible for him not to do so. I would say the witness has made a very hard-headed and eloquent statement in support of the distressed areas bill. Six minutes ago the Department of Labor released the Consumer Price Index for February which shows a decrease in the overall index from 123.8 to 123.7. This, however, was primarily and almost exclusively caused by a decrease in the price of goods from 119.0 to 118.2. The biggest increases were in the field of medical care, which increased from 147.6 to 148.6, and personal care of 129.4 to 129.8. Congressman Patman?

Representative PATMAN. Thank you, sir.

Mr. ECCLES, I enjoyed your testimony. You are always forthright and give us some good suggestions, and I appreciate them very much. I always appreciate your testimony. I go back and read it occasionally. I was reading your book last night. I always find it interesting. You have some good points in it, some that I thoroughly agree with.

Mr. ECCLES. Thank you.

Representative PATMAN. Interest rates have increased considerably since you went out of the Federal Reserve, as you well know, and now much over 10 percent of our national budget is represented by the \$8,100 million interest charges on the national debt. Do you believe that a mistake has been made in permitting interest rates to go up to the extent that we have to pay over \$8 billion a year for interest on the present existing national debt, Mr. Eccles?

Mr. ECCLES. I don't believe the Government can control the interest rate.

Representative PATMAN. You don't mean to say that there is a free market in Government bonds and money in the United States of America, do you, Mr. Eccles?

Mr. ECCLES. I am sure there is insofar as long-term bonds of all kinds are concerned. The interest rate, as I stated in my paper here, is largely a result of what the borrower has to pay to induce the investor to purchase the obligation. It is true that the Federal Reserve could directly loan the Government a limited amount of money, and to the extent they did that, money would go back into the commercial banking system and would become excess reserves. That of course would be so inflationary in character as to create a real runaway if carried very far unless you had price controls and rationing.

Representative PATMAN. On that one point right there, if you will permit an interruption, I was reading your book last night about your advocacy of a proposal to immobilize reserves in a case such as you have just mentioned where they become too inflationary. Wouldn't that be a good way to handle it?

Mr. ECCLES. I don't know how you could immobilize reserves except through a complete change of the whole Banking Act. You possibly could have what is known as a hundred-percent reserve requirements.

Representative PATMAN. I believe you mentioned how it could be done in your book; didn't you?

Mr. ECCLES. No. I don't know whether it was mentioned in the book, but during the time when the market for Government bonds was being controlled against my recommendations and wishes, we discussed means of undertaking to meet an enforced pegging situation so as to have as little inflationary impact as possible. We had no assurances as to exactly what the effect would be. As I recall it, it was to make a requirement that the commercial banks maintain a substantial part of their funds in short-term Government bonds.

It wasn't something that we would recommend. It is something that would be an alternative to having the freedom that the central bank, I felt, should have.

Representative PATMAN. Will you pardon me, Mr. Eccles? We have a limited time and I would like to go to the main issue that I would like to ask you about, if you please, and that is something that is carried in your statement where you said retain corporate earnings is the greatest source of new capital for industry, which of course I recognize as a true statement. But do you not think, Mr. Eccles, that when industry or when corporations charge more than enough to pay for their expenses and for all necessary costs, including the cost of carrying their debts and everything that should be provided for, including a reasonable reserve, that anything above that could properly and honestly be called excess and more in the nature of "costless capital" to the corporation?

Mr. ECCLES. Well, no, I don't believe that, because unless something of that sort was guaranteed to the corporation. In a free economy, if you are going to set a limit on profits such as you propose, you also should guarantee that limit. And I don't think that we can do that. Looking at the business structure as a whole, corporate earnings in relation to the total national product have been going down for some time; and if corporate earnings, plus the total savings outside of the retained corporate earnings, were excessive, the effect would be to have too much investment funds. We had that condition in the twenties. We had that condition on such a basis it, in my opinion, created the fantastic condition of the thirties. It was a result of too much investment funds. There were too few people getting too much of the national product. About 5 percent of them were getting 88 percent.

The national income has been divided upon a much more equitable basis than existed during that period. The taxes today are much more equitable. They tend to give a better distribution of the national income. They are related to ability to pay, which I believe is a proper method of regulating taxes; and with the present system of taxation, corporate and individual, plus the inheritance tax and the capital gain taxes, the tendency has been to reduce total savings and investment funds and to increase consumption, to raise the standard of living of the masses of our people, which I am for. But the corporation earnings, together with the total savings outside of corpora-

tions, is not excessive. It is not adequate, really; and therefore you find the interest rate is affected by it.

Representative PATMAN. May I make myself a little plainer? I am afraid you are not specific enough. What I refer to in particular is in regard to administered pricing. Why should an automobile manufacturer charge anything more than necessary, including all the cost items that can possibly be included, in a fair return upon everything? And why should he add, say \$150 or \$200 to the selling price of an automobile earmarked solely for expansion capital, and expect the consumer to pay that? Why, in a private enterprise system, such as our own shouldn't the customer be allowed to keep that extra amount to be used for expansion capital and for which the existing stockholder gets the benefit of, and invest it any way that he wants to, in that corporation or some other corporation and get a return for himself?

Mr. ECCLES. You would have to have price control and wage controls and you would have to have a completely managed economy to carry out any such a program. Looking to the automobile industry, certainly with all the freedom they have had, outside of one of the companies, General Motors, you can't admit the others have done too well with the losses during the past year and even before that, and the earnings have certainly not been excessive in relation to their volume of business and the capital which they had.

