

EMPLOYMENT, GROWTH, AND PRICE LEVELS

HEARINGS
BEFORE THE
JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES
EIGHTY-SIXTH CONGRESS
FIRST SESSION
PURSUANT TO
S. Con. Res. 13

**PART 9B—CONSTRUCTIVE SUGGESTIONS FOR
RECONCILING AND SIMULTANEOUSLY OBTAIN-
ING THE THREE OBJECTIVES OF MAXIMUM
EMPLOYMENT, AN ADEQUATE RATE OF GROWTH,
AND SUBSTANTIAL STABILITY OF
THE PRICE LEVEL**

**MATERIALS SUBMITTED BY 12 ORGANIZATIONS AT THE
INVITATION OF THE JOINT ECONOMIC COMMITTEE**

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STUDY OF EMPLOYMENT, GROWTH, AND PRICE LEVELS

(Pursuant to S. Con. Res. 13, 86th Cong., 1st sess.)

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EMPLOYMENT, GROWTH, AND PRICE LEVELS

STATEMENT OF THE AMERICAN BANKERS ASSOCIATION

NOVEMBER 5, 1959.

HON. PAUL H. DOUGLAS,
U.S. Senate, Washington, D.C.

MY DEAR SENATOR DOUGLAS: The American Bankers Association sincerely appreciates your invitation to present our suggestions for achieving maximum employment, adequate growth, and reasonable price stability.

The attached statement has been prepared by the association's recently established committee for economic growth without inflation. Your invitation to submit this statement happened to arrive at a time when the association's officials and staff were very busy in connection with our annual convention, and it has therefore not been feasible to obtain official association clearance of this statement. Some of the recommendations contained herein represent positions officially adopted at various times by the association. On certain matters, however, on which the association has not formulated official positions, the committee for economic growth without inflation has set forth its own views in the hope that they may be helpful.

You will note that our statement deals largely, though by no means exclusively, with the financial aspects of the growth-inflation problem. This reflects our conviction that these matters deserve special attention as well as the fact that our association has naturally given more study to these than to some other aspects of the subject. We wish to mention, however, that the committee for economic growth without inflation plans to devote more study to some of these other aspects and hopes to be able to offer more suggestions regarding them at a later date.

Our statement contains a number of suggestions relating to the work of the Joint Economic Committee. We trust that this will not be regarded as being presumptuous on our part. It simply reflects our appreciation of the importance of your committee and of the power at your command to make vital contributions to the solution of our economic problems.

Sincerely yours,

CASIMIR A. SIENKIEWICZ,
*Chairman, Committee for Economic Growth Without Inflation,
The American Bankers Association, New York, N.Y.*

POLICIES FOR PROSPERITY WITHOUT INFLATION

FOREWORD: BASIC CONSIDERATIONS

This statement has been prepared in response to the invitation of the Joint Economic Committee to present "constructive suggestions as to public and private policies for reconciling and simultaneously obtaining the objectives of maximum employment, an adequate rate of growth, and reasonable stability of the price level."

1. Our chief aim: Good overall performance

At the outset, the ABA's Committee for Economic Growth Without Inflation wishes to commend the Joint Economic Committee for the way this problem is stated. It is clearly implied that all of these objectives are important and that they can be simultaneously achieved.

This committee heartily agrees with this viewpoint. What we want from our economy over the years is good overall performance—in terms of employment and output, growth, and price stability. These are all ingredients of enduring prosperity and our aim should be a balanced mix of these ingredients—sustained economic progress without inflation.¹

Indeed, we would go further and say that these objectives are not only compatible but, in the long run, are mutually interdependent. Specifically, we believe that price stability would promote economic progress, and conversely, that inflation might seriously retard it.

This is a major premise underlying our recommendations; namely, that the maintenance of reasonable price stability is not only desirable as an end in itself but that it can contribute importantly to stable growth. Since some people question this premise, it deserves elucidation. First, however, we wish to comment briefly on certain other economic and social objectives.

2. Other important objectives

Our discussion thus far might seem to imply that we are interested in our economy solely from the standpoint of its productive efficiency. Efficient production is its major task, of course, but it is not our only concern.

One of our other concerns is to preserve the high degree of freedom of choice and action that we enjoy in this democracy of ours. We do not want to be regimented. We cherish freedom as a good in itself and, in addition, it has unquestionably helped to make our economy the most dynamic and productive in all history.

We are also concerned with economic justice. This concept defies precise definition but it is nevertheless a powerful one in the minds of the American people. Even without defining it, however, it can be agreed that we have succeeded in achieving a remarkably high degree of economic justice in our society. And we wish to continue to move forward in this respect, not to regress.

Also, we want our economy to foster the strength and development of the free world. This needs no spelling out. The Communist drive for world domination clearly makes it imperative for us to maintain a strong and vigorous economy and to help to strengthen other free nations.

¹ Throughout this statement, the term "inflation" is used simply to refer to any rise in the general level of prices.

Finally, we want our economy not simply to produce more and more gadgets but to contribute to the broad social and cultural development of American society. All of us regard certain kinds of goods as being more important than others. In our democracy, we express these judgments in two ways, through our selection of the goods and services we buy for ourselves individually, and through our political decisions with respect to the goods and services that we wish to have government provide for us collectively.

There will probably always be differences of opinion as to the optimum division of our national income as between private and public spending, and also as to the types of services that government should provide. Fortunately, however, these differences do not have to be resolved in order to reach substantial agreement with respect to the policies needed to promote economic growth without inflation. Indeed, it is clear that these diverse desires can be satisfied only if we are successful in achieving orderly economic progress.

3. Ingredients of economic growth

Generally speaking, economic growth is a matter of raising our standards of living and increasing job opportunities. Vigorous growth has been an outstanding characteristic of the American economy throughout our history. It is therefore pertinent to consider briefly the factors that have produced our unparalleled economic progress.

Basically, of course, we owe much to our free economic, political and social institutions. Other ingredients have been our wealth of natural resources, the vigor and enterprise of our people, our former isolation from the ravages of war, and our advanced system of universal education.

In more strictly economic terms, however, growth consists of increasing the per capita output of goods and services. This is accomplished by applying the fruits of improved technology. This, in turn, requires the use of more and better tools and machines—more capital investment—to achieve greater productivity.

From an economic standpoint, therefore, the essential ingredient in this process is capital formation—the accumulation of savings and their use for productive purposes. A high rate of capital formation and a high rate of economic growth are practically synonymous.

We mention these elementary economic truths because some people are inclined at times to ignore them. Some seem to assume that the Federal Government can somehow create economic growth. Some even seem to equate governmental spending with growth.

Governmental policies can, of course, have an important influence on economic growth but this can be achieved primarily by encouraging the capital formation that produces higher living standards. Certain types of governmental expenditures promote growth, but others definitely hinder growth by diverting resources from their most efficient productive use. The American people have an unquestioned right to authorize governmental expenditures of the latter type for humanitarian or other reasons, but it is important to recognize that they retard growth.

Finally, excessive spending by Government may obstruct growth because of the high taxes it entails or because of its inflationary im-

pact. Here again, the key question from the standpoint of growth is the ultimate effects of this spending on capital formation.

4. Our economy is not depressionproof

Looking back over our history, it is apparent that the worst enemy of economic progress has been the business cycle. Indeed, aside from the valleys of the business cycle, vigorous growth of the American economy has been virtually automatic. Repeatedly, however, the rising trend of production has been slowed or reversed by recurring recessions and depressions. In every case, these have resulted from the excesses that developed during the preceding periods of expansion.

We have no illusion that the business cycle can be completely eliminated from a business economy, but it is clear that mitigation of cyclical swings should be a primary objective of public economic policy. More pointedly, if we are to achieve sustained economic progress, public policy must be directed toward avoiding the distortions that lead to recessions and depressions.

There are those who contend that depressions in the United States are a thing of the past. Unquestionably our economy is stronger by far than, say 30 years ago, but it is by no means obvious that it has become depressionproof. We cannot afford to assume that the possibility of depression does not exist.

At present indeed, we are in an advanced stage of one of the most prolonged expansionary periods in our history. If we should permit an inflationary boom to develop over the years ahead, it could lead to a serious economic setback.

5. How inflation could interfere with growth

These considerations underlie one of our chief reasons for believing that continuing inflation would impede economic growth; namely, that it would in all probability aggravate the cycle of boom and bust.

During good times, rising prices encourage unhealthy speculation in stocks, real estate, inventories, and plant capacity. They also permit maladjustments to develop in various parts of the economy. Costs and prices in certain areas—construction costs, for example—may get far out of line in relation to normal, longrun demand.

When a downturn comes, an accumulation of weaknesses such as these can cause real trouble. Evidence is by no means lacking that some of them have already been developing in the American economy in recent years.

Moreover, in the event of depression, the existence of an inflationary trend would complicate the problem of restoring prosperity. Recovery measures which would otherwise be appropriate and useful, would be inappropriate and dangerous because of their inflationary after-effects. Bold and prompt actions that might otherwise be called for, might lead to a renewed cycle of boom and bust of even greater amplitude.

These are by no means the only reasons for our belief that an inflationary trend would interfere with economic progress. Others, briefly stated, are as follows:

Many people already believe that continuing inflation is inevitable, or at least probable. This view would become even more widespread if prices were to rise further over the next several years. Such an expectation could have harmful effects on investment, saving and

spending. Again, there is evidence that this has already been happening in recent years.

For example, when funds which might go into investible savings go instead into speculation and inflation hedges, the supply of capital available for investment is reduced and the resulting tendency for increased consumption really amounts to a dissipation of savings.

At the same time, in anticipation of rising prices, borrowing appears attractive and there is a growing demand for credit, in excess of the supply coming from savings. This leads to pressure for bank-created money, which, if provided too freely, adds fuel to the fire.

6. Other dangers of continued inflation

We cannot assume that inflation would forever remain gradual. Certainly there would be pressures toward acceleration in addition to those already mentioned.

For one thing, anticipation of continued inflation would lead more and more groups to demand escalator protection, and this in itself would aggravate rising prices, as experience in France demonstrated. At some point, too, the incentive to save might become undermined and this would have far-reaching consequences both in accelerating inflation and in disrupting growth.

It seems clear, also, that the temptations to countenance deviations from any particular rate of planned inflation would be far greater than to allow deviations from the goal of price stability. Finally, mass psychology—the “psychological multiplier”—might prove to be very powerful.

Certain economists dilate on the factors that might tend to keep an inflationary trend within bounds. Some conclude that in view of the nature of our present-day institutions, acceleration would be unlikely. This is not good enough. Considering what is at stake—the future of our economy and the economic strength of the entire free world beset by the Communist menace—we cannot afford to gamble that inflation can be held to a creep.

Continued inflation in the United States would further impair the ability of American producers to compete with foreign products—both in our overseas markets and here at home. This would doubtless lead to pressure for increased protectionist tariffs and other impediments to world trade. Such a course would obviously retard economic growth both in the United States and in other free nations as well.

Additional inflation could seriously harm the international position of the U.S. dollar. Ironically, some foreign countries, for example, West Germany, observing the dictates of sound monetary and fiscal policy at our urging have strengthened their economies and currencies to a remarkable degree. Now we are in an unenviable position in which many responsible foreign finance experts feel they must keep a close and critical eye on the value the dollar component of their famous “gold and dollar” reserves.

The dollar is not by any means in serious trouble at the present time. On the other hand, we cannot ignore the huge foreign claims on our currency, nor can we afford to be complacent about the threat which further inflation would pose to the international value of the dollar.

7. *Areas requiring special attention*

These are the reasons for our conviction that in formulating policies to promote maximum employment and adequate economic growth, it is essential not only to guard against the ravages of the business cycle, but also to come to grips with the chief factors which have been responsible for the inflationary trend in our economy in recent years.

This is a big order because it is clear that many complex factors have contributed to our recent inflation. Nevertheless, in our judgment, many of the most potent inflationary factors which lend themselves to treatment can be grouped under two broad headings:

1. The combined inflationary effects of various policies pursued by the Federal Government, and
2. The combined effects of industrial wage and price practices which have produced the wage-cost-price spiral.²

The inflationary tendencies in these two areas are discussed later in some detail. Suffice it to say at this point that if our analysis of them is valid, then it logically follows that any program to achieve sustained economic progress must give special attention to these two crucial areas, and we have done so in our statement.

This does not imply that other areas should be ignored. There are various other policies, public and private, which could contribute to price stability and economic progress which also deserve attention, and our statement deals with some of these other areas as well.

These, then, are the basic considerations that underlie our comments and recommendations which follow.

I. FEDERAL FISCAL AND DEBT MANAGEMENT POLICIES

1. *The nature of the problem*

Our Federal budget has now become mammoth and threatens to continue to grow at a rapid rate.

Because of its vast size, the budget tends to be inflationary and to retard economic growth in other ways as well. Even when it is in balance, a budget the size of ours has a net inflationary impact on the economy for a variety of reasons, probably the principal one being that the high taxes it entails reduce private savings.³

In addition, because the budget is so large and taxes are so high, budgetary deficits tend to exceed surpluses over the years. This at

² The phrase "wage-cost-price spiral" is used here and elsewhere in this statement because it is a convenient and descriptive way of referring to the spiraling process which has been clearly evident in our economy in recent years. It is not intended to convey any implications with respect to the causality of the factors involved in this process.

³ This is one of six reasons cited by the president of the American Economic Association in "Prosperity Without Inflation," Arthur F. Burns, Fordham University Press, 1957, pp. 74-75.

times has directly inflationary effects and it also means that some lendable funds, which would otherwise be available to finance productive private investment, are absorbed by Treasury financing. Moreover, some of the spending programs included in the budget directly support or raise prices and divert resources from productive use in various segments of our economy.

It is bad enough to be confronted with such a huge budget, but the persistently rising trend in all major categories of Government spending is even greater cause for concern. Indeed, looking back thoughtfully over our budget experience of recent years, it seems clear that the predicament in which we now find ourselves and which threatens to become even worse, stems from the strong tendency of Federal expenditures to rise, not just in one of two parts of the budget, but in all types of public spending.

Add to this picture the enormous increase that has taken place in federally guaranteed debt. This is not a direct burden to taxpayers, to be sure, but, as will be discussed later, it has intensified the Treasury's debt management problems and has thereby constituted a real cost to the public.

In short, the Congress and the American people are today confronted with some hard decisions that need to be made with respect to our Federal finances. Unless sensible decisions are arrived at soon, the budget threatens to get out of control and to produce even more grave consequences than we have suffered thus far.

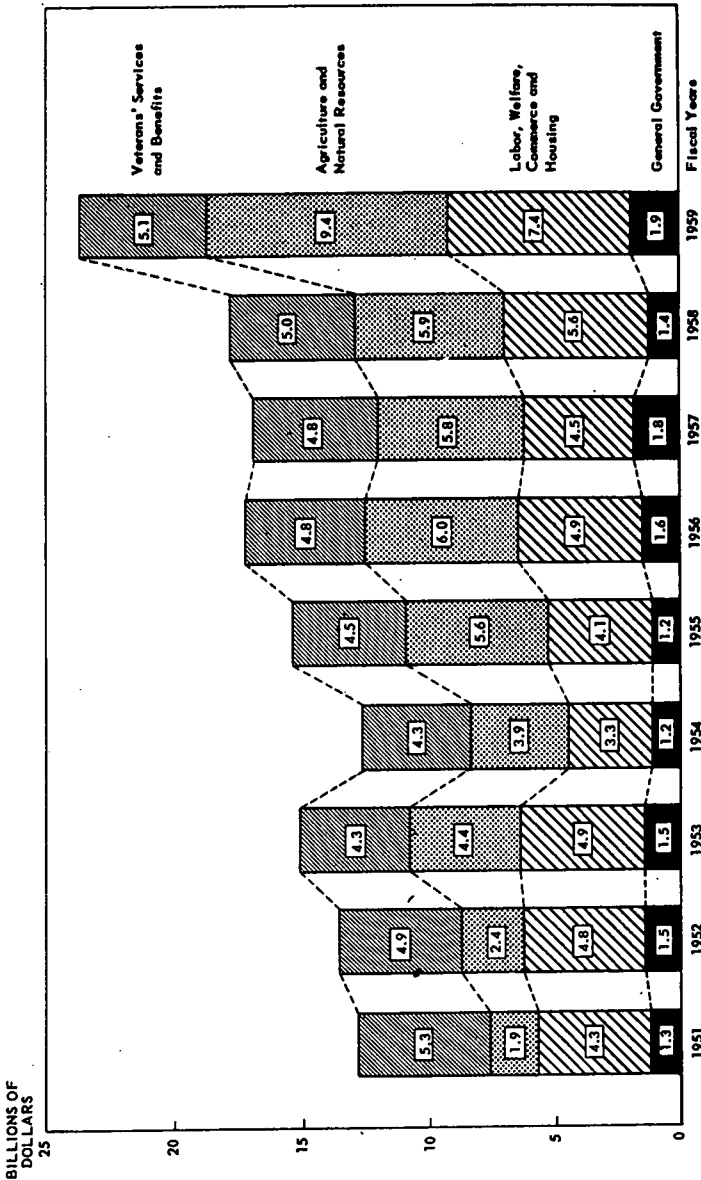
2. Nondefense expenditures

A large portion of the budget consists of outlays for defense and foreign aid that are vital to the security of this country and of the entire free world. It goes without saying that, as a nation, we can and must spend whatever we need to spend to safeguard our freedom. Military expenditures should certainly be subjected to critical analysis but we must proceed with great care in trying to achieve economies in this area.

As a practical matter, therefore, nondefense expenditures constitute the heart of our budget problem. Chart I shows how rapidly these outlays have been increasing. Comparing fiscal 1959 with 1955, for example, we find that over this short span of years, expenditures other than for national security, international affairs and debt service, rose from \$15.4 billion to \$23.8 billion, or 55 percent, and that increases occurred in every major category.

Special factors could be cited to account for some of this increased spending in particular categories. Nevertheless, the conclusion seems inescapable that we have been unsuccessful in combating the strong tendency for all types of governmental expenditures to rise from one year to the next.

CHART I - HOW SPENDING PROGRAMS GROW
EXPENDITURES OTHER THAN NATIONAL SECURITY, INTERNATIONAL AFFAIRS AND DEBT SERVICE



Sources: The Federal Budget in Brief and The Treasury Bulletin.

We have acquired the habit not only of permitting existing expenditure programs to grow each year but of regularly inaugurating new spending programs as well. It is significant that during this period, these nondefense spending programs increased more than three times as fast as outlays for defense and foreign aid.

Incidentally, these facts belie the bland assumption that expanding tax revenues resulting from economic growth will painlessly solve our budget problem. The rising trend of Federal spending is much steeper than any realistic projections of the Treasury's tax receipts.

There doubtless remains some scope for improving the efficiency of various governmental operations. It is highly unlikely, however, that a major improvement in the budget can be effected from this source alone.

This means that if we are to hold down governmental expenditures, we will be forced to make fundamental revisions in some of our large domestic spending programs.

3. Where cuts are needed most

It seems clear that some spending programs, appealing though they may be, can hardly be classed as being "essential." In the circumstances in which we now find ourselves, we must recognize that we simply cannot load too many of these nonessential programs into our budget.

In short, when our bills for necessities have increased so greatly, we cannot afford to continue spending more and more for nonnecessities, much as we might wish to. Whether we happen to like it or not, we have reached a point where we must now take a more realistic attitude than we have in the past toward nonessential spending programs.

Without attempting to run the gamut of nonessential Government expenditures, we point to the large annual pork-barrel legislation as an obvious area in which ways to cut spending can be found. Such legislation, an old tradition in U.S. politics, undoubtedly provides for many public works that are nonessential and some that represent a real wastage of labor, materials, and capital.

Other examples could easily be cited. For instance, it would certainly be difficult to justify certain parts of our present program of benefits to veterans. Society obviously has obligations to veterans who have incurred service-connected disabilities. It is a completely different matter, however, and clearly discriminatory against other citizens, to use public moneys to pay benefits to veterans and their families for disabilities which are in no way connected with their having been in the service.

Agricultural price support programs constitute probably the outstanding opportunity for achieving a really substantial cut in the Federal budget. This problem will be discussed in some detail in a later section of this statement.

As noted earlier, some types of Federal spending do promote economic growth and there may be a good case at times for expanding certain of these outlays. It should be remembered, however, that desirable as these activities may seem, they do cost money and if they are financed by means of inflation, they may thereby do more harm than good. If we do enlarge some of these spending programs, we should be willing to pay for them in the form of taxation.

4. Budget policy over the cycle

There is urgent need for a new working philosophy with respect to the Federal budget. Years ago when the budget was much smaller, it sufficed merely to balance it in good times. Today, however, as mentioned above, the budget has become so huge that it is inflationary even when it is in balance.

In these circumstances, a good practical approach would be to balance the budget over the course of the business cycle. This means that when production and employment are at high levels, we should

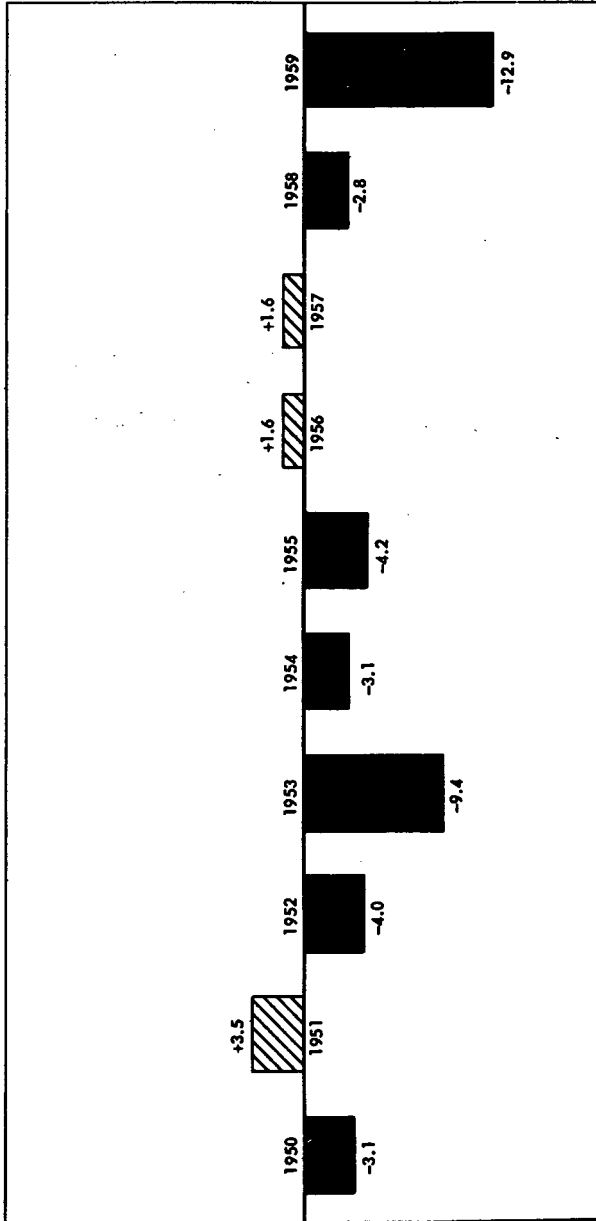
achieve substantial budgetary surpluses for debt reduction in order to reduce inflationary pressures.

Chart II shows how far short of this objective our actual budgetary results have been. Over the past decade, budgetary surpluses have been few and small, whereas deficits have been frequent and sometimes large.

Moreover, as can be seen from the chart, the recessions since World War II have been accompanied by successively larger budgetary deficits. If this is a trend, it is an ominous one.

CHART II - OUR INFLATIONARY FEDERAL BUDGET

BUDGET SURPLUSES (+) AND DEFICITS (-) FISCAL YEARS 1950-59
(BILLIONS OF DOLLARS)



Source: The Federal Budget in Brief.

This picture plainly calls for strenuous efforts to cut back on non-essential and postponable governmental spending during periods of active business. Such a policy is needed to avoid accentuating a boom and pushing up prices.

In addition, if restraint is not exercised at such a time, we may find when recession strikes that we have used up some of our best anti-recession ammunition and also that the economy may have become relatively insensitive to stimulus. If this should lead to resort to massive and wasteful expenditures to spur recovery, future inflation would be made probable if not inevitable.

5. Tax policies

Although the A.B.A. has not made a detailed study of the Federal tax structure, it is our belief that a thoroughgoing study in this area would reveal many opportunities for improvement, particularly from the standpoint of encouraging rather than discouraging capital formation, the basic prerequisite for economic progress.

It is highly gratifying, therefore, that the House Ways and Means Committee is currently undertaking a broad study of this problem. We trust that this inquiry will give special attention to the impact of Federal taxation on economic growth and price stability and to drafting remedial legislation that will be conducive to prosperity without inflation.

A major danger in tax policy is that tax reductions may wipe out budgetary surpluses whenever they start to appear. As previously mentioned, there is need in good times to achieve surpluses for debt reduction and every effort should be made to develop a tradition of responsibility along this line.

6. Budgetary procedures of the Congress

Few would contend that the budgetary procedures of the Congress are perfect. Some would suggest that reforms in this area are badly needed.

For one thing, individual appropriation bills and tax bills are too frequently enacted without sufficient consideration of their relationship to the overall budget picture. There are, of course, some knotty problems involved in trying to rectify this situation. Nevertheless, this continuing weakness in congressional procedures is an obstacle to achieving adequate control over the budget.

Another procedural deficiency is that many expensive spending programs come into being as a result of seemingly innocuous small appropriations for getting them started. Congress should scrutinize requests of this kind with great care and should insist that they be accompanied by projections of expenditures over future years and estimates of total ultimate costs.

It is also suggested that the Congress insist upon a clearer presentation of the full costs involved in our agricultural programs. At present it would take an expert to put together the scattered and complicated budget entries that go to make up the total costs of these programs. There might be more interest in finding a sensible solution to the farm problem if more people were aware of the magnitude of these costs.

Presidential authority to veto individual items in appropriation bills has been urged from time to time by Presidents of both parties.

It would probably be unrealistic to expect a Congress controlled by one party to grant such power to a President of the other party. However, in our present fiscal predicament, this reform is more urgently needed than ever before.

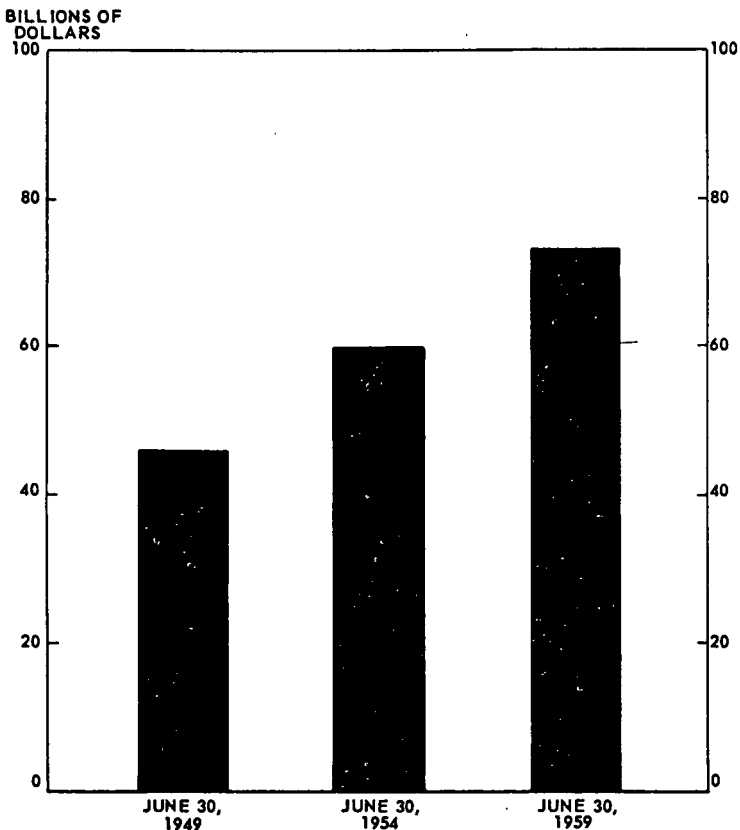
7. *Problems of debt management*

The problems of public debt management have become progressively more serious, not only for the Treasury but for the economy as a whole.

In recent years the Treasury has encountered increasing difficulty in trying to place its obligations with savers and savings institutions. As a result, it has been forced to resort more and more to short-term financing. As shown by chart III, the Treasury's floating debt has increased substantially over the past decade.

CHART III - THE MOUNTING SHORT TERM DEBT

MARKETABLE TREASURY DEBT DUE WITHIN ONE YEAR



Source: Treasury Bulletin and Federal Reserve Bulletin.

The basic trouble here is our failure to pursue a noninflationary budget policy, as already discussed. This has made it necessary for the Treasury to borrow large sums during periods when other demands for credit were also strong. Such borrowing has at times added substantially to the upward pressures on interest rates and has increased the cost of servicing the debt. In addition, the condition of Federal finances has added to inflationary fears and made investors less willing to hold Treasury obligations.

The situation has been aggravated by the huge increase that has taken place in Government-guaranteed debt, which competes with direct Treasury obligations for the funds of various types of investors. This competition really hurts. Many investors have shifted on a large scale from holding Treasury obligations to investing in guaranteed debt. The expansion of this debt has also reduced the general availability of credit and contributed to higher interest rates. As far as the credit markets are concerned, it has had very much the same effect as a comparable rise in the public debt itself.

There is no way out of this situation except to rectify its causes. The first requirement is a noninflationary budget policy. If we could achieve substantial surpluses for debt reduction during booms, the Treasury would not be forced to try to compete for lendable funds at the very times that other sectors of the economy are borrowing heavily.

Another need is to slow down the rapidly rising trend of Government-guaranteed debt. In formulating policies in this regard, the Congress should bear in mind that this kind of public subsidy to particular borrowers is not costless by any means. It is expensive, not just to the Treasury but to the public in general.

It would be most desirable if the Treasury could develop a program for regular, periodic extension of its debt maturities. Congress should encourage the Treasury to achieve a better maturity distribution of the debt and, of course, should grant the Treasury adequate authority to handle the debt in as noninflationary a manner as it can—including authority to pay the going market rate for long-term money.

Speaking more broadly, the fundamental cure of these problems is to correct the inflationary biases in our economy and thereby to allay inflationary expectations and fears as well. This would lead to less Treasury borrowing, less upward pressure on interest rates, a lower cost of carrying the public debt, greater availability of credit for private borrowers, and greater willingness on the part of savers to hold Treasury obligations. Unless effective action is taken to halt inflation, however, the problems of debt management could become even more acute.

The nature and seriousness of these problems are not widely understood. The Joint Economic Committee would render a real service by explaining them, stressing their importance, and urging remedial policies.

II. CREDIT CONTROL POLICIES

1. Federal Reserve policy

It is, of course, the overwhelming consensus of informed opinion that flexible monetary policy and flexible interest rates are essential to any program for achieving economic growth without inflation.

Monetary policy has its limitations, naturally, and it would be dangerous to depend on it to accomplish more than it actually can accomplish. Also, like any other control, it may be harmful if it is used unwisely.

Nevertheless, it is clearly indispensable. Moreover, there is widespread agreement that, by and large, the Federal Reserve authorities have shown both skill and courage in administering monetary policy in recent years and that, on balance, their policies have made an important contribution to economic stability. On the whole, the record has been good.⁴

Monetary policy is always a matter of judgment and human judgment is never infallible. However, it seems plain that our best hope for bringing wise judgment to bear on monetary policy is to leave responsibility for it vested with an impartial professional group operating under a broad congressional mandate, namely, the Federal Reserve Board.

We believe that your committee would render a useful public service by simply reiterating these fundamental propositions in a straightforward, unequivocal manner. Obvious though they may seem to many of us, they are not adequately understood by the public. And they urgently need to be widely understood if monetary policy is to be permitted to make its full potential contribution to stable economic progress.

The usefulness of monetary policy would be inhibited if the tightening of bank credit during booms were to cause serious harm to particular groups of borrowers. Admittedly, the impact of monetary policy is more uneven than might be regarded as ideal. Fortunately, however, the evidence indicates that its effects in recent years have not been concentrated on any one or two types of borrowers but that, generally speaking, they have been quite widely diffused among almost all categories of borrowers.⁵

This matter deserves continuing study, of course, for conceivably it might some day be desirable to take action to prevent certain borrowers from being badly hurt by a tightening of credit conditions. On the basis of available evidence, however, it seems clear that measures of this kind are not warranted at the present time.

Certainly they should not be resorted to without ample justification. Efforts to soften the impact of monetary policy on some borrowers would inevitably discriminate against others, would increase the

⁴ See "Economic Policy Questionnaire," Joint Economic Committee, 1959, pp. 6-7.

⁵ The most comprehensive study in this area is the recent report on "Financing Small Business" prepared by the Federal Reserve System. See also the results of two surveys conducted in 1955 and 1957 by the Department of Monetary Policy, the American Bankers Association, summarized in the November 1955 and September 1957 issues of Banking magazine: "Monetary Policy and the Present Credit Situation" and "Monetary Restraint and Bank Credit."

demands of other groups for similar preferential treatment, and would tend to undermine the effectiveness of monetary policy.

One further comment. It is clearly a responsibility of the Federal Reserve to supply sufficient credit to support economic growth. Just as clearly, however, the Reserve authorities have neither mandate nor excuse to supply more credit than is required to support sustainable growth; i.e., to create so much credit as to be inflationary. To do so, indeed, would be a betrayal of their public trust. And to charge them with "impeding growth" because they remain faithful to this trust, would be like criticizing a doctor for prescribing a proper diet instead of administering a harmful drug.

If the Federal Reserve supplies sufficient credit to support growth and growth is not adequate, the remedy lies not with Federal Reserve policy but elsewhere.

2. Credit policies of Government agencies

It would be desirable to achieve closer coordination of the credit policies of various Federal lending and credit-guaranteeing agencies with Federal Reserve policy—definitely not the other way around.

Although efforts in this direction in recent years have met with some success, policies of these agencies are still inconsistent at times with national monetary policy. And the activities of these agencies have now become so vast that these inconsistencies could impair the usefulness of monetary policy.

This is a complicated problem that cannot be completely cured simply by passing a law. Nevertheless, it might do some good if the Congress were to take appropriate action to make it clear that one of the primary responsibilities of every Government agency empowered to grant or guarantee credit, is to see to it that its credit policies are at all times consistent with Federal Reserve policy.

Suggestions are made from time to time for establishing some kind of centralized council to achieve such consistency. The great danger would be that the authority of the Federal Reserve might thereby be weakened, and for this reason, many who would like to see better coordination are nevertheless skeptical about these proposals. In any event, if such an arrangement is tried, certainly every precaution should be taken to guard against this danger.

Real estate credit is an area where coordination would be particularly helpful. When general business and construction activity are at high levels, it would be desirable to modify the liberality of some of the terms of VA and FHA lending.

The Congress also has a responsibility to see to it that Government lending agencies do not become an escape route enabling some borrowers to evade being affected by a tightening of credit conditions.

For instance, it is one thing to maintain a Small Business Administration as a safeguard against the possibility that certain small firms might otherwise be unable to obtain credit that they need and really deserve. It would be something else again—and a very serious matter—if such an agency were to pour public funds into types of loans that private financial institutions are properly being discouraged from making in the interest of helping to stabilize the economy.

Requests to the Congress to add to the lending authority of Government credit agencies should therefore be scrutinized with great care.

3. *Are more controls needed over private credit?*

Are additional controls needed over private credit to supplement the Federal Reserve's existing powers? Various suggestions have been made along these lines and some may deserve consideration.

It should be observed that proposals of this kind represent a patchwork approach which, for the most part, would not even need to be considered if our economy were operating in a satisfactory manner. Furthermore, reliance on selective credit controls should not be resorted to in lieu of doing other things that urgently need to be done in other areas. It would be folly to put credit into a straitjacket of excessive regulation and to ignore other more basic problems that require solution.

It should be emphasized that selective credit controls can at best merely supplement general monetary policy; they cannot possibly serve as a substitute for it, as some of their sponsors apparently believe. They do not provide a potential way of avoiding a general tightening of credit and rising interest rates at times when demands for credit exceed the supply.

Controls of this type have obvious disadvantages and dangers. In general, they should not be imposed unless they promise to have important stabilizing results. On the other hand, if careful study does indicate that some additional controls are really needed, then they should be adopted.

One more point deserves emphasis in this connection. As discussed above, there is inadequate coordination of the policies of Federal credit agencies with Federal Reserve policy. It would seem clear that action should be taken to rectify this situation before imposing additional restraints on private credit.

Proposals are advanced from time to time for more regulation of real estate credit. If anything were to be done in this direction, it should involve a broadening of the authority of the Federal Reserve Board in this area. However, the Board has shown little disposition to urge such an extension of its powers.⁶

Opinion is divided among bankers, as it is among others, as to whether the Federal Reserve should have standby authority to regulate the terms of consumer installment credit. From firsthand experience, bankers are well acquainted with the disadvantages of this type of regulation and for this reason, many believe that it would do more harm than good. Others, however, feel that despite these admitted disadvantages, it might nevertheless be desirable to give the Federal Reserve standby powers in this field. Few, however, would be inclined to urge legislation of this kind unless the Federal Reserve Board should see fit to modify its official position on this issue.⁷

There has been considerable discussion in recent years, especially in academic circles, as to whether additional credit controls should be imposed upon private credit institutions other than commercial

⁶ For a more detailed discussion of controls over real estate credit and also over consumer installment credit, see "How Might Monetary Management Be Made More Effective?" Department of Monetary Policy, the American Bankers Association, 1956; also "Monetary Study No. 6—Basic Issues of Monetary Policy," Economic Policy Commission, the American Bankers Association, 1955.

⁷ The Board's position was set forth in a statement transmitted to the Chairman of the Joint Economic Committee and others on May 24, 1957. On the basis of its broad study of this subject, the Board concluded that "special peacetime authority to regulate consumer installment credit is not now advisable." Federal Reserve Bulletin, June 1957. pp. 647-648.

banks—usually referred to by economists as “nonbank financial intermediaries.”

It is quite apparent that the growth of the commercial banking system has been restricted by Federal Reserve policy, whereas the growth of other types of financial institutions has not been so restricted to anywhere near the same degree. Consequently, some of these other types of institutions have been able to grow much faster than commercial banks.

This fact alone, however, while not irrelevant, would not justify imposing additional controls over these other institutions. The basic issue is whether the stabilizing effects of such controls would be sufficient to justify this type of additional regulation from the standpoint of the broad public interest.

This is a problem of great complexity. However, it is by no means obvious from presently available data that the public interest would be served by additional regulation of this type, and it is certainly desirable to proceed with caution before instituting more controls over private credit institutions.

This whole problem is presently being studied by a number of groups, including the Commission on Money and Credit. In advance of the publication of the findings of some of these studies, it would seem premature for us to make any specific recommendations regarding this question.

III. OTHER GOVERNMENTAL POLICIES

1. Need to amend the Employment Act of 1946

The Employment Act of 1946 provides our basic guide to national economic policy by directing all agencies of the Government to “promote maximum employment, production, and purchasing power.” It does not, however, explicitly state that reasonable stability of the price level is an important economic objective.

In the opinion of many, the present language of the act implicitly includes this objective. Unfortunately, however, there are those who disagree with this interpretation.

Since this is the case, the Congress should remove all doubt on this score by amending the act to make explicit its intention that avoidance of inflation should be one of the primary aims of public economic policy.

The absence of such a declared objective is understandable, perhaps, in view of the fact that the original act was adopted when deflation was considered the main danger to our economy. It has become evident, however, that inflation has been and is an equally dangerous threat and it should be so recognized—just as your committee has seen fit to give it explicit recognition in defining the objectives of your present study.

Such an amendment would be a clear indication of the determination on the part of the Government to pursue a consistent and predictable policy of fighting inflation. It would strengthen the hands of those in Government who are trying to keep our economy sound. It would remind other groups of their responsibilities and would en-

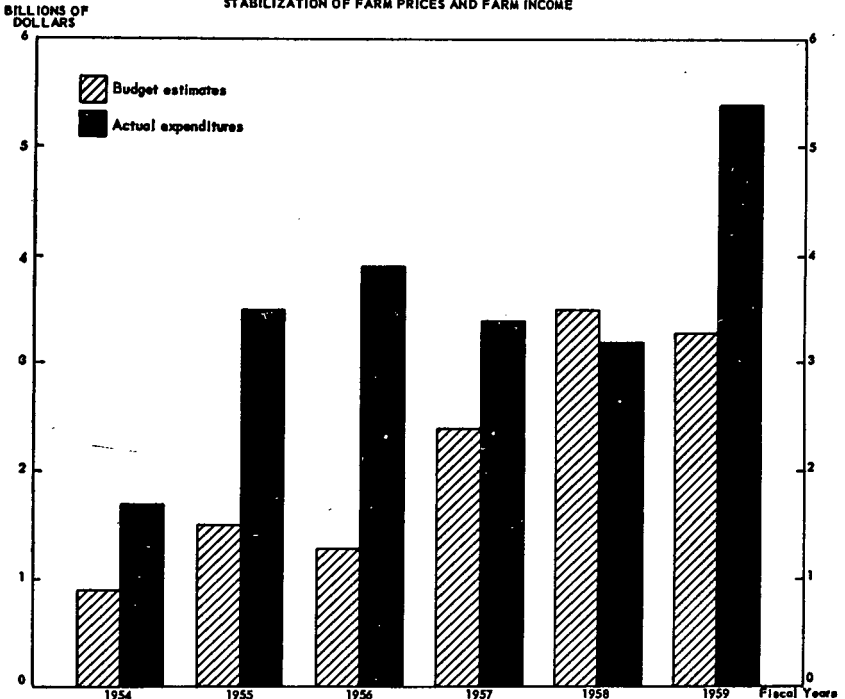
courage self-restraint on their part. It would exert a dampening effect upon the inflationary expectations and fears of the public.⁸

In short, this action would constitute an important act of legislative leadership and would contribute to the achievement of the objectives outlined by your committee.

2. *The farm problem*

Although farm price supports have been in effect for more than two decades, the situation has not improved but has worsened, despite the expenditure of many billions of dollars of public moneys. As shown by chart IV, this spending has not only been enormous, it has ex-

CHART IV - FARM PROGRAMS OUT OF CONTROL
BUDGET ESTIMATES AND EXPENDITURES FOR
STABILIZATION OF FARM PRICES AND FARM INCOME



Source: *The Federal Budget, 1954-1959*

hibited a persistently rising trend in recent years.

The chart also reveals the unpredictable and uncontrollable character of these expenditures. As can be seen, actual annual outlays for these programs have usually exceeded original budgetary estimates by very large amounts, thereby frustrating efforts to keep the budget under control.

If these vast expenditures had produced a solution to the farm problem, that would be some consolation. But they have not. Farm surpluses have continued to pile up. Attempts to dispose of them

⁸ See statement on "The Goal of Price Stability," Economic Policy Commission, the American Bankers Association, 1958.

abroad have created headaches. Many farmers have been hurt by acreage restrictions. And the wastage of resources—of labor, land, and capital—continues. This whole situation comes close to being a national scandal.

The basic causes of the farm problem are complex, but the net result is clear and unequivocal—too many resources employed in certain types of agricultural production. The net impact on economic growth and prices is also clear. American living standards would be higher and living costs lower if some of the resources now engaged in agriculture were productively employed elsewhere.

Attempts to achieve needed adjustments in our agricultural economy have made little headway. Moreover, it is widely recognized that the major benefits of price supports accrue to segments of the farm economy which do not have adjustment problems. These programs have, therefore, been self-defeating and futile, as well as fantastically expensive.

Over a long period of years, repeated efforts by both political parties to find solutions to the farm problem through the usual political processes have failed again and again. Proposed remedies have invariably become political footballs.

In a study published last year, the Agricultural Commission and the Economic Policy Commission of the ABA had this to say:

No magic, costless, or painless solution to the farm price and income problem will be found. Instead of relying on political promises for a solution, Americans need to face facts and work out answers which will fit the facts.⁹

In view of these considerations, the committee for economic growth without inflation submits that a new approach to this subject is imperative. We urge, therefore, that there be appointed a bipartisan commission to conduct a comprehensive study of this whole problem and to formulate solutions. Those named to membership on this commission should be of such ability and stature that their recommendations will command widespread bipartisan support.

3. Foreign trade policies

Progressive reduction of the barriers to international trade can contribute to economic growth, higher scales of living, and avoidance of inflation in the United States.

A large volume of trade between nations indicates that they are concentrating on producing those goods and services which they can produce most efficiently. A high degree of freedom in international trade is an effective dampener on rising prices in any nation that abides by the decisions of the marketplace and avoids raising trade barriers.

The American Bankers Association has supported the reciprocal trade agreements program. We continue to recommend the orderly and reciprocal reduction of trade barriers which this program has effected in the past.¹⁰

In addition, there is need today to prepare ourselves for intensified foreign competition. There would seem to be little question that some American exporters have lost a portion of their overseas markets in recent years and that many foreign products have become increas-

⁹ "The Farm Problem," Agricultural Commission and Economic Policy Commission, the American Bankers Association, 1958, p. 31.

¹⁰ See "Resolution on Foreign Trade Policy," the American Bankers Association, 1958.

ingly competitive in our domestic markets. While these losses have been modest to date, continuing price increases here could result in more serious ones.

There is real danger that those affected may come to the Congress with requests for higher tariffs, quota restrictions, and other obstacles to competition. Such a course would not solve the problem but would make it worse. Higher protective tariffs would retard growth and would tend to raise prices in our markets. If requests of this kind are made, therefore, we urge the Congress to scrutinize them very critically.

To be sure, some other countries have inflationary problems similar to ours. Nevertheless, many leading nations have been moving toward subjecting themselves increasingly to the disciplines of currency convertibility and a freer flow of trade. This should be beneficial to the United States provided we stay competitive. However, our trade position could suffer if we fail to follow public and private policies which will keep American products competitive in our own and foreign markets.

4. Strengthening unemployment insurance

The 1957-58 recession spotlighted weaknesses which had developed in our unemployment insurance program. It became apparent that both the amount of benefits and their duration and also the size of the accumulated reserves were inadequate in many States. In fact, enactment of the Temporary Unemployment Compensation Act of 1958 was an emergency effort by the Congress to assist the States to cope with this situation.

Since we believe that an adequate system of unemployment insurance constitutes one of our important defenses against recessions, we urge that steps be taken now—rather than waiting until a new emergency has arisen—to strengthen our present system.

Existing Federal-State relationships in this field should be maintained to the maximum extent possible. However, the Congress should, where necessary, attempt to persuade States to liberalize the amount and duration of their unemployment benefits and to put their individual systems on a sufficiently sound basis, from the standpoint of adequacy of reserves, to assure reasonable benefits for the unemployed.

5. Housing without inflation

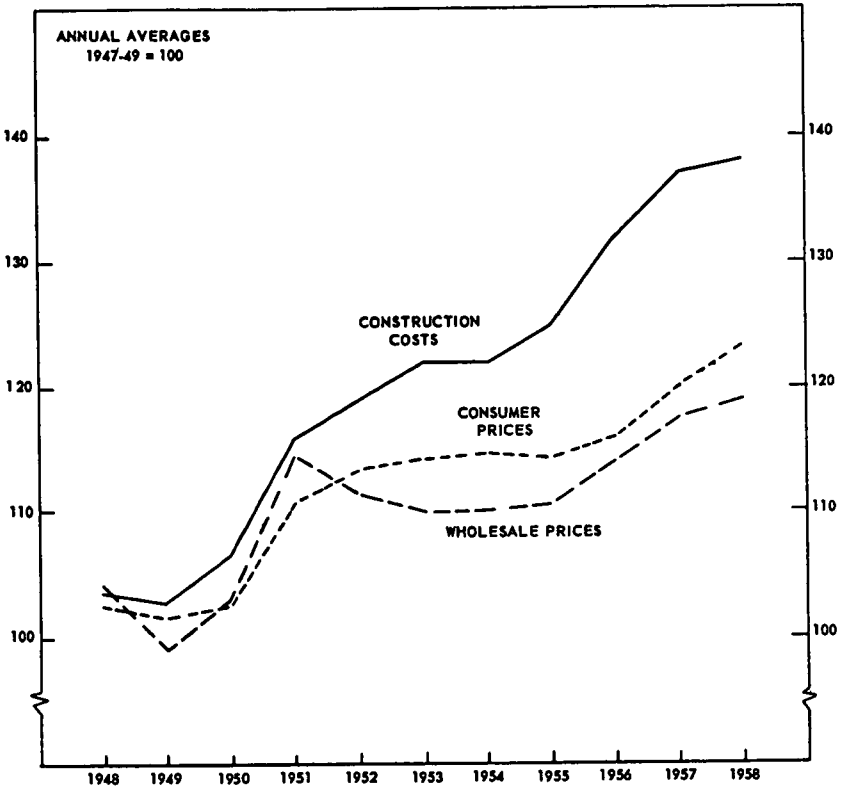
There are good reasons for the Federal Government to encourage housing, especially for the lower income segments of the population. However, it is important that such activities be carefully coordinated with overall economic policies. This has not always been done in the past.

More specifically, one of the primary aims of housing policy should be to help to stabilize residential construction. This necessarily means that the Government's efforts to promote housing should be concentrated during recession periods, when it is desirable to stimulate economic activity. During booms, when business activity in general and construction in particular are at high levels, the Government should curtail its stimulants to residential building. At such a time, these stimulants add to inflationary pressures by pushing up construction costs and land values, which in turn exert upward pressure on rents, wages, and other prices.

That this has been an important factor in our recent inflation is suggested by the fact that over the past decade, construction costs have risen considerably more than the general wholesale and retail price indexes, as shown by chart V. Moreover, if too much building is

CHART V - INFLATION IN CONSTRUCTION COSTS

SELECTED PRICE INDEXES: 1948-58



Source: Dept. of Commerce, Business Statistics, 1959.

undertaken in boom years, the demand for housing tends to become satiated, thereby weakening what could be an important stimulus to the economy during a succeeding downturn.

