86TH CONGRESS 2d Session } SENATE { REPORT No. 1152

1960 JOINT ECONOMIC REPORT

REPORT

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

ON THE

JANUARY 1960 ECONOMIC REPORT OF THE PRESIDENT

WITH

MINORITY AND OTHER VIEWS

FEBRUARY 29 (legislative day, FEBRUARY 15), 1960.—Ordered to be printed

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FEBRUARY 29 (legislative day, FEBRUARY 15), 1960.—Ordered to be printed

Mr. DOUGLAS, from the Joint Economic Committee, submitted the following

REPORT

together with

MINORITY AND OTHER VIEWS

[Pursuant to sec. 5(a) of Public Law, 304, 79th Cong.]

INTRODUCTION

This committee believes that the existing and potential skills of the American people and the Nation's natural resources, productive facilities, and technological development can provide both for the military defense which is necessary to national security and for the growing needs of the economy. The needs for growth in the private sector of the economy and the public responsibility for defense, schools, health, resource development, slum clearance, and other public services can be met.

They can be met within the existing framework of our free political and economic system and call for no fundamental changes in our system. They do call, however, for greater effort and dedication to these goals if they are to be achieved.

We believe that the economy can grow at a faster rate than in the past, that relatively full employment can be brought about and maintained, and that this can be done with a stable price level. These ends cannot be met without effort. We must follow correct policies and be willing to do the right things to gain them.

The committee's extensive studies of employment, growth, and price levels, which were recently completed, indicate in specific terms where public and private efforts have fallen short, what our potential is, and the things that need to be done to close the gap between our performance and the economy's potential. It is not our purpose here to repeat the specific details of the studies. An important conclusion of those studies is: With the necessary will and resolution this Nation need not fear either for its military security or for its economic well-being due to any fundamental deficiency in its present or potential productive capacity.

It is not a question of whether these things can be done. It is a question of whether we will organize our people, resources, and institutions to do them.

THE PRESIDENT'S BUDGET AND ECONOMIC REPORT

The programs outlined in the President's budget and Economic Report will not achieve the objectives of the Employment Act in 1960. Moreover, they do not call for the actions which, as a result of its studies, this committee believes are necessary to raise the rate of economic growth while achieving a high and steady rate of employment and a stable price level. The public responsibilities for schools, slum clearance, resource development, the elimination of depressed areas, and other functions which are among the major keys to economic growth are either starved for funds or their programs are limited in scope.

Furthermore, while this committee cannot pass on whether the specific parts of the defense budget are adequate for our military needs, there is a considerable body of expert and nonpartisan opinion which believes that much more must be done in the fields of missiles, space, and combat strength if we are not to jeopardize our security and our defense. If more needs to be done, we are confident that it can be done without endangering our economy, if the proper policies are followed.

SUMMARY OF NEEDED PROGRAMS FOR GROWTH, MAXIMUM EMPLOYMENT, AND STABLE PRICES

The conclusions arrived at as a result of the committee's recent investigation of the economy were:

(1) The slow rate of growth in the economy in the recent past has been caused in large part by public policies which created instability in the economy and brought too frequent recessions.

To meet this problem there must be both fiscal and monetary reforms. The Government must act more quickly and more promptly to offset declines, especially through tax policy. The automatic fiscal stabilizers must be improved, especially unemployment compensation.

(2) In the interests of a higher rate of economic growth, we must place greater reliance on fiscal policy. This includes larger budget surpluses in prosperous periods than we have had, a tax structure which is both more equitable and which will promote a faster degree of growth, and a reordering of the priorities in Federal expenditure programs to promote those programs which stimulate growth and to cut back or eliminate those programs or subsidies which support inefficiency in the economy.

(3) We need a less restrictive monetary policy within the framework of a more effective fiscal policy. Specifically, the money supply should grow in line with the growth in output. Interest rates could then be lower and would support a more adequate rate of growth and investment without inflation. With a more effective fiscal policy,

monetary policy would be more effective in stabilizing the economy than it has been in recent periods.

In recent times the administration has relied heavily upon the monetary authorities to carry out stabilization policy which should properly be the concern not only of the monetary authorities but of the Government as a whole. In turn, the monetary authorities have limited their actions almost exclusively to only one aspect of the problem, i.e., stabilizing the price levels, while they have largely ignored the problems of economic growth and excessive unemployment.

(4) The problem of market power must be attacked. This is the ability of some to set prices without relationship to the demand for their goods or services because of their monopoly or semimonopoly position. Various private and Government devices which protect the ability of these groups to exercise market power should be reduced or eliminated. Basically, there must be a more effective antitrust policy. In addition, tariffs should continue to be lowered in order to provide more competition; the continued lowering of tariffs should be accompanied by vigorous bargaining on specific items to achieve in greater degree the objective of reciprocity. This would improve the structure of the economy.

(5) Both private and Government groups must emphasize growth producing policies and programs. This means especially improving the skills and education of our people through Federal aid to education without Federal control; the creation of greater economic opportunity for all of our people, especially the unskilled, women, the aged, and minority groups whose talents are not now used to the full and whose potential abilities and productivity are wasted; improving the health of our people through both private and public programs; placing major emphasis on research, including basic research; and better programs of unemployment compensation, retraining, and the reduction of frictional and technological unemployment through appropriate means.

THE PRESIDENT'S BUDGET AND ECONOMIC REPORT AND THE NATION'S NEEDS

We do not see in the budget for fiscal 1961 and the President's Economic Report for 1960 any fundamental changes in the directions which we think are necessary. By and large they are a status quo budget and report. Comprehensive programs to promote improvements in the skills of our people—schools, health, and retraining—are not adequately emphasized.

The Economic Report does not recognize the basic changes which must be made in our antitrust program if the sources of market power are to be dealt with. We say this even though the specific recommendations for the antitrust program are good in general.

Monetary policy for the current and coming years is not discussed in any constructive way.

There is no reordering of the priorities in this budget over past ones, either for new programs which are needed or for old programs which are wasteful.

The major tax loopholes are not mentioned and there are no recommendations concerning them, although some relatively minor changes are proposed.

The public policies required for economic stability in 1960 are not adequately dealt with.

The Economic Report does contain a large number of proposals which, while appropriate subjects for consideration by the legislative committees of the Congress, are not of sufficient importance in the context of the broad purposes of the Employment Act to warrant filling the pages of the Economic Report year in and year out with their detailed enumeration.

The President's Economic Report endorses in general terms programs such as school aid or aid to depressed areas which are important for the Nation's long-run growth. But the specific legislátion proposed by the President to carry out these objectives would build almost no schools or give little aid to those who need it. Each problem is broken down into a series of minute recommendations which give the appearance of support and action but which when added together provide no effective program.

ECONOMIC OUTLOOK FOR 1960

GENERAL OUTLOOK

As in the past several years, the President's Economic Report avoids any clear-cut statements in quantitative terms of the levels of employment, production, and of prices in general which are likely to prevail in 1960. In the budget message, however, the President explicitly assumes a gross national product of $510 billion for calendar 1960. Corporate profits of $51 billion and personal income of $402 billion in 1960 were estimated by the Secretary of the Treasury in his press conference when the budget was released. These estimates are in terms of the level of prices which prevailed in the middle of the last quarter of 1959 and assume little, if any, general price increases beyond those already realized by the end of 1959.

On the basis of the information provided in the budget and in the Secretary of the Treasury's press conference, and by the expert witnesses appearing before the committee during its hearings on the President's report, the highlights of the economic outlook are—

A. The gross national product in current prices is likely to be at least equal to the $510 billion which is estimated by the President in the budget and may be slightly higher.

B. Corporate profits of $51 billion and personal income of $402 billion, as estimated by the Secretary of the Treasury, are in line with this estimate of the gross national product.

C. Price increases, as measured by the implicit deflators for the gross national product, will be limited and will probably account for not more than roughly 1 percent of the increase in gross national product from 1959 to 1960.

D. An expected $510 billion gross national product for 1960 would be $20 billion to $30 billion below the economy's potential output, based upon a 4 percent rate of unemployment.

E. A gross national product less than the economy's potential implies either that—

1. the increase in the labor force will be less than usual, or hours of work may be shorter, or

2. productivity increases will be less than those which might be achieved if the economy were operating at a higher level, or

3. unemployment will average close to 5 percent for the year 1960 as a whole and might average as much as 4½ percent or more, seasonally adjusted, even during the fourth quarter of 1960.

F. Since the economy at the beginning of 1960 was so far from full employment, achieving the potential output for the year 1960 as a whole would require a more rapid increase in production and employment than would be consistent with stability in the general level of prices. Nevertheless, it is possible to accelerate the expansion of economic activity, without inflationary consequences, in order to approach maximum employment and output more nearly by the end of the year.

EMPLOYMENT AND OUTPUT

The outstanding fact which emerges from this analysis of the Nation's economic prospects in 1960 is that unemployment is generally expected to continue at a high rate compared to prosperous years in the past.

Unemployment has averaged 4.9 percent or more of the labor force in each month since November 1957. For 1958 as a whole, unemployment averaged 6.8 percent. In 1959, a year characterized by the President as one of rapid economic advance, unemployment averaged 5.5 percent. This is virtually the same unemployment rate as that experienced during the recession year 1954 when unemployment averaged 5.6 percent. It appears, therefore, that under the policies now being pursued, the rate of unemployment is higher both in good periods and in recession periods than it had been previously in comparable postwar years.

To the extent that the programs proposed by the President are consistent with the estimate of a $510 billion gross national product for the year, they will not meet the objective of providing the conditions in which full recovery in employment and output can be attained.

The persistent failure to achieve maximum employment and production deprives the private sectors of the economy of a major impetus for investment in expanding and improving our production facilities.

Moreover, by failing to use the labor force and production facilities as fully as is possible without promoting inflationary price developments, the Nation will be sacrificing output which could contribute in important ways to discharging the public responsibilities we face.

When unemployment is as high as it has been for a period of 27 months and when production facilities are used at rates which are significantly below their maximum efficiency, there is simply no merit in the contention that we cannot afford the programs needed to make the United States militarily supreme and to provide the education, research and development activities, improvements in health standards, elimination of poverty and low productivity in depressed areas, elimination of city blight, and the many other advances upon which rising living standards in the United States depend.

PRICE STABILITY

Another important conclusion which emerges from a review of the economic outlook for 1960 is that the stability in the general level of prices which prevailed during 1958 and in 1959 will continue in 1960. All of us welcome this prospect of a continuation of a stable price level. We must, however, be concerned about the undue emphasis on fighting inflation which continues to dominate the administration's policies and those of the monetary authorities.

We do not suggest that public policy should disregard the possibility that inflationary pressures will arise. But the primary emphasis in public policy at this time should be on promptly achieving the full use of the labor force and of our production facilities and on laying the basis for a higher rate of economic growth over the long run. This emphasis is not found in the policies of the administration and of the Federal Reserve, who appear to be focusing primarily on the fight against inflation despite the fact that the price level has been remarkably stable for many months past. The Wholesale Price Index, for example, in December 1959 was at exactly the same level as in January 1958; in the same 2 years, the Consumer Price Index increased by only 1.3 percent annually. Either the built-in upward bias of the index, because of its failure to account for improvements in quality, or the normal statistical margin of error, could account for this modest increase.

The administration's fight on inflation resumed in November of 1958 after a year of stable prices and continued during a period of stable prices. The result is an unemployment rate higher than it need have been or should have been under the terms of the Employment Act.

This stability in the price level and the absence of any noticeable inflationary thrust in the economy today has been noted repeatedly. The prospect for continuing price level stability was affirmed by the consensus of the expert witnesses testifying before the committee during its hearings on the President's Economic Report.

Policies To Achieve the Employment Act Objectives in 1960

If the demands which arise from our defense needs and other public responsibilities to promote progress in the American economy are to be met adequately, more vigorous programs than those set forth by the President will be required in 1960. Important changes are needed in the areas of fiscal policy, monetary policy and debt management, and the policies affecting the structure of the American economy.

In summary, to achieve our shortrun stabilization objectives of maximum employment and production, and stability in the general price level, we need Federal policies which will encourage a somewhat more rapid expansion of total demand than now seems likely. In the interest of promoting economic growth, easier monetary and credit conditions are needed than those that appear to be in prospect at this time. In addition, we should begin now to make major advances in increasing the productivity and improving the mobility of the labor force and in improving the structure of the economy.

FISCAL POLICY: THE 1961 BUDGET

The President's budget for fiscal 1961 envisages a surplus of $4.2 billion, based in part on a $554 million increase in postal revenues from increasing, in the main, first-class postal rates. The surplus also assumes that outlays for agriculture under the present programs will be $5.6 billion, about $500 million more than is currently estimated for fiscal 1960, but $900 million less than in fiscal 1959. (It is also proposed to increase the excise on gasoline by ½ cent and to put back into the general fund certain excise receipts diverted to the highway trust fund. These actions would not affect the conventional budget results for fiscal 1961.) If a more realistic estimate of the cost of the present farm program is used and if the proposed postal rate increase does not pass, the surplus at the estimated levels of income will amount to about $3 billion instead of $4.2 billion.

The $4.2 billion surplus which the President gave as his estimate would result from an automatic $5.4 billion increase in revenues accompanying the rising levels of income, while he expected that Federal expenditures would be about $1.4 billion above those for the present fiscal year. The revenue estimates are based on an extension of the present corporation income tax and excise tax rates. We recommend that these rate extensions be enacted, though possibly with some revisions.

The proposed surplus, when translated into terms of Federal Government payments to and receipts from the public, amounts to a little more than $2 billion in calendar 1960, or about one-half of 1 percent of expected gross national product. For fiscal 1961, the estimated cash surplus is $5.9 billion, slightly more than 1 percent of the likely gross national product for the fiscal year. These are low ratios of surplus to the gross national product by postwar standards.

Since the levels of income upon which these budget estimates are based are less than full employment levels, it is perhaps just as well, assuming the President's programs were to be accepted, that no larger surplus be achieved, unless there were assurance that materially easier monetary and credit conditions would be provided by action of the Federal Reserve System.

We could, however, more fully discharge the responsibilities facing the Federal Government, and at the same time realize a larger budget surplus which would facilitate the easing of credit conditions, by (1) reordering the priorities in the Federal expenditure programs, and (2) undertaking urgent reforms in the Federal revenue system.

1. Reordering priorities

In general, Federal expenditure programs should be revised to place greater emphasis on providing a more effective national defense and on programs which will make important contributions, over the long run, to the Nation's economic growth.

(*a*) *Defense.*—Military expenditures by the Department of Defense in fiscal 1961 are estimated in the budget at $42,745 million, the same as in fiscal 1960. This amount is $828 million less than the actual expenditures in fiscal 1959. Moreover, the proposed fiscal 1961 outlays for military hard goods show a reduction in every major category—aircraft, missiles, and ships.

We recognize that the mere dollar volume of purchases for the military does not necessarily measure the adequacy of our defense effort. The costs of military hardware, however, are rising, not falling. A reduction in total purchases for these hardware items, therefore, necessarily means that a smaller addition to our arsenal will be made in the current fiscal year than in past years. There is no objective evidence that the Soviets are reducing the rate of their military buildup. Cutbacks in the real volume of our outlays, while the Soviets continue to increase the volume of theirs, requires a more convincing explanation than has yet been offered to assure the American public that the proposed defense program for fiscal 1961 is not to be unnecessarily limited on the basis of budget-balancing considerations.

The joint committee has observed repeatedly in the past, and we repeat the assertion again, that decisions about the volume and character of defense procurement should be made on the basis of judgments about the Nation's long-term military needs. They should be separated from short-run budgetary considerations.

A greater volume of outlays for major procurement programs of the Defense Department and for an increase in combat strength and efficiency does not necessarily require at this time any significant increase in the overall defense budget. The recent hearings by this committee's Subcommittee on Defense Procurement brought out the fact that very substantial savings—as much as $2 billion to $3 billion—can be realized by eliminating the current wasteful procurement practices and by more effective control over surplus stocks and stockpiles of obsolete material. This conclusion is confirmed by the findings of the Hoover Commission.[1]

[1] Senator O'Mahoney wishes to emphasize this point:

Military hard goods expenditures, particularly for new items, have a highly expansionary impact on the economy. Much of this impact is likely to be concentrated in those sectors of the economy in which increased demands will result promptly in rising prices which will in turn raise costs and push prices up elsewhere in the economy. For this reason, it is essential that the utmost care be taken to prevent waste in our military assistance programs abroad and the type of waste in defense procurement practices as revealed in our recent hearings.

These savings could be applied to the missile and space programs, and for combat troops, and would be a major step toward improving our defense position relative to that of the Soviet Union. If on the basis of expert and dispassionate evidence it is determined that further efforts are required we should not be deterred from undertaking them by considerations of budgetary prospects.

A responsible budget policy proceeds first from the determination of needs. If, despite savings from better procurement procedures, needs exceed the budget totals which are estimated by the President, we are certain that the American people will respond unhesitatingly and ungrudgingly to provide the additional revenues required in the interest of military security.

(*b*) *Foreign aid.*—Since the end of World War II, the United States has assumed the major burden of the leadership in the free world for aiding nations in their recovery from the war, in building up their defense capabilities against future aggression, and in providing for economic progress in less developed nations. The discharge of these functions continues to be a major responsibility which faces the United States. However, economic progress of our NATO partners should be given careful consideration in reviewing our foreign-aid program.

With respect to defense, the NATO countries, particularly those whose balance-of-payments situations have shown significant improvement, should be called upon to assume a larger portion of the burden for their own and for the NATO defense effort. While the United States will and should continue to remain the mainstay of the NATO defense program, our contribution should be reexamined and adjusted in the light of the expanding resources and capabilities of our NATO partners. The patterns set in 1951, when many of our European allies suffered from serious balance-of-payments problems, are no longer appropriate in 1960. It is proper that they devote more funds to their own defense.

The second major aspect of our foreign-aid program is to assist the economic progress of the less developed nations. The efforts of the United States in this respect should be maintained. Additional efforts by our allies are now possible and we believe that they should make a greater effort. Nevertheless, the demands for real resources in the world's underdeveloped areas are so great and the returns are so promising in terms of improvement in the living conditions and in the political and economic stability and freedom in these areas that we should not consider reducing our own economic contributions for these purposes even if those of our friends in other parts of the world increase.

(*c*) *Education.*—Despite the recognition of the fact that the Nation's economic growth over the long run depends upon improving our education achievements, the President offers an inadequate program to assure that progress toward this goal can be made. The committee's study of employment, growth, and price levels brought out very clearly that the rising standards of education in the past have made a major contribution to the Nation's economic progress. At the present, it is clear that a rapid pace of technological advance will demand a more highly educated and skilled labor force.

A vigorous program of Federal aid to education should be adopted during the current session of this Congress. This program should include no Federal control over the content of what is taught, the salaries or promotion of teachers, tenure, discipline, or any other feature of educational programs which historically have been controlled by local authorities. The Federal Government should also provide a national scholarship program, in addition to the present loan program, to provide the incentives and the necessary financial resources so that the more promising high school graduates may enroll in advanced educational institutions. Far too high a proportion of students of the top quality and ability in high school do not go to college because of the lack of motivation, financial limitations, religion, race, sex, and other factors which should not be allowed to bear on developing our most valuable resources.

(*d*) *Research and development.*—The research and development activities which have been supported and promoted by the Federal Government in the postwar period have been one of the most important sources of dynamic economic growth in the United States. Although most of these activities have been associated with the defense effort, they have yielded huge returns in civilian byproducts and in medical advances.

The National Science Foundation estimates that in 1959–60, the Federal Government will, directly and indirectly, supply well over half of the total funds going into research and development activities. It is essential for economic growth that the Federal Government continue and expand its support of research and development activities, even if the Nation's defense needs were to be reduced by an easing of world tensions.

Federal funds for research and development should be distributed more broadly, particularly to smaller firms, instead of being so heavily concentrated among industrial giants.

(*e*) *Farm expenditures.*—One of the most expensive aspects of the present farm program is that price supports are paid on corn and feed grains without any requirements by the Secretary of Agriculture for production controls of any kind. In his farm message, the President proposed the same program for wheat. Under the law, when the Secretary of Agriculture pays out funds in price supports for any crop he also has the authority to establish production controls. This has not been done and under the program of open-end payments the production and surpluses of corn and feed grains has increased at a fantastic rate. In addition, a large proportion of these payments go to a very small number of farmers.

By applying some form of production controls—either bushels, acres, or dollar limits—this vast expenditure for these crops could be limited. While this action would not solve the basic farm problem, it is certainly essential in the short run to avoid unnecessary expenditures and to see that the payments which are made go to those who need them most of all. Such production limitations could be imposed without any legislative changes. It should be done with the emphasis on promoting a rise in the income of the family sized farm and in the interest of Government economy.

(*f*) *Business subsidies.*—In the present budget there is provision for aids and special services to business of some $864 million. To this should be added the postal deficit of $554 million. Thus, business groups receive direct subsidies of at least $1.4 billion per year exclusive of numerous programs which guarantee many business operations against loss.

While the President has asked that rates be increased in the main on first class and air mail, the postal deficit is found in the second, third, and other classes of mail. For fiscal 1959, the total post office deficit, adjusted to show the full year effect of the postal rate changes in 1959, was $334.8 million. First-class and domestic-air mail each showed a surplus totaling $164.2 million, while other classes of mail showed a deficit totaling $499 million. The actual results for fiscal 1959 were a surplus of $156.8 million for first class and air mail and a deficit of $726.6 million for second, third, fourth, and other classes of mail. If the post office deficit is to be eliminated, it is evident that rate increases should be confined to second-, third-, and fourth-class mail and controlled circulation publications, for they are those which now receive the subsidies. Further cuts could and should be made in other business subsidies.

2. Tax reform

Putting greater emphasis on Government programs to promote economic growth is not a plea for big spending or deficit spending. On the contrary, these programs can and should occur in the framework of a much tighter fiscal policy than there has been during the past several years.

It is quite possible that these expenditure programs, even with the elimination of wasteful subsidies, would involve a somewhat greater total outlay than is contemplated by the President in his budget for fiscal 1961. In terms of the national income accounts, the expected level of Federal outlays for 1960 represents no larger a fraction of total output than has prevailed on the average in the post-Korean period. The revisions in Federal expenditure programs which we suggest would not significantly affect this relationship.