Competition in the automobile industry, it seems to me, tends to fix the prices possibly better than any other big industry that I know of. We know that if there is one area where there is real competition it is for automobiles. So I think you used the worst example you could have used to make your case.

Representative PATMAN. What about steel and aluminum? Take steel in particular.

Mr. ECCLES. That is right. So far as the steel industry is concerned, the steel industry increased prices when there was nearly 50 percent excess capacity. They were able to do it because they at least used the wage increase and the fringe benefits to justify an increase in the price of steel. But even with the increases that the steel industry made in 1958, the earnings of the steel industry for 1958 I think were something like 30-some-old percent less than in 1957.

Representative PATMAN. My time has expired, Mr. Eccles, but I think under the arrangement you can revise and extend your remarks.

Mr. Chairman, may I comment on the cost of living index you mentioned? Every bit of the reduction was accounted for by the food component, as you suggested. All the other items were up, like housing, rent, apparel, transportation, medical care, and personal care, reading and relaxation, and other goods and services. Every item was up except food, and it was down sufficiently to cause the index to be down just a little bit.

Thank you.

The CHAIRMAN. Senator Bush.

Senator BUSH. Thank you, Mr. Chairman.

First, Mr. Eccles, I would like to compliment you very warmly upon that statement. You certainly need make no apology for the haste in which you prepared it or for any other reason. I have been listening to statements now for pretty nearly 7 years here and this is

one of the finest statements that I have ever heard before any committee, frankly.

Mr. ECCLES. Thank you, sir.

Senator BUSH. I say that because you have the courage to face this committee and your larger audience with the real challenges that are before us. There are very few people willing to do that. I regret to say there are very few in the Congress that are willing to face the real challenges that you have pointed up to us today in this statement. I think that all of us are going to benefit very substantially by the lesson which you have laid down before us today. For myself, I certainly promise you that I am going to vigorously do what I can to implement some of the constructive suggestions which you have made. You pointed out the difficulties. You have even said that you think perhaps they are so great that they might be insurmountable, but certainly we are never going to surmount them unless we give it a real hard try; and that is what I think this committee should do.

You mentioned, in passing, almost parenthetically, that you thought that the defense budget was too high. I don't want you to go into any long explanation of that, but I am one who wonders constantly whether that isn't the case and I wonder whether you would care to make any amplification of that statement at the present time?

Mr. ECCLES. I don't feel expert enough to take issue with anything specifically about the defense organization. I recall over the years while I was in Washington and since I have returned to private life many statements that have been made and investigations that have been had; and I have been impressed as a result of my own experience and what I have read and heard and what I know specifically: Military people are inclined to be extravagant. Their background seems to be one of always getting all the money they can get.

That was always true insofar as my recollection in Washington is concerned—spending what would be appropriated. And there are innumerable cases—and I am sure that you people would know better than I do—where there is duplication, where there is obsolescence, where our military establishment is preparing for a defense or a war in certain directions. I am not speaking of our missile development. That may be very inadequate. However, in other directions we are spending money, the Navy maybe, aircraft carriers, and otherwise, in a manner that is not recognizing the needs of the day. I am sure that some of the expenditures being made by the Navy are not going to help us in deterring the Russians. But I was speaking pretty much generally, that unless we put the pressures on the military end of our operation, there can be no limit to what will be spent.

Senator BUSH. I thank you for that observation. I am glad you commented on it, because we get so many emotional outbursts from time to time that we can't just spend enough on defense in this day and age and we ought to step it up very materially and that the administration is very lax in its recognition of the responsibilities, and so forth and so on. And it is refreshing to hear a point of view from one who has had some 14 or 15 years observation on the Washington scene from a very high post.

I would like to change to another subject. One of the problems that this committee has before it is, as the chairman has pointed out repeatedly, the unemployment factor remains high even in spite of the

recovery, as evidenced by gross national product, industrial production, retail sales, national income, and so forth. A very serious matter is still the unemployment of some four and a half million individuals. Attempts are made here to relate the deficit to the Government budget and it is said by some, and recently by one or two of our witnesses, that as long as we have unemployment as high as four million five hundred or six hundred thousand we should increase Government spending; that we should plan a deficit.

It is very difficult for me to know what factors apply here or what relationships should we tie into. In other words, is 1 million of unemployed persons a satisfactory excuse for increasing the deficit by \$1 billion? Do you visualize any possible relationship that we can work on that will deal with that problem so that we could be sure that if we ran a deficit of \$3 billion deliberately in an attempt to reduce that unemployment figure we would be successful in that connection? Can you comment on that relationship?

Mr. ECCLES. I do think that our four million seven is excessive.

Senator BUSH. We all agree on that.

Mr. ECCLES. As I mentioned a moment ago, this situation is spotty. It is due to special causes. I believe that we have not considered enough what I call a disequilibrium between the various groups of consumers. The organized labor groups certainly get a much higher income per hour with their fringe benefits than the masses, the public as a whole. I think that with the way prices have gone up in automobiles, for instance, the automobile workers have tended to price themselves out of the market. I think that has been a factor, and that they would possibly be much better off if the products that they make were selling for substantially less money and they had full employment.

