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88TH CONGRESS, 2d Session | SENATE | REPORT No. 931

1964 JOINT ECONOMIC REPORT

REPORT

OF THE

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

ON THE

JANUARY 1964 ECONOMIC REPORT OF THE PRESIDENT

WITH

MINORITY AND ADDITIONAL VIEWS

MARCH 2 (legislative day FEBRUARY 26), 1964.—Ordered to be printed

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

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MARCH 2 (legislative day, FEBRUARY 26), 1964.—Ordered to be printed

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

REPORT

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MINORITY AND ADDITIONAL VIEWS

REPORT OF THE JOINT ECONOMIC COMMITTEE ON THE JANUARY 1964 ECONOMIC REPORT OF THE PRESIDENT

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

INTRODUCTION

The Nation's automatic economic stabilizers have grown more powerful in the postwar years. They apply strong brakes to expansions as well as downturns. The result for 6 years has been a modest, but persistent, rate of increase in demand, accompanied by continuously high unemployment of labor and capital.

Economic developments in 1963 again followed this pattern. Gross national product—the dollar value of the Nation's output of goods and services—rose about 5½ percent or $30 billion from 1962 to 1963; corporate profits after taxes by 10 percent; disposable personal income by almost 5 percent; consumer spending by $18 billion or 5 percent; employment by 1½ percent or about 1 million jobs.

New economic records each year are not enough. The economy's performance must be measured against its potentials—against what it is capable of producing. By this standard we still have much to accomplish. For over 2 years real gross national product has ad-

[NOTE.—Due to pressure of other responsibilities, Senator Fulbright was unable to participate in the hearings and other committee deliberations pertaining to this report and reserves judgment on the specific recommendations made therein.]

vanced just fast enough to hold its ratio to potential output at about 93 percent. In 1963, more than 4 million men and women capable of working were unemployed—more than 5½ percent of the labor force for the seventh year in a row. About 13 percent of productive capacity in manufacturing remains idle. It has been at least 6 years since manufacturing capacity has been operated at its preferred rate.

Full employment of labor and capital is a moving target; the labor force grows continuously; workers are released by laborsaving machinery and new techniques; new investment increases the capacity of farms and factories. Thus, total demand must expand rapidly just to keep from falling behind rising potential output. To catch up, demand must grow more rapidly than in recent years.

The outlook for 1964 is encouraging. The tax cut will accelerate an existing expansion instead of being called upon to counteract recession. Our record of price stability over recent years is unmatched by any other major industrial country. Price and wage decisions that take into consideration our unused resources can make possible a continuation of this fine record. Thus our balance of payments, already improving, will benefit from more competitive exports and a more attractive investment climate. Necessary expansions in welfare programs, such as the new attack on poverty, can be financed as the Joint Economic Committee has often recommended: that is, largely out of reductions in other programs with lower priorities or out of reductions made possible by increased efficiency in managing the public's business.

It is further encouraging that the Revenue Act of 1964 places the major share of tax reduction in the first year, as this committee recommended a year ago. The economic stimulus will come mainly while idle resources permit noninflationary increases in output, rather than later when the economy will be nearer capacity. Thus, economic programs promise a healthy and rapid acceleration of demand toward full utilization of labor and capital.

Goals for Economic Policy

The President has set forth economic goals for 1964 in line with the Employment Act objectives of maximum employment, stability, and economic growth achieved in a climate of individual freedom and private competitive enterprise. The 1964 specifications call for: a stronger and more productive economy, expansion of job opportunities, avoidance of inflation, improvement in the Nation's balance of international payments, steps to deal with the problems created by technological progress, and acceleration of programs aimed at reducing individual poverty.

The Employment Act is uniquely American. The act added no new powers to government. Nor did it take away any freedom from the private economy. It expresses national confidence that economic policies, public and private, can be coordinated so as to achieve broad national economic goals while preserving individual freedom, and with it, the benefits of highly decentralized, rather than centralized, planning and decisionmaking.

From the beginning the act was thoroughly in tune with the long American tradition which calls for a dynamic economy free from public and private restraints or conflicts of policy which would impede continuous adjustments to changes: (1) in individual tastes and preferences; (2) in the level and distribution of purchasing power; (3) in relative prices; (4) in techniques for combining resources in production; (5) in the characteristics of products and services; (6) in the geographic distribution of population and industries; and (7) in international economic relationships.