We recognize, nevertheless, that if a major start were to be made on these programs in 1960, their effect in promoting a more rapid expansion of gross national product in 1960 and 1961 might demand a larger budgetary surplus than that proposed by the President and certainly more than will probably be achieved under his specific proposals. If these urgently needed changes in Federal expenditures are provided, and if gross national product in real terms tends to rise to a level of $530 billion to $540 billion, which would be a full employment level of total demand for 1960, a larger surplus would be called for. A larger budget surplus devoted to debt retirement would make possible easier monetary conditions, which would also promote a higher rate of growth.

These larger budgetary surpluses are well within our reach without harm to the economy. Just a few of the major steps in a constructive reform of the Federal income, estate, and gift taxes could add $4 to $5 billion to Federal budget receipts. Such reforms should aim at broadening the tax base by eliminating the most flagrant and inequitable loopholes. These reforms include repeal of the dividends-received credit and exclusion, provision for the withholding on interest and dividend payments, rigorous limitations on employee expense accounts, limiting the types of income to which capital gains treatment is given to true capital gains, progressively reducing the percentage depletion rates allowed on oil and gas, improving the enforcement of

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the income tax laws, and elimination of the numerous preferential provisions in the estate and gift taxes. Even a modest beginning on this tax reform program could produce $2 billion to $3 billion in additional revenues.[3]

These loopholes should be closed in any event simply in the interests of having a fair tax system which interferes as little as possible with taxpayers' decisions about how to obtain and to dispose of their incomes. Those with equal incomes should pay equal taxes. Tax reform is all the more urgently needed when the public responsibilities facing the Nation are so pressing.

Further evidence of the lack of concern by the administration with the needs of sound fiscal policy is found in the very limited recommendations for tax reform offered in the Budget and Economic Report. While the President's Economic Report states explicitly on page 6 that we should continue to review our tax system from the standpoint of equity, of encouraging productive effort, and of facilitating mobility and efficient use of capital, the only reform proposals made are—

> * * * to preclude unintended and excessive percentage depletion allowances for mineral products * * * to make certain corrective amendments in the tax laws applicable to cooperatives; * * * and to tax as ordinary income any gain realized by the sale of depreciable personal property used in business. * * *

We are told that tax reform is still being considered. Such reforms are the concern of all Americans. The administration should make a complete public statement of its proposals in this area and exert full leadership in pressing needed reforms through the legislative process.

By revising our expenditure programs and by providing tax reform, Federal fiscal policy in 1960 can contribute materially toward a more rapid recovery in employment and production and toward laying the groundwork for a higher rate of economic growth in the long run. Moreover, this can be done in ways which will produce a budget surplus as large or larger than that proposed by the President.

3. Gains from fiscal reforms

If the budget priorities were reordered in a manner such as we have pointed out and if a start were made on tax reform, we could increase expenditures for missiles, space, and combat troops by $2 billion; add $2 billion for schools, health, depressed areas, and other pressing social needs; commit $1 billion to reducing excises and income tax rates (including those in the upper brackets if loopholes which are primarily for the benefit of upper bracket taxpayers are closed), and yet have a surplus larger than the President has anticipated. This would also mean a larger increase in total output, an easier monetary policy, and less unemployment. The general details of how this could be achieved are set out in the table below:

[3] Mr. BOGGS. I agree that the rate of growth of the American economy is lagging and that the policies recommended in the Budget and President's Economic Report are not adequate. However, I want to withhold judgment on some of the recommendations contained in the majority report, particularly with respect to tax reforms, debt management, and the shipbuilding program. The tax matters have been the subject of intensive studies before the Ways and Means Committee, and I would not want to prejudge these studies until that committee has had time to make its own recommendations.

The effects of a reordering of the priorities in the budget

[In billions]

PROPOSED SAVINGS

Program	Amount
Realistic budget surplus under present program	$3.0
Postal increase for 2d- and 3d-class mail	.6
Reduction in business and agricultural subsidies	1.0
Closing of most urgent tax loopholes	2.5
Savings on military surplus and procurement programs	2.0
Cuts in military aid	.9
Total	10.0

PROPOSED EXPENDITURES

Program	Amount
Increase for missiles, space, and combat troops	$2.0
Increase for schools, depressed areas, and social programs	2.0
Revenue loss from tax revision accompanying loophole closing	1.0
Subtotal	5.0
Payment on debt	5.0
Total	10.0

As can be seen, we could achieve a greater surplus while we met our military and domestic needs if this kind of program were to be supported actively by the administration and the Congress. This greater surplus would be achieved at higher levels of economic activity. Such a program is a constructive alternative to the position that we cannot afford additional expenditures for defense, schools, elimination of depressed areas, and slum clearance.

MONETARY POLICY AND DEBT MANAGEMENT

This year's Economic Report by the President, like those of the past several years, offers no guides for monetary policy in 1960. Fiscal developments, it is generally agreed, necessarily affect monetary and credit conditions. This relationship makes it essential to consider fiscal and monetary policies together in the interest of achieving the Employment Act's objectives. The silence of the President's Economic Report on this subject cannot be justified on the basis of preserving the independence of the monetary authorities. It represents, instead, a major deficiency in the administration's economic policy formulation.

In the area of monetary policy, we offer as a general prescription that the supply of money—i.e., currency held outside the banks and adjusted demand deposits—should increase over time at about the same rate as gross national product, allowing for normal velocity. This does not mean that the money supply should be adjusted to every short-term fluctuation in the level of total demand, but rather that over a period of years the rates of increase in both should be about the same. Much more reliance should be placed on fiscal policy—i.e., on adjusting Government receipts to expenditures—as a means of stabilizing the level of total demand in the interests of a high, steady rate of employment and of a stable price level.

Whenever this prescription is offered, the usual rejoinder from the Federal Reserve is that it ignores the increase in the velocity of money—that is, the frequency with which the money supply is turned over. But repeated expert testimony has shown that, at least up to some upper limit, an increase in velocity results from an inadequate growth in the supply of money and consequent rising interest rates. A more liberal monetary policy, therefore, would result in a somewhat lower velocity of the money supply.

Achievement of the Employment Act's objectives in 1960 calls for easier monetary and credit conditions.

If a budgetary surplus of the level estimated by the President is to be achieved with the present degree of monetary restraint or that likely to prevail under present Federal Reserve policies in 1960, it is improbable that a level of gross national product can be realized which would bring maximum employment.

The fiscal policy proposals offered above would make possible a larger budgetary surplus than that proposed in the President's budget for fiscal 1961, and larger than that which we believe will actually occur under his specific proposals. The use of the budget surplus for debt retirement would contribute to the easing of monetary and credit conditions. It is important that such an impetus toward monetary and credit expansion not be offset by restrictive action by the Federal Reserve.

Easier monetary and credit conditions are essential to a sound public economic policy for promoting long-term economic growth. A tight money policy impedes economic growth by slowing the rate of State and local government outlays for schools and other public facilities which are necessary for an expanding population, and the rate of private investment, particularly by small and new businesses. At the same time, tight money and high interest rates have little if any effect on the rate of saving. A more effective way to assure an adequate volume of total saving in the economy is to run a large budget surplus. An easier money-tighter fiscal policy, therefore, is the proper mix of public policies in the interests of economic growth.

Preventing inflation does not depend on tight money. In fact, we will do a much better job of preventing inflation with an easier monetary policy and a vigorous and alert fiscal policy. At the same time, such a policy combination will do a much better job of promoting economic growth.

NEEDED REFORMS IN TREASURY, DEBT MANAGEMENT, AND MONETARY POLICY

With appropriate changes in fiscal, monetary, and debt management policies, easier credit and monetary conditions can and should be provided in 1960.

In summary, our major recommendations are—

The Federal Reserve should—

(*a*) abandon its discredited "bills only" policy,

(*b*) agree to build up its portfolio of long-term bonds, and

(*c*) use open market operations rather than lowering reserve requirements as the means of bringing about the secular expansion of credit which the Federal Reserve and the banks desire.

The Treasury should—

(*a*) avoid seeking advice on new issues from organized groups of their customers who are interested parties,

(*b*) institute a system of callable bonds so that the public is not saddled interminably with high interest rates,

(*c*) extend the auction method to other than short-term bills, and

(d) agree to sell long-term bonds in the main when interest rates are low.

In addition, the Federal Reserve should immediately take the steps necessary to regulate the presently unregulated New York bond market and to apply margins to its customers.

These reforms could begin now. They would bring down interest rates, make the market more competitive, and could do this without recourse either to "pegging" or to inflationary devices.

We do not seek a policy of pegging Government bond prices at artificially high prices and low yields. We do seek abandonment of policies aimed at pegging Government bonds at artificially low prices and high yields.

It is for these reasons that, pending reforms in fiscal, monetary, and debt management policies, we have opposed the elimination of the present 4¼-percent statutory ceiling on the rate which may be offered on Federal Government debt instruments with a maturity of more than 5 years.[3] Since December 1952, the average maturity of the Federal debt has fallen by a full year (as of January 30, 1960). Much of this decline occurred when long-term rates were below the statutory 4¼-percent ceiling and before the administration requested the elimination of the ceiling. Moreover, little has been done since 1952 to lengthen the debt, even when long-term rates were low.

The Federal debt can be efficiently managed well within this 4¼-percent rate ceiling, if appropriate reforms are undertaken. Moreover, these reforms, which can be made effective very quickly, should be undertaken quite apart from the question of the interest rate ceiling. Indeed, if progress is made in this direction, the interest ceiling will again become an academic issue.

In this area, too, we are familiar with the reply of the administration's supporters. It is that even if the proposed reforms are undertaken, they could not be achieved overnight and in the meanwhile the enforced reliance on short-term financing is inflationary.

With respect to the first point, these reforms would begin quickly. The second argument that is made is that short-term issues are near money while long-term issues are not.

In fact, this is not a pertinent argument. If the total volume of credit is fixed by the monetary authorities, then any new debt issue—whether it is long or short term—reduces the amount of credit which may be extended for other purposes. Whether the debt issue is a long-term or short-term instrument, therefore, is not a relevant question in this respect. It is relevant, however, in determining whether high interest rates are to be paid on debt issues with a short life or on those with long maturities. Clearly, even if high interest rates cannot be avoided for the relatively short period of time in which the proposed reforms in debt management are undertaken, they should not be fixed on the economy for 10, 20, or 30 years through the issuance of long-term debt by the Treasury.

MARKET STRUCTURE

To achieve the objectives of the Employment Act, the third major concern of public economic policy should be with the market structure

[3] Mr. Bolling and Mr. Coffin: "As we have indicated in the Committee Report on Employment, Growth, and Price Levels (S. Rept. 1043, 86th Cong., 2d sess., p. 36, footnote 56), we do not object to removing the 4¼ percent ceiling, if accompanied by the initiation of other basic reforms."

of the economy. In its study of employment, growth, and price levels, the committee noted that serious deficiencies of market structure frequently impede the prompt change in resource use essential in a dynamic economy and that these impediments contribute to persistent upward price pressures. Inflationary tendencies and inefficient resource use are the price paid for not mounting a much more vigorous attack on these structural weaknesses.

The sources of these weaknesses are varied. Government programs which subsidize uneconomic production activities include those in shipbuilding, agriculture, and, through the use of tariffs, in a wide array of manufacturing. A more efficient economy and one substantially less subject to inflationary pressures calls for progressive reduction in tariffs, elimination of some business subsidies, and a thoroughgoing revamping of the Federal Government's agricultural program to provide such support for farm income as may be necessary for prosperity and progress in this sector of the economy.

In addition, the Federal Government must substantially increase its efforts to reduce the extent of market power in the business community and to prevent the exercise of this power against the well-being of the economy as a whole. The specific proposals of the President in the antitrust area, while steps in the right direction, are far too limited to be of major consequence in improving effective competition.

The basic problem which limits the curbing of market power is that under the present statutes the courts have insisted upon some direct evidence of collusion or concerted action to support a finding of antitrust violations. Modern pricing and other practices, however, even when clearly monopolistic, do not require and do not usually involve such direct or contractual collusion. In addition, legal delays have been long, and the resources of the Antitrust Division and of other agencies responsible for enforcement have been inadequate to deal with their responsibilities and the importance of the tasks they must perform.

Within the past few years, the courts appear to be more aware of the broader economic meaning of size as a factor in market power, even when this is independent of concerted action. The courts have also become more critical of the role of mergers on the effectiveness of competition. It is to be hoped that these trends will continue.

In addition, however, the Government should take more specific steps to strengthen our present antitrust policy. Specifically we need more effective application of antitrust legislation to industries in which a high degree of market power is possessed and exercised by large producers, even where no evidence of direct or overt collusion or conspiracy can be shown.

The Antitrust Division should be substantially strengthened. Even after recent increases, the funds provided to the Antitrust Division are less than $4.5 million, much too meager an amount for the functions it is expected to perform. The professional staff of the Division should be expanded, and salary levels should be set high enough to prevent the drain of experienced personnel into private industry.

The Congress should review the policies of the regulatory agencies in those industries which are granted exemptions from the antitrust laws. More knowledge of the effects of regulatory practices on competition in these particular industries is needed.

In particular the 1950 amendment to section 7 of the Clayton Act, closing the loophole as to mergers through acquisition of assets, should be extended to apply to bank mergers, and the Antitrust Division of the Department of Justice should continue to have jurisdiction over enforcement of the act as to bank mergers.

Further, the Bank Holding Company Act of 1956 should be strengthened to encourage the continuation and growth of our historic system of independent locally owned banks. Before they approve a bank holding company's acquisition of stock in a bank, the Board of Governors of the Federal Reserve System should be required to determine whether the laws of the State affirmatively permit such an acquisition.

The more serious market power as a source of inflationary strain and economic inefficiency becomes, the greater is the urgency for devising new techniques and methods for dealing with it. The Federal Government should take the lead in trying to make large industries and unions exercise this power with restraint. The Federal Government could, for example, bring together in an annual labor-management conference the leaders of both of these groups so that they could be given the general economic outlook and informed of the relation of their actions to the national economic welfare. Such a conference could result in a useful exchange of views between business, labor, and Government officials. Over the long run, it might have a good effect on prices and wages in important industries. Because of this, we recommend that such an annual conference be started.

Moreover, as we noted in Senate Report 1043, while we recognize the difficulties and dangers of, and share the presumption against, Government participation in the price-wage setting process, there is a need, at least on a standby basis, for a factfinding procedure covering key price and associated wage increases which seriously threaten economic stability, to be invoked at the discretion of the President, and to result in the issuance of a report and recommendations regarding the justification and desirability of such proposed increases.

The problem of national emergency disputes between labor and management also needs further attention. Whatever emergency legislation is adopted, it must be clearly specified that the stability of the price level is one criterion to be applied.

In addition, there are numerous actions which the Federal Government should take to increase productivity and improve the structure of the economy. The major steps are—

1. A program of assistance to chronically depressed areas should be started. Both technical and long-term financial aid will be required to help these areas to become self-sustaining and to help themselves. Where necessary, retraining of workers should be undertaken.

2. The activities of the various State employment agencies should be coordinated into an effective national system in which information about job opportunities and available workers will be provided to both employers and workers throughout the country. In addition, the financial burden of unemployment should be reduced by encouraging a more liberal system of unemployment insurance, particularly for workers in chronic labor surplus areas.

3. Besides general policies designed to strengthen the forces of competition, special programs to promote small business must be continued and improved. Small business has brought many innovations to the American economy. The Federal Government must see that capital is available to small business, and should help to protect it against predatory practices.

NOTE.—Senator Fulbright was unable to participate in the hearings or committee meetings on this report. For that reason, the findings and conclusions herein set forth are neither approved nor disapproved by him.

Committee and Subcommittee Activities in the Past Year

The Joint Economic Committee is directed by the law creating it (Public Law 304, 79th Cong.) to report to the Congress on the main recommendations of the President's Economic Report and to make a "continuing study" of the economy. During January and February of 1959 the committee held hearings and prepared its report on the 1959 Economic Report of the President.

Committee and subcommittee studies announced in that report provided for a broad inquiry into overall economic policies for employment, growth, and price levels by the full committee, and a special assignment to the Subcommittee on Economic Statistics to examine the problem of comparisons of United States and Soviet economic growth.

Subsequently the committee also announced plans for a study of U.S. energy resources by a Subcommittee on Automation and Energy Resources and a study of the impact of defense procurement by a Subcommittee on Defense Procurement.

The work of the full committee and the subcommittees, for the period March 1959–February 1960, is summarized below.

PRESIDENT'S 1959 ECONOMIC REPORT

Hearings on the January 1959 Economic Report of the President provided an opportunity (1) for the executive branch to indicate the economic assumptions and reasoning underlying the President's economic program and to justify major economic policy recommendations; (2) for a limited number of outside experts to set forth their views on the President's economic analysis and program; and (3) for the economic interest and research groups to submit their views. The committee's report on the President's report was transmitted to the Congress on March 9, the March 1 deadline being extended by unanimous consent. The report included supplemental and dissenting views of committee members, and materials on the economic outlook for 1959 prepared by the committee staff (S. Rept. 98, 86th Cong., 1st sess.)

STUDY OF EMPLOYMENT, GROWTH, AND PRICE LEVELS

Senate Concurrent Resolution 13, 86th Congress, 1st session, passed March 23, 1959, charged the Joint Economic Committee with conducting—

> * * * a full and complete study of, and investigation into, the problems of providing maximum employment and an adequate rate of economic growth, as well as maintaining price stability and preventing inflation * * *.

A budget of $200,000 was provided for the study and a special staff recruited to carry out the work, with the assistance of several members of the permanent staff. The permanent staff also provided administrative services. In the course of the study the committee heard nearly 100 witnesses in 9 sets of hearings covering 40 separate days. Twenty-three special study papers were prepared by outside consultants and the committee staff for use in connection with the special study. In addition, the special study staff prepared a comprehensive report setting forth fundamental data and technical analyses bearing on the problems with which the study was concerned.

The committee's own report on the study of employment, growth, and price levels, with minority and individual views, was submitted to the Congress January 26, 1960, and printed as Senate Report 1043, 86th Congress, 2d session.

SUBCOMMITTEE ON ECONOMIC STATISTICS

The Subcommittee on Economic Statistics is composed of Representative Richard Bolling, chairman; Representatives Hale Boggs, Frank M. Coffin, and Thomas B. Curtis; and Senators John Sparkman, J. W. Fulbright, Prescott Bush, and Jacob K. Javits.

The subcommittee in accordance with instructions from the full committee (S. Rept. 98, 86th Cong., 1st sess., p. 20) conducted a study of "Comparisons of the United States and Soviet Economies." Expert witnesses prepared 33 papers on 9 subject areas covering comparisons between the 2 economies. These study papers were released early in the fall and the authors then discussed their papers in a series of hearings held from November 16 to 20. The hearings began on Friday, November 13, with testimony by the Director of the Central Intelligence Agency. The summary and policy implications of the study were covered by the concluding panelists' papers and in the discussion in the final session of hearings.

SUBCOMMITTEE ON AUTOMATION AND ENERGY RESOURCES

The Subcommittee on Automation and Energy Resources is composed of Representative Wright Patman, chairman; Representatives Henry S. Reuss, Clarence E. Kilburn, and William B. Widnall; and Senators Joseph C. O'Mahoney, John F. Kennedy, and John Marshall Butler. The subcommittee held hearings October 12 to 16 on the anticipated needs and adequacy of U.S. energy resources and the impact of technology on the production and efficient use of the energies required for sustaining economic growth. Witnesses were heard from research organizations, Government bureaus and the oil and coal industries.

SUBCOMMITTEE ON DEFENSE PROCUREMENT

The Subcommittee on Defense Procurement is composed of Senator Paul H. Douglas, chairman; Senators John Sparkman, Joseph C. O'Mahoney, and Jacob K. Javits; and Representatives Wright Patman, Richard Bolling, Thomas B. Curtis, and William B. Widnall.

In announcing hearings on the impact of defense procurement which were held January 28 to 30, 1960, the chairman explained that the subcommittee would not be concerned with questions of military strategy, weapons, size of forces, etc.—nor with the broad problem of the overall economics of disarmament—but with the purely economic and budgetary issues involved in the way the Nation spends over two-thirds of its budget. The witnesses heard were from the agencies of the Federal Government with primary responsibility for procurement and disposal of defense materials, and from the Hoover Commission task force members.

STAFF PARTICIPATION IN MEETINGS WITH OUTSIDE GROUPS

In addition to conducting formal studies and arranging hearings for the committee, the staff participated in discussions of economic problems and research techniques with outside groups. The following list of meetings illustrates the nature of these activities in which the staff took part during 1959: Economic workshop, West Virginia University, annual sessions of the National Tax Association, Investment Bankers Association, Mortgage Bankers Association of America, the National Bureau of Economic Research, National Industrial Conference Board, Federal Statistics Users' Conference, American Economic Association, American Statistical Association, the National Association of State Tax Administrators, American Society for Public Administration, and the National Planning Association; conferences with groups of foreign economists brought here under the sponsorship of the State Department and the International Cooperation Administration; seminars of the Industrial College of the Armed Forces; meetings of local chapters of the American Statistical Association; meetings of the Brookings Institution, the Chamber of Commerce Committee on Business Statistics, and other meetings of business groups, civic organizations, and university classes.

COMMITTEE PUBLICATIONS

In the period March 1959 through February 1960 the Joint Economic Committee and its subcommittees issued 48 publications. Over 250,000 copies of current and previous committee publications were distributed during the year to fill individual requests. Committee publications are also on sale by the Superintendent of Documents. In the past year, individual copy sales and quantity orders of committee publications, current and past, have exceeded $30,000. This figure does not include the 8,400 paid subscriptions for the monthly publication of Economic Indicators. A checklist of committee publications will be found at the back of this report.

Committee and Subcommittee Plans for the Coming Year

FULL COMMITTEE

The relationship between monetary and fiscal policy actions in the postwar period and the objectives of the Employment Act.—Chapter 8 of the "Staff Report on Employment, Growth, and Price Levels" discussed some of the economic consequences of the postwar trend with respect to the relative emphasis on fiscal and monetary policies. The manner in which Federal fiscal and monetary actions are combined in seeking the Employment Act's objectives appears to be at the heart of some of the major current issues of public economic policy. The staff, therefore, is directed to inquire further into the changes in the combination of fiscal and monetary policies which have occurred in the postwar era and the consequences of such changes for the rate of growth of the Nation's productive capacity, for stability in the rate of employment and output, and of the price level, and for the distribution of income.