Inflation in construction costs is particularly serious from this standpoint. During a recession or depression, demand for housing may be slow to recover if costs have been inflated and resist decline. This also creates the danger that public housing programs adopted as stimulants would tend to keep up these costs and further retard the recovery of private demand.

6. *Organization for policymaking*

There is one more subject in the area of public policy to which we should like to invite your attention; namely, the matter of organization for policymaking within the Federal Government.

Throughout the vast network that comprises our Federal Government, there is a great variety of committees, agencies, bureaus, departments, councils, and other groups which have varying degrees of responsibility in connection with various aspects of our economic problems. The picture is further complicated by the fact that some of these groups are concerned with social and political as well as economic objectives.

The question we raise is whether this existing setup of these various units and their existing powers and procedures, add up to the most effective organization we could possibly put together for dealing with these highly complex problems.

We are obviously in no position to offer recommendations on a question such as this. Nevertheless, it does seem to us that this may be a matter to which the Congress may wish to devote careful consideration.

IV. INDUSTRIAL WAGE AND PRICE PRACTICES

1. *Strategic importance of this area*

If it is true, as clearly seems to be the case, that the combined effects of industrial wage and price practices have been a major inflationary force in our economy in recent years, then the sooner and the more widely this is understood, the better. Failure to recognize this could lead to false and harmful prescriptions for economic policy.

Unfortunately, many discussions of this subject confuse rather than clarify. Some people are loath to say anything that might offend organized labor; others are just as loath to offend businessmen. And spokesmen for both of these groups often present rather one-sided viewpoints, to say the least.

Indeed, it would be easy to get the impression from these discussions that the aims of management and labor are incompatible. What needs to be emphasized is that harmonious industry-labor relations are not only possible but inherently necessary if we are to maintain economic progress.

The distribution of the gains from increased productivity always has been and, no doubt, always will remain, a thorny problem. But labor, in seeking an increased share, and management, in formulating its pricing policies, must bear in mind that no group has an exclusive claim to all of these gains. Some should go to labor through higher wages; some should go to investors through an adequate return on invested capital; and some should go to consumers generally in the form of lower prices and better quality of the things they buy.

The attainment of maximum production and employment in a private enterprise economy requires the cooperation of management, labor, and investor. It calls for a mutual and sympathetic understanding on the part of each others' contributions to a progressively higher standard of living for all. We have made significant progress in this respect but more is needed.

2. Need for an authoritative synthesis

The problems involved in this area are obviously complex and delicate and should be approached with great care. Yet they are vital and need to be not only approached but fully explored.

The ABA Committee for Economic Growth Without Inflation has not as yet formulated positions with respect to these matters because we have not found any really thorough, impartial analysis of them and we have not completed our own study of the subject. From examining the record, however, we are convinced that it will be necessary to face up to these problems and to work out some solutions if economic growth without inflation is to be achieved.

We wish to commend the Joint Economic Committee for your recognition of the importance of this subject and for the hearings and studies in this area which have been conducted under your auspices. These materials contain many revealing facts and insights.

In our opinion, there is need for a clearer, objective synthesis of these and other available materials. At present, they constitute scattered fragments of a complicated puzzle. They need to be carefully sorted and put together to produce a balanced, realistic picture. We hope that your committee plans to produce a comprehensive, authoritative synthesis of this kind.

3. Your committee could clarify basic facts

In addition to producing such a synthesis, your committee could perform a real public service by clarifying certain of the basic facts regarding this subject.

For example, there is need for clarification even on such an elementary question as whether or not rapidly rising wages have contributed importantly to the rising trend of prices in recent years. To many people, it seems very apparent that this has been the case, while to others, this does not seem to have been true at all. There is certainly considerable confusion in the public mind regarding this central issue.

One reason for this may be that some studies in this area do not develop clear-cut conclusions. Certain economists emphasize other factors that have affected prices during particular years. Some marshal data which, they point out, do not prove anything about the effects of rising labor costs, thereby giving the impression that no one really knows. What is needed is an authoritative study with positive answers.

Some people have recently become rather complacent about the wage-cost-price spiral. Others see no reason for complacency in view of the fact that for many years the trends of unit labor costs and of industrial prices have been upward. Does good evidence exist that these trends have now definitely come to an end? And if such evidence does not exist, then on what grounds, if any, is complacency justified?

It would also be most helpful if your committee could clarify the part that industrial pricing policies have played in the inflation of recent years. Are there important industries where profit margins are not sufficiently held down by competition? Are there some in which productive efficiency has been improving rapidly but where the record shows that little has been accomplished toward sharing the benefits with the public in the form of lower prices? And is it

not true that unless some of these more progressive industries do follow a policy of reducing prices from time to time, the trend of all industrial prices is bound to continue to rise?

It is hoped that your committee will be able to supply straightforward, clarifying answers to these and other key questions in this area. This would be a really major accomplishment that would reflect great credit on your committee.

4. Some partial remedies

There are several rather obvious directions in which efforts should be made to help slow down the wage-cost-price spiral and to raise living standards.

First, management and labor alike should redouble their efforts to step up industrial productivity by methods that do not add to inflationary pressures. There are undoubtedly opportunities for improving efficiency in particular industries and this could yield some worthwhile price reductions.

Similarly, there is need for renewed and continuing efforts to strengthen competition throughout American industry. This is important from a long-range standpoint, though it is not the panacea that some people seem to think.

A third partial remedy would be the elimination of cost-of-living escalator clauses from wage contracts. Almost by definition, these provisions tend to be inflationary. The lesson from French experience with escalation would seem to be crystal clear, and it is significant that France has now abolished escalation except in connection with her minimum wage law.

Escalator provisions are harmful not only for their direct effects upon costs and prices but also because they encourage indifference to the dangers of inflation. Indeed, many who are not presently on the escalator are more interested in trying to get on than in helping to stop inflation.

5. Need for more remedies

In the absence of good evidence that the wage-cost-price spiral has now suddenly come to an end, there is urgent need for a continuing search for more remedies in this strategic area. Various proposals have been advanced, some of which may deserve careful objective study by your committee. It is hoped that your committee will be able to come up with some constructive recommendations.

V. IMPROVING PUBLIC UNDERSTANDING

1. Opportunities for the Congress

We cannot expect to achieve and adhere to sound economic policies in this country unless they have widespread public support. Time and again the American people have demonstrated that when they have a decent understanding of a public problem, complicated though it may be, they can usually be counted on to arrive at sensible decisions. It is essential, therefore, to build a better understanding of these matters among all segments of the population.

Your committee and other committees of the Congress are in a position to accomplish a great deal in this direction. Carefully con-

ducted congressional studies and hearings can help enormously toward clarifying the facts and spreading an understanding of them.

In Great Britain, in recent years, the Council on Prices, Productivity, and Incomes—popularly referred to as the Cohen Commission—has made a significant contribution to public understanding of some of these subjects. We urge that consideration be given to establishing an impartial, continuing educational council along these general lines in this country.

2. Opportunities for others

As a long-range proposition, it is important that young people should learn more about economics than they are presently learning in our schools and colleges. There is need for a searching reexamination of the teaching of economics and of its place in the curriculums of all types of educational institutions. This should be a matter of concern to teachers, school boards, and educators everywhere.

A more immediate need is to inform the adult population regarding these matters. This is an area in which not only teachers and educators but many others have responsibilities and opportunities. Many private groups—professional and trade associations, labor organizations, service groups, and others—can assist by means of conducting their own educational programs.

It should be emphasized, however, that organizations such as these may cause confusion and do considerable harm if they engage in irresponsible and misleading propaganda. There is need for respect for facts in connection with activities of this kind and also for restraint in criticizing others. Distortions of truth, false accusations, and name calling are clearly a disservice to the public.

Incidentally, one of the chief activities of the ABA Committee for Economic Growth Without Inflation will be an educational program conducted largely through the banks. This activity is being undertaken with full realization that some people may impugn our motives and perhaps even attack us for doing so.

Be that as it may, our program is being undertaken primarily because the American Bankers Association believes that it should do its share to try to contribute to public understanding of economic problems. We have a responsibility to our depositors and to the public generally to try to help safeguard the value of people's savings. In addition, we realize that the welfare of banking, as well as that of all other groups, is dependent in the long run upon the welfare of the Nation as a whole.

VI. NEED FOR RESEARCH AND STUDY

1. What Government can do

There are many aspects of the growth-inflation problem on which more information and insights are needed. It is really amazing to consider that we Americans who take such pride in our vast expenditures for technological research spend next to nothing for studying economic problems which so vitally affect our national welfare.

Government has added substantially to our knowledge regarding them and can clearly contribute more. Specifically, it is urged that careful study be given to the suggestions contained in this memoran-

dum and also to other constructive suggestions which will doubtless be received from others invited to submit statements to your committee.

It is recommended further that consideration be given to establishing an independent study commission—perhaps along the lines of the Hoover Commission, or the royal commissions in Canada—to explore some of the areas in which more enlightenment is needed. It seems clear that such a commission might be able to make important contributions.

2. What others can do

There is also need for more study in these areas by economic research organizations, by university groups, by professional, business, labor, and civic organizations, and by individual economists.

It is encouraging that in recent years increasing attention has been devoted to this type of research, but much more is needed. Philanthropic foundations can assist by directing more of their research grants into this area.

Particular industries could contribute in a variety of ways to promoting growth and relieving inflationary pressures. For one thing, it might be highly constructive if individual industries were to initiate independent studies to explore how their own policies and practices might be modified to foster these objectives. Incidentally, as part of its new program, the American Bankers Association has already initiated some studies of this kind on banking policies to promote economic growth without inflation.

CONCLUSION: NEED FOR SOCIAL RESPONSIBILITY

In concluding this statement, we wish to emphasize the importance of developing a stronger sense of social responsibility among all groups concerned. We say this not with any self-righteous, holier-than-thou attitude, but simply because, along with many others, we recognize the basic importance of this objective and feel that mention of it may not be inappropriate in a statement on this subject.

There is need for all groups to strive to be as objective as possible in dealing with these problems. Every group has an obligation to act in a responsible manner and to refrain from deliberate distortions of fact and from unjustifiable attacks against others. All should bear in mind that all will benefit in the long run if we are able to achieve a dependable dollar and stable economic progress.

In a very real sense, our free society is presently on trial. Our past achievements have been great but it still remains for us to prove that our democratic institutions are capable of dealing effectively with the difficult economic problems that confront us in today's world.

The Communist menace makes it imperative that we succeed. All groups and individuals—public officials, businessmen, bankers, employees, labor leaders, farmers, educators, economists, editors, writers, and the public at large—must strive to live up to our high responsibilities as citizens of the United States.

STATEMENT OF THE AMERICAN FARM BUREAU
FEDERATION

NOVEMBER 12, 1959.

HON. PAUL H. DOUGLAS,
*Chairman, Joint Economic Committee,
Congress of the United States, Washington, D.C.*

DEAR SENATOR DOUGLAS: In accordance with your request of October 2, we are enclosing a statement relative to our views on maximum employment, economic growth, and price level stability.

Since we are now in the midst of the procedure by which our members annually develop Farm Bureau policies for the coming year, the enclosed statement has been confined to general principles. We may wish to make more specific recommendations after our policy development program has been completed at our forthcoming annual meeting.

Very truly yours,

CHARLES B. SHUMAN,
*President, American Farm Bureau Federation,
Chicago, Ill.*

EMPLOYMENT, ECONOMIC GROWTH, AND PRICE
STABILITY

We appreciate the opportunity to submit comments with respect to the committee's study of "Employment, Growth, and Price Levels." We understand that the committee is particularly interested in "suggestions as to public and private policies for reconciling and simultaneously obtaining the objectives of maximum employment, an adequate rate of growth, and a reasonable stability of the price level."

Adjectives such as "maximum," "adequate," and "reasonable" are subject to various interpretations—particularly when used in describing a series of interrelated, but possibly conflicting, objectives. For example, the question of what is "maximum employment" must be answered in terms of prevailing labor standards, retirement customs, and the willingness of people to work. These factors in turn are likely to be affected by the rate of economic growth. The question of what is "adequate economic growth" must be evaluated in terms of the capabilities of our economic system, and the requirements for achieving maximum progress over time, as well as in terms of more immediate objectives with respect to income, employment, and national defense. The question of what is "reasonable stability" in the general price level involves judgment with respect to the effects of changes in the price level, not only on employment and growth, but also upon our ability to maintain our political and economic system.

FARM BUREAU POLICY OBJECTIVES

Farm Bureau believes that the objective of public and private policies in the areas under consideration should be to achieve a more stable price level than we have had in the past, together with high employment and rising productivity, both per worker and for the economy as a whole. While absolute stability probably cannot be achieved, we believe that stability in the general price level—which means stability in the purchasing power of money—is a highly important objective. In other words, the objective of policies which affect the value of money should be to minimize fluctuations in the general price level. This is essential to provide a favorable climate for economic growth and a rising standard of living.

A sharp drop in the general price level (deflation) is inconsistent with the objective of growth since it normally is associated with a decline in business activities; reduced incomes; a rising volume of mortgage foreclosures and bankruptcies; and an underuse of resources, including human resources. A continually rising price level (inflation) is likewise inconsistent with the objectives of economic growth. Among other things, inflation destroys the value of money; discourages saving; distorts investment decisions; encourages speculation; and creates imbalances in the economy, which set the stage for a deflation. Thus, stability is much to be preferred to either inflation or deflation.

In order to achieve a more stable price level than we have had in the past, the Federal Government must follow policies that will give people confidence it will do everything in its power to protect the value of the dollar against the extremes of both inflation and deflation. If people become convinced that the Government is following policies that will lead either to inflation or deflation, they are likely to act in such a way as to make the expected result inevitable. Consequently, it is desirable not only to minimize fluctuation in the general price level, but also to avoid conditions which would cause people to expect a long-continued movement of the price level either upward or downward.

By "high employment" we mean the highest employment that can be obtained without jeopardizing our other objectives of "a more stable price level" and "rising productivity." This is not necessarily "maximum employment" at all times if that result can be obtained only at the cost of inflation or "make work" policies that fail to add to total output. A high level of employment is desirable to (1) utilize our human resources in the production of goods and services that contribute to better living standards, and (2) to provide widespread opportunity for individuals to earn a share in the fruits of our economy through productive efforts. But, policies that expand employment at the cost of inflation are self-defeating in the long run. The same is true of policies that expand employment without increasing output. Such policies do not contribute to growth—they merely redistribute our economic product. In so doing they may actually impede growth by reducing incentives and opportunities.

Economic growth is a highly desirable objective since it is only by expanding our output on goods and services that we can improve living standards, provide gainful employment for a growing work force, and maintain essential defenses against the Communist threat.

As an industry which currently has both a substantial overcapacity in terms of present markets, and a sizable underemployment problem, agriculture has a particular interest in economic growth.

CONSISTENT OBJECTIVES

In our opinion, high employment, economic growth and stability in the general price level are mutually consistent objectives. As has been pointed out above, a stable general price level helps provide a favorable climate for economic growth. Growth creates employment opportunities (although society may decide to take a part of the benefits of the growth in the form of increased leisure) and high employment facilitates the production and savings that are essential for growth. Since the beginning of the industrial revolution, fears have been expressed that the expansion of output resulting from economic growth would lead to unemployment, but this has not happened in any general sense.

The possibility of conflict between the objectives of high employment, economic growth and stability in the general price level arises only if it is assumed that the Federal Government can and should achieve more employment and growth than are consistent with the objective of price level stability through policies that (1) expand the supply of money and credit in relation to the supply of goods and services, or (2) use tax money to expand selected economic activities. We do not accept this assumption.

It is argued by some that policies designed to achieve price level stability reduce our capacity for growth and employment by restricting the availability of money and credit, and by contributing to higher interest rates. It is also argued that restraining the growth of the money supply has differential effects which work to the disadvantage of certain groups and public bodies. We do not agree with these views.

It is true that inflation, which is characterized by a rise in the general price level, sometimes creates an illusion of prosperity, but growth that is brought about by inflationary policies is likely to be more apparent than real. Inflationary policies tend to have a spiraling effect. If we permit a little inflation to stimulate a desired level of economic activity, the probabilities are that more inflation will be required to keep it going.

It must be remembered that economic growth is usually brought about by changes in technology, the development of new skills on the part of labor and management, and capital investment. In other words, economic growth is primarily a function of research, education, and capital formation, all of which require that individuals postpone consumption in order to build up productive resources. Increasing the supply of money and credit faster than the supply of goods and services does not create new resources, it merely permits an increase in the prices of existing resources. Consequently, it is unsound to argue that the policies necessary to keep the supply of money from expanding more rapidly than the supply of goods and services inhibit economic growth.

It is true, however, that employment and growth can be restricted, if industry and labor attempt to force prices and wages above an equilibrium level in the face of monetary and fiscal policies which are designed to stabilize the general price level. One of the real threats to economic stability is the danger (1) that the policies followed by big labor and big business will result in unwarranted wage and price levels and (2) that both groups will then pressure the Government for inflationary action to prevent excessive wage and price levels from resulting in reduced sales and unemployment. This danger is the basis of the contention that we have a "cost-push" inflation. Mistaken wage and price policies will tend to prove self-correcting if the Government fails to validate them by increasing the money supply. We need, however, to explore ways and means of making industrial prices and wages more responsive to reductions in demand as an offset to the increases that inevitably take place when demand is strong.

The argument that the use of monetary and fiscal policies to achieve price stability has undesirable differential effects on the economy rests on two main contentions:

(1) It is argued that rising interest rates impede the construction of public facilities and private housing. This is true only to the extent that there are artificial restrictions on the interest rates that can be paid on money borrowed to construct public facilities and private housing under Government guarantee programs. The sound antidotes to high interest rates are increased savings and a Federal budget surplus—not an inflationary increase in the supply of money and credit.

(2) It is also argued that restricting the money supply to stabilize the general price level created financing problems for small business. It probably would be more accurate to say that restricting the supply of money and credit makes it more difficult to finance marginal, high risk projects and that the sponsors of such projects are often, but not always, small businessmen.

The use of tax funds to stimulate the growth of selected economic activities can expand our resources and increase total growth only by reducing current private consumption. Government action to increase growth at the expense of private consumption amounts to forced savings. We believe that individuals should be allowed to decide for themselves how much they wish to save and invest.

Equally, if not more important, is the fact that proposals to use tax funds to expand selected activities generally involve subsidies. The fact that Government aid is sought for a project is usually pretty good evidence that private investors do not consider it to be the best available opportunity for the use of scarce resources. Economic growth cannot be maximized by using the power of Government to channel investment into projects that cannot pay their own way. The temptation to try to stimulate the economy through expanded Federal spending is particularly strong in periods of recession. Recessions are painful, but they are a reflection of the processes by which a free economy corrects mistakes before they pyramid into more serious problems. As was demonstrated in the 1957-58 recession, our economy has great recuperative powers. Consequently, it is difficult to time increased public expenditures so as to avoid stimulating the economy at the wrong time. When Federal action is needed to combat a down-

trend, Farm Bureau favors reduced taxes in preference to increased Government spending.

NEEDED POLICIES

The basic responsibility of the Federal Government in the areas under consideration is to follow policies that will contribute to the maintenance of a favorable climate for employment and growth through private initiative and enterprise. Stability in the general price level—which is another way of saying “sound money”—is an essential factor in the maintenance of a favorable economic climate. The Federal Government has particularly important responsibilities in this field. The Constitution provides that Congress shall have the power to coin money and regulate the value thereof. Furthermore, the Government’s financial operations are so large that they inevitably affect the course of the general price level. As noted above, Farm Bureau believes the Government should follow fiscal, monetary, and debt management policies which will inspire confidence that everything possible is being done to maintain sound money and protect the economy from the extremes of inflation and deflation. A more complete statement of our views on the policies required for price level stability is set forth in the attached extract from our currently effective policy resolutions.

The maintenance of policies that will contribute to stability in the general price level is only one of several things that the Federal Government can do to create a favorable climate for growth and employment.

The Government can make important contributions to the maintenance of a favorable economic climate through a vigorous and effective antitrust program to promote competition by preventing the exercise of monopolistic powers in restraint of trade.

Farm Bureau is opposed to the exercise of monopolistic powers by any segment of our population, whether it be industry, labor, agriculture, or the Government itself. In the words of our current policy resolution on this subject:

Competition is a basic element in the spirit, drive, dynamic growth, efficiency, and adaptability of the American economy. Unless the competitive concept is carefully guarded, private industry stagnates, becomes exploitive, or is subjected to a growing complexity of Government controls. If we are to remain a free people, we must accept the discipline of competition.

While we consider it a proper function for the Government to encourage competition, we do not think it appropriate for the Government to enter into business activities in competition with private enterprise.

Labor-management relations are an important area where the Government has important responsibilities by reason of conditions that have developed under Federal legislation. We need to find some way of reducing the waste of resources that now results from labor-management disputes. The situation that now exists in steel certainly is inconsistent with the objectives of high employment, economic growth and a stable price level. However, if unions are to be permitted the power to tie up entire industries until their demands are met, they can be expected to use such power, at least occasionally.

An orderly reduction of existing barriers to the expansion of international trade would also contribute to our capacity for economic

growth. As a result of trade restrictions here and abroad, productive resources are now being channeled to industries where productivity is relatively low, at the expense of industries that have a higher productivity.

The Federal budget is another area where the Government has important responsibilities for helping to maintain a favorable economic climate. Federal tax and expenditure policies affect the economic climate not only through their effects on price level, but also through their effects on incentives to save and invest. High taxes, which are a natural consequence of heavy Government spending, undoubtedly restrict growth by reducing savings and investment. In addition, regardless of the general level of taxes, some types of taxes undoubtedly interfere with growth more than others. In order to promote maximum growth, Federal spending should be confined to objectives that are clearly in the national interest and necessary taxes should be levied with a view of minimizing their interference with economic growth.

Needed private policies consist primarily of support for Government policies that will contribute to a favorable climate for individual initiative and enterprise. Private individuals and groups need, in particular, to develop an understanding of the dangers of inflation; the role of competition in our economy; the importance of education, research, savings and investment in raising living standards; and the fact that Government spending must be paid for either through taxes or inflation.

[Extract From Farm Bureau's 1959 Policies on Monetary and Tax Matters]

MONETARY AND TAX POLICIES

It is becoming increasingly clear that inflation is our most serious economic problem.

The American dollar has lost more than one-half the purchasing power that it had in 1940. This has already created serious problems for young people, for farmers who are caught in a cost-price squeeze, for those who have retired, and for State governments whose revenues do not automatically increase in proportion to the decline in the value of the dollar. The threat of further inflation is made more serious by the fact that many people are beginning to believe that a continuing decline in the value of the dollar is inevitable.

PRICE LEVEL STABILITY

We reaffirm our belief in the importance of measures to bring about a more stable general price level as a means of providing a favorable climate for economic growth and a rising standard of living. This is essential if we are to avoid a far-reaching expansion of government controls over individual decisions and actions.

The quick recovery of our economy from the recent recession demonstrates the basic strength of our private enterprise system. The fact that we are again faced with the threat of inflation demonstrates the dangers of resorting to inflationary policies every time there is a slackening of business activity.

We continue to oppose direct price and wage controls.

Government policies which affect the supply of money and credit should be directed toward promoting a relatively stable general price level together with high employment and rising productivity. Government also has a responsibility to so conduct its affairs as to inspire confidence that everything possible is being done to protect the economy from the extremes of inflation and deflation.

In periods of relatively high employment and business activity, the Federal Government should not only balance its budget and keep it balanced to eliminate the need for deficit financing but also reduce the total national debt. If the budget is unbalanced in such a period, the government should borrow necessary funds from nonbank lenders to the maximum extent possible to avoid the creation of new money. The existing national debt should be managed to prevent non-bank-held securities from being shifted to the commercial banks, as such a shift creates new money just as the sale of new securities to banks.

In periods of declining employment and falling prices, these policies can be reversed to combat depression. In such a period, for example, it may be desirable to reduce taxes to leave more purchasing power in the hands of the public even though this results in a deficit.

If the budget is to be unbalanced to counteract a deflationary trend, emphasis should be on reduced taxes rather than increased Government spending.

The Federal Reserve System can help to stabilize the price level by relating its policies to the country's needs for money and credit rather than to other considerations. It should restrain the expansion of bank credit in inflationary periods and make it easier for the banks to extend credit if deflation threatens. The independent status of the Federal Reserve Board must be maintained.

While sound monetary and fiscal policies are basic to price level stability, other policies can make an important contribution to the objective of avoiding the extremes of inflation and deflation. All individuals and groups need to realize that cyclical swings in economic activity do occur and that it is wise to avoid excessive optimism in upswings, as well as excessive pessimism in downswings. Everyone needs also to realize that economic adjustments are needed from time to time and that the economy will function more smoothly if such adjustments are facilitated rather than retarded. For example, it does not make economic sense for unions to demand or employers to grant wage increases that force prices up in an industry at a time when that industry is already suffering from reduced production and rising unemployment. If employers desire to enter into long-term contracts providing for future wage increases, they should insist on escape clauses to postpone projected wage increases in periods of reduced demand and rising unemployment.

Public policies that encourage active competition are an important safeguard against the rising costs that sometimes create pressure for monetary authorities to take inflationary actions.

The policies of government agencies which make or guarantee loans should be coordinated with overall credit policies.

The Employment Act of 1946 should be amended to make it clear beyond any doubt that it is national policy to stabilize the purchasing power of the dollar as well as to maintain a high level of employment.

STATEMENT OF AMERICAN FEDERATION OF LABOR
AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

NOVEMBER 23, 1959.

HON. PAUL DOUGLAS,
*Chairman, Joint Economic Committee,
Senate Office Building, Washington, D.C.*

DEAR SENATOR DOUGLAS: Your letter of October 2 invited the AFL-CIO to contribute a special statement in connection with the Joint Economic Committee's study of employment, growth, and price levels. You asked us to submit "a statement containing constructive suggestions as to public and private policies for reconciling and simultaneously obtaining the objectives of maximum employment, an adequate rate of growth, and a reasonably stable price level."

This special inquiry you are conducting is obviously an important one. While the Joint Economic Committee has no authority to initiate legislation, the results of this broad study will affect the course of much future legislation on all types of economic issues.

We had hoped that it would be possible for the AFL-CIO to give the committee at a public hearing our analysis and suggested recommendations regarding the issues before you.

Since the committee's hearings have not been opened to labor or other economic interest groups, we have devoted considerable time and effort to the problems you raise in your letter. We have prepared the attached statement which I am herewith submitting to you for the record.

This statement is divided into the following four sections:

- I. Balanced economic growth and full employment.
- II. The role of collective bargaining in the American economy.
- III. Aiding the lowest income groups.
- IV. The neglect of public services.

I would like to summarize briefly what I consider the major points in the document.

The first section constitutes labor's analysis of present economic trends. We cannot be complacent in the face of the continuing high level of unemployment, the regularity with which recessions have occurred in the postwar period, and the slow rate of economic growth during the past 6 years.

It seems to us that Government policy must accept a major share of the blame for this condition of the economy. Basic Government attitudes and policies have operated to restrict rather than encourage economic expansion. Too much attention has been given to fighting a phantom "inflation" and not enough to developing a higher rate of growth or to cut back the recurring recessions. The attitude of the monetary authorities, for example, has been almost exclusively concerned with the level of prices, not the level of unemployment or the deteriorating condition of public services.

We suggest a number of specific changes in Government economic policies.

A much faster pace of economic expansion, than the 2½ percent growth rate of recent years, is needed. Economic growth of about 5 percent a year should be established as the goal of economic policy and national economic policies should be geared to achieve that objective.

There should be an end to the Government's participation in the organized business community's campaign against economic expansion, in the name of fighting a fictitious runaway inflation, through restrictive economic policies, when there is a considerable amount of idle manpower and productive capacity, as has been the case during most of the past 6 years. The Government's policies of tight money, high interest rates, and attempts to balance the Federal budget at relatively low levels of output and incomes, should be halted.

As part of an economic expansion program, the Government should provide an economic environment in which private groups may achieve a more rapid and more balanced pace of economic progress. A continuing balance between increasing productive capacity and growing mass markets, as well as adequate Government expenditures for national defense and public services, is needed. A substantial revision of the Government's tax policy is required to provide a more equitable basis for raising Government revenue and for achieving a better balance in the flow of economic returns to consumers and business.

We are living in a period of rapid technological change. Federal law, as well as provisions in collective bargaining agreements, should work toward minimizing the disruptive impact of rapid technological change on working people and their families, and all businesses and the entire communities that are affected.

At the request of the committee staff we have devoted specific attention, in the second section of the attached document, to the role of collective bargaining in today's economy.

We firmly believe that collective bargaining has been a positive, constructive force for achieving higher living standards and making possible greater economic progress. All too frequently the merits of the free collective bargaining system become lost in the intensity of the arguments over a specific labor dispute. That is why in the attached statement we have taken the opportunity to restate the values that still make collective bargaining the best possible method for resolving issues between workers and employers.

We reject the arguments that collective bargaining has had any inflationary effect or that it has in any way impeded advances in technology. Examination of wage-price movements makes clear that the cause of rising prices in the postwar period is not collective bargaining wage settlements. With regard to technological progress, the collective bargaining process has served as a stimulant to the adoption of technological changes while at the same time providing the basis for working out appropriate procedures to lessen the impact on those directly affected.

In a free society there is no substitute for the trade union as the representative of wage and salary workers in the work place, nor is

there an alternative to collective bargaining between unions and employers on wages, hours, fringe benefits, and working conditions.

The role of Government in collective bargaining is, of course, a difficult one. Recently, I have become concerned that a number of political leaders are evidently beginning to think in terms of greater Government intervention into the collective bargaining process. In order to create a better atmosphere for labor-management relations, I recently wrote to President Eisenhower suggesting that he call a meeting of top union and industrial leaders to consider and develop guiding lines for just and harmonious labor-management relations. I hope that such a meeting would make a constructive contribution without involving more direct Government intervention in the collective bargaining process.

Labor does not defend collective bargaining unthinkingly. Often unions are not satisfied with its results. There is always the temptation to invite Government tinkering in an effort to gain some advantage. But considered reflection directs the conclusion that any such advantage, for labor, for industry, or for other parts of the economy, would be short run or illusory and would not be worth the price paid in terms of values lost as a result of curtailing the fundamentally free and adaptable bargaining process, no matter how frustrating that process may seem at times.

The third section of the report focuses attention on the distribution of income, and, in particular, the income available to the lowest fifth of the Nation's population. No matter how successful our efforts will be in raising the total output of the economy, it is equally as important to make certain that any increase in living standards is distributed among all sections of the population.

In recent years America has been too complacent in simply assuming that the lowest segment of the population has improved its living standards along with the rest of the economy. While there has been continued improvement in average living standards, there has been no improvement since the war years in the proportion of the Nation's income going to the lowest fifth of American families.

There are still far too many families that can barely eke out a meager existence for themselves, even in generally prosperous times. The attached document suggests a variety of ways in which the Federal Government can help meet this acute problem of poverty. I am sure you agree that no report of your committee would be complete unless it dealt with this issue.

The final part of our document deals with accumulated needs that our economy faces in such fields as education, housing, and natural resource development.

In recent years the emphasis in economic thinking has too often been placed on developments in the private economy to the exclusion of necessary changes in the public sector. A rising level of income and expenditures should mean not only that American families can gain greater satisfaction because more goods and services are available to them in the private economy but also because the level of available public services has been raised. In so many ways, our progress will be limited unless we are willing to overcome the accumulated deficits in fields where new or enlarged Government programs are absolutely essential.

Thank you again for the opportunity to submit a statement in behalf of the AFL-CIO. I am looking forward with a great deal of interest to your committee's report.

Sincerely,

GEORGE MEANY, *President.*

EMPLOYMENT, GROWTH, AND PRICE LEVELS

I. BALANCED ECONOMIC GROWTH AND FULL EMPLOYMENT

THE CAMPAIGN AGAINST ECONOMIC GROWTH

The Nation has been subjected to an intensive campaign against economic growth and full employment in the name of fighting inflation. This campaign has succeeded in establishing, at least temporarily, the basis for some public acceptance of a restrictive economic environment. Continuation of this campaign in the future can jeopardize America's place in a world of rising national powers.

Inflation is a condition of sharp price rises, associated with too much money chasing after too few goods. In the United States such inflation has been related to war and the aftermath of war.

Excessive demands on the supply of goods and productive capacity after World War II, in 1946 and 1947, caused general inflationary pressures. Consumer prices increased 30 percent.

The outbreak of the Korean war in mid-1950 brought another inflationary situation, with excessive speculation, inventory building and hoarding. Between mid-1950 and mid-1951, consumer prices increased almost 9 percent. Approximately three-fourths of the entire postwar consumer price rise occurred in those 3 years of inflationary pressures—1946, 1947, and mid-1950 to mid-1951.

Economywide restrictive economic policies, such as tight money, can be used properly to curb total demand when general shortages of goods, labor, and productive capacity exist, as in the 3 postwar years of inflationary pressures. In the absence of excessive demand and general shortages, however, economywide restrictive policies produce economic slack and unemployment.

For 4 years, from mid-1951 to mid-1955, the price level was reasonably stable. Wages and salaries rose and the economy expanded at a fair pace. Although it was not an ideal period, these years provide evidence that economic expansion and continuing improvements in wages and salaries are consistent with reasonable price stability.

Many political and business leaders, however, took the leadership in campaigning against a phantom inflation during these years of reasonable price stability. In early 1953 the Government adopted economywide restrictive policies to reduce the rate of economic growth. Tight money, high interest rates, and the attempt to balance the budget at all costs helped to start a recession in the summer of 1953.

These policies did not halt price rises. From mid-1955 to mid-1958 the price level rose by an average of about 2½ percent a year. These price increases were termed "inflation," although economic slack was prevalent during most of that period. They provided fuel for a stepped-up fear campaign. Increasingly, channels of public communication became filled with talk of inflation, justification of restric-

tive policies and attacks on wage increases as an inflationary danger.

The facts, however, reveal that the real problem has not been inflation, with excessive total demand pressing against economywide shortages of goods, labor and productive capacity. The actual problem, in the past few years, has been a slow, upward rise of the price level, with an increase of idle manpower and productive capacity during most of those years.

In an attempt to put this issue in perspective, Prof. Alvin H. Hansen has pointed out that the record for the years 1948-58, including the post-Korean inflation, "is by no means an irresponsible record," by comparison with trends in the price level since 1897. If we start with 1913, when the Government first published the Consumer Price Index, we find that between 1913 and 1948, consumer prices increased by an average yearly rate of 2.6 percent; from 1948 to 1958 consumer prices increased by an average yearly pace of 1.8 percent.

This record of a slow, upward rise of the price level, however, has been distorted into a springboard for a continuing national campaign in support of restrictive economic policies and attacks on organized labor and collective bargaining. Economic growth and trade unions have been singled out by Government and business spokesmen as inflation-producing villains.

America has been told incessantly during recent years that wage and salary increases are a particularly dangerous trend, since they supposedly have caused excessive consumer demand and substantial increases in production costs per unit of output. But during the period of creeping price rises from mid-1955 to mid-1958, there were no general shortages of goods or labor. For most of this period, the major economic problems were weakness in consumer markets and a growing gap between lagging sales and increasing productive capacity.

Nor did manufacturing wage gains create great pressures on unit production costs in the past few years. Rising output per man-hour has offset the costs of wage and fringe benefit improvements. Payroll and fringe benefit costs of factory production and maintenance workers per unit of output were no greater in 1958 than in 1953.

Steadily rising real wages and salaries are a necessary prerequisite for economic growth. They are the foundation for growing consumer markets. The American economic system has been largely centered on domestic markets, based on expanding mass consumption and on increasing real incomes of wage and salary earners.

Americans have been proud of high and rising wages that have permitted continuing improvements in living standards. Visitors from other parts of the world have come to study the American economic system, in which working people have shared in the benefits of economic progress. Now, Americans are being told to forget such achievements, to forgo improvements in wages and salaries and to support restrictive policies that curb expansion. Those who lead the campaign against economic growth seem to believe that there will be little progress in the future, little room for wage and salary increases and improved living conditions.

This campaign against economic growth is a betrayal of America's heritage of social and economic progress in a free society. It is taking place at a time when economic growth is needed more than ever before.

SLOWDOWN OF ECONOMIC GROWTH

A shocking state of stagnation has characterized the performance of the national economy in recent years. The Government's fight against creeping price increases, with the blunt weapons of restrictive economic policies, has contributed to cutting the rate of national economic progress almost in half.

The volume of real total national output, which rose by a yearly average of 4.6 percent in 1947-53, has slowed down to an average rate of 2.5 percent in 1953-59. The population, however, has continued to grow—at an average yearly rate of 1.7 percent in 1947-53 and 1.8 percent in 1953-59. As a result, real national output per capita has slowed down to an average yearly rate of seven-tenths of 1 percent a year in the past 6 years from an average annual pace of 2.8 percent in the previous 6 years.

The slowdown in economic growth, 1947-53, 1953-59

	Gross national product (in 1958 dollars)	Population	Per capita gross national product (in 1958 dollars)
	<i>Billion</i>	<i>Million</i>	
1959	\$474.0	177.1	\$2,676
1953	408.7	159.6	2,561
Average yearly rise: Percent	+2.5	+1.8	+0.7
1953	\$408.7	159.6	\$2,561
1947	312.4	144.1	2,168
Average yearly rise: Percent	+4.6	+1.7	+2.8

¹ AFL-CIO estimate.

Source: Department of Commerce and Council of Economic Advisers.

This rate of economic growth in the United States has been slower than in almost every industrial country in the world and merely one-third to one-half the pace achieved by the Soviet Union. It represents a record of two recessions—in 1954 and 1958—and an unbalanced, incomplete recovery in 1955-57. The upturn from the 1958 recession is still in progress, but there is a real danger that the repetition of restrictive economic policies will result in another unbalanced, incomplete recovery.

The sharp reduction in the pace of national economic growth has been achieved at great cost:

1. The slow pace of economic advance has contributed to a trend toward relative economic and military weakness, in relation to the Soviet Union. While the Soviet Union has continued to increase its military (and military technology) buildup and to step up its cold war economic attack, U.S. expenditures for national defense and foreign economic aid and development have barely held their own.

Although total production in the Soviet Union is reported to be approximately 40 percent of the total output of the United States, the Soviet totalitarian system diverts a large share of output for military and cold war purposes. In addition, as the Soviet economy expands, the totalitarian system can siphon off the additional output for military and international political objectives.

The volume of total production in the Soviet Union has been expanding rapidly in recent years—some two to three times faster

than in the United States. This rapid rise has permitted the totalitarian state to increase outlays for military and cold war purposes, as well as small increases in consumer goods. In contrast, slow economic growth in the United States and the Government's overriding emphasis on budgetary considerations have imposed severe limits on defense and foreign aid spending.

The Soviet Union's system of dictatorial allocation of resources plus rapid economic expansion have propelled that nation forward at a very fast pace, in terms of military and international power, during the past several years. In contrast, slow economic growth and restrictive budget policies in America's free society have produced relative military and economic weakness that can have dangerous consequences for the United States in the international arena.

2. Since 1953, so-called "normal" unemployment has been rising. Slow economic growth in 1953-59 failed to provide a sufficient number of new jobs to sustain full employment. The number of jobless has risen to more than 5 percent of the civilian labor force in 1953-59—higher than the 1947-53 average of 4 percent, when the 1949 recession and returning GI's had an impact on unemployment rates. The sharp increase in unemployment shows up more clearly, if compared with 1951-53, when an average of 3.1 percent of the civilian labor force was unemployed.

	Number of unemployed	Percent of the civilian labor force
	<i>Million</i>	<i>Percent</i>
1951-53.....	2.0	3.1
1954.....	3.6	5.6
1955-57.....	2.9	4.8
1958.....	4.7	6.8
May to August 1959 ¹	3.5	5.1

¹ Seasonally adjusted.

Source: U.S. Department of Labor.

Slow economic growth in the past 6 years also aggravated the social and economic results of rapid technological change—declining job opportunities in manufacturing, railroads and mining and an increasing number of economically distressed communities.

3. Slow economic growth and restrictive budget policies made it difficult to begin or step up comprehensive nationally coordinated efforts to meet the public service needs of a growing population—in such vital areas as health, education, housing, urban renewal, and community facilities. (This issue is examined later in this statement.)

4. The Government's restrictive economic policies, advertised as "antiinflationary," have actually contributed to upward price pressures. Economywide restrictive economic policies could not halt slowly rising prices for foods and services—such as medical care and auto insurance—during 1955-58, while they added to interest costs on loans and contributed to pushing up the prices of manufactured goods.

Since the economy failed to expand output rapidly, the sharp rise in costs for the capital goods boom of 1955-57 and technological change were spread over a slowly increasing number of units of production.

The rising costs of depreciation, stepped-up hiring of engineers and technicians, increasing interest payments and the increased use of professional and technical services, therefore, added to unit costs. Businesses tried to pass these unit cost increases on to their customers. Several key industries, in which prices are administered by the dominant giant corporations, were able to maintain or enlarge their profit margins by successive price boosts.

A more rapid rate of economic growth in those years would have meant more stable unit costs. In addition, the pace of output per man-hour of work was hampered in 1956 and 1957 by the slowdown in economic growth. It was further hampered by the drop in output during the recession in late 1957 and early 1958. Output per man-hour of work began to rise sharply in the spring of 1958, as the economy picked up from the recession. A more rapid rate of economic growth in the past 6 years would have meant a faster pace of improving productivity.

5. The Government's restrictive economic policies and attempts to balance the budget at low levels of output and income have been self-defeating. The slowdown in economic growth has contributed to a loss in Government revenue and continuing budget difficulties.

The Federal Government, for example, operated at budget deficits in the fiscal years ending June 1954, 1955, 1958, and 1959. These deficits were, in large measure, the product of two recessions and slow economic growth. A higher rate of economic growth in 1953-59 would have produced greater increases in national output, incomes, and government revenue. Had national output expanded in the past 6 years at the pace of 1947-53, Federal revenue in 1953-59 would have been \$40 billion or more greater than it was. The slowdown in the growth of the Nation's output and incomes, caused by the Government's own restrictive policies, has meant a loss of Government revenue and budget difficulties.

These restrictive policies have been self-defeating in other ways. Tight-money policies and the high interest rates they foster have made it more expensive and more difficult for the Government to carry its debt. Interest payments on the Government debt rose from \$6.6 billion in fiscal year 1953 to \$8.1 billion in fiscal year 1959—largely due to the rise in interest rates.

In addition, during much of the 1953-59 period, restrictive tight-money policies with their rising interest rates made it difficult for the Government to issue long-term bonds at moderate rates of interest to people who save for the future. The Government was therefore compelled to finance an increasing portion of the public debt through short-term securities to banks and other financial business firms. Despite the declared intention to increase the share of the debt that is in long-term bonds, the Government's own policies have helped to cause the opposite effect—an increased portion of the debt in short-term securities, that have to be refinanced at frequent intervals.

6. The slow pace of economic growth has added to difficulties in labor-management relations. It is considerably more difficult to reach agreement on how to share a pie which is increasing very slowly, than how to share one that is increasing at a rapid rate.

A more rapid pace of economic growth in 1953-59 would not have been, in itself, a panacea to end all problems. But a faster rate of

economic expansion in those years would have provided more full-time jobs and more efficient utilization of productive capacity, greater income and increased Government revenue. It would have permitted more adequate Government attention to the Nation's major issues. It would have provided, also, a more sober environment for examining the specific causes of creeping price rises and the development of possible solutions.

LESSONS OF THE 1958 RECESSION

A partial cause of the 6-year slowdown of economic growth has been the depressing effect of the recessions of 1954 and 1958. Thirty-five months, or almost half the period between 1953 and 1959, were spent in economic decline and return to pre-recession levels.

A more rapid rate of growth in the years ahead requires an all-out effort to reduce the possibility and frequency of recessions and to minimize whatever declines may occur. This requires private and Government policies aimed at balanced economic growth, as well as prompt antirecession measures at the start or any decline in output and sales.

The underlying cause of the 1958 recession was a growing gap between the economy's ability to produce and its ability to consume. This lack of balance developed out of a capital goods boom which expanded productive capacity rapidly in late 1955 and 1956, while consumer buying power leveled off and family purchases of hard goods and homes lagged.

By early 1957 it became apparent that the business investment boom was quickly losing its steam, as businessmen became increasingly aware of the growing gap between productive capacity and sales. Real national output moved up only about one-half of 1 percent between the end of 1956 and mid-1957. In this setting, the Government cut back its placement of defense contracts, in the spring and summer of 1957, in an attempt to reduce defense expenditures. Following these actions, the Government tightened the money supply further and raised interest rates in August. By the end of the summer, national economic activities were declining and the recession was underway. The decline did not reach bottom until April 1958, when over 5 million people were unemployed, production schedules were cut back, and industrial output was more than 12 percent below the pre-recession level.

A downward spiral of layoffs, production cutbacks, wage cuts, falling retail sales and further cuts of output and jobs did not develop. The effects of the recession were cushioned by trade union strength and New Deal legislation.

1. Relative steadiness of total consumer income during the decline prevented a sharp drop in retail sales that would have touched off a downward spiral. Between the start of the recession, in August 1957, and its low point, in April 1958, wage and salary increases for employed workers offset about half of the decline in total wage and salary income caused by unemployment and short workweeks. In explaining the relative steadiness of consumer income during the recession, the late Prof. Sumner Slichter wrote that "by far the most important cause of the steadiness of personal income * * * is the rise in the hourly earnings of wage and salary earners."

Trade union strength and the Federal minimum wage law helped to prevent widespread wage cuts, while collective bargaining produced wage and salary increases. In addition, wage and salary rises were put into effect as deferred increases under the terms of previously negotiated collective bargaining agreements. As a result, the recession's effects were partly offset and total wage and salary payments fell by a yearly rate of \$7.9 billion—or 3.3 percent—instead of about twice that much.

Recent technological changes also contributed to the relative steadiness of wage and salary payments during the decline in output and jobs. Technological changes, in recent years, have shifted an increasing proportion of the work force to such salaried jobs as clerical, government, service, professional, technical and supervisory. These employee groups are usually not laid off in great numbers during a recession.

2. The unemployment insurance system provided some weekly family income for most unemployed workers and contributed to the high degree of steadiness of total personal income. Total unemployment insurance payments increased from \$132,299,000 in August 1957 to \$436,831,000 in April 1958—a rise of \$304,432,000. At the recession low point, the unemployment insurance system, though inadequate, was paying out a yearly rate of \$3.7 billion more than at the start of the recession. Despite the system's inadequacy, this increase in unemployment insurance payments offset 20 to 25 percent of the decline in total wage and salary payments that otherwise would have occurred from rising unemployment and short workweeks.

In addition, several hundred thousand workers received supplemental unemployment benefits under terms of collective bargaining agreements negotiated during the previous 3 years. Government social insurance programs—such as retirement, disability and survivors benefits—also helped to cushion family incomes during the decline. In April 1958, Government payments under these programs were \$98,646,000 greater than in August 1957. Unlike unemployment insurance and supplemental unemployment benefits, these programs were not meant to be antirecession devices, but they permitted tens of thousands of laid-off older workers to retire with regular monthly pensions. The incomes of many of these retired workers were bolstered by pension-plan payments under collective bargaining agreements.

The combined effect of such factors as wage and salary increases for employed workers, the unemployment insurance system, supplemental unemployment benefits, Government social insurance programs and pension plans under labor-management agreements was to offset approximately 75 percent of the decline in total wage and salary payments that otherwise would have occurred from rising layoffs and short workweeks. Of these factors, the major cushions were wage and salary increases for employed workers and the operation of the unemployment insurance system.

While trade union strength, collective bargaining and the unemployment insurance system cushioned the decline, Government actions, mostly belated, provided some impetus for the pickup.

State and local governments continued to increase their purchases of goods and services. These purchases rose by a yearly rate of \$2.3 billion from the third quarter of 1957 to the January-March quarter

of 1958, when almost all other economic activities were weak or falling. They continued to rise through the rest of the year.

The Federal Reserve Board belatedly reversed its tight-money policy and started to ease the money supply and reduced interest rates in November 1957. The Government followed an eased monetary policy between the fall of 1957 and the summer of 1958.

The Defense Department belatedly but sharply stepped up the placement for defense goods—from a low of \$3.2 billion in the third quarter of 1957 to \$5.2 billion in the January–March quarter of 1958 and \$8.5 billion in the second quarter of the year. This extremely rapid increase in the placement of defense contracts came after the administration had cut back defense contract placements in the spring and summer of 1957. With the stepup of these contract placements, defense expenditures, which had declined in late 1957, began to rise—from a yearly rate of \$44 billion in the first quarter of 1958 to a rate of \$45.3 billion in the final quarter of the year.

After the sharp economic decline reached its low point, Congress finally adopted several antirecession measures that helped to strengthen economic activities. Additional Government funds were made available for mortgages for low- and medium-priced homes. Government funds were also made available to step up the interstate roadbuilding program. Although not designed as an antirecession measure, congressional action to raise Government salaries during the summer of 1958 boosted total personal income.

A temporary and far too modest improvement in the unemployment insurance system was adopted. Under this law, States could receive loans from the Federal Government—with agreement for repayment—for the purpose of extending the duration of unemployment insurance payments to jobless workers who had exhausted their benefit periods.

The experience of the 1958 recession indicates (1) the necessity of attempting to maintain a continuing balance between the economy's ability to produce and its ability to consume; (2) the danger to economic progress of tight money, high interest rate policies; (3) the importance to the national economy of strong trade unions and effective collective bargaining that can help to maintain consumer income at relatively high levels during a recessionary decline; (4) the key role of the unemployment insurance system in partially offsetting the effects of production cutbacks on family income; (5) the necessity of prompt and decisive countercyclical actions by Government, at the very start of a recessionary decline, to minimize the decline and reduce its duration.