With the Employment Act of 1946 pointing the way, there is hope, and a strong possibility, that Government efforts can surpass even the laudable pledge to obtain a dollar of value for every dollar spent. The solution of our national economic problems rests not only on operating efficiency but also upon the additional contribution that can be made if the public and private administrators will pause and consider how they may coordinate their actions so as to achieve the objectives of the Employment Act.

Not only coordination is needed—the quality of management in both government and private organizations must be improved to reflect the most advanced knowledge and skills available today. The most important single cause of failure among private business firms is management failure. Congress is well aware that many a failure of government programs, or at least the lack of maximum efficiency in execution, is due to inadequate management.

The failure of managers, whether in public or private employment, to rise to the demands placed upon them in our free economy contributes to the problems of distressed areas with chronically high unemployment, of prolonged unemployment of workers displaced by automation and technological progress, and of inadequate American competition in foreign markets.

In addition to improved coordination and management, we need to be deeply concerned about impediments to the mobility of labor and capital—the economic manifestations of "creeping status quo." Obstructions to mobility arise from price rigidities, social rigidities, racial discriminations, managerial rigidities, and bureaucratic objections to change.

Recommendations

This committee is pleased that many of the President's recommendations parallel those pioneered in years past by this committee or its subcommittees. Some of our recommendations already have been embodied in legislation. In these past recommendations, and those made below in this report, the three above policy considerations appear repeatedly: policy coordination, the need for improved management, and the importance of mobility of resources.

FISCAL POLICY

Tax reduction combined with appropriate reordering of priorities in Federal spending offers the most feasible route to reducing unemployment to more tolerable levels and, with appropriate safeguards, need not create inflationary pressures.

Unemployment will be reduced and demand will rise toward the Nation's output potentials as the tangible benefits of the Revenue Act of 1964 begin to be felt by taxpayers throughout the country. The tax reduction of over $11 billion—largest in the Nation's history—coupled with the proposed level of Federal expenditures, represents the most decisive measure ever taken to implement the directives of the Employment Act of 1946.

In line with last year's recommendation of the committee,[1] the larger share of the overall reduction is scheduled for the first stage. This distribution, coupled with an immediate drop in the withholding rate to 14 percent, insures that the economy will receive a powerful stimulus during the calendar year 1964.

As this committee has pointed out in the past, it is appropriate to concentrate the stimulating effects of tax reduction at the time when capacity utilization rates are low and production can readily be increased. By the same token, it is well to taper off the stimulus when the economy nears full employment to minimize the risk of inflation. The Revenue Act of 1964 conforms to our earlier recommendation.

The Revenue Act will have economic impacts beyond 1964. It reduces the excessive tax burden which has been primarily responsible for the disappointing performance of the economy since 1957. It offsets part of the increases in State and local taxes which create an increasingly regressive tax burden on the economy. The anticipated increase in consumer spending will reinforce the investment credit enacted in 1962, the depreciation revisions accomplished in that year, and the newly reduced tax rates on business income to create powerful incentives for increased business plant and equipment expenditures.

Our analysis of the favorable effects of the Revenue Act of 1964 is predicated on the level of Federal expenditures proposed in the 1965 budget. Tax reduction will not be effective in reducing the present high unemployment if Federal expenditures are sharply reduced. The Federal Government bulks so large in the economy that any effort to eliminate the Federal budget deficit through a sharp reduction in Federal spending is sure to reduce incomes and eliminate jobs. An increase in unemployment is too great a price to pay for balancing the budget.

Enactment of the Revenue Act of 1964 does not lessen the need for tax reform. We recommend continued efforts to broaden the tax base, reduce the complexity of the tax law, improve the equity of the tax structure, and strengthen its contribution to stability, growth, and full employment. Plans should be drawn up now for future tax reform along these lines.

The Revenue Act of 1964 is the first step along the road to an overhaul of the Federal tax structure. But we cannot rest with such accomplishments as are contained in this act. We recommend that the Congress and the administration press forward vigorously with efforts to broaden the tax base, reduce the complexity of the tax law, improve the equity of the tax system, and strengthen the contribution of the tax structure to economic stability, growth and full employment.

Expenditure control does not imply that programs needed to solve pressing economic problems cannot be undertaken. Indeed, as this committee has often pointed out, what is called for is increased efficiency

[1] 1963 Joint Committee Report, p. 13.

in the operation of programs and a reordering of priorities within total Federal spending.