Tabulation and summary of questionnaires submitted by 17 security dealers.—In connection with the committee's hearings conducted as part of the study of employment, growth, and price levels, the 17 firms dealing in Federal Government securities were asked to submit detailed information on a number of aspects of their business over the last 10 years. The assembly and submission of this information is now nearly completed. The designated staff is directed to tabulate and summarize the data from the dealers for committee consideration, in accordance with committee rule 23, in a manner which will not reveal the identity of any individual, partnership, corporation, or entity.

Study of governmental subsidies.—The committee will begin a broad inquiry into the extent and impact of Federal Government subsidies, direct and indirect. The subject is closely related to the objectives of the Employment Act, in part (1) because of its relation to fiscal and tax policies as they relate to economic stability and growth, and in part (2) because subsidies are a part of the "plans, functions, and resources" of Government which can contribute to—or through unplanned, perverse behavior partly negate—efforts to promote maximum employment, production, and purchasing power. The growth of our subsidy pattern has been piecemeal and gradual and a listing and reexamination of aggregates and priorities seems to be in order although there is no doubt that many items will be found to have their sufficient reasons in public policy.

The study will be carried out initially by calling upon the staff to find out what subsidies are being granted, to estimate their amounts, and to summarize their origins and rationale. This will be done without any attempt at appraisal of desirability or relative merits. Such a study must rely primarily on an analysis of the budget to estimate which subsidies are being paid but we must also be alert for items of omission which give rise to identifiable special group benefit.

Decision as to the committee's further action, including the possible hearing of advocates and critics, will be postponed until members of the committee have had an opportunity to study the materials gathered by the staff. The study is a long-range one and no schedule for its progressive stages can be set at this time.

It is worth noting at this point, however, that a formidable problem of such a study is one of differentiating or at least of arriving at a working basis of precisely what items should be brought within the purview of the inquiry. The directive to the staff takes notice of the criteria set forth in the dictionary: To subsidize is "to aid or promote as a private enterprise with public money"; a subsidy is a "governmental grant to assist a private enterprise determined advantageous to the public." The problem and scope will be made easier if it is recognized that the characterization of any governmental assistance or grant as a "subsidy" is not to stigmatize but to prepare the ground for examination of justification upon which of course opinions may well differ. Whether a given subsidy is to be regarded as desirable or undesirable is for the people as a whole to determine through democratic political processes. The ultimate decision, it may be hoped, can be made upon some more profound basis than short-term self-interest of beneficiaries.

Economic implications of alternative agricultural policies.—The last special work by the Joint Economic Committee in the field of agriculture was the compendium, hearings, and report on "Policy for Commercial Agriculture" done by a Subcommittee on Agricultural Policy in 1957.

Since that time the Senate Agriculture Committee has arranged for a staff analysis of probable levels of production, prices, and farm income in 1960–65 if production controls were removed and price supports were lowered to market levels. This report, begun last May by the technical staff of the Department of Agriculture, with the counsel of an advisory committee of agricultural economists from the land-grant colleges, was published January 20, 1960, as Senate Document 77.

Starting from this staff study for the Senate Agriculture Committee which covers the range of what might be expected under conditions approaching a free market, the Joint Economic Committee will explore the economic implications for what appear to the the most feasible alternatives to such a free market policy. The committee's concern with the need for such a study arises from the projections in this report which indicate production would continue to rise during 1960–65 in spite of falling prices and that realized net farm income of farm operators by 1965 would fall about 40 percent below 1955–57 levels—46 percent from 1958 levels.

Several leading agricultural economists will each be asked to prepare a paper on one of the alternatives proposed. These papers will synthesize the latest research results and best professional thinking on that particular alternative, for use of the committee in reviewing the economic implications of agricultural policy proposals next year.

While final decision on the exact alternatives to be studied would await review and counsel of an advisory panel to be set up from the agricultural colleges for that purpose, these alternatives would probably include—

(1) Unrestricted production and marketing except for a conservation reserve of about 60 million acres.

(2) Unrestricted production and marketing except for production controls on key basic crops such as tobacco, cotton, rice, and wheat and supplementary payments to family farmers under specified income situations.

(3) Limited Government controls and price supports for feed grains and livestock, with improvements in existing production controls and price supports for wheat, cotton, rice, and tobacco.

(4) Comprehensive supply management and price supports.

SUBCOMMITTEE ON ECONOMIC STATISTICS

Review of Economic Indicators and preparation of 1960 edition of Supplement to Economic Indicators.—The staff under the direction of the Subcommittee on Economic Statistics, and in consultation with the Council of Economic Advisers and its staff, is directed to conduct one of the periodic reviews of the committee's monthly publication, Economic Indicators. These reviews are undertaken to insure the timeliness of the indicators and its maximum usefulness to the Congress and the Executive, as well as the 8,000 persons who subscribe to Economic Indicators monthly.

It is also time for another issue of the Historical and Descriptive Supplement to Economic Indicators, the last one being prepared in 1957. This publication provides current descriptions of the uses and limitations of the statistical series published in the monthly Indicators and gives data for back years not available in the monthly issues. The staff is asked to work with the Council of Economic Advisers' staff and the various statistical agencies in preparing a 1960 edition of the Historical and Descriptive Supplement to Economic Indicators.

SUBCOMMITTEE ON AUTOMATION AND ENERGY RESOURCES

Bringing previous hearings on automation up to date.—The Subcommittee on Automation and Energy Resources is asked to continue its study of the impact of automation and technological change upon economic stability and growth.

The committee, in its report to the 84th Congress (No. 1308), pointed out that the subcommittee's investigations at that time had demonstrated that the problems of automation are by no means negligible or settled and that the committee considered it desirable to review periodically the progress of technological change. The hearings and report of October 1955 were followed by other hearings in December 1956, November 1957, and, with a special emphasis on energy resources, in November 1959. The plans of the subcommittee for the coming year involve, first of all, a directive to the staff, acting under the guidance of the chairman, to solicit, through a questionnaire or other means, information as to developments during the interim since earlier hearings, from the persons or organizations who appeared at these previous hearings. The objective will be essentially that of bringing the previous hearings up to date and getting the views of labor leaders, businessmen, and engineering experts as to the problems of automation and technological change in the light of developments during the interim.

The results of this inquiry will, it is believed, give the subcommittee a solid foundation upon which to judge what further needs to be done for keeping the Congress informed and keep the subcommittee in a position to make recommendations for policy if the broad-gaged objectives of the Employment Act of 1946 are to be met.

Further study of energy resources.—The hearings of our Subcommittee on Automation and Energy Resources, under the chairmanship of Representative Wright Patman, studied the possible conflicting relationship and the question of whether there was lack of integration of Government policy upon this important element in our economic health and growth.

While the subcommittee concluded that there was no present occasion for concern about an early shortage in the energy sources necessary to sustain growth, testimony convinced the subcommittee of the desirability of further study. There has been substantial government intervention at both the State and Federal levels. The variety and extent of government regulation, coupled with a complex of relationships, needs considerable study. The partial regulation of natural gas prices and transmission, interstate and intrastate; the insulation of domestic oil prices from foreign competition through import controls; production controls on oil and gas; the direct and indirect subsidies being given to atomic commercial energy; and the division of regulatory responsibility among a number of agencies all suggest the desirability of further careful scrutiny to make sure that the Government itself by its policies is not adding unnecessarily to the economic complexities and uncertainties.

The subcommittee's immediate focus for pursuing the inquiry into the adequacy of energy resources will accordingly be directed largely to a consideration of this division of regulative responsibility as a case study in the relationship of government to the elements involved in promoting maximum employment, production, and purchasing power.

SUBCOMMITTEE ON DEFENSE PROCUREMENT

Study of the impact of defense procurement.—The immediate plans of the subcommittee call for completion by the staff of their report to the subcommittee on the "Impact of Defense Procurement." The staff will also compile for presentation in the printed hearings, various tabulations and analyses requested during the hearings.

SUPPLEMENTAL VIEWS OF REPRESENTATIVE WRIGHT PATMAN

The committee's report is, on the whole, a good one. Manifestly, it is an extremely important document, because it points the way to solutions of some of the gravest problems of our times. Yet there are several points on which the report leaves me dissatisfied. Be it said, however, that my dissatisfaction is over matters which have been omitted, or only incompletely considered, more than with the findings which have been made and solutions which have been suggested.

TAXES

The committee's report gives first and foremost attention, as it properly should, to the central problem of our time. This is to find a reasonable and promising policy of government to be substituted for the unsuccessful policy of manipulating credit and interest rates in an effort to achieve a desirable degree of stability and progress in the Nation's economic affairs, such as is described in the Employment Act of 1946. The committee's report does an adequate job of pointing out the unwisdom of relying upon "monetary policies" for this purpose. Indeed, the committee's report leaves no question that these policies have created great injustices and are leading to certain disaster.

As an alternative way of achieving when the tight money and high interest policy has failed to achieve, the committee recommends the use of fiscal policies, particularly flexible tax rates. I agree that this is a most promising suggestion. Yet it is on this subject of taxation that the committee's considerations seem most incomplete. The committee has not really explored the tax structure.

Furthermore, while it recommends several specific changes in the tax laws, seemingly of a random sort, it has not suggested any specific way for achieving the flexibility in tax rates which constitutes its central program for maintaining economic stability. This omission is unfortunate in all respects. Members of Congress are not given sufficient specificity by which they may appraise the program being recommended. Furthermore, some specifications are necessary to make the program politically salable, and this is a matter of no small importance. Any program the committee recommends, no matter how manifestly sound it may be, must be sold, politically, in competition with a quite formidable sales effort being made on behalf of the tight money and high interest policy. The vested interests supporting this policy have much at stake, and the commercial media of communications are highly resistant to carrying any word or fact which tends to discredit the policy. Thus, if the committee's recommendations are to have any practical effect, they must be sufficiently developed and in a form which the candidates for national office can take directly to the people in the political campaigns this fall.

It would seem to me that a practical and understandable program to accomplish the committee's recommendations must take account of the following:

First, let us consider the primary emphasis in the committee's recommended policy, which is on reducing tax rates, temporarily, when the first signs of recession appear. If tax reductions are to be effective in combating recessions, such reductions must be made promptly, which means that decisions must be reached more quickly than the legislative processes normally permit. This being true, I would urge that the Congress enact general legislation giving the President discretionary powers to reduce the tax rates on the incomes of individuals by a uniform percentage, whenever he finds that recessionary tendencies are developing.

But what of the opposite problem? What are to be the means of restaining inflationary pressures in boom periods? The committee's report has taken the position that substantial reductions should be made in the public debt at such times, and that such reductions would provide both effective and just restraints against monetary inflation. With this I agree. But nothing is said of raising tax rates beyond present levels in order to accomplish substantial reductions in the public debt. Clearly, however, such increases would be necessary for substantial debt reductions in such times as at the present, unless there are to be reductions either in essential public services or our defense preparations. The committee does not recommend the latter, nor would I.

Proposals for increased taxes are, of course, never very popular. Yet it seems to me that the American people would readily understand the advantages of such a proposal if these facts were made clear to them:

First, they are already paying an anti-inflationary tax. At least they are paying what is for all practical purposes a tax—in the form of high interest rates—on the theory that this helps to check inflation. The theory has not been able to stand up under examination; but as to the fact of the "tax," there is no question. At times this "tax" is half hidden, that is true, but it is reaching very far into the pocketbooks of all except the very wealthy.

Second, the high interest "tax" which we all pay to combat inflation has very bad effects and it does not accomplish the good effects which are claimed for it. The bad effects are these:

(*a*) High interest is a tax not on the fruits of economic activity but a tax on economic activity itself. As the committee's report clearly points out, the high interest and tight money policy causes unemployment, causes nonuse of productive capacity, and retards the Nation's economic growth. This is bad from the standpoint of our present and future ranking among the nations of the world, even if we felt that we are already so comfortably situated that we do not need to produce more of the material things of life. The Russian economy has been growing, in recent years, at a rate almost three times as fast as our growth.

(*b*) The high interest "tax" is a regressive tax. The burden of it falls not on those most able to pay, but upon those least able to pay. It thus cuts down on the consumption of the goods and services which the Nation already has the capacity to produce.

(*c*) Finally, the income from the high interest "tax" is not going to pay off any of the Federal debt. It is only going to fatten the incomes of the financial corporations and the wealthy families. Actually, the high interest rates are adding to the

Federal debt. They are increasing the Treasury's cost of meeting interest charges so greatly that the Treasury is going more into debt to meet the interest charges.

It should be clear by now that I am not suggesting that the American people be offered a proposal that they carry an increased burden. On the contrary, I am suggesting that they be offered a proposal that they pay more in taxes in prosperous times, and pay less in direct and indirect interest charges. These interest charges actually amount to a great deal more than we would need to pay in taxes in order to make substantial reductions in the debt and to provide a much better restraint against inflation than the high-interest program provides.

In other words, I am suggesting that the President be given also the power to raise tax rates on individual incomes, uniformly, and at his discretion, as a means of combating inflation.

In order to assure that the American people would not be subjected to both high interest and increased tax rates, however, other legislation would be necessary to fix the responsibility of the Federal Reserve System, and I shall discuss this at a later point. So much for my ideas on a specific program for providing the flexibility in tax rates which the committee has recommended as an alternative to the high-interest and tight-money policy.

As to the specific recommendations which the committee report makes to correct tax inequities, however, I feel that this subject of tax inequities has not been sufficiently considered. To illustrate, the committee's report recommends repealing the dividend-received credit and exclusion provision, but it is silent on the notorious ways by which corporate executives and employees escape taxes through stock option schemes. Similarly, the committee's report recommends reductions in depletion allowances for oil and gas, apparently only for the reason that large amounts of money are involved, without considering the practical consequences of the depletion allowances on all the other commodities and resources for which such allowances are provided.

Finally, in order to recommend a program for correcting tax inequalities, I believe that the committee would need to consider first and foremost the impact of Federal taxes on our business structure. There is a great deal of evidence which suggests that the giant corporations are in reality bearing little or none of the tax burden, while the smaller and more competitive business firms are, on the other hand, being taxed out of existence. If I am right about this, the Federal tax structure, more than any other factor, is bringing about the concentration of business which the committee deplores, and bringing about the breakdown of the competitive price system which the committee sees as the principal cause of the so-called inflation.

NEED TO PUT THE FEDERAL RESERVE'S HOUSE IN ORDER

The committee's report strongly recommends that the Federal Reserve adopt a less restrictive credit policy. It also makes a number of good recommendations for changes in Federal Reserve practices which would also have the effect of reducing interest rates. These are in addition to its recommendations for "flexible" tax rates, which, as I have discussed, seems to require an assurance that the American people will not be burdened with both high taxes and high interest rates. Yet there are no recommendations for legislation which would assure that the Federal Reserve will not go its own determined way, without respect to what the American people may wish or the Congress may recommend.

The Federal Reserve authorities have assumed a posture of "independence" from the rest of the Government. Further, the President and other administration officials have lent support to the idea that this agency is beyond the reach of the voice of the people.

Most of the confusion arises from the fact that the member banks of the Federal Reserve System have invested a relatively small amount of money in what is called "stock" in the Federal Reserve banks. This has lead many bankers to believe that they own the Federal Reserve System. Consequently, it has led the banking community to urge policies which are based on the premise that the Federal Reserve System should be operated in ways that produce maximum profits for its alleged "owners"—the banks.

This has led to confusion all around. The Federal Reserve banks themselves write letters to the public and distribute expensive booklets which say in one way or another that the Federal Reserve banks are not "owned" by the Government, that their employees are not Government employees, and, boastfully, that the Federal Reserve banks receive no support from the Government.

The Federal Reserve banks are not owned by the private banks. They are owned by the Government of the United States. The so-called "stock" in the regional banks is not stock in any normal sense of the term. As the law makes clear, it cannot be transferred, sold, traded, purchased voluntarily, or used as collateral. It does not represent an equity in undistributed profits, carry voting rights, or share (beyond a fixed 6 percent) in profits.

The funds which have been invested by the banks in this so-called "stock" should be repaid, and this so-called "stock" should be canceled. Only approximately $390 million has been invested in this "stock" and this is a pittance compared to the assets of the Federal Reserve System. It has no need whatever for the money. Repaying it would, therefore, save the U.S. Treasury an unnecessary interest charge of 6 percent per annum or about $24 million a year. And most important of all, canceling the "stock" would remove the basis of confusion concerning the "ownership," and hence clarify the Federal Reserve's responsibility for determining credit and interest policies for the whole economy.

In the interest of further fixing political responsibility for the Federal Reserve System's political decisions, the Federal Open Market Committee should be abolished and its duties transferred to a board or a committee composed entirely of members appointed by the President and confirmed by the Senate.

At present the top policymaking body of the Federal Reserve System is not the Board of Governors; it is the Federal Open Market Committee. And 5 of the members of this 12-man Committee are selected by representatives of the private banks. Manifestly, the private banks should not be permitted to select members of a public body which is to determine credit and interest-rate policies. The private banks have too much private interest in the policies to be determined.

There are several other long overdue reforms in the Federal Reserve System which, when made, will save unnecessary expenses and reduce the System's burden on the taxpayers. These require legislation, either to make the reforms possible or to make them likely. They are as follows:

(1) The Federal Reserve System should be required to submit to annual audits and to the normal audit control of the Comptroller General of the United States. The System receives its income—or substantially all of its income—in the form of interest payments from the U.S. Treasury on the huge amount of U.S. bonds and other obligations which the System is holding. This provides an income vastly in excess of what the System needs for all purposes. The System pays its expenses out of this income—most of which are incurred in providing free services to the private banks—and then it returns what remains to the Treasury. At least the System returns 90 percent of what remains; it puts the other 10 percent in "surplus" funds.

In the process of meeting expenses, however, the Federal Reserve banks assume a strange variety of expenses, and, in general, they spend the taxpayers' money in a generous and freehanded way. The unusual expenses include such things as providing free office space for private associations, paying "dues" in private associations, meeting banquet and entertainment expenses, handing out "gifts" to nonbank employees, and paying for the college educations of youths who may or may not become bank employees.

The Federal Reserve authorities have tried to defend such freehanded spending of public funds on the ground that these are customary practices of business firms in the areas where the banks operate. Yet the Federal Reserve banks have no more right to spend public funds in these ways than the local post offices have a right to spend public funds for such purposes. A proper audit by the General Accounting Office would promptly put a stop to such improper expenditures. It would, moreover, provide a check and a safeguard on the possibility of mishandling of billions of dollars of Government funds and Government securities.

(2) At least $15 billion of U.S. Government securities which the Federal Reserve System is holding should be returned to the Treasury for cancellation. In order to put to rest the argument that such a transfer of assets from one Government agency to another would put the Government's "books out of balance" and thus "bankrupt" the Government, I have proposed that the Secretary of the Treasury issue to the Federal Reserve, in exchange for these interest-bearing obligations, a non-interest-bearing, nontransferable note payable on demand. This would keep the books in balance.

Cancelling $15 billion of the approximate $27 billion of Government securities which the Federal Reserve now holds would make it unnecessary for the Treasury to pay interest charges on this amount of debt in the first place. It would thus enable the Treasury to operate on a lower level of debt, which would mean less cost to the taxpayers in interest charges.

Canceling $15 billion of the Federal Reserve's securities would serve another good purpose, in that it would safeguard against the possibility that the Federal Reserve System may transfer a substantial share of its holdings of Government securities, on a cost-free basis, to the private banks.

Early in 1957, the American Bankers Association made a "report" to the Board of Governors of the Federal Reserve System recommending a program whereby the Federal Reserve would transfer to the private banks approximately $16.8 billion of U.S. Government securities by mid-1961. The proposed transfer was to be made up of $9.8 billion of securities which the Federal Reserve already held at mid-1956, plus another $7 billion which it was expected to acquire by mid-1961, in order to provide for the normal increase in the money supply, assuming that no part of the American Bankers Association program was accepted. The proposal, in a nutshell, was that the Federal Reserve issue regulations reducing reserve requirements of the member banks, and, simultaneously, "sell" its securities in the amounts suggested. This would have meant that the Federal Reserve would "sell" its securities in the open market at the same time it was giving the member banks the power to create the money needed to "purchase" the securities. The Federal Reserve authorities smiled favorably on this proposal and recommended legislation by which it could have been carried out—all of which suggests that an additional safeguard would not be out of order.

(3) Funds being held in the Federal Reserve's surplus account and in its "other capital account" should be returned to the Treasury, so that they may be used for debt reduction. The Federal Reserve System has no more need for carrying surplus funds, either in a surplus account or in an "other capital" account, than does the Post Office Department—in fact, considerably less so. At the end of 1959, these items amounted to more than $1.1 billion.

Neither item serves any purpose other than to help preserve the fiction that the Federal Reserve System is a private business organization and should, therefore, make public reports which show it in a favorable "surplus" position, such as is expected of successful private business organizations.

The System's authorities themselves recognize this. Since the end of 1959 they have "voluntarily" transferred a part—$266 million—of these unneeded surplus earnings to the Treasury Department.

TAX-EXEMPT STATUS FOR SECURITIES SHOULD BE ELIMINATED

The haven for tax avoidance which tax exempt securities provide and the consequent loss of revenue to the Federal Government have been neglected far too long. This committee should undertake on its own part, or at least encourage and recommend to other committees, that a study should be made of the alleged savings to State and local governments from the tax exempt privilege.

It seems likely that the supposed saving in interest cost to local governments actually does not compensate, under today's conditions, for the tax loss suffered by all taxing jurisdictions taken collectively. Until we have the facts which such a study would bring out, there is of course a natural reluctance on the part of the local governments to give up the tax exempt feature.

The immunity of State and municipal securities from Federal taxation, it will be remembered, is not an express provision of the Constitution. It has, indeed, become a serious problem only in comparatively recent times. The large and increasing amount of State and municipal bonds outstanding coupled with high Federal tax rates on corporations and high marginal rates on individual income have made it an increasingly serious tax loophole.

An example of questionable situations which arise in permitting the continuance of this tax exempt feature is illustrated by the case of the commercial banks. They now own approximately $17 billion of tax-free obligations purchased with "money" which the commercial banks literally created out of nothing, under our fractional reserve banking system.

SUPPLEMENTAL VIEWS OF SENATOR JOSEPH C. O'MAHONEY

If it be true, as cannot realistically be denied, that the natural resources of the United States have not been exhausted, and that the skills of the inhabitants of the country as well as available and potential technological facilities are likewise still at hand, we can promote economic growth and economic growth is our greatest goal.