With respect to this idea of increasing prices and wages and expecting that to solve the problem, we found in the NRA that was the trouble. They increased wages, you will recall, and prices, and it didn't help a particle. That is not the solution to the problem. The public are price conscious, and there is a great variation of the income of our 160 million people, and I think the unions in their demands—and business, too, if it prices its product beyond what it needs to—are going to have idle facilities and unemployment. They are going to price themselves out of the market because of a disequilibrium between the income of the various groups of people.

Senator BUSH. Do I interpret what you are saying to indicate, then, that to run a deficit deliberately with the purpose of trying to deal with this unemployment factor is not necessarily the answer to it at all?

Mr. ECCLES. I said that in my statement. If it was, I would be all for it. If I was convinced that by running a deficit you would meet this unemployment problem without inflation, I would certainly be for it. I don't believe it can be done.

Senator BUSH. I am very glad to get your definite comment on that. One other question, if I have time, Mr. Chairman.

We have had proposals made in the Congress here that the Federal Reserve Board should be put more under the authority of the executive branch of the Government. There has been no legislation seriously considered on that point yet. I believe the Senator from Pennsyl-

vania, Mr. Clark, has introduced a bill that rather moves in that direction, but not very far. Would you care to comment on that general subject in the light of your long experience on the Board?

Mr. ECCLES. I would be opposed to that kind of a move. I think as a practical matter the central bank in this country or any country has to be responsive to the government in power; that is, in this country the Congress. I do not think that they can enforce their contrary will very long. I think that they can have the independence to state their position and to use their influence and to persuade the administration and the Congress, but I do not believe that a central bank can defy successfully a government in power unless that government fails to have the support of Congress and the majority of the people.

If a government in power is undertaking to force a Federal Reserve System to do what the Federal Reserve System objects to doing and doesn't want to do, and the Federal Reserve has the support of the majority of the Congress, and the Federal Reserve is an agent of the Congress and not the Government, and it should always be left an agency of the Congress and not the Government, it can continue its independence.

Senator BUSH. I thank you, sir. That was a very clear statement. I yield.

The CHAIRMAN. Mr. Bolling.

Representative BOLLING. Mr. Eccles, in answer to a question, I think from Mr. Patman, you mentioned that the steel industry has raised its prices while it was operating at something like 50 percent of capacity. I am not trying to put words in your mouth, but do I gather that that means that you do believe that there are such things as administered prices, or whatever phrase you choose to us in place of "administered prices"?

Mr. ECCLES. It certainly was an administered price in that situation. I don't think that generally that is true, however.

I mentioned the automobile business. I don't think that generally there are administered prices, but I certainly think there are administered prices in our economy.

Representative BOLLING. Generally speaking, in what sectors would administered prices be, in your judgment?

I do not mean a description of them, but in what industries would administered prices appear?

Mr. ECCLES. I wouldn't like to single out any particular industries. Some might think that I was excluding them.

Representative BOLLING. Let's skip that then and go on to another one. However, you do feel that somewhere in the economy there are administered prices?

Mr. ECCLES. Yes; I think there is plenty of evidence of it.

Representative BOLLING. In your judgment, is this a bad situation?

Mr. ECCLES. I think it would be bad if there were not administered wages and fringe benefits. If we were operating in a completely free and competitive economy, it would be very bad. But to the extent that we find that wages and fringe benefits also pretty largely administered, especially in the important and the big industries, there is

not much leeway left for big business to take excessive advantage of the power to "administer" prices.

Representative BOLLING. The thing that I am trying to get at is, if you are correct and there are in fact administered wages and fringe benefits and administered prices, then the companies who have the market power to administer prices, and the great labor unions in those industries which have the power to have considerable amount to say about what their wage will be, do pretty well perhaps in this theoretical picture.

Mr. ECCLES. That is right.

Representative BOLLING. Whether it be real or theoretical, the public is left loose, and this brings me back to the specific question that I want to ask.

You say:

It should be apparent that unless the Government and the Congress has the courage to control the rapidly growing monopolistic powers of organized labor, further inflation is inevitable.

What I was trying to do in my preliminary questions was to see if if you did not mean that we had a major problem in both labor and management and that there needs to be some sort of approach to the overall problem.

Mr. ECCLES. I think that the basic danger is in the wage problem because about 75 to 80 percent of the cost of everything is labor.

It is impossible for business to absorb increased labor costs unless it is able to do so by a new capital investment in order to get greater productivity, and that is one thing that should be encouraged. That is why business should get a return on capital, because they should be encouraged to do everything possible to prevent inflation by technological development. That is a very important factor.

There are a great many of them that can't do it. They can't finance it. The problem of financing some of these huge expenditures at today's cost is very great.

I have heard it said that we could readily spend maybe as much as \$100 billion if we had it in the form of credit or in the form of money to modernize our entire productive structure, and we would greatly, in that manner tend to reduce costs, but I would say that if the profits—you have to watch the profits of business—of business are excessive and you have a situation such as developed in the steel industry, it may be very well for Congress to look into those situations.

I think the glare of public opinion on situations where prices are going up and wages are not going up would be so great that business would not dare to move because of the risk of a public investigation.

I don't have too much concern about business increasing prices until the profits that they are making become excessive in relation to the need for capital expansion and the need for investment income on the part of the public.