The President's 1965 budget proposals demonstrate the correctness of this committee's past contention that it is possible to increase expenditures in areas of vital national importance without increasing the overall level of Federal expenditures if a vigorous effort is made to eliminate low priority projects. The proposals also demonstrate that a budget can make a significant contribution to an improved rate of economic expansion even though it does not call for a substantial increase in overall expenditures. For example, the budget allocates needed expenditures to improve health standards, raise educational levels, retrain the unemployed, and attack the causes of poverty. Programs such as these will have an important impact on the future by greatly enhancing the productivity of the labor force and reducing the need for family support payments of various kinds.

The Secretary of Defense is to be congratulated for the savings he has effected in the management of the Defense Establishment. Defense expenditures hold the key to trends in the overall level of Federal expenditures. Without the scheduled reductions in the defense sections of the budget, it would be impossible to increase the funds for civilian programs unless total expenditures were allowed to rise. While we heartily concur that wasteful and nonessential Government expenditures must be eliminated, we urge that every effort should be made to insure that the cost involved in reducing or terminating an established program is widely shared and not concentrated among a relatively small group of business firms, individuals, or areas.

MONETARY POLICY

In the absence of a clear and present danger of inflation or a marked deterioration in the balance of payments, the monetary authorities, through open market operations, should provide the banking system with the added reserves which are needed to accommodate the growing demands for funds associated with fuller utilization of economic resources and economic growth.

The committee concludes that the Nation may reasonably expect better performance from the monetary authorities than it has received. We must learn from experience and avoid repeating past mistakes. Since the mid-fifties, monetary policy has been biased toward undue limitation of economic expansion. Severe limits on money and credit supplies contributed significantly to the forces pulling the Nation into the recessions of 1957–58 and 1960. We must assure that monetary policy will not help push the Nation into future recessions or impede the achievement of full employment and satisfactory growth.

There is no persuasive reason why credit again should be allowed to prevent the economy from achieving full employment. Indeed, the committee believes that more expansive credit conditions would be appropriate. Excess industrial capacity and a large pool of unemployed labor give the economy substantial room for expansion before the pressures of demand on supply create an inflationary situation. As for cost-push inflation, the committee does not regard monetary policy as a suitable instrument of control. Instead, the committee endorses the President's wage-price guidelines, which provide for an equitable noninflationary sharing of the gains of economic progress.

The committee notes with concern the tendency of certain foreign countries to raise interest rates to restrain excessive price increases. Such moves increase the pressures on the U.S. balance of payments. These countries are apparently oblivious to the irony of following policies inconsistent with their advice to the United States. They have counseled the United States to cope with its problems of unemployment and balance-of-payments deficits with restrictive monetary and expansionary fiscal policies. It follows that they should adopt the opposite policy mix to deal with their problems of unduly rising prices and balance-of-payments surpluses; namely, expansionary monetary and restrictive fiscal policies.

The U.S. monetary authorities should remain on guard against excesses and weaknesses in the monetary structure. But the adoption of a general policy of monetary contraction, with its far-reaching deflationary implications for the entire economy, should be reserved for circumstances, unlike the present, when demand-pull inflation is an imminent threat or severe deterioration in the balance of payments requires changes in liquidity conditions throughout the entire monetary system.

Reviewing the operation of monetary policy over the past year, we cannot help being struck by the fact that our past recommendations are still appropriate. Monetary and fiscal policies should work hand in hand to promote the Employment Act's objectives of economic growth, full employment, and price stability. The Federal Reserve System carries out the monetary functions of the Congress as its agent exercising delegated powers, and is responsible to Congress. We therefore repeat that:

> "*We recommend that the monetary authorities follow a policy of assuring that the money supply expands in line with the rising needs of an expanding economy. Such a policy will reinforce the proposed fiscal policies and at the same time spare the Federal Reserve System their perennial explanations of why monetary policy is blameless in the face of a lagging economy.*" (1963 Joint Economic Report, p. 20.)

> "*We again recommend that the monetary authorities provide the basis for secular increases in the money supply as the economy grows, through open market purchases of longer term Federal securities, rather than by lowering reserve requirements.*" (1963 Joint Economic Report, p. 23.)

> "*The Federal Reserve must either be persuaded or compelled by law to institute a better and more timely system of reporting to the Congress and the public the actions taken by the Open Market Committee and the Board of Governors, together with the specific reasons for such actions.*" (1963 Joint Economic Report, p. 25.)

> "*Under present conditions of high unemployment and excess capacity, debt management should be handled so*

as generally to reinforce expansionary fiscal and monetary policies." (1963 Joint Economic Report, p. 26.)