Despite all the complacency that is encouraged among our people, we cannot possibly carry the burdens which world leadership imposes upon our shoulders unless we immediately make up our minds to establish a new high record of economic expansion It will be destructive of all our hopes and of humanity's needs if we allow our eyes to be blinded and our comprehension to be dulled by the false cry of "Peace and Prosperity."

We do not enjoy peace and prosperity. Instead of peace we are preparing for an imminent nuclear war that could mean the suicide of mankind.

In our foolish and exaggerated estimate of our industrial capabilities, confidently imagining that, having won two world wars, no people or combination of peoples could come within hailing distance of our prowess, we have allowed the totalitarian Russians, whom we regarded as a backward people, to take the lead in the production of missiles and the exploration of space. Under the leadership of the President, we seem tempted to brush the missile gap aside and console ourselves with the thought that Soviet Russia has no intention to use the missiles it has produced. There can be no safety for our people in building our policy on anything less than bald facts which cannot be denied.

Among the facts which we know are these:

1. We are living in the 20th century with scientific tools which were beyond imagination 50 years ago.
2. Ours is a government founded upon what the authors of the Declaration of Independence called certain inalienable rights of men which they had received from their Creator.
3. This Government was instituted upon the principle laid down in the Declaration that governments among men derive "their just powers from the consent of the governed."
4. This Government is now not only engaged in an arms race with Soviet Russia but also in an economic struggle which the dictator of that nation is now waging against us throughout the whole world. Witness the travels of Eisenhower, Khrushchev, and Mikoyan.
5. Our military leaders are in disagreement among themselves as to whether or not we have allowed ourselves to fall into second place in the arms race.
6. Economically, we are carrying the greatest public debt in history, the interest upon which, the President tells us in his budget message, will in fiscal year 1961 rise $200 million to $9.6 billion, a payment which, he tells us, will "represent 12 percent of budget expenditures."

7. In his Economic Report, the President tells us that the average maturity of the public debt had fallen to 4 years and 4 months at the end of December 1959 (p. 43) and, in recognition of this fact, has requested the Congress to remove the ceiling on Federal securities with maturities longer than 5 years.

8. Facing this fiscal problem, the President has requested Congress to authorize the expenditure in 1961 of over $4 billion for foreign aid, military and economic, on the ground that for our own security we must provide the weapons of war to peoples who cannot arm themselves, and to promote the economic status of underdeveloped peoples who cannot provide for themselves and who are not receiving economic aid from our Western allies but some of whom are being offered economic aid by Soviet Russia.

To my mind, this array of facts leaves us with only one conclusion; namely, that even if Dictator Khrushchev has no intention of using his capabilities to launch a military attack upon us, it is our primary duty now to advance our own economic position. The United States cannot carry the international burden which it has assumed unless it deliberately and consciously launches a program to promote its economic status as a nation and the economic status of the people who constitute the rank and file of our population.

This we cannot do by a policy of drift or by acting as though we were not living in the middle of the 20th century.

We must recognize that we are living in a new era and that the Congress must exercise the power vested in it by article I, section 8, of the Constitution to regulate commerce with foreign nations, and among the several States. Our commerce is not being regulated suitably to the new era but according to the habits and forms into which we fell in years gone by when the bulk of our commerce was carried on by individuals.

Now individuals exercise little or no power over the commerce on which our economy is based. Far from that, it is dominated by the concentrated corporations created by the States from which the Constitution took the power to regulate interstate and international commerce.

That this concentration of economic power is the greatest obstacle to a free government based on the consent of the governed is well recognized both by the President in his Economic Report and by the Joint Economic Committee in its report, for both the legislative and executive branches of the Government recognize that the merger of gigantic corporations promotes the concentration of economic power in private hands. In the face of this fact, Congress has not yet passed the little bill which has been pending before the Senate for three Congresses, endorsed by President Eisenhower and the Department of Justice, to require corporations to give premerger notice to the Government.

It is folly to think that the Government can solve the economic problem by which it is confronted so long as it fails to establish national standards of responsibility and power for the gigantic corporations which are, in fact, collective economic states and which have taken over the real regulation of our national commerce.

MINORITY VIEWS

We regret that again the majority in its choice of language in setting forth its views on the President's Economic Report for 1960 has made it impossible for the minority to join in the areas where there is agreement and to point up clearly where there are fundamental disagreements. We believe that one of the purposes of a committee report should be to bring out fairly where there are honest areas of disagreement and as clearly as possible pinpoint the different assumptions of fact or argument that bring about this disagreement.

We believe that the programs outlined in the President's Economic Report, set forth in the appendix to these minority views (p. 49), will achieve reasonably the objectives of the Employment Act in 1960. On this point we are in basic disagreement with the majority's views.

THE DEFENSE BUDGET

We believe that decisions about the volume and character of defense procurement should be made on the basis of judgments about the Nation's long-term military needs. They should be separated from shortrun budgetary considerations. On this point we and the majority are in agreement with the President's view.

We decry the insidious manner in which the majority throughout its report tries to create the impression that the President has at any time, and particularly in the 1960 Economic Report, held to a different viewpoint.

Let the majority, inexpert in this field by their own admission, disagree with the President on whether his judgment is correct about the adequate provision for the Nation's long-term military needs if they wish, but there lies the issue, if any, not in the objectives. We believe that if more needs to be done in defense it can be done without endangering our economy, if proper policies are followed. On this point we and the majority are in agreement with the President, although we believe there is considerable disagreement between the majority and the minority over what qualify as "proper policies."

ECONOMIC GROWTH

We disagree with the majority's conclusion—which they reached, it is alleged, as a result of the committee's recent comprehensive investigation of employment, growth, and price levels—that there was a "slow rate" of growth in the economy in "the recent past." We again call attention to the inexcusable juggling of economic figures on the part of the majority in its recent report to try to picture a slow rate of economic growth as measured in GNP during the Eisenhower administration. Taking the period 1954 projected through 1960, using the figure of $510 billion GNP for 1960, the growth rate was 3.6 percent per year, substantially above the historic annual average of 3 percent. This period is at least a little more comparable to the period 1947–53 which the majority selected arbitrarily to demonstrate the growth under part of President Truman's years of part-time peacetime economy. If the majority insists on continuing its now-discredited "numbers game," they should be reminded that from 1945 to 1946, the economy showed a loss in growth of minus 10 percent, and losses in growth for the succeeding 3 years, measured from 1945. Actually, in comparing periods in which the Nation is at peace, years of war, such as 1945, should be excluded. Similarly, the years 1950–53 should be excluded from any attempts to judge economic growth, maximum employment, or price stability in a peacetime economy inasmuch as these are Korean war years.

The majority by its constant disregard of the differences between a wartime and peacetime economy is certainly courting the charge that it cannot distinguish between war and peace.

It is well to remind the majority that the great depression of the 1930's was overcome by the United States becoming the "arsenal of democracy" and moving into World War II rather than through any peacetime economic policies of the New Deal. This should make them more cautious in trying to apply their depression economics to the problems of the 1960's.

We agree with the majority that we should strive to better our rate of growth, but we would warn them and all our citizens to beware of engaging in a numbers game based upon GNP as an accurate measure of economic growth. Indeed, as our committee studies forcefully revealed, GNP is a very limited measuring device of sound economic growth, particularly short-range GNP figures. Such items as research and development, education, increased consumer choice, and leisure time from which spring future sound economic growth, do not show up very strongly in GNP figures while underdeveloped nations concentrating upon increasing their physical capital plant from moderate beginnings show startling GNP percentage increases during their maturing period.

COSTS OF GROWTH

Furthermore, we point out that rapid technological advancement (real economic growth) brings in its wake increased frictional unemployment. It also brings in its wake increased real costs resulting from obsolescence of human skills and machinery and from the recoupment of the funds invested in the research and development which has enabled the growth to come about.[1] We have an example in the increased frictional unemployment in our rural areas today which resulted from the extraordinary technological advancement and economic growth in American agriculture. Do we indeed want to increase the already rapid rate of economic growth in agriculture until we have been able to cope with the frictional unemployment which has been created? Do we want to increase the already rapid rate of technological growth rate in the field of drugs and hospitalization until we have been able to cope with the cost problems which already confront our citizens because of the rapid growth?

Furthermore, as we advance further in technological economic growth the capital investment required to provide jobs for our people increases rapidly (this is aside from the training costs involved in preparing the worker for the new job). Testimony before our com-

[1] Senator Javits notes as follows: "I do not believe, nor do I think the minority intends to imply, that any substantial amount of unemployment—frictional or otherwise—is an inevitable concomitant of our economic system. That amount of unemployment which will exist under full employment conditions due to technological advances must be covered by such provision that the workers concerned will be protected against being disadvantaged by unemployment over which they have no control. If such unemployment is a necessary characteristic of our private economy, it must not be at the expense of the worker."

mittee reveals that today $16,000 of capital investment is required per new job. One of the basic factors of our recent and present unemployment is the high incidence of unemployment in the unskilled and semiskilled sector of our work force and the strangely concomitant labor shortage in many of the skilled areas. Also to be noted is the increasing switch from blue collar to white collar worker in the manufacturing sector of employment, indicating a demand for new skills as we move ahead technologically.

MORE RELIANCE ON FISCAL POLICY

We believe that in the interests of a higher rate of growth we must place greater reliance on fiscal policy. This includes larger budget surpluses in prosperous periods than we have had and a tax structure which is more equitable and less a deterrent to growth. We also believe there is continually room for re-ordering some of the priorities in Federal expenditures programs to provide the progress which stimulate growth and to cut back and eliminate those programs or subsidies which support inefficiency in the economy. On these points we and the majority agree substantially with the President's report. However, there are obviously substantial disagreements between the majority and the minority about what constitutes "equity" in taxation and in evaluating Federal expenditure programs.

We believe that if we had a more effective fiscal policy along the lines outlined in the preceding paragraph we could have and should have a less restrictive monetary policy. We agree that the money supply should grow in line with real economic growth. On these points we and the majority are in agreement with the President's report.

We believe that within this framework interest rates should be expected to fluctuate in response to various influences, including the evenness of growth in total demand, changes in financial institutions and techniques of business and personal financing, and changes in the composition of demand for both present and future goods and services. Attempts to use public policies to prevent or offset these fluctuations in interest rates will prevent necessary and desirable adjustments in the economy.

Moreover, while we agree that the money supply should grow in line with real economic expansion, we do not agree that an easy money policy, of itself, will provide the impetus or the means for economic growth. Economic growth depends on increasing our productive capacity; that is, using some of today's resources for the purpose of increasing the amount and productivity of resources which will be available tomorrow. The necessary corollary of increasing the rate of economic growth without inflation in a high employment economy is increasing the rate of real saving. Accelerating the growth of the money supply cannot substitute for this increase in the Nation's saving rate.

Certainly the record in the respect of attaining growth without inflation through proper management of monetary policy made by the proponents of the majority's theory of growth and inflation when they had the power to implement their theories from 1930 to 1940 and from 1946 to 1952 is a poor one and should make them question their own wisdom.

PRICE STABILITY FOR ECONOMIC GROWTH

In the majority report we find the same blind approach to price stability that led them to disaster after World War II. The majority argues that, because there has been no recent substantial price increase and there is now reasonable price stability, no need to worry about inflation exists. But wisdom requires foresight. Isn't it time the majority gave credit where credit is due for this administration's correctly anticipating and guarding against inflationary forces? The majority should support the wisdom of the President's 1960 Economic Report in continuing to analyze and anticipate inflationary pressures and to take action to neutralize them.

We believe that it is always proper to reevaluate the philosophy upon which the U.S. central bank system is based, as interpreted by the incumbent Federal Reserve Board. The Chairman of the Federal Reserve Board has clearly and consistently stated his understanding of this philosophy to be to preserve the integrity of the dollar as constituting the greatest contribution the central bank system could make to promote economic growth and maximum employment.[2] The issue is clear, if the majority wish to dispute it. However, the majority refuses to draw the issue squarely and by innuendo and misquotation distorts what it is. Does the majority believe the Federal Reserve Board should have other basic objectives than to preserve the integrity of the dollar? If they do, then they should recommend amending the Federal Reserve Act to make it clear that there should be a different underlying philosophy of the central bank. This the majority which controls the Congress has failed to do. Failing honestly to face the issue, the majority should desist from clouding the issue by the use of innuendo and misrepresentation. The majority members confuse themselves in the process and to the extent that they have power to deny the executive department the flexibility it needs to manage the Federal debt, they damage economic growth, price stability, and maximum employment.

The keystone to the President's Economic Report for 1960 as far as fiscal policy is concerned is the prospective budget surplus. We are pleased that the majority recognizes this, approves it, and believes that a substantial surplus should be achieved. We are pleased that the majority agrees with the basic assumption upon which the surplus is predicated; i.e., a prosperous 1960 with a GNP of about $510 billion.

We do not know the model which the majority uses in stating that an expectant $510 billion GNP for 1960 would be $20 to $30 billion below the economy's potential output based upon a 4 percent rate of unemployment. The majority certainly is not contemplating in this model an increased amount of time devoted to education, to training. and to research and development, which the President's report does, Further, the majority seems to be mesmerized by a peculiar belief that if the Federal Government does not spend the sums they consider desirable in a particular area—health, education, research, and development, or whatever—there will be no progress or growth in those

[2] Senator Javits notes as follows: "I am deeply disquieted about the apparent inability of our credit supply to keep up with our productivity requirements when the United States is operating in such economic high gear. There is not such wastefulness in productive practices or undue diversion of production to luxuries as to cause tight credit conditions, or to justify them. Certainly, for productive purposes like home building, transportation, communications, education, etc., and for State and municipal government needs, credit should be available on a reasonable basis. I do not agree with the majority that there is some willful purpose chargeable to the Federal Reserve Board in keeping interest rates high, but I do believe that we must find the reasons why our system cannot, consistently with the economic and productive strength of the American economy, reflect it in more reasonable interest rates."

areas.[3] It almost seems that the majority ignores the fact that our society is based upon the private enterprise system. They fail to appreciate the constant reference in the President's Economic Report to what the private, State, and local government sectors of the economy are doing and are being encouraged to do in these areas in addition to Federal expenditures. It is one thing to disagree with the President's recommendations as to Federal expenditures and his appraisal of what the private, State, and local governmental sectors of the economy will do in these areas, but it is blindness or dishonest to say that nothing is planned and nothing will be forthcoming, in the fields of health, housing, education, welfare, and research and development.

UNEMPLOYMENT

We agree with the majority in calling attention to the increasing rate of unemployment which has occurred after each of the two recent recessions. This is a serious matter and we regret that the President's report did not give more emphasis to an analysis of it. However, the majority method of dealing with it is certainly not analytical or objective. If we are to cope with the problem of unemployment we had best eschew political partisanship until we know what we are talking about. In our discussion of growth we have suggested that some part of present-day unemployment is the result of rapid technological growth. However, this is not a conclusive observation. Nor is frictional unemployment the total of our unemployment. The matter needs as thorough a study as possible.[4] We are convinced that unemployment in a rapidly growing economy is not solved by mere increases in yearly GNP. In other words, technological growth does create jobs but not necessarily in the geographical areas or for the skills where the same growth has created the unemployment. Furthermore, mobility of labor is an important factor in any dynamic economy and many of the programs advocated by the majority seem to have a disregard for this factor. It must also be recognized that any legislation to assist depressed areas must be designed to help create jobs within such areas and not merely to transfer jobs from one area to another.

The majority states that with "high unemployment" when production facilities are used at rates which are significantly below their maximum efficiency (if this were true), there is no—

> merit in the contention that we cannot afford the progress needed to make the United States militarily supreme and to provide the education, research and development activities, health standards, elimination of poverty and low productivity in depressed areas, elimination of city blight, and the many other advances upon which rising living standards in the United States depend.

Let's be quite clear no one contends "that we can't afford the progress." This kind of childish arrogance of suggesting that anyone

[3] Senator Javits notes as follows: "I believe that health care, especially for the aged, the unemployed, and the indigent, is urgently in need of support from the Federal Government to make a standard of health care suitable to our standard of living and our national goals available to these groups. This cannot be done without such help. I do not believe that this inevitably leads to 'socialized medicine' or Government domination of the doctor-patient relationship. On the contrary, it can be accomplished through existing voluntary cooperative health plans, group practice units and health insurance plans, with full accommodation to the private doctor-patient relation."

[4] Senator Javits notes his comments on this problem in footnote 1, p. 40.

feels we can't afford progress is dangerous to the solution of the problems that must be solved if we are to make orderly progress.

THE BUDGET SURPLUS

We believe that the proposed surplus of $4.2 billion is a low ratio of surplus to gross national product in 1960. We wish it could be larger. We question whether the majority are sincere about their criticism, however. There are two ways to make the surplus larger, as the majority states: (1) Reordering the priorities in the Federal expenditure program and (2) undertaking urgent reforms in the Federal revenue system.

With respect to (1) the expenditure side, the majority throughout their report advocate more, not less, spending. To pay for these increases the majority suggest cutting expenditures. But their proposed cuts are in such general terms as to be completely meaningless and unrealistic. For example, the majority refer to the $2 billion to $3 billion savings that could come from implementing the Hoover Commission recommendations in military procurement and supply. Yet powerful leaders of the Democratic Party encourage the parochial aspirations of the three military services, resisting unification and acceptance of the Hoover Commission reforms. A few years ago the Democratic Congress cut the heart out of the administration program to implement the Hoover Commission recommendations for getting the Military Establishment out of civilian business-type operations. This was done by requiring approval of the Armed Services Committee of each House before business-type installations could be abandoned.

The savings suggested by reduction in business and agricultural subsidies of $1 billion is unrealistic. The failure to itemize the specific areas of reduction demonstrates its insincerity.

What is included in the figure of $865 million, labeled "subsidies to business"? Are the majority afraid to itemize this figure for fear they will have their own party colleagues jumping on them for suggesting an elimination of what they regard as worthy projects? Why do they avoid serious discussion of the biggest of all business subsidies—the subsidies to commercial farms? Are the subsidies to small business included in this figure? Undoubtedly so and yet the concluding recommendation of the majority report is this—"special programs to private small business must be continued and improved." With one hand the majority takes it away, with the other they give it back.

Closing of most "urgent tax loopholes" to gain $2.5 billion is unrealistic in the face of the fact that the Democratic-controlled Congresses for 6 years now haven't adopted even the modest tax reforms concerning co-ops, savings and loan associations, and mutuals, and depletion cutoff points suggested by the administration. Furthermore, is it realistic of the majority to suggest that under the present Senate and House leadership the percentage depletion allowance for oil is going to be changed?

The Ways and Means Committee, after holding extensive hearings this fall with the cooperation of the Treasury Department into broad internal revenue reform, announced through the chairman that nothing would be done in 1960. What indeed is the majority referring to when it says "elimination of the numerous preferential provisions in the estate and gift taxes"? To be realistic there needs to be some itemization.

THE INTEREST RATE CEILING

The majority state that they oppose the elimination of the 4¼ percent statutory ceiling on the rate which may be offered on Federal Government debt instruments with a maturity of more than 5 years until certain "reforms" are effective in fiscal, monetary, and debt management policies.

Strangely enough the majority have done nothing as a controlling political party to implement these so-called reforms, except to talk. Their political party has controlled the last three Congresses and their political party has made no move to adopt any one of the proposed reforms. Yet the majority state that "pending" these reforms they will not do that which every economist without exception told our committee should be done; i.e., remove the interest ceiling of 4¼ percent.[5] With respect to these "reforms" relating to the Federal Reserve it must be emphasized that the Federal Reserve is essentially a creature of the Congress and not of the executive branch of the Government. Congress should act if the majority in Congress believe the policies should be changed.

We will now mention the "reforms" recommended to the Treasury Department. The Treasury has on its own initiative been extending the auction method to test out its feasibility in other than short-term bills. The Secretary of the Treasury gave a very detailed account of the progress of this "reform" to our committee.

A second proposed reform is ironic: "Agree to sell long-term bonds in the main when interest rates are low." It is ironic because this is hardly a "pending reform." Furthermore, the Treasury has pursued such a policy when it has been possible.

On the "reform" to institute a system of callable bonds, the majority blithely ignores the history of the use of callable bonds and the problems involved in their use. The Treasury now has the authority to issue callable bonds and certainly would use this method if the climate were such that it was feasible. It is interesting to note that the majority makes no attempt to demonstrate that the climate is suited for issuing callables at this time.

The other "reform," i.e., "avoid seeking advice on new issues from organized groups of their customers who are interested parties," shows such ignorance of marketplace buying and selling as to warrant raising the question whether the majority really believe in the private enterprise (free market) system of economics.

Any prudent person offering new issues of securities, like any producer of merchandise seeking to sell a new product, would be extremely negligent if he did not sound out his market and appraise it by discussions with those engaged in it. Under this and previous administrations, the Treasury has wisely sought the most competent and responsible advice in connection with its debt management, and we urge that it continue to do so. Moreover, it is a distortion of fact to imply that the Treasury seeks advice only from its "customers," when it consults many sources in the financial community in seeking to gage its market.

[5] Senator Javits notes that he cannot accept the minority's views with respect to this issue, and calls attention to the discussion of this problem of interest rates on long-term Government bonds in his "Additional Views."

THE INTEREST RATE CEILING

It would be well if the majority presented their arguments for what they are worth honestly instead of trying to win a point through slanted verbiage. Just what the majority is trying to advise, if anything, is hard to understand.

Now to the real issues involved in the failure to remove the interest ceiling on long-term securities.

1. The Federal Government has had to pay unnecessary interest inasmuch as there is no ceiling on securities under 5 years' maturity and the Federal Government, unable to sell long-term bonds for less than 4¼ percent coupons, has had to pay higher than 5 percent in the short-term market.

2. Far from lengthening the maturities of the Federal debt, as all experts advocate, the debt maturity has been further shortened for the obvious reason that the long-term debt which matures constantly is refinanced through the sale of short-term securities.

3. Interest rates which the general public pays have been forced up beyond what they should have been. The general public, concerned as it is with consumer credit, farmer and small business borrowing, money to meet payrolls, etc., goes into the short-term market to meet these needs. This is the very market into which the majority's stiff-necked policy has forced the Federal Government. As Secretary Anderson testified before our committee, the Treasury has been forced to compete "primarily in the field where millions of little people borrow their money." Moreover, as Mr. Anderson further testified, "home building is hurt badly by the ceiling and will be hurt worse—because the builders will find it increasingly difficult to obtain construction loans, which are short-term," and the supply of mortgage money available to home buyers is being depleted because lenders are finding short-term investments more attractive.