You have to recognize that the biggest owner today of corporations are pretty much by the public. Take your insurance companies and your pension funds. The mass public own an increasing amount of the American business.

True, they may be still concentrated to too great an extent, but the trend is very rapid in the direction of a much wider ownership of America's business.

Representative BOLLING. Do you think that that wider ownership changes the control?

Mr. ECCLES. No; I don't think that changes the control, but what I am thinking of is the wider ownership gets some benefit to the extent that it is owned by many and varied American citizens. All I am talking about is the trend of it. In the case, of course, of business, we have the Sherman Act, and we have the Clayton Act, and we have the Kefauver amendment. We have the Walsh-Healey. We have a good deal of legislation on our books to deal with the business situation.

Representative BOLLING. Mr. Eccles, at that point I would like to interrupt. I understand I have a couple of minutes left.

I refer again to that same paragraph:

It should be apparent that unless the Government and the Congress has the courage to control the rapidly growing monopolistic powers of organized labor, further inflation is inevitable.

How?

Mr. ECCLES. You mean how to control the labor situation?

Representative BOLLING. Yes.

Mr. ECCLES. It is of course, I realize, an extremely difficult problem, but there has been no approach to it at all. I think that certainly you might pass legislation dealing with the monopolistic situation of labor as well as the monopolistic situation in business.

We might put some sort of a criteria or maximum on wage and fringe benefit increases, such as indicated here, say, 3 percent per year.

Representative BOLLING. We would do this on labor without a similar maximum on profits as a percentage of investment?

Mr. ECCLES. Yes; I think you have a very different situation. The way you have to deal with business I think is under your antimonopoly laws, the Clayton and Sherman Acts, and I think you could well make some modifications there. I think that you could tighten up the antitrust laws.

I think there is possibly much that could be done in that direction and I think we should certainly try to deal with any abuse on the part of business.

Representative BOLLING. I am afraid my time is up, Mr. Eccles.

The CHAIRMAN. Mr. Kilburn.

Representative KILBURN. I was interested in your statement about the labor monopolies. Of course they are very powerful in this country, and if we recognize the facts of life we know they are also very powerful politically.

Some members of this committee had an opportunity to study the economies of some of the countries of Europe late last year. In some of them, apparently, the labor unions work with the Government and with business in order to prevent inflation and in order to stabilize their currency. Of course they have a big incentive to do so for the reason that large parts of their products are exported and they have to keep competitive in the world markets or they are out of a job.

Here in this country what do you think we can do, if anything, along that line to have the big, powerful labor unions sit down with the Government and the big corporations and try to come to some solution of what we have been experiencing, as a wage-price spiral.



Mr. ECCLES. Of course, the Government is represented in these situations whenever a strike develops. It may be well to have them into it before. The labor arbitrators, without the legal power to force a settlement, do get into the situation, and I think have had maybe considerable influence upon occasions.

I don't know what else could be done unless there is some law that could be passed that would bring about some sort of a compulsory arbitration. We might develop arbitration courts for the purpose of dealing in this situation that could have the force and effect of law.

I think labor would object to that and I think possibly business would object to it, too. But at the same time, the public are the ones that suffer when we get prolonged strikes. It is the innocent that suffer possibly more than the guilty. Even the organized rank and file of labor themselves have little to say in many instances.

The situation is so concentrated in the hands of a few leaders that they have a dictatorial economic power which is very, very great. It is almost greater than Government itself and it can completely paralyze our economy.

Representative KILBURN. Right on that line, I think you are dead right. Of course, a strike is an economic waste for everybody. The only fellow that is not out of a job is a labor leader. He still has his job.

Mr. ECCLES. I have said nothing about the foreign situation which is developing in relationship to our ability to export. It is becoming increasingly serious and foreign imports are likewise becoming extremely serious.

Last year we had a deficiency in our balance-of-payment situation with the world and in order to balance it out, we lost over \$2 billion of gold, so that our foreign expenditures, loans, and aid and foreign capital going abroad was excessive to the extent of over \$2 billion.

That situation could continue. I was just talking to a vice president of Westinghouse who was bemoaning the fact that they had just lost contracts to Swiss companies for 250,000-kilowatt generators for the city of Los Angeles, which is about half the size of the power the Boulder Dam creates. There were several others, Allis-Chalmers, General Electric, and others, who put in bids, I understand, and the American prices were around \$15 million, so the order went to Switzerland for \$9 million.

The Tennessee Valley Authority likewise placed an order in England. We lost on that in taxes millions and millions of dollars, as well as the millions of hours of labor on those kinds of orders.

Representative KILBURN. I get your point.

Mr. ECCLES. I just wanted to say that is one of the very serious situations that is developing in this country. We see it in the case of automobiles. We are going to have to have export markets abroad of our manufactured products in order to pay for the increasing amount of raw materials that we have to buy. We are becoming a have-not country in the raw material field. It is very serious and we have to keep prices on our manufactured products at a point where we can compete in the world markets.

Chairman DOUGLAS. Senator O'Mahoney.

Senator O'MAHONEY. Thank you, Mr. Chairman. It is always constructive to listen to you, Mr. Eccles. I always enjoy it.

Mr. ECCLES. It is nice to see you, Senator, from my own part of the country.

Senator O'MAHONEY. Would you want anybody to judge from your testimony here today in its original form and in the responses you have made to interrogatories that you believe labor unions are essentially bad?