RISING PRODUCTIVITY

Increasing output per man-hour is obviously a potential for good—for increased production, improved living conditions, increased leisure, and greater national strength. But it may also result in unemployment and social dislocations.

In an economy in which productivity has been rising rather rapidly, there can be no longrun equilibrium. Changes in output per man-hour are occurring and upsetting the previous equilibrium. To stand still is, in effect, a backward and possibly dangerous procedure. Continuing economic and social adjustments to rising productivity are

required. Without such adjustments, growing markets and the creation of new job opportunities, rapidly rising productivity means layoffs and troubles for families and communities. Emphasis on the importance of increasing productivity, in terms of its potential for good, therefore requires emphasis on the need for continuing social and economic adjustments to minimize dislocations that may affect individuals, groups or entire communities.

Output per man-hour of work in the United States has been rising almost continuously as far back as one can obtain data—certainly for the past 50 to 100 years. Increases in national output per man-hour (real gross private product per man-hour) have varied from year to year, and there has been an occasional temporary pause or decline. The pace of rising output per man-hour has also varied from one economic sector or industry to another. The continuing trend of national output per man-hour, however, has been upward.

The pace of the Nation's increasing output per man-hour has been speeding up in the past 50 years. In the Thirty-Ninth Annual Report (1959) of the National Bureau of Economic Research, Solomon Fabricant wrote:

Also a fact of great importance, the long-term pace of advances in output per man-hour has speeded up. It was 22 percent per decade during the quarter century preceding World War I. It has averaged 29 percent since. During the most recent period—after World War II—national product per man-hour has been rising at an even greater rate, 35 to 40 percent per decade.

The rise in output per man-hour of work in the total private economy, therefore, has been at an average yearly rate of over 3½ percent a year since 1947. Despite the slowdown in increasing productivity in 1956–58, the average rate of rising output per man-hour since 1947 has been greater than in the previous period and the pace of increasing output per man-hour in that period was greater than it had been in the prior period.

Some people make the mistake of concentrating their attention on one year's rate of productivity change. In 1957, there were outcries from business and Government spokesmen about the slowdown in the rate of productivity advance that accompanied the general slowdown in economic growth. The slowdown in the rate of rising output per man-hour in 1956 was followed by a somewhat faster rate of advance in 1957, and since early 1958, output per man-hour in the private economy has risen at a very sharp rate. The point is that the rate of productivity change in any one year is not a trend. The rate of progress in productivity, in any one specific year, reflects many factors, such as the rate of economic growth and the economy's product-mix. To find a meaningful trend, the rate of productivity change over a period of several years must be examined, such as a decade.

It is a complex of many social and economic factors that gives rise to increasing output per man-hour of work. Among these many factors are: (1) increased labor skills; (2) increased management skills; (3) improved machinery and production processes; (4) more efficient flow of work from one operation to another; (5) scientific knowledge and production know-how; (6) increasing use of mechanical power; (7) small and frequent changes in machines and production method, as well as new inventions and major innovations.

Underlying such factors are many others that have been and are essential for a continuing rise in output per man-hour of work. The free, public school system, for example, is a basic factor in America's rising productivity, since it is the public school system that passes on the Nation's cultural heritage to the new generation and provides the foundation of knowledge and skills of the future labor force, including its workers and management, scientists, engineers, and innovators. Competition within industries and between industries provides companies with incentives to reduce costs and increase output per man-hour.

Growing markets for the goods produced are an essential ingredient in an economy whose productive efficiency is rising. The democratic nature of American society, with its degree of class mobility, is another factor, since it has made it more difficult for business to rest on the laurels of inherited family prestige than in societies that retain some remains of the feudal era. In the past development of the United States, shortages of labor, particularly skilled labor, were a force that made labor saving desirable; in more recent times, the collective bargaining pressures of trade unions have been an important factor that prods business into maintaining and improving productive efficiency.

When output per man-hour rises, the employer's cost of producing each item tends to go down—unit labor costs decline and there is usually a decline in overhead costs per unit. Rising output per man-hour, therefore, creates production-cost savings.

Since approximately the 1909-19 decade, there has also been some decline in capital-output ratios. In the total private economy, the capital-output ratio declined from the 1920's to the early postwar years and then leveled off, with the possibility that it may decline again, in the years ahead. When the capital-output ratio declines, the unit cost of investment in new plant and equipment tends to decline. A decline in the capital-output ratio, therefore, also creates production-cost savings, which are additional to the production-cost savings that arise from increasing output per man-hour of work.

The rise in productive efficiency, therefore, produces economic gains. How can they be distributed, within the framework of a relatively stable price level?

On the basis of these production-cost savings and in terms of aggregate theory, average real hourly employee compensation can rise by at least the annual percentage rise in output per man-hour in the total private economy during the current period to provide the basis for adequate consumer markets for the growing volume of goods and services that the economy can produce. In industries whose productivity is rising more rapidly than the national average, wages and salaries can rise and the additional savings can be shared with consumers through price reductions. In industries whose productive efficiency is rising at a slower pace than the national average, wages and salaries can likewise increase and the prices of those industries may rise somewhat. For the economy as a whole, the price level would remain, therefore, relatively stable and both unit labor costs and unit profit margins would remain at about the same level from one year to another, while wages, salaries, and total profits rise in a growing economy whose output and sales are expanding.

In an economy of hundreds of thousands of different enterprises, with hundreds of different products and labor markets and varying degrees of price competition and price administration among the scores of different industries—in such a pluralistic economy, national averages can at best provide only broad and flexible guidelines for trade union collective bargaining policies in specific firms. As a result, rising output per man-hour is a factor in collective bargaining, but it is only one among several factors in any particular negotiations between a union and an employer.

If the percentage rise in output per man-hour in the private economy were the sole determinant for all employee compensation determinations, all wage and salary earners would simply receive the same percentage increase in hourly compensation and the national economy would lose some of its flexibility. If output per man-hour in specific industries were the only determinant, differences in the pace of productivity advance among industries would produce unworkably great and widening differentials in hourly earnings among wage and salary earners in the various industries.

Furthermore, an increase in hourly compensation at any particular time is not simply a sharing of the benefits of past productivity gains. It may also include some catchup with the past, when employee compensation lagged. It may also represent an attempt to increase the employee share in the distribution of income among the factors of production.

American trade unions do not necessarily accept the distribution of income among the factors of production, at any particular point in time, as ethically good socially and economically desirable or inviolable. The American economy is a flexible and dynamic one in which continuing and varying changes in productivity and employee compensation in hundreds of thousands of enterprises are all part of a continuing process.

There are many other pertinent factors in any particular collective bargaining negotiations between a union and an employer—such as the profits of the employer and industry, any rise in the cost of living, wages and fringe benefits for the same or comparable work in the industry or area, the union's desire to eliminate substandard wages, fringe benefits, and working conditions. Specific negotiations between a union and employer occur within the general framework of the product market.

Some business leaders and politicians have proposed or implied that all improvements in wages, salaries, and fringe benefits should be tied rigidly to some kind of productivity index. This suggestion makes no sense. In a free economy in peacetime, trade unions obviously act with considerable flexibility, as do other groups in the economy. The suggestion that wages and fringe benefits be directly and rigidly tied to some kind of productivity index would mean that prices and profits, too, as well as the incomes of other economic groups should be tied to statistical indexes. Application of such rigid proposals would bring a considerable loss in economic flexibility. Various aspects of the economy would have to be controlled and regulated by the Government.

Frequently, in these past few years, spokesmen of business and Government have compared the increase in output per man-hour in the private economy with the rise in average hourly employee com-

compensation, in current dollars, since 1947, and they arrive at their predetermined conclusion that wage and salary increases have been the only cause or major cause of price increases because money earnings outpaced productivity. The comparison of output per man-hour with current-dollar hourly compensation, in the post-World War II period, shows nothing of the kind. It is merely descriptive of a period that included years of sharp price increases, in which wages and salaries, in current dollars, chased rising prices.

A comparison between average real hourly employee compensation, adjusted for price increases, with output per man-hour in the private economy indicates a generally parallel movement since 1947. The information that can be correctly derived from this comparison is that income distribution among the factors of production in the past few years has been relatively the same as in 1947.

When the longrun trend is examined, one finds that the purchasing power of average hourly employee compensation, over the past 50 to 70 years or so, has risen at about the same average pace as the rise in output per man-hour in the private economy. This indicates that for the economy as a whole, the employee share in the distribution of income among the factors of production, in the past few years, has been approximately the same as it was about 50 or 70 years ago.

Over the longrun development of the United States, it has been the continuing advance of output per man-hour of work, for the most part, that has made possible improved living conditions and increased leisure. These improvements, however, have not been automatic. They have been obtained mainly through collective bargaining and legislation.

In his paper "Basic Facts on Productivity Change," Solomon Fabricant stated:

Real earnings per hour of work in the private domestic economy rose over the period since 1889 at an average annual rate about equal to the rate of increase in product per man-hour * * *. During recent decades, real hourly earnings have increased more rapidly, on the average, than during earlier decades. The change in the trend of real earnings thus matches the change in the trend of productivity noticed earlier * * *

This long-term 70-year view, however, does not tell us anything about the developments that occurred in the shorter run, within the 70-year period. In the 1920's, for example, average real hourly employee compensation lagged considerably behind the rise in output per man-hour in the private economy.

This lag, during the 1920's, was the foundation for the widening gap between consumer markets and productive capacity that led to the extraordinarily sharp economic decline of 1929-32 and the great depression. Average real hourly employee compensation moved into a closer and more continuing relationship with the Nation's rising output per man-hour only in the mid- and latter-1930's—the result, in good part, of the spread of trade union organization, more effective collective bargaining and New Deal legislation.

Neither does the long-term, 70-year, aggregate view tell us anything about the disruptive effects of rapid changes in output per man-hour in specific industries or economic sectors. During the past several years, for example, output per man-hour has risen sharply in most manufacturing industries (particularly for production and maintenance workers), railroads and mining. This sharp rise in output per

man-hour since 1953 has occurred in a period when the economy has grown only at a slow pace, while the civilian labor force has expanded by an average of approximately 900,000 a year. The growth of the labor force has meant a large, average annual increase in jobseekers. Slow economic growth, however, has meant merely a slow rise in the number of job opportunities. The sharp increase in output per man-hour in most manufacturing industries, mining and railroads—with only a slow rise in output and sales—has meant declining job opportunities for production and maintenance workers in those economic sectors, layoffs and shrinking alternative job opportunities, particularly at anything like similar wages and skill requirements.

The overall effects of the slowdown in economic growth since 1953, while the labor force has grown and productivity has risen, can be seen from the following comparison of the labor force, employment and unemployment in the April-June quarters of 1953 and 1959.

	Labor force	Total employment	Unemployment	
			Number	Rate, seasonally adjusted
	<i>Million</i>	<i>Million</i>	<i>Million</i>	<i>Percent</i>
April-June 1959.....	69.8	66.1	3.7	5.0
April-June 1953.....	63.9	62.1	1.7	2.7
Total increase.....	5.9	4.0	2.0	2.3

Source: U.S. Department of Labor.

While the civilian labor force expanded almost 6 million in the past 6 years, total employment rose only 4 million, with the result that the number of unemployed more than doubled, increasing 2 million, and joblessness as a percent of the labor force almost doubled, from 2.7 to 5 percent. The economy as a whole, therefore, failed to create a sufficient number of new job opportunities. Young people, entering the job markets, without specialized training, technical or professional skill, found jobs increasingly difficult to obtain. Workers, who were laid off from their regular jobs, found few alternative job opportunities. The economic pressures of actual joblessness and threatened layoffs were greatest for production and management workers in manufacturing, mining, and railroads, where employment fell.

Wage and salary jobs

	Production and maintenance		All employees, class 1 railroads
	Jobs in manufacturing	Jobs in coal mining	
	<i>Million</i>	<i>Thousand</i>	<i>Thousand</i>
April-June 1953.....	13.8	318.3	1,217.3
April-June 1959.....	12.3	170.9	838.3
Total decrease.....	1.5	147.4	379.0

Source: U.S. Department of Labor.

In manufacturing, there was a decline of 1½ million production and maintenance jobs, or 11 percent, in the past 6 years. Factory production and maintenance workers, who were laid off, were not

aided by the 600,000 increase in white collar, clerical, supervisory, professional and technician jobs in manufacturing in this period. A jobless production or maintenance worker cannot overnight become an engineer, draftsman or secretary.

In mining and railroads, the sharp rise in output per man-hour was accompanied, not only by the slowdown of economic growth, but it was also aggravated by increasing competition from other fuels and means of transportation. Production and maintenance jobs in coal mining were cut 46 percent and the number of wage and salary jobs on class 1 railroads was reduced 31 percent in the past 6 years.

Much of the burden of rapid technological change in the past 6 years has fallen on production and maintenance workers in manufacturing, mining, and railroads—individuals and families, with little, if any, financial resources and alternative skills.

These declines in job opportunities, combined with shifts in industry location that are usually related to rapid technological change, have become a problem for an increasing number of communities. Cities and towns that formerly depended on job opportunities in many manufacturing industries, coal mining or railroads have been hard pressed by plant shutdowns, severe job reductions, and industries that have moved to new locations. The number of such hard-pressed communities has risen. Most of them are concentrated in the older industrial regions of the east coast, Midwest, and upper South.

In September 1959 there were 35 major industrial areas and 124 smaller industrial communities in which the number of jobless was 6 percent or more of the labor force, according to the Department of Labor. This represents a substantial increase above the 24 major and 59 smaller depressed areas in September 1956, which, in turn, represented a substantial increase over the 18 major and 24 smaller depressed areas in September 1953.

Areas of substantial labor surplus (unemployment of 6 percent or more of the labor force)

	January	March	May	July	September	November
1959:						
Major.....	176	74	60	46	35	-----
Smaller.....	183	197	177	143	124	-----
1958:						
Major.....	145	170	186	189	189	183
Smaller.....	72	121	161	182	195	189
1957:						
Major.....	19	19	21	24	24	24
Smaller.....	59	59	59	61	62	62
1956:						
Major.....	19	19	23	23	24	20
Smaller.....	64	65	65	60	59	57
1955:						
Major.....	144	143	35	31	26	19
Smaller.....	100	113	106	101	94	74
1954:						
Major.....	20	134	44	53	51	48
Smaller.....	31	46	73	88	94	97
1953:						
Major.....	18	17	16	16	18	18
Smaller.....	19	18	18	23	24	24
1952:						
Major.....	18	21	23	21	19	18
Smaller.....	5	14	27	30	26	22
1951:						
Major.....	-----	-----	-----	14	16	15
Smaller.....	-----	-----	-----	-----	5	5

¹ Recession months between start of decline and return to prerecession levels of industrial production.

Source: U.S. Department of Labor.

These trends must be reversed as quickly as possible in order to cushion the effects of rapid technological change, to distribute the burden of rapid technological change more equitably, and to distribute the gains of rising productivity on a fair and equitable basis among all economic groups in the population. If American wage and salary earners are expected to continue to accept technological change as they have in the past, American employers and society as a whole, through the Federal Government, must provide the means for assisting workers, businesses, and entire communities to adjust to the new technology, and must also provide the environment whereby all economic groups can share in the benefits of rising productivity.

A more rapid rate of economic growth than in the past 6 years is an essential prerequisite for minimizing economic and social disruptions during this period of rapid technological change. The transition to the new technology, in a period when productivity is rising rapidly and the labor force is growing annually by about 1 million or more, requires continuing high levels of employment and economic expansion of about 5 percent a year. Only in an economy that is growing rapidly and creating new job opportunities can the dislocations of rapid technological change be held to a minimum.

With the spreading tendency of firms to shut down old plants and to build others in new areas, Federal Government assistance for economically distressed communities is essential to retrain workers, to assist businesses to change their output for markets that are expanding, and to attract businesses to locate new operations in such areas. In addition to a much-needed Government effort to rehabilitate distressed areas, relocation allowances, under law, as well as collective bargaining, may be necessary to assist workers and their families to move to locations of new job opportunities.

The benefits of the new technology should be shared widely among all groups in the population to raise living standards, strengthen national defense, increase leisure and improve housing, the education system, health, community and recreation facilities. Special Government efforts should be made to bring an adequate share of the fruits of technological progress to low-income families.

The Nation's education system must train an adequately skilled labor force to operate and maintain an economy that is increasingly automated. Vocational training facilities, as well as technical schools, are required to retrain workers in new skills and to train technicians. The Federal Government should provide some financial aid—through the unemployment insurance system or another method—for jobless workers and their families during the period of retraining.

The Social Security Act should be improved to provide the possibility for earlier retirement. Employers should cooperate with unions to develop means of providing job opportunities for older workers, who may be too old for retraining.

Federal law, as well as collective bargaining contracts, should be improved to provide a gradual reduction of working hours, as the new technology raises productivity and reduces manpower requirements, in relation to demand.

Careful Government attention should be focused on the possible further concentration of the control of industry and commerce by large corporations, since the costs of introducing automation may be so great and the required output may be so large as to increase the tendency toward economic domination by giant firms.

Above all, the Government should encourage economic growth to minimize social and economic disruption during the transition to the new technology and should provide an environment that encourages the solution of intraplant problems through the process of collective bargaining between employers and unions.

POSITIVE GOVERNMENT POLICIES FOR BALANCED ECONOMIC GROWTH

Since balance in private economic activities involves the decisions of thousands of businesses and millions of families, as well as Government policies, it is unreasonable to expect a continuing economic balance between increasing productive capacity and growing sales to be maintained by itself. Government policy should act as a balance wheel, an economic gyroscope. Government tax, monetary, budget, and public investment decisions should be geared to provide full employment and balanced economic growth. They should provide a continuing balance between increasing productive capacity and growing consumer markets in the private economy. The President's Council of Economic Advisers should annually present to Congress and the American people the goals and objectives that should be sought in each economic sector to sustain balanced expansion and full employment.

Balanced economic growth of about 5 percent a year is required in the years ahead if America is to begin to respond in a positive and responsible manner to the major economic issues of the second half of the 20th century.

Balance, within the private economy, requires a balanced relationship between consumption and business investment in new plant and equipment, based on a balanced flow of purchasing power to consumers and to businesses. Federal Government policies are required to provide the general economic environment and economic basis for private economic balance—tax and monetary policies that promote balance, as well as policies to encourage corporate cost-price-profit-investment policies that would produce lower unit profit margins, particularly in the large corporations, and lesser reliance on internal financing on new plant and equipment.

Balance, within the total economy, requires Federal Government actions and policies to complement balanced growth within the private economy through Federal expenditures, tax and budget and monetary policies. A step-up in the pace of economic growth to a rate of about 5 percent a year requires (1) Government monetary, tax, expenditure, and budget policies to encourage balanced growth of the national economy, and (2) Government policies designed to avoid recurring recessions, and immediate steps by the Federal Government to reduce the length and to minimize the impact of an economic decline, should one occur.

BALANCE BETWEEN CONSUMPTION AND INVESTMENT IN THE PRIVATE ECONOMY

The economy has been plagued in recent years by a lack of balance between sales and productive capacity. Since the private sector accounts for approximately 80 percent of total national output, this lack of balance has been mainly the result of an imbalance between private consumer purchases of goods and services, on the one hand, and productive capacity, on the other hand. The McGraw-Hill survey of manufacturing operating rates as a percent of manufacturing capacity indicates that except for the final months of 1955, and possibly early 1956, manufacturing industries, as a whole, have operated considerably below maximum levels in recent years.

Operating rate as percent of capacity—manufacturing industries

End of year :

1954.....	84
1955.....	92
1956.....	86
1957.....	78
1958.....	80

Source: 12th annual McGraw-Hill survey, April 1959.

Not only have there been considerable amounts of idle productive capacity during most of the past several years, but there have also been widening gaps between productive capacity and sales. Such a condition led to the recession of 1957-58. The sharp rise in business investment in new plant and equipment, at present, may result in another widening gap between sales and productive capacity a year or two from now and, possibly, in another recession.

A better and more continuing balance between consumption and investment is required. That means continuing improvements in wages and salaries—to boost consumer purchasing power, which is the basis of mass markets—in an economy whose ability to produce is increasing. It means a special effort, through amendment of the Fair Labor Standards Act, for example, to lift the purchasing power of low-income workers. It also means a change in the cost-price-profit-investment policies of business, particularly the major corporations, so that prices may be based on lower unit profit margins.

THE GOVERNMENT SECTOR OF THE NATIONAL ECONOMY

The Government sector of the national economy has a crucial role in economic development, although it directly accounts for only a small part of total economic activities. Federal, State, and local governments have the function of meeting the needs of national security and public welfare. The Federal Government has the additional and key function of sustaining economic growth and complementing the private economic decisions of business and families.

If an unbalanced condition develops, and the economy is threatened by stagnation, it is the obligation of the Federal Government to boost production, jobs and family income promptly through stepped-up public works programs and/or tax cuts on personal income. In the event of a recession, the Government should increase its public works

programs—to create jobs, incomes and orders for construction materials—as soon as a decline begins. The Government should maintain at all times a shelf of detailed public works programs, on which work can be started promptly to prevent the losses of recurring recessions.

MONETARY POLICY

A more rapid pace of economic growth requires a halt to the Government's tight-money policy. Amendments to the Federal Reserve Act and basic changes in monetary policies are necessary to prevent further economic damage from misguided monetary measures. Tight money and high and rising interest rates, designed to curb economic expansion, have already contributed to two recessions in the past 6 years and to a reduction in the rate of economic progress.

The administration's and the Federal Reserve Board's efforts to obtain congressional sanction to lift the interest rate on long-term U.S. bonds above the statutory 4½ percent ceiling should be repulsed. This proposed rise would probably result in even higher interest rates. With interest rates already high, this is not the time for the Federal Government to indulge in long-term borrowing at ever-higher interest rates. If lendable funds are scarce, it is essentially due to temporary factors. In addition, during fiscal year 1960, the new money needs of the Treasury will probably decline, as the rise in output, profits and incomes raises Federal revenue receipts.

Furthermore, no long-term U.S. bonds will have to be redeemed before late 1960. In the meantime, the Treasury can continue to meet its needs through short-term borrowing on which no interest ceiling exists. As another alternative, the Federal Reserve can purchase long-term bonds and sell off short-term bills, notes and certificates, thus keeping the credit resources of the Nation unchanged. Such action would permit some long-term bonds to be issued and sold. The adoption of this approach would halt speculation as to whether interest rate ceilings on long-term bonds will go up and the whole interest rate structure would be stabilized by a reorientation of attitudes in the money markets.

It is important that the Federal Reserve Board recognize that it is a creature of Congress and not a fourth, independent branch of the U.S. Government. Legislation, expressing the will of Congress, is essential for the purpose of integrating the Federal Reserve System and monetary policy with the Congress, the executive branch of Government and the "maximum employment, production and purchasing power" objectives of Government policy.

The Federal Reserve Act should be amended to provide for adequate representation of consumer, small business and labor interests on the Board of Governors of the Federal Reserve System, on the Boards of Directors of the 12 regional Federal Reserve banks and on the Open Market Committee, as well as on the Federal Advisory Council.

It should be the declared "sense of Congress" that marketable U.S. Government securities are a dominant factor in securities markets, with major influence on the money supply and interest rates generally, and should be managed positively as part of national economic policy, instead of managing them as if they were the securities of a private

corporation. The Congress should indicate, too, that changes in reserve requirements of banks should play as important a role in controlling the pressures of actual inflationary shortages, if and when they actually exist, as the Board has attempted to do with interest rates. When feasible, changes in reserve requirements should be used as a means of tightening, as well as loosening, the money supply. The Congress should also indicate its will that, when practicable, the Open Market Committee should buy long-term securities as well as short-term bills. The Congress has the right to see to it that the Federal Reserve System's "bills only" policy is eliminated.

The policies of the Federal Reserve Board should be flexible enough to permit selective credit controls if and when actual inflationary shortages exist or selective ease of credit for certain types of activities declared to be essential, even though tight money and policies of general credit restraint are in effect.

Above all, the Federal Government and its leading spokesmen should cease their constant scare talk about an ever-impending threat of runaway inflationary pressures, of shortages of goods, productive capacity and manpower. Instead, a more rapid rate of economic growth of about 5 percent a year should be the goal of domestic economic policies. (See AFL-CIO publication, *Labor's Economic Review*, August 1959.)

FEDERAL BUDGET POLICY

The Government's restrictive and self-defeating budget policy should likewise be ended. The policy of attempting to balance the Federal budget at all costs should be halted.

Attempts to balance the budget at relatively low levels of output, income, employment and capacity utilization have proven themselves to be self-defeating. Needed defense and public service programs should be judged on the basis of national and social needs, rather than on the basis of the sole criterion of budget balance. The Government's budget policy should be geared to a more rapid rate of economic growth, to produce balance and surpluses, as a result of economic expansion and rising output, sales, incomes, and corporate profits.

TAX POLICY

The Federal Government's tax structure is in need of substantial revision to provide a more equitable and balance-encouraging means of raising needed Government revenue. Top priority in such revision should be given to closing loopholes of special tax privilege for wealthy families and corporations and to reducing the tax burden on low- and middle-income families. Full employment, a more rapid rate of economic growth and measures to close tax loopholes can raise sufficient revenue to cover required increases in Federal expenditures to meet the Nation's major needs.

State and local government tax structures should be examined and revised—to eliminate the regressive nature of most State and local tax systems and to provide the means for raising revenues on the basis of ability to pay.

A REASONABLY STABLE PRICE LEVEL IN A GROWING ECONOMY

Economic expansion of about 5 percent a year should be a major goal of national policy. A reasonably stable price level should be sought, within the context of a rapidly growing economy.

The problem of a rising price level in the past several years is a problem of specific economic sectors and markets, cost-price-profit-investment policies of the dominant corporations in key industries and economic adjustments to changing social conditions in a period of slow economic growth. It is not an overall problem, such as demand inflation in wartime, that can be handled by general, overall restrictive policies. Slowly rising prices of services, such as medical care and insurance, for example, cannot be solved by tight money. The problem of rising steel prices, in an industry whose prices are administered by the dominant, giant corporations, cannot be solved either by blunderbuss, restrictive policies. Tight money, high interest rates, and restrictive budget policies, however, can slow down economic growth and the expansion of job opportunities.

A comprehensive national investigation and analysis of the price structure and its major sectors is needed, as a basic requirement for developing possible solutions to the problem of a slowly rising level of prices in peacetime. All sectors of the national economic and major economic activities should be examined in detail, in an attempt to isolate and analyze the causes of a slowly rising price level, for the purpose of developing possible specific remedies for specific causes of rising prices in specific economic sectors and major markets.

Public attention should be focused on the pricing policies of the dominant corporations in key industries, whose prices are administered rather than determined by effective competition. Each sector of the economy should be examined for the possible development of reduced profit margins. Low productivity sectors and markets of the national economy should be examined, in cooperation with employers and unions, to seek means of improving productive efficiency.

The work that has been begun by the Senate Subcommittee on Anti-Trust and Monopoly and the Joint Economic Committee perhaps should be continued, for a limited period of time, by a tripartite national commission of inquiry into the price level, in an attempt to isolate the specific causes of a slowly rising price level and to develop possible, specific remedies for this problem, in the context of a rapidly expanding economy.

II. THE ROLE OF COLLECTIVE BARGAINING IN THE AMERICAN ECONOMY

CHARACTERISTICS OF COLLECTIVE BARGAINING

It is now almost 25 years since Congress first set forth its approval of collective bargaining as the preferred method for determining wages, hours, and work conditions of American workers. The National Labor Relations Act, signed by President Franklin D. Roosevelt in June 1935, sets forth Government policy in these words:

It is hereby declared to be the policy of the United States to eliminate the causes of certain substantial obstructions to the free flow of commerce and to mitigate and eliminate these obstructions when they have occurred by encouraging the practice and procedure of collective bargaining * * *

The history of collective bargaining, of course, dates from a much earlier era, although it has not always been the accepted practice in employer-worker relations. In fact, many of the earlier labor unions spurned any systematic method for dealing with employers. They much preferred a more direct action approach through the use of such weapons as the strike or boycott and objected to any formal agreement by which wages and working conditions would be fixed for a specific period of time. Many of the early unions concentrated their energies on attaining legislative or political goals, minimizing their activities at the workplace.

Although collective bargaining in the United States is now a well-accepted, even a conservative, institution, its origin is a concept which in time past has been considered quite radical: namely, that the worker is entitled to have a voice equal to his employer in determining his conditions of employment. It was many, many years before American employers were willing to accept this notion and even today many sections of the business community are not convinced of the validity of this principle.

Gradually, however, collective bargaining has become a widely accepted means of determining working conditions. The practical gains that some unions were able to achieve through collective bargaining helped to convince additional workers of the value of such a practical approach to gaining improvements in work practices. Increasingly, company managements have seen advantages for themselves in the more orderly regulation of employer-employee relations that collective bargaining made possible.

Thus any inquiry into the value of collective bargaining would do well to recall its historical development, the bitter opposition it originally encountered, and the sacrifices, often in human lives, that have been made in its behalf.

In many sections of America today, collective bargaining is again under sharp attack. It is alleged that this system has had harmful effects on the American economy by retarding technological advances or unduly causing inflationary pressures. Often these attacks appear to be aimed more directly at one participant in collective bargaining, namely, the labor unions, but the remedies proposed frequently take the form of greater Government interference with the collective bargaining process. Much of the discussion about collective bargaining and many of the attacks which it has sustained have been made by those who did not clearly understand either the American collective bargaining process or the possible alternatives.

An understanding of collective bargaining must begin with the realization that both workers and employers must be free to choose their own representatives and to reach mutually satisfactory agreements without restraint from any outside group, including Government. In absolute terms, one could argue that at no time has there ever been an example of completely "free" collective bargaining since governmental influences in one form or another are always present. However, freedom is more a relative than an absolute concept, and unfortunately there are relatively few countries in the world where

representatives of workers and employers can meet and make decisions in relative freedom. Of course, there is no collective bargaining in any accepted definition of the term in the Soviet Union or behind the Iron Curtain.

In this country, collective bargaining has taken a form and a direction which is almost unique in the world. In most countries the collective bargaining arrangements are highly centralized in one or a few national bargaining systems. Decisions made by a few unions and management associations become reflected throughout the country.

In the United States, the picture is quite different. Historically, the size of the country, the difficulties of communication, and the varying industrial development tended to produce a larger number of unions and a more diversified industry. There are other aspects to the unique character of the American collective bargaining system. In most of the other industrialized nations, unions developed as much for political as economic objectives, and the intense rivalries among religious and political groupings produced their counterparts in the structure of the labor movement.

In the United States, the labor movement became oriented less toward political reform and more toward practical economic goals. Political democracy was achieved at a relatively early stage of the country's history, leaving the unions free to devote the large part of their energies to winning on-the-job improvements for their members. While some union leaders preferred to emphasize broad political objectives, the more practical aspects of unionism became the dominant theme as collective bargaining proved a workable, effective means of achieving reasonable protection for workers and advancement of their economic well-being.

Nowhere in the world has the institution of collective bargaining been more thoroughly mined under a greater variety of circumstances. In the United States today there are over 125,000 separate collective bargaining relationships between several hundred thousand employers in thousands of differing national, regional, and local markets and approximately 150 national unions and 70,000 local unions.

The growth of unionism and the development of collective bargaining have taken different forms in different industries. The economic facts surrounding each particular industry have left their mark on the systems of collective bargaining which prevail today, the often forgotten fact is that there is no single or uniform bargaining procedure in this country, but rather a host of variations developed by the special needs of individual circumstances.

Despite the merger of the American Federation of Labor and the Congress of Industrial Organizations into one trade union center, there is relatively little centralization in union structure today. The central federation has limited powers and resources and does not engage in collective bargaining. Nor, for that matter, do the large federations of employers such as the U.S. Chamber of Commerce.

At the time of its most recent convention, the AFL-CIO included 135 international unions with about 60,000 local unions. Only 5 of these unions had membership of over 500,000 and the largest single union included only slightly more than 8 percent of the total membership. While the larger unions naturally include the greater proportion of the membership, the extent to which membership is

concentrated in larger unions in the AFL-CIO is far less, for example, than in the British Trades Union Congress.

Not only is collective bargaining decentralized among the many national and local unions, but the individual union-management relationships vary widely in terms of the number of workers covered, the area of the bargaining unit, the number of employers and unions included in the agreement, the duration of the agreement, and the various subjects included in the contract.

It is worthwhile pointing out the great diversity in collective bargaining with respect to some of these points.

NUMBER OF WORKERS COVERED

Most of the more than 125,000 bargaining agreements cover relatively small groups of workers. Only about 1,700 to 1,800 agreements include at least 1,000 workers, although these agreements cover about half of all the workers under collective bargaining contracts.¹ These larger agreements are most prevalent in those sections of American industry where organization on the management side has also developed into large units. In general, the pattern of union organization closely follows the industrial pattern in a particular industry.

Statistics showing the number of workers covered by large agreements tend to be misleading because most of the larger agreements are confined to a relatively few major issues and leave many questions to be resolved by bargaining at the local level. Such issues as layoff, promotion, and transfer procedures, grievance settlement, and other work rules are generally left to local determination.

AREA OF BARGAINING UNIT

By far the greater proportion of bargaining agreements cover a particular industrial plant or a specific craft in a given community. Even the larger agreements are large, not because they include workers in more than one community, but simply because the particular plant covered employs a large number of workers. Only 14 percent of the agreements covering 1,000 or more workers are interregional in character.

SUBJECT MATTER OF AGREEMENTS

While there are some subjects common to practically all agreements, there is wide variety of treatment. There are also many subjects dealt with in only a relatively few contracts each. The subjects included and the degree of detail will depend on the type of industry, company, and workplace concerned, the economic conditions of the employer, the attitude of the parties, and the evolution of the bargaining process.

To a far greater extent than in any other country, the results of each individual collective bargaining agreement reflect the conditions and requirements of the particular company and union involved. The subject matter covered by the contract, its wages and fringe benefits, and the provisions regarding such controversial subjects as management prerogatives and union security have been discussed at great

¹ "Characteristics of Major Union Contracts," *Monthly Labor Review*, July 1956, U.S. Department of Labor, Bureau of Labor Statistics, Reprint No. 2197.

length by those who have to live and work with the resulting contract.

In a highly decentralized industry, for example, the type of wage changes, other benefits, bargaining procedures, and the role of the union, will be very different in an industry dominated by one or a few large corporations. The diversity in collective bargaining thus gives a particular strength and durability to the settlements achieved. The firm support which collective bargaining receives from both workers and employers is reinforced by the manner in which the bargaining process is geared to fit their needs.

EFFECTS OF COLLECTIVE BARGAINING

Collective bargaining has become an integral part of the American economic system. It is widely admired and frequently cited as a pattern by unions, employers, and Government officials in other nations. Here at home, however, the institution has been under attack. It is alleged, first, that collective bargaining contributes to the inflationary process, and second that it impedes the development of technological changes and improvements in productivity.

Before discussing these specific charges, it is well to recognize that the merits (or demerits) of the collective-bargaining process go far beyond the issues raised by these two charges. Important as these may be, there are many effects of collective bargaining, both economic and noneconomic, which should be borne in mind in assessing its value to American society. Among the more important are the following:

1. *Collective bargaining introduces the democratic process in industry.*—By himself, the individual worker is ordinarily helpless in dealing with the force available to his employer. The power to hire and to fire any single worker is sufficient by itself to give the employer all the advantage in a system of individual bargaining. It is only when the individual worker is able to join with his fellow workers in a union that he can really speak up and have an influential role in deciding wages, hours, and working conditions.

Surely it is obvious that, particularly on matters directly affecting all workers such as vacations, pensions or lunch-hour scheduling, the individual worker cannot very well shape company policy but must join with others in a union for group expression if policy determinations are not to be wholly unilateral management determinations.

Collective bargaining thus becomes an extension of democratic procedures to industry. This is not to say that company decisions are made by majority vote of the employees but rather that the greater equality of bargaining power enables those directly concerned, the workers, to participate in decisions affecting their welfare.

Even some of the political forms of democracy are carried over to the industrial sphere; for example, the system of elections under the auspices of the National Labor Relations Board, to select a representative for the workers in the appropriate collective bargaining unit. Incidentally, the degree of participation in these elections is far higher than in political elections.

The Nation as a whole, and not just organized labor, has an important stake in the essentially free nature of collective bargaining. Because of the direct participation by workers, the bargaining results receive a greater degree of acceptance by the work force than generally

typifies labor relations of countries with other systems. To limit this freedom would limit the sense of worker participation and influence which is a key ingredient, however intangible and unmeasurable, of healthy, productive labor relations in a democratic society.

2. *Day-to-day collective bargaining procedures make a valuable contribution to the orderly settlement of disputes between workers and employers.*—Negotiated procedures for settling grievances are a key constructive aspect of our bargaining system. Even under the most enlightened personnel policies, working relations in a plant of any size is bound to involve a multitude of complaints and disputes over company practices and policies. A grievance procedure provides an orderly mechanism for the settlement of such grievances in a system in which the worker does not have to face company management by himself but is represented through his union. Establishment of such a grievance procedure does not simply work for the benefit of the workers concerned. Such a grievance procedure is welcomed by management because, almost invariably, it is accompanied by a firm assurance from the workers and their union that there will be no interruption to production while the grievance is being processed, normally to a final and binding decision through voluntary arbitration.

3. *Collective bargaining has made a major contribution to solving the problems of insecurity.*—In recent years the collective bargaining process has been the means for developing new programs to meet the problems arising for workers from unemployment, old age, and sickness. These programs have wrought a notable improvement in the ability of the average worker's family to weather the financial strains imposed by such periods of reduced income.

With regard to retirement programs, for example, the spread of collectively bargained pension plans has provided a much needed supplement to the basic coverage offered under the old-age and survivors insurance law. The same general type of supplementation of public programs has taken place in some industries through the provisions for supplemental unemployment benefits to carry workers through periods of unemployment. Since there are virtually no Government insurance arrangements in the field of health, the collectively bargained health and welfare plans represent basic protection for many workers.

These programs have made a major contribution to strengthening the security of many groups of Americans and have therefore built greater stability into the structure of our society as a whole. The success of these programs is evident from the fact that their provisions have been adapted and extended to cover many groups of workers not represented by a union.

Moreover, the growth of these collectively bargained plans has stimulated improvement in similar Government programs. The Government's old-age and survivors insurance program, for example, has undergone a series of major improvements beginning with 1950 after the first major breakthrough in the initiation of private pension plans. There has been greater interest in the necessity for improving basic unemployment insurance benefits since the initiation of supplementary unemployment benefits in private industry. In the field of health, the most recent session of Congress passed a new basic health

insurance program for Government employees modeled after many of the arrangements that have been initiated in private industry.

4. *Collective bargaining has greatly changed the patterns of leisure time in the United States.*—Union efforts through collective bargaining to improve vacations with pay and increase the number of holidays granted is working a gradual revolution in the availability and use of leisure time in the United States. Through union efforts, the 3- and even 4-week vacation for intermediate and longer service employees has become far more common. The number of paid holidays recognized by industry has been increasing to the point where the majority practice is to observe seven, eight, or more each year.

In addition to this, union efforts through collective bargaining to reduce the standard workweek have led, in a number of instances, to the 37½- and the 35-hour week. This also has made available greatly increased period of leisure time.

The value of the increased leisure time in terms of personal satisfaction, of course, can never be measured. Nonetheless, it constitutes a major achievement whose initiating force has come only through the collective bargaining process.

5. *Numerous other types of provisions in collective bargaining have yielded major benefits to American society.*—The seniority system, difficult and as controversial as it sometimes appears, provides a basic method for determining which workers are to be laid off, transferred, and to a large extent, promoted. Contract provisions relating to health and safety of the workers on the job help reduce the toll of work accidents. Training and apprenticeship arrangements develop higher skills in the labor force. Numerous other examples could be cited of collective bargaining arrangements which make an important contribution to personal satisfactions and economic efficiency.

IMPACT OF COLLECTIVE BARGAINING ON INCOMES AND COSTS

Collective bargaining wage settlements obviously have an impact on the incomes of American workers and on the costs of American business. In recent years this aspect of bargaining has been sharply attacked as a major cause of price increases throughout the American economy.

The wage-price issues involved in this controversy go to the heart of economic theory and analysis. They have been the subject for a major economic texts. While we cannot in this analysis do justice to all aspects of this controversy, it is important to make clear the basic attitudes and thinking of union organizations on the basic question.

The object of the union is to secure higher living standards for its members. A major way unions hope to accomplish this objective is by winning for their members wages and other monetary benefits higher than they would be able to obtain without union representation.

There is a major element in the academic community that argues that despite the most vigorous efforts, unions are restrained by the economics of the marketplace so that they cannot obtain for their members any significant advantage over nonunion workers.

Although it is obvious that this issue is not subject to conclusive

proof, we wonder why, if this viewpoint in some academic circles is correct, employers so vigorously object to proposed union wage settlements. Moreover, there is major evidence that wages for union members in the same industry and area of the country are higher than wages paid to nonunion workers.²

Let us set aside the view of some economists that union influence in achieving higher wages is negligible. If these authorities happen to be correct, it necessarily follows that union efforts to raise wages cannot exert an independent influence in raising costs to the businessman.

Let us assume that unions do have independent authority to raise wages. The critical question then becomes: has this authority been exercised in such a way that the net result on the American economy has been harmful rather than beneficial?

It is labor's vigorous opinion that the result of this union pressure for higher wages has been of positive value to the American economy for the following reasons:

1. *At this stage of its development, the American economy must place renewed emphasis on increasing the levels of purchasing power and consumption.*—The most serious deficiency in the American economy at the present time is its lack of vigorous growth. Many parts of the economy are not operating at or close to full capacity. Investment in recent years has been at generally high levels. The basic need of the economy at present and in the immediate future will be for a growing level of income and purchasing power to stimulate the Nation's economic growth. While continued investment, of course, is important, the primary needs of the economy will require specific emphasis on greater consumption. (See additional discussion of this issue in pt. I of this document.)

2. *Without union wage pressure, improvements in productivity would not be translated either into higher wages or lower prices.*—While the competitive character of the American economy still prevails in a number of industries, it has become more and more evident that the extent of such competition is often limited, particularly in those industries dominated by one or few large corporations. Price competition has been weakened and in many cases whatever competitive pressures still remain have been diverted into such nonprice areas as advertising, discounts, and packaging. Under these circumstances, there is every evidence that without union pressure, management would not be sufficiently motivated either to pay out more in higher wages or provide consumers with the benefits of lower prices.

Consider, for example, the evidence during the 1920's. In that decade, wages increased only slightly, largely the result of weak union organization. The economy's productivity continued to improve but it was not translated into any substantial decline in prices. The resulting failure of purchasing power to keep up with advances in production was at least a major contributing factor to the great depression of the 1930's.

Although this union pressure for higher wages may be distasteful to management, the adverse economic effects that would occur from its absence would be far more serious to the economy as a whole.

² See AFL-CIO "Collective Bargaining Report," July 1959.

3. *Collectively bargained wage settlements have not been a significant factor in causing price increases in postwar economy.*—The evidence shows that wage settlements in the postwar period have generally been in line with changes in the price level and changes in the productivity of the economy. We believe that the record shows that postwar price increases in the American economy have been quite modest, particularly when compared to the experience of other countries throughout the world. It is clear that the greater part of the pressure for price changes during the postwar period has been the result first of the aftermath of World War II and, secondly, the inflationary effects of the Korean war boom. Three-fourths of the postwar increase in the Consumer Price Index occurred during these two periods. Even during the more recent period of price rises of 1956–58, union wage settlements have not been a major influence. In fact, judging by the changes in the consumer price level, the extent of price increases in the nonunion sector of the economy has been close to double that in the union sector.³

In assessing the results of union wage pressure, we believe that critics of collective bargaining often overlook several important factors. For example, academic discussions of the wage-price problem often read as though the employer had been wiped out as a party in collective bargaining with the union as the sole determinant of wage determinations. Yet it is apparent that employers still play, to put it mildly, at least an equal part in bargaining negotiations. Naturally, their efforts are directed toward lowered, rather than higher wage settlements.

Another factor, frequently overlooked, is that the results of collective bargaining are geared to the economic health of the industry and the company concerned. While the economists may continue to talk about "pattern" settlements (and there are no doubt certain key settlements which help to determine others made in a given year), nevertheless a major strength of the American system of collective bargaining is its great diversity of wage settlements rather than adherence to one or several central "pattern" settlements. In effect, most of the wage bargains have been fashioned with an eye to the specific conditions in the industry, locality, or the firm concerned.

Moreover, the influence across industry lines of so-called "pattern" settlements is less today than in the early postwar years. This is true because in the early postwar period many major agreements extended for only 1 year and tended to expire about the same time each year. More recently, the duration of agreement terms has been extended in many cases to 2 or more years, and the termination dates of these agreements are spread out during all the months of the year.

In addition, unit labor costs are determined not only by the contractual wage settlement and output per man-hour, but also by incentive wage payments systems and various premiums that differ widely from industry to industry, company to company and even, in multiplant firms, from plant to plant. There are many thousands of supplemental plant agreements negotiated by local union officers and

³ See "Relationship of Prices to Economic Stability and Growth, Commentaries Submitted by Economists from Labor and Industry," particularly the papers by Stanley Ruttenberg and Nat Goldfinger, and Peter Henle. (Joint Economic Committee, 85th Cong., 2d sess.)

local plant managements, in addition to the master contracts. As a less, use of labor saving equipment. This relates to the previous improvements is made much more diversified by the tens of thousands of supplemental agreements that establish the basis for the actual conditions by which individuals and groups of workers—not statistical averages—work and are paid.

IMPACT OF COLLECTIVE BARGAINING ON TECHNOLOGICAL CHANGE

The charge is also made that through collective bargaining unions interfere with technological change by opposing the introduction of labor-saving equipment and by insisting on obstructionist work rules which require the use of unnecessary personnel.

It is certainly true that these are subjects for negotiation in collective bargaining. These are naturally questions of direct concern to both workers and employers. It is reasonable to expect workers, for example, to be interested in the conditions under which labor-saving equipment is introduced, to be concerned about the pace at which they are required to work and hence about the size of the work crew necessary to perform a particular task.

It would be foolish for organized labor to assert that there never has been an instance under which union workers and union policy worked to obstruct improvements in productivity and advances in technology. However, what organized labor does assert is that the basic effect of both the trade unions and the institution of collective bargaining has been to facilitate and not to obstruct technological change.

In one important respect, unions operate to stimulate greater, not less, use of laborsaving equipment. This relates to the previous discussion regarding union wage pressure. To the extent that such union pressure does represent an independent force, it inexorably produces additional pressures for the introduction of laborsaving equipment.

A major part of industry's motivation in increasing expenditures for new plant and equipment is to take advantage of potential savings in labor costs. In this way union efforts and the collective bargaining process have stimulated directly management's private investment program.

Any technological advance necessarily involves questions of serious concern to those directly affected. One could hardly expect those workers whose jobs would be directly threatened to cheer enthusiastically the introduction of laborsaving equipment. There are a multitude of examples available showing how workers without the protection of any union have taken direct action in protest against the introduction of laborsaving equipment.

Recognizing the very human attitudes on the part of workers directly affected, what has been the influence of the union? What has been the effect of collective bargaining? The answer is simple: Under conditions of union organization and collective bargaining, the attitudes and policies of the workers directly concerned are tempered and modified by the broader outlook of union officials and the procedural safeguards which have been introduced through collective bargaining.

Union policy almost invariably has been to recognize the importance of technological change in maintaining a modern, efficient place of work. The alternative, of course, is that the business of the firm and the jobs of the workers will be lost to more efficient domestic or even foreign competitors. Union officials can take this more enlightened approach to technological change precisely because through collective bargaining they have been able to develop a mechanism for easing any harsh effects that the change will cause. Through collective bargaining, arrangements can be made for the advance notice of automation, or other labor-displacing equipment, the possible transfer and retraining of the employees concerned, the observance of seniority and other objective criteria for making such transfers, together with adequate compensation to any workers who necessarily have to be released as a result of the change.*

Thus the impact of unionism and collective bargaining is to work out an acceptable set of rules for technological change. The net result may not be all that management in its wildest dreams may desire. More than likely, however, those managements who dream of unlimited authority to achieve technological improvements are forgetting that without unions and collective bargaining, they might well be faced with even more difficult questions; namely, how to force even minor changes on a recalcitrant group of workers.

Technological change is a local problem. Machines, work flow, and production schedules vary from plant to plant, even in the same industry and company. Local unions provide the means for helping to establish the rules to ease any adjustment problems. There is yet no alternative in a free society—and perhaps none can be found—for the union in the work place, as an essential part of the process of adjusting to technological change.

PROPOSALS FOR CHANGE

Collective bargaining is not a perfect smoothly functioning instrument. At times, it must seem an awkward, illogical, and haphazard way of handling industrial relations. To those unfamiliar with this American institution, a system which allows such vitally important questions as the level of wages, the degree of workmen's security, and the amount of available leisure to be decided directly by workers and employers, must seem to invite uneven results and conflict.

It is clear that on some occasions collective bargaining does not work as nonparticipants might want it to work. During the current steel dispute, there is some question whether, in fact, collective bargaining has functioned at all.

Yet irritation with the rough edges of collective bargaining should not be allowed to obscure its basic qualities. Any final judgment of collective bargaining must not be shaped by one or a few individual situations. Nor should the search for perfection or tranquility overlook the genuine values to a free society that comes from the dynamic character and wide diversity of the American collective bargaining system.

* See AFL-CIO "Collective Bargaining Report," April-May 1958, and "Labor Looks at Automation" (AFL-CIO pamphlet).

The occasional examples of serious strain to which collective bargaining has been subjected in recent years and the attacks that have been made upon it for other reasons have led to a number of proposals for modifying its general character.