4. Not only have interest rates in the short-term money market been forced up, even more serious, money in the short-term market has become "tighter" because there is not enough money to meet the excessive demand caused by Federal Government borrowings. Some people are just going without. Nor will printing press money really solve money "tightness." It will devalue the money already in circulation and not give it to those who need it.

5. Long-term Government bonds are presently yielding over 4.25 percent though their coupons may bear only 2½ percent interest. This is because they are being bought and sold on the market at a discount. The Government collects taxes only on the interest derived from discount at capital gain rates. If the discounted 2½ percent bonds, purchased for $96.25, are exchanged for bonds with coupons bearing 4.76 percent coupons, for example (the same security as far as the holder of the discounted bond is concerned), the Federal Government would collect taxes on the interest at the full tax rate, not the capital gains tax rate.

6. Bonds bought at discount even an hour before the death of a wealthy person can be turned in for face value to pay Federal estate taxes.

These two tax features are pointed out simply to demonstrate, if it needs further demonstration, how the rich get richer and the poor get poorer when Congress forces the Treasury to be fiscally unsound in the management of its affairs. When the majority profess to be holding to their policy of denying the Treasury adequate measures to manage the public debt in the name of low interest rates and plentiful money and in the name of the little man they are indeed being profane.

THE UNITED STATES IN THE WORLD ECONOMY

There should be some reference to the effect of world economics upon the U.S. economy. There is no realism in trying to maintain a position of economic isolationism. Yet the majority's monetary and fiscal policy seems to be based upon just such an unreal concept. Today the United States is to a large degree the world's banker and how we run our monetary and fiscal affairs both affects and is affected by the economies of other nations. Interest rates and the value of the dollar follow economic laws operating worldwide. The impact of these economic laws upon our domestic economy can no longer be disregarded, if it ever could be.

We are convinced that our economic health becomes more closely related to the economic health of other nations each year. We believe *equitable* international trade, utilizing the free marketplace as much as possible, is the best institution for promoting our own and other nations' economic welfare. Our foreign economic policy should follow the philosophy of trade, not aid, wherever possible, and when aid is resorted to, loans not grants, wherever possible.[6] In tariff negotiations, our representatives must place increasing emphasis upon the principle of reciprocity and the removal of unwarranted discriminations against American goods. We believe the President has followed this philosophy in a reasonable manner in his programs.

THE ROAD TO ECONOMIC GROWTH

One final point needs to be made. Our private enterprise system needs to encourage more initiative and more thrift in our citizenry if we are to have increased economic growth.

The greatest expression of thrift and initiative is gathering together risk capital and putting it to work. For years now, instead of encouraging risk capital through a differential in our tax system we have been discouraging it and encouraging other types of financing. The earnings from risk capital are taxed twice—once when the corporation earns it; then when the corporation pays it to the stockholders, as the stockholder pays a Federal income tax on the same earning. Earnings from bonds and borrowed money escape the 52 percent corporate tax because interest paid is a deductible item. Retained corporate earnings, on the other hand, escape the full impact of the ordinary personal income tax and at most are taxed at capital gains rates.

The corporate form of doing business if it finances through real risk capital—that is, new stock issues—has to compete with another form of doing business—the big cooperative—which pays, if at all, only one tax. The big co-op is not an example of the use of real risk capital.

[6] Senator Javits notes as follows: "I do not see any reason for reluctance, or 'last resort,' in using aid as an instrument of foreign economic policy, but consider it rather a basis in many cases for healthy economic development where a foundation for private economic growth can only be laid by foreign aid."

The stock dividend credit which the majority report singles out as as example of a "loophole" is just the reverse. The real loophole is the favored treatment given the other forms of investment. The stock dividend credit is a very incomplete and modest attempt to equalize the incidence of taxation on risk capital. Far from being a break to the investing public, it would cost the investing public more if their investments were in new capital stocks rather than in bonds, loans, or capital stock which splits through retained earnings. Far from helping the wealthy citizen, the stock dividend credit is the one small thing in our tax laws that encourages the new small growth companies to expand.

If the majority mean business about encouraging economic growth they should support policies that encourage thrift and initiative. The President's report is replete with recommendations which would further both thrift and initiative. The majority report, on the other hand, is replete with proposals that would put further dampers on these two important human motives.

SENATE

Prescott Bush,
John Marshall Butler,
Jacob K. Javits.

HOUSE OF REPRESENTATIVES

Thomas B. Curtis,
Clarence E. Kilburn,
William B. Widnall.

APPENDIX TO MINORITY VIEWS

Legislative Recommendations in the January 1960 Economic Report of the President

I. Federal finances:
 (a) Revenues (p. 55):
  1. Extend the corporate income tax at the present rate for another year.
  2. Postpone for an additional year the reduction of excise taxes on alcohol, tobacco, automobiles, automobile parts, and accessories now scheduled for June 30, 1960.
  3. Postpone for a year the repeal of the tax on local telephone service and the reduction of the tax on transportation of persons, scheduled for June 30, 1960.
  4. Amend tax laws applicable to cooperatives.
  5. Preclude unintended and excessive depletion allowances for mineral products.
  6. Tax as ordinary income any gain realized by the sale of depreciable personal property used in business to the extent of the depreciation deductions previously taken on the property.
  7. Defer the taxation of income earned in less developed countries of the world.
  8. Increase the aviation fuel tax to 4½ cents per gallon and impose a tax of 4½ cents per gallon on jet fuel.
  9. Increase the highway fuel tax by ½ cent per gallon and continue the tax at 4½ cents per gallon until June 30, 1964.
  10. Provide for an adjustment of postal rates as previously recommended to reduce the deficit on postal operations by about $550 million.
 (b) Debt management (p. 55):
  1. Remove the 4¼ percent ceiling on the interest rate which can be paid on U.S. Government securities with a maturity of more than 5 years.
  2. Enact a temporary debt limit somewhat higher than the present permanent limit of $285 billion.

II. Competition (p. 56):
 (a) Require that antitrust agencies be notified when firms of significant size engaged in interstate commerce propose to merge.
 (b) Authorize the Federal Trade Commission to seek preliminary injunctions in merger cases where a violation of law is likely.
 (c) Strengthen Federal law governing bank mergers accomplished through the acquisition of assets.

(*d*) Grant the Attorney General power to issue civil investigative demands.

III. Small business (p. 56):

(*a*) Amend Small Business Investment Act to provide for needed flexibility as to the type of securities that may be purchased.

(*b*) Amend the Securities Act of 1933 to increase from $300,000 to $500,000 the maximum amount of corporate security issue for which the privilege of simplified regulation A filings may be accorded.

IV. Agriculture (p. 59):

(*a*) Extend through the 1963 crop year authority, which expires after the 1960 crop year, to bring additional land into the conservation reserve.

(*b*) Expand the program by increasing the basic limitation on the total payments in any calendar year from $450 million to $600 million.

(*c*) Authorize the Secretary of Agriculture to give special attention in allocating conservation reserve funds to those States and regions in which curtailment of production of wheat and other surplus commodities is consistent with long-range conservation and production-adjustment goals.

(*d*) Provide new obligational authority of $10 million for the Great Plains conservation program.

(*e*) The Sugar Act, which expires on December 31, 1960, should be extended early in the present session.

(*f*) Extend limitation on price support for certain crops grown on newly irrigated or drained land.

(*g*) Amend the Agricultural Trade Development and Assistance Act of 1954 (Public Law 48) to make more effective the program of surplus disposal abroad.

(*h*) Place the loan program of the Farmers Home Administration on a revolving-fund basis and make other improvements in the laws affecting this activity.

(*i*) Provide that the Rural Electrification Administration borrowings from the Treasury would be at an interest rate not in excess of the available rate paid by the Treasury on recently issued long-term marketable obligations and the REA would charge that rate plus one-fifth of 1 percent on future electric and telephone loans.

(*j*) Place the Rural Electrification Administration operations on a revolving-fund basis.

V. Natural resources (p. 60):

(*a*) Enact legislation establishing a consistent basis on which non-Federal beneficiaries will share the cost of protection against floods.

(*b*) Strengthen the enforcement provisions of Federal legislation for control of water pollution.

(*c*) Enact a pending proposal for the preservation of certain undeveloped shoreline areas for public use.

(*d*) Enact a long-range program to conserve helium gas.

(*e*) Authorize contract authority on coal research.

(*f*) Enact legislation permitting revision of the fee schedule for noncompetitive oil and gas leases on public lands.

VI. Education and health (p. 63):

(*a*) Provide a program of vocational rehabilitation for ex-servicemen having service-connected disabilities.

VII. Personal security (p. 64):

(*a*) Extend Federal-State unemployment insurance system to employers of one or more persons, to nonprofit institutions, and to Federal instrumentalities that are not now covered.

(*b*) Extend Federal-State system to Puerto Rico.

(*c*) Bring the provisions of the District of Columbia unemployment insurance system up to the standard recommended for all States.

(*d*) Take steps to provide additional funds for administration of the Federal-State employment security system and rebuild the Federal Unemployment Act.

(*e*) Allow the Secretary of Labor to make necessary interpretations of law and enforce compliance to remedy serious defects in the legislation enacted in 1958 to protect private pension and welfare plans.

(*f*) Extend the coverage of the Fair Labor Standards Act to several million workers not now receiving its protection.

(*g*) Revise the outmoded provisions of the 8-hour law applying to Federal and certain federally assisted construction projects and to carry out the principle of equal pay for equal work without discrimination because of sex.

(*h*) Establish a statutory commission on equal job opportunities under Government contracts.

VIII. Area assistance (p. 66):

(*a*) Submit and strengthen aid to areas of persistent unemployment by providing Federal participation and loans to business concerns, financial assistance to State and local development groups, and for technical assistance to local groups seeking to strengthen their regional economies.

IX. Housing and home financing (p. 67):

(*a*) Make permanent the Federal Housing Administration's program for insurance of home improvement and modernization loans which expires October 1, 1960, unless extended.

(*b*) Place Veterans' Administration home purchase financing on the same basis with respect to maximum interest requirements as FHA programs.

(*c*) Adjust maximum permissible interest rates on armed service housing loans insured by FHA to permit such loans at rates above the present 4Z percent ceiling.

X. Promoting economic growth with price stability (p. 71):

(*a*) Amend the Employment Act of 1946 to make reasonable price stability an explicit goal of national economic policy.

ADDITIONAL VIEWS OF SENATOR PRESCOTT BUSH

I share the minority views expressed elsewhere by my colleagues, but wish to state more bluntly and emphatically my objections to the majority report.

The majority have all but destroyed the Joint Economic Committee's usefulness by the extreme partisanship of their reports on the recent study of "Employment, Growth, and Price Levels" and on the President's 1959 and 1960 Economic Reports. At one time reports of this committee were entitled to serious consideration by the legislative committees of the Congress, by the Executive, and by professional economists.

That time has passed. The majority has, during the time of my service on this committee, followed the "party line" laid down by the radical wing of the Democratic Party. Their specific recommendations in this report, particularly in the fields of taxation and appropriations, will most likely be ignored by the legislative committees which their own party controls in this Congress—and has controlled since 1954. Instead of a useful guide to public policies, they have written a campaign document for the 1960 elections.

Were it not for the fact that valuable additions to economic knowledge are often made in papers prepared by contributing economists, by Government witnesses, and by the committee's able staff, I would recommend that the committee be abolished. It fails to discharge its responsibilities under the Employment Act of 1946.

ADDITIONAL VIEWS OF SENATOR JOHN MARSHALL BUTLER

I. INTRODUCTION

In general, I concur with the minority's views which I have signed. In order to develop some points of disagreement more fully, I am submitting these additional views.

The Joint Economic Committee is required to study the President's Economic Report, hold hearings thereon, and present its views to the Congress by March 1.

On January 20, the President transmitted his report to the Congress, and the Joint Economic Committee started a series of hearings in accordance with the Employment Act on February 1. These hearings lasted for 6 days, and 22 witnesses testified. A list of the witnesses and the days they testified follows:

Date of testimony:	Witness
February 1:	Louis J. Paradiso, Assistant Director and chief statistician, Office of Business Economics.
	Martin R. Gainsbrugh, chief economist, National Industrial Conference Board.
	Dr. George Cline Smith, vice president and chief economist, F. W. Dodge Corp.
	Peter Henle, assistant director of research, AFL–CIO.
	George E. Brandow, Pennsylvania State University.
	Roy L. Reierson, vice president and chief economist, Bankers Trust Co.
February 2:	William McChesney Martin, Jr., Chairman, Board of Governors of the Federal Reserve System.
	Raymond J. Saulnier, Chairman, Council of Economic Advisers.
February 3:	Warren L. Smith, University of Michigan.
	Richard A. Musgrave, Johns Hopkins University.
February 4:	Stanley Ruttenberg, director of research, UAW–AFL–CIO, for Walter Reuther, president.
	Emerson P. Schmidt, Chamber of Commerce of the United States of America.
February 4:	Ralph Robey, economic adviser, National Association of Manufacturers.
	W. E. Hamilton, Farm Bureau Federation.
	Angus McDonald, National Farmers Union.
	Herschel D. Newsom, master, the National Grange.
	A. Arthur Charous, trustee, Federal Statistics Users' Conference.
February 5:	Robert A. Gordon, University of California.
	Paul Samuelson, MIT.
	William F. Butler, Chase National Bank.
	B. U. Ratchford, Duke University.
February 16:	Hon. Robert B. Anderson, Secretary of the Treasury.

The majority's report does not refer to any of their testimony, nor does it deal in any substantial way with the material or statistical data contained in the President's Economic Report. It is confined to a recital of the views previously presented in the majority's views in Senate Report No. 1043 on employment, growth, and price levels. In fact, its report could have been written without waiting for either the President's Economic Message or the testimony of any of the numerous witnesses who appeared before the joint committee.

The staff had completed its draft of proposed views dealing with complex subjects, such as interest rates, before hearing the testimony of the Secretary of the Treasury, the Honorable Robert B. Anderson, and his associates who appeared on February 16, the very day when the first galley proof of the majority's report was being printed for presentation to members of the joint committee for their consideration.

The late Senator Robert A. Taft, the first chairman of this committee, in opening its initial hearings, said:

> In a broader way our function is to try to develop governmental policies which may prevent the development of any depression, and consequently at this time we are interested in hearing from the business, labor, and agricultural interests of the country as to whether they think there is something which threatens the present condition of full employment, and also whether they think there is anything the Government can do about it, and if they do, what they think the Government should do, what powers might be granted by Congress, or what general policies might be adopted by the Executive.[1]

No legislation has been enacted to authorize any departure from the purposes outlined by Senator Taft. Apparently, witnesses believe that their appearances will contribute to the enlightenment of the Congress. This is illustrated in some of their statements. For example, Mr. Martin R. Gainsbrugh, chief economist of the National Industrial Conference Board, in his opening testimony said:

> I am delighted to be back, even though it meant taking a jet at 3 o'clock this morning from Los Angeles.[2]

The first witness was Mr. Louis J. Paradiso, assistant director-chief statistician, Office of Business Economics. Mr. Paradiso's prepared statement included two tables, as well as two graphs. These were not included in the transcript of the hearings. In fact, at the conclusion of the summary of Mr. Paradiso's statement, the chairman stated: "Your prepared statement will be printed in full in the record." At the time that the members of the committee were confronted with the task of examining the report prepared by the staff or the writing of their individual views, the printed hearings were still not available.

It is ironic that in spite of these efforts by dedicated citizens who wish to assist the committee in its work, no consideration has been accorded to their views.

Public Law 304, 79th Congress, which established this committee and the Council of Economic Advisers, stated that:

> SEC. 5. (a) There is hereby established a Joint Committee on the Economic Report, to be composed of seven Members of the Senate, to be appointed by the President of the Senate, and seven Members of the House of Representatives, to be appointed by the Speaker of the House of Representatives. The party representation on the joint committee shall as

[1] "Current Price Developments and the Problem of Economic Stabilization," hearings before the Joint Committee on the Economic Report, Congress of the United States, 80th Cong., 1st sess.,pt. 1, June 24, 1947, p. 4.

[2] Hearings before the Joint Economic Committee, Congress of the United States, Feb. 1, 1960.

nearly as may be feasible reflect the relative membership of the majority and minority parties in the Senate and House of Representatives.

(b) It shall be the function of the joint committee—

(1) to make a continuing study of matters relating to the Economic Report; [3]

Regardless of any other recommendations contained in the majority's report, it has not devoted its attention to a continuing study of the matters relating to the President's Economic Report.

In the first report to the President by the Council of Economic Advisors, dated December 1946, the Council said:

> It is not within the province of this Council to elaborate on the functions of the other agency set up under the Employment Act, namely, the Congressional Joint Committee on the Economic Report. It should be noted, however, that the act in no way trenches on the primacy of the Congress in the field of final policymaking. It simply sharpens that body's tools for evaluation of proposals made by the President as well as for the initiation of proposals of its own. Obviously, the joint committee will have at its disposal the improved facilities made available under the Congressional Reorganization Act as well as recourse to those contacts with all governmental and nongovernmental sources of facts and ideas which are the traditional prerogatives of Congress.
>
> In the words of the act:
>
> "It shall be the function of the joint committee—(1) to make a continuing study of matters relating to the Economic Report; (2) to study means of coordinating programs in order to further the policy of this Act."
>
> When the President's Economic Report is presented to the Congress at the opening of its session, it is to be referred to this joint committee. After study of the proposals embodied in the President's economic program and in the light of such studies as the committee may already have conducted into the economic problems which it considers pertinent, it will prepare "* * * its findings and recommendations with respect to each of the main recommendations made by the President in the Economic Report * * *." [4]

In the 1960 Economic Report, transmitted to the Congress by President Eisenhower on January 20, 1960, he said:

> The report was prepared with the advice and assistance of the Council of Economic Advisers and of the heads of the executive departments and independent agencies directly concerned with the matters it discusses. It summarizes the economic developments of the year and the steps taken in major areas of economic policy to promote the sound expansion of employment, production, and income. It also puts forward a program for the year 1960 which, in the context of present and prospective economic conditions, would effectively implement the purposes of the Employment Act. [5]

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[3] Op. cit., "Current Price Developments and the Problem of Economic Stabilization," p. 3.
[4] 1st Annual Report to the President by the Council of Economic Advisers, December 1946, p. 7.
[5] Economic Report of the President, transmitted to the Congress, Jan. 20, 1960, p. III.

In a report of the Council of Economic Advisers to the President, which is found on pages 77 through 80 of the President's Economic Report, there is the following statement:

> For the fiscal year 1960, the Congress appropriated $395,000 for the Council's activities, the same amount appropriated for the fiscal year 1959.[6]

In view of the efforts made by the executive branch, and the cost involved to the taxpayers, it is very strange that the majority's report of the joint committee devotes only a few pages of its text to a discussion of the recommendations contained in the President's Economic Report. Furthermore, it is discouraging to the witnesses from industry, agriculture, and labor, who have devoted their time and expense to the preparation of statements for the enlightenment of this committee. They will readily see that their views have been completely disregarded.

The majority's discussion of the President's Budget and Economic Reports is confined to a few pages. As in its previous report on employment, growth, and price levels, it is mainly critical of the fact that no matter what we have achieved, and we have achieved a great deal, in the committee's judgment, we should have done far better.

We are living in an era when our way of life is on trial before the world. Our Government, which includes the Congress as well as the Executive, is attempting to convince the uncommitted millions of people that our way of life offers the only solution to the problems of economic growth and freedom. It is a great disservice to our foreign policy to have a congressional committee, for purely partisan reasons, engage in carping criticism of the administration, which will be used to our detriment by the Soviets and its satellites in debates throughout the world, as well as in the various international organizations concerned with economic development.

All of us in Government have a responsibility to abstain from unjustified partisan criticism, which can only lend comfort to those who wish to establish an entirely different way of life throughout the world.

II. GENERAL OBSERVATIONS ON THE PRESIDENT'S ECONOMIC REPORT

Inasmuch as the majority's report has neglected to comment on the many points developed in the President's Economic Report, it is incumbent upon me to do so.

Apparently, the fact that in 1960 the U.S. economy will, for the first time, exceed a gross national product of $510 billion is dismissed lightly. Yet no people in history have ever enjoyed such a level of well-being. Rather than indulge in the futile and meaningless projections of what might be done without any responsibility for accomplishment, we can take some satisfaction in our achievement. It would seem appropriate in terms of supporting our position as a leader of the free world to comment favorably on the substantial progress recorded in the statistical tables presented by President Eisenhower and his Council of Economic Advisers.

The majority's report is devoted to an extended discussion of our failure to improve health, education, welfare, and the other services which a free people expect from their Government. If the President's

[6] Ibid., p. 80.

Economic Report had been carefully studied, these statements could not have been made. Again, in terms of our international position, they constitute a grave disservice.

President Eisenhower, in discussing education, said:

> Notable gains have been made in education and other cultural areas. School enrollment has risen in the last 12 years from 50 percent to about 65 percent of all persons in the age group of 5 to 29 years. From 1946 to 1959, the number of bachelor's and first professional degrees conferred annually almost trebled, and the number of master's and second professional degrees showed a still greater relative increase. To some extent, these advances represent the resumption of academic work interrupted by war, but the large gains made in the past few years indicate a rising trend that will accelerate in the years ahead. The number of earned doctorates conferred rose sharply after the war. reaching in 1954 a new high, which has been maintained for several years. In the past decade, more than 83,000 doctorates have been conferred, compared with some 27,000 during the 1930's and about 31,000 in the 1940's. Marked increases are expected also in the next several years. Another source of satisfaction is the record of scientific achievement. Since 1946, close to half of the Nobel awards for contributions to medicine, chemistry, and physics have been bestowed on American citizens.[7]

Furthermore, the President's Economic Report for the first time contains statistical tables relating to the diffusion of well-being. Per capita income in constant dollars rose from $2,541 in 1952, the last year of the previous administration, to $2,706 in 1959, an increase of 1 percent compounded annually.[8] In appraising this figure, it must be remembered that per capita income includes all of the newborn children, those in school, as well as the elderly retired. None of these groups have contributed to the gross national product, but they have still benefited from this increased productivity.

Civilian employment advanced from 61 million in 1952 to 65.6 million in 1959, an all-time high. The American economy has created new jobs as the population and the civilian labor force have grown.[9]

Disposable personal income in 1959 prices, that is, income available to individuals after the payment of all taxes, was $1,678 in 1952, the last year of the Truman administration, and in 1959 reached an all-time high of $1,891, an increase of 12.7 percent, which is almost 1¾ percent compounded annually.[10] The per capita disposable income will double at this rate of increase in a period of 40 years, in spite of population growth.