Mr. ECCLES. No. No; I wouldn't want you to believe that at all. I am in sympathy, and have stated many times, with the interests of labor. After all, if labor unions hadn't developed so that they were able to get a greater share of the national product and get some of the benefits they have, we could be in a depression of the thirties.

Senator O'MAHONEY. It is necessary, in other words, that we have a large purchasing power to make a market for the products of industry; is it not?

Mr. ECCLES. It is absolutely essential.

Senator O'MAHONEY. While there are undoubtedly abuses in labor management, you do not want to imply by your testimony here that organized labor itself ought to be eliminated, do you?

Mr. ECCLES. I certainly do not. It is the last thing that I would propose, but what I am trying to point out here is the effect of the abuses on the public as a whole and on the rank and file of organized labor itself. That is what I am trying to point out.

Senator O'MAHONEY. Yes, but you do not want to imply that the abuses are the dominant mark of labor organizations?

Mr. ECCLES. No.

Senator O'MAHONEY. Just as you do not want to imply that monopolistic abuses upon the part of industry constitute the dominant mark of industry?

Mr. ECCLES. That is right. As far as industry is concerned, if we lived through the period and if we read history, we are all familiar with the terrible abuses of business up until the 1930's.

The depression of the thirties in my opinion was brought about by the abuses of business. If we had had strong labor unions in the twenties, we might very well have avoided the deep depression that we had.

Senator O'MAHONEY. Your testimony this morning mentioned your own belief that there might be some strengthening of the antitrust laws to continue to prevent abuses by business management.

Mr. ECCLES. Yes. I think that that should go hand in hand with a control of the abuses of labor, so that neither of them are able to impose upon the public interest.

Senator O'MAHONEY. I think we can all agree that abuses should be eliminated by whomever they are committed.

Do you believe that the present state of the economy is satisfactory?

Mr. ECCLES. I do not believe it is satisfactory because I think that with 4,700,000 people out of work and as much of our capacity idle as it is, it is not satisfactory. I feel, however, that it is making rapid progress toward a satisfactory condition of production and certainly better employment.

Senator O'MAHONEY. Do you really believe that there can be a definite and sustained improvement in a world as turbulent as the one in which we are now living with the free world and the communistic world facing one another almost in a military struggle?

Mr. ECCLES. I was thinking in terms of our localized issues in our country.

Senator O'MAHONEY. We cannot, can we, as a Congress, divide the world issue from the local issue?

Mr. ECCLES. That is true. We are very, very greatly affected naturally by conditions and developments throughout the world.

Senator O'MAHONEY. In your statement you said:

In our society, this situation is creating a dilemma for the Members of Congress whose constituents want easy money, lower prices, higher wages, greater profits, and fewer taxes.

And I think personally that there are a lot of people who fall into those classes.

On the other hand, I think there are a great number of people, and indeed I think a majority of our people, who are ready to sacrifice for the benefit of their country, but the next sentence says:

Only a combination of the Government, Congress and the Federal Reserve, can successfully deal with these diverse forces.

How do you divide Government, and Congress, and the Federal Reserve? Which is the most important factor?

Mr. ECCLES. I think the Congress is the most important.

Senator O'MAHONEY. Does the Congress exercise any control over the Federal Reserve?

Mr. ECCLES. Yes; they exercise a good deal. The Federal Reserve is the agency of the Congress. They report to the Congress.

Senator O'MAHONEY. Technically, is that not the fact, but is it practical in fact?

Mr. ECCLES. Practically, they have to try to work with the Government in power, and that is their job.

Senator O'MAHONEY. Does the Federal Reserve System represent the will of the people?

Mr. ECCLES. I don't think that directly they do. I think that the Federal Reserve System has an obligation to do what they can in order to maintain a stable dollar.

Senator O'MAHONEY. We hear it said over and over again that the Federal Reserve System is run by the banks. Do you think there is any basis for that statement?

Mr. ECCLES. No; I don't think that is true at all. The banks are not represented on the Federal Reserve. My experience with the Federal Reserve was, when I was there, that we certainly were not run by the banks.

Senator O'MAHONEY. I will agree with that statement.

Mr. ECCLES. I think of course, inasmuch as the Federal Reserve System operation has to deal with the commercial banking system and they have to work through the commercial banking system, naturally the banks are undertaking, some of them, I suppose, to influence the Federal Reserve in thinking as they would like them to think, but I don't think that the banks have ever and are not now really influencing the Federal Reserve in their policy.

Senator O'MAHONEY. I do not care to cross-examine you on that subject this morning. I just mentioned it in passing.

We hear a lot of talk about the balancing of the budget and the effect of deficit spending by Government on inflation.

Have you given any thought to ways and means of increasing the revenue of the United States? I mean a policy by which Congress could stimulate the production of wealth in such a manner as to increase the revenue of the Government so that we may make the expenditures necessary to preserve the military power of the Government and at the same time maintain the maximum employment?

Mr. ECCLES. I have given, of course, a good deal of thought as to how we can utilize as fully as possible our manpower and our resources. That is the only source of wealth and, after all, that is the source of the Government's income.

Senator O'MAHONEY. Do you not feel that much of our national product now is a useless, luxury product?

Mr. ECCLES. There are some things that are not, in the judgment of some, necessary. There is no question about that.