These proposals are of several types:

1. Proposals to limit or modify the size of labor unions.
2. Proposals to limit or modify the size of the collective bargaining unit.
3. Proposals to change the method of handling labor disputes affecting the health and safety of the public as a whole.
4. Proposals to inject greater consideration of broader economic effects into collective bargaining.

These proposals will be discussed briefly in order:

1. *Proposals to limit or modify the size of labor unions.*—Many business interests have continued their attacks in recent years on what they call excessive union "power" or "labor monopoly." They are searching for some way to reduce union effectiveness and some feel that the answer is to be found in the application of the antitrust laws to labor unions.

But is union strength of such a magnitude that it could adversely affect the public interest if misused? Admittedly, unions generally are stronger than they were 20 years ago. Employers, however, are still powerful, and whatever additional power unions have been able to achieve has been necessary to more nearly equal the stronger bargaining power of employers.

The strongest unions are most often found opposite the most powerful corporate aggregations. Although instances may be cited of seemingly powerful unions posed against weak individual small employers, by far the greater number of cases still find much-too-weak unions bargaining with strong employers. This is certainly the case, for example, in such large industries as banking, insurance, department stores, mail order firms, and telephone.

Financially, unions are certainly mere weaklings compared to the large corporations. In fact, it has been estimated that total assets of all unions in the country are less than the assets of one business corporation, the American Telephone & Telegraph Co. Does it seem logical to break up the national union in the telephone industry while allowing the huge A.T. & T. to remain untouched? There would be obvious inequities in many other industries, as well, if national unions were outlawed while monopoly or oligarchy remained on the industry side.

Moreover, while the breaking up of unions into smaller units might benefit some employers who want their unions weakened, there is grave doubt that, overall, such a radical step would provide either more stable industrial relations or a lower level of wage settlements. The influence of a broadly based labor organization, as many impartial observers have pointed out, lends stability and maturity to the bargaining relationship. When bargaining becomes subject to a greater degree of local pressures as it would be if the broader national unions were dispersed into smaller units, the result is likely to be more frequent work stoppages and more intense pressure for higher compensation.

Also, application of the antitrust laws to labor unions involves complicated legal issues and a variety of unknown side effects which can become apparent only through extensive, protracted, and costly litigation.

This is not the place to elaborate on these significant "byproduct" problems created by extension to unions of antitrust practices developed in the quite different business world. It should be noted, for example, that union complicity with management in setting prices or dividing markets is already subject to prosecution under the antitrust laws.

Suffice it to say that many unbiased observers have concluded that application of the antitrust laws would not improve employer-employee relations. Moreover, on the face, the choice of the antitrust laws as a vehicle for imposing additional restraints on labor seems a mischievous and peculiar one. The extensive existing labor relations statutes should be the base for any change in labor relations rather than an entirely new piece of legislation which has been developed against the different background of product markets. In fact, most of the specific complaints raised by advocates of antitrust legislation are precisely those issues such as secondary boycotts and picketing which are now covered in detail by the Taft-Hartley and the newer labor reform legislation.

2. *Proposals to limit or modify the size of the collective bargaining unit.*—Some people would change the collective bargaining system, not by regulating the size of the labor union but by regulating the size of the bargaining unit. The most widely publicized proposal in this area is the suggestion that all nationwide and perhaps regionwide collective bargaining agreements should be outlawed.

This issue gained some popular support at the time the Taft-Hartley law was being considered in 1946. It was defeated by a close vote in the Senate at that time. In the intervening years an increasing number of employer groups have recognized the harmful nature of this proposal. Many of the considerations which are involved in a discussion of union strength also apply here. Eliminating regional or national bargaining would impose very artificial restraints on collective bargaining.

There are very few agreements which are nationwide in scope, and most of these, in such industries as glass, paper, and wallpaper, have long histories which are recognized as models of stability and industrial statesmanship. The railroads have a form of national collective bargaining (although a number of important issues are reserved for local agreements), but the procedures for bargaining in the railroad industry are already closely circumscribed and regulated through the Railroad Labor Act.

Most of the agreements in the public limelight covering large numbers of workers are companywide rather than national or regional in scope. They cover the particular plants of a company no matter where they are located. While some proposals have been made to break up companywide bargaining, most people recognize the patent unfairness of such a proposal since it would force local unions to negotiate separately with a giant corporation.

3. *Proposals to change the method of handling labor disputes affecting the health and safety of the public as a whole.*—The recent expe-

rience in the steel dispute has awakened renewed interest in the methods by which the Government can protect the health and safety of its citizens against a work stoppage that may have a crippling effect on the economy as a whole.

It is generally agreed that the Government does have a definite role to play in such disputes, and that the procedural arrangements under the Taft-Hartley law are inadequate. On a number of different occasions, union representatives have argued that the Taft-Hartley law does not provide an efficient or equitable method of resolving such emergency disputes. Among the points which unions have made are the following: That the application of the injunction means that for 80 days the power of the Government is automatically invoked on the side of the employer regardless of where the fault for the collective bargaining impasse may lie; that the requirement of a vote on the employer's "last offer" tends to stifle genuine collective bargaining; and that factfinding without the corollary power to make recommendations is but an empty gesture.

A full discussion of the merits of various proposals for handling the rare disputes of this magnitude would require a separate paper by itself. Needless to say, many recognized experts in the field have made constructive suggestions for new procedures. Organized labor recognizes the need for improved procedures in this field and has sought to cooperate in working out improvements over the present law.

4. *Proposals to inject greater consideration of broader economic effects into collective bargaining.*—Public debate on the general question of wage and price relations has led to a number of proposals for modifying the collective bargaining process to give the Government additional powers in the determination of both prices and wages. These proposals differ from suggestions being made to handle disputes affecting the public health and safety. Those concerned with the health and safety of the general public suggest how collective settlements can be achieved without work stoppages that would cripple the entire economy. The proposals that have been made in this category, however, are more concerned with making certain that the collective bargaining settlements do not have an adverse effect on the economy, particularly by contributing to inflationary pressures.

These proposals take various forms. Some of them suggest the imposition of one or more special rules which the parties to collective bargaining would have to observe in reaching wage settlements. Some suggest an independent Government body to review price and wage decisions either before or after they have been made.

One specific suggestion is that collective bargaining wage settlements should somehow be tied to changes in productivity. While it is useful to call attention to the relation between wage and productivity trends, particularly in overall national terms, it is impossible to apply any such direct relationship in a specific collective bargaining situation. Unions, of course, recognize that productivity is an important consideration in wage bargaining. But it is not the only basis for wage changes in a particular situation. Other factors which must be considered are changes in living costs, wage inequities between workers in the same company, locality, or industry, or cross-industry inequities, the profitability of the employer, and the labor market conditions for specific occupational skills.

Moreover, it would be quite impractical to develop a single strict relation between wages and productivity. What productivity figures should be used? Those for the economy as a whole, for a particular industry, or for a particular plant? What about sharp fluctuations particularly at the industry and company level? What about workers whose wage increases fall below the rate of productivity advances? Should such increases be required for them?

Also, productivity data quickly becomes hopelessly involved in a morass of conceptual and measurement problems. Even the most reliable data is at least 6 months to a year out of date. There are always arguments over the selection of data, the weighting procedure, and the interpretation of the figures.

There are other proposals that have been made to inject economic consideration into collective bargaining. One suggestion that has received considerable attention would establish a new role for Government in the collective bargaining process. This suggestion is to establish in either an existing or a new Government agency the authority to review proposed wage and price decisions. Under the most publicized of these proposals, the Government agency would be empowered to hold public hearings regarding price increases which have been proposed by firms in industries where most of the output is produced by relatively few firms. Similarly, such hearings could be held independently on the subject of proposed wage increases in these industries. The agency would be given authority to issue factual summaries of such hearings and, where it is considered desirable, to issue "advisory statements."

The proposal is certainly an interesting one and deserves careful attention. However desirable such a procedure may be with regard to prices, it is questionable whether the introduction of wages as a separate issue into such a procedure for public hearings serves any useful purpose. Wage negotiations obviously occur within the framework of company's profitability, which includes its prices. In a public hearing procedure, if a corporation contends that a proposed price increase is necessary because of changes in wages, then the wage issue would automatically become one aspect of such a price hearing. However, this is a far different matter from holding independent hearings on proposed wage changes which may never be reflected in higher prices. The record of wage changes in recent years does not in any way justify such Government intervention at the collective bargaining table.

Unions will oppose any effort in peacetime to impose governmental authority to negate the results of wage settlements arrived at through collective bargaining. On the other hand, there may well be constructive improvements that could be introduced into the collective bargaining process. These improvements, however, should be directed at making the parties concerned more directly aware of the relation between their individual bargaining and the economy as a whole. In this way, broader economic considerations can become a more important factor in collective bargaining.

Along this line, the AFL-CIO has recently suggested in a letter to President Eisenhower that he call a national conference of union and industry leaders to consider and develop guiding lines for just and harmonious labor-management relations. In this way both sides

of the bargaining table could consider the economic framework within which collective bargaining is conducted and the impact of current economic developments on relations between workers and employers. The discussions at such a conference obviously should not become enmeshed in the specifics of any particular collective bargaining situation. Well-recognized experts in the field of economic affairs should be available to discuss economic trends at these meetings involving both union and management officials.

Unions will continue to give full support to free collective bargaining. It has proved its durability and adaptability to changing economic conditions. It has been the instrument for achieving a more equitable wider distribution of higher living standards, for stimulating new technical advances, and for developing greater stability and maturity in labor-management relations.

Labor does not defend collective bargaining unthinkingly. Often unions are not satisfied with its results. There is always the temptation to invite Government tinkering in an effort to gain some advantage. But considered reflection directs the conclusion that any such advantage, for labor, for industry, or for other parts of the economy, would be short-run or illusory and would not be worth the price paid in terms of values lost as a result of curtailing the fundamentally free and adaptable bargaining process, no matter how frustrating that process may seem at times. Indeed, the very process of what might be called channeled friction which is our collective bargaining system has, without controlling pressures from third parties, developed a better labor relations product at least in the long run, than any possible alternative.

III. AIDING THE LOWEST INCOME GROUPS

Stable and sustained economic growth can only be maintained if aggregate personal income and expenditure constantly rise and fairer income distribution among the families of the Nation is achieved.

These income objectives must be vigorously pursued by public and private means not only because the maximum satisfaction of human wants—in terms of goods, services and leisure—is the logical goal of economic policy, but also because adequate job opportunities and economic growth can only be attained in our free enterprise system if the rise in personal income and expenditure is sufficient to insure adequate expansion of total personal consumption.

The purchases of our 55 million families supply the lifeblood that sustains the American economy. In the second quarter of 1959, 70 percent of the total demand generated within the economy was coming from these family purchases of goods and services, including housing. Moreover, the extent of the demand from private domestic investment for new construction, equipment and inventory—about 11 percent of the total national output during the second quarter—depends essentially upon the existing level of consumer demand plus businessmen's anticipation about the growth or decline of this demand in the future. Although public expenditures also have an important impact upon the demand for goods and services, family outlays for personal consumption are, and inevitably will remain, the major and decisive stimulant to job creation and economic growth.

Since the long-range ability of most families to spend for personal consumption is closely tied to their income—although borrowing, saving, and the use of past savings affect spending levels at any given time—there is value in noting postwar family income trends in order to evaluate the impact they have had upon economic growth.

In table I, average family income before and after Federal income tax and in current and 1958 dollars is shown.

In the 11 postwar years spanning 1947 to 1958, current average family income rose from \$4,130 to \$6,220, an increase of over 50 percent. However, when these current dollar figures are reduced to real purchasing power gains—disposable income in 1958 dollars—the showing is less impressive. On this basis, the rise was only 18 percent, or about 1¾ percent per year. (Some of the rise reflects the striking increase in the proportion of working wives over the last decade. Furthermore, as real disposable income was rising, the size of families dependent upon that income was rising too.)

Nonetheless, the fact that the average family was able to enjoy some measurable increase in its real disposable income in every postwar year but three, accounts in large measure for the general economic expansion of this period. Yet, the level of expenditure which even rising family incomes were able to support still was not sufficient to maintain adequate employment and the full utilization of our national production machinery during substantial periods since the end of World War II. Mounting inventories that portended the recessions of 1949, 1954, and 1957-58, clearly reflected the inadequacy of family income growth and spending. What is more, each resultant recession further retarded the growth of personal income, a growth that is imperative if adequate economic expansion and job creation is to be assured.

Personal consumption and business investment must expand together in a balanced relationship if the entire economy is to achieve stable growth. Most important, at the present time a substantially more rapid growth in real family disposable income and spending is required. Clearly, the present average rate is not sufficient to assure uninterrupted economic expansion.

Moreover, statistics on family income "averages" have tended to obscure the striking inequities in income distribution which have continued during the postwar years. This aspect is important not only for humanitarian reasons but because it has an important impact upon aggregate personal expenditures and their support of economic growth as well.

While the overall postwar real disposable income trend has been upward "on the average"—although rising much too slowly—the income level of the poorest fifth of our families and their share of total personal income have remained shockingly low. Actually, the share of those whose need for more goods and services is most acute, has not increased at all during the postwar years.

In 1957, according to the Bureau of the Census, over 10½ million American families (groups of two or more related persons residing together; about one-quarter of the total) had a money income of less than \$3,000 (under \$57.70 weekly, before taxes). Six and a half million of these families were existing on less than \$2,000 (under \$38.50 weekly, before taxes) and 8 million children were members of these

families. (According to preliminary census figures for 1958, these totals remained practically unchanged.)

In addition, another 5 million people who lived alone and are classified as single person families had a cash income of less than \$1,500 (under \$28.85 per week) in 1957.

Altogether, more than 40 million Americans were members of families of two or more persons living on cash incomes of less than \$3,000 in 1957, or were living alone on less than \$1,500.

According to studies of the National Income Division of the U.S. Department of Commerce, the 7.6 million families at the bottom of the ladder in 1958 (with an income total of under \$2,000 including cash plus the imputed rental value of owner occupied homes and the value of food and fuel produced and consumed on farms) received an aggregate of \$8.5 billion in personal income. In contrast, the 2.5 million families at the top (with incomes of \$15,000 and more) received \$65 billion.

An insight into family income shares since the mid-1930's both before and after Federal taxes, is provided by table II, which is based upon studies of the staff of the National Income Division of the U.S. Department of Commerce.

Between 1935-36 and 1944, the income share of the fifth of our families at the top of the ladder dropped significantly from 51.7 to 45.2 percent while the share of all of the four lower quintiles was rising. The gradual extension of collectively bargained wages during this period, passage of social security and minimum wage legislation, the high level of employment in 1944 and the tight restriction on profiteering during the war years, probably are the major reasons for this wholesome income distribution shift.

From 1944 to 1957, on the other hand, while a scant one-half of 1 percent decline in the income share of the top fifth of our families was accruing to the benefit of the three middle quintiles, the share of the lowest and neediest fifth actually declined. Furthermore, there is reasonable evidence that despite the findings indicated by table II, the share of the most affluent upper fifth of our families actually went up between 1944 to 1957.

In the first place, capital gains—which increased from about \$1¾ billion in 1944 to over \$8 billion in 1957—are excluded entirely from the income concept used by the National Income Division staff and are therefore omitted from the figures in table II. This fast growing form of personal gain from the sale of securities, real estate, and similar holdings, went almost exclusively to the top 5 percent by income.

What is more, hundreds of millions of dollars worth of benefits from lavish expense accounts which actually paid for personal expenses are not reflected in table II. Collection of this kind of extra-legal income has grown tremendously in the postwar years and—like capital gains—most of it accrues to the advantage of people in the highest income bracket.

While table II understates the size of the actual income share of the families at the top, it dramatically highlights the small impact the Federal income tax has upon their fortunes. Despite anguished outcries that the tax has destroyed all incentive, its effect in leveling

downward the income share of the well-to-do is moderate indeed. Apparently, sufficient loopholes exist in the law so that the wealthiest can sidestep the nominally high top bracket rates which, they allege, they are being forced to pay.

What is more, the "after tax" column in table II makes no allowance for the disproportionately heavy tax burden that local and most State levies impose on lower income families. If property, payroll and sales taxes were also deducted in these computations, the income share of the highest quintile and the top 5 percent would be even higher.

When all of the facts about postwar income trends are weighed, the conclusion is inescapable that: (1) Disposable real family income "on the average" has been rising, but too slowly to keep up with the nation's expanding capacity to produce. (2) By any modern standard, poverty exists not only "at the fringes" of America's society, but is the lot of 20 to 25 percent of our fellow citizens. (3) While the real disposable income of our wealthiest families and their share of total personal income continues to rise, the share of those at the bottom with the greatest need shows no improvement.

Why do so many Americans continue to live at such depressed economic levels in the most productive nation in the world? Who are these people? What must be done to eradicate their poverty?

The answers are revealed by the studies of the National Income Division staff, the Surveys of Consumer Finances of the Federal Reserve Board, the findings on family income of the Bureau of the Census, and by the exhaustive investigation of your own Subcommittee on Low Income Families 4 years ago.

The majority of these low-income families are headed by persons who are members of the labor force. Thus, regular employment at a decent wage still remains the most hopeful means by which our poorest families can lift themselves above submarginal living standards.

However, many live in distressed industrial communities where opportunities are scarce even when boom times exist elsewhere. Many others live in rural areas and on farms and remain underemployed from one year to the next simply because alternative jobs are not available.

For still others, inadequate education or discrimination because of age, color, creed, or a physical handicap are barriers to employment at a living wage.

Furthermore, the jobs at which most of the breadwinners of our neediest families work are not covered by any minimum wage law or are paid only the inadequate statutory minimum.

Finally, many of the lowest income families have no breadwinners at all. Year in and year out millions of Americans lose their jobs, become incapacitated because of illness and accidents, grow old, and die leaving dependent wives and children. Families affected by these circumstances, and without sufficient income to meet basic needs, account for much of our continuing poverty. Rising prices during the postwar years have inflicted the greatest hardship on these families.

Back in January 1956, your own Subcommittee on Low Income Families presented its recommendations to the Congress and made this challenge:

The problems of low income, although numerous and complex, are not insurmountable. We have the wealth, the human and material resources, the skills, and the free institutions to solve them. We can solve them if we have the will and the desire to put forth the necessary effort.

Here are the things we believe must now be done:

The benefits provided by our Federal old-age, survivors, and disability program, our unemployment and workmen's compensation laws, and by all other forms of social insurance should be immediately and substantially raised and coverage must be broadly extended.

Furthermore, adequate prepaid medical care should now be made available to all Americans, and family income payments should be included when the breadwinner is too ill to work.

Moreover, public assistance payments and coverage must be created for those whose own social insurance and personal savings resources are not sufficient to maintain a standard of human decency. As part of this effort, surely the time has come when no American should lack adequate nutritious food in the face of the abundance we now produce.

All these measures are needed to maintain minimum income standards when our families become victims of the special hazards of modern life.

In addition, because most of the lowest income families include members of the labor force, the reward for their work must be increased and improved job opportunities must be achieved.

The level of standards and coverage under Federal minimum wage laws must be increased immediately. The statutory minimum must be raised to at least \$1.25 an hour. This action would merely update the outmoded \$1 minimum, now grossly inadequate to provide a minimum decent standard of living. Protection of the law must be extended to millions of American workers now denied any coverage because of statutory exemptions or loop-holes. Reliance on State minimum wage laws to protect these millions not now covered by the Federal law has proved a failure. Prompt improvement and extension of the Fair Labor Standards Act's provisions can help millions of Americans whose income earned on the job provides far less than a decent standard of living. By providing these workers with more buying power, a higher minimum wage and extended coverage can give greater economic strength to the Nation while answering the demands of simple justice for a large group of citizens.

Long overdue legislation must be enacted to increase job opportunities in chronically distressed industrial and rural areas where unemployment and underemployment are widespread even in prosperous times. A comprehensive Federal program can help revive the growing number of communities whose lack of job resources means continued high unemployment rates despite national recovery or even prosperity. The spreading cancer of chronic local area distress cannot be solved by the communities themselves, nor by the public agencies or private groups within the States. This problem requires Federal aid. The whole Nation has a stake in helping hundreds of thousands of Americans to revitalize the economies of their communities, to improve the employment opportunities, income, and production levels, to avoid the cost of idleness.

The disgracefully low earnings of most wage earners in agriculture—probably the most exploited group of Americans—must be raised. Their unjustified exclusion from almost all social welfare legislation and from laws which protect the right of workers to organize, no longer can be tolerated.

Unjust tax burdens now borne by lower income families must be ended. The \$600 personal exemption, inadequate even 11 years ago when this level was established, should be raised substantially to reflect the changes in the economy. The injustice of the many tax escape provisions for higher income taxpayers must be ended. Drastic revision of the tax laws is needed to stop erosion of the Nation's tax structure and insure a genuinely progressive tax system in the United States.

Vocational education and rehabilitation services should be widely extended.

The drive to end discriminatory employment practices due to factors of race, creed, color, sex, age, or a partial handicap must be pursued with great vigor.

Finally, a persistent effort must be made to help these lowest paid members of the labor force organize and obtain the benefits that result from collective bargaining.

The time has come for America to end the poverty that degrades the millions who still are its victims, and the rest of us who permit it to needlessly continue. And, by so doing, we will be strengthening the American economy as well, since poverty neither begets efficient producers nor adequate consumers. Economic stability and growth require both.

TABLE I.—Average family personal income before and after Federal individual income tax liability

	Number of families and unattached individuals (millions)	Average (mean) personal income per family and unattached individual			
		Before tax		After tax	
		In current dollars	In 1958 dollars ¹	In current dollars	In 1958 dollars ¹
1929.....	38.1	\$2,340	\$4,080	\$2,320	\$4,050
1947.....	44.7	4,130	5,280	3,720	4,760
1948.....	46.3	4,350	5,250	4,010	4,850
1949.....	47.8	4,170	5,070	3,860	4,700
1950.....	48.9	4,440	5,330	4,070	4,880
1951.....	49.5	4,900	5,510	4,420	4,960
1952.....	50.2	5,120	5,630	4,570	5,020
1953.....	50.5	5,390	5,870	4,810	5,240
1954.....	51.2	5,360	5,770	4,840	5,220
1955.....	52.2	5,640	6,050	5,090	5,460
1956.....	52.8	5,950	6,270	5,350	5,640
1957.....	53.5	6,200	6,340	5,580	5,710
1958.....	54.3	6,220	6,220	5,610	5,610

¹ The price indexes used as deflators are those employed in deflating the personal consumption expenditure series in the national income accounts.

Source: Survey of Current Business, April 1959, pp. 9-16, a report on income distribution by Dr. Selma Goldsmith of the National Income Division of the U.S. Department of Commerce.

TABLE II.—How family income was shared, by income 5ths and by the top 5 percent, 1935-36, 1944, 1954, 1957

Quintile	Before tax—			1957		
	1935-36	1944	1954	Before tax	After tax	Average income after tax ¹
	Lowest.....	4.1	4.9	4.8	4.8	5.1
2d.....	9.2	10.9	11.1	11.3	11.8	3,290
3d.....	14.1	16.2	16.4	16.3	16.8	4,690
4th.....	20.9	22.2	22.5	22.3	22.7	6,326
Highest.....	51.7	45.8	45.2	45.3	43.6	12,154
Total.....	100.0	100.0	100.0	100.0	100.0	-----
Top 5 percent.....	26.5	20.7	20.3	20.2	18.2	20,279

¹ Federal individual income tax.

Source: Survey of Current Business, June 1956 and April 1959, and earlier studies of the staff of the National Income Division of the U.S. Department of Commerce.

IV. THE NEGLECT OF PUBLIC SERVICES

America is starving the public sector of its economy. In other sections of this report, we have pointed to the inadequate growth in the private sector of the economy. But however disappointing advances in the private sector have been, neglect of the public sector has been even more pronounced. Provision of the most essential public services and public works has woefully failed to match either the rapid growth of our population or the increasing demands of our economy.

The glaring deficiencies in the public sector were highlighted in a recent report prepared under the direction of Maj. Gen. J. S. Bragdon, Special Assistant to the President for Public Works Planning. This report states:

In almost every field in public works—hospitals, schools, civic centers, recreational facilities—shortages are the rule, not the exception. In almost every category we are falling farther and farther behind in meeting even current demands. Backlogs, inadequate replacement schedules, urgent new requirements are characteristic of public works problems across the Nation.

Horace M. Gray, professor of economics of the University of Illinois, in an article in the Illinois Business Review for September 1959, warns:

This prolonged neglect of the public economy has resulted in accumulated deficiencies of alarming proportions: In education, scientific research, highways, local utilities, airports, low-cost housing, urban redevelopment, depressed areas, development of natural resources, energy supply, stream and air pollution, health and medical care, crime and juvenile delinquency, institutional care for dependent and aged persons, and other vital social services.

What are some of these gaps in our public services? Here are a few:

One out of eight cities today has a water shortage.

We are short 130,000 to 140,000 classrooms for our schools.

Approximately 15 million American families are forced to live in substandard dwellings.

In the following sections, we shall briefly examine four major fields associated with the public sector—education, housing, community facilities, and natural resources.

EDUCATION

When the public schools opened in the fall of 1959, their enrollment was more than 1.5 million above the normal capacity of available classrooms. This meant that 5½ percent of the enrollment of public elementary and secondary schools was in excess of the normal facilities of existing schools.

A year ago the Nation had a shortage of 140,000 classrooms. According to the Department of Health, Education, and Welfare, preliminary estimates for this fall indicate a continuing shortage of 130,000 to 140,000 classrooms. Yet, HEW Secretary Arthur S. Flemming reports that an "unfortunate downward trend" in school bond sales throughout the country will lead to reduced classroom construction in the months ahead. This means that instead of improving, the classroom shortage is becoming worse.

Public school enrollment has been growing by leaps and bounds. The annual rate of increase of public school enrollment was about 500,000 from 1945 to 1950. From 1950 to 1958, the rate about doubled to 1 million a year. There will be a further acceleration in the next 5-year period during which school enrollment is expected to jump by some 6 million to a total of about 40 million. From 1959 to 1964, the annual rate of increase will rise to about 1.2 million a year.

Official administration estimates indicate a need for 285,000 new classrooms between 1959 and 1964—201,000 to take care of rising public school enrollment and 84,000 to replace deteriorating school buildings and facilities that are destroyed by fire, flood, or roadbuilding.

However, these estimates are undoubtedly too low because they take no account of the classroom requirements resulting from population shifts that occur when families move out of the older centers of cities to new suburban communities and when changes in the location of industry bring new families into small towns. Full account of these requirements plus the present backlog of needed classrooms indicates that some 500,000 new classrooms should become available during the next 5 years or 100,000 a year.

This compares with the current construction rate of 60,000 to 70,000 classrooms a year with a probable downturn anticipated even from this inadequate level in the period ahead. Clearly, we are faced with a growing classroom shortage unless the present pace of school construction is stepped up substantially.

To build 100,000 classrooms a year will require an annual expenditure of about \$4 billion. While expenditures for school construction have risen to about \$3 billion a year in recent years, they are still far short of the amount needed to meet minimum classroom requirements.

Some 96 percent of the total school construction cost is borne by local and State governments, while only about 4 percent is met from Federal funds. The burden of financing local school construction is becoming intolerable for many local communities. HEW Secretary Flemming recently reported school bond sales during the year ending August 1959 amounted to \$1.8 billion, a sharp 20 percent drop from the \$2.3 billion total during the preceding year. This decline in school bond sales will be reflected in a slowdown in classroom construction at the very time when school building should be greatly expanded.

Even Secretary Flemming admits that the drop in school bond sales provides evidence of the need for a "Federal contribution" to school construction. Unfortunately, the method proposed by the administration, Federal guarantees of half the principal and interest on bonds issued by needy school districts, is completely inadequate. What is required is not just a Federal guarantee of local bonds whose principal and interest must be entirely reimbursed by financially strapped local communities. Secretary Flemming himself points out that the school needs are greatest in communities which have already exhausted their bond limitations. Federal guarantees of local obligations will do nothing to meet the urgent school construction requirements of communities which can no longer issue such obligations.

Progress toward elimination of the classroom shortage can only be achieved by a substantial increase in Federal contributions for school construction in the form of Federal grants-in-aid to the States for public school construction. The alternatives are clear: Either a comprehensive program of Federal aid for public school construction or a continuing and increasing shortage of classrooms for America's children.

Public school classroom shortages do not tell the whole story of the gaps in our educational programs. We also have a shortage of some 132,000 teachers, due primarily to the low salaries paid to classroom teachers. With teachers' salaries averaging about \$3,500 a year as recently as 1956-57, it is little wonder that thousands have left the teaching profession for more lucrative types of employment, while others have had to resort to secondary jobs to make ends meet.

Teachers' salaries must be raised to decent levels if we are to retain our present group of teachers and attract adequately trained young people into teaching careers. As in school construction, States and localities cannot meet these increasing costs unaided. Therefore, Federal grants-in-aid for teachers' salaries must be part of a comprehensive program of Federal aid for education.

There are also urgent needs in the field of higher education. In addition to continuing requirements for college and university classroom, laboratory, and dormitory facilities, supplementary financial assistance is needed to permit qualified young people who cannot afford the soaring costs of a college education to enter college.

It is estimated that some 100,000 high school graduates in the top quarter of ability each year are unable to enter college for financial reasons. This is a waste of talent our Nation simply cannot afford.

A national scholarship program which would make a college education available to top students regardless of whether they can afford to go on with college, might require about \$200 million annually. Such a program should be authorized at the earliest possible date.

HOUSING AND URBAN REDEVELOPMENT

One-fourth of all occupied dwellings in the United States—about 13 million in all—do not meet minimum requirements for family living. An estimated additional 2 million or so dwellings are in livable, physical condition, but they are located in such rundown neighborhoods that they make poor homes for growing children. Thus, some 15 million American families, one-fourth of the total number, are forced to live in substandard dwellings.

Based in part on data from the national housing inventory of the Bureau of the Census, the AFL-CIO has estimated that some 35 million new housing units must be built in the next 15 years in order to provide a decent home for every American family by 1975. This will require an annual rate of housing starts of at least 2.3 million units. This is nearly two-thirds above the estimated average construction rate of 1.4 million new housing units a year during the past 5 years.¹

The breakdown of estimated new housing needs for 1960-75 is as follows:

	<i>Millions of units</i>
Substandard	15.0
Becoming substandard 1960-75.....	7.5
Total substandard.....	22.5
Less substandard suitable for rehabilitation.....	-5.0
Total substandard to be replaced.....	17.5
Removed by disaster and demolition (nonsubstandard).....	2.0
Total replacement need 1960-75.....	19.5
Increase in number of families 1960-75 ¹	14.5
Undoubling of doubled up families.....	1.0
Total housing requirements 1960-75.....	35.0
Average annual requirement.....	2.3

¹ Includes one-person households.

Low-income and minority families (a large proportion of which are, of course, low-income) are plagued by the worst housing conditions. Nearly two-thirds of all substandard houses (dilapidated or lacking plumbing or bathing facilities or both) are occupied by families with yearly incomes of \$4,000 or less. More than two out of every five families in this income group live in substandard houses.

An alarmingly high proportion of substandard housing is occupied by Negroes and other minority families. In 1950, only one Negro family out of every four occupied a dwelling meeting even minimum standards for family living.

Despite the urgent need of low-income and minority families for decent homes, only a tiny proportion of houses built during recent years has been available to these families.

In 1956, more than 8 million families with yearly incomes of less than \$4,000 lived in substandard housing. They represented nearly two-thirds of all families living in substandard housing. But in 1958 less than 2½ percent of purchasers of new single-family houses under the FHA program had "effective annual incomes" of less than \$4,000. And the FHA estimates of "effective annual income" underestimate actual family incomes by 15 or 20 percent.

The average family income of buyers of single-family houses under the FHA program in 1958 was more than \$8,000. But in that year only 22 percent of all families and unattached individuals had incomes of \$8,000 or more.

¹ This is about 200,000 higher than the current official figures. However, there are indications that the official figures now being published underestimate actual housing starts and, in addition, they do not include farm housing construction.

It is small wonder that in 1957 a staff report of the Senate Housing Subcommittee concluded that "the housing industry * * * is serving primarily the upper income groups."

Because of the drastic cutbacks in public housing construction, the low-rent public housing program has met the housing needs of only a small proportion of ill-housed, low-income families. Since 1949 when the Congress authorized construction of 810,000 public housing units over a 6-year period, only about 250,000 units have been constructed. This means that during the past decade public housing construction has met the needs of only 3 percent of low-income families living in substandard housing.

The construction record with regard to minority housing is even more dismal. In 1956, 35 to 55 percent of approximately 1.7 million rental housing units occupied by nonwhites in metropolitan areas were substandard. But since 1955, Negro families have purchased only about 10,000 houses built under the FHA and VA programs. Perhaps an additional 100,000 have been housed through the low-rent public housing programs. But 96 percent of Negro families living in substandard housing have had no new housing whatsoever made available to them.

These facts add up to two conclusions:

(1) The overall rate of housing construction is much too low. We should be building nearly a million more houses a year to meet minimum housing needs.

(2) The reason why we have been building too few houses is that housing legislation and housing programs have all but completely neglected the families with the most urgent need for decent homes.

Students of the housing problem have long agreed on the major features of a comprehensive housing and urban redevelopment program America needs. The major facets of such a program are summarized below:

1. A large-scale, low-rent, public housing program to provide decent homes for low-income families.

Despite the unreasoned attacks which have been made on the program, low-rent public housing offers the only effective way to make decent housing available to low-income families. No better substitute has been suggested for the present financial formula for public housing, involving a relatively small Federal subsidy, long-term, low-cost financing in the private bond market and sponsorship and operation by housing authorities established by local communities.

While some improvements can undoubtedly be made in public housing program, the major defect is its far too restrictive scope. When the current public housing program was authorized in 1949, the late Senator Robert Taft, one of its chief congressional sponsors, expressed the view that public housing should account for at least 10 percent of all new residential construction. If that objective is to be met, the annual construction rate should be at least 200,000 to 250,000. Even this amount would provide rehousing opportunities for only a fraction of ill-housed, low-income families.

2. An effective program to make good homes available to middle-income families within their means.

In 1958, a family required a \$9,000 income to buy an FHA house without committing itself for more than 20 percent of family income

for housing expense. According to the Federal Reserve Board, only 20 percent of families had incomes of \$7,500 or over in that year, which means that an even smaller proportion of families had incomes of \$9,000. It is clear, therefore, that only families at the top of the income scale can obtain new houses under the FHA program without overextending their family budgets. Moreover, FHA figures show that about the same income is required for existing homes purchased under the FHA program.

A far more effective program is needed to make good homes available to workers' and other middle-income families at costs they can afford. No subsidy is needed to achieve this purpose. All that is required is bold action to cut as sharply as possible financial charges and rents for new homes. A number of bills introduced since 1950, differing only in details, would have achieved this objective by making available long-term, low-interest loans for cooperative sales and nonprofit rental housing for moderate-income families, currently those in the \$4,000 to \$7,000 income range. If financial charges are reduced by lowering the interest rate and lengthening the repayment period, a much larger proportion of middle-income families could purchase homes within their means. In this way, large numbers of families now priced out of the housing market would be able to obtain houses on reasonable terms within their family budgets.

3. Similar financing should also be made available for housing to meet the special needs of elderly couples and individuals.

If the provision in the Housing Act of 1959 aimed at this objective is vigorously administered and extended beyond the pilot program scope currently provided in that law, we may make a start toward meeting the housing requirements of our senior citizens.

4. A Federal policy to assure every family an equal opportunity to obtain decent housing without regard to race, color, creed or national origin.

General housing legislation to provide more and better housing for low- and middle-income families would benefit minority families along with all others, but only if discriminatory barriers are removed. State and local fair housing practices laws will make more houses available to minority families. The Federal Government must also undertake the positive responsibility to assure an opportunity to obtain adequate housing to all families without regard to race, color, creed or national origin. This will require that all housing built with the aid of Federal funds or credit or any other form of financial assistance should be made available to minority families on an equal basis with all other families.

5. An expanded slum clearance and urban redevelopment program on a sufficient scale to permit every city to wipe out its slums and rebuild its rundown sections as quickly as possible.

Funds available for urban redevelopment have been so limited that only a small beginning has been made. At least \$1 billion a year in Federal funds are needed to put this program on anything like an adequate basis. In planning this program, it is essential that slum clearance and urban redevelopment efforts be concentrated first and foremost on bettering the housing conditions of the community and especially of its worst-housed members.

6. Effective encouragement to metropolitan planning so that artificial and outmoded boundaries do not block housing and redevelopment progress and dynamic urban growth.

7. In addition, a comprehensive housing program should include an effective farm housing program and, especially, decent housing for migrant farm families, a prevailing wage requirement in housing construction involving Federal financial assistance, and protection of homeowners against foreclosure in the event of temporary emergencies.

COMMUNITY FACILITIES

Education and housing are not the only areas in which communities have been unable to keep up with expanding and shifting population. Many communities throughout the country are finding it increasingly difficult to provide necessary roads, airports, water supply systems, sewage disposal facilities, libraries, parks and other recreational facilities, and a host of other necessary public facilities.

One of the most serious problems has been the lack of adequate local transportation facilities. The rapid growth of the suburbs, the increased ownership of automobiles, and the expansion in the use of trucking facilities have all put an insuperable burden on our existing roads and highways. The Federal Government has now moved into this area by developing an expanded Federal program to provide funds for construction of interstate highways. Yet, too often it is the network of secondary roads that most needs improvements. States and localities find that the funds available to them for road construction and repair are totally inadequate.

Another related problem has been the inadequacies of airports and airport facilities. The continuing increase of air travel, the congestion evident at many of our airports, and the urgent need to install the most modern safety equipment, all point to the necessity for an accelerated program for airport facilities. The legislation approved by Congress in 1959 will go only partway in meeting this deficiency.

A nationwide disgrace is the pollution of our water supply. The House Committee on Public Works recently reported that—

two-thirds of the Nation's population get their drinking water from surface water supply into which are discharged disease carrying bacteria and viruses and toxic substances discarded by households and industries.

While the Federal Government has been contributing and should continue to contribute to the broad planning, research, and national inventorying of our needs and capabilities in the field of water, the nationwide problem of pollution must be mounted primarily by the States and localities. Their financial problem is not only one of inadequate funds but also the complications resulting from the fact of nature that causes river systems to ignore State boundary lines.

Expanded Federal financial assistance is needed to meet the capital costs of water facilities. It is estimated that construction of waste treatment facilities for all presently outdated industrial and municipal facilities will cost about \$5 billion. A task of this magnitude calls for a short- and long-range program to assure American municipalities that they can obtain Federal financial assistance for that part of the program beyond their own capabilities.

The recreational facilities available to our citizens are woefully inadequate. Very few localities have had the foresight to set aside land for parks, playgrounds, or other types of recreational areas. Because of other pressing needs, communities now find that they simply do not have the finances to purchase and develop the necessary land for recreational areas. Rather, they repeatedly tend to delay these purchases and in the end find that the price of such land has risen so that it almost becomes prohibitively expensive. Federal financial assistance will be needed to help communities meet their needs for parks and other recreational facilities.

States and localities are doing their best to meet the pressing need for more community facilities. In 1957, capital outlays by local Governments for education, highways, water supply systems, sanitation, electric power systems, and other public facilities required almost one-fourth of all local government expenditures. To finance these outlays, local governments have been forced to resort more and more to bond issues and, in addition, have sometimes financed these capital expenditures out of their current budgets.

Only through the intervention of the Federal Government will localities be able to finance needed public improvements with a reasonable rate of interest. While the Federal Government should not be expected to finance the entire amount or even a large proportion of needed community facilities in any one year, it can play a very important role as a lender of last resort so that communities have an alternative source of funds to the excessively high interest rates required in the private bond market. The job of providing adequate community facilities has become so enormous that it is now beyond the capabilities of State and local governments to handle unaided. Only if the Federal Government utilizes some of its resources to provide assistance can the problem be checked.

NATURAL RESOURCES

Although the demands on the Nation's natural resources during the past decade have been enormous, within the next 25 to 50 years the calls upon our resources of crop and grazing land, timber, minerals, water, and energy resources will expand on a scale that will dwarf present requirements. By 1975, we will witness vast increases in use of water, continued encroachment of city and public facilities on farmland at the rate of 2 million acres annually, a continuing increase in food requirements, tremendous expansion of the use of raw materials, and demands for vast expansion of outdoor recreational facilities for more people with greater leisure time. In addition, we will require electric energy in quantity three times that of today, and timber in greatly expanded amounts.

Water is the key resource used for more purposes than any other. Unfortunately, our water is not effectively utilized. Some 675 million acre-feet runs to the ocean every year, while drought and depletion of underground water tables have caused serious regional water shortages in such places as the Dust Bowl area and in California.

Our demands for water are growing at an ever-increasing rate.

From 1900 to 1950, U.S. population doubled, but water consumption for all purposes quadrupled. In addition to increased demands for water supply resulting from growing population, there will be expanding new uses for water in the home for air conditioning, automatic washing machines and the like. Moreover, advances in technology have added to industrial water requirements, much of which is for water of better quality. Water is also needed for reclamation and irrigation. According to the U.S. Geological Survey, as a result of all of these demands upon our water supply, water requirements will rise from 256 billion gallons in 1958 to about 512 billion gallons in 1975.

The unified river basin development as epitomized by the Tennessee Valley Authority is the best coordinated approach to our water and power requirements. Without this approach there can be at best a fragmented handling of such important programs as soil conservation, forestry, flood control, irrigation, navigation, and of pollution abatement. Moreover, regional development through river valley authorities can eliminate jurisdictional infighting between various Federal resources agencies.

Energy is the key to development and use of other basic resources. The primary source of energy in our country has become electric power. Electric power in the United States has multiplied enormously, rising from an installed capacity of 13 million kilowatts in 1920 to 146 million in 1957, a rise of 1,110 percent. Yet, it is quite possible that our power demand in 1980 may be four times that of 1957.

Changes in production technology are continually increasing the use of electroprocessed metals requiring large amounts of power. Such metals and minerals include titanium, aluminum, silicon, magnesium, and sodium chlorate. They are extremely important to the growth of our industry because they are needed to meet some of our most pressing materials problems.

The tremendous promise of "giant power"—huge coal or atomic generators linked to regional transmissional grids capable of carrying loads of 500,000 volts of electricity—and an intensification of public power "yardstick" competition with private utilities should in the long run be major factors in lowering power costs to the home, farm, and factory.

A coordinated natural resource policy should include the following principles:

There should be vigorous reaffirmation of the Federal Government's role as principal steward of this Nation's resources, and that broad Federal planning, construction, and management of comprehensive resources programs, keyed to national economic goals, is a proper, constitutional, and necessary function of the National Government.

State and local governments and private enterprise have vital parts to play, each within its own capabilities and scope of operation. These roles should be redefined in order to provide a better basis of cooperation among all levels of government and the private sector of the economy.

The United States must sharply increase its natural resources investment which has dropped sharply in the past 6 years. Natural resources investment programs should be on a scale necessary not only to aid in sustaining economic growth but to stimulate additional economic expansion. Such investments have the added benefit of being, in the main, self-liquidating.

Safeguards against monopolistic attempts to seize the fruits of public resources development should be maintained and strengthened.

The resources approach in plans and undertakings should be comprehensive and multipurpose, not merely local and single purpose.

Expanded research in resources is vitally necessary. Research fathers progress.

FEDERAL ACTION NEEDED TO STRENGTHEN THE PUBLIC SECTOR

During the period since World War II, the financial support for the nonmilitary part of the public sector of our economy has been inadequate to meet our expanding social and economic needs and the growth of the private sector of our economy. Since 1946 we have devoted less than 20 percent of our gross national product to the public sector of our economy, and more than half of this amount has been devoted to defense requirements. Only 9 percent of our gross national product during the postwar years has been used for nonmilitary public purposes. Of the 435 billion which has been spent for civilian functions, only \$85 billion, or less than 20 percent, has been Federal. The remainder has been State and local.

Approximately the same proportions hold for investment. Only less than 15 percent of total investment since World War II has been public. Within this total, less than one-fourth has been spent by the Federal Government.

Thus, it is clear that the Federal Government has been a minor factor in capital investment and civilian programs. Yet, if the mounting needs of the American people for public facilities and public services are to be met, the Federal Government is going to have to shoulder a much larger share of the load. Prof. Alvin H. Hansen of Harvard University has estimated that we should be allocating one-fourth of our GNP, currently about \$125 billion a year, to the public sector of our economy. This compares with only about 9 percent during the postwar period for nonmilitary public purposes. Professor Gray has estimated that during the next 25 years public capital investment should amount to \$40 billion a year, more than four times the annual rate during the past 14 years.

Clearly, these magnitudes of public expenditure and public investment cannot be borne by our States and local communities. Local communities do not have available sources of tax revenue that will yield substantially increased income. The basis for practically all local government budgets is the real estate property tax. While these tax rates have been rising sharply in recent years, they are now coming close to the limits that can legally and effectively be imposed. Practically every State imposes some type of limitation either by constitutional provision or statutory enactment on the property tax rate that can be levied by their local communities.

Communities are finding it more difficult to obtain sufficient funds at reasonable rates of interest through bond issues floated in the private financial market. It is true that the borrowings of municipal financing has been increasing. However, these borrowings have become increasingly difficult because of the increasingly high interest charges which the local governments have to pay. Of course, the securities of municipal authorities and other localities are exempt from Federal income tax and therefore carry a lower rate of return than securities issued by private concerns. On the other hand, these interest rates have risen substantially in recent years and today are at levels which have not been reached since the early 1930's.

Moreover, many smaller communities have to pay relatively higher interest rates. For them the bond market is an unfamiliar place and they often are not experienced in the process of issuing securities. Consequently, bond buyers often require these localities to pay even higher interest rates.

All of these facts lead to but one conclusion—the Federal Government will have to assume a much larger role in the provision of public facilities and public services. For some purposes, Federal loan programs may be able to do a substantial portion of the job. This method would seem appropriate for such local community facilities as water-works, sewage-disposal plants, parks and recreational areas, and public buildings. However, it is essential that these loans be made available at reasonable interest rates although not at a subsidized level. For such purposes the so-called college housing interest rate formula, which is calculated by averaging the annual interest rates on all interest-bearing obligations of the United States forming part of the public debt, seems to be the fairest method for determining interest rates for Federal loans.

Some multipurpose regional development can be financed by flotation of bonds in the private market. This avenue is now being explored in the case of the TVA.

For other programs, expansion of Federal grants-in-aid would be the most suitable approach. This is the best way of mitigating inequalities in public services that exist among the States resulting from unequal financial capabilities. The inadequate level of public services in the poorest States reflects primarily their lower income status. Many of these States are spending a larger proportion of their income on public facilities and services than some of the more wealthy States, but the dollar amounts available to them are much lower on a per capita basis. Major responsibility for financing State and local functions will continue to rest with these governments themselves, but superior tax-collecting resources of the Federal Government must be mobilized to help raise minimum public service standards.

Other vitally needed public service programs can be financed only through expanded Federal appropriations. This is true, for example, of most programs aimed at proper development of natural resources, aid to education, and low-rent public housing. To the extent that such programs are not self-liquidating, their cost will have to be met out of public revenues, principally those of the Federal Government.

The issues that have been discussed here—the education of the Nation's children, improvement in housing conditions, the development of natural resources, and the necessary expansion in public services generally—are all matters that affect every American. The progress that is made with regard to them will go a long way to determine the extent to which the American economy will serve the interests of all the American people.

The attainment of a continually higher output is a major goal of the American economy. Nevertheless, the larger output by itself has little meaning unless at the same time this larger output can be made to serve the interests of all Americans. This means bringing greater satisfaction to Americans not only by making possible greater expenditures for the goods and services offered by the private economy but also by expanding these vital public services on which the future health and well-being of the population depend.

STATEMENT OF CHAMBER OF COMMERCE OF THE UNITED STATES

The chamber appreciates this invitation to express its views on employment, stability, and growth and their interrelations. It welcomes the opportunity to benefit from the expert testimony already presented before the Joint Economic Committee, which has proven illuminating, as much from the spark of conflict as from the glow of agreement.

1. THE GOALS OF ECONOMIC POLICY

Growth, full employment, and price level stability are goals commanding universal recognition and enjoying very widespread and deep-seated public support. From time to time one or another of these goals may seem more pressing than the others. Some sectors of the public may attach higher priority to one, and other sectors to another. Nevertheless, they are, in the public mind and the historical view, economic goals of the same order of magnitude and priority. We do not propose therefore to emphasize any one of the three to the neglect of the other two.

We suggest further that these three goals are under most circumstances an inseparable trinity; that for best results, policies should be discussed and adopted with all three goals in mind. We propose to discuss briefly the conditions under which these goals may be unrelated or mutually supporting, so that policies may be properly designed to achieve one goal without sacrificing the others; and the conditions under which the goals may conflict, with recommendations for reducing the area of conflict and for adoption of compromise policies which do not sacrifice too much of one objective in single-minded pursuit of another.

In concentrating on growth, employment, and stability we must remember that economic goals are not the only goals of public policy, and that these three are not the sole objectives of economic policy. Two other goals, whose attainment contributes to growth, employment, and stability, and which would merit consideration even should they conflict, are efficiency and freedom.

Economic efficiency is indeed the overriding economic goal. Unemployment of labor and of productive plant and instability of the price level are objectionable from an economic standpoint (apart from social and ethical objections) because they entail waste, or inefficient utilization of our productive powers. Efficient utilization of our existing resources, by increasing total current output of goods and services, facilitates attainment of the long-run goal of economic growth. Even with high employment we need stress optimum allocation of resources, production at least cost, and an economic system responsive to changes in free-choice consumer preference and demand.

If there is a hierarchy of goals, then freedom must be placed at the top. Freedom may be a condition for substantial attainment of any

of the other goals. It is a possession we are unwilling to sacrifice for any increase in growth, or employment, or stability.