Furthermore, the share of labor income and transfer payments compared with all personal income disbursements increased from 73.5 percent in 1952 to 75.8 percent in 1959, an all-time high.[11] None of these important measures of well-being would be found by any

[7] The Economic Report of the President, January, 1960, p. 2.
[8] Ibid., p. 130.
[9] Ibid.
[10] Ibid., p. 131.
[11] Ibid., p. 132.

reader of the majority's report, including unfriendly delegations in the Economic and Social Council of the United Nations, or similar bodies.

There are still other statistical measures of personal and individual satisfactions which are worthy of comment. In spite of the fact that the impression is often given that our economy is one in which most families do not enjoy the good things of life, in 1958 only 14 percent of American families received incomes of less than $2,000 in dollars of constant purchasing power.[12]

In our manufacturing industries, in terms of constant 1959 dollars, average hourly earnings have increased from $1.83 in the last year of the former administration to $2.22 in 1959, an all-time high.[13] Likewise, in 1959 prices, the average gross weekly earnings of workers in manufacturing industries have increased from $74.53 in 1952 to $89.47 in 1959.[14]

The life insurance per family in 1952 was $5,300, whereas today it is $9,300.[15] The financial assets and net equity of individuals have also risen from a total of $372.8 billion in 1952 to $956.2 billion in 1959.[16]

There are many other ways to measure well-being than in monetary terms. In 1952 our people enjoyed 58.8 million weeks of vacations, whereas in 1959 this had increased to 77.7 million weeks. In 1959, 74 percent of all families owned automobiles, and 15 percent owned two or more automobiles.[17] In 1952, 56 percent of nonfarm occupied dwelling units were owned by the occupants. In 1959 this had increased to 61 percent.[18]

While there has been a tendency in some quarters to disparage those who have invested their savings in the ownership of American business, which provides employment for millions of people, it is significant that in 1952 there were 6,490,000 stockholders, and in 1959 the number almost doubled to 12,490,000 shareholders.[19]

At every level of education, great strides have taken place during the years of the present administration, which are the subject of partisan criticism in the majority's report. In 1952 the total kindergarten enrollment was 1,383,000. In 1959 it was 2,032,000. Elementary school enrollment in 1952 was 21,994,000. In 1959 it was 29,382,000. High school enrollment in 1952 was 7,108,000. In 1959 it was 9,616,000. College and professional school enrollment, which in 1952 totaled 1,980,000, in 1959 has almost doubled to 3,340,000.[20]

The majority's report is critical of measures taken by the Government to assist older people, the unemployed, and the sick, but it has completely ignored the statistical data which no one has questioned contained in the President's Economic Report.

In 1952 old-age, survivors, and disability insurance benefits paid totaled $2,194 million. They were received by 5,026,000 beneficiaries. In 1959, $10,300 million was paid to more than 13,800,000 beneficiaries.[21]

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[12] Ibid., p. 133.
[13] Op. cit., p. 133.
[14] Ibid., p. 134.
[15] Ibid., p. 139.
[16] Ibid., p. 140.
[17] Ibid., p. 137.
[18] Ibid., p. 138.
[19] Ibid., p. 140.
[20] Ibid., p. 141
[21] Ibid., p. 144

Unemployment compensation, likewise, has been improved during these years when, according to the majority's report, there was a callousness about the needs of our more unfortunate citizens. In 1952, 76.6 percent of the nonagricultural employed were covered. This has risen to 82.5 percent in 1959. The average weekly benefits for total unemployed in 1952 were $22.79 as against $30.37 in 1959.[22] Furthermore, in recent years many labor-management contracts provide for supplemental unemployment benefits for workers who are unemployed.

In 1952, the last year of the previous administration, there were 1,219,000 beds in civilian hospitals. There are now 1,346,000.[23] Regardless of the moneys which may be appropriated for health care, in the last analysis more doctors with adequate training provide the only real protection for our people. In 1952 there were 208,000 physicians. This has increased to 235,000 in the short span of 7 years.[24] When it is realized that a doctor must undergo 4 years of college training, 4 years of medical schooling, and then serve an internship, this is a remarkable gain.

President Eisenhower summarized the progress achieved by the American economy since the adoption of the Employment Act of 1946 in his report as follows:

> A few facts illustrate the ability of the American economy to continue raising what has long been the highest living scale in the world, while carrying a heavy defense burden and meeting broad international obligations.
>
> In the 14 years since the passage of the Employment Act, employment has advanced, on the average, by nearly 800,000 a year. In real terms, the Nation's output of goods and services, as well as its personal income, has increased by more than 50 percent, or at a rate of 3.2 percent per year; and the output of the private sector of the economy has advanced at a slightly higher rate, 3.5 percent. For industrial production, the rate of increase has been 4.5 percent. The annual increase of 3.2 percent in total national output, which corresponds to a doubling every 22 years, is roughly equivalent to the long-term average reached in our previous history. Thus, the American economy has sustained its long-term record of growth, despite the high level of industrial development already achieved and despite temporary setbacks.
>
> The increase in national output has made possible very great gains in the well-being of American families. Evidence of the advances made in this respect since passage of the Employment Act is presented in the appendix on "Diffusion of Well-Being" included in this report. Real income per capita has increased by nearly 20 percent since 1946, and the increase per family has been 16 percent. As incomes have risen and as paid vacations have become longer and more common, leisure time has increased and recreational activities have become more widely enjoyed. The shortage of housing, so evident immediately after World War II, has been virtually eliminated. Since 1946, the housing supply

[22] Op. cit., p. 144.
[23] Ibid., p. 145.
[24] Ibid., p. 146.

has been increased by the construction of 15 million private nonfarm dwelling units, and there have been marked improvements in the quality of housing. At the same time, there has been a general increase in homeownership; some 60 percent of all nonfarm dwelling units are owned by the occupant families.

Attention to such material advances should not obscure the accompanying gains made with respect to other components of our well-being, some of which are less tangible. In health, there has been remarkable progress in the reduction of infant and maternal mortality; in the prevention, mitigation, and treatment of many diseases; in restoring the physically handicapped; in making available a better balanced diet at lower cost; and in creating other conditions conducive to longer years of life and greater efficiency. Health services are more and more widely available, and the great majority of Americans now have some protection under voluntary plans of hospital, surgical, and medical insurance. * * *

The economic security of American families has been advanced significantly in the years since World War II. About 58 million persons—87 percent of all those in paid employment—are now covered by the Federal Government's old-age, survivors, and disability insurance system and related programs. More than 19 million persons are covered by privately financed pension plans. The Federal-State unemployment compensation system, which has proved its worth as a defense against loss of income during periods of economic adversity, now provides protection for nearly 85 percent of all persons on nonfarm payrolls.

But the progress made under Government programs should not divert attention from the extensive provisions made independently by Americans for personal and family security. The number of life insurance policyholders, for example, has increased by about 60 percent since 1946; about 115 million persons were insured through legal reserve companies in 1959. The volume of time and savings deposits of individuals has increased by nearly $35 billion, or more than 50 percent, since 1952. Share accounts in savings and loan associations have also risen by $35 billion in this period, by nearly 200 percent.

And it is not too much to say that we have made good progress in moderating fluctuations in our economy. Although economic recessions, however minor, must remain a matter of concern to all Americans, the relative mildness and short duration of the three since the war have to be reckoned as a major factor in the strengthening of personal security.[25]

Because the majority's report has been singularly silent with respect to the statements contained in the President's Economic Report, it is necessary to quote these summaries so that they may be made a part of the record in this Senate document.

[25] Op cit., pp. 1-3.

The American people have every reason to applaud the efforts of both public and private groups in furthering our material, social, and cultural progress.. The prophets of gloom and doom who deprecate all that has been done, because they believe that if their untried theories had been adopted more might have been accomplished, are performing no useful function in terms of advancing America's well-being while they are giving great comfort to the enemies of all that we cherish.

The forum on the "Prerequisites for Economic Growth," conducted by the National Industrial Conference Board, was moderated by Dr. Solomon Fabricant of the National Bureau of Economic Research. He is the acknowledged leader in the field of economic growth and productivity. While no one wants to be complacent about future progress, it is important that certain basic facts are placed in proper perspective. Dr. Fabricant said:

> There is no question but that the level of real income in Russia is far below ours. As a guess, I think those who know would say a third of ours—substantially less than half of the American level.[26]

He also stressed that economic growth cannot be achieved by merely redistributing existing income. He said:

> One reason why the problem of economic growth is so important can be observed in the history of the United States. Suppose we were to ask by how much the average income per capita of the poorer persons in the population could have been increased a hundred years ago by a redistribution, or a more even distribution, of income? How much would that have raised income as compared with the sixfold rise that has actually occurred from the long-term growth of average income per capita?
>
> We don't have the income distribution of a hundred years ago, nor may we assume that a violent redistribution of income could have avoided chaos. But any calculation of that sort would indicate very clearly and quickly that the main source of increase in income per capita (the main way, in other words, to solve the problem of poverty) is by raising the average level of income per capita—making sure, of course, that the distribution is made as reasonably equitable as possible.[27]

It is also significant that in this same forum, Dr. Fabricant quoted from a recent Russian study, which appears in "Problems of Economics," published in the International Arts and Sciences Press. This study, "The Principle of the Personal Incentive and Certain Wage Problems in the U.S.S.R.," a paper by a Russian economist published in Voprosy Ekonomiki in its issue of January 1959, said:

> "The many years of experience in the organization of social labor under socialism have shown that equalitarianism is incompatible with the interests of the development of socialist production. * * * The Communist Party of the Soviet

[26] "Prerequisites for Economic Growth," National Industrial Conference Board, Inc., "Studies in Business Economics, No. 66," Sept. 24, 1959, p. 11.
[27] Op. cit., "Prerequisites for Economic Growth," National Industrial Conference Board, p. 13.

> Union has always conducted a consistent struggle against all efforts to 'replace' distribution in accordance with labor by petty bourgeois equalitarianism in the payment of labor. * * * It is necessary more completely to utilize the * * * principle of personal material incentive for a further upsurge of socialist production and the hiring standards of the people." [28]

These statements were confirmed in the same forum by another distinguished economist, Prof. Lloyd G. Reynolds, who, since 1951, has been chairman of the department of economics at Yale University. After a trip to Russia, he summarized the attitude of Russian industrialists as follows:

> I pushed the factory managers quite hard on labor questions. Their setup in this respect is, in a way, very early capitalistic. To find anything comparable in this country you would have to go back to 1900, to the early days of scientific management, with not much union organization or worker control over what the engineers were doing. This was quite striking.
>
> The position of the Russian factory director also seems to be quite similar in many respects to that of a capitalist manager. It seemed to me that those fellows were working for about the same reasons that an American corporation executive would work. If they do well, they get promoted to a bigger enterprise, and get a good bonus at the end of the year. Conversely, if they do not do well, presumably they will be demoted, have less interesting work, and make less money.
>
> Despite all the talk about working for the joy of socialist labor, and so on, it seemed to me that these fellows were quite like American business executives in their outlook on their job. They are almost all engineers. In fact, they cannot understand how we allow people to become business executives without engineering training. This they regard as the standard way of getting into an executive position. Not only the plant director, but the deputy director and a good many people lower down are engineers.[29]

While we realize the importance of science and engineering for the physical advancement of our well-being, we are not merely materialistic, but we have cultural and spiritual values which have been furthered by the policies adopted during the past 7 years.

III. GENERAL OBSERVATIONS CONCERNING THE MAJORITY'S REPORT

The majority's report stresses the fact that unemployment was at a relatively high level through much of 1959. Yet, at no point does it adequately deal with the fact that much of this unemployment was the direct result of the protracted steel strike. There is every reason to believe that if the unfortunate stoppage of steel production had not occurred, the forces of recovery, which were progressing rapidly during the first 6 months of 1959, would have reduced unemployment to a very low level by the end of the year.

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[28] Ibid., pp. 21, 22.
[29] Ibid., p. 37.

The President, in his Economic Report, reviewed this factor in great detail, but, once again, his analysis was ignored in the majority's report. The President said:

> * * * However, total unemployment was being reduced at a rapid rate until the trend was reversed in July by the beginning of the steel strike.
>
> After some 500,000 employees in the steel industry went on strike on July 15, nearly 100,000 other persons were soon laid off in related industries, especially in mining and rail transportation. Even though substantial inventories of steel had been accumulated by many firms, stocks were being depleted rapidly by mid-October and serious imbalances were making themselves felt. As a result, layoffs became increasingly heavy. By the time steel production was resumed on November 7, under a Federal court injunction, employment in steel-related industries had declined by more than 500,000 exclusive of the number on strike. In most other industries, employment ceased to advance during this period, and in October the rate of unemployment increased to 6 percent of the civilian labor force.
>
> The resumption of steel production brought an increase in employment by the end of the year, and unemployment was again reduced. Although the replenishment of working stocks of steel could not be accomplished immediately, total employment reached 66.2 million (seasonally adjusted) in December, slightly above the record of 66 million that had been attained in June. Unemployment in December was 3.6 million (seasonally adjusted), or 5.2 percent of the labor force.[30]

No discussion of the employment situation which fails to recognize the impact of the protracted steel strike has any meaning. The majority is critical that the President has not fulfilled the requirements of the Employment Act in presenting a detailed blueprint for the future.

It is easy to make glib prognostications, but the President and the Council of Economic Advisers have fulfilled the requirements imposed upon them in the following statements, which appear in the President's Economic Report:

> Although it is always difficult in a dynamic, free economy such as ours to depict in advance the course likely to be taken by production, employment, and income, present indications warrant the expectation that the expansion now in progress will be extended through 1960. And there are good grounds for belief that, with appropriate public policies and private actions, the expansion can continue well beyond the present year.
>
> Past developments and present conditions clearly suggest that the demands of business concerns for capital goods and for inventories will be especially important factors in the year ahead. Expenditures on capital goods have been rising for more than a year and should continue upward in 1960. In part, and especially during the early months, the increase

[30] The Economic Report of the President, January 1960, pp. 12, 14.

will represent a catching-up on projects delayed or postponed because of shortages attributable to the steel strike. Chiefly, however, capital investment should rise in response to favorable underlying factors now discernible and likely to strengthen as the year progresses. Surveys of businessmen's intentions, and the increased volume of contract awards and of new orders for industrial machinery, confirm this outlook. A good demand from the farm economy for machinery and equipment may also be anticipated.

Expenditures for residential construction, a second major category of capital investment, are not likely to be as high as in 1959. However, the extent of the decline should be limited, and activity in this sector of the economy should exceed that of most recent years. Outlays for modernization and alterations should be a steady expansive force in the building industry.

Within the aggregate of Government outlays, Federal expenditures for goods and services should change little in the first half of the year; but later, in line with provisions in the fiscal 1961 budget for the development of water resources and other public works, and for space and aviation programs, they should increase moderately. The upward trend of expenditures at the State and local level, which reflects particularly the provision of services needed by the growing urban population, may be expected to continue, though possibly at a slower rate. The construction of schools, public service enterprises, and community facilities in general is expected to advance moderately and to outweigh declines in activity that occur under the Federal-aid highway program as a result of the mandatory reduction in apportionments under the present law.

Changes in investment in business inventories are likely to be less regular during the year than the changes in final demands. Restocking needs are clearly apparent, not only for steel but also for many steel-using intermediate and finished products; and further additions to inventories will be required throughout the economy as production and final sales increase. Inventory expenditures and the other outlays noted above should contribute to a strong expansion in production, employment, and income. The increase in employment should exceed that of the labor force and, correspondingly, unemployment may be expected to fall. Within this context, consumer incomes and expenditures may be expected to increase substantially during the year. Also, consumer confidence is favorable to an increasing volume of purchases of consumer durable goods.

The financing of the investment needs outlined here, together with a significant volume of consumer credit, will make strong demands upon the Nation's capital and credit markets. At high levels of income and savings, a greater supply of investment funds may be expected. The sizable Federal budget surplus projected for the fiscal year 1961 would be helpful in relieving pressure on the supply of funds.[31]

[31] Op. cit., pp. 36, 37.

IV. STATEMENTS IN THE MAJORITY'S REPORT WHICH REFLECT OPINIONS CONTAINED IN ITS REPORT ON EMPLOYMENT, GROWTH AND PRICE LEVELS

Although this report was supposedly devoted to a review of the President's Economic Report and the statements of the witnesses who testified thereon, it largely reflects the preconceived views which were developed in connection with the majority's report on employment, growth, and price levels. In order to conserve space, there are listed below some of the more significant areas which have been quoted from Senate Report No. 1043 and are found in the majority's views in this report. I have discussed many of them in my additional views in Senate Report No. 1043 on pages 93 through 134. My position is stated in that report.

	S. Rept. 1043 (page)	Report of the Joint Economic Committee on the January 1960 Economic Report of the President (page)
Reordering priorities	24	10–13
Taxes	21–24	13–15
Monetary policy and debt management	29–48	15–17
Market structure	49	17–19
Assistance to depressed areas	54	19

All of these subjects have been discussed without any reference to the President's Economic Report or the hearings held during the month of February.

V. DETAILED DISCUSSION OF VIEWS CONTAINED IN THE MAJORITY'S REPORT

A. Prices and market structure

The majority's report stresses the need to change the market structure of the American economy with particular emphasis on "more effective application of antitrust legislation to industries in which a high degree of market power is possessed and exercised by large producers, even where no evidence of direct or overt collusion or conspirary can be shown."

If America is to compete with the Russians, attacks on size per se are ridiculous and have no justification other than to provide material for partisan political activity. It should be emphasized that the largest employer in this country is the Federal Government. Again the remarks of Professor Reynolds of Yale University at the Conference Board Economic Forum are worthy of comment. They are based on his trip to the Soviet Union, in which he had the opportunity to travel all the way from Leningrad to central Asia, visiting about 15 factories and talking to upward of 100 economists in research institutes and universities. Professor Reynolds said:

> * * * We saw everything from very large truck factories and metalworking plants with as many as 40,000 workers down to consumer goods factories with only 700 or 800 workers.[32]

[32] Op. cit., "Prerequisites for Economic Growth," p. 34.

While no Member of the Congress would condone any action which could impede the performance of our free enterprise economy in the service of the American consumer, predicated on competition in free markets, we must be vigilant in revising the antitrust laws and in perfecting their enforcement not to jeopardize the efficiencies of size and scale, which have made this country great.

Insofar as market behavior is concerned, the President's Economic Report contains some illuminating data, which have been completely ignored in the preparation of the majority's views. Table 2, which appears on page 23 of the President's Economic Report, shows the changes in the Consumer Price Index in 1959. The item reflecting next to the largest percentage change from December 1958 to November 1959 is used cars, where the price index increased by 6.4 percent. If there is any market in which large firms and market dominance is absent, the used car market is probably most representative.

Another important factor revealed in the same table is that, as of December 1958, services had a relative importance in the Consumer Price Index of 34.4 percent. In almost every instance they are supplied by small firms and not by the larger enterprises. Again, with the exception of one commodity, namely footwear, which has a weight of only 1.5 percent, services show the largest percentage change next to used cars, namely 2.9 percent. With this heavy weight, this increase accounts for a substantial amount of the rise in the All Items Index.

An examination of table 3, found on page 25 of the President's Economic Report, shows a decline in most sectors of the Wholesale Price Index. The All Commodities Index for the year December 1958 to December 1959 declined 0.3 percent. Crude materials for further processing declined 3.7 percent. Finished goods declined three-tenths of 1 percent. Steel mill products showed no change at all.

It is important in fulfilling the responsibilities of the Joint Economic Committee that facts and figures rather than prejudices and preconceived ideas concerning subjects such as administered prices should govern the findings and conclusions of this important Joint Economic Committee. Prof. Stephen K. Bailey, director of the graduate program, School of Public and International Affairs, Princeton University, at the time of the "Brookings Lectures on Research Frontiers in Politics and Government," said:

> In the kind of world in which modern decisionmakers live, fraught as it is with bignesses, vastnesses, and statistical drifts, the postulate of faith that the future is really malleable, that individual choices really count, is of no small consequence. The assumption of classical economists that individual choice could have no effect on the market seems to have carried over into a great deal of fatalistic, if not nihilistic, 20th century political thinking. The prophetic service of Toynbee is his pointing out that history has always involved imperfect competition, and that the moral choices of men of power influence the market mightily.[33]

There has been no evidence presented to the Joint Economic Committee that our antitrust laws, which have been in effect since 1890,

[33] "Research Frontiers in Politics and Government, Brookings Lectures," 1955, The Brookings Institution, Washington, D.C., October 1955, pp. 12–13.

are ineffective in preventing monopoly, and the performance of the price indexes over the past year supports this view.

B. Defense

In my additional views in Senate Report No. 1043, I clearly stated that I did not believe that the Joint Economic Committee had been charged by the Congress with the problems of national defense. I still maintain this view. The majority's report gives the American people as well as friendly citizens in other countries the erroneous impression that our defenses are dictated by budgetary restrictions. It states:

> * * * Cutbacks in the real volume of our outlays, while the Soviets continue to increase the volume of theirs, requires a more convincing explanation than has yet been offered to assure the American public that the proposed defense program for fiscal 1961 is not to be unnecessarily limited on the basis of budget-balancing considerations.

Again, a statement of this kind is a distinct disservice to our national unity, and it demonstrates a lack of understanding of the procedures in the defense departments. House Report No. 408, 86th Congress, dealing with defense appropriations for the 1960 fiscal year, on page 21 estimates that unexpended balances at the end of the present fiscal year will be more than $32 billion. In other words, without appropriating a single penny during the present session of the Congress, there would still be $32 billion unspent in the hands of the Defense Department as of June 30 of this year.

Furthermore, on August 4, 1959, the Congress cleared for the President's signature H.R. 7454, the bill appropriating funds for the current fiscal year for the Defense Department. It provided almost $20 million less than the President requested. This was the considered judgment of a Congress controlled by the Democratic Party.

This hardly suggests that the administration is planning our military program around the budget. On the contrary, President Eisenhower, a military expert of distinction, and the Joint Chiefs of Staff are in a better position to evaluate what is needed than this Joint Committee, which has held no hearings on this subject. It has been empowered to review economic problems, but not the size and composition of our Armed Forces.

C. Reordering of the priorities in the budget

The majority's report devotes 18 lines of text to a reordering of the priorities in the budget in the amount of $10 billion in terms of both expenditures and revenues. The budget document itself is a very voluminous book. The Appropriations Committees of the Congress devote weeks to a review of every item therein. The approach presented in the text of the majority's views is superficial and unworthy of any serious intellectual attention.