INTERNATIONAL ECONOMIC POLICIES

Unilateral action by the United States to restore equilibrium in its international payments is incompatible with an expanding world economy based on liberal trading and financial policies. These problems are international in scope; and liberal, outward-looking solutions require careful coordination of the policies of all countries. But strong unilateral action might be forced upon the United States unless international cooperation and coordination is improved.

This is the committee's general conclusion after its extensive hearings and staff investigations in 1963 on the problems of the balance of payments and international liquidity. Its work in 1963 followed extensive hearings and studies in prior years by two of its subcommittees, one on international exchange and payments and the other on foreign economic policy. The committee's findings and recommendations on international economic policy will be discussed fully in a separate report so there is no need for extensive comment here. We strongly urge attention of the Congress and the administration to the points set forth in that report.

[Representative Patman is of the opinion that in the light of information previously developed by the committee on the subject of the balance of payments, there is no valid basis for allowing the balance-of-payments issue to dominate domestic monetary policy to the extent that the Federal Reserve System has permitted it to do. The unfortunate result has been needless frustration of domestic economic growth.]

Committee studies during 1963 brought to light ocean freight rate issues closely related to the balance of payments problem:

Substantial disparities exist between inbound and outbound ocean freight rates, usually to the disadvantage of American exporters. Corrective efforts by this committee and the Federal Maritime Commission met with strenuous opposition from foreign-dominated shipping conferences and foreign governments. If further hearings by this committee do not reveal prospects for early elimination of such discrimination or adequate justification, this committee will recommend substantial changes in U.S. shipping policies.

During the committee's May 1963 hearings on steel,[2] testimony revealed substantial disparities between export and import ocean freight rates on steel and steel products, giving a transportation cost advantage to foreign producers. Subsequent studies and hearings provided evidence of widespread rate disparities on approximately 100 commodities with substantial export potential, and suggested that a large number of additional commodities are adversely affected by rate disparities. These disparities result in a cost disadvantage to American exporters. For example, it costs $68 per measurement ton

[2] "Steel Prices, Unit Costs, Profits, and Foreign Competition," hearings before the Joint Economic Committee, 88th Cong., 1st sess. (Apr. 23–29 and May 2, 1963).

to send U.S. books to England, but only $29 to ship English publications here. An American exporter of stainless steel bars pays $67 per measurement ton to ship his product to Japan, but a Japanese exporter pays only $36 to ship the same product to the United States.

Representatives of the American steamship industry stated to the committee that these conference-established disparities were insignificant, and were "paper rates," under which commerce does not move. Moreover, they brought out that in some cases export freight rates were lower than corresponding inbound rates. It is surprising, therefore, that recent actions by the Federal Maritime Commission, seeking justification of rate disparities, or alternatively, their elimination by reducing outbound rates to the levels of inbound rates, have brought strong protests from shipping conferences, foreign lines, and 11 foreign governments.

Most ocean freight rates are set by shipping conferences composed of both foreign and domestic lines. These conferences are exempt from antitrust laws if their agreements are approved by the Federal Maritime Commission. The foreign lines far outnumber the American lines and apparently can control U.S. shipping rates.

Our investigations, in cooperation with the Federal Maritime Commission, will continue with additional hearings in March 1964. Upon completion of these hearings, a report will be issued setting forth the committee's conclusions and recommendations.

PRICES, COSTS, AND INCOMES IN AN EXPANDING ECONOMY

Domestic considerations and international competition both require achievement of a stable or mildly declining average price level. Since some increases in unit costs and prices of services probably are unavoidable, unit costs and prices of goods must decline moderately on the average.

If manufacturers, wholesalers, and retailers use the increased purchasing power released by the tax cut as an excuse to raise prices, they will defeat the original purposes of the tax bill. Price increases redistribute real incomes and wealth—they take away from the have-nots and give to those who already have much. The "war on poverty" will become an empty slogan if the purchasing power of modest wages, pensions, and welfare aids are steadily eroded by rising profit margins, unit labor costs, and prices which benefit the more fortunate groups in the Nation. Even the more fortunate do not gain in the long run from such an inflationary process. The inevitable result is economic instability which, by renewed unemployment of labor and capital, reduces the short-run rates of gain to levels in line with or below growth rates associated with noninflationary policies.