Freedom has many components or facets, but it is indivisible. Economic freedom includes consumer sovereignty, or the right to buy what we choose and the guidance of production by consumer wants and demands. It includes freedom of occupational choice, which involves wide educational opportunities open to all who can benefit, substantially open entry into any occupation for those with adequate preparation, and freedom to move between jobs, occupations, and localities. Economic freedom also entails free private enterprise, with individuals unfettered in their choice of investments; and permitted to enter any line of economic activity they choose, subject to minimum restrictions and regulations demonstrably needed for the protection of society.

Preservation of our many freedoms means that by and large we must maintain the present lines of division between private and public economic functions and activities. Undue and unnecessary encroachment by Government into the free market economy means an erosion of our economic freedoms.

2. THE RELATIONS BETWEEN GOALS

In settling upon a particular level of unemployment as the maximum tolerable without calling for positive countermeasures as a nation we implicitly vote in favor of a given rate of inflation and limitation to the maximum rate of growth. Likewise, if a given growth rate is picked out of the air as an objective, in committing ourselves to achieve that rate we implicitly vote for given amounts of unemployment or rates of inflation or a combination of both. If the chosen growth rate is unattainable through voluntary savings and investment, with existing profit expectations, the Nation votes for encroachment of Government enterprise in the fields of production and investment in the hands of private business.

Are rapid and sustained growth, high and stable employment, and stable price levels mutually compatible? The answer is both "Yes" and "No."

The accent on the positive or on the negative depends upon the rigidity or flexibility with which we define full employment, reasonable stability in prices (as well as in employment and growth rates), and adequate growth rates. The relations between these various goals depend upon the levels we seek. If we interpret the qualifiers with moderation, these several goals are not only mutually compatible but mutually supporting; attainment of one is difficult if not impossible without attaining the other two in good measure. If, on the other hand, we demand excessive or immoderate attainment of any one of these goals, we find it in conflict with the attainment of the other two goals. In the long run it becomes impossible to achieve any one goal to the nth degree; the attempt to do so fails and results in the sacrifice of the other goals to boot.

A. FULL EMPLOYMENT

What is a reasonable definition of full employment? Unemployment statistics lump together many diverse categories. They include

some who are unemployable for one reason or another; some who are shopping around but are unwilling to accept employment at the wage rates their skills and experience can command on the market; others who are in the labor force only temporarily (college students during the summer for instance); and still others who are voluntarily and temporarily out of work as they change from one job to a better one. For example, from March 1957 to March 1958, between 5 and 6 million workers migrated from one State to another; some of these migrants may have been delayed some time between jobs, being counted as unemployed. Every year many millions of people enter or leave the labor force. Unemployment totals give little indication of the numbers entering or leaving the labor force or the numbers moving into or out of employment. On the other hand they fail to include some workers involuntarily working less than full time.

Unemployment statistics also include the involuntary unemployed, those who have lost their jobs as a result of seasonal and of cyclical fluctuations in economic activity, and many who have lost their jobs because of secular changes in the composition of final demand, in techniques of production, in composition of materials, in the location of economic activities. Some of these victims of secular change are in areas and industries where their labor is surplus, but can look forward to other jobs using their skills and experience in other areas or other industries. Other victims are not so fortunate; the demand for their skills, in whatever area or industry, has declined, and they can only hope for renewed employment at a different occupation, which may require either retraining or reduction in their wage rates.

Voluntary unemployment is neither a social nor an economic problem. We must accept it as inevitable as long as we recognize the right of individuals to change jobs and the desirability of individual response to economic opportunity. The unemployables are clearly a major social problem. No amount of economic wisdom, no level of deficit financing, will eliminate them entirely. It is the height of economic folly to warp the operation of the entire economic system in order to provide a very partial solution for a problem which can be tackled much more effectively and at much less cost to the economy through public and private welfare measures. The main purpose of the economic system is to produce goods and services as efficiently as possible in the right proportions and maximum amounts. Provision of employment for labor and opportunity for business enterprise is a means of achieving production and not the principal objective of the economic system.

Long-term structural unemployment, the heart of the depressed areas problem, is an economic as well as a social problem. It is the consequence of growth and change and cannot therefore be completely eliminated except in a static economy. It can be reduced, but not by global measures increasing purchasing power, for it is not the result of insufficient demand, but of changes in the composition of demand, of output, and of input, and in some cases of a bad job climate.

Considering the diverse and shifting composition of unemployment totals, what level of unemployment should we tolerate? At what point are corrective measures called for? Many economists feel that, as unemployment is measured statistically, about 4 percent of the labor force is the minimum compatible with stability, and that a some-

what higher average must be expected to allow for moderate fluctuations in economic activity. Stanley Lebergott, in a careful historical study of the problem finds that in the last century the American economy has attained an unemployment level as low as 3 percent only about 1 year in 4. One need not accept any specific percentage. The figure representing practical or attainable levels of unemployment varies from time to time and may show a declining trend over time.

If the Nation is ready to relax insistence on price stability, slightly lower levels of unemployment may be feasible for a time. Likewise, if we are satisfied with a reduced rate of growth, higher and less variable levels of employment may be in our reach. On the other hand, if we place high priority on accelerating our growth rate, one of the prices we must pay in paradoxically a higher rate of structural unemployment.

B. GROWTH

What is an adequate rate of growth? Three, five, ten percent? More to the point, what is the maximum sustainable rate of growth, within the constraints of our economic and political system? Is it compatible with reasonable price stability and reasonably full employment?

The longrun potential rate of growth depends upon the rate of new inventions, the application of these inventions to economic activity, and the efficiency of invention, or the extent to which new inventions improve our productivity, or the rate of application of inventions. No one can predict the future rate of invention or its economic productivity. We have no assurance that it will permit a rate of growth in productivity much exceeding the rate which we have experienced in the last century. This rate has approximated $3\frac{1}{2}$ percent of GNP, and about 2 percent in output per worker man-year (somewhat higher in terms of man-hours). Backward countries, still catching up with a century of technological progress, can advance more rapidly. Facile international comparisons of growth rates therefore are dubious relevance.

The long-run potential rate of growth is not governed by the level of employment, the degree of price stability, or the wisdom of Government fiscal and monetary policies. These factors may prevent attainment of the maximum rate of growth permitted by technological advances but do not determine technological advance potential and cannot create a rate of growth exceeding them.

The rate of growth attainable in our political and economic system depends largely upon decisions by individuals and businesses to save and to invest their savings productively. The volume and composition of investment determine whether actual growth will live up to our growth potential, but does not dominantly influence the rate of invention. Unless individuals are prepared steadily to increase their propensity to save or unless businesses are prepared suddenly to invest at much lower profit expectations than they have invested in the past, there is no way of greatly accelerating our rate of growth while preserving the free enterprise system and our democratic way of life. Even should we be willing to sacrifice our way of life, it is doubtful we could permanently increase our rate of growth. There is no evidence of a growing technological slack.

The composition of growth is just as important as its rate. Of what kinds of goods and services should growth consist? What should be the distribution of growth between more goods and more leisure? What should be the distribution of additional goods, services, and leisure among the population?

These decisions, as well as the decision on rate of growth, should be the result of the free choices of individuals expressed in the marketplace and through the ballot box. If we prefer the pleasures of the present for the promise of the future, we must settle for a slower rate of growth. If we adopt a philosophy of "take it easy" and follow a life of leisure, or tolerate featherbedding, likewise we must accept a less rapid improvement in our living levels.

If a 3-percent rate of growth in goods and services is what the people choose, then a 5-percent rate is not as good. Growth involves costs: deferred consumption, reduced leisure, increased rates of obsolescence of capital and skills, higher rates of unavoidable unemployment. The optimum rate of growth depends upon the price we must pay for growth as well as on the value we attach to future increases in the supply of goods and services and leisure. The difference between alternative rates of growth is not between two numbers, one of which is higher than the other, but between two allocations of time, energy, and income; between two ways of life. A higher rate of growth would require allocation of a larger share of our resources to investment, and a smaller share to consumption; it would mean greater emphasis on incentives to save, work, and invest; less on incentives to consume.

Rapid growth, by widening economic opportunity, increases voluntary unemployment. Accelerated technological progress increases technological unemployment. New products and increased incomes both increase the rate of change in the composition of demand and in the composition of outputs; both changes result in higher levels of structural unemployment. Finally, higher levels of investment may accentuate fluctuations in economic activity, adding to the total of cyclical unemployment. All told, more rapid growth implies higher rates of unavoidable unemployment. The argument that rapid growth is necessary to provide new job opportunities for workers displaced by technological change is entirely contradictory. Rapid technological change is practically the same as rapid growth in output per capita. If growth is slow, technological change is slow, and the number of technologically unemployed workers is small. Full employment is quite possible without growth in per capita output. Reasonably full employment much of the time is compatible with sustainable growth.

C. PRICE STABILITY

Rapid sustainable growth, defined as an increase in productivity per worker, should be quite compatible with stable or even with slowly falling prices. Rising productivity means falling cost. The apparent conflict between rapid growth and stable prices is real enough, but could be eliminated. It results from rigidities in our economic system which are obstacles to attainment of economic goals. For instance, accelerated growth means a rising rate of unavoidable unemployment, although a growing economy also creates new job opportunities. If

the unemployment "threshold" of public opinion, of Congress, of the executive, is too low, the result will be attempts to eliminate "excess" unemployment through inflationary fiscal and monetary policies, even when such unemployment is a temporary, normal, and self-liquidating adjustment to change.

Even in the absence of such hypersensitivity to one of the byproducts of rapid growth, inflation will result if costs and prices are flexible upward but rigid downward. Growth accelerates and accentuates shifts in demand between regions, industries, products. Prices and wages rise in expanding markets, but fail to decline in shrinking markets, even in the absence of an overall excess demand as discussed in our report, "The Mechanics of Inflation." If wage increases capture most of the productivity gains in industries whose productivity is expanding rapidly, then these industries cannot cut prices. If wages rise more or less proportionately in other industries whose productivity is increasing less rapidly, or is stable or actually declining, then these industries must raise their prices, and price inflation results, providing fiscal and monetary policies accommodate such upward pressures; otherwise, unemployment will rise.

It is generally accepted that flexibility of individual prices is desirable and even essential for growth, reasonably full employment, and efficient use of existing productive facilities. Price flexibility is also a key constituent of economic freedom. Stability refers to a statistical abstraction: a price level index of some kind or other. The consumer, of course, is mainly interested in the stability of the retail price level, whereas producers are vitally interested in wholesale prices. With rapid growth, the number of price changes and their frequency increase, for growth means new methods, new products, new materials, new boom areas and occupations. As the rate of growth rises, adequate flexibility in individual prices becomes more and more difficult to reconcile with rigid stability in some price index. It is too much of a coincidence to expect that innumerable price changes should just cancel one another out, leaving the price index unchanged.

General price stability must be interpreted more liberally if it is to be compatible with flexibility in individual prices. What is important is an expectation of long-run stability in price levels. As long as moderate short-run fluctuations in the price levels do not undermine the expectation of long-run stability, they facilitate sustained growth and high levels of employment. For moderate fluctuations in economic activity seem to be an unavoidable accompaniment of growth in a free economy and perhaps in any economy. If price level stability is prized too highly, or results from excessive rigidity in individual costs and prices, then the whole burden of adjustment to fluctuating levels of activity is thrust on employment and output. If employment is not permitted to fluctuate moderately, then the only remaining avenue of adjustment is through output, which will fluctuate much more than it would have otherwise.

The optimum long-run strategy toward long-run growth, employment, and stability is to distribute the burdens of growth and change more or less equally, in the process reducing the sum total of the burden to be shared. This posture can result if we refrain from setting impossibly high standards of attainment for any one of our three goals of growth, employment, and stability, thereby avoiding an in-

tolerable burden of adjustment on the other two. Such a strategy, we believe, offers better long-run results in every way than would a lopsided emphasis on one objective to the detriment of the others, or excessive preoccupation with short-run achievements.

We tend to be trigger happy on only one of the three goals: full employment. Our touchiness on this subject is a legacy from the 1930's which is slowly being spent. On economic growth we are becoming disturbed because of Soviet performance and its potential threat, but have shown so far no widespread tendency to panic. On price stability we have in the past been too slow on the draw. As a result of continued price rises, particularly price rises during recessions, confidence in the future stability of the price level is shaken. The expectation of long-term inflation, and speculation, is now widespread. A period of relatively stable prices is necessary to restore confidence and prevent hypersensitivity to minor and healthy fluctuations in price levels.

3. POLICY RECOMMENDATIONS

The Employment Act of 1946, as its name and the date of its enactment would indicate, give main emphasis to one of our trinity of goals. Generally accepted interpretations of the wording of the act since then, and the current policies of the administration, have tended to correct the imbalance in the language, in keeping with changes in problems and priorities.

The Central Government has a broad arsenal of weapons useful in varying degrees for implementing the threefold goal of full employment, price level stability, and growth. These, by and large, complement and reinforce one another. Any one policy, if pushed to its limits, may have harmful side effects. It is preferable, in terms of safety as well as of efficiency, to rely on a wide array of mutually reinforcing policies, none carried to extreme.

The available spectrum of policies can be divided into preventive or immunizing policies, and palliative or curative policies. Among the first are Government policies on monopoly and competition, on foreign trade, wages and labor, business pricing, and so forth, which influence the environment in which the economy operates. Such policies, which may be labeled framework, or structure policies, are not closely geared to the current state of the economy. Their use reduces the need for painful adjustments and facilities desirable adjustments at all times. They may minimize the avoidable and reduce the unavoidable fluctuations in employment, price levels, and rate of growth.

The second set of policies are aimed at improving the functioning of the economic system rather than altering the framework within which it operates. They are the fiscal, monetary, and debt management policies primarily, which can be designed to counteract or reduce fluctuations in employment, output, and price levels. Their operation is somewhat discontinuous, and may require ad hoc or discretionary action from time to time.

Policies which generally do not require timely discretionary action are preferable to those that do, as we concluded in our report, "Economic Lessons of Postwar Recessions." The one exception is monetary policy. The reasons are the sad state of the art of forecasting

plus the lag in effect of most ad hoc policies. Accurate forecasting is necessary to initiate discretionary action at the right time and in the right doses, and to ascertain that its consequences do not prove perverse because they bear fruit in a future whose economic complexion may be quite different from that of the present.

A. SPENDING POLICY

Long-run spending policies should be decided on the basis of social costs and social benefits without reference to the goal of stabilizing employment, income, and price levels. No income should be diverted from private to public use unless it is clear that such income spent publicly contributes more to output and welfare than if spent privately. Where possible, private production is preferable to public provision, for private production is easily reversible and continuously subject to the market tests of value and efficiency.

The economic impact of changes in Government spending should not be ignored. Some built-in flexibility already exists in Government expenditures, particularly in relief payments, and unemployment compensation. Consideration should be given to increasing the degree of automatic flexibility in Government spending, strengthening its stabilizing influence on economic activity. The possibilities, however, are distinctly limited.

Discretionary changes in the level of spending, inevitably plagued with problems of forecasting, timing, dosage, and lagged effects, should be considered with reluctance, and only after automatic flexibility has proven inadequate. A speedup of Government investment programs in a slump, and a slowdown in a boom, can supplement other stabilization measures if limited to investment programs where prompt results can be expected from a change of pace without unduly increasing their costs. Such discretionary changes of pace should be limited to regular Government investment programs undertaken on their own merits and should not result in undesired changes in the level of public services involved.

Public policy, through the agency of existing joint Federal-State programs, should encourage State and local governments to smooth out their capital expenditures as much as possible over the course of the business cycle, to reduce or eliminate the tendency of State and local finance to aggravate fluctuations in economic activity.

Government spending should not be used to frustrate normal minor readjustments in the private economy. Nor should discretionary adjustments in the rate of spending be used in only one direction. If increased spending is necessary during a recession, reduced spending is just as necessary once the recession is over. Otherwise the adoption of ad hoc government investment projects and the expansion of welfare programs during recession under the guise of stability will quickly distort the balance between public and private production and responsibility.

B. TAX POLICY

Tax reform should be carried out on its own merits without primary consideration to temporary short-run conditions or sole focus on its stabilization role.

Tax policy, like spending policy, must be responsive to many criteria, and cannot be oriented solely in terms of promoting full employment, price stability, and rapid growth. As long as the National Government relies mainly on income taxes for its revenue, taxation will have a comfortingly large element of built-in flexibility. (This does not mean that personal and corporate income taxes, at their present levels and progressive rate structures, contribute more through built-in flexibility than they detract through damping effects on incentives and investment.) The growth of income taxation in State finances is also a healthy development from the viewpoint of stabilization, but other important State and local taxes, mainly property, sales, and excise taxes, probably have a net destabilizing effect, even though their merits in other respects are substantial.

As in the case of spending policies, the first line of fiscal policy defense is the automatic fluctuation of tax revenues, a defense bypassing the thorny problems of forecasting dosage, and timing. Discretionary changes in tax rates for stabilization purposes should be considered only when it is apparent that the automatic stabilizing features of Government finance, in combination with flexible monetary policy, will prove inadequate. Ad hoc changes in tax rates do have one advantage over changes in spending, that they do not distort the balance between public and private production. Tax adjustments may be impractical because of disputes over which taxes to cut, by how much, and for how long. Frequent and significant changes in tax rates for stabilizing purposes are, however, highly undesirable because of the uncertainty they create for expectations and for rational business planning. If downward revisions of rate schedules are made in recessions, then upward revisions should be made when these are in order. Otherwise the imperative of stabilization serves as camouflage for systematic changes in the tax structure, and possibly defeat the goal of price stability.

Perhaps the greatest contribution which could be made with respect to tax policy toward attainment of our three goals would be a complete overhaul of the entire tax structure. Our present system is a tinker's delight of piecemeal design and construction, patchwork repair, special interest legislation, afterthought, loopholes, and loophole plugs. For the amount of revenue it produces it is far more discouraging to private investment and to the incentives to work and save than it need be. It is a drag on growth and quite possibly on employment. It should be possible to reform the tax structure in such a way as to improve the climate for private enterprise, and at the same time to strengthen the stabilizing features of built-in flexibility.

C. BUDGET POLICY

Spending and taxing policies, if separately pursued, could operate at cross purposes and cancel each other out. For best results in attainment of their common goals they must be coordinated through the instrument of the budget. From the viewpoint of the framework of the economy, the size of the budget should be in keeping with the broad popular consensus on the respective roles of the public and private sectors. The Federal budget alone is quite large enough to provide adequate leverage upon the entire economy for whatever purposes leverage may be required.

From the viewpoint of satisfactory functioning of the economy, the key budget policy decision is on the size and timing of budget deficits and surpluses. Both in size and in timing, deficits and surpluses are largely the consequence of built-in fluctuations in tax revenues. This is as it should be. Flexibility in one or the other side of the budget, preferably flexibility in tax revenue (to avoid the risk of gradual encroachment of government into the private sector), should be designed to provide a balanced budget in the long run under conditions of reasonably full employment, price level stability, and adequate growth.

The ideal of a balanced budget should be retained as a longrun objective. A "stabilizing budget" policy should aim to balance the budget over the course of the business cycle. In recession there might be substantial deficits; in normal times, with reasonably high levels of employment and income, the budget should be balanced or yield a surplus for debt retirement; in inflationary periods the surplus should be substantial. The doctrine of the annually balanced budget purchases fiscal discipline at too high a price: it aggravates fluctuations in employment, income, and price levels, and slows down the longrun rate of growth.

D. MONETARY POLICY

The need for coordination is not limited to taxing and spending policies. It extends also to monetary and debt-management policies. The salutary effects of a budget surplus in an inflationary period may well be counteracted by a monetary policy of low interest rates and credit expansion. Likewise a budget deficit in recession may not stabilize upward if accompanied by credit restraint. Monetary and fiscal policies should work in tandem, as emphasized in the President's Cabinet Committee report of October 25, 1959, "Managing Our Economy, Our Money, Our Budget, and Our Debt."

Monetary policy should be the first line of discretionary defense against undue fluctuations in employment, output, and prices. It is fairly quick acting, flexible, general in application, indirect, and promptly reversible. It is more effective in preventing the excesses of a boom than in stopping and reversing a business decline. Apart from its curative value in damping excesses through credit restraint and in slowing recessions and facilitating recovery through credit ease, monetary policy also serves as a preventive through the psychological impact which Federal Reserve signals convey to the business community. Federal Reserve Board action announces the state of thinking of a body of experienced and able men with their fingers constantly on the pulse of the economy.

Interest rates are prices. The arguments in favor of flexibility of individual prices apply with full force to the rates of interest. Attempts to peg interest rates only make more difficult if not impossible the problem of stabilizing the general price level. The additional interest costs of the national debt under economic conditions calling for higher interest rates are insignificant compared to the costs to the economy of maintaining under all economic conditions and inflationary monetary policy. The same conclusion applies to the private economy.

E. DEBT POLICY

Since debt policy has both fiscal and monetary aspects, it can and should contribute to stabilization at high levels. During recession, debt financing should improve private liquidity and reinforce easier credit policies. During inflation, debt funding should work in the opposite direction, to back up credit restraint and reduce private liquidity and private borrowing. The present maturity pattern of the debt structure hinders the use of debt policy as a positive stabilizing device, but should not require that it complicate the stabilization problem.

Rigid schemes for annual debt retirement regardless of prevailing economic conditions are now rarely advanced. They would require higher taxes and reduced spending in the face of a slump. A statutory debt limit may be equally perverse, where it is not raised every time it conflicts with stabilization policies. The statutory limit as it has operated in recent years, may provide false comfort; it breeds not fiscal discipline but fiscal delusion and fiscal subterfuge. No arbitrary rule can substitute for responsibility and restraint.

F. OTHER POLICIES

Government can contribute to high employment, price stability, and rapid growth in many other ways. One of its important functions is the collection and prompt dissemination of information. More and better information has many uses: improved forecasting for Government stabilization policies; improved forecasting for business, which may reduce the size of the stabilization problem; information on job opportunities and labor supplies which enhance the mobility of the labor force and reduce the level of avoidable unemployment; information on markets, materials and products of value to business which may contribute to investment and growth and to the mobility of capital; information helpful in planning educational programs and in retraining displaced workers, contributing to employment and to growth.

The information function overlaps with the function of education at all levels of government, whose main contribution is to maintain or accelerate growth rates. Our investment in labor (including managerial) skills is our greatest capital asset. A balanced team of teachers, basic researchers, and applied researchers contribute to the steady stream of new developments which maintain growth in per capita income.

The Government can also help in maintaining a healthy competitive free enterprise system. There should be more enforcement of competition and less defense of competitors. Business needs relief from legislation threatening punitive action against firms which lower their prices as a consequence of reduced costs. Where economies of scale dictate a few large firms with limited scope for price competition without incurring the risk of antitrust prosecution or Congressional investigation, the need for new entry and benefits of competition might still be obtainable if we refrain from guaranteeing the domestic market and domestic industries.

Perhaps the thorniest public policy problem today involves the monopolistic power of labor unions to generate chronic inflation through their wage demands. This power is enhanced by the existence of giant business firms, by industrywide bargaining patterns that result in monopolistic abuses, by the spillover of wage gains in high-productivity gain industries to the rest of the economy, by the immunity of labor unions from antitrust prosecution, and by the willingness of the Government heretofore to validate excessive income claims by labor through inflationary fiscal and monetary policies.

The chamber has no single or simple solution to offer. Much can be gained perhaps by better economic understandings on all sides, by business, labor, and the general public. More awareness is needed of the relation between productivity gains and permissible noninflationary wage increases; on the relation between profits and investment; on the importance of high and stable investment to high employment and rapid growth. Greater concern for the broader interests of society and the longer run interests of labor would reduce the differences between labor and management.

Two specious "solutions" the national chamber would oppose: resort to compulsory arbitration, which is not a solution at all but passing the buck, a euphemism for "letting George do it"; and a periodic "summit" agreement between labor, management and Government on permissible wage bill increases, establishing the framework within which collective bargaining must proceed. A "summit" decision on permissible annual increases in the total wage bill, like attempts to maintain rigid stability in a price index, of which labor costs are the most important component, reduces flexibility of individual prices in the most important of all markets, the market of labor. Where economic conditions warrant it, some wages should be free to rise by more than the annual increase in national productivity; by the same warrant, other wages should not rise at all, or should conceivably decline, in spite of national productivity gains. The solution in general terms is to make the labor market function as competitively as we all agree the product market should, and generally does, work.

STATEMENT OF COMMITTEE FOR ECONOMIC
DEVELOPMENT

NOVEMBER 3, 1959.

HON. PAUL H. DOUGLAS,
*Chairman, Joint Economic Committee,
New Senate Office Building, Washington, D.C.*

DEAR SENATOR DOUGLAS: This is in reply to your letter of October 2, 1959, addressed to Mr. Alfred C. Neal, president of CED, which he has referred to me because the question you ask falls within the purview of CED's Research and Policy Committee.

You ask for "constructive suggestions as to public and private policies for reconciling and simultaneously obtaining the objectives of maximum employment, an adequate rate of growth, and reasonable stability of the price level." This question covers almost the whole field of the work of CED's Research and Policy Committee during the past 17 years. It also covers much of the work of the Commission on Money and Credit established by the CED. I cannot, in the time you specify, write the essay that an answer to this question would require or arrange the discussion among the members of our committee that would be necessary to formulate the position of our group as a whole. Instead I am enclosing copies of recent statements by CED's Research and Policy Committee that bear on the problem you raise. Because of their length I do not, of course, expect them to be included in the record. The statements¹ enclosed are: Defense Against Recession; Defense Against Inflation; Economic Growth in the United States; and the Budget and Economic Growth.

In addition I should like to offer a few personal observations within the spirit of our committee statements.

First, may I call attention to a lack of symmetry in the statement of the problem contained in your letter. The objectives to be sought are maximum employment, an adequate rate of growth, and reasonable stability of the price level. Now I do not suppose that we take as an objective maximum employment in any literal sense. Surely we do not want to put our wives, children, and old people to work. Probably minimum unemployment is closer to what we want, but even here we would recognize that if the reduction of unemployment should require the sacrifice of other objectives it is not necessarily the other objectives that must give way. Probably all we can say is that we want the best combination of lowness of unemployment, speed of economic growth, stability of the price level, and other national objectives.

Your letter asks for suggestions on policies for reconciling the three objectives you mention. This, of course, requires some position on the possibility of conflicts among these objectives and on the sources

¹ The statements referred to have been retained in the files of the committee.

of such conflicts. I suppose a common assumption is that stability of the price level is or may be in conflict with both growth and high employment, whereas high employment is a very important or even sufficient condition for rapid growth. This common view rests on quite slender evidence and requires much more confirmation before it is accepted as the basis for policy.

I would advance the hypothesis that in the long run any degree of employment and rate of growth that are achievable with any specified rate of foreseeable inflation would also be achievable with a stable price level. The contrary view is mainly based on analogies with short-period rises of prices, production, and employment, generally in business recoveries. In such cases the inflation contributes to increasing real employment and production, if it does not merely accompany it, because all prices and costs do not rise at an equal rate. For a great variety of reasons some prices lag behind others, so that the inflation involves changes in the relations among prices, including wage rates, rents, etc. These changes will certainly have real effects and they may be beneficial.

But if all prices changed in the same proportion this would be a purely nominal occurrence—like changing the word “dollar” to “shilling”—and would not affect real quantities like employment, production, or the rate of growth of production. A long-continued inflation, confidently and accurately anticipated, would tend to operate in this way. All prices would move pretty much in step. And it is hard to see why this should have real effects. A long-continued inflation that is not foreseen, so that some sectors of the economy are always out of adjustment to it, would affect employment and growth. Whether the effects would be positive or negative is debatable, but not very important. The Government cannot successfully or morally run a continuous inflation with the intention of fooling a large segment of the population.

I do not mean to suggest by the foregoing observations that any specified degree of employment or growth can be achieved with a stable price level. I mean that any degree of employment or rate of growth that can be achieved in the long run with prices rising 2 or 4 or 6 percent per annum can also be achieved with stable prices. If the degree of employment or rate of growth that are achieved with stable prices are unsatisfactory, the remedy will not be found in inflation but will have to be sought elsewhere.

I would like to comment briefly on the relation between the level of employment and growth. Obviously deep, dragging depression with massive unemployment is unfavorable to growth. But I do not believe that reduction of the average level of unemployment, or of the fluctuations of unemployment, below the experience of the postwar years would make a significant contribution to the rate of growth. It is desirable to reduce unemployment, and we should seek ways of doing this. But it only diverts attention from the real factors affecting growth to think that major results can be achieved by raising the average level of employment from 95 to 96 or 97 percent of the labor force.

These observations, plus others contained in the statements I have enclosed, lead me to the following suggestions, which I hope are constructive:

1. We should try to keep total money demand—total expenditures for goods and services—reasonably stable and rising at a moderate rate. It is a necessary condition for stability of the price level that demand should not rise too fast. Reasonable stability and moderate growth of demand are also favorable conditions for high employment and rapid economic growth. But we should not think that merely pumping up demand will raise employment and the rate of growth.

Government actions to influence the stability and rate of growth of demand lie chiefly in the fields of fiscal, monetary, and debt management policies. These policies have been discussed by CED's Research and Policy Committee in several statements and considered by your committee on numerous occasions. I shall not enter here into the many problems that exist in this field. What seems relevant to the question raised in your letter is not technique but principle and expectation. The important point is that responsible behavior in this area is essential but cannot be relied upon to do everything.

2. If we are to achieve the levels of employment and production of which we are capable, workers must not demand as a condition for working, and businesses must not demand as a condition for producing, real incomes rising faster than their real productivity. This is a statement about the real world, and is independent of the behavior of prices. The necessity for obeying this law cannot be removed by inflation. It simply means, for example, that if workers refused to work unless they received the real income of a movie star many workers would not find jobs, and that if this is a demand for real income no amount of inflation will solve the problem.

Keeping demands for real income from exceeding the growth of real productivity is a two-sided proposition. It involves on the one hand moderating the demands and on the other increasing the growth of productivity. In our society we rely mainly on the force of competition to moderate demands for real wages, real profit margins, and other real incomes. If workers demand too high real wages or businesses demand too high real profit margins, some of the workers will not find work and some businesses will not sell their product. The competition of the unemployed workers and unsold products will moderate the demands. Possibly the organization of labor and business has developed or may develop in a degree and manner that make wage and profit demands rather insensitive to unemployment and low production. This possibility, and means to deal with it, should, in my opinion, be central to your investigation. Only one of the numerous studies being conducted for your committee seems, by title, to be directly focused on this subject. This is entitled "Brief Memorandum on Antitrust Policy and Similar Policies To Halt Inflation." I hope the memorandum will not be too brief, will not overlook policies with respect to labor organization, and will not assume that these policies are relevant to your investigation only as means to halt inflation.

The other way of keeping balance, namely, accelerating the rate of growth of productivity, I discuss under the head of increasing economic growth, since rising productivity is the most important and valuable ingredient of economic growth.

3. I would make three general observations about the problem of increasing the rate of economic growth.

First, a significant increase in the rate of growth will not be easy to achieve. An increase in the rate from 3 to 4 or 5 per cent looks like a small increase. In fact it is an enormous increase. And big effects upon the rate of growth will be produced only by powerful causes.

Second, no single "key" will be found for increasing the rate of growth. The sources of growth are numerous and varied and so are the steps that must be taken to increase growth.

Third, growth is a "real" phenomenon, not a "monetary" one, and the steps that must be taken to increase growth are also "real" not "monetary."

The following are important among the directions in which we should look for means to accelerate growth:

Increasing saving.—This is the necessary condition for increasing investment. The rate of private saving has in the past been a rather stable proportion of gross national product. It apparently will not be easy to change. Revision of the Federal tax system in the direction of relatively greater taxation of consumption may have some effect. Probably the most certain way to raise total saving is to run a larger Government budget surplus.

Increasing investment.—Increased saving is valuable as the necessary condition for increased investment. The increased saving will by itself tend to encourage increased investment. This force may not be sufficient by itself, however, and, if savings increased, consideration may have to be given to tax revisions, such as accelerated amortization, for stimulating investment.

Increasing research.—Technological advance resulting from research is coming to be more and more recognized as a critical factor in the Nation's growth and also in its security. Business and Government research expenditures are rising rapidly. But the size of the payoff from research is probably not yet fully appreciated in Government and in many businesses. More study of the economic returns from research is needed, and this may be an appropriate subject for study by your committee.

Increasing and improving education.—More and better education is one of the most productive kinds of investment we can make in economic growth as well as in other national purposes. Responsibility for improving education is widely diffused in this country, as it should be. This means that improvement depends upon widespread appreciation of the need, which is coming, but not as rapidly as one would like. CED's Research and Policy Committee is now at work on a statement which we hope will contribute to understanding of the need and of ways by which it can be met.

Increasing efficiency in the use of resources.—The American economic system provides strong incentives for the efficient use of labor and capital, and on the whole our resources are used efficiently. But there are important cases in which this is not true, sometimes as a result of obstacles that Government has placed in the way of efficiency or that Government might remove. For example, there are large numbers of people employed in agriculture who could be more pro-

ductively employed in other occupations. While we spend billions of dollars annually on the agricultural problem, very little of this expenditure helps bring about the occupational shift that would be in the interest of the farmers and of the whole Nation. Much of the Nation's freight is inefficiently moved because transportation rates do not direct traffic to the most efficient carriers. In some industries obsolete work rules interfere with the efficient use of labor. If we place growth high on the list of national objectives, we must give close attention to public and private policies that may interfere with efficient use of our existing resources.

I hope that these observations and the enclosed policy statements will be helpful to your committee in its most important endeavors.

Sincerely yours,

T. V. HOUSER,
*Chairman, Research and Policy Committee,
Committee for Economic Development.*

STATEMENT OF THE COOPERATIVE LEAGUE OF THE U.S.A.

Subject: "Can the Three Objectives of Maximum Employment, Adequate Rate of Economic Growth, and Reasonable Stability of the Price Level Be Reconciled and Simultaneously Achieved?"

INTRODUCTION

The Cooperative League believes that maximum employment, adequate economic growth, and reasonable stability of the price level can be simultaneously achieved.

We believe, however, that this cannot be done unless important changes are made in present methods and practices. We believe that present methods of attempting to achieve price stability, particularly those employed to prevent inflation, are frequently in conflict with the other two objectives. We believe, furthermore, that artificial and in some respects dangerous methods are presently being used to maintain high-level employment and stimulate economic growth and that the use of certain better methods should be sharply increased.

We believe that expansion of cooperative and mutual enterprises of various sorts are one of such better methods, and one which can contribute much toward simultaneous achievement of the three objectives and to correcting the abuses in the methods now in use.

Of the three objectives, the key one is an adequate rate of economic growth. This is so because a truly adequate rate of growth can wipe out any harmful effects of inflation, it is the very antithesis of deflation, and strongly tends to increase employment.

Our economy has been growing substantially and fairly consistently ever since the trough of the 1929 depression. The popular conception is that growth was achieved during the thirties as a result of "artificial" stimuli from Government, that growth took place in the early forties due to the war, but that the growth achieved in the postwar period has been due to the "natural and inherent strength" of the American economy. This conception is to say the least questionable. It is probable that our economy has been subject to considerably more artificial stimulation from Government in the postwar period than was true in the thirties. And it is quite certainly true that some of the reforms of the thirties have sustained our economic growth during the postwar period to a considerably greater extent than is commonly recognized.

Meanwhile, certain new factors have arisen, or become much more powerful, in the postwar period which will severely threaten even our present rate of growth in the not far distant future. Principal among these are the accelerating advance of monopolistic controls in our economy, the potentially dangerous overexpansion of consumer debt, and the rise of an almost new science and art of consumer persuasion and motivation.

A fourth factor, now almost taken for granted, is the subsidy provided on the demand side of the economic equation by the huge military expenditures of the Federal Government.

A fifth factor, which is beginning to be taken for granted also as the political influence of farmers declines, is the plight of the American agriculture.

The first question that requires consideration, however, is whether our present rate of economic growth is indeed adequate.

By comparison with the rate of growth of the economy of the Soviet Union, our rate of growth—probably about half that of Russia—is certainly inadequate. Especially is this true if we intend to continue to let the Russians choose the battleground for the cold war and if we continue to try to base our principal claims for the superiority of our system upon the sheer number of gadgets possessed by the American people. While this observation is somewhat beside the point of the committee's study, we cannot refrain from observing that it is in fields other than the purely economic one where the Western system has its greatest advantages over the Communist one and offers the greatest relative benefits to mankind.

Some of these noneconomic values arise—or do not arise—depending on the methods and institutions which are employed in the economic business of production, distribution, and exchange. This is one of the reasons this statement will lay emphasis on the importance of cooperative and mutual institutions.

Nevertheless, to return to the main course of the consideration, the rate of economic growth in the United States is of great importance. And it is at present inadequate from the point of view of effective competition in the cold war. It is also inadequate to choose but one example with respect to providing enough good housing for the American people at costs they can—or ought to—afford. And our present rate of economic growth will be increasingly recognized as inadequate as technological unemployment becomes a more and more serious problem.

This statement does not presume to set forth exactly what an adequate rate of growth for the American economy would be. What it does contend is that that rate should be greater than it now is and probably as much as 50 percent greater. We cannot be complacent simply because we produce more goods in one year than we did in the previous year. For one very good reason, because we have also produced a lot more children. Neither can we be smugly indifferent to the fact that few people engaged in agriculture are sharing in the generally prosperous condition that now prevails. Even less can we be indifferent to the decline in purchasing power of the agricultural segment of our economy. We cannot be indifferent to any factors which either slow down or prevent acceleration of our rate of economic growth. Nor can we be indifferent to any factors which make our economy and even its present rate of growth more vulnerable to retarding influences should they begin to assert themselves.

Among such factors are the following:

The principal methods now being employed to prevent what is called "inflation," notably increasing interest rates;

The monetary system itself, depending as it does upon debt as the means of bringing money into circulation;

The weak bargaining position of the Nation's farmers and other small-scale enterprises in those segments of our economy where effective competition still exists;

Monopoly, artificially restricted production, and administered pricing—all of which are of one price;

Technological unemployment, coupled with our refusal to expand certain badly neglected fields where additional employment is needed from the point of view of the general public welfare;

The failure of the industrial economy to distribute enough mass buying power to sustain a market for the goods produced;

The consequent rapid and potentially dangerous increase in consumer indebtedness; and

The present reliance for maintaining even our present rate of economic growth upon the most cleverly devised and supremely "high pressure" methods of forcing sales of material goods and gadgets upon consumers without reference to their real needs. Not the least alarming aspect of this factor being the high pressure "sale" of debt itself.

It would, we realize, make for greater orderliness of this statement if it were to deal with each of these factors in order and separately. We have attempted this. But so interrelated are the factors and so involved in cross relationship with the three objectives of the committee that we have concluded that this kind of organization of the statement is impractical.

It will, therefore, discuss certain outstanding characteristics of our present economic situation referring to the above-listed factors as they become pertinent.

The appearance of economic health in our economy today is deceptive in the extreme. American industry is generating nowhere near enough mass buying power to form a market for what it is producing. The gap between total prices and total effective demand is wide indeed. That gap is caused by monopolistic, "administered" overpricing of most industrial goods in our economy (United States Steel Corp., in a statement entitled "Steel and Inflation: Fact Versus Fiction," says 88 percent of all prices are administered) and the practice of internal financing of capital expenditures, the cost of which is added to the price consumers pay for the goods.

Where investment in plant is financed from "internal" sources, that is, out of corporation surpluses arising in the course of business, the simple fact is that such plant is being paid for by consumers of the products of the industries. The cost of the new plant has quite obviously been added to the prices of the goods sold. Otherwise, the surplus could not have been accumulated. Thus, not only do monopolistic profits measure the gap between goods produced and effective mass buying power demand, but the cost of plant financed without the raising of additional capital must also be added in as a factor in that gap.

The gap is currently being somewhere near filled by the sum of all military expenditures, plus the increase in consumer debt, plus a considerable portion of the increase in mortgage and long-term debt, plus local, State or Federal Government deficits, plus the losses taken by small and competitive businesses when they are forced to sell below cost of production as farmers in general are compelled to do.

Despite this gigantic subsidy, amounting in total to perhaps \$100 billion a year, it is necessary for our manufacturers to resort to the most fantastic excesses of advertising and sales pressures to dispose of the flood of things they are pouring out.

The end is in sight. But for the astronomical burden of consumer debt which has been contracted and the rapid population increase we would have reached it already. American families may be—probably are—silly enough and conformist enough to think they must own two automobiles, a couple of television sets, a fancy refrigerator, and an overpriced suburban home. But few families will buy—now or ever—3 or 4 cars, or 4 or 5 television sets, or more than 1 refrigerator, or a home costing more than \$50,000. The luxury market has its limitations. One such limit is the limit to which the average young couple can expand the burden of family debt. Another limit is a healthy normal revulsion, signs of which are now unmistakable, against the ridiculous worship of material things into which our present badly dictated economy has driven many of us. Still another limit so far as automobiles are concerned is the virtual impossibility of finding a place to park them, so that increasingly people use public transportation and—God save the mark—even walk.

Fortunately there is a corrective for much of this unbalance and abuse of resources which has already proved its effectiveness. That corrective is the extension of business ownership to many millions more people. It is a way the people can own some of the industrial plants for which they are actually paying. It is the organization of business enterprises by groups of people for the explicit purpose of meeting their own needs. It is consumer-directed production and distribution of goods and services. This corrective is the generation of more and more of a kind of competition that monopoly can't frighten or buy out, but which can correct the worst of the abuses of the present situation for the simple reason that it exists to serve people's needs, not to exploit their whims. This corrective comes into play through a form of business organization called cooperative or mutual business.

Let us illustrate.

Some 14 million American families are living in substandard or slum homes today. Millions more have spent far more in purchasing their homes than they should, in the interest of family financial solvency, have done. Yet in some of our major cities there is, or at any rate has been up until very recently, considerable unemployment in the building trades.

The reason for all this is twofold. First we have not been building enough new houses nor doing nearly enough to cure big city blight. But, second, the houses that have been built have been mostly luxury housing. Comparatively few of them cost less than \$15,000 and a family should have an income of at least \$7,000 in order safely to afford a home that expensive. But only a minority of American families have incomes of \$7,000 a year. In 1956 the Bureau of Labor Statistics estimated that 46 percent of American families could afford homes costing as much as \$12,000. But even in that year only 27 percent of the houses built were priced that low. And that percentage is far less today.

Our construction industry is building the kind of houses it wants to build, at prices it wants to charge—without any direct reference to what people generally need or can afford.

So a few intelligent people have had the idea of reversing this process and building the kind of homes the people do need at prices they can afford. The surest way to be certain you are doing this is to let the people who need the homes do the decisionmaking. In other words to organize a cooperative of the home-needers, build homes tailored to their needs and pocketbooks, and enable them to own their own homes, cooperatively, after they are built.

Under such circumstances no high pressure sales efforts are needed. The houses are sold before they are built. They already belong to the families who are going to live in them before they are even constructed.

A whole section of New York's lower East Side has been changed from a slum into a beautiful law-abiding community of neighbors by this method. And the cost of this housing is 25 to 30 percent less than comparable commercially built housing. Average monthly charges including all costs in these cooperatives is \$60 to \$70 for four room apartments. That is \$720 to \$840 a year. Families with incomes as low as \$4,000 can afford such costs for their homes without incurring addition debt.

But project this a bit further. Suppose in every major city there were competent service organizations, as there are in New York, ready and able to guide and advise groups of people needing homes so they could get them through cooperative housing. All that cooperative housing would be built to the specification of the people's needs and pocketbooks. What would other builders do? They'd compete. They'd start trying to do the same thing—to go the co-ops one better. Some of them would succeed, in all probability.

And there would appear a solution to the housing problem of the American people without subsidy from Government and by the people's own effort, investment, and use of intelligence.

Moreover we would achieve the kind of balance between supply and effective demand which could reasonably assure full employment in the construction industry into the indefinite future.

Price inflation would be effectively prevented because part of the competition in the industry would come from businesses belonging to the people who were going to pay the bill for its product.

The cooperative answer is really quite simple. Supply and demand can be brought into balance if the supply is of goods and services for which an assumed market exists and if the costs of such goods and services are within the ability of the people to pay.

But supply and demand will not be brought into balance if the suppliers are in a position of monopolistic control, if they insist on prices far in excess of costs, and if they produce without direct reference to the real needs of those to whom they must sell.

A motivational expert recently said to a meeting of manufacturing executives: "Our job is not to produce what the people want but rather to make the people buy what we want to produce." This so-called expert was wrong. He was at least 50 percent wrong from the standpoint of the people he was speaking to. And he was 100 percent wrong from the viewpoint of the Nation's welfare.

The consumer cooperative market is another example of how the impact of cooperative business on the economy tends toward a real and basically sound balance between supply and effective consumer demand and thus helps to create greater true economic health. Cooperatives do not in general operate as "price-cutters." As a rule they sell at going market prices unless their experience in the process of doing business shows that certain prices are economically indefensible. On the other hand, since cooperatives belong to their customers, they resist, for altogether obvious reasons, price increases. Thus they are natural, built-in stabilizers.

The well-established, well-managed consumer cooperatives in the country are able to return to their patrons patronage refunds of between $1\frac{1}{2}$ and 4 percent per year. This means that this amount of money, which in the case of the competitors of the cooperatives goes into profits, is returned to the buying power stream through the pockets of the cooperatives' patrons. In practical effect what has happened is that a price reduction equal to whatever the actual experience of the year in question has shown to be possible is granted to the patrons of cooperatives at the year's end.

It is evident that, broadly enough applied, this sort of economic operation tends to keep effective consumer purchasing power demand in balance with supply. And the competitive effect of the consumer cooperative is to prevent monopolistically administered price increases from being forced upon the economy.

Rural electricity offers an excellent example of how cooperatives can bring about three very beneficial results for the entire economy. The history of rural electric cooperatives shows how cooperatives can (1) meet an unmet human and economic need which other forms of business could not or would not meet, (2) expand the economy into new fields and develop new markets previously nonexistent, thus compensating for unemployment as it develops in other industries, and (3) by means of their competition restore a more healthful condition to a whole industry. By a healthful condition we mean one where the industry produces as abundantly as it can, reduces prices of its product or service as much as is economically practicable, and expands employment by broadening the market for its goods or services either through price reductions or better products or more service at the same price.

As has been said it is of basic and critical importance that we increase the rate of growth of our economy, particularly as technological unemployment mounts in the mass production industries. One of the best ways conceivable to increase the rate of growth is to develop enterprises that supply goods or services that fill hitherto unfilled real needs of the people—or part of the people. What takes place in such a case is a kind of horizontal expansion of the economy into areas where it previously did not exist at all.

This is what the rural electric cooperatives accomplished.

They accomplished it because they operate from a service or mutual aid motivation rather than a profit motivation. In other words, because they are cooperatives.

The facts are relatively simple and quite well known. In 1935, before rural electric cooperatives began to be organized, only about 11 percent of U.S. farms had electricity. By 1959, 4,500,000 or more

farmers and rural consumers had built for themselves 1,000 cooperative electric distribution systems. And 96 percent of all farms in the United States had electric service.

Prior to the coming onto the scene of the electric cooperatives the power companies made studies to see whether or not it would be profitable to serve farmers. They concluded it would not be. They concluded their rates would have to be somewhere around 75 cents a kilowatt-hour for rural customers. They declared that farmers never would be able to afford electricity.

These power companies had then, each in its own area, a tight monopoly of the power business. They control 86 percent of it today. But for the electric cooperatives those companies would have no competition at all except a little from publicly owned plants, which is why they spend millions of dollars every year attacking electric cooperatives. The conclusions of the power companies, from their own point of view, were probably right. Certainly, compared to the lush business of congested cities and large industrial plants, the rural market was and is a thin one and an expensive one to serve. From the viewpoint of a profitmaking enterprise—particularly one in a monopoly position—it was inadvisable to serve the farms and rural areas.

But from the viewpoint of the national welfare to say nothing of that of our rural population it was not only advisable but necessary to electrify the farms and rural communities. Indeed had it not been done the production miracles performed by our farmers during and after World War II would have been impossible. Furthermore, a great new area of economic activity was opened up by the electric cooperatives. Their member-customers are still, after a quarter century, expanding their use of electricity about 50 percent faster than the rest of the country. A market for some \$13 billion worth of electric appliances and equipment—the amount bought by farmers since the electric cooperatives began—has been created. And it, too, continues to expand.

Private monopoly seeking maximum profit return will always endeavor to impose an artificial scarcity of its product or service on the country in order to maintain its monopolistic price structure.

This is the road to economic stagnation. Eighty percent of our industry is well on the road to that kind of situation.

It is fortunate that there is a corrective for such conditions which can be applied in some industries at least. The electric cooperatives applied it in the power business—and brought rates down sometimes by as much as 50 percent below what the monopoly charges had been.

The point is that the cooperatives approached the question of electrifying the countryside with a different motivation. Their motive was to meet the needs of the people who had organized them and who owned them. From that viewpoint there was only one answer. Of course the countryside must be electrified. The reason the cooperatives had this viewpoint was because the cooperatives were—quite literally—the people who needed the service. What the great power companies said couldn't be done they did—and at costs equal to only a fraction of what the power companies said would be required.

Here we can also see the natural effects of cooperative enterprise upon the problem of price inflation. The greatest benefits, both to

their members and to society as a whole, from cooperative electricity have come where there has been established cooperative generation as well as cooperative distribution. In such cases a full yardstick of what costs of electricity actually needs to be is set up.

One example of the counterinflationary influence of consumer-owned business is provided by the record of Dairyland Power Cooperative. Between 1947 and 1958 the cost-of-living index rose 29.2 percent. In the same period Dairyland succeeded in reducing the cost of power to its customer-owners, the distribution cooperatives, by 34 percent. And all this reduction was passed on to the farmers and other rural customer-owners of the distribution cooperatives, 100,000 in number.