In discussing proposed expenditures, the majority's report provides a nicely rounded sum of $2 billion for "increase for missiles, space and combat troops." Without any indication as to how or where this money should be spent, or how it should be divided among the various categories included, it pontificates that $2 billion is the proper additional expenditure to insure our national security.

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Likewise, it again presents a convenient figure of $2 billion for "increase for schools, depressed areas, and social programs." This could encompass almost anything, and again there is no attempt at explaining how this money would be apportioned or for what purpose.

The scholarly acceptance of the studies of this joint committee are placed in jeopardy when statements are made in this cavalier fashion. In future years the country will be faced with an ever-mounting burden of taxes to finance expenditures authorized or proposed by this Congress. It is impossible to examine the many measures not included in the President's budget that would impose additional taxes on the American people and make the surplus envisaged by the President impossible, However, a list of only eight measures which have received some consideration in this Congress shows increased unbudgeted expenditures in excess of $5.5 billion annually. A list of these few measures is of interest.

Water pollution control (final) (H.R. 3610, Blatnik)	$90, 000, 000
Aid to depressed areas (passed Senate) (S. 722, Douglas et al.)	389, 500, 000
Community facilities (introduced) (H.R. 5944, Spence)	1, 000, 000, 000
Federal aid to education (passed Senate) (S. 8, McNamara)	900, 000, 000
Public Health Training Act (introduced) (H.R. 6871, Rhodes, Pennsylvania)	13, 000, 000
Hospitalization (introduced) (estimated) (H.R. 4700, Forand)	2, 100, 000, 000
Emergency Home Ownership Act (introduced) (H.R. 9371, Rains) (estimated)	1, 050, 000, 000
Veterans benefits (passed Senate) (S. 1138, Yarborough et al.)	150, 000, 000
Total	5, 692, 500, 000

D. Debt and fiscal policy

The majority's report is largely devoted to a criticism of the Federal Reserve System and the Treasury's operation in funding and refinancing the national debt. It is noteworthy that similar views are expressed in identical language in this report and Senate Report 1043 on "Employment, Growth, and Price Levels." This likeness indicates a completely closed mind and preconceived views which have not been influenced by either the President's Economic Report or the testimony of the witnesses.

Such a fact does not reflect creditably on the procedures of the Joint Economic Committee. The majority's report proposes a number of completely unrealistic policies. For example, it suggests that the Treasury should "agree to sell long-term bonds in the main when interest rates are low." It is one thing to suggest how the Treasury should sell its bonds, and quite another to assure that anyone will buy them. At a time when interest rates are low, investors are loathe to acquire long-term obligations with a low yield. This basic tenet is one which is accepted by those who are familiar with the financial markets and have dealt in securities.

The majority's report suggests that the Treasury should "institute a system of callable bonds so that the public is not saddled interminably with high interest rates." Again, this is an intriguing suggestion. However, it is completely unrealistic and superficial, since investors in a free economy will not purchase such bonds, as they have alternative investment opportunities, and the Treasury must compete for the savings of our people as long as we maintain a free economy.

The majority's report neglects the obvious corollary to its proposal that, if callable bonds were issued, an even higher interest rate would be required so as to make them attractive to investors.

In its entire discussion of monetary policy, the majority's report fails to indicate any understanding of the basic fact that those who purchase short-term bonds are usually not the same individuals or institutions as those who invest in long-term bonds. These two types of securities are acquired for entirely different purposes, and no amount of pontification by this joint committee will change the investment preferences of institutional buyers, savings banks, private individuals, and others who are purchasers of Government securities.

Throughout the discussion of debt management and monetary policy, the majority's report attempts to present its readers with the conclusion that high interest rates will prevent economic growth and the full use of our resources. It implies that they add unnecessarily to business costs, that they discriminate unfairly against small business, and that the Federal Reserve System is primarily concerned with creating artificial and unjustifiable profits for the commercial banks who are affiliated with it.

Those who have studied America's financial mechanism know that nothing could be further from the truth. Actually, interest rates for many years in America have been at an artificially low level. In recent months, the recovery in Europe has been proceeding rapidly, and it is noteworthy that the interest rates prevailing there are considerably higher than those here in the United States. Unless we are to continue complacently to watch our gold reserves decline, there has to be some balance between the attractiveness of securities and investments in this country with those abroad. It is frequently overlooked that foreign central banks may convert their dollar balances into gold at will, and they have been doing this at an astonishing rate for many months.

The majority's report proposes that—

> In the area of monetary policy, we offer as a general prescription that the supply of money—i.e., currency held outside the banks and adjusted demand deposits—should increase over time at about the same rate as gross national product, allowing for normal velocity. * * *

It is perhaps helpful in placing some of these problems in better perspective to review what has taken place in other countries. Immediately after World War II a labor government was responsible for the destinies of the United Kingdom. Finally, the Conservative Party came to power. In 1957 that Government appointed a special committee known as the British Council on Prices, Productivity, and Incomes. Its chairman was Lord Cohen, a judge, who was also the first chairman of the Royal Commission on the Taxation of Profits. Its other two members were Sir Harold Hewitt, a past president of the Institute of Chartered Accountants, and Sir Dennis Robertson, retired professor of political economy at Cambridge University.

The recommendations of this Council provided the economic planning for the British recovery, and it obviously met with the approval of the electorate since the Conservative Party, which implemented this program, was returned to power.

In discussing monetary policy, this commission said:

> "The dangers of inflation have only been scotched, not killed, by the slackening of tempo in the last 12 months.

We must not suppose that we have solved the problem of getting the growth of incomes into line with that of productivity, merely because in the year 1958 increases in income look like being distinctly lower than in previous years.

"Our balance of payments is in a healthy state, and our foreign exchange reserves have been rising very satisfactorily: but neither of these conditions is bound to last. Past experience suggests that any substantial revival of demand may well be accompanied by renewed threats to price stability to the balance of payments and the gold and dollar reserves."[34]

The First National City Bank of New York, in its Monthly Letter for October 1958, in discussing this report made the following observations:

The measures to dampen down demand taken by the British authorities in September 1957, under the pressure of a sterling crisis that threatened exhaustion of its international reserves, included an increase in the official discount rate to 7 percent—the highest since 1921—the establishment of ceilings on commercial bank advances, a further tightening of controls over new capital issues, and cuts in Government outlays. * * *

Looking farther ahead, the Council squarely faces the basic issue arising "from the conflict of two main objectives of economic policy—full utilization of the national resources of labor and capital on the one hand, and stable prices on the other." * * *

The Cohen council found that the Government "cannot afford" to allow the pressure of demand for goods and for labor to "rise to the peak levels of the past if it wishes to avert price inflation."

Noting that this advice will remain valid "for as far ahead as it is useful to look," it went on to observe that if peak levels of demand are avoided "it can hardly be expected that the average level of unemployment over a period of years will be quite so low as in the last decade."

The problem of local concentrations of unemployment is likely to become "somewhat more serious"—all the more so since the direct cause of these pockets is often some change in the structure of industry not itself connected with the level of overall demand. The policy of "bringing work to the workers" has "definite limits" as long as the Government rules out "extravagantly wasteful methods." [35]

In considering the request of the Secretary of the Treasury, to remove the artificial ceiling of 4¼ percent on long-term Treasury bonds, it should be remembered that in Great Britain a 7-percent discount rate was accepted as the price to avoid inflation and insure economic recovery.

The editorial page of the New York Times of Saturday, February 20, included an excellent discussion of the economic growth which has taken place in Western Germany. This editorial clearly shows

[34] First National City Bank Monthly Letter, "Business and Economic Conditions, Full Employment and Stable Money—A British View," October 1958, p. 118.
[35] Op. cit., First National City Bank Monthly Letter, p. 118.

that price inflation and the manipulation of the money supply are not a necessary prerequisite to growth. It said:

> Is price inflation a necessary prerequisite to, or accompaniment of, a high rate of national economic growth, as one school of thought holds? Or is it true that, as many are firmly convinced, the process of currency depreciation, though it may, under favoring conditions, contribute to temporary bursts of economic expansion, is fundamentally inimical, if not potentially fatal, to the achievement of a state of long-term economic expansion?
>
> Most of the discussion of this question is conducted at the purely academic level, or in terms of U.S. historical experience. The introduction of case histories outside this country is always a refreshing addition to the debate.
>
> The postwar recovery of the West German economy has been one of the most remarkable achievements of its kind, whether judged by present standards or those of any other period or place. Despite heavy wartime destruction and the burden of partition, plant dismantling and its refugee problems, Germany had regained prewar production levels 5 years after the war's end and had become a pace setter in this respect in Western Europe. No less striking, as a study, which appears in the February issue of the Monthly Review of the New York Reserve Bank, reminds us, has been the restoration of the country's position in world trade, which has resulted in turning the Deutsche mark into one of the world's hardest currencies.
>
> True, Germany was the beneficiary of massive U.S. aid in the early postwar years, but this aid might have resulted in something considerably less than a miracle had it not been accompanied by an early restoration of a free market mechanism. It was by this mechanism, as the bank points out, that German efforts and resources were channeled into the most useful employment. Moreover, it adds, "the early adoption of a vigorous monetary policy, which helped to contain inflationary pressures at home, insured Germany's competitive position in world markets and helped provide the ordinary financial setting necessary for rapid economic recovery." [36]

Its concluding paragraph clearly joins the issue which divides the majority's views from my own. It said:

> Dr. Wilhelm Vocke, one of the architects of Germany's recovery, notes that his country's experience contains "two principal lessons." The first is that currency stability can be achieved and preserved even under adverse circumstances. The second lesson—and to him a more significant one—is that a monetary policy firmly committed to currency stability not only does not conflict with rapid and sustained economic growth but indeed is essential to its achievement.[37]

[36] The New York Times, vol. CIX, No. 37,282, Feb. 20, 1960, p. 22.
[37] Ibid.

Because there has been so much confusion with respect to monetary and fiscal policy, it is necessary to set forth a few of the basic prerequisites for a monetary policy that will provide long-term growth.

Dr. Winfield W. Riefler, assistant to the Chairman, Board of Governors of the Federal Reserve System, in a paper delivered at the session of the 18th Stanford Business Conference on July 21, 1959, said:

> What can we say then of the preferred environment for growth? I do not refer here to the resource factors essential for growth, such as invention, education, and research but rather to the more general type of environmental factors touched upon in this paper.
>
> First, among these I would emphasize the maintenance of a market-oriented economy, sensitive to competitive forces, in which costs and prices are flexibly responsible to the interplay of supply and demand. In such an economy, I would expect to find quick appreciation of the advantages of essentials to growth—specialization, substitution, innovation, efficiency, and economy.
>
> Second, I would rely primarily upon the flexible adaptation of fiscal and monetary policies to provide both a sustained high level of output and a price behavior that did not stimulate expectations of inflation, creeping or otherwise
>
> Third, I would hope that the benefits of rising productivity and growth were broadly distributed in three general directions and not overweighted in any one: (*a*) in the direction of wage and income advances to the working force to encourage mobility and the ready availability of needed skills and talents of points of innovation; (*b*) in the direction of lower prices promotive of broader and expended markets for those end products where productivity has lowered real costs; and (*c*) in the direction of sufficient profit-encouragement to those who innovate successfully to simulate initiative in management-planning for growth. In other words, I would favor a situation where the efficiencies of growth were reflected in falling, not rising, unit costs.
>
> I think it was something like this that provided the environment so favorable to the very rapid growth rates that prevailed in this country in the last third of the 19th century. I suspect that the lowering of unit costs at that time, made possible by the application of the new techniques of the industrial revolution to the untapped resources of the West, created a situation in which falling prices for final products still left wide margins to provide higher returns for manpower as well as investment.
>
> Finally, I would avoid a situation where, despite a high rate of technical innovation and rising productivity, unit costs rise to such a degree as to press seriously on profit margins and thus bring pressure for selling prices also to rise. That path is the path of inflation with all the evils it entails. I do not disagree with the exponents of the economics of creeping inflation when they say that if costs rise faster than

> productivity final prices must rise or the economy will grind to a halt. I disagree with them rather when they say that such a process is sustainable and constitutes an acceptable price for growth. My complaint is that it is both cruel and dangerous. Far from providing a firm underpinning to growth, it will, if long continued, engender instability, increase tensions, and impair the very basis of growth.[38]

Mr. Woodlief Thomas, economic adviser to the Board of Governors of the Federal Reserve System, in a paper entitled, "Strategic Factors in the Current Business Outlook," presented at the Helen Slade Memorial Conference of Forecasting sponsored by the New York Statistical Society, on April 23, 1959, said:

> Easy money, i.e., abundant credit availability and low interest rates, taken alone, cannot assure sustainable growth. Adequate credit is essential, but excessive credit, though a temporary stimulant, in the long run will lead to unstabilizing consequences. Where there are special weak elements in an otherwise strong economy, easy credit is likely to stimulate the already exuberant sectors without aiding those that are depressed.
>
> The role of monetary policy is to assure the maintenance of an adequate supply of cash balances for the effective operation of the economy. There is no fixed amount relative to gross national product or any other measure that is appropriate under all conditions. Allowance must be made for changes in the rate of use of existing money, which may be influenced by liquid assets other than cash and by anticipations and other attitudes of the business community.
>
> It is most important that bank credit not be employed as a substitute for saving at a time when investment demands exceed the supply of savings available for lending and when there is relatively full utilization of resources. In a broad sense, bank credit changes should correspond to changes in savings that are held in cash form, if economic balance is to be maintained.
>
> Monetary policies should be conducted so as not to contribute to instability by forcing credit liquidation or stimulating unsustainable credit expansion. Monetary policies, however, cannot be expected to offset instability arising from other factors. To attempt to do so would be likely to accentuate rather than prevent instability in prices and employment in the long run. There is no case—at least since the establishment of the Federal Reserve System—in which a downturn has been brought on by tight money. Downturns have usually developed because of pricing policies and income distortions or unsustainable speculative developments that were often aided by excessive credit expansion.[39]

It is significant that a person with the broad understanding of monetary policy and an association with the Federal Reserve System

[38] Op. cit., "Prerequisites for Economic Growth," National Industrial Conference Board, p. 32.
[39] Op. cit., "Prerequisites for Economic Growth," p. 31.

extending for a period of 38 years—in fact, for all but 9 years of its existence—should categorically state that:

> * * * There is no case—at least since the establishment of the Federal Reserve System—in which a downturn has been brought on by tight money * * *.[40]

Mr. Thomas was also a participant in the Forum of the National Industrial Conference Board previously referred to. He discussed Mr. Riefler's basic economic views and summarized them as follows:

> Inflation is the enemy of growth, particularly when there is public expectation that the purchasing power of money will continue to decline. Inflation impairs growth:
>
> 1. Because it increases instability—high level of activity cannot be sustained for long when inflation is expected to prevail;
> 2. Because it fosters the misallocation of capital and impairs the quality of the managerial and investment decisions on which gorwth is based;
> 3. Because it distorts the saving-investment process and encourages overspeculation; and
> 4. Because it undermines the country's position in international trade.[41]

The recommendations contained in the majority's report would, in time, jeopardize the entire financial stability of our economy and result in its virtual collapse. No Member of the Congress can accept these recommendations without great fear and concern. The Secretary of the Treasury had made a convincing argument in favor of having the maximum possible freedom in refunding our mounting Federal debt into obligations which would be attractive to institutional investors. The views of the majority's report not only reject his request for the elimination of the present 4¼ percent statutory ceiling on these bonds, but, furthermore, proposes an additional deterrent, namely, that "the Federal Reserve should immediately take the steps necessary to regulate the presently unregulated New York bond market and to apply margins to its customers." If this step were taken, it is difficult even to begin to estimate what problems would be generated in the orderly handling of the Federal debt.

This last suggestion is made without any explanation or supporting evidence as to its necessity or any evidence of abuses in the New York bond market which requires this drastic intrusion of a new Federal regulatory power.

It is again noteworthy that the committee, in outlining its plans for the coming year, discusses the tabulation and summary of a questionnaire submitted by 17 security dealers. It states:

> In connection with the committee's hearings conducted as part of the study of employment, growth, and price levels, the 17 firms dealing in Federal Government securities were asked to submit detailed information on a number of aspects of their business over the last 10 years. The assembly and submission of this information is now nearly completed. The designated staff is directed to tabulate and summarize the data

[40] Ibid.
[41] Ibid., p. 30.

> from the dealers for committee consideration, in accordance with committee rule 23, in a manner which will not reveal the identity of any individual, partnership, corporation, or entity.

It is difficult to justify a sweeping proposal such as the regulation of the New York bond market when the committee admits that it has not yet tabulated the questionnaires received from dealers in these securities. In fact, it is appropriate to question whether any worthwhile result can be achieved by analyzing questionnaires if preconceived answers have been derived before their study.

It is remarkable that the majority's report of the Joint Economic Committee can completely fail to comment on the performance of the country's credit machinery during the past year as revealed in the President's Economic Report. Federal Reserve policy was directed at maintaining a stable price level. This goal has been achieved with only a small expansion in total bank assets. Nevertheless, the economy was able to finance a record recovery.

The majority's report states:

> * * * We must, however, be concerned about the undue emphasis on fighting inflation which continued to dominate the administration's policies and those of the monetary authorities.

It seems far wiser to stop inflation before it starts than to clamp controls on the economy later.

The President's Economic Report shows that the growth in both consumer and real estate loans exceeded the high rates of 1955. He stated that—

> Not only was consumer lending by banks at a record rate, but so was the overall increase in consumer credit outstanding. * * * All major categories of installment credit other than that extended for the purchase of automobiles rose more than in 1955. Contrary to the developments in that earlier year, however, there appears to have been no appreciable liberalization in 1959 of the maximum terms on which installment credit was made available to consumers.[42]

He also said:

> * * * The amount of nonfarm residential mortgage credit in use increased by a record $15 billion, compared with an increase of $12 billion in 1958. State and local security issues exceeded those in any previous year, as new authorizations of State and local securities continued to build up a large backlog of issues.
>
> The credit markets were also required to supply funds associated with an increase of $7.9 billion in U.S. Government debt and to absorb outside of the banking system the $8 billion reduction, referred to above, in bank holdings of U.S. securities. Most of the new issues of Federal securities were obligations of short- and intermediate-term maturity, because the 4¼-percent interest rate limitation effectively precluded flotations of longer term U.S. Government securities after the early part of the year. Hence, the Federal Government was forced to do much of its needed financing in

[42] Op. cit., Economic Report of the President, January 1960, p. 19.

> the same maturity range in which commercial banks were reducing their holdings of Government obligations.
>
> Investment sources outside the commercial banking system absorbed the new offerings of Federal securities, as well as bank sales of short- and intermediate-term Federal obligations, but at a substantial increase in rates. Nonfinancial corporations expanded their holdings by $5 billion * * * mostly in very short-term securities; foreign and international accounts, savings and loan associations, and individuals likewise added to their portfolios.[43]

None of these statements indicate that the policies of the Federal Reserve System have in any way interfered with housing and home construction, with expansion of consumer credit, or the financing of State and local bond issues for those projects demanded by the voters in their respective localities.

It should be emphasized that an increase in the interest rates does not necessarily profit large institutional investors or commercial banks since the value of their present bond portfolio is immediately reduced. Furthermore, interest received on Federal securities in most cases is fully taxable, and a large portion of it reverts back to the Treasury.

The majority's report continues to raise an emotional issue rather than to deal with an economic fact; namely, how the Treasury can best refund its obligations which are maturing at a rate of about $80 billion annually. As long as a large portion of the national debt consists of short-term securities, the financial community will be subject to continuing pressures which impede loans to small business which is the object of this committee's apparent concern.

If a larger portion of the Government debt were sold to institutional investors who are necessarily interested in long-term securities at a competitive yield, the pressure on short-term borrowers and those concerned with the purchase of homes and consumer goods or requiring funds for financing small business would abate. High interest rates for these classes of borrowers are the direct responsibility of this Congress, which has refused to take the action recommended for their relief.

The majority's report in its discussion of monetary policy expresses particular concern with the financing of homes. Page 209 of the President's Economic Report, table D-46, shows a continuing growth in conventional mortgage financing which reached an all-time peak in 1959 of $77 billion, an increase of $9.4 billion over 1958. On the other hand, there was a decline in Veterans' Administration mortgages of $300 million and an increase in Federal Housing Administration-insured mortgages of only $4.2 billion.

Artificial interest rates do not build homes, and they represent a disservice to those in the construction industry as well as to those who are seeking new housing.

These views were reinforced in testimony before the Joint Economic Committee by Dr. George Cline Smith, vice president and chief economist of F. W. Dodge Corp., on February 1. He commented on the role of interest rates as a factor in the growth of conventional mortgages and Government-underwritten mortgages. Dr. Smith said—

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[43] Ibid

> * * * there are many who believe that housing should be used as a balance for the rest of the economy, and it is obvious that it has tended to serve in this capacity. The question has been raised, however, whether it is (*a*) fair to those in labor and management whose incomes are tied to this industry to make use of it in such a manner, and (*b*) wise to interrupt the progress that might otherwise be made in such a social necessity as better housing.
>
> I am firmly convinced that the principal, if not the only important cause of the cyclical movements of housing in the postwar period is the interest-rate structure—and only in the FHA–VA sectors of housing, at that. Demand as such for new housing has remained steady, year after year, as far as I can make out. Regardless of interest-rate changes, conventionally financed housing has not shown any significant cycle. The entire roller coaster in housing starts is accounted for by the FHA–VA-insured programs.
>
> It is easy to deduce that the solution to the housing cycle lies either in maintaining steady and relatively low interest rates or in making the FHA and VA rates flexible enough to compete in the money markets. The first solution, in my opinion, is incompatible with our economic system. The latter solution has been requested by the President again in his messages to Congress.[44]

VI. CONCLUSIONS

Public Law 304, 79th Congress, the Employment Act of 1946, expressly provides that:

> SEC. 2. The Congress hereby declares that it is the continuing policy and responsibility of the Federal Government to use all practicable means consistent with its needs and obligations and other essential consideration of national policy, with the assistance and cooperation of industry, agriculture, labor, and State and local governments, to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power.[45]

It will be noted that all actions recommended by the Congress or the Executive should foster and promote free competitive enterprise. There are greater values involved than merely economic questions in this formulation of basic policy. Our forefathers provided that American citizens were to be afforded the maximum opportunity to determine how they shall live their lives under God. They had just fought a war to be free from the economic decisions imposed by a

[44] Hearings before the Joint Economic Committee, Congress of the United States, Washington, D.C., Feb. 1, 1960.