Senator O'MAHONEY. My time has expired so I will conclude by saying that I read in the papers the other day the statement that some spokesman for the Bureau of Public Roads had criticized automobile manufacturers for their huge use of steels and other metals in building gigantic fins and fenders.

Mr. ECCLES. I agree with that. There is one big waste. They are losing the business to the foreign cars as a result of it and to George Romney.

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

The CHAIRMAN. Congressman Widnall.

Representative WIDNALL. Thank you, Mr. Chairman.

Mr. Eccles, I would like to congratulate you on the forthrightness of your statement.

You said something to the effect that you could add little to what already has been said, but it seems to me you said a mouthful.

You stated:

The Government is having great difficulty in refunding its huge maturities, as well as raising new money to meet its deficit—even though it is paying the highest interest it has paid for many years.

In other words, the public is losing confidence. Some on Capitol Hill say this is due to a planned scare by a few seeking to profit from the Government bond market. Do you think there is any validity to this claim?

Mr. ECCLES. I don't think there is any at all. I think it is a consequence of the inflation that has been taking place for some time.

Particularly during the period of 1955, 1956, and 1957, and up until the middle of 1958, we had a continuous inflation developing. As a result, there has been a lot said and a lot written about the subject.

I think that the loss of \$2 billion in gold to the world last year, the amount of funds that have gone into real estate and equities at inflated prices, is the best evidence I can think of why people are reluctant in dealing in mortgages and bonds.

You take an FHA bond today, selling as a guaranteed bond. A 5¼-percent bond is selling at a discount of 4 to 5 percent, and even then there with a very limited market. Yet the public will not buy the bonds and the banks have suffered heavily as a result of the decline in their bond portfolio. They are huge holders of Government securities, and the intermediate and the longer term bonds have gone down all the way from 6 or 7 points to as much as 15

points in Government securities, which indicates the difficulty. The Treasury is completely unable to sell long-term bonds in the market.

Representative WIDNALL. Mr. Eccles, a lot of people watch the antics of the stock market and the way stocks have gone up within the past year or so.

It is my belief that the capital-gains tax as it is in the law today has tended to freeze stock from moving into the hands of many people, thus creating an artificial scarcity in the market. Is there any merit to that belief?

Mr. ECCLES. I don't think there is enough merit to justify repealing it. It seems to me that there is no question but that if there were not a capital gains tax, there would be a sale of some stocks. I think, however, that that might tend to increase speculation in stocks. There would be a much greater activity in buying and selling if it were not for the capital gain that does tend to freeze holdings, but many types of investors are not concerned about the capital gain tax. For example, pension funds, which are huge today, of course, have no capital gain tax to pay; they are investors.

Representative WIDNALL. Actually, part of the gain in value of stocks is attributed to an artificial scarcity of supply created by long-term holding.

Mr. ECCLES. I don't know what we mean by "artificial." I think that the supply wouldn't be changed much if you took the capital gain tax off. The amount of stocks outstanding would be the same. They would be just held by somebody else. They would only increase the activity. It would not increase the supply of stocks.

The only way the supply can be increased is for corporations to do more financing by creating new stock issues and selling them. That, of course, would add to the supply.

There is a hesitancy of corporations to do that because they would prefer to borrow because interest on debt is deductible from the 52-percent tax. So far as borrowed money to corporation is concerned, even at a 6-percent rate it is cheap. A 6-percent rate on a bond would cost the borrower no more than a 3-percent dividend on a stock. High corporation taxes tend to hold up the prices of stocks because corporations just don't issue stocks.

Representative WIDNALL. There are a number of spending proposals pending before the Congress at the present time which would require Government borrowing in the market, and today, on a long-term basis, that would be at 4 or over 4 percent; then, in turn, the Government would lend that money at  $2\frac{5}{8}$  to  $3\frac{1}{2}$  percent in various programs.

No. 1, is that not inflationary?

Mr. ECCLES. Of course it is. It would be inflationary to the extent it increased the Government deficit. Whether the Government spends it directly or whether the Government loans it to other agencies for spending makes no difference in the inflationary effect of the spending. Whatever the activity of the Government is where they pay one rate for money and loan it at a lower one, they are subsidizing that operation.

Representative WIDNALL. The second question along that line is: Does that not mean that you are putting the Government into business activity, competing with private enterprise, and inevitably driving private enterprise out of the market because they cannot compete?

Mr. ECCLES. I don't know what business you are referring to.

Representative WIDNALL. This is lending for housing or lending for community facilities, for example.

Mr. ECCLES. I am not concerned about private business competing in the credit there.

Representative WIDNALL. I am not talking about Government-guaranteed programs. I am talking about direct lending.

Mr. ECCLES. Yes. The thing I don't like is for part of the public, that part of the public that is building houses, to be subsidized by the Government because it means the population as a whole is paying the subsidy to a small group. I think that you can stimulate housing by such liberal terms that you inflate the cost of housing. One of the reasons housing costs are so high is because of subsidies in one form or another—primarily the excessively easy terms, no down-payment, and so forth. We might get more housing and then we might only inflate the cost of housing that we would get otherwise.

Representative WIDNALL. My time is up, Mr. Eccles. Thank you very much.

The CHAIRMAN. Congressman Curtis, would you like to ask a question?