During these same years Dairyland paid more than \$15 million in interest and principal on its loan from Rural Electrification Administration.

In contrast to monopolistic business, cooperatives by their very nature must always seek to provide an abundance of goods and services at the most reasonable practical cost. This, quite obviously, is as dynamic as the monopolistic practices are stagnant.

Just how much has been added to our rate of economic growth as a result of cooperative rural electrification cannot be estimated. Nor can we tell exactly how much more serious a problem technological unemployment in the power industry would be if our rural areas were still in darkness. Neither can we precisely measure their effect in retarding total price inflation.

But there is no reasonable doubt that the difference in all three cases is substantial. And there is no doubt at all that the net impact of cooperative enterprise on the economy is in the direction of more rapid growth, more nearly full employment, and price stability.

One reason the rate of economic growth must be increased is because of the unmistakable appearance of substantial technological unemployment in our economic life—for the first time in our history.

Three examples will have to suffice. Every major airline in the country has reduced the number of pilots in its employ—and is still reducing that number—for a very obvious reason. The huge jet planes carry twice as many people twice as fast.

The automobile workers union had almost 1½ million members a few years ago. Its plans for the future are based on the assumption that there never will be more than 1 million people employed by the automobile industry again.

The number of textile production workers in the United States was 1,146,300 in 1947, 947,000 in 1959, and 820,000 in March of 1958. It is still going down.

Should our rate of economic growth be slowed we would be faced with a tremendous volume of technological unemployment. Indeed unless that rate is increased this problem will become more and more serious.

It is the contention of this statement furthermore that the expectation of reemploying any large percentage of those displaced workers in the manufacture of more physical products for sale to consumers is probably hopeless. Unless we learn rather quickly that our children are, in simple justice, entitled to a good education in uncrowded classrooms, taught by decently paid and not overtired teachers—unless we begin to conceive slum clearance and urban redevelopment as some

where nearly as important as paving a quarter of the country with concrete highways—unless we give earnest attention to expansion of health services and juvenile crime prevention—unless we begin to see that full employment is going to be impossible unless there is sharp expansion of work in fields directly servicing the general welfare, we are in for serious trouble.

No great civilization has ever been built or ever will be built on an unlimited increase in the consumption of material gadgets and satisfactions. Our country will be no exception.

Clearly many of these fields wherein employment can and should be expanded are practical only as public enterprises. But to the greatest extent possible we should develop them through the peoples' own initiative. Take health services as an example.

It simply is not possible for individual families to afford the high cost of modern medical care if they have to pay for it on an emergency fee basis whenever illness strikes. We will not improve the health of our Nation nor add to the people employed in this field unless we apply methods that will make it possible for the people to share the risks together, applying the mutual insurance principle, and to pay average costs on a regular budgeted basis. This is what prepayment for health care is all about.

The Nation already is dotted with successful cooperative or group health plans which enable large numbers of people to afford the best of modern medical care, including health maintenance and the prevention of illness. Such plans are based on the same principle as other types of mutual and cooperative enterprises. The aim of these plans is not to make money out of people's sicknesses but to keep them as well as possible. Doctors associated with such plans are assured a very good income whether the subscriber-members of the plan get sick or not. The cost to the subscribers is based not on the unpredictable health outlook of individual families but upon the quite predictable need for medical care of large numbers of families—both well ones and sick ones. The cooperative principles of sharing and organizing people's needs and establishing the means of meeting those needs is applied. If the amount of money now actually being spent on the average by American families for health and medical care were channeled into monthly payments for comprehensive care through cooperative-type health plans it would be enough to pay, at present rates charged by such plans, for the best and most complete modern medical care for everyone.

It is not so much, in this case, a need to devote more expenditure to health care as it is to spend what money we do spend in the wisest and best way.

The point here is that we are not compelled to choose between disorganized, solo-practice, fee-for-service, high-cost medical care on the one hand and Government medicine on the other. It is possible to make a middle way work as the means of expanding and improving health services and above all making them more available to the people. This can be done if enough people join together to accomplish it in each community. It can be done if they organize health plans whose purpose is improvement of health and if they pay their pro rata share of the cost of the care, by balanced groups of doctors, of the entire group. This is cooperation at its best.

Maximum employment, adequate economic growth, and reasonable stability of the price level cannot be achieved either simultaneously or otherwise if some segments of the economy are impoverished and disadvantaged for the unjustifiable benefit of other segments.

As monopolistic controls are extended more and more broadly and into more and more industries the plight of those segments of the economy which remain competitive becomes more and more serious.

This is the trouble with small business today.

It is the root of the trouble in agriculture. Until the causes of the problems that afflict our agriculture are honestly faced it is out of the question to expect solutions to be found and applied.

Those causes are not hard to find. In a sentence: Most of U.S. industry, including nearly all of it with which farmers have direct dealings, is monopolistic in character. Price competition is a thing of the past and prices for industrial products which farmers must buy are "administered" upward quite regardless of economic conditions including supply and demand relationships. Production is controlled in order to protect the price structure; a degree of scarcity is deliberately maintained.

In contrast, agriculture remains a highly competitive business. No one among the 5 million farmers of the Nation can possibly affect total volume of supply to any measurable extent. All of them know this. Furthermore, farmers like other people have to make a living. The wherewithal for that purpose is measured by the number of units sold times the price. The lower the unit price the harder farmers necessarily will try to produce more units. Lower prices for farm products do not tend to reduce, but rather to increase, the so-called surplus. Obviously, too, farmers have to plant and plan production many months before harvest. They cannot control production or maintain price levels, and probably wouldn't even if they could.

Hence prices received by farmers tend downward; prices paid by farmers tend upward. Prices received by farmers are the result of full production sold at whatever price the market will bring. Prices paid by farmers are mostly fixed, largely by administrative action.

This is why the parity index hovers around 80, which means agriculture suffers a chronic loss and injustice of about 20 percent of the share of national income to which it is entitled. It is why, between 1947 and 1957, the prices of industrial products rose 26 percent while farm prices fell 5 percent. And this despite the fact that production per man-hour was going up 90 percent in agriculture compared to only 24 percent for all nonfarm industry. The benefits of greater technological efficiency have been passed on to buyers by agriculture. Had this also been done by other industries including those with which farmers deal, the parity index would be 100 or thereabouts and farmers would have little legitimate complaint.

In general, agriculture in the United States is conducted on a full-production, market-determined price basis. Except at the comparatively low levels where price-support programs come into play farmers take for their abundant crops whatever the market will bring. This full production at freely determined prices for consumers is the basis, and the only basis, on which, in a free economy, we can expect to build full employment, adequate growth, and general price stability. Because so much of our economy has been allowed to become monopolistic,

farmers suffer economically for the reason that they operate in the manner best calculated to serve the Nation's best long-run interest.

For unless, as technological progress continues the benefits are passed on to the Nation as a whole, as consumers, there cannot take place a broadening of the market nor enough expansion of production to prevent mass technological unemployment from becoming rampant.

This simply is not happening in most U.S. industry. And to compound the tragedy of our agriculture it is not even happening with respect to the ultimate consumers of farm products. Only the middleman processors and marketers of farm products get the benefit of the low prices farmers receive. Thus by taking lower prices farmers do not build for themselves a broader market. They only line the pockets of processors and marketers of food products. Costs of food to consumers go right on up. Between 1950 and 1958 the cost of food to the average family went up \$122. But farmers receive \$12 less for this food in 1958 than they had 8 years before. Processors and middlemen got \$134 more.

This brings us to a third phase of the cause of the so-called farm problem. Agriculture has achieved to only a minor extent the integration that marks most of the rest of U.S. industries. Unless such integration takes place there is little hope of improving the economic bargaining power of farmers, or increasing the income of agriculture, or boosting rural buying power to the level where the rest of the economy needs to have it.

A more adequate degree of the right kind of integration for agriculture could restore balance. This is the only practical way such balance can be restored unless the monopolistic power in other industries is broken where it exists. There is no sign on the horizon that this is even being seriously considered.

So integration appears to be agriculture's only answer.

Some integration has taken place already. One kind has been carried on by agencies outside agriculture which have integrated the farmer into their operations. Feed companies are the outstanding example so far. But processing corporations and chainstores are likely agents as well. The results of this sort of integration have been ruinously low prices for farm products involved—broilers as an instance—and the reduction of the farmer to the status of a wage-maker with no source of income except that allowed for prescribed routine operations.

The other kind of integration is the best hope of restoring prosperity to agriculture, of increasing farmers incomes, of making possible the survival of the American pattern of rural living. This second kind of integration takes place through the organization of cooperative businesses by farmers whereby they can themselves own a portion of the businesses related to agricultural production, either as suppliers or as processors and marketers. The principle of cooperation is thus applied to enable a large number of weak economic bargaining units to become strong, by joining together in mutual aid of one another. Thus it becomes possible for farmers to add a small percentage of the earnings of the very prosperous petroleum industry to their incomes by the simple process of owning that part of the business which supplies farmers with petroleum products. It becomes possible for farmers through their cooperatives to own and operate part of the fertilizer business and to run it for the benefit of farmers—

at full production at the lowest economically sound cost. The result of this particular operation has been that whereas between 1953 and 1958 prices paid by farmers for all inputs of their farms went up 5 percent, costs for fertilizer went down 2½ percent. This was because about 25 percent of the fertilizer business is cooperatively owned by the people who use the fertilizer.

Cooperative ownership by farmers of part of the industries that supply farm inputs thus works three ways. It gives to farmers some degree of control over their costs of operation. It adds to the income of agriculture some of the margins of related business. And such cooperative action by farmers enables them to gain a degree of economic bargaining power without which, in the kind of economy we have today, their cause is quite hopeless.

The cooperative farm credit system enables farmers in effect to pool their own credit for the mutual benefit of all, to borrow their own pooled credit on their own terms, and to build their own financial security by paying interest to themselves through their own cooperative institution. This helps. Cooperative farm credit institutions have gone a long way and will go still further in making farmers, despite their generally weak bargaining position, independent of the rest of the economy so far as credit is concerned. Interest rates paid by farmers have been cut down by half from what they were before the advent of cooperation in this field.

Almost one-fourth of all farm crops are marketed through cooperative marketing associations. But a real approach to a solution of the so-called farm problem will come only as farmers begin to share with consumers in both income from and control over the processing, packaging, and distribution of food products. Were a portion of farm products processed, packaged, and distributed from farm to consumers table by businesses cooperatively owned by either farmers, consumers, or both, the situation where low farm prices are not reflected in lower costs to consumers could be cured. The competition of such cooperative businesses would result either in better incomes to farmers, or lower costs to consumers, or probably both. A yardstick of cooperatively owned enterprises which could carry raw products clear through to the consumers table under ownership of farmers or consumers would bring about direct dealing between farmers and consumers. And this would mean that if consumers paid higher prices this would result in bolstering agricultural income; and that if farmers' prices fell the market for their products would actually be expanded because prices paid by consumers would go down. Meanwhile, again, a portion of the earnings of businesses related to and dependent on agriculture would be added to the income of rural America thus restoring economic balance and improving general economic health.

Related to both the plight of competitive business, like agriculture, in a monopoly-dominated economy and to the problem of inflation are the facts about administered pricing. Briefly those facts are that we should have had practically no price inflation in the 1950's if so-called natural economic influences had been able to operate. The competitive sectors of the economy were responsible for price increases of less than 1 percent in the years 1953 to 1958. But both those industries and all the Nation as consumers were saddled with an overall rise of 8 percent in the wholesale price index in those years. Eighty-five

percent of this increase was accounted for by the very substantial boosting of prices in the monopolistic, administered-price industries. Steel prices were upped 37 percent, automobile and machinery prices 22 percent, tobacco prices 15 percent and so on.

Farm prices, meanwhile, as have been noted, fell by 5 percent, textile prices almost as much. Both capital and labor in the monopolistic segment of our economy are profiting at the expense of the remaining competitive segment and of all the people, including themselves as consumers. Instead of passing the benefits of automation and increased technological efficiency off to consumers in lower prices or in better products at the same prices, these industries are attempting to plow these benefits back into their own structures. Neither an adequate rate of growth, nor full employment, nor price stability can be obtained under these conditions—let alone all three of them at once.

Are economic growth and maximum employment compatible with price stability? Can inflation be prevented and adequate growth and full employment be had at the same time?

Before we discuss these questions it is pertinent to observe at least in passing that deflation makes economic growth utterly impossible and condemns a large section of the population to unemployment. Under present world conditions, however serious a problem an inflation would be to the United States, it is well to bear in mind that a deflation would bring infinitely worse consequences—among them in all probability a loss of the cold war.

So any measures taken to try to control inflation should be selected—and used—with great care and constantly watched to make certain that they do not result in deflation.

What inflation really means is a relationship between money and goods whereby the supply of money is increasing at a more rapid rate than the supply of goods to be purchased with that money.

It is doubtful that our country is at present suffering from inflation in this true sense of the word.

What we have had in the past few years is a price inflation, caused, almost wholly as has just been shown, by the arbitrary increases in prices of monopolistically controlled products.

About this central cause of price inflation we hear almost nothing from official sources. Instead we hear the very kind of ominous warnings of impending monetary inflation which have been one of the major causes of true inflation in the past.

The first thing that needs to be done to stop any inflation that may actually be threatening us—aside from the inflation of administered prices—is for our national leaders to stop creating the very atmosphere in which inflation is most likely to take place.

It must be recognized at the same time that under our present monetary system the danger of both inflation and deflation are ever present. And the inflationary danger is compounded by the \$11 billion a year motivational advertising campaign against consumers' pocketbooks. Under our existing monetary system nearly all the money we use as our national medium of exchange is created by private banks and financing institutions and take the form of debt to them. This may be the debt of a consuming family, or of a business, or of the National Government itself.

One way, therefore, of bringing on a true inflation is to encourage people to go into debt. This we are doing with a vengeance, as has

been observed several times in this statement. Furthermore, we are currently making each debt harder to pay and requiring still more money to pay it by hiking interest rates.

Increasing interest rates is about as dependable a method as could be devised for assuring a further inflation of prices, since the cost of money enters into the cost of practically all goods and services that are produced. In the case of housing for example a 1-percent increase in interest has been shown to require a \$2.25 per room per month increase in rent for low-cost housing. But what is equally serious is the increase in consumer debt which is taking place. It has been reliably estimated that somewhere between 30 and 40 percent of the incomes of lower income families is now obligated for payments on installment purchases and debt. In 1959 almost 15 percent of all consumer income was so obligated. In 1950 the volume of consumer debt in the country was \$18 billion. In 1959 it was \$47,900,000. Much of this increase in debt represented newly created money or extension of credit. Much of it involves exorbitant, though frequently concealed, interest rates—usually called carrying charges.

The huge volume of this debt makes our entire economy far more vulnerable to any slight reduction in economic activity and in the income flow to families than would otherwise be the case. It takes far less of a decline in employment to cause families to be unable to pay their debts and thus to set off a succession of defaults with possible serious deflationary results.

And yet our whole structure of super high-pressure salesmanship depends on constant and very large increases in debt on the part of consumers, and does everything it can to encourage such increases. This is due basically to the fact, outlined earlier in this statement, that the economy is not generating enough mass buying power in the hands of people generally to form a healthy and normal market for the flood of goods that could so readily be turned out.

So we are caught in a vicious circle which becomes the more vicious and dangerous with every one-fourth of 1 percent increase in interest rates.

There is a readily available remedy for part of the debt problem. Borrowing is not inflationary if savings are the source of the funds borrowed. The real danger from ballooning debt in our economy is that most of it has newly created money as its source. In this case repayment of the debt—or default and the writing off of debt—has the effect of actually reducing the volume of money in circulation. This was what lay close to the root of the 1929 collapse.

There are however, lending institutions in the country which do their business wholly on the basis of assembling the savings of natural groups of people into pools from which members of those same groups can borrow in time of need. These are the credit unions. Some 11 million American families are credit union members and nearly \$4 billion of the consumer debt we have been discussing is completely noninflationary debt brought about by credit union members borrowing from their own pools of savings in their credit unions. Were all the consumer debt of this character there would be little to worry about in connection with it. Not only so but the process of using their credit unions makes it possible for each group of borrowers to actually pay interest to themselves and thus to build their financial security. This is another example of how institutions built in the mutual aid

principle and doing business for the purpose of meeting directly a need can bring a degree of health to our economy. It is also an example of what can happen when the people keep control of their own savings and resources.

Incidentally credit unions have not raised interest rates. They have kept their rates where they were despite all the outcry about the "necessity" of higher rates. Why? Simply because it has not been necessary to raise interest rates. And because credit unions are in business from a service motive to provide credit to their members at the most reasonable practicable cost. They are not in business for the purpose of boosting the cost of their service as high as the traffic will bear. They are, therefore, important stabilizing influences in our economy today. They are important factors in resisting inflation.

The same in general can be said of cooperatively oriented mutual insurance companies. The purpose of such companies, started as they have been by groups of people seeking to provide themselves with insurance, is to reduce premium costs as much as they can. They furthermore regard the savings of their policyholders as money held in trust for their policyholders benefit. Therefore, such insurance companies endeavor to give their policyholders as much active part in control of their companies as possible. And they make their investments as much as they prudently can in enterprises that will directly benefit their policyholders and society as a whole, rather than just in the already capital rich "blue chips."

It would be unrealistic to say the least, however, to suggest that cooperative-type financial institutions are at present strong enough influences in the economy to stem an inflationary tide if it actually started to roll.

For the fact is that our present monetary system makes our whole economic welfare dependent upon increasing debt. Under our present system it is only by expanding debt that we can obtain the money supply which is a necessary condition for adequate growth and maximum employment. Our money is manufactured by the private commercial banks of the country when they make loans and even when they make investments other than out of savings deposits. This rather strange and almost certainly unconstitutional method of giving away the basic public function of money creation to private interests results from the system of fractional reserves upon which our commercial banks operate. With reserve requirements fixed at their lowest point in many years by the Federal Reserve Board—namely, at less than 20 percent—commercial banks can manufacture demand deposit credits almost at will and lend them into circulation at interest. With a 20-percent reserve requirement in effect the banks are able to lend about five times as many dollars of newly created checkbook money as they possess in reserves of actual cash or credit on the books of the Federal Reserve banks. Thus when the banks buy Government bonds they use the credit of the Government and the people—namely, the power to create money—with which to buy them. The interest they receive amounts to an outright subsidy by the Nation to the bank. It is a payment of interest by the Government upon its own credit. In 1951 interest on the national debt was about \$5½ billion. Today it is in excess of \$8 billion.

Because the Nation has thus given away its money-creating power it is presumed that it must not itself exercise that power. At least it never does so. The closest we ever come to doing so is when the Federal Reserve banks create new Reserve bank credit. For while the Federal Reserve banks are wholly owned by the private banks of the system they are nonetheless subject to some degree of public control, through the Congress and the executive department. As long as the Federal Reserve Board and banks recognize themselves as exercising the essentially public and governmental function of creating and controlling money there is a chance of the system working reasonably well.

But in order for this to be the case the Reserve System must act in the public interest rather than that of the private money-lending agencies of the country.

There have been times when the Federal Reserve Board came close to doing this. There was a time when its governmental power was used to maintain the price of Government bonds at par and thus to prevent any necessity for raising interest rates thereon. As long as everyone knew that the Federal Reserve would use its essentially governmental power to provide a market for Government bonds at par they could be sold elsewhere at par. And it was not necessary to increase their interest yield in order to sell them.

But this practice was abandoned a few years ago.

Furthermore, there is a way in which any danger of inflation can be directly avoided if the Federal Reserve Board will use it. This is the power of the Board to increase reserve requirements in the commercial banks. By increasing reserve requirements the privilege of the banks to create more new money can be directly and certainly curtailed.

The present Federal Reserve Board, crying loudly about the "danger of inflation" has actually reduced reserve requirements instead of raising them. On the other hand it has chosen to increase interest rates on the excuse that this was "necessary" to control "inflation." Enough has been said to make quite plain why this statement contends that the Board has been wrong in both decisions and why its present course is more likely to cause inflation—at least price inflation—then to prevent it. Incidentally, the profits of commercial banks have risen from less than \$300 million in 1949 to a record high of about \$1,400 million in 1958. They hardly seem to need favors.

It is difficult to see how we can assume adequate rate of growth and maximum employment with reasonable price stability as long as we rely on the debt-money system we now have. Increasing debt is the price that must be paid to bring needed money into existence and make economic growth possible. The synthetic money created in this process is subject to sudden destruction by the simple process of reduction of debt. And the U.S. Government forces itself to pay interest on its own credit.

It is time some changes were made.

The Government of the United States should assume responsibility for creating from time to time, by its own action and without expanding its debt, enough new money—and no more than enough—to accommodate the expansion of productive capacity in the economy and maintain reasonable price stability. Until this is done the three objec-

tives of the committee will be difficult indeed to realize simultaneously.

Were the Government to assume its proper duty with respect to money creation it would be necessary correspondingly to curtail the money-creating powers of the private commercial banks. This however could readily be done by a gradual increase in reserve requirements.

Under such a scientific monetary system it would become possible gradually to reduce the mountainous burden of our present national debt. It would also be possible to guard effectively against either monetary inflation or monetary deflation.

Whether or not such a rational approach to our monetary problems is taken there would remain in any case the problems of monopoly, administered prices, and all the consequences flowing therefrom.

One of two courses of action are possible. The first is for Government so to break the power of monopoly where it exists that the prices of goods and services will once again bear some kind of rational relationship to the social usefulness of those goods and to the incomes of the people who are supposed to buy them. But there is not the slightest indication that any such course of action is contemplated. Nor does past history offer much evidence that it could succeed if tried.

The other course is to develop the one kind of competition which can best survive in such an economy—the competition of user-owned or patron-owned, cooperative-type enterprise. Such a course offers the added advantage of influencing not alone the price at which goods and services are offered to consumers, but also the kinds of goods and services that will be produced. For cooperative, consumer-owned businesses must produce and distribute those goods and services which their consumer owners most need, whether it be housing, health care, electricity, credit, fertilizer, petroleum products, or groceries.

This is what this paper is all about. It does not presume to say that the competition of cooperative enterprise as today constituted can restore economic balance in the United States. But our paper does presume to point out that cooperative enterprise has done and is doing precisely that in Scandinavia. And that grown large and strong enough it could do it here.

A number of examples have been given to show the beneficial effects of the presence and competition of cooperative enterprises in such fields as housing, household necessities, rural electricity, health care, petroleum products, fertilizer, credit, and insurance. We have seen how employment can be expended under the impact of cooperative enterprise—as well as directly by it—because such enterprise must, being consumer owned, always conduct itself on a full production at lowest economically sound price basis. We have seen how the service motive, or mutual aid motive can bring about expansion of the economy into brandnew areas which profit-oriented business naturally has shunned. And we have observed that a strong and integrated development of cooperatives in related businesses under farmer ownership offers the best if not the last hope of rescuing our agriculture.

All of these influences are in the direction of the three objectives of the committee. It is our contention that an expansion of cooperative enterprise in the United States to three or four times its present volume so it would be doing about 10 to 12 percent of the Nation's

total business would be of very great value in making possible realization of an adequate rate of growth, maximum employment, and price stability.

Only our major point remains to be made, or rather reemphasized. In broad generality the trouble with our economy at present lies in the overwhelming economic power of a comparatively few huge producing units. They are in positions of absolute control of great segments of our economic life. To maintain that control they must control, and to a degree restrict production. To benefit from that control they "administer" prices of their products unjustifiably upward. Most serious of all they seek to retain a lion's share of the benefits from increased technological efficiency instead of spreading them broadly among the population and thus assuring not only the economic health of the Nation but that of their own industries as well. These giants are in fact their own worst longrun enemies.

What remedy can be proposed for this situation. There is, in the end, only one economic force that can balance the power of monopolistically organized producers. Even if a monopoly of the cracker industry were to perfect a completely automatic cracker factory requiring no labor at all—there would still have to be someone to buy the crackers or the factory would be worthless.

The natural—and only effective—countervailing force to industrial monopoly is the organized buying power of the people as consumers. To bring about such organization of consumer buying power the best if not the only available instrument is the cooperative. Organized consumers cannot, in pursuing their own natural economic interest, fail to represent the economic interest of the Nation as a whole. After all the Nation is the people and their one common economic interest is their interest as consumers.

It is not necessary that cooperatively owned automobile factories or steel mills be established alongside cooperative oil refineries and fertilizer plants in order to deal with America's current problem. It is only necessary that the buying power of consumers of the various monopolistically produced products be organized to a sufficient extent so that their economic bargaining power will somewhere nearly equal that of the producing companies.

Admittedly this is a tremendous task. But it is to be remembered that as experience is gained in the mutual benefits gained from cooperative organization in any one field it is not too difficult for the same organized group to expand its activities into other fields. The basic necessity of life is food. And it is probably, therefore, logical that it is around the foodstore that the broadest organization of consumers buying power has taken place in most countries. But the cooperatives of Scandinavia, for example, have not stopped there. They have built on their successful operations in the business of household necessities an effective challenge to most of the major monopolies in their countries.

There is no logical reason why we cannot do the same thing here.

The great need is for broader public understanding of the true motive and purposes and effects of cooperative business. Such understanding could best begin in the Congress of United States.

JERRY VOORHIS,
Executive Director.

(For the Cooperative League of the U.S.A.).

STATEMENT OF INVESTMENT BANKERS ASSOCIATION
OF AMERICA

OCTOBER 29, 1959.

HON. PAUL H. DOUGLAS,
*Chairman, Joint Economic Committee,
Congress of the United States,
Washington, D.C.*

DEAR SENATOR DOUGLAS: This is in response to your letter of October 2 in which you requested the Investment Bankers Association of America to submit a statement containing "constructive suggestions as to public and private policies for reconciling and simultaneously obtaining the objectives of maximum employment, an adequate rate of growth and reasonable stability of the price level." We are vitally interested in these questions and would like to make a thoughtful contribution to your study. We are frankly surprised and greatly disappointed that, in view of the fact that this study has been underway since March of this year, we were allowed less than a month to comment on a problem of such complexity. Under the circumstances, we have been unable to prepare and submit a comprehensive statement in response to your inquiry. Therefore, we have decided to restrict our response to certain areas of the problem which we feel are especially significant.

The problems which your committee is considering have many ramifications. We feel that the basic solutions to the problems of price stability and economic growth can be achieved only by getting down to fundamental principles. These solutions lie in a free market economy, supported by public and private policies that will release and encourage the energies and creativeness of a free people. If these two problems are solved, we believe that satisfactory levels of employment will follow as a matter of course.

PRICE STABILITY

The debilitating effects of past inflation are pervasive throughout our economy at present. The fears of future inflation are so destructive of the longrun goals of economic growth and maximum employment, that means to combat inflation should be a primary concern of your committee, just as it is of all persons interested in the objectives of your study.

To obtain the goal of reasonable price stability, we need a flexible monetary policy, a stabilizing fiscal policy, sound debt management practices, and some means of ending the wage-price spiral. Our suggestions on these subjects are as follows:

(a) *Monetary policy*

We are firm believers in a flexible monetary policy administered by an independent Federal Reserve Board. The money supply must

be so administered as to stimulate the economy in recession periods and to prevent excessive demand arising from monetary sources during boom periods.

(b) Fiscal policy

The fiscal policy of the Federal Government should make a major contribution to price stability. Deficits may be inevitable in recession periods, but surpluses should be developed in boom periods. These surpluses should be used primarily to retire the national debt. We must get the Federal budget under such control, by necessary reforms of the budgetary process such as the item veto, that expenditures do not automatically absorb the increased revenues produced during periods of advancing levels of general business. Particularly in a boom period, a balanced budget is not sufficient. When the budget absorbs a sizable portion of the national income, it has an inflationary impact even when balanced.

(c) Debt management

Because of the effects of the management of our huge national debt on the money market and the flow of capital to all segments of our economy, we believe that the present interest rate ceiling on Government bonds must be removed. The present rigidity, which forces current borrowings into the short-term segment, is contrary to the principles of prudent debt management and the public interest. The removal of the ceiling would enable the Treasury to lengthen the average maturity of the debt, to avoid the undermining of monetary policy through the issuance of excessive quantities of inflationary short-term debt and to avoid undue disruption of the money market.

The recent successful offering of 5 percent U.S. Treasury notes due in 1964 demonstrated the value of flexibility in Treasury debt management operations. Far from adding to the cost of servicing the debt, this successful issue may well have the effect of reducing overall interest costs to the Treasury by reason of its favorable effect on interest rates in the Treasury's massive refunding operation. The size of the Treasury debt coming due within 5 years is already very large and it is not only imprudent to force the Treasury to confine its financing operations to this sector of the market, but it may actually add to the cost of servicing the national debt.

(d) Wage-price spiral

With respect to the wage-price spiral, we have no established association policy or ready solution, but we recognize it as one of the most vital concerns of your committee's study.

ECONOMIC GROWTH

The essential ingredient in economic growth is capital formation. Capital formation, in turn, is dependent on the creation and flow of savings and the willingness of the people to put their savings to the most productive uses. In this country people cannot be forced to save. The needful rate of savings must be obtained by appropriate incentives in an environment that promises reasonable continuity of monetary values. If savings are to be used in the ways that are a requisite of a rapidly growing economy, savers must believe in the probability of returns commensurate with risks involved. The effec-

tive return on capital needed to induce savings, as well as the flow of savings itself, are importantly influenced by many aspects of the tax laws. For example, at present upper bracket taxpayers are in effect excluded from the market for taxable bonds.

The following specific suggestions for revisions in our tax laws would, we believe, promote a higher rate of capital formation than now exists and provide for a freer flow of capital between investment opportunities of varying degrees of risk. We believe that it is in the area of tax policy that most can be done to solve the multiple problems of economic growth, employment and price stability. A summary of specific proposals for tax reform follows:

(a) *Personal income taxes*

Confiscatory income tax rates deflect large amounts of upper bracket income from productive use. Because a tax rate exceeding 50 percent makes it move worthwhile for a taxpayer to devote his time to tax avoidance than to earning additional income, we believe the top rate of personal income tax should at no time exceed 50 percent. A reduction in the top rate to 50 percent would even in the first year, cost only 2 percent of present revenues from the personal income tax, and the effect on incentives and savings flows would surely produce many times this amount in subsequent years.

(b) *Averaging of income taxes*

The arithmetical effect of widely fluctuating incomes is to create tax liabilities higher for fluctuating incomes than for stable incomes. This situation is inequitable, and it penalizes venturesomeness. Averaging should be permitted over a reasonable period, say 4 or 5 years.

(c) *Double taxation*

Dividend income is taxed at a much higher rate than other types of income. Corporate income is taxed at 52 percent at the corporate level and, when distributed in dividends, is taxed again as individual income. Thus, the effective tax rate on dividend income in the lowest bracket is, in reality, more than 61 percent. The present 4 percent tax credit is only a token rectification of this basic unfairness. The dividend credit should be increased to 20 percent, which would at least have the effect of eliminating double taxation in the lowest personal income tax bracket.

(d) *Capital gains tax*

The basic evil of the capital gains tax is that it has had the effect of immobilizing or "locking in" tremendous amounts of capital in the hands of investors with capital gains which are largely illusory because they are a product of inflation. If this "locked in" capital was freed, much of it would doubtless flow into the kinds of new enterprise so greatly needed for sustained economic growth. It would thus create more job opportunities and produce many times as much corporate and individual income tax revenue for the Government as would be lost by the repeal of this tax. It is our strong view, therefore, that the capital gains tax should be eliminated in the interests of economic growth.

EMPLOYMENT

It is our sincere view that, if the recommendations made above with respect to monetary policy, fiscal policy, debt management, and tax reform were adopted, the resulting rate of noninflationary economic growth would not only take care of the employment problem but could readily produce a chronic labor shortage in the years ahead.

We urge you and your committee to take immediate action along these simple fundamental lines.

Very truly yours,

WILLIAM D. KERR,
President, Investment Bankers Association of America.

STATEMENT OF LIFE INSURANCE ASSOCIATION OF
AMERICA

OCTOBER 30, 1959.

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

DEAR SENATOR DOUGLAS: I am writing in reply to your letter of October 2 inviting our association to submit for the record "a statement containing constructive suggestions as to public and private policies for reconciling and simultaneously obtaining the objectives of maximum employment, an adequate rate of growth, and reasonable stability of the general price level." I would like to assure you that we appreciate your invitation very much because the subject of your investigation is one of great importance to the life insurance business as well as to the country as a whole.

We have given your invitation a lot of thought and have decided, reluctantly, that it was impossible to prepare the careful document which this subject deserves within the time limit of November 1 mentioned in your letter. Whenever a life insurance industry statement on a subject of this nature is prepared, it is our usual practice to work it up jointly with the American Life Convention, a sister trade organization. The process of preparing this particular statement and clearing it through our various governing committees would be quite difficult and time-consuming.

I would like, however, to call your attention to the statement presented before your committee on July 28 by George T. Conklin, Jr., vice president (finance) of the Guardian Life Insurance Co. of America. As you will recall, Mr. Conklin was accompanied by Sherwin C. Badger, financial vice president, New England Mutual Life Insurance Co., Boston; Robert B. Patrick, vice president, Bankers Life Co. of Des Moines; Richard K. Paynter, Jr., executive vice president, New York Life Insurance Co., and James J. O'Leary, director of economic research, Life Insurance Association of America. The prepared statement of this group appears on pages 1336-1370 of part 6A, "The Government's Management of Its Monetary, Fiscal, and Debt Operations" of your hearings.

As you know, both from Mr. Conklin's introductory remarks and from a subsequent letter which you received from Claris Adams, executive vice president and general counsel, American Life Convention, these men did not appear as representatives of the life insurance business but simply as individuals who were invited subsequently by your committee to present their views. In spite of this, I am sure that the basic principles set forth in this statement would have the endorsement of most life insurance companies. They would

certainly be representative of a great deal of the thinking in the life insurance business on the questions raised in your inquiry.

Sincerely yours,

B. E. SHEPHERD,
Executive Vice President,
Life Insurance Association of America.

STATEMENT OF THE NATIONAL ASSOCIATION OF MANUFACTURERS

THE EMERGING ECONOMIC PROBLEMS OF THE 1960's

The National Association of Manufacturers appreciates this opportunity to present its views on the subjects you are considering. We believe that the information you collect, and the conclusions which you will eventually report to Congress, will have a tremendously important influence on the Nation's future economic welfare.

This influence will be felt partly through the impact of your conclusions on future legislation. But just as important—perhaps even more important—is the impact that your views will have on the national psychology and thus on individual actions. The area of economic affairs is one in which human expectations and human attitudes have a direct effect on the course of events. The prestige of your committee is such that you will surely have great influence in formulating such public expectations and attitudes.

A number of inquiries similar to this one are underway at the present moment, both by governmental and nongovernmental bodies. The subjects of economic growth, employment, and price stability are receiving constant attention both in the public press and in private discussion groups. It is clear that the Nation is in the process of formulating its attitudes on the most fundamental economic questions.

It is difficult to predict what conclusions will eventually crystallize out of this process. But whatever they may be, they will have a great influence, for better or for worse, on the economic destiny of this country. The current national effort toward a clearer understanding of broad economic issues will affect people's actions as citizens in calling for, or protesting against, various forms of governmental action. It will also affect their individual actions as buyers, sellers, savers, investors, etc., and this, too, will have its economic impact.

This is stated to emphasize the grave responsibility which will rest on your committee in conducting this inquiry and in preparing its final report. Those who present their views to you have a share in this responsibility, since we are all participating in the process of crystallizing national and public attitudes. All of us had better give the problems before us our deepest and most honest thought.

The main object of this statement is to present an analysis of certain major economic problems which we believe will come to the fore during the next decade. As you will see, these problems are closely connected with the question of the reconcilability of price stability with high employment and economic growth, which is the central issue of your inquiry.

The theme in brief

At this point we present our theme in a nutshell, leaving its fuller development for a later stage in the statement. We see three eco-

conomic problems emerging in the 1960's. They are not entirely new problems, but new and more difficult phases of problems which have been with us for some time. They will be the chief obstacles to the attainment of the efficient and dynamic economy which is essential to the realization of personal aspirations and even to our survival as a nation.

The three leading economic problems of the 1960's, as we see them, will be—

1. The threat of a continuously rising trend in unit labor costs, and the effects of this trend on our ability to maintain a high level of economic activity and of employment.

2. The shortage of venture capital, and its effects in limiting our long-term economic growth.

3. The growing economic strength of the other industrial nations of the world, and its effects on our ability to compete with them both here and abroad.

This is a broad-perspective view of the economic problems of the next decade. It is not meant to suggest that the more down-to-earth problems of taxes and Government spending, money and credit policy, labor-relations laws, and so forth are not of critical importance. But these more concrete questions can usefully be considered in the light of their effects in helping, or hindering, a solution to the three problems listed above. We also do not mean to suggest that the subjects of national defense, foreign aid, and the conduct of our foreign affairs generally do not pose critical problems. But, however skilled our leaders may be in dealing with these matters on a technical level, they will have to work within the limitations imposed by the intrinsic strength of our economy.

The first of the listed "emerging problems" has been with us for some time. Unit labor costs have been rising almost steadily for 20 years. This has occurred despite a very substantial improvement in output per man-hour during the same period. Industry has made heroic and successful efforts to raise productivity through increased investment in plant and equipment, technological research and development, improvement in management and organizational techniques, and so forth. These steps have resulted in great economic benefit to the Nation as a whole, but unfortunately the rise in hourly labor costs has been even faster.

A rise of this magnitude in unit labor costs would normally have severely restrictive effects on markets and hence on employment and growth. During most of the 1940's and 1950's these restrictive effects were evaded as a result of the generally inflationary climate of the period. It was possible, at least partially, to pass on the higher unit labor costs without seriously impairing markets.

The question must now be raised as to whether this process can continue. Can the Nation, by deliberately maintaining an inflationary climate, prevent the rising trend in unit labor costs from leading to its natural consequences in restricting growth and employment? It is our firm belief that such a course of action will not work. Our economy has now reached a point where a program of using price inflation as an offset to the restrictive effects of rising costs trends would be self-defeating. It would encourage the very tendency toward higher labor costs that it is intended to offset. Furthermore,

the U.S. position in world markets is no longer so secure that we need not be concerned with our cost levels. That is why we see this tendency as the first of the emerging economic problems of the 1960's.

The second problem, the shortage of venture capital, has also been masked by the inflation of recent years. Actually post-World-War-II business growth has been financed largely by borrowed capital. Normally such a topheavy dependence on borrowed funds would have created dangerously unbalanced financial structures and thus brought about its own termination. It has not done so because at the same time, inflation has in effect been reducing the burden of business debt. This, too, is a combination of circumstances that we cannot expect to continue. Creditors are indicating that they are becoming unwilling to participate in a process which occurs largely at their expense. In the 1960's inflation can no longer serve as a means of sidestepping the problem of providing the private capital needed for economic growth.

As for the third problem, the growing economic strength of other industrial nations, this is a problem only in a special sense. Perhaps it should rather be considered a cause for self-congratulation since one of our national objectives in the post-war period has been the restoration of the economies of those countries. But however important our aid may have been, it is becoming clear that the basis for the growing strength of West Germany, Japan and more lately France and Italy—other instances could be cited—is the fact that they have put their own economic houses in order. They have made heroic efforts to maintain the soundness of their monetary systems—at a time when we are being urged to embrace creeping inflation as the road to perpetual prosperity.

Be that as it may, we have to face the fact that we will no longer have things all our own way in world markets for industrial goods. During the 1940's and much of the 1950's the world was hungry for industrial products and the United States was practically the only source for them. Whatever mistakes we made in failing to control inflationary tendencies at home did not make much difference in our ability to meet foreign competition. In the 1960's they will make a great difference.

Economic thinking, and the past 30 years

Much of current thinking on basic economic questions is dominated by the experience of the past 30 years. In people's minds this period tends to be divided into two eras: the depressed period of the 1930's characterized by chronic mass unemployment and a practical cessation of economic growth; and the inflationary period of the 1940's and 1950's in which employment levels and growth rates seemed generally satisfactory, at least compared with the 1930's, but price stability was not maintained.

The natural, but nonetheless superficial, conclusion which might be drawn from that record is that we have before us a choice between price stability with stagnation and unemployment on the one hand, and inflation with growth and high employment on the other. When the option is conceived in these terms the choice will probably always be made in favor of inflation.

However, it is necessary to think the problem through to a deeper level. Inflation is losing its efficacy as a means of sidestepping such

fundamental difficulties as rising costs and capital shortages. We shall have to face those difficulties, since during the next decade we will not be able to buy prosperity with inflation.

We are firmly convinced that the 1960's will be a period quite different in economic character from either the 1930's or the 1940's and 1950's. We may find that we will experience a combination of the worst features of both eras, if we lean on the inflationary crutch for economic support. On the other hand, if the Nation faces its problems courageously and wisely, there is no reason why the 1960's should not be a period of high growth, high-level employment and price stability.

The leading economic problems of the 1960's will be the three listed above. In order to make our concern over these problems perfectly clear it will be necessary first to consider some of the background questions raised by your inquiry.

SOME BACKGROUND QUESTIONS

The nature of economic policy

Your committee is conducting a study, in broad perspective, of the kind of economy the country wants to have and of the kind of "economic policy" which would be appropriate for attaining it. Some preliminary thought is necessary as to just what is meant by economic policy.

In a free society it is not the function of "economic policy" to plot in detail the future course of the economy, in the way an engineer would plan every feature of a structure before he started to build it. Your committee is not the central economic planning agency of a totalitarian state, and we are sure that you do not want to assume such a status.

In our type of society, individuals set their own goals and make their own decisions. This process does not of course go on in a vacuum, but in an environment of general economic conditions—the economic climate—which determine the prospects for the attainment of individual economic goals. What actually occurs, then, is the result of the interaction between the background economic climate and the individual choices which are made.

Thus the proper field for economic policy is to plan the "economic climate" which will be most conducive to the attainment of individual goals, whatever they may be. It is not to specify in advance the outcome of the interaction between general economic climate and individual objectives.

Given this conception of the problem of economic policy as it presents itself to your committee, the presentation in this paper cannot be as spectacular as it might otherwise be. We do not intend to present charts or tables indicating in detail what the economy can, should, or will be like in future years. We do not intend to plot the future growth of the gross national product or the way it will be broken down as among major categories of goods and services. Displays of this kind are attention getting, but we do not see how they can possibly help your committee. You are not engineers designing a form to be impressed on inert material, but statesmen planning an economic climate in which human freedom may flourish.

The role of Government

These remarks on the limitations of Government economic policy formulation are certainly not intended to deprecate the importance of your function, but simply to clarify its nature. Government after all does perform a large role in our economy.

The way in which Government conducts its own financial affairs has a broad economic impact. Taxes have to be collected to pay Government expenses, and a large public debt has to be managed. The Government has the responsibility for the establishment and definition of the monetary unit. It has created a central banking system and lays down rules for its operation. It intervenes more directly in economic affairs through such devices as the antitrust laws, labor-management relations laws, the establishment of fair labor standards, etc.

These are some of the concrete instrumentalities by which the Government may influence the economic climate. But there is another, less tangible but equally important, way in which Government may have an economic impact. That is through the exercise of leadership in framing broad economic objectives and in providing understanding of how they may be attained. In this leadership function the Joint Economic Committee has a central role to perform. The public will look to you for guidance in making its own judgments. The way in which you perform that function may have just as great an impact, for better or for worse, as any specific legislation Congress may enact.

This brief discussion of the methods available to Government for influencing the economic climate is purposely inserted before any analysis of the objectives which should be pursued in using these methods. After all, objectives can be realistically framed only when there is some grasp of the means available for achieving them. For example, there is no point in deciding that we should resist galloping inflation, but tolerate creeping inflation, if in fact there is no combination of governmental policies which can suppress one while it permits the other.

Objectives of economic policy

At the opening of these hearings in January, your chairman described their purpose as:

* * * 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.

The initial thought, apparently, was that there would be no disagreement as to the per se desirability of these three goals. This has been borne out by statements of your witnesses no one of whom, as far as I know, has indicated any such disagreement. However, you have heard a wide range of views as to whether the three goals are compatible, or if not how they may be made so.

The NAM, too, wishes to indicate its acceptance of the three goals, in principle at least. There is some ground for raising questions as to the precise meaning of such terms as "adequate economic growth" or "substantially full employment" or "substantial stability of prices." Such questions might become of pressing practical importance if the three objectives were taken in a literal sense as guides to current action. If, for example, failure to attain adequate growth were to be taken

as a signal for certain kinds of action, we should need a statistical standard for what is "adequate."

However, the need for more precise definitions or exact statistical criteria is a bridge we can cross when, and if, we come to it. Let us agree for the moment that we understand the general character of the three goals we are trying to reconcile.

Aside from the question of definitions, there is one aspect of the three goals on which some clarification may be in order. That is the relationship between the "adequate growth" and "substantially full employment" objectives. Some discussions seem to regard them as essentially the same objective or at least as overlapping to a major extent. As an example, statements have been made to the effect that the way to insure adequate growth is to maintain full employment.

Statements of this kind indicate confusion as to whether there is any real distinction between the growth goal and the employment goal. We would like to suggest respectfully that this can be cleared up if the two goals are restated in terms of a long-term goal and a short-term goal.

The long-term goal would be an adequate rate of growth in our capacity to produce. This would envisage the increase in our productive resources and in the techniques for using them for the creation of goods and services—their productivity.

The short-term goal would be substantially full utilization of these productive resources. It would involve the avoidance of prolonged periods during which a large part of our productive potential remained unused.

Thus reconsidered, the three goals we are trying to reconcile would become as follows:

1. An adequate rate of growth in our productive potential.
2. Substantially full and continuous utilization of our productive potential, including our labor force.
3. Reasonable stability of prices.

Realistically, the problem before you is whether objective 3 is in conflict with objectives 1 and 2. Do the measures which would stimulate growth and full employment require some degree of toleration toward inflation? Would the policies which would restrain inflation also curtail growth and employment?

Potential sources of inflation

Let us first set down a list of the sources from which an inflationary rise in the price level might conceivably be generated. This is not entirely hypothetical since it is based on experience both here and abroad. For the moment, however, we are not trying to evaluate the relative seriousness of the several current inflationary pressures, but simply to list all possible causes.

The sources of inflation fall into three classes:

1. The money-goods relation—an increase in the effective supply of money relative to the supply of goods.
2. Institutional factors—monopolistic interferences with free markets for labor, goods, etc.
3. Psychological factors—fear of a decline in the value of money, fear of goods shortages, expectation of speculative gains.

These are the three types of pressures in terms of which inflationary developments, past, present, and prospective, are to be explained. Several questions then arise. What types of policy would be likely to resist successfully such inflationary pressures? Would the policies necessary for doing so also tend to restrain economic growth and full employment?

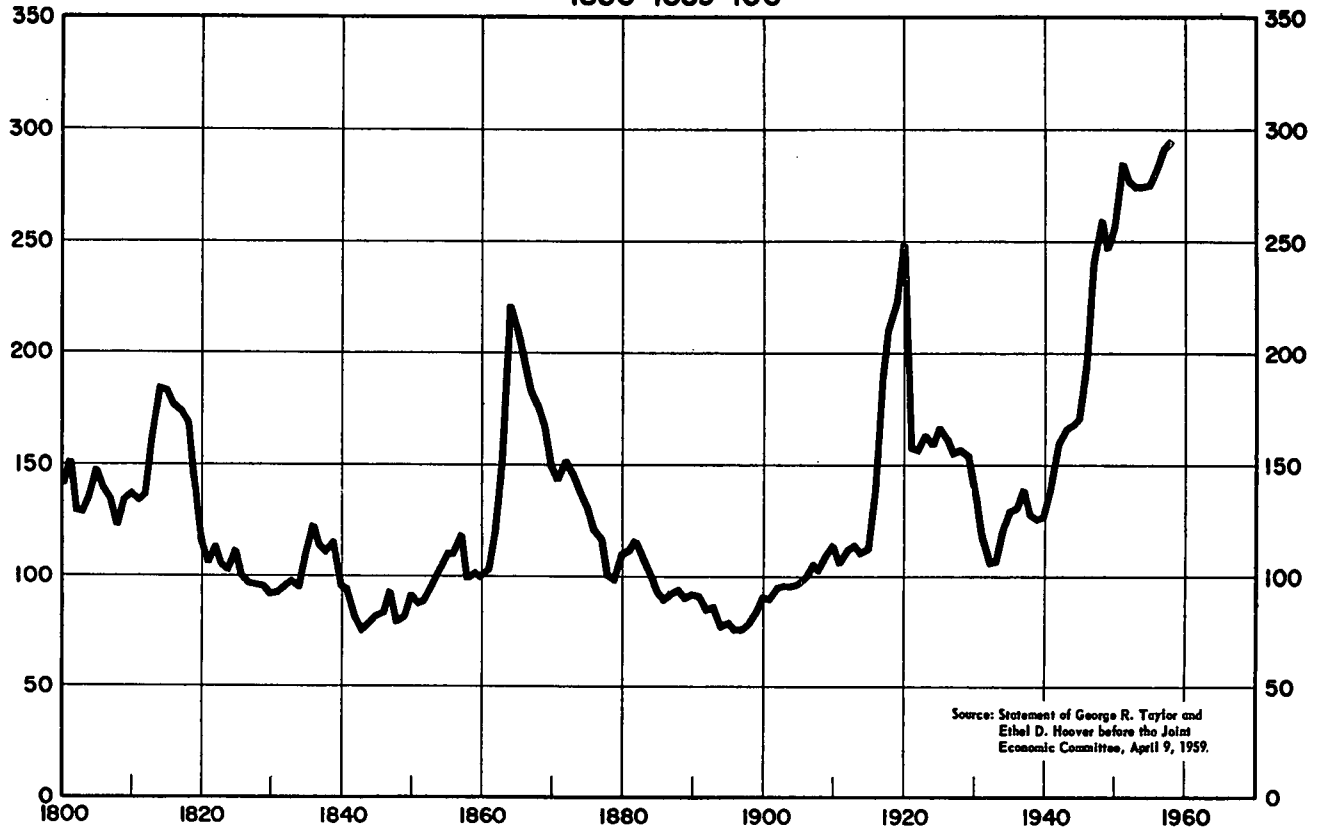
We have gone through a period of roughly 20 years during which price trends have been generally upward. We will want to study this recent period in order to determine the factors which have caused the upward price trend, the effects it has had on our economic growth, and what it portends for the future. Before undertaking such an analysis, however, let us look further back in the economic history of the United States in order to examine the price movements which occurred, their causes, and their effects. What lessons can we learn from such a study of the past record that might be applicable to our present situation?