[45] Op. cit., "Current Price Developments and the Problem of Economic Stabilization," hearings before the Joint Committee on the Economic Report.

Parliament who thought that they were more competent to determine how the settlers on this continent could best fulfill their lives.

Free competitive enterprise embraces a freedom of choice in disposing of one's income and in maximizing one's satisfactions, as long as it is not done at the expense of others. It embraces the freedom to work where one wishes, to purchase what one wants, to speak, think, and worship as one pleases. These are the basic tenets of the American way of life.

President Eisenhower in his Economic Report said:

> However, we must go further in establishing a broad public understanding of the relationships of productivity and rewards to costs and prices. It would be a grave mistake to believe that we can successfully substitute legislation or controls for such understanding. Indeed, the complex relationships involved cannot be fixed by law, and attempts to determine them by restrictive governmental action would jeopardize our freedoms and other conditions essential to sound economic growth.
>
> Our system of free institutions and shared responsibility have served us well in achieving economic growth and improvement. From our past experience, we are confident that our changing and increasing needs in the future can be met within this flexible system, which gains strength from the incentive it provides for individuals, from the scope it affords for individual initiative and action, and from the assurance it gives that Government remains responsive to the will of the people.[46]

The Chairman of the President's Council of Economic Advisers, Dr. Raymond J. Saulnier, has repeatedly stated that the ultimate purpose of the American economy is to produce more consumer goods. He stated that the objective of everything that we are seeking is to produce things for consumers. This philosophy is consistent with the freedoms embodied in our basic history. On the other hand, there are many individuals who believe that the objectives of our economy are not merely the production of more consumer goods which in turn is predicated on free consumer choice, but rather more facilities provided by Government. These thoughts have appeared in many books and papers written in recent years, which are predicated on the premise that we have become "an affluent society." Their concept is based on Government planning rather than consumer choice in the marketplace.

I reject this philosophy unequivocally. The policies and recommendations embodied in the majority's report, if they are ever enacted into law, would, in time, result in the elimination of those freedoms which Americans cherish.

The American economy is based on voluntary decisions rather than planning by an all-wise bureaucracy. It is relatively easy to plan an economy where living standards are low. The only consideration is to insure that everyone shall have a basic subsistence.

Fortunately, we are living in a country where competition in the marketplace for the patronage of consumers who are free to buy or not to buy provides the motivating force, and our living standards are the highest in the world. If Government spending and taxes

[46] Op. cit., "Economic Report of the President," January 1960, p. 8.

rise to a point where the collective decisions represent too large a share of our gross national product, the incentive system which has made this country great will be destroyed.

This committee is necessarily concerned with maintaining a rate of growth which will not only advance the well-being of our people, insure the maximum employment consistent with the maintenance of free enterprise, but also insure our ability to assist other countries in the free world to maintain their way of life free from aggression from any source. Many attempts have been made to justify excessive Government direction of the economy on the basis of Russia's supposed rise in productivity.

One of the most distinguished economists of this age is Colin C. Clark, formerly of Australia, and presently director of research for the Econometric Institute, Inc., who testified before the Joint Economic Committee on September 28, 1959. Mr. Clark, who has contributed so much to modern economics, dealt with this subject in his testimony before the committee, but this again was never referred to in the majority's views in Senate Report No. 1043. The following colloquy between the chairman and Mr. Clark is basic to an understanding of our problem:

> The CHAIRMAN. In recent years the rate in Western Europe has had a higher growth rate than we? Western Continental Europe?
>
> Mr. CLARK. Yes. But these figures are of their nature misleading, because you are taking countries which have been devastated by war, and you are measuring their rate of recovery. I think it is a fair parallel to take a doctor who is treating a child recovering from a serious illness, plotting its weight on a diagram, seeing how rapidly it rises, and saying that within a year the child will weigh more than its father. If a doctor did that, we would regard him as unfit to practice medicine. But economics is still a very unsophisticated science. And a lot of these claims which are made about the Russian growth rate are entirely wide of the mark. The idea seems to have got general acceptance that the Russian growth rate is two or three times the American.
>
> In fact, over the long period—and I submit the detailed evidence—the Russian growth rate in product per man-hour is very considerably below the American.
>
> The CHAIRMAN. The Russians are undoubtedly unscrupulous at handling figures. How can you be clever enough to detect the degree of their unscrupulousness and deflating figures properly?
>
> Mr. CLARK. It has taken more than 20 years of continuous study, Mr. Chairman. I first published a book on this subject in 1939, and I have relied a good deal on other critical work, particularly by Jasny, Nove, and Chapman. I should also add that the work done by Professor Nutter in the National Bureau of Economic Research comes to exactly the same conclusion using an entirely different method, because I have worked using figures of actual consumption and investment. He has worked by using manpower productivity in sectors of manufacture. And he has come to just the same conclusion.

> You can understand the zeal with which Soviet and fellow-traveling propagandists tried to make their case, because the Russian philosophy is a materialist one. The Russian people have been called upon to sacrifice their property and their freedom and their family life and their religious beliefs and everything else for the sake of productivity, and it is a bit hard to find, as they are finding, that all they have is a very second-class improvement in productivity in return for sacrificing everything else.
>
> Coming back to American prospects, I should say there is no serious prospect of the 2.3 perannum productivity growth being increased. Or, if it is to be changed, it will only be changed very slowly. These productivity changes in nearly every country take place continuously and slowly.[47]

To preserve the freedoms that we cherish, Government expenditures and taxation must be curbed. This philosophy is contrary to the entire thesis of the majority's report. It is unfortunate that Mr. Clark's earlier testimony was not reflected in the preparation of the majority's views. Mr. Clark testified:

> You may remember, Mr. Chairman, in 1952 you presided over a radio debate between myself and Professor Heller, who took the view that high levels of taxation did no economic harm. That is the view held, I am afraid, by the majority of economists. And when we concluded the debate, we left the matter undecided, and I said, "Well, if I come back after a few years, I am afraid I shall find American prices very much higher than they are now in 1952." And I am afraid that has been the case. The rise has been persistent, even though we have had two quite sharp business recessions during the intervening years.
>
> I first reached this conclusion about 25 percent of the national income's being the safe limit for taxation in an article published in the Economic Journal in 1945. And it is an interesting point that the editor of the Economic Journal who published the article was Lord Keynes, and in addition he wrote me a personal letter in 1944 in which he said that he agreed with my conclusions. In fact, during the last years of his life Keynes went out of his way to say that he himself was not a Keynesian, and he did not agree with the ideas which were being advocated in his name.[48]

In spite of the fact that no one has refuted Mr. Clark's conclusion that 25 percent of the national income is a safe limit for taxation, in 1958, the last year for which total figures are available, Federal, State, and local taxes combined to consume more than 30 percent of our national income. Furthermore, the Federal Government was operating with a deficit of $13.3 billion.[49]

Unfortunately, these same ideas are now being advanced by individuals far less able than Keynes to understand their full implications to our way of life.

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[47] "Employment, Growth, and Price Levels," hearings before the Joint Economic Committee, Congress of the United States, 86th Cong., 1st sess., pursuant to S. Con. Res. 13, Sept. 28, 1959, pp. 2455–2457.
[48] Ibid, p. 2459.
[49] Op. cit., "Economic Report of the President," January 1960, pp. 166, 218, 219.

ADDITIONAL VIEWS OF SENATOR JACOB K. JAVITS

Government is the servant of the people, not their master. It exists to serve their requirements, to create the climate and the security within which they can pursue the means to achieve a high standard of living and a creditable national destiny. Hence Government spending—additions to the gross national product by Government itself—is not the optimum way in which to achieve the highest aggregate well-being or to increase most effectively the Nation's resources or its productivity.

It is vital to recognize two factors:

First, our efforts in respect of slum clearance and urban renewal, resources development, schools, aid to depressed areas in the United States, health and medical research, and similar programs must be directed toward facilitating and improving the people's opportunity and capability to produce and to enjoy, rather than being considered to constitute production in and of themselves. Second, increase of production and growth of productivity is not in itself an absolute objective in a private economy; such growth must be selective in order to have the greatest and most meaningful impact on the welfare of the people and the interests of the Nation. For example, increases in housing, modernization of our railroads, and slum clearance and urban renewal are far more important for meaningful growth in the economic system than is the production of ever more expensive, complex, and extravagant luxuries. While luxuries may make our lives more enjoyable—and we certainly value them as an essential part of the American way of life—there must be a certain balance between the extent of such production and other uses of our productive resources within the totality of the national balance sheet.

It is these two major points which are basic to my disagreement with the majority, which it seems to me does not give them the weight they deserve, in their discussion of growth and the utilization of our national resources. It is for that reason that I feel impelled to state my views separately. I also wish to note that I feel it is the duty of the Joint Economic Committee, in reviewing and reporting on economic conditions to the Congress and the Nation, to narrow and point up the divergences in our different points of view, while indicating the wide areas where agreement exists, rather than to widen divergences of view, which has been, I regret to state, the effect of recent reports.

Whatever else might have developed since the time of the President's 1959 Economic Report, one thing is now clear: There appears to be general agreement that while the danger of a hot war in the struggle between freedom and communism has diminished lately, the reality of the economic and social struggle has grown more real and urgent. It has also become clear that in this economic and social struggle the final decision is going to be won "at home," considering the whole free world as home. For the battleground of decision is seen with constantly greater clarity to be the less developed and relatively uncommitted nations and areas of the free world in south and southeast Asia, Asia Minor, Africa, and Central and South America.

In this struggle two questions will decide: First, can the free world help the people of the less developed areas attain an adequate rate of development, leading them as quickly as they have a reasonable right to expect toward more tolerable living conditions, and second, will the Communists be able to persuade the peoples of these less developed areas that the way to attain their social and economic objectives is by accepting at one and the same time the tyranny, suppression of human dignity, and iron discipline of communism? Upon these two questions hinges the fate of the free world, and therefore of mankind.

In the Economic Report of the President, taken together with the President's message on foreign economic assistance which was sent to the Congress on February 16, 1960, we are beginning to spell out these issues and questions, and the ways to answer them.

The challenge of the free world is its own economic and social integration. It is now clear that whatever the Communists may do, the effective combination of free men can frustrate and defeat them and win the epic struggle of our times for freedom.

Basic to the economy of the free world, especially of the newly developing areas to which an active foreign trade in the primary commodities is indispensable, is a liberal U.S. trade policy. Such a trade policy is required in fairness to consumers in the United States and calls, also, for the increased competitive sharpness of our domestic production system. It calls for increased exports, particularly in the face of our substantial balance of payments deficit, exports which are in themselves a test of our productive capacity and competitiveness in the struggle between free institutions and communism. It requires that the other industrialized nations of the free world must join in the work of economic development of the less developed areas. The potential for this cooperation exists, the will is there, and a start has been made at the recent Paris conference of January 1960, with the proposals of Under Secretary of State Douglas Dillon, aimed at the establishment of a 20-nation organization of Atlantic economic cooperation which can pursue coordinated economic policies.

In these endeavors we must also keep very much in the mind the possibility of economic dislocation in certain segments of the economy, which can result from increased imports—while we recognize that exports employ eight or more times as many Americans as are adversely affected by such imports. We know we cannot sell (export) if we do not buy (import), but we must establish machinery to assist those economic areas which are adversely affected by the overall U.S. foreign trade policy by making available to such industries and employees low interest loans, reconversion and retraining assistance, and, where necessary, aid in relocation. We must never forget the impact at home of our national policies, nor must we place ourselves in the situation where our failure to meet these domestic needs will adversely affect our long-range national economic policy requirements, which have their impact on the economy as a whole.

Of great importance to the outcome of the economic struggle will be the degree to which U.S. civilians enlist directly in the effort to promote peace and prosperity in the free world by working overseas for businesses and voluntary organizations, as well as for the Government. A national drive should be launched to usher in a new era in 1960, an era of thousands of well-trained, dedicated, versatile young Americans abroad, as businessmen, students, workers, teachers, missionaries, technicians, and doctors, together with their families, ready and willing to teach or to train as well as to listen and learn.

Person-to-person diplomacy by 500,000 American civilians working overseas compared to the 100,000 working overseas now is a realistic short-range goal, if U.S. public and private overseas assistance continues to expand and grow as it should in less developed areas and as U.S. colleges and universities equip themselves to train thousands for overseas assignments. The great majority of these Americans working abroad are destined to be stationed in the front lines of the new economic struggle, for the less developed areas are the favorite target for the Communist bloc's economic penetration.

It seems clear that an increase in productivity is essential not only to enable us to meet the needs of our growing population, but to improve as well our overseas position in terms of our balance of payments and to enable us to carry the leadership of the free world for peace.

A conscious effort to increase our productivity may well be made with help from our wartime experience, during which 5,000 labor-management productivity councils were registered with the Federal Government. The Department of Labor in cooperation with the Department of Commerce and other appropriate agencies should begin to lay plans for the development of local and regional labor-management productivity councils. Such councils should have representatives of the trade unions, management, and possibily local government. They could at this time plan for improving labor-management relations, the transition to automation, improving plant efficiency and safety, improving job training and apprenticeship programs, reducing avoidable absenteeism, and establishing better mutual understanding between industry and the community. I am planning to introduce legislation in the near future which would promote the establishment of such councils.

I fully recognize the validity of the President's position with respect to the Federal Government's fiscal policy, requesting favorable action by the Congress on his recommendations for appropriations and revenue measures contained in the 1961 budget; the use of an expected \$4.2 billion surplus for debt retirement; and action by the Congress with respect to the interest ceiling on issues of long-term Federal bonds. But, I must point out that none of these points are immutable or inflexible in their specific implementation.

The financial viability of this Nation is a major element in national security, growth and high production, employment and income, and therefore we cannot lay aside budgetary considerations; at the same time, it would be folly to permit them to become the primary determinants of our national policy. We must achieve the ability to

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meet the domestic and international economic challenges which confront us, without making a budget surplus our sole aim—yet with the intent to balance the budget and to achieve a meaningful surplus for the reduction of the national debt wherever possible, by a careful, hardheaded regard for budget and fiscal necessities. The budget may well have to yield to such exigencies as adequate aid to education and still could show a substantial surplus—while in return, the results of sufficient Federal assistance in this area today will result in substantially greater benefits to the national strength, income and revenues.

A little loosening of the budget could be joined with tax revision and tax reform. I recognize the obligation to support an adequate tax structure, both in terms of continuing for the present the existing scale of most excise taxes and in terms of closing tax loopholes which presently permit large segments of the economy to escape their responsible share of the burden of Government. That is why I favor a reasonable reduction in the 27½-percent oil depletion allowance, in excessive mineral depletion allowances, and in other special tax privileges. Also consideration needs to be given to the encouragement of foreign private investment, the retirement needs of middle-income earners, and small business.

The current red-hot debate over the existence of a U.S. "missile gap" and the adequacy of our defenses, and the implications of these factors for the destiny of the United States as the leading free world power, have projected into even greater prominence the status of our higher education system and our dependence on its capability in the years ahead to train and develop the talent essential to free world leadership in the space age—scientifically, technologically, and culturally.

With respect to the importance of debt management policy to price stability, budgetary control and the strength of the economy, there can be little doubt. But even here there can be flexibility in meeting the requirements of the Economic Report. For example, the President's recommendation with respect to interest rates on long-term bonds—those with maturities over 5 years—could be met by granting this request with respect to bonds issued during a term of years—perhaps the next three—thus retaining residual congressional control, with provision for a review of the operations of the Treasury while freed from the ceiling during the intervening years. In addition, I continue to urge that the Treasury meet at least part of its need for long-term funds through fuller utilization of the special role of savings bonds. The particular anti-inflationary character of these issues, their substantially lower interest costs to the Government, and the leeway which now exists with respect to their interest rates, set at 3.75 percent by the Treasury, but subject to a ceiling of 4.25 percent, calls for a vast increase in their sales. Right now they are at a new low ebb as a means of Federal Government finance with redemptions rising and sales falling.

Irrespective of congressional action on long-term marketable bond interest rates, I urge that there be a drive to sell to the public what we now call savings bonds, but what should be renamed "peace bonds"—this drive to feature a special $25 billion issue which would seek to attract millions of new investors in a significant shift of the national debt into these securities. These should carry an interest rate higher than the present 3.75 percent if that is necessary to achieve the desired amount of sales. My colleague, Senator Williams of Delaware, has suggested a most commendable plan for such savings bonds which would call for an immediate rise in their interest rates to 4.25 percent.

It should be clear that to meet our economic and production needs, reliance cannot be on monetary and fiscal policy primarily. These are tools and catalysts; they do not create and produce goods in themselves. It is the potentials of labor and capital, of inventiveness and managerial skills which produce and which increase productivity. The potentials of the United States with respect to such real productivity increases are great and they must be achieved to make our economic position secure. The real problems here require us to come abreast of such specific national needs as an adequate transportation system, as reflected in the problems of the railroads in terms of modernization, research and development of new techniques. In this specific area, I have just introduced legislation to establish a National Advisory Committee on Rail Transportation, with the specific duty of undertaking and guiding research and development programs to enable this vital industry to modernize its facilities and upgrade its operational efficiency and services in the discharge of its present and future responsibilities. This committee would function along the lines of the National Advisory Committee on Aeronautics, which led in the technological development breakthrough of the aviation industry to the healthy giant it is today.

We must not ignore the ancient maxim that man does not live by bread alone, nor forget that a healthy and strong economy must find a proper place for the democratic aspirations and the cultural needs of its citizens. Purely in terms of economic welfare and strength, these factors are vital, for the human resources of all our peoples, regardless of race, color, religion or national origin must be equally available to strengthen and contribute to the economic requirements of the country. When prejudice and discrimination deprive us of the services of one person, or deprive one person of the opportunity to achieve, through adequate education, the ability to serve to the best of his potential, every American suffers the consequences. Discrimination is a luxury we cannot afford; in addition, it is a drain on the body politic which weakens it far beyond the loss to any individual worker. A free economy depends on a free society—one in which the opportunity of economic choice and the opportunity of political and social choice go hand in hand.

Similarly, the morality of the Nation, as reflected in its attitude toward minorities and in its support of cultural activities, goes not only toward strengthening it in its productive powers, but also continues to assure that what we are fighting for in the struggle of economic and social systems between freedom and communism will be attained at home.

In all these considerations, I think that the greatest importance should be placed on finding the methods which will maximize the use of the private sector of the economy to meet the needs of our people and our Nation, both at home and abroad. We must find the areas in which, without sacrificing the basic economic precepts of free enterprise and individual choice, we can expand our wealth, production, and employment while, at the same time, protecting our standard of living, our fiscal stability, and the value of the dollar. Our task is to balance our needs, not with the thought that one goal must be sacrificed to achieve another, but with the full realization that we may be able to achieve most or all of them through a judicious use of our resources.

Survival is not a noble end in itself. It is meaningful only if what survives in our Nation is our freedom, our cultural heritage, and our standards of values and morality for which our peoples have striven so heroically in the past, and will always strive.

Publications of the Joint Economic Committee[1]

January 1947–February 1960

**Declaring a National Policy on Employment, Production, and Purchasing Power* (Report of the Joint Committee on the Economic Report), Senate Report No. 11: January 1947.

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[1] Single copies of the publications listed may be obtained from the Joint Economic Committee except as otherwise noted. Additional copies of committee publications may be purchased from the Superintendent of Documents, Washington 25, D.C., at the price given. The prices shown are for single copies. There is a discount for quantity orders. Out-of-print publications are denoted by an asterisk. Publications available only from Superintendent of Documents are denoted by a dagger (†).

Joint Economic Report (minority views of the Joint Committee on the Economic Report on the January 1949 Economic Report of the President), part II of Report 88: April 1949.

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†*Productivity, Prices, and Incomes* (Materials prepared for the Joint Economic Committee by the committee staff), committee print (sale price 70 cents): June 1957.

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†Part 1. *The American Economy: Problems and Prospects*, March 20, 23, 24, 25, 1959 (sale price 60 cents): April 1959.

†Part 2. *Historical and Comparative Rates of Production, Productivity, and Prices*, April 7–10. 1959 (sale price $1.00): May 1959.

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†Part 4. *Influence on Prices of Changes in the Effective Supply of Money*, May 25, 26, 27, 28, 1959 (sale price 75 cents): July 1959.

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†Part 6A. *Government's Management of its Monetary, Fiscal, and Debt Operations*, July 24, 27, 28, 29, 1959 (sale price $1.25): September 1959.

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†Part 8. *The Effect of Increases in Wages, Salaries, and the Prices of Personal Services, Together With Union and Professional Practices Upon Prices, Profits, Production, and Employment*, September 28, 29, 30, October 1 and 2 (sale price 75 cents): November 1959.

†Part 9A. *Constructive Suggestions for Reconciling and Simultaneously Obtaining the Three Objectives of Maximum Employment, an Adequate Rate of Growth, and Substantial Stability of the Price Level*, October 26, 27, 28, 29, 30, November 2, 3, 4, 5, and 6 (sale price 70 cents): December 1959.

†Part 9B. Same title as 9A. (Materials submitted by 12 organizations at the invitation of the Joint Economic Committee) (sale price 45 cents): December 1959.

†Part 10. *Additional Materials Submitted for the Record* (sale price 60 cents): January 1960.

†No. 1 *Recent Inflation in the United States* by Charles L. Schultze (sale price 40 cents): September 1959.

Nos. 2 and 3 *Steel and the Postwar Inflation* by Otto Eckstein and Gary Fromm; *An Analysis of the Inflation in Machinery Prices* by Thomas A. Wilson (sale price 25 cents): November 1959.
Nos. 4 and 5 *Analysis of the Rising Costs of Public Education* by Werner Z. Hirsch; *Trends in the Supply and Demand of Medical Care* by Markley Roberts (sale price 30 cents): November 1959.
No. 6 *The Extent and Nature of Frictional Unemployment* by the Bureau of Labor Statistics (sale price 25 cents): November 1959.
†Nos. 7, 8, and 9 *The Incidence of Inflation: Or Who Gets Hurts* by Seymour E. Harris; *Protection Against Inflation* by H. S. Houthakker; *The Share of Wages and Salaries in Manufacturing Incomes, 1947–56* by Alfred H. Conrad (sale price 45 cents): November 1959.
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No. 20 *The Potential Economic Growth of the United States* by James W. Knowles (sale price 20 cents): January 1960.
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