Representative CURTIS. Some of Congressman Widnall's inquiries have led me to ask a couple of questions—one in particular. He was pointing up what people sometimes refer to as "frozen investment." To a large degree that is a very good example of the impact of inflation on our tax structure, is it not? The fact that equity issues have increased in money terms twice the amount is not a real increase at all, since there will be a tax imposed upon it which, to a large degree has created this problem. Would you agree with that observation?

Mr. ECCLES. I don't know that I understand the question.

Representative CURTIS. Mr. Widnall was pointing out one of the problems we had in this equity investment area, common stocks—what is called the frozen investment—and he was suggesting that maybe removing the capital gains tax might unfreeze it.

I was simply pointing out for other reasons that that is one of the dangers that result in the situation from prior inflation.

In other words, those who had invested in equity issues, say, in 1940, may have the identical holdings. Let's assume that the actual real value had not increased at all, yet because of the inflated dollar, there is going to be a tax upon what really amounts to capital.

Mr. ECCLES. As I said before, I think the high stock market, as was said by Mr. Kilburn in part, is due to the scarcity in stocks; and one of the reasons for scarcity is the high corporate tax; so that a corporation has to earn a pretty high return on equity as compared to borrowing where the interest payment is deductible.

Representative CURTIS. I appreciate that. I am just confining myself to this.

Then I was going to the next one. I agree with you that even though the supply might remain the same, if that stock began to move, nonetheless your activity is confined to that one area of unlocked investment.

To get to the next question, which is something I have been trying to point out for years. Our tax structures actually discourage the floating of new equity issues in favor of debt financing and in the

1954 code we put in, and I had a lot to do with it, this stock dividend credit, not to benefit investors at all, but to try to shift some of the corporate financing from debt financing to more equity financing. The objective of that stock dividend credit has come to be almost completely misinterpreted.

Whether people agree with the economic theory or not, they haven't paid attention to what the economic theory was in that area. I was just wondering if you had recognized that to be the motivation.

The whole discussion of the Ways and Means Committee, I can say, on whether or not to grant it was to encourage equity investment. The basic question is: Do you think that that is a example of where our tax laws are impeding economic growth?

Mr. ECCLES. I don't know whether they are impeding economic growth, but of course there is a duplication of taxation when the corporations pay the tax as they do and then the dividends that they disburse of course (unless they go to a nontaxable pension fund and other nontaxable organizations) are subject to the individual tax, for which there is no tax credit given for dividends.

I would think it would be a mistake to give a tax credit today because all it would do is stimulate the further purchase of stocks instead of bonds.

Representative CURTIS. What we are seeking to do, and I think you have been trying to do, I think, is to encourage corporations to finance their growth through more stock issues. It is that decision that I am concerned about and what prevents or what makes a corporation decide to use debt financing instead of a new equity issues. I think you have pointed out, it is the tax advantage that the corporation derives from debt financing.

So the question is: Is that not a factor in impeding what many people regard as healthy economic growth?

In other words, the corporate finance structure, as I understand it, should be basically equity investment and then debt on top of that tapering off rather than a very narrow equity base with a broad debt financing area in there.

If the gentleman agrees with that, my question is: Is it through the tax laws that we are impeding this healthy economic growth?

Mr. ECCLES. I don't know to what extent we may do that. I think we are impeding the economic growth more by disequilibrium. I think if we have stable prices for various periods of time so that the population could exchange goods and services on a more equitable basis than is the case today, that you could very well have a much better situation of employment and also production.

Representative CURTIS. I might agree. I might say, though, being somewhat the devil's advocate on my own thesis, stable prices actually would be the one further encouragement to debt financing.

Mr. ECCLES. Oh, yes.

Representative CURTIS. As opposed to equity.

Mr. ECCLES. As a matter of fact, if the public today had confidence in stable prices, you would not have the great variation between interest paid on bonds and mortgages and dividends derived from stocks.

The spread today I think is more than it has ever been. It is very wide and it is getting wider. If the public could be convinced that

we were not going to have a continuous inflation, I am sure that we would find a very big change in the long-term interest rate. The long-term interest rate would go down and with the interest rate going down, you would also find stocks going down and dividends going up. Until that psychology is changed, I cannot see much improvement in the mortgages and the bond market.

If the stock market were being supported today, as it was in 1929, by huge credit, you might not give as much consideration to the impact of inflation, but you find credit in the stock market today very small. With 90-percent margin, the amount of credit in the stock market is infinitesimal in its impact on stock prices compared with the tax structure and other considerations. Stocks today are pretty largely purchased for cash by investors and institutions, and not on credit, which suggests that it is not a credit inflation that is putting stock prices up where they are.

Representative CURTIS. Thank you.

Senator O'MAHONEY. Mr. Chairman, I will ask another question, if I may.

The CHAIRMAN. Yes.

Senator O'MAHONEY. This is suggested by your references to the inability of the Government to sell its bonds to the general public at anything like the interest rates that were once available.

Mr. ECCLES. Or institutions, not only the general public, but institutions.

Senator O'MAHONEY. Yes.

You mentioned the guaranteed debt that the United States has which operates to prevent the sale of these bonds. In 1958 the Treasury Department appeared before Congress twice, once at the beginning of the session and once just as it was about to adjourn, to ask Congress to pass a law increasing the ceiling upon the national debt. In each instance the law was passed, not exactly as the Treasury Department requested, but the debt ceiling was increased in both instances, and the Secretary of the Treasury at that time, in August as I remember, testified before the Finance Committee that the deficit for fiscal 1959 would be about \$12 billion plus.