The basic material for a study of price trends and growth trends has already been presented to you in great detail by expert witnesses. Our intention here is not to duplicate such presentations, but to comment on them briefly for whatever bearing they may have on the question at issue, namely, the relation between price trends on the one hand and economic growth and employment on the other.

THE HISTORICAL RECORD OF PRICES

Anyone who looks at a chart of price indexes running back to the beginning of the 19th century must be struck by the extent to which our price history has been dominated by the major wars in which we were involved. (Such a chart was presented to you by Mrs. Ethel D. Hoover on April 9, 1959, and appears in your record. For convenience we present the same data as chart I of this statement.) From 1800 until the beginning of World War II, three sharp spires are discernible in the price line, corresponding to three major war periods: the War of 1812 (which was one phase of a world war), our own Civil War, and World I.

CHART I
WHOLESALE PRICES IN THE UNITED STATES
1850-1859=100



Source: Statement of George R. Taylor and
Ethel D. Hoover before the Joint
Economic Committee, April 9, 1959.

In each case, prices began to decline shortly after the end of hostilities and continued to trend downward, although with some interruptions, for many years after the war. Thus prices moved generally downward from 1815 until the mid-1840's with an interim speculative rise in the 1830's. Following the Civil War the price trend was downward almost without a break until 1896. Following World War I, prices broke sharply in 1921, remained roughly level until 1929, and then dropped precipitously once again until 1933. There was some recovery in price levels after 1933, but prices did not really begin to move sharply upward until World War II got underway.

Thus to summarize our long-range price history prior to 1939 on a thumbnail: we had sharp, but brief, periods of price increase during wars followed by long periods of generally declining prices after the wars. Even the period between World War I and World War II followed this pattern in a general way, despite the interval of level prices between 1921 and 1929.

This leads to some interesting, although perhaps not conclusive, observations on the problems we face today. It is proposed by some that we should accept a gradual secular price rise in the future, as the best background for economic growth. The historical record cannot provide a complete refutation of this theory, but it is interesting to note how much of our history, including periods of rapid economic development and growth, was characterized by a downward trend in prices.

Two outstanding exceptions may be noted to the observation that interwar periods were generally times of price decline. From the mid-1840's until a year or two before the Civil War, and again from about 1896 until World War I, the price trends were upward. Both these intervals were periods of growth and prosperity. In both cases, the price increases were in all probability connected with the opening up of new sources of gold.

Both rising prices and falling prices create injustices and hardships. This is true entirely aside from their effects in either stimulating or retarding economic growth. The ideal from the point of view of equity would be stability of prices.

Unfortunately the historical record gives us no clue as to the effects on growth and employment of a protracted period of price stability. There never has been such a period. We do seem safe in drawing the limited conclusion that, at least under conditions which prevailed during most of our history, a rising trend of prices has not been a prerequisite to economic growth.

Interpretation of historical price movements

In broad-gage terms the historical record of prices prior to 1939 seems to be explainable by variations in the goods-money relationship. During three major war periods—the War of 1812, the Civil War, and World War I—the money supply expanded rapidly while the supply of goods available for private distribution either declined or increased at a much slower rate. The price level responded by moving sharply upward. Thus the inflationary episodes of American history prior to World War II are attributable to the first of the three factors listed earlier in this statement as the sources of inflation.

Following these war periods, economic growth brought about dramatic rises in the output of goods and services. Our monetary institutions did not provide a commensurate rise in the supply of money. Thus a balance could be achieved only by a decline in prices. In fact, it appears probable that if prices had been "sticky" and unable to decline, the Nation could not have achieved its spectacular economic growth in those postwar periods.

The interwar periods of price rise—1843 to 1857 and 1896 to 1914—are also attributable to changes in the relationship between supply of goods and supply of money. In both cases new sources of gold production were opened up in the world, leading to large increases in the quantity of circulating medium.

The point is that prior to World War II the major price trends are generally explainable in terms of the goods-money relationship, and there is no need to look to institutional or psychological factors for an explanation.

We turn next to a more intensive review of the course of economic events during and since World War II.

THE PRICE RECORD SINCE 1939

The course of prices in recent years has been quite different, at least on first inspection, from the pattern of price movements during and following previous major wars. Fourteen years have passed since the end of World War II. Wholesale prices are now 139 percent higher than in 1939 and 74 percent higher than in 1945. By contrast, 14 years after the close of World War I wholesale prices had fallen 58 percent below their 1920 peak and were actually below the level which had prevailed in 1913. Fourteen years after the end of the Civil War wholesale prices had returned to approximately the levels of the immediate prewar years and were 56 percent below the wartime peak.

Thus we see no clear signs of the development of the general downward trend in prices which followed previous major wars.

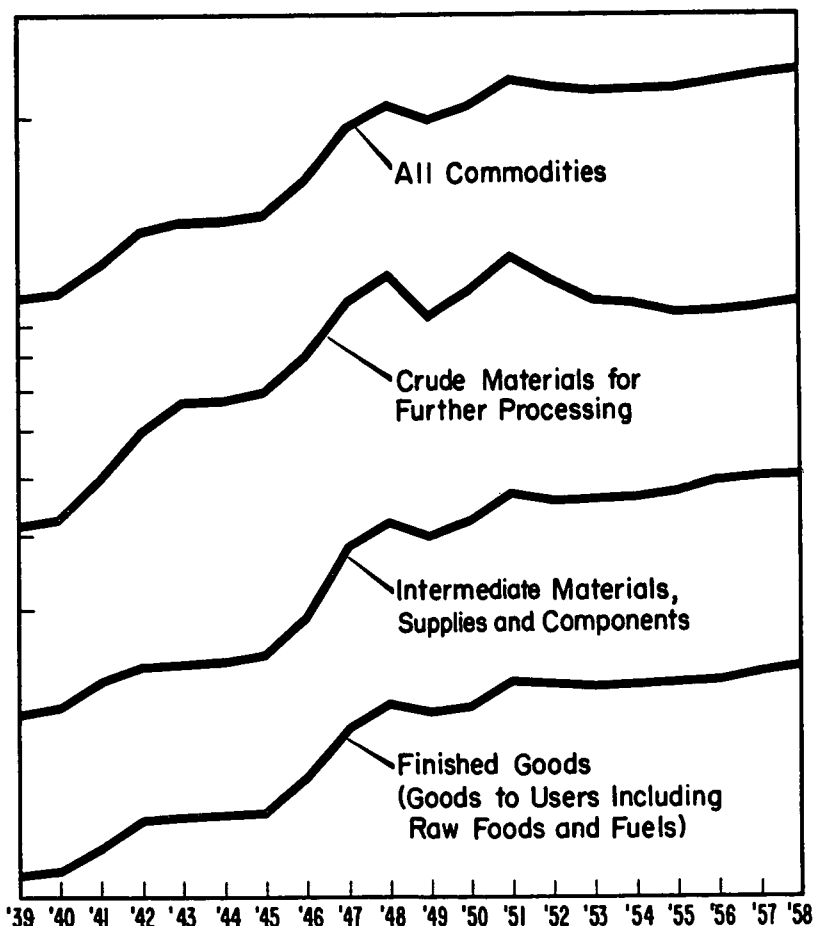
There are a number of reasons why we might have expected any tendency toward declining prices to be delayed somewhat after the close of World War II. In the first place, the inflationary effects of war financing were partially suppressed during the war by price and wage controls. When it became evident that such direct controls were inconsistent with the efficient operation of a peacetime economy they were dropped. The net result is that part of the price increase which would have otherwise occurred during the war was postponed until the early postwar years.

A second reason for the variation of the post-World War II price record from historical precedent is the outbreak of the Korean war in 1950. This was accompanied by worldwide fears of goods shortages and created a new upward pressure on prices which, however, lasted less than 1 year.

These two effects—the postponed price increases of World War II and the impact of the Korean war—were about played out by early 1951. We did, in fact, have a period of approximately level prices for some years thereafter, but in 1956 the price level again started to move upward. This movement came to an end in mid-1958, and we have had about a year of level prices since then.

In interpreting this record it is instructive to examine separately the course of prices of raw materials, semifinished goods, and finished goods. Such a breakdown is presented in chart II. It is especially worth noting that, after 1951, the prices of raw materials showed some tendency to repeat the downward trend characteristic of previous postwar eras. In semifinished and finished goods, however, the course of prices has continued generally upward. It should be remembered that the price of raw materials is a component of the price of the fabricated articles from which they are made, and therefore the pattern of raw material prices is reflected to some degree in the pattern of finished goods prices.

CHART II
WHOLESALE PRICE INDEXES
FOR ECONOMIC SECTORS
1947-1949=100



Source: Based on U. S. Bureau of Labor Statistics data.

The downward trend in prices of crude materials after 1951 suggests that the same forces which led to price reductions after other great wars have been present in the American economy during the past 8 years, but that they have somehow been prevented from having their effect on the prices of semifinished and finished goods.

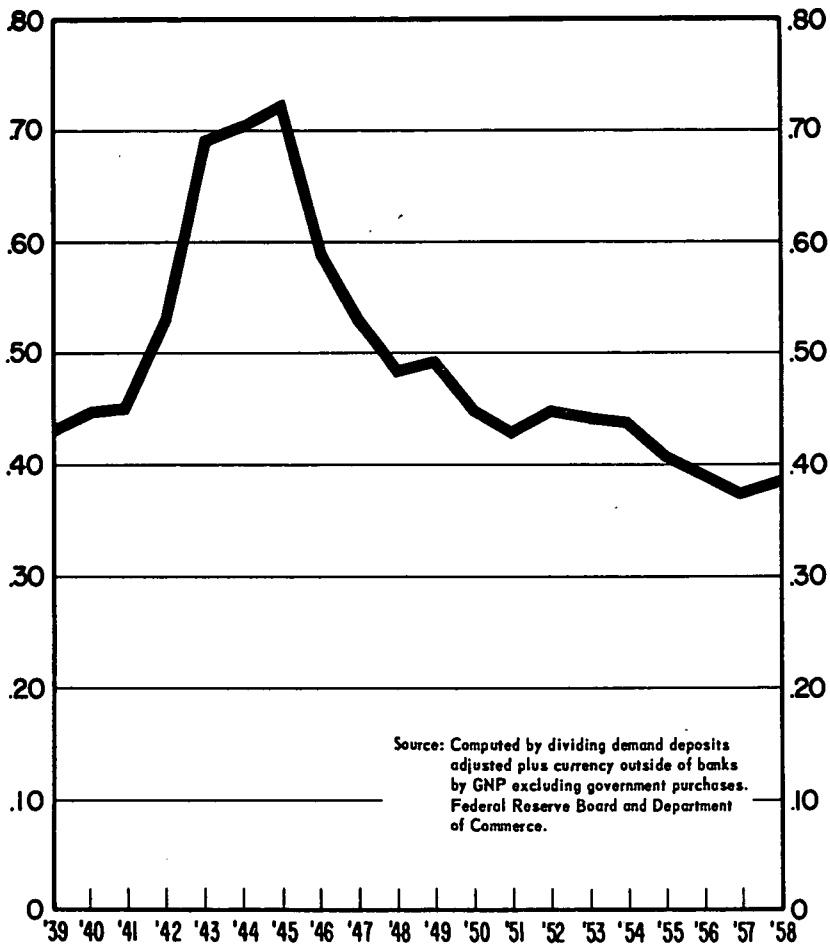
It is significant that this same year, 1951, was the date of the accord between the Treasury and the Federal Reserve System by which the latter was relieved of the responsibility for supporting the Government bond market. This was in effect a national renunciation of an "easy money" policy. It would be natural to expect, if not an actual downturn in prices, at least a cessation of the inflationary trend following that step.

Money supply versus goods and services

The tentative conclusion at this point is that 1951, or thereabouts, is the time at which we should expect, at least in retrospect, to see a beginning of the tendency toward price declines which had prevailed after previous wars. An examination of the course of the money-goods relationship since 1939, as presented in chart III, also suggests that a turning point might have been expected in the early 1950's.

CHART III

RATIO OF MONEY SUPPLY TO ANNUAL OUTPUT OF PRIVATELY PURCHASED GOODS AND SERVICES IN CURRENT PRICES



The chart shows the ratio between the money supply in private hands and the quantity of goods and services, valued in current prices, to be purchased by that money. During World War II, there was a rapid increase in this ratio. Money supply increased due to the methods used in financing the war, whereas there was only a moderate rise in the goods and services available for private use. The higher level of the money supply relative to the supply of goods and services exerted an inflationary pressure, and is a sufficient explanation of the price rises which occurred during that period.

Following the war there was a rapid decline in the ratio of the supply of money to goods. The money supply continued to increase,

but the supply of goods and services, at current prices, increased even faster. This was partly due to increases in the physical quantity of goods and services available, and partly to the rise in the level of prices. However, until 1951 the supply of money relative to the supply of goods remained higher than prewar levels.

The prewar relationship between money and goods had been restored by 1951. The gap had been closed by a combination of increased output and higher prices. From that point on we cannot find the explanation for a continuing inflationary tendency in the money-goods relationship. In fact, the ratio of money to the current supply of goods and services has now fallen well below the 1939-40 levels.

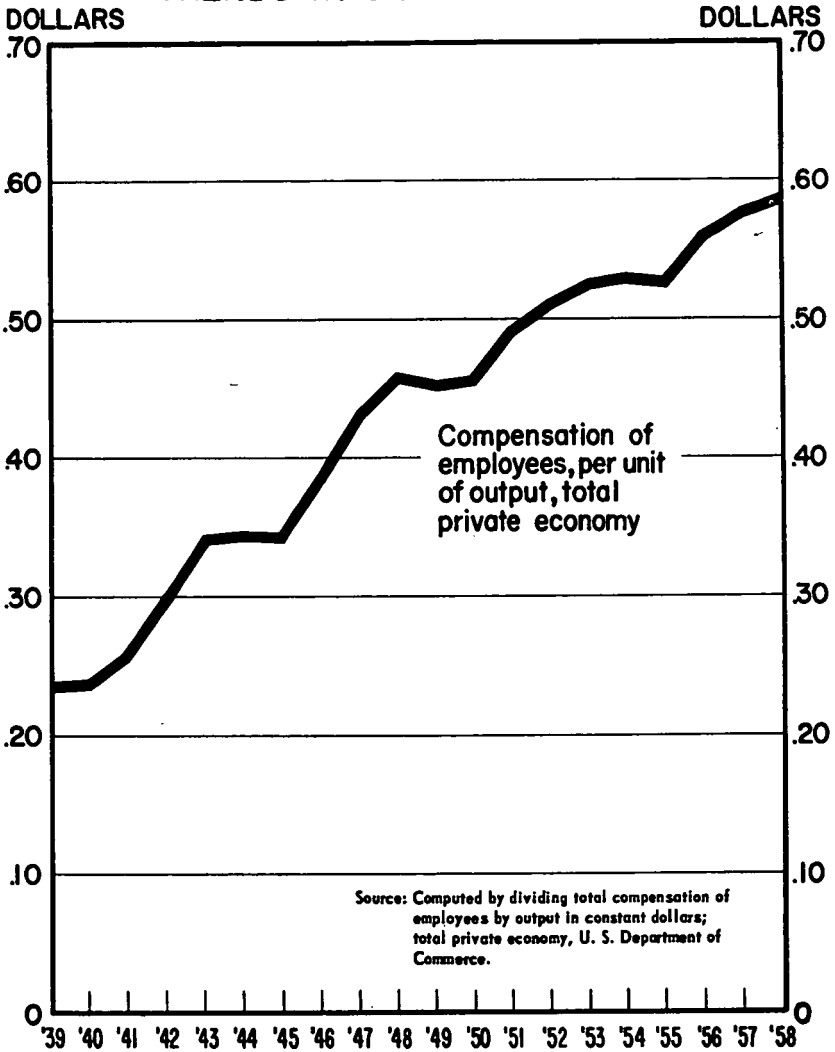
The 1939-40 ratios between money supply and annual economic activity do not, of course, provide an absolute criterion, valid for all time, of the proper relationship between these two quantities. In the 1920's, for example, a quite different ratio prevailed. Nevertheless chart III does make it clear that the situation which existed during the war and early postwar years—an obvious excess of money over the amount required for conducting economic affairs—had been terminated by the early 1950's. This simply confirms the common observation that in recent years inflation has not been a phenomenon of "too much money chasing too few goods."

Labor cost and profits

If the explanation for inflation in the 1950's has not been money chasing goods, then what is the true explanation? In seeking an answer to this question we examine the labor-cost and profit components of the price of finished goods. The trends since 1939 in these basic factors appear on charts IV and V.

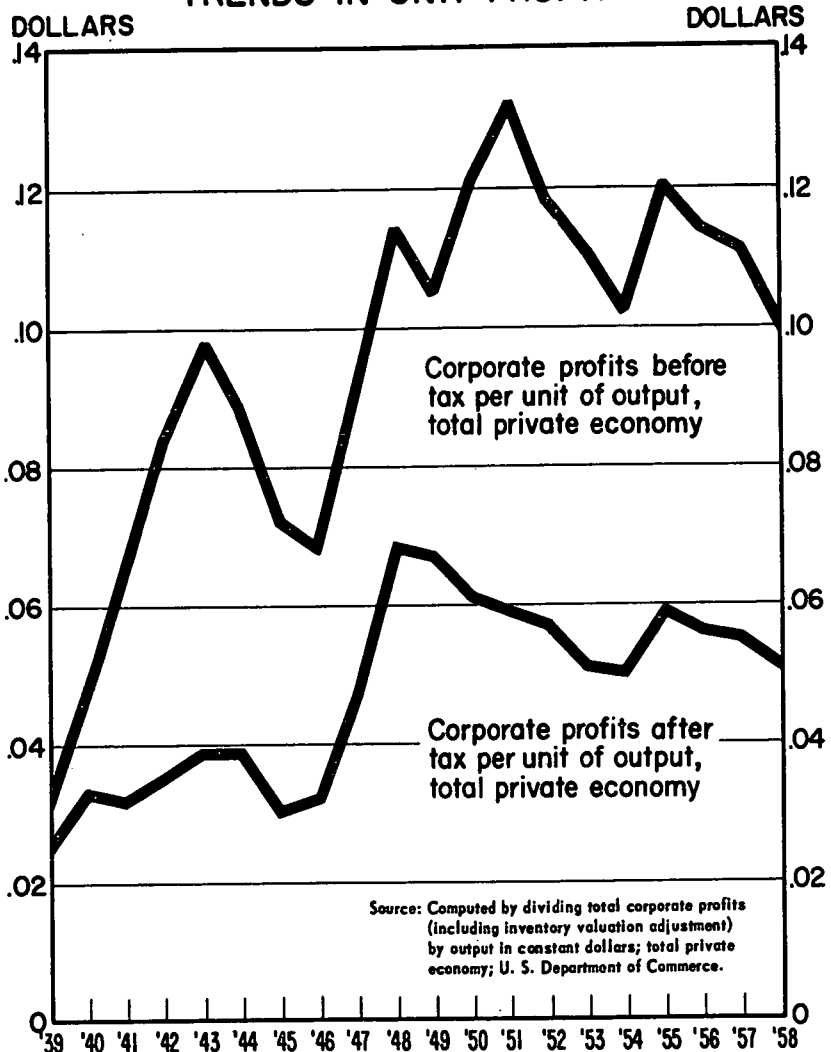
Chart IV shows the trend in unit labor cost—that is, the amount expended for the services of employees, per unit of output. This trend is the net effect of rises in wages and fringe benefits, offset to some degree by increases in productivity. The persistent rise depicted on the chart occurred in spite of the substantial gains in productivity which were achieved during the last two decades. The rise continued even after 1951 when, as we have seen, the money supply ceased to be the dominating inflationary influence.

CHART IV
TRENDS IN UNIT LABOR COST



We next examine the record of profits on a similar basis, as presented on chart V. Just as the preceding chart shows unit labor costs—employment cost per unit of output—this next chart shows unit profits—profits per unit of output. Thus charts IV and V are on the same basis, and may appropriately be compared.

CHART V
TRENDS IN UNIT PROFIT



During the war and early postwar years, unit profits showed the same rising trends as unit labor costs. Before-tax profits rose rapidly until 1943. The years 1943 to 1946 were an adjustment period in which profits declined. (By reference to chart IV it will be seen that unit labor cost leveled off during the same adjustment period, but did not decline.) After 1946 before-tax unit profits rose again, with only a brief interruption in 1949, to a new peak in 1951.

Most of the wartime gain in profits was taken away by the high rates of corporate income and excess profits tax, so that there was not much gain in unit aftertax profits until after 1946. Since high rates

were again imposed during the Korean war, most of the gain in aftertax unit profits occurred in the 2-year period, 1946 to 1948.

More recently unit profits—whether on a before-tax or after-tax basis—have shown a downward trend. The downward trend in before-tax profits began in 1951. This is by contrast with unit labor costs which continued to trend upward after 1951. Thus during most of the 1950's labor costs have increased at the expense of profits.

Significance of the price record since 1939

This analysis of economic developments since 1939 leads to a very striking conclusion. It is that 1951 represents a turning point when a new set of forces took hold on our economy.

Between 1939 and 1951 the experience was closely parallel to what had occurred in previous major wars. The inflationary peak was delayed until 6 years after the war because of certain special circumstances (wartime price controls, and the Korean war). But in this 12-year period inflation was a general economic tendency, reflected in prices of crude materials as well as prices of finished goods, in profits as well as in wages. The general inflationary tendency had its origin in the great increase in the supply of money relative to the supply of goods.

Since 1951, however, the inflationary pressure has clearly been of a very different character. It no longer seems to be a general economic tendency reflected both in increased labor costs and in increased profits, and supported by market forces. Instead it has become a process by which increased costs are forced upon the economy, but the resistance of market forces causes them to be reflected in reduced profits.

Rising wage costs as an economic force

The pressure for repeated increases in wage rates and fringe benefits—without consideration of their relationship to the productivity of the economy or their effects on the marketability of the product—seems to have become firmly established during the 1940's and 1950's. An impartial observer surveying the record of those years might be inclined to describe the periodic increase in unit labor costs as a national habit. It has become an autonomous economic force in terms of which other economic developments are to be explained, rather than a tendency which is itself to be regarded as the effect of changes in the supply of, and the demand for, labor.

In and of itself, any such autonomous force toward higher costs would have depressing effects on employment and on economic growth. It is an elementary principle that when you raise the price of what you have to sell—whether it is labor or commodities—you are likely to sell less of it.

Of course, if an increased supply of money is simultaneously flowing into people's pockets and bank accounts, a rising level of costs may not lead to decreased sales or employment. This is what happened during the 1940's.

During the 1950's the depressing effects of rising labor costs have been partly offset by declining prices of raw materials. They have been partly absorbed by declining unit profits and as a result the driving force of our economy, the profit motive is somewhat impaired. (In certain of our short-term business declines recovery has occurred

as a result of exceptional gains in productivity offsetting the rise in hourly employment costs. Such is probably the basic explanation for our recovery from the 1958 recession, although the statistical record is not yet available for proving it.)

In the 1960's we shall have to reckon with this economic force, and with its potentially depressing effects on our economy. One proposal for dealing with this problem is to pursue inflationary fiscal and monetary policies so that demand will be inflated at a rate equal to the inflation in costs. Certain advocates of creeping inflation are frank to say that they believe there is no way to resist the force of rising wages and that therefore our only recourse is to assist in the process of meeting them by easy money and unbalanced budgets. It amounts to accepting inflation as the lesser of two evils.

There is no need to expatiate here on the evils and injustices of inflation since they must be obvious. The point is that an inflationary policy will not work. It will not work because it will encourage and strengthen the very force it is intended to counteract and offset—the force of rising unit labor cost.

Picture to yourself the effect on national psychology of a commitment—even an implied commitment—by the Government to use inflationary monetary and fiscal measures, to whatever degree necessary for counteracting the depressing effects of rising employment costs. The customary market restraints would be off. There would be little reason to refrain from the most absurd demands. There would be little fear on the other side of the loss of business due to acceding to such demands.

This may seem like an extreme statement of the ultimate effects of regarding Government spending and easy money as the solution to the cost problem. Yet it is hard to see how the Nation could stop short of such an outcome if it embraced the “creeping inflation” attitude which has been advocated before your committee.

No, inflation is not the solution. But the problem is still with us. This then is the first of the “emerging economic problems of the 1960's” which we desire to bring to your attention: How shall the Nation halt the tendency toward a continuous rise in labor costs, so as to prevent its depressing effects on employment and growth?

The full economic implications of this problem for the future will be discussed further on. For the moment, let us turn to the second emerging problem—the need for capital for financing the business expansion necessary to economic growth.

FINANCING BUSINESS EXPANSION

Our concern over the financing of business expansion is not from the point of view of the financier or the investor, although their interests are certainly legitimate ones. From any point of view business expansion is a *sine qua non* of economic growth. The question of whether, and how, funds for this purpose may be raised is a matter of concern for everybody.

It is not necessary to unravel here all the intricacies of business finance in the post-World War II period. Instead, we would like to discuss briefly some features of the impact of inflation on this financial process.

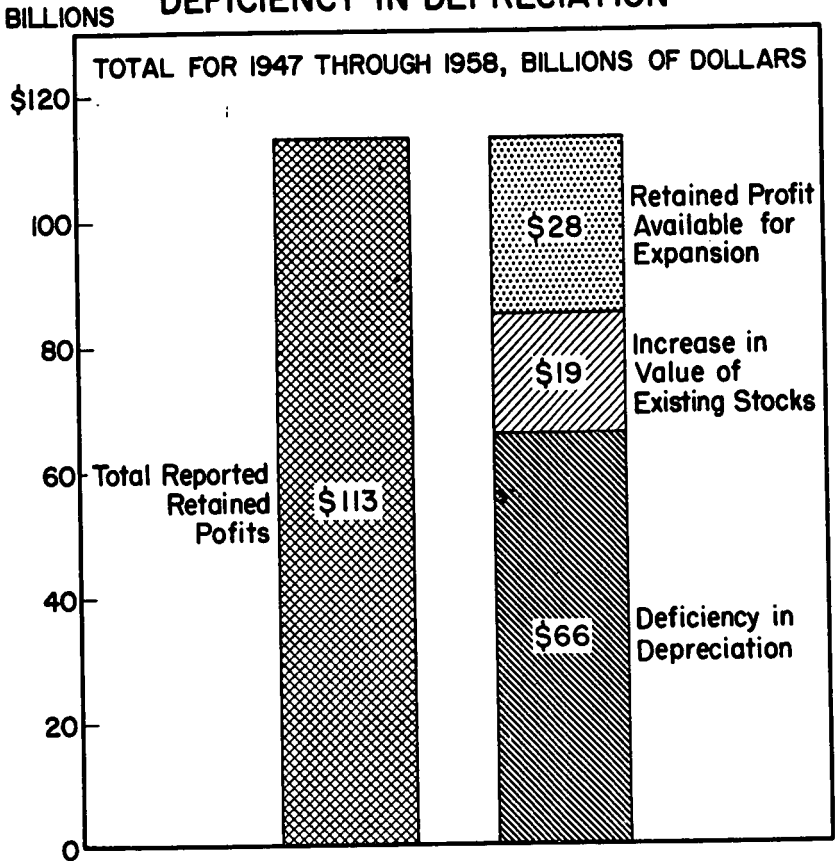
For one thing, inflation has created the illusion that a large part of the business expansion since World War II has been financed by the retained profits of corporations. Actually this has been a relatively minor source of funds for expansion. The contrary illusion arises from the distortions in the accounts produced by inflation.

The rise in the price level means that depreciation, based for accounting purposes on original cost rather than current cost, understates the true cost involved in the using up of plant and equipment. Thus a part of what is counted as profit is, from a realistic point of view, an unrecognized cost. In any case, it is not available for expansion since it is necessary for the replacement of existing assets.

A similar situation arises from the methods used in accounting for inventories. A part of what is recorded as an increase in inventories is simply the writing up of the unit price at which existing stocks are held. This writing up of values is counted as retained profit, but it is clear that it is not available for expansion in any genuine sense.

Most of the amount reported as retained profits in the postwar years vanishes when these two factors (understatement of depreciation and inventory valuation) are taken into account. This is illustrated on chart VI. It shows that retained profits, for the 12 years 1947 through 1958, amounted in total to \$113 billion. This is almost as great as the total of all the external sources of capital, and creates the impression that undistributed profits have been a major means of financing business expansion.

CHART VI
**RETAINED PROFITS IN THE POST-WAR PERIOD
 SHOWING AMOUNTS REQUIRED
 TO MAINTAIN INVENTORY
 AND TO MAKE GOOD THE
 DEFICIENCY IN DEPRECIATION**



Source: Based on U. S. Department of Commerce data.

Actually, \$66 billion of this retained profit must be recognized as depreciation which was not allowable under conventional accounting methods or the regulations of the Internal Revenue Service. An additional \$19 billion of retained profit is merely apparent since it is the result of inventory valuation. Thus only \$28 billion of the \$113 billion reported as retained profit was available for business expansion.

It is true that \$28 billion is not a small sum. Nevertheless this was not the important source of funds for recent business expansion. Actually, postwar business growth has been achieved largely on borrowed funds. The implications of this fact, both for the past and the future, are worth exploring.

Total corporate debt of all kinds stood at \$74 billion in 1939. In 1945 it was somewhat higher—\$85 billion. But by the end of 1958, total corporate debt had risen to the astonishing figure of \$247 billion.

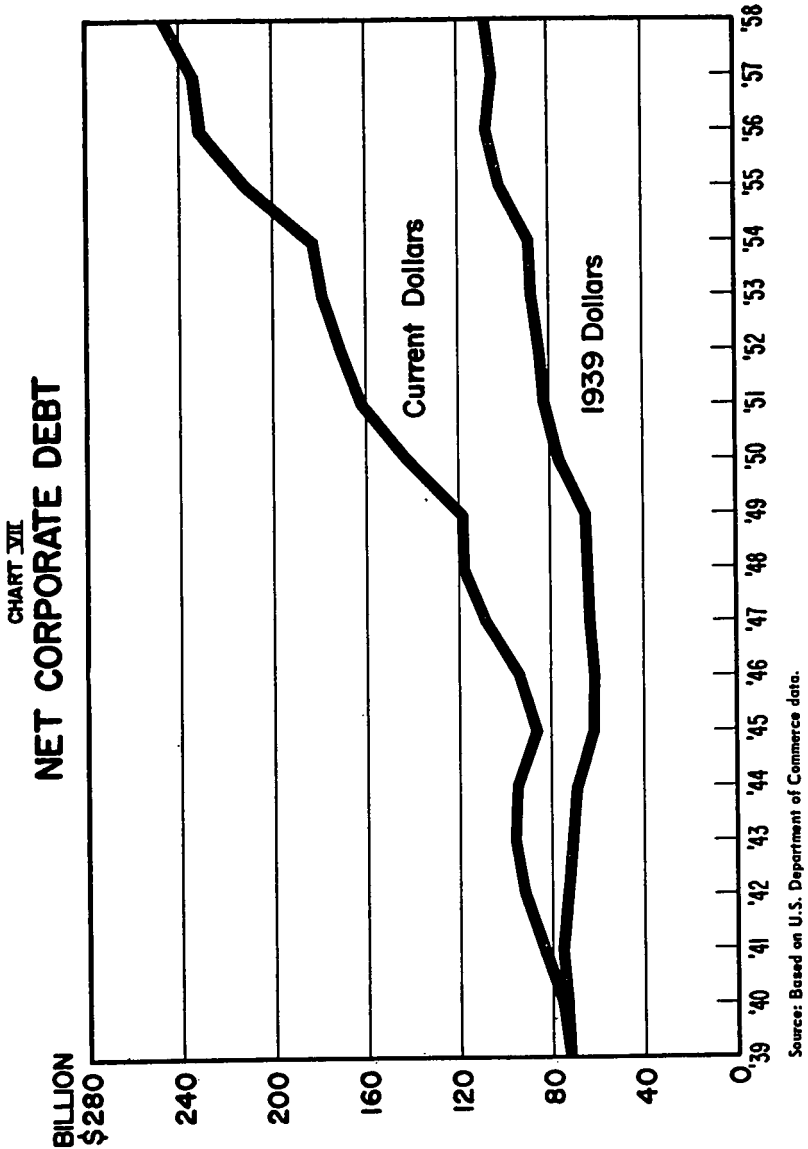
At first blush, one may get the impression from these figures that corporations have imposed an intolerable debt burden upon themselves. One may wonder why the process did not result in a financial collapse before this. One may ask whether, in the process of tripling their indebtedness during the past 20 years, corporations have not thrown overboard all the canons of sound financial practice.

The answer is, as you undoubtedly well know, that generally speaking indebtedness of corporations is not out of line with their financial structure or with the volume of business they have been doing.

But this still leaves a puzzling question: How is it that corporations have been able to borrow huge sums to finance their postwar expansion and still do not seem to have imposed a dangerous debt burden upon themselves? The answer to that question can be given in one word: "inflation."

The most fundamental effect of inflation is to reduce the burden of debt on the debtor. (To view the matter from the other side, inflation reduces the real value of the claims of the creditor.) While corporations were borrowing huge sums, inflation was simultaneously wiping out a part of their indebtedness.

The process is illustrated in chart VII. Corporations increased their indebtedness from \$74 billion in 1939 to \$247 billion in 1958. But, in 1958, dollars were worth less than half as much as in 1939. Thus in 1958 the \$247 billion in debt was equivalent to only 107 billions of 1939 dollars. This increase in "real" corporate debt—from \$74 billion in 1939 to 107 billion equivalent dollars in 1958—is quite moderate and easily taken care of by the business expansion of the period.



Thus inflation has played an essential role in the process of financing business expansion during the past two decades. Expansion could not have occurred if corporations had not borrowed huge sums. Corporations could not have increased their indebtedness at this rate if inflation had not simultaneously been relieving them of the burdened debt placed upon them.

All this sounds very neat—a painless way of financing expansion. As long as inflation continues, it might seem, you can borrow the amounts needed and still not get any deeper in debt. Who could ask for more?

But there is no perpetual motion in economics any more than in physics. You can't finance expansion without cost any more than you can keep a machine going without supplying energy. The process of financial expansion through debt has not really been painless. The cost has been borne in substantial part by creditors—bondholders, insurance policyholders, savings bank depositors, pension fund beneficiaries, etc. The reduction in the real value of their claims has been a major source of the capital for postwar business expansion.

This result was neither anticipated nor desired by business borrowers. Nevertheless, it is true that the process of expansion through borrowing could not have gone on (at least not without creating intolerable debt burdens and threatening financial collapse) if it had not been accompanied by inflation.

A natural question at this point is why, in the future, we should not continue to rely on the same process of borrowing, offset by inflation, to keep business expansion going. However painful this may be to creditors, it would be still worse if business growth were halted since then everyone would suffer.

Unfortunately, the solution to our financial problem is not going to be that easy. We cannot expect creditors to cooperate indefinitely in a process which operates largely at their expense. There are some signs—e.g., the rise in interest rates—that they are becoming reluctant to supply the funds for business expansion.

Here then is the second of the emerging economic problems of the 1960's: If we are to have economic growth, from what source will the funds for business expansion be derived? If we have inflation, how will lenders be persuaded to provide the funds needed by business when they can anticipate being repaid in cheaper dollars? If we do not have inflation, how will corporations be able safely to continue shouldering an ever-increasing debt burden?

THE GROWING ECONOMIC STRENGTH OF OTHER INDUSTRIAL NATIONS

American manufacturers are aware and somewhat apprehensive of the increasing amount of business which foreign producers are doing in world markets. The explanation as to why these foreign producers are expanding their sales at our expense is simple. They now have goods to sell which are competitive with many types of American products, and in many instances they are able to produce them at substantially lower costs. Our own apprehension reflects the economic success of certain other industrial nations, and the means by which that success was achieved are worth reviewing.

Many of the other industrial nations of the world experienced eras of runaway inflation following World War II. It is noteworthy that these countries first had to stabilize their currency before the rehabilitation job of putting their economy on a sound basis could begin. Currency reform was not easy, but there was a lesson to be learned from its innovation. The longer stabilization of the money was postponed the harder it was on the people of the countries involved.

Although it is beyond the scope of this paper to make a complete analysis of the recoveries experienced in Europe and Asia, we all can profit from a very brief review of the highlights of the outstanding economic comeback of a few of these nations. You will note that there is a similar pattern followed by each economy.

Germany

The German "miracle," as the comeback in that country has often been described, is well known. West Germany was really the first nation to put its economic house in order. Just prior to June 1948 the country was in a complete state of economic stagnation. Inflation was so rampant that most business transactions had deteriorated to barter. Money was just about worthless. In June 1948 a new currency was issued at the rate of 1 new deutsche mark for every 10 existing Reichsmarks. This devaluation action marked the turning point for the German economy. Other steps taken at the time of devaluation were the abolition of price controls, demobilization of a large number of Government employees, institution of tax policies to stimulate investment, restriction of credit and the freezing of wages. The credit freeze and the wage freeze were lifted by November 1948 but public opinion had been so moulded in the 5 months following devaluation that any inflationary credit expansion was avoided and trade union leaders were convinced that to seek inflationary wage increases was the wrong course to follow.

Germany's recovery was not easily achieved. By doggedly adhering to a domestic free market policy and strictly following an anti-inflationary economic program, Western Germany has been able to raise its economy from a state of complete chaos to that of the leading producer in Europe. Germany's increase in consumer prices is the lowest of any industrialized nation in Europe and, as of July 1959, unemployment had shrunk to a new low of 215,460 which is only 1.1 percent of the labor force. At present there is a definite labor shortage in a country which only a few years ago had a tremendous problem absorbing refugees from Eastern Europe.

Japan

Although it is not as well publicized, the recovery of Japan in some ways surpassed the rate of economic growth achieved in postwar Germany. With an overpopulation problem and severely lacking in raw materials Japan found itself with a bombed-out industrial plant and 44 percent of its overseas territory permanently lost in September 1945. Between 1945 and 1949 inflation was rampant and black markets flourished. In its attempt to put the economy back on its feet the Japanese Government pumped money into the economy through deficit spending.

In 1949, Mr. Joseph M. Dodge, after a study of the Japanese economy, inaugurated the economic reforms which started Japan on the road to recovery and economic stability. As in Germany, the first step was currency reform. The Dodge plan called for the choking off of government credits to business; establishment of a single yen-dollar conversion rate of 360 yen to 1 U.S. dollar and a strict balancing of the budget.

As an anti-inflationary force this program was immediately successful; and the unfavorable spiral of advances in prices and wages which followed the war ended. The strain of the stabilization period was ameliorated by the start of the Korean war in 1950 which brought a new boom to Japan. Since that time Japan has experienced normal cyclical variations in its economy while it has continued to follow a sound money policy. In addition its tax program was overhauled

based on a policy of rewarding individual initiative. During 1958 retail prices were only 8 percent over 1953 and the number of unemployed totaled 570,000, or only 1.3 percent of the labor force.

France

After years of political and financial crises France has finally managed to stabilize its government and its economy. Since the economic reforms were only introduced in December 1958, it is still too early to conclude how successful this new program will be in comparison with Germany and Japan. Thus far the reforms have been successful and it is noteworthy that the heart of the program is aimed at stabilizing the currency. In December 1958, the franc was devalued 17 percent. Concurrently other reforms were introduced and all had one objective—to halt inflation. Food subsidies were canceled and state-owned industries were allowed to raise prices to cover fully the cost of their operations. The aim was to abolish the inflationary bias of the economy by holding the fiscal deficit to a figure that could be financed without creating new money. The full power of the government has been brought to bear against labor and business to stem any inflationary wage or price increases. At one point the De Gaulle government threatened to draft the workers of the state-owned transport industry if they struck for wage increases. As a result an anti-inflationary psychology has evolved with resulting cooperation on the part of management and labor.

With the devaluation of the franc consumer prices naturally increased immediately and the average Frenchman has had to put in longer hours of work to maintain his purchasing power. Fortunately, employment is high. Between December 1958 and March 1959 prices rose but since March they have leveled off and there is every indication that this stability will continue.

Observers sometimes point out that the French economy experienced rapid growth even in the generally inflationary period prior to 1958. It is significant however that both the French Government and the French people eventually came to the conclusion that their own welfare required stern measures for putting an end to inflation—and they were willing to undertake considerable sacrifices for achieving that end.

Although it is as yet premature to stamp the French reforms as successfully completed, all present indications are that France's economic prospects are more favorable than they have been for years under the present policies of fiscal balance and monetary stability.

Economic recovery abroad—Conclusions and prospects

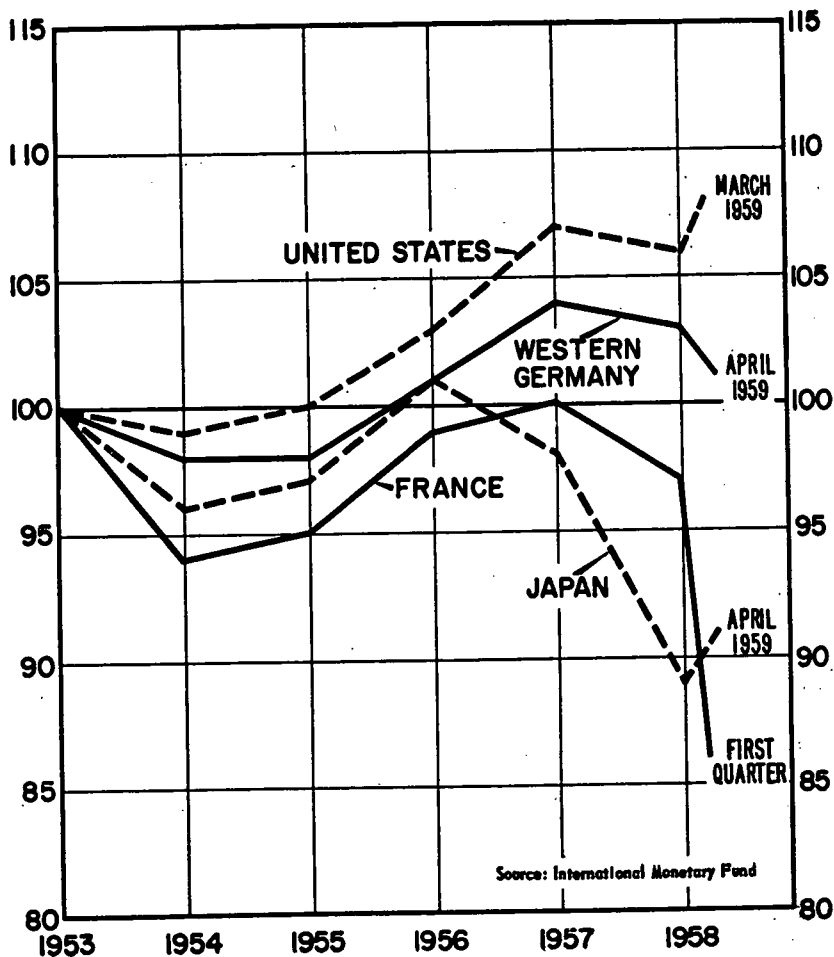
The preceding reviews of experience in West Germany, Japan, and France present some significant lessons for the United States. Nations which have experienced inflation in far more extreme form than this country have turned away from it. They have been willing to undertake the necessary sacrifices to put their currency and fiscal system on a sound basis and to restore their international economic prestige. The public within these countries has come to understand the need for restraint in striving for increases in monetary income.

In the case of Germany and Japan, these steps resulted, not in a curtailment of growth, but in a spectacular acceleration. There is good reason to suppose the same results will ensue in France.

A mildly inflationary atmosphere is sometimes regarded as a valuable stimulant to economic growth. The record of these countries demonstrates that a firm determination to resist inflation can have much more salutary effects on economic health and growth.

As far as the United States is concerned, the recoveries of these industrialized nations can only mean intensified competition in the 1960's. Chart VIII shows the trend of export prices received by these three countries and the United States since 1953. Even if we disregard the sharp drop recorded by France after the devaluation in December 1958, the position of the United States as a competitor in world markets has steadily deteriorated. The danger to our trading position is further intensified by the fact that foreign producers are meeting or surpassing us as far as the quality of their products is concerned. As we look toward the 1960's we must take into account the strong trading positions of these industrialized nations who have so successfully fought inflation and are dedicated to a continuance of their anti-inflationary policies. These policies are not based on any altruistic ideals, but on economic realities which were learned the hard way.

CHART VIII
EXPORT PRICES
EXPRESSED IN U.S. DOLLARS
1953 = 100



THE OUTLOOK FOR THE 1960'S

It is not our intention to make predictions as to how the American economy will fare in the 1960's and as to whether we shall attain the goals of growth, high employment, and price stability. If these matters were sufficiently predetermined at this moment to make firm predictions possible, there would be little point in your conducting this inquiry.

What we do want to urge upon you is a recognition of the fact that new problems (or perhaps it would be more accurate to say new phases of old problems) will emerge in the 1960's. The "muddling

through" which permitted us to get by in the 1950's without visible major economic damage will no longer do.

As we see it, the inflation problem is emerging into a new phase. This is bound to occur because of the fact that the American people are thinking about the problem, talking about it, and making up their minds about it. Some national attitude toward inflation—it is too early to make predictions as to what that attitude will be—is going to crystallize out of this thought process. The American people, and the rest of the world, will be on notice as to our intentions and our goals. Such knowledge and the human actions guided by it will become a dominating economic force.

Inflation as the accidental byproduct of economic policies designed for other purposes is one thing; inflation as a deliberately chosen instrument of economic policy is another. The effects of an inflation into which we drift year by year are very different from the effects of a planned and anticipated inflation. If the empirical practices of the past become the accepted and announced principles for guiding future action, their effects are likely to be quite different. The American people are now taking a good bite out of the fruit of the tree of economic knowledge, and things will never be the same.

You will recall that three potential causes of inflation were described earlier in this statement—the goods-money relationship, the institutional (cost-push) factors, and the psychological elements. During World War II and until about 1951, the excess of money relative to goods was the primary driving force. Since 1951, the impact of rising unit labor costs has been the dominant factor.

What we should be alert to at present is the danger that the third set of potential inflationary forces—the psychological factors—will take over. If people get the idea that inflation is inevitable, their actions in seeking to protect themselves against, or perhaps to profit by, inflation will accelerate the process. This would be the final phase of inflation, and if the word "final" seems to have ominous implications they are intended.

However, it should be clear that we do not view inflation as the only problem of the future. The analysis presented in this statement has indicated three economic problems which will call for a solution in the 1960's: rising labor costs, capital needs, and foreign competition. A continuance of inflation would not solve these problems but would only make them worse. On the other hand, even if we succeed in avoiding inflation these problems will still be with us. Both the long-term goal of continuous growth in productive capacity and the short-term goal of continuous high-level employment of that capacity, depend on finding a solution to these problems.

CONCLUSIONS AND RECOMMENDATIONS

Generals are sometimes, probably unfairly, accused of always training their troops to fight the last war rather than the war that is to come. Economists often appear to suffer from a similar failing: they sometimes seem to be urging policies which might have been successful for meeting the crises of the past, but are ill-adapted for the emerging problems of the present and future. Much of current economic discussion seems designed for fighting either the economic battles

of the 1930's or those of the 1940's and 1950's. But we are not likely to win unless we prepare ourselves for the problems which will emerge in the 1960's.

The first step must be a forthright renunciation of inflation and all its works. This must be sufficiently complete and sincere to convince the world that we mean what we say. It should leave no lingering suspicion that we will turn again to inflation the moment the going gets rough. We need to be more than summer patriots or fair-weather opponents of inflation.

Such a renunciation must come from the American people as a whole, rather than merely from their Government. It should be emphasized once again, however, that your committee is in a position of leadership in the formulation of national attitudes.

With a background of determination to resist inflation, the Nation can begin to solve the three specific "emerging economic problems of the 1960's" as outlined above. No attempt will be made here to blueprint a detailed program for that purpose, but merely to indicate the direction in which solutions may be sought.

The tendency toward continuously rising labor costs is the chief impediment to the attainment of the short-term goal of high-level employment of our labor and capital. Rising costs restrict markets both at home and abroad. They eliminate profit opportunities—which after all are what we depend on to keep the economy operating—in many marginal situations.

The continuous upward pressure on labor costs is the product of excessive power in the hands of organized labor. In part that power is the product of the generally inflationary climate in which we have lived for 20 years. To that extent a change to a less inflationary atmosphere will help to control that power. However, monopolistic union power has become entrenched to such a degree that it will also have to be dealt with directly.

That is not to say that unions should not work toward improving the wages and benefits of their members. That is their central function, just as profitmaking is the central function of business organizations. But business firms have been restrained from making profits by the exploitation of monopoly power, and monopolistic labor organizations should be restrained in a corresponding way.

There is no point in pretending that this is an easy task. Over the years we have developed, in our antitrust laws, a philosophy and a set of techniques for controlling excessive power in the hands of business. We will need to develop a philosophy and a body of techniques for dealing with excessive labor-union power. The consequences of failing to do so are frightening.