It is now clear that it will be over \$13 billion plus and the Treasury Department, we are advised, will appear before Congress again this year to request another increase in the ceiling upon the national debt which is rapidly reaching upward toward the \$300 billion mark.

Is this not a significant factor which Congress must take into consideration before it can hope to make any progress toward stabilizing prices or maintaining maximum employment?

Can we have a prosperous economy while the national debt is so huge?

Mr. ECCLES. Yes. I am not concerned with the size of the public debt per se. I don't think that that is necessarily a deterring factor.

Senator O'MAHONEY. Even though it causes the interest rate to increase?

Mr. ECCLES. What I think is the serious thing about it is the increasing of the public debt under inflationary conditions as the price advances, because under those conditions they have great difficulty in financing the public debt except through going to the commercial banks and issuing bills and certificates, very short-term money, creat-



ing reserves in the banks so they can purchase those securities and adding to the money supply.

Senator O'MAHONEY. Let me interrupt to remark there that the money which we must pay on the national debt each year is increasing in an extraordinarily rapid manner. The interest payments appropriated by Congress this year will be in excess of \$8 billion, and if we increase the national debt some more, the interest payment will be climbing toward \$9 billion. That annual expenditure by the Government is the second highest expenditure that the Government makes. No other category of Government expenditure except national defense exceeds the expenditure for interest upon the national debt. Can we keep that up and how long and what is the limit?

Mr. ECCLES. That is a matter certainly of serious concern and it indicates the lack of confidence in the stability of our currency. Otherwise, you would not have any such interest rate. The interest rate is an expression of the market's demand for return in order to buy the Government securities.

As I said before, on the short-term debt, the Federal Reserve can very readily reduce the rate immediately and substantially by reducing the reserve requirements of the bank by open market purchases, dropping the discount rate and make money easy so that the banks in turn would do the financing on the short-term basis. That, of course, would add greatly to the inflation psychology. The entire increase in the public debt, as well as the refunding, would be going into the banking system and the public would be getting out of Government bonds and debt forms. That is why the Federal Reserve has felt compelled, even with the unemployment situation as it is, to do what they could do to try to assure the public that the dollar was not going to run away, that they were going to stabilize it, and I am sure that is why the Treasury is talking as much as they are about trying to balance the budget.

Chairman DOUGLAS. If I may interject, the more they talk about inflation when it is not a present fact, the more people get frightened and the more they are reluctant to buy bonds and they tend to purchase stocks, so that they help to create a very large portion of the difficulty about which they complain.

The record indicates for the last year that there has been price stability.

Senator O'MAHONEY. Not only is that true, but it is also absolutely true that the budget is not in balance, even though people talk about putting it in balance. The budget estimate which the President sent to Congress in January, showing a surplus of approximately 100 million dollars, was based upon assumptions of taxes that Congress would enact in response to the President's request, as, for example, the tax on gasoline to take the highway trust fund out of the red. That fund is now in the red over 200 million dollars and next year will be in the red over a billion dollars unless some revenue is added, so this talk about balancing the budget lacks realism, as I see it.

Mr. ECCLES. If it doesn't tend toward a balancing, we can be increasingly concerned. I certainly cannot see how it is going to be balanced next year, but certainly if there was a very substantial improvement in the situation, I think it would make a difference.

I have not mentioned the effect of city, county, and State deficit financing in this picture. This is another serious aspect of our national problem—the amount of tax-free bonds—and that is a real competitor with the Government market.

Our cities, counties, and States, I understand, this year will have about \$7 billion deficit in the aggregate. That is huge. It is much greater in proportion to taxes than the Federal Government, and any such deficit by cities, counties, and States being financed by totally tax-exempt securities cannot help but have a very serious impact on this whole problem of the Government bond market and on the whole question of inflation.

Senator O'MAHONEY. Not only is it true that the governments are in debt—county, State, and municipal governments—but consumer credit is running at practically the highest peak in history.

For 1958, the total consumer credit outstanding amounted to \$45,065 million, of which \$33,865 million was installment buying.

Mr. ECCLES. Of course, that did slow up. While consumer credit has just recently started up again, installment buying with the recession did level off and turned down.

Senator O'MAHONEY. I thank you very much, Mr. Eccles. It is always interesting to hear your views.

The CHAIRMAN. We are very grateful to you for the sacrifice that you have made to come here this morning to give us the benefit of your experience and your sound judgment.

Mr. ECCLES. I would like to express my thanks to you, Mr. Chairman, and to the other members of the committee for this very courteous treatment that I have had today. I always enjoy coming before the committees of Congress. I am like an old racehorse in a way. I got accustomed to it and I miss it. I thank you again for the opportunity.

The CHAIRMAN. Very few people say that, but we are delighted if it is true.

Your testimony completes this 4 days of preliminary hearings opening the committee's inquiry into overall economic policies.

This afternoon the committee will have available for the press a statement for release Friday morning, setting forth the details of the committee's second set of hearings to carry forward this study.

Without objection, the committee stands adjourned, subject to the call of the chairman.

We wish to thank you, Mr. Eccles.

(Thereupon, at 12:35 p.m., the committee recessed, subject to the call of the Chair.)

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