The long-term goal of maximum growth in productive capacity depends chiefly on insuring that capital will be available for business expansion. The expedient of relying on a combination of loan capital and inflation will no longer work in the 1960's. Loan capital will always have an important function to perform in financing growth, but in the future we will need a better balance between risk or venture capital and borrowed funds. The solution to this problem is to be sought in a reform of the Federal income tax rate structure, which is the chief impediment to the formation and flow of new venture capital. Ways must be found to reduce the tax burden on corporations and on

the individuals whose savings may be expected to flow into venture-some investments.

A necessary condition for such a reform of the tax rates will be the utmost economy in Federal spending. In that way the increase in revenues resulting from economic growth will provide a leeway for the necessary tax reduction.

Solution of the third problem—foreign competition—requires a general economic tightening-up on our part. We have grown lax in recent decades partly because of the absence of such competition. Costs have been allowed to get out of hand, and domestic inflation has gone much further than we should have permitted.

The emergence of foreign competition is part of the revival of world trade, and as such it is to be welcomed. The world would be an even more uncomfortable place for us than it is if the industrial nations who are our allies had not recovered economically. But we will want to play a large part in the revival of world trade. To do so we will have to abjure inflation, restrain rising costs, and provide the necessary capital for improvement of our productive efficiency.

None of these three emerging economic problems of the 1960's will be easy to deal with. But a recognition of their presence, and an understanding of their nature, is a first step toward their solution. It is our hope that at least that much has been accomplished by this statement.

STATEMENT OF NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS

NOVEMBER 2, 1959.

HON. PAUL H. DOUGLAS,
*Chairman, Joint Economic Committee,
Congress of the United States,
Washington, D.C.*

MY DEAR SENATOR DOUGLAS: The attached statement is in response to your letter of October 2, 1959, inviting the National Association of Mutual Savings Banks to submit for the record constructive suggestions on public and private policies to reconcile and simultaneously obtain the objectives of maximum employment, adequate economic growth, and reasonable price stability. We are happy to have this opportunity to cooperate with your committee in its important undertaking.

In order to comply with your request to submit our views not later than November 1, 1959, there has not been time to circulate the statement throughout the savings banking industry and our various national committees. It has, however, been approved by our executive committee and represents essentially the thinking of the association's economists under the direction of Grover Ensley. Dr. Ensley, as you know, was formerly associated with your committee.

I hope that this statement will assist your committee in developing appropriate policies to achieve its worthy national economic objectives.

Sincerely yours,

JOHN DELAITTRE,
President, National Association of Mutual Savings Banks.

EMPLOYMENT, GROWTH, AND PRICE LEVELS

The National Association of Mutual Savings Banks welcomes this opportunity to offer suggestions for meeting the prime economic challenge of our times—reconciling and simultaneously achieving objectives of maximum employment, adequate economic growth, and reasonable price stability. Such an achievement in a free, dynamic, competitive society depends not only on the intensive application of our best economic skills but also on a broad public understanding of basic economic issues. In both respects the Joint Economic Committee has played a key role by providing a public forum for economic discussion, sponsoring pertinent economic studies, and disseminating widely economic intelligence.

Focusing attention on the need for simultaneous realization of maximum employment, economic growth, and price stability is in itself a worthy accomplishment. Not a few observers of the economic scene have been too ready to deny the compatibility of these goals. Some have advocated the sacrifice of price stability to what they consider to

be the more important objective of economic growth. Indeed, they have argued that "a little inflation" is a necessary inevitable counterpart and stimulant to maximum employment and adequate growth in a dynamic economy. This position has brought forth a strong counterargument from advocates of the prime importance of relative stability. In this view, only through cost and price stability can the longrun health of the economy be assured.

The pursuit of this controversy among sophisticated protagonists succeeds only in confusing the lay public that one or the other goal is of prime importance. The fact is that the goals of economic growth and relative price stability cannot be pursued separately but only simultaneously. They are interdependent. In the world struggle of conflicting economic and political ideologies nothing less than the full utilization of our Nation's human and material resources can be tolerated. To underutilize our capacity is to risk defeat in this struggle. At the same time it is clear that an adequate rate of growth and maximum employment cannot long be maintained in a setting of steadily rising prices. In an inflation-oriented society economic imbalances, inequities, and speculative excesses are inevitable ingredients which ultimately convert economic growth to decline.

Public economic policy has in fact been pledged to the objective of achieving maximum employment, economic growth, and price stability since the enactment of the Employment Act of 1946. In this connection the statement submitted on request of the Joint Economic Committee by Grover W. Ensley, the national association's executive vice president, on "The Employment Act of 1946: The Dynamics of Public Economic Policy" is pertinent. This statement appears in the study on "The Relationship of Prices to Economic Stability and Growth" published March 31, 1958.

The Employment Act of 1946 was framed in an atmosphere of economic uncertainty and apprehension and against a background of persistent unemployment and economic stagnation in the 1930's. Little wonder that the emphasis of public policy in early postwar years was on maximization of employment and production without adequate regard for stability or longrun growth. The surprising postwar resilience of our economy and widespread upward price pressures soon shifted the focus of attention of public policymakers to questions of growth and stabilization. Indeed the dynamic character of our economy has been matched by the dynamic quality of public economic policy. Policy will have to be continually adapted to changing economic conditions if the major test of achieving reasonable stability of the general price level simultaneously with an adequate rate of economic growth and maximum employment is to be met.

There are those, of course, who contend that the Employment Act does not, in fact, include general price stability as a specific objective. They argue that before public policy can be directed effectively to this question, the act must be amended to correct this omission. While such legislation may have some merit, it hardly seems necessary. The emphasis in the act on promoting "maximum purchasing power" already implies the pursuit of public policies to achieve relative price stability.

Before the committee can design policies "to achieve simultaneously maximum employment, an adequate rate of economic growth, and

reasonable stability of the price level," it must be clear about the meaning of key terms. The inexactness of economics as an intellectual discipline is perhaps highlighted by its use of language subject to varied interpretation. Economists will disagree, for example, on what constitutes "maximum," "adequate," and "reasonable." Without attempting to qualify these terms, it should be clear that in a dynamic, free enterprise economy, economic conditions can only approach but perhaps never achieve the ideal.

Moderate fluctuation in business activity, with attendant economic dislocations and temporary personal hardship, is likely to continue. It could hardly be otherwise in an economy characterized by the independent planning, yet interdependence, of more than 50 million consumer units and over 5 million business units; by the importance of capital expenditures which may be postponable; by the uncertainty of economic life and the variation of individual reactions; by the uneven lags following changes in each economic sector. In such a society public economic policy ought to focus on minimizing business fluctuations without interfering with the basic processes of long-run economic growth and general price stability or jeopardizing our free institutions.

Responsibility for maximizing economic welfare in a free economy must be shared by Government and private bodies alike. In seeking their own good, private units will generally promote the general good. At times, however, the right course of action in one's best interest may not be clear; longer term permanent gains may be unknowingly sacrificed in the seeking of short-term temporary gains. Conflicts of interest, moreover, will arise from time to time within and between the broad sectors of industry, labor, agriculture, and finance. To minimize the harmful effects on the national economy of unwise private actions a broad program of economic education is needed to convince consumers and business enterprise alike that it is in their own best interest to pursue and support programs and policies dedicated to sound economic growth and relative price stability. Public economic policy and planning must always serve as a guide to private economic units. In this framework, our economic goals may be realized if private and public policies are pursued along the broad lines herewith suggested.

1. *Increase flow of savings.*—In the depressed economic setting of the thirties the prevailing fear was that underutilization of savings for productive investment would deter economic progress. As wide acceptance of the theory of economic stagnation gave way to recognition of dynamic economic growth, it was clear that the basic need was for an increased—not a reduced—volume of savings. Today, few would deny that expansion of our productive capacity consistent with sustained growth and reasonable price stability can be achieved only through steady expansion in the flow of savings. Indeed, evidence based on scholarly studies suggested that the major deterrent to adequate economic growth may be insufficient savings. It is anticipated that needs for capital facilities in our ever-growing economy will be larger than ever before. Merely to provide for our growing population, let alone to upgrade general living standards, the need for new plant and equipment, housing, and Government facilities

will be unprecedented in the decades ahead. In addition, provisions for national defense and security can hardly be neglected.

The mutual savings banking industry has been dedicated for nearly 150 years to the encouragement of thrift. It is currently putting to work in productive investment over \$39 billion, based on the accumulation of savings in over 22 million individual accounts. The industry pledges, in cooperation with other private and public groups, to continue its vigorous efforts to channel an increased flow of savings into the Nation's capital facilities.

2. *Improved productivity.*—Just as increased savings are essential to the sound inflationary financing of capital expansion, so is increased productivity essential to sound economic growth. Whether the appropriate rate of advance is 2, 3, or 5 percent annually may not yet be clear on the basis of empirical evidence. What is clear is that steady advancement is essential. There can be no simple prescription for productivity advances, but increased capital investment is an underlying essential. Thus, once again the importance of increased savings to finance new investment is underlined.

It is basic also for management and labor to be dedicated to the principle of advancing productivity. They must strive cooperatively to eliminate wasteful practices and to develop new, efficient production techniques.

Historical evidence shows that technological gains are at the heart of productivity increases. It is thus encouraging to note the marked awareness of industry in the value of scientific research. Expenditures for research and development by American business have risen steadily in postwar years, and as a result labor efficiency has increased markedly. It has increased also because of improved labor practices, newly acquired skills, and better educational facilities.

3. *Enlightened wage and price policies.*—The present institutional framework of American enterprise permits some degree of wage and price setting by labor and management outside of market supply and demand forces. This fact places a profound responsibility on leadership and calls for the shaping of policy with a high degree of enlightened self-interest. Thus, labor must have an awareness of the harmful effects, to its own cause as well as to the general economy, of wage increases in excess of productivity gains. Business must understand the problems of "sticky" prices less responsive to market forces. In both instances excessive demands will lead ultimately to market resistance and to an aggravation of business fluctuations.

Broad economic education will be important in keeping wage and price policy consistent with our broad economic goals. Also important will be the influence of an aroused, informed, public opinion brought to bear on decisions reached by labor and management in the collective bargaining process.

4. *The maintenance of a free competitive business climate.*—Perhaps too often restraints on freedom of business enterprise are considered primarily to be those imposed by Government, through the exercise of its regulatory, fiscal, and monetary powers. Such restraints are admittedly great, but they should not obscure the frequently more significant limitations on business freedom imposed from within the private sector of the economy. Thus, where they exist, monopolistic practices need to be eliminated. Greater freedom of entry is needed both

into skilled trades and into general industry. Mobility of men and resources is essential.

The freedom to compete lies at the heart of economic progress in our society. New products, new techniques, new labor skills, new firms must be encouraged to compete with the older established ones. Healthy competitive endeavor should be fostered by both private and public bodies so that industrial American resourcefulness may be broadly utilized for the common benefit.

5. *Continued independence and flexibility of monetary policy.*—Monetary policy is an effective tool for sound economic growth and reasonable price stability only when it is administered with independence and flexibility. Since March 1951, the Board of Governors of the Federal Reserve System has been able and willing thus to administer its broad monetary powers. Short of national emergency, the Board's independence of action should not again be hampered as it was in the postwar years before 1951.

Though economic inexactitude has not permitted perfect timing, Federal Reserve action has been a fundamental force in the generally favorable postwar experience of the Nation's economy. This action has had a positive effect not only upon commercial banks but also upon other types of financial intermediaries. While some theorists deny the pervasive effects of monetary policy, our central banking authorities are clearly aware of them as evidenced by this recent statement of Gov. A. L. Mills of the Federal Reserve Board:

Altogether, there is little question but that Federal Reserve System monetary policy profoundly influences the investment policies of mutual savings banks, savings and loan associations, and insurance companies, and that influence is registered directly through changes in the Federal Reserve bank discount rate and indirectly through a derivative influence on their activities that stems from the effects that monetary policy first has on the credit-creating activities of the commercial banks.

Expansion of Federal Reserve monetary powers may not be necessary, but the safeguarding of the Board's independence and flexibility of action is fundamental to the simultaneous achievement of maximum employment, adequate growth, and reasonable price stability.

6. *Development of responsible fiscal policy.*—It is only within recent years that Federal revenue and expenditure policy has been shaped to moderate business fluctuations and aid long-term growth. Such a policy orientation is now widely accepted regardless of political persuasion. Implementation of such policy still presents difficult problems, however, particularly with respect to timing. Increased spending and reduced revenues during the 1958 recession were important in the generation of recovery. The continuation of Federal deficits in the 1959 prosperity, however—the result, in part, of earlier expenditure authorizations—has aggravated the tightness in financial markets and confounded monetary policy. If fiscal policy is to achieve its potential as a tool for economic growth and price stability, it is essential that a surplus of Federal revenues over expenditures be realized when business activity is high and rising. This would reduce the burden of stabilization policy borne by the monetary authorities, permit some reduction in Federal indebtedness or at least offsets to deficits incurred during recessions, and remove the Federal Government as a competitor for scarce capital funds.

Within this framework an effective debt management program is essential to achieve the goals of the Employment Act. Current Federal statutes, however, impose unrealistic restraints on debt management operations and hinder efforts to maintain fiscal discipline and flexibility. Accordingly, legislative action to remove the 4¼-percent ceiling on Treasury bonds is urgent. It is a basic tenet of our free enterprise economy that buyers and sellers, borrowers and lenders, compete in open markets for the goods, services, and financial claims which they offer and seek. In this setting, the Federal Government must be free to compete with other types of borrowers for available funds on the basis of interest rates and terms.

When Federal statutes and capital market conditions permit, the Treasury must be willing to increase its offerings of long-term securities. Only when the overwhelming short-term character of the Federal debt is modified can the Treasury gain control over its debt and reduce its frequent disruptive trips to the capital market. Not until then can debt management become an effective weapon in our battle to achieve economic growth, maximum employment, and reasonable price stability.

One basic aspect of Federal fiscal policy that requires thorough reconsideration is the tax structure. This structure has developed in recent decades generally under one emergency or another, not the least of which have been war and depression. Review and appraisal of current laws is, in fact, overdue and is promised to get underway soon by the House Ways and Means Committee, chaired by Congressman Wilbur D. Mills. The basic criteria for appraisal adopted by this committee appear eminently sound and include the following:

- (1) Equity and fairness;
- (2) Progression in the distribution of tax burdens;
- (3) Allowing free play of the market in allocating resources;
- (4) Providing a climate for economic growth;
- (5) Ease of taxpayer compliance and administration of the law.

That a considered broad approach is being taken in this matter is clear from these criteria as well as from the statement made not long ago by Mr. Mills, then chairman of the Subcommittee on Fiscal Policy of the Joint Economic Committee.

The basic problem [of inflation] is an inadequate level of savings out of current income. An ever-increasing volume of real savings is needed to meet the economy's requirements for replacement of plant and equipment under inflated prices and for growth based upon full exploitation of rapid technological advances. Fiscal and monetary policies should be directed toward encouraging a higher level of voluntary real savings under the present conditions of inflationary pressure.

The results of the general tax review and appraisal by the House Ways and Means Committee will be eagerly awaited.

7. *Coordination of Federal credit programs with monetary and fiscal policy.*—Because the policies and programs of the several Federal credit-granting and insuring agencies bear importantly on the Nation's growth and stability, it is essential that they be coordinated with overall monetary and fiscal policies. The coordination of Treasury debt management operations with Federal Reserve monetary and credit actions is by now a well-accepted principle. It is not as well accepted, at least in practice, however, that other Federal credit programs need to be coordinated and integrated.

Public policy, operating through the various Federal agencies concerned with mortgage credit, seems at times to be committed to having mortgage credit available readily at all times, regardless of where we are in the business cycle. A housing credit policy of this type, pursued with little or no regard for monetary and fiscal policies, presents serious problems for economic stabilization. This is true also for the Federal agricultural credit programs. There can be no alternative but that the huge and expanding Federal mortgage and agricultural credit programs be subordinated to, and modified from time to time in accordance with changing criteria for economic growth and stability.

8. *Improved economic statistical programs.*—Basis to effective Government and private action to moderate economic fluctuation is effective timing. And without comprehensive and promptly available economic statistics, effective timing of appropriate actions is not possible. It should be emphasized that comprehensive statistics, promptly available, are as important in the framing of business decisions in the private sector of the economy as in the framing of monetary policy, for example, in the public sector. The Joint Economic Committee has already made a significant contribution to the improvement and broad dissemination of statistical economic indicators. Through its Subcommittee on Economic Statistics the continuation of studies devoted to broadening and improving statistics is gratifying.

Economic data need constantly to be appraised as to usefulness for analysis of current business conditions and decisionmaking. A constructive program of data expansion and improvement needs to be a permanent part of Government economic investigations. Some important statistical gaps which need to be filled lie in the areas of savings, inventories, quality of credit, interest rates, construction, income distribution, and consumer and business expectations. The Joint Economic Committee's Subcommittee on Economic statistics can play an important role in a comprehensive program of Federal statistics.

The reconciliation and simultaneous achievement of objectives of maximum employment, adequate economic growth and reasonable price stability would result in a degree of economic prosperity and national well-being unparalleled in our history. The work of the Joint Economic Committee will undoubtedly contribute significantly, as it has in the past, toward broader public appreciation of the central economic problem of our times. The National Association of Mutual Savings Banks, in suggesting in broad outline public and private policies for the realization of national economic goals, is happy to cooperate with the Joint Economic Committee in its important endeavor.

STATEMENTS OF NATIONAL RETAIL MERCHANTS ASSOCIATION

(By Nathan J. Gold, President)

I appreciate this opportunity to present to the Joint Economic Committee the views of retailing on the subject of a sound economy, with particular reference to the problem of maintaining maximum employment, price stability, and sound economic growth.

The National Retail Merchants Association represents more than 11,500 stores in the United States doing an annual volume of \$20 billion. There follow our views addressed to specific facets of the problem as indicated by the following headings:

Fiscal policy of the administration

In the past two decades much of the individual and national economic growth has been illusory as a result of the steady inflation. Its consequences would not matter much but for the fact that the depreciation of the dollar has hurt those who practiced thrift and saved a "nest egg" for their old age, those who were patriotic and bought U.S. savings bonds, those on fixed incomes and pensions, and others in retirement. All of this is well known without needless repetition. Inflation today is the major peril to our economic well-being. We feel that greater attention must be given to the continued threat of inflation. Contrary to the opinions of many, our present high standard of living is not a result of inflation, but can be attributed rather to the benefits of advanced technology and sound management. While inflation may be a contributing factor, the truth is that we have continued, during these past several years, to borrow upon the future through the medium of the devaluing of the dollar and through rapidly increasing Federal debt.

Economic growth and maximum employment can flourish only in conjunction with price stability, that is, a sound dollar of steady value.

The administration and Congress must dedicate themselves to a sound fiscal policy, a balanced budget, avoidance of unnecessary spending, and fiscal and debt management in a manner and at a rate of interest which will siphon off funds from savings institutions and other nonbank investors rather than through excessive sales to banks which serve to increase the money supply and feed the fires of inflation.

Nothing in the emphasis placed on avoidance of unnecessary spending is intended to restrict in any way the outlays necessary for preservation of the national defense and security effort or for other essential Government services. It does, however, imply strict limitation of nonessential expenditures for public works, pork-barrel and other politically motivated outlays. Major programs such as the Federal highway program must continue to be self-supporting through gasoline tax increases of amount and duration consistent with the scope of the program.

The relationship of wages to inflation

We are vitally concerned with the problem of continued inflation as reflected in consumer prices and cost of living, and we believe that continued efforts by Government and business should be exerted to halt it.

Our national economy, if it is to be healthful, must depend upon mass production and distribution at the lowest possible unit cost. Wages in the retail and service trades as in many other industries have continued to rise more rapidly than employee productivity.

The trend of negotiated wage increases not justified by increase in productivity is one of the major causes of our continued creeping inflation. The practice of both management and unions of negotiating wage increases over future contract periods without any positive assurance of increased productivity has served to increase production and distribution costs and thereby prices to the consumer. This has had a serious inflationary impact upon white-collar workers and the public generally.

We strongly oppose any increase in the Federal minimum wage or the extension of wage and hour controls to the retail and service trades. Increase in the minimum wage involves considerably more than the health and welfare of the marginal worker. Every increase in the minimum wage is automatically accompanied by comparable percentage increases in hourly earnings above the minimum in order to maintain existing wage differentials based upon skill and experience. Such increases again disregard the problem of productivity and contribute directly and seriously to further inflation.

Minimum wages and hours of work are only meaningful at the local area, in relation to local costs of living. No Federal rate can be established on a national basis which would not be too high for some areas and too low for others. We hold the strong opinion that for the retail and service trades any regulation of minimum wages and maximum hours of work is properly within the province of the State rather than the Federal Government, and any such controls, if and when needed, should be initiated at the State and local level rather than on a Federal basis.

The effect of strikes and automation upon economic growth

The number of man-hours of work lost annually because of strikes are to be deplored as an economic waste. It is hoped that the new legislation passed by Congress will help minimize such stoppage of employment.

The strike issue is particularly acute in the large industries where the cessation of work directly affects national and public interests. In such emergencies, we believe, the President should appoint a fact-finding board as soon as there occurs a national strike which, if continued, would be against public interest. The duties of this board should be not only to determine the facts involved but also to attempt to bring about voluntary reconciliation of the differences between the two parties. Failing in this, the board should make its findings public and the Taft-Hartley law should be invoked.

Another issue affecting long-range maximum employment is the loss of work of some individuals because of the introduction of automation. The Government should carefully study the trends in automation as they affect the continuity of employment and should seek

every means of trying, through appropriate training, to divert such affected individuals to other sources of employment.

As long as wages continue to rise faster than productivity, the need for increased automation will intensify.

Federal estate taxes and their effect upon the economy

Sound economic growth is dependent upon the continued existence and enhancement of small business. Small business is at the core of the American free-enterprise system as well as the American way of life. All possible steps should be taken to insure that small business will be given the opportunity to grow. One of the greatest impediments to this growth lies in our estate tax laws. A recent survey of our members by the association indicated that a great many mergers and liquidations in the retail field had as a contributing cause the operation of the estate tax.

Our studies revealed that when a smaller store interest is included as the principal part of a taxable estate an average of 25 to 30 percent of the store assets must be applied toward the payment of estate taxes. It is obvious that many small-business enterprises cannot hope to survive this financial burden imposed upon them by the liquidation and withdrawal of over one-quarter of their business assets, particularly in the retail business, in which large amounts of assets are represented by inventory and accounts receivable.

Intelligent planning can to some extent reduce the harmful effect of estate taxes on a smaller enterprise, but nontax factors prevent the smaller businessman from taking full advantage of this type of planning. We strongly recommend, therefore, that legislation be enacted which will reduce the overall estate tax burden and particularly the estate tax rates applicable to smaller estates. Also, further consideration should be given to present statutes which permit the deferral of estate tax payments by permitting lower interest rates in respect to late payments and the extension of the time limit in which to complete the payment of the estate tax liability.

The effect of income and excise taxes on the economy

We oppose the imposition of excise taxes because it places an undue burden on the consuming public with lower incomes by decreasing the purchasing power of this economic group. It has as its resulting effect a lessening of demands for goods and services, and a concomitant lessening of employment and production. We therefore urge that excise taxes be repealed at the earliest possible date.

Present income tax rates, both personal and corporate, are excessively high, and should be reduced at the earliest moment consistent with sound budgetary practice. Well-reasoned rate reductions, applied on an equitable basis calculated to reach all taxpayers and all forms of economic activity, will accelerate the growth and productivity of the economy, and increase our economic strength and national welfare.

Consumer credit

Our suggestions regarding consumer credit and its effect on the economy have previously been submitted to your committee. For the sake of completeness, however, a copy of our statement is attached.

If we can be of further assistance to your committee, do not hesitate to call upon us.

(By Charles F. Naumann, Chairman, Credit Management Division)

My name is Charles F. Naumann. I am the chairman of the Credit Management Division of the National Retail Merchants Association with offices at 100 West 31st Street, New York, N.Y.

The National Retail Merchants Association has a membership of over 11,500 department, specialty, and chain stores located in every State of the Union and many countries abroad. Its members provide employment for several hundred thousand of our citizens and do an annual volume of business exceeding \$19 billion.

The board of directors of the Credit Management Division, National Retail Merchants Association is opposed to any move in the direction of legislation or standby authority to regulate consumer credit.

It is important that all people interested in this subject fully appreciate the substantial contribution that consumer credit has made toward the improvement of living standards in America. As an influencing force, it is our opinion that consumer credit has contributed more to the American way of life than even our mass production system.

In fact, mass production, we feel, results from a mass market rather than produces one—and certainly, consumer credit has contributed greatly toward the creation of the mass market upon which mass production is based.

It is our belief that Government regulation is not only unnecessary but may be harmful to normal cycles in our economy. Our economy is far more correctly controlled by the prudence of the American consumer and the American businessman in the conduct of their affairs than ever can be achieved by Government regulation. It has long been recognized that consumers themselves are sensitive to changing economic conditions and adjust their buying and debt obligations accordingly.

This was established not only by the annual survey of consumer finances, conducted by the Board of Governors of the Federal Reserve System in cooperation with the Survey Research Center of the University of Michigan, but also by the comprehensive study of consumer installment credit made by the Board at the suggestion of the President and the request of the Council of Economic Advisers.

In fact, this study produced no conclusive evidence of the effectiveness of the former regulations of consumer credit.

Accompanying is an analysis of the consumer credit statistics compiled by the Board of Governors, Federal Reserve System which shows the relationship of debt by holder to total credit outstanding and the percentage of debt to disposable income. It will be noted that the ratio debt for installment "other consumer goods paper" (which included department and specialty store figures) increased from 2.3 percent in 1939 to 2.7 percent as of June 30, 1959—a rise of only four-tenths of 1 percent for the past 20 years. During the same period the ratio of noninstallment "charge account" credit outstanding to disposable income decreased from 2 percent to 1.3 percent.

It is true that on the overall there has been an increase in total consumer credit outstanding. However, when we relate total debt to disposable income, we find the ratio only increased from 10.2 percent to 14.2 percent in two decades, which is small when we take into con-

sideration the increase of our population, the number of family units and the broadened base of credit users resulting from the drastic change of credit selling, and the fact that today, buying on credit is a normal way of life for the typical American family.

As for the quality of credit extended, one need only consult bad debt loss ratios which at department and specialty stores for many years have remained fairly constant at less than one-fourth to one-half of 1 percent of total credit sales. The largest credit loss ever experienced in 1932—the depth of the depression—was 1½ percent for charge accounts and 5 percent for installment accounts, more than half of which was repaid in subsequent years.

It is reasonable to expect that because of the economic safeguards and stabilizers built into our economy since that time, we will not experience a correction of such major proportion in the future.

In view of the factors stated above, we are therefore opposed to Government regulation of consumer credit—standby or otherwise. In times of war and national emergency when in the interest of security, it is necessary to divert productive capacity to defense, our country has demonstrated repeatedly the rapidity with which it can make the required adjustments in business and the economy.

Consumer debt analysis

(Prepared by A. L. Trotta, manager and research director, Credit Management Division, NRMA)

Type	Millions of dollars			Percent to total credit			Percent to disposable income		
	1939	1958	June 30, 1959	1939	1958	June 30, 1959	1939	1958	June 30, 1959
Installment:									
Automobile.....	1,497	14,131	15,419	20.7	31.4	33.0	2.1	4.5	4.6
Other consumer goods paper ¹	1,620	9,007	9,077	22.4	20.0	19.4	2.3	2.8	2.7
Repair and modernization.....	298	2,145	2,240	4.1	4.8	4.8	.4	.7	.7
Personal loans.....	1,088	8,582	9,074	15.1	19.0	19.4	1.5	2.7	2.7
Total installment credit.....	4,503	33,865	35,810	62.4	75.1	76.7	6.3	10.7	10.7
Noninstallment:									
Single payment loans.....	787	3,543	3,842	10.9	7.9	8.2	1.1	1.1	1.1
Charge accounts.....	1,414	5,018	4,318	19.6	11.1	9.2	2.0	1.6	1.3
Service credit.....	518	2,639	2,746	7.2	5.9	5.9	.7	.8	.8
Total noninstallment credit.....	2,719	11,200	10,906	37.6	24.9	23.3	3.8	3.5	3.2
Total consumer credit.....	7,222	45,065	46,716	100.0	100.0	100.0	10.2	14.2	14.0
Disposable personal income.....	70,400	316,500	² 335,300						

¹ Includes all consumer installment credit extended for the purpose of purchasing automobiles and other consumer goods and secured by the items purchased, whether held by retail outlets or financial institutions. Includes credit on purchases by individuals of automobiles or other consumer goods that may be used in part for business.

² 2d quarter of 1959.

Source: Material—Federal Reserve Statistics.

STATEMENT OF UNITED MINE WORKERS OF AMERICA

OCTOBER 30, 1959.

HON. PAUL H. DOUGLAS,
*Joint Economic Committee,
Senate Office Building, Washington, D.C.*

DEAR SENATOR DOUGLAS: I am submitting herewith to the Joint Economic Committee a statement of the United Mine Workers of America pertaining to the problems of designing policies to achieve maximum employment, an adequate rate of economic growth, and reasonable stability of the price level. I sincerely trust this statement will be satisfactory and of value to your committee.

With kind personal regards and all good wishes, I am,
Very truly yours,

THOMAS KENNEDY,
Vice President, United Mine Workers of America.

EMPLOYMENT, GROWTH, AND PRICE LEVELS

Mr. Chairman and members of the committee, I am Thomas Kennedy, international vice president of the United Mine Workers of America, an organization comprised of coal miners located in 28 States of this Nation.

In speaking for this organization, I represent individuals who have contributed heavily toward the success of the United States of America since its founding. As you know, coal is one of the basic bulkwarks of the American economy. This fact has been proven time and time again, especially in World Wars I and II, when it became necessary for coal miners of the United States not only to produce enough coal to meet the needs of this Nation, but those of our allied nations as well.

In emphasizing these facts, I am compelled to make some observations as to the tremendous unemployment problems which now exist in the coal fields. Unquestionably, every sound-thinking American must recognize that no other economic ill affects individuals within an economic area more than mass joblessness, such as prevails at the present time. Of course, in making this point I am not dealing with the subject of unemployment on a selfish basis by any means, because I fully realize that countless numbers of individuals from other industries are likewise in the same category. As the spokesman for our organization, however, I must point out that unless something is done—and done soon—to alleviate the suffering which now prevails in the coal mining towns of this Nation, conditions will become worsened.

Our records indicate that there are about 100,000 unemployed coal miners in the United States. These figures represent the situation as

it exists in both the anthracite and bituminous regions. This condition is pitiful, to say the least. Coal miners are trained for that particular occupation. They are people whose deep-rooted ties to the coal region date back to their early ancestry. As a result, these men, by their very nature, do not like to take up living quarters elsewhere because they are always looking forward to the day when the mines where they were employed will start up again. Moreover, even if they did decide to vacate their present abodes, they would find it extremely difficult to find gainful occupations elsewhere, because of the festering cancer of unemployment which is so prevalent throughout the Nation.

Distressed families and terrible living conditions are the result of unemployment on a vast scale. Unquestionably, unless corrected, social decay and moral degeneration are bound to follow. I, therefore, make the assertion that if the coal industry is to fulfill what is expected of it in the years to come, we must all put our shoulders to the wheel and do everything within our power to make these coal mining towns bustling centers of prosperity instead of dark areas suffering from the ravages of unemployment.

As a means of correcting the evil of unemployment, it is our recommendation that a national fuels policy should be adopted by the Federal Government. This has been a firm stand of the United Mine Workers of America for many years. Just recently, the coal operators, the United Mine Workers of America, the coal-carrying railroads, coal-equipment manufacturers, and coal-burning electric utilities, banded together and formed an organization known as the National Coal Policy Conference, for the purpose of bringing about unity in working toward this goal. Of course, all parties involved in this movement are cognizant of the fact that everyone must strive for one common purpose, because the ills of the basic coal industry have affected every industry that the aforementioned group represents. It is, therefore, our opinion that the Government would be acting in good judgment, if it would institute a thorough, completely objective, nonpartisan study of the overall fuel situation, after which the results could be incorporated in a national fuels policy. During the last session of Congress, 42 Senators and 30 Representatives introduced joint resolutions for the creation of a joint committee to make such a study. In making their proposals, these lawmakers, who are well aware of the suffering which exists among their constituents, recognized that this is the sensible approach to handling this problem. Surprisingly, however, the gas and oil industries, which have been receiving breaks galore through the years, feel that since this Nation has survived for the past 150 years without a national fuels policy, such a program is unnecessary now. In my judgment, such absurd reasoning only prevails because the gas companies are permitted to wastefully dump natural gas under utility boilers, and the giant oil companies are permitted to import residual oil from some countries, including Venezuela, long an archenemy of the United States. These matters have been a major source of irritation to the coal industry because such practices permit practically laborless fuels to be used unfairly in competition against coal.

From a conservation standpoint, the dumping of natural gas in such reckless fashion is extremely wasteful. It is a known fact that

reserves of gas are relatively limited. For selfish reasons, however, the gas industry continues to insist on maintaining a yearround volume by dumping this gas at cutthroat prices under utility boilers. While dealing with this subject, I think it is extremely necessary that we should dwell to some extent on the manner in which natural gas is put on the market in unfair competition against coal. It is very obvious that an industry selling its product below the cost of production must make up the difference somewhere else. So, who pays? The household consumer pays this difference to enable the gas industry to offer dumping prices. Thus, the coal industry is forced into periods of idleness during the summer months just because natural gas is available at cutthroat prices and the Nation is suffering tremendously as a result of this wastage of a valuable natural resource. More important, however, is the fact that many coal miners are forced into idleness, which further aggravates the chaotic unemployment problem that exists throughout the Nation.

During the past several years a flood of cheap, waste fuel oil has seriously threatened the coal markets along the eastern seaboard. Most of the plants located in this area are equipped to burn either coal, oil, or gas. Consequently, when an oil glut develops abroad, the major outlet is the utility boilers of the United States which are in close proximity to eastern waterways. In order to clear up any misunderstanding which may exist, I think it is well to point out that waste oil or residual oil, as it is commonly known, is a heavy, tarlike product which can only be burned by utilities and other large consumers which are equipped to do so. Contrary to some beliefs, it is never used for home heating. To be specific while dealing with this problem, I would like to remind this committee that the eastern part of the United States is considered to be coal's prime market. Unfortunately and shamefully, however, the coal industry has been forced into watching an ever-growing volume of foreign oil engulfed in this area. For example, in 1958, over 40 million tons of coal were displaced by residual oil imports. In making this point, I wish to emphasize that coal does not and never has objected to legitimate competition. We would be illiterate, however, if we were to sit back and say nothing about the indiscriminate dumping of waste oil in our markets at any price just to meet the whims of those who are "hellbent" on making a "fast buck" at any price, and with utter disregard for those who might suffer due to their selfishness. It is our firm opinion that such unscrupulous and unfair competitive tactics should under no circumstances be tolerated by the U.S. Government and we will never sit idly by until this goal is accomplished.

Another factor which has been working detrimentally against the coal industry is the depletion tax allowances given to the gas and oil interests. As a result of the special privileges which have been granted to these industries, they are enabled to make exorbitant profits from which millions of dollars can be used for advertising propaganda purposes. In reality, the advantage given to these two industries could easily be termed as a "marriage" of the oil and gas magnates with our Government.

In spite of all these handicaps, the coal industry, both anthracite and bituminous, is sternly looking toward a brighter future. Many of our citizens, if they were faced with the same major problems as

the people in the coal industry, would take a chickenhearted attitude and accept defeat. To those of us who have long been acquainted with the coal industry, however, we are proud of our achievements. We have faced tremendous hardships before, and on many occasions the industry we speak for was on the brink of economic chaos. Nevertheless, through firm determination and a willingness to preserve and protect the basic industry of our Nation, coal has become one of the most modern and productive industries in the world.

In World Wars I and II, when it became mandatory for the United States to produce the coal requirements of this Nation, as well as the needs of our foreign allies, the coal industry devoted its fullest efforts and turned out masses of production, the like of which was never accomplished in any other nation of the world. Furthermore, in making this commentary, I believe it is very essential to make it clear for the enlightenment of those who might never have known, or as a refresher to those who might have so soon forgotten, that the coal miners of this Nation worked on every holiday during World War II and also sacrificed four Sundays, in order that they might meet the fuel needs requested by our Government. While reminiscing along these lines I think it is very ironical that the coal industry, which is so essential for the preservation of our freedom and the expansion of our economy, should be so easily ignored. We make no apologies for coal. Furthermore, we do not come before this committee, nor have we ever appeared before any body, with our hats in hand to beg. It has been proven beyond a shadow of a doubt that the American coal industry has the manpower and the machinery to insure adequate fuels for our Nation in times of war and peace. What we are striving for is equality of opportunity which has been prescribed under our free enterprise system.

There are many other ramifications which can be blamed for victimizing the coal industry, but in making the above-stated points, I believe the major factors have been dealt with. It is, therefore, my recommendation that the establishment of a national fuels policy would solve these problems. Obviously, our entirely economy is energy based. The projections for the future indicate energy consumption growing at an accelerated rate. If our Nation is to meet this expansion of energy demand, it must have adequate fuel reserves. Most of the other industrial nations of the world have conducted extensive studies into their fuel pictures. Guided by these studies, they have been able to take steps to use their fuel supplies efficiently. The need for such a study in the United States is becoming more apparent to responsible leaders. We in coal have no particular ax to grind. An impartial congressional committee could make the inquiry. All segments of the fuel industry could be called in, testimony could be taken and conclusions drawn. The important point to remember, however, is that all fuels must be utilized to their maximum efficiency. The days of superabundant natural resources in America are over. We must begin to use those resources we have in abundance and conserve those in short supply.

The import restrictions on residual oil should be maintained. These quotas are vital to national defense. More germane to our topic today is their injurious effect on our domestic economy. The injury to our own miners is inexcusable in the light of trade barriers erected against

our own goods abroad. Just a short time ago, Secretary Anderson referred to this problem in an address to foreign financial specialists. We as a nation cannot afford to allow our own economy to suffer because of unfair dumping tactics by foreign countries.

The practice of the natural gas industry in dumping during summer months should be discouraged. Since gas is relatively scarce it should be utilized to best advantage. Due to modern technological advances, utilities are equipped to burn almost any type of fuel. It seems inconceivable that such a vital and scarce product as gas should be used merely to maintain volume when an abundant product like coal is readily available. The force of the various regulatory agencies should be brought to bear in stopping the undercutting of coal's primary market to satisfy short-term financial interests, to the long-term detriment of the Nation as a whole.

Besides the establishment of a national fuels policy, we also propose that the following steps should be taken to relieve the impact of unemployment:

1. Unemployment insurance should be extended to cover the entire period of joblessness. This compensation should be on the basis of 75 percent of the average weekly wage. Federal grants should be given to States to enable them to extend the payments of those about to exhaust their benefits. We recognize the unemployment system as being in the status of the general welfare clause of the Constitution and, in providing for its improvement and extensions, it cannot with propriety or in logic or commonsense be classified as a dole, notwithstanding the opinion to the contrary in high places. The United Mine Workers of America maintains that there should not be, or cannot be, dire poverty in our Nation when the vast majority of Americans are enjoying the highest standard of living in history. Poverty in the midst of plenty is an intolerable incongruity, the existence of which we cannot afford.

2. In the same vein, the minimum age for social security should be lowered to permit older men out of work to qualify for such benefits. Mine workers over 60 are now eligible for pensions from the welfare and retirement fund or anthracite health and welfare fund. However, the amount does not allow the men to enjoy to the fullest extent their declining years. The inclusion of social security at a younger age would, in all probability, encourage men to retire younger, thus allowing more men to work in the industry.

3. Coal research programs should be started to broaden coal's market base. A bill to this end was passed by the last session of Congress, only to be vetoed by the President. We cannot urge too strongly similar future legislation. The anthracite industry, especially, and the bituminous industry need new markets in order to realize their full potential. Depressed conditions in both industries preclude any extensive research. Therefore, they must look to the Government for research programs on a broad scale. Research has been carried on in many fields by the United States. We feel that coal research would bear rich dividends for the Nation.

4. A large intensified construction program for roads, highways, hospitals, and schools, with a low interest loan program for small business, and help in construction of plants for industry in the distressed labor areas is needed.

5. A liberal and more elastic contract and purchasing program on the part of the Federal Government, with due and proper consideration for going basic industries, such as the coal industry, should be established.

6. Under the foreign aid program there should be increased purchases of goods and commodities here in our own country for shipment abroad.

7. Our Government should look into the situation respecting the barter system, engaged in by Western Powers, who are recipients of our loans, credits, and other aid, but who in turn make bartering arrangements with countries that have Communist governments, all of whom are dominated or controlled by Russia, including Russia itself.

8. Finally, an investigation should be conducted into the coal-buying policy of the Government. This inquiry will be able to determine whether or not any agencies of the Government, established to uplift economically depressed areas, have in fact done grave damage to coal, the most basic industry in the country. The United Mine Workers of America feels that such congressional interest will do much to eliminate some harmful practices.

A study of the unemployment in the coal industry has a very special significance. Everyone is well aware of the fact that automation and mechanization are gradually cropping into our living standards. As a result, labor and industry are cautiously edging into an entirely new era. Problems of major magnitude have to be solved. The problems are many, the rewards are great.

Coal has faced and met these problems for many years. In so doing, labor and industry have been united in a common cause. Now, as we look to the future, our position is healthy and strong. With fair treatment by Government, our industry and our union will grow to meet the demands of an ever-growing America.

Surely, it is not asking too much when we suggest proper steps be taken to wipe out the interrelated causes which combine to saddle coal with a problem of major proportions.

The coal industry has undergone an amazing transformation in the past 10 years. (See chart, p. 3239.) Mechanization of the mines has progressed so rapidly that all of the other segments of the industry have not been able to keep pace. For example, in 1890 the average production per man-day was 2.56 tons. The average output per man-year was 579 tons. By 1930, this figure had jumped to 5.06 tons per day and 948 tons per year. By 1950, comparable statistics revealed 6.77 tons per day and 1,239 tons per year. In 1957, the efficiency had increased to the point where a bituminous miner produced 10.59 tons per day and 2,155 tons per year. Last year, the output per day jumped even further to just under 12 tons. This tremendous increase in productive efficiency has enabled coal to maintain a stable price level over the past 10 years. The man who works in the industry is currently enjoying the highest hourly wage of any industrial worker in the world. The combination of high wages and stable prices make the coal industry something of a unique economic phenomenon in our time.

On the other side of the ledger, employment in the mines has decreased sharply over the past 20 years. In 1937, the industry pro-

duced 445,531,449 tons of coal, with 491,864 men employed. In 1957, total production amounted to 492,703,916 tons, with only 228,635 men working in or around the mines. This decline in employment was the price paid by America's coal miners to enable their industry to remain in a competitive position in our economy. These unemployed men represent the casualties of the economic warfare inherent in our free enterprise economy.

As we ramble over these facts and figures pertaining to production output in the coal industry and the unemployment problems which exist today, I cannot help but emphasize that under present conditions I doubt that the production performance of the coal industry in World War II could be repeated if a time of national emergency faced us. Anyone who is familiar with the coal-mining industry is ever mindful of the fact that it takes many long months to rehabilitate mines which have been shut down, because it does not take long for deterioration to set in and create problems that only time and hard work can correct. As a major illustration of such a factor, I would like to point out that in the anthracite industry where water-pumping problems are tremendous and the cost of operation is very high as a result, there are mines now idle for which it might even take years before they could possibly start up again. On the basis of my own personal experience, I refer principally to the Hazleton shaft mine located about 2 miles from my home in Hazleton, Pa. At this particular operation, where coal was mined on seven levels and an annual payroll of over \$3 million existed, the ravages of Hurricane Diane in 1955 caused a shutdown which is still prevalent. Of course, the operating company is without necessary resources to compete with the pumping costs and, under State and Federal laws as they now exist, there are no funds whereby financial assistance can be rendered.

Summing up the entire picture, I wish to offer the assistance of the United Mine Workers of America in any way that might be helpful to this committee, or any other committee, in its study to understand and overcome the danger which mass unemployment poses for the future of the United States. The Government of the United States, since the founding of this great Nation, has faced up to every problem regardless of its magnitude, and has been able to make tremendous strides for the betterment of America. It is, therefore, our opinion that the unemployment problem, which has soared to such catastrophic heights, can be solved on a basis of commonsense and fair play. We do not feel it is too much to ask our Government to help unemployed people help themselves. After all, billions have been spent to help other distressed areas of the world. Our money has been used for the purpose of building roads, factories, mines, and other facilities in Laos, Germany, Poland, Egypt, and many other nations. To be frank, the list is endless. In every instance we took a chance, not only on losing our money, but even the friendship of the governments involved. On the basis of these factors, we, therefore, raise the question, Is it too much to ask for a little help for the citizens of West Virginia, Pennsylvania, Kentucky, and all of the other coal States who are loyal and true Americans? With this thought in mind, it is our heartfelt hope that this committee, which has been entrusted with the task of surveying the unemployment situation, will meet the problem head on to bring about a solution for the betterment of our country.

It is a foregone conclusion that the economy of the United States must always be strong if we are to meet the worldwide challenge of international communism, which is being spread so effectively from its home base of Soviet Russia, and still be able to take care of our present domestic needs. This means sustainment of our economic growth and maximum employment, and a stable price structure is of utmost necessity. For too long a period the foreign and domestic policies of our country have been in a lackadaisical state. In fact, it has been said on more than a few occasions that our foreign policy for about the past 5 years has been practically nil. To make matters worse, the present administration seems to have a one-eyed view of inflation as the only evil and of tight money as the only answer to our domestic problems. It is, therefore, my suggestion that those who are responsible for such thinking should open up the other eye and get some depth perception into their craniums on how to find another road leading away from inflation and toward growth and stability throughout the Nation.

Wholesale prices (average value per ton), consumer prices (retail-residential), average hourly earnings and productivity, bituminous coal, 1948 through 1958

[Index number, 1948=100]

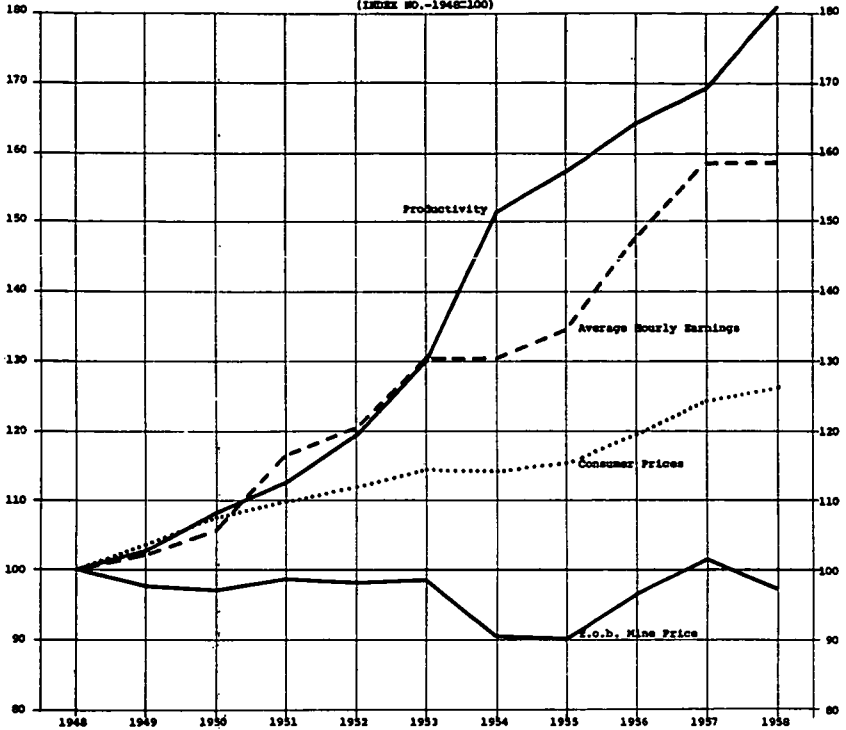
Year	Average value ¹ per ton f.o.b. mine		Consumer price ²		Average hourly earnings of production workers ²		Productivity, net tons per man per day ¹	
	Dollars	Index	Dollars	Index	Dollars	Index	Tons	Index
1948.....	\$4.99	100.0	\$13.08	100.0	\$1.90	100.0	6.26	100.0
1949.....	4.88	97.8	13.56	103.7	1.94	102.1	6.43	102.7
1950.....	4.84	97.0	14.06	107.5	2.01	105.8	6.77	108.1
1951.....	4.92	98.6	14.37	109.9	2.21	116.3	7.04	112.5
1952.....	4.90	98.2	14.65	112.0	2.29	120.5	7.47	119.3
1953.....	4.92	98.6	14.95	114.3	2.48	130.5	8.17	130.5
1954.....	4.52	90.6	14.94	114.2	2.48	130.5	9.47	151.3
1955.....	4.50	90.2	15.10	115.4	2.56	134.7	9.84	157.2
1956.....	4.82	96.6	15.65	119.6	2.81	147.9	10.28	164.2
1957.....	5.08	101.8	16.28	124.5	3.02	158.9	10.59	169.2
1958.....	4.86	97.4	16.52	126.3	3.02	158.9	11.33	181.0

¹ U.S. Bureau of Mines.

² Bureau of Labor Statistics.

NOTE.—In the period between 1948 and 1958 average hourly earnings of production workers increased almost 60 percent and wage-fringe pay, 78 percent. Output per man-day increased 81 percent while prices f.o.b. mines decreased 2.6 percent.

WHOLESALE PRICES (AVG. VALUE PER TON), CONSUMER PRICES (RETAIL-RESIDENTIAL),
 AVERAGE HOURLY EARNINGS AND PRODUCTIVITY-BITUMINOUS COAL 1948 THROUGH 1958
 (INDEX NO.-1948=100)



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