Furthermore, goods produced by America's farms and factories cannot be sold in international markets if rising costs and prices destroy their competitive standing. During the mid-1950's rising prices and costs reduced the competitiveness of many U.S. products, particularly in the steel, machinery and equipment categories. In recent years this trend has been reversed as prices and costs in the United States stabilized or declined while they increased abroad. Jobs, profits, and real incomes will be reduced to the degree that public and private decisions on wages, profits, and prices reduce the competitiveness of products at home and abroad.

We live in a time when broad national interests coincide with the self-interests of businessmen, workers, and farmers alike. Real incomes will be maximized year by year for each group only if decisions on profit margins, wage rates, and prices are consistent with achievement of the national objectives of full employment, a high rate of growth, and a stable or mildly falling price level.

Specifically, unit costs and prices of services, as distinguished from goods, probably will continue to rise somewhat. Wage rates in service trades are generally lower than the national average. Under favorable economic conditions, above-average increases in wages probably will continue to produce rising unit costs and prices of services. In the face of probable increases in prices of services, the desired overall price performance can only be realized if prices and unit costs of industrial and processed goods decline moderately over the years immediately ahead.

Further considerations point toward the possibility of maintaining stable or declining prices in the years ahead. When there is much unemployment and idle capital, as in recent years, output per unit of labor and capital tends to be below the long-run trend of full employment years. Total costs are not reduced by as much as output so unit costs tend to be high. As the economy accelerates toward full employment, productivity rises sharply and unit costs fall. As the tax cut stimulates economic activity, therefore, unit costs of labor and capital should fall, and the tax cut itself should add further to after-tax wages and profits per unit. It should be relatively easy, therefore, for labor and management to follow policies appropriate to the maintenance of a stable general price level.

Because a stable price level is essential to continuing real economic growth, the committee regards as premature an arbitrary reduction in the workweek from 40 to 35 hours or less. Historically, a substantial portion of the improvement in standards of living made possible by rising productivity has been taken by our people in the form of reduced worktime. This evolutionary tendency probably will continue and should be welcomed so long as changes can be made within a framework of stable or declining unit labor costs.

It is not surprising at this time of high unemployment that there is much agitation for shortening hours of work. At present, an arbitrary reduction in the workweek to 35 hours with no reduction in weekly earnings would result in wage increases substantially higher than productivity gains. But such a change would be inconsistent with cost and price stability. Also, enactment of legislation has been proposed to place a higher penalty on overtime as a means of increasing employment. This proposal should receive thorough study to determine its probable effects on both unit labor costs and employment. Until such findings have been made, this committee cannot make a valid economic judgment.

The success of policies for price stability cannot be judged with precision from the behavior of official price indexes. This committee's studies of these data have revealed the extremely difficult problems faced by the statisticians who construct these price indexes. They do a remarkable job but at present all the price indexes must be expected to show some upward bias. Although high unemployment and low rates of use of capacity have signaled deflation for 6 years or more, the wholesale price index has been almost unchanged while the consumer price index and the GNP deflator have risen 1 to 1½ percent per year. In view of the inevitable errors in measuring prices and in allowing for changes in quality, price indexes are not precise measures of inflation.

POVERTY

The President's proposal for a coordinated and consistent campaign to wage a "war on poverty" is most welcome. This problem has been neglected too much in past years.

Many forms of poverty have been by one means or another eliminated or their incidence sharply reduced in past decades. Poverty has been reduced from one-third to one-fifth of the Nation's families. Past studies of this committee have listed many Federal, State, and local government programs that operate directly or indirectly upon the problems of low-income families. A subcommittee report also recommended several score changes in programs for dealing with the problems of the low-income population living at substandard levels.[3]

In recommending that the Congress cooperate with the President's suggestions, we wish to emphasize the importance of coordination and improved efficiency in their implementation. Considering the extent of past efforts, the fact that there is still a large problem of low-income families suggests that the administration of programs already authorized has fallen short of appropriate standards. We concur particularly with the President's judgment that it would be folly to view any program for dealing with low incomes as promising quick or easy results.

In connection with the program, we recommend that our colleagues in Congress, as well as the administration, keep in mind two basic propositions: (1) Expenditures to improve the status of low-income families in many cases must result in raising their productivity, now far below the national average; therefore, such programs may, in a sense, be self-financing by producing a rise in national output far greater than any other investment of similar size and duration; (2) the other large category of low-income families, consisting of those who are aged or suffering from mental or physical illnesses or disabilities, can be helped only by improved public and private provision insurance against the difficulties of their condition.

We suggest that in its early stages the development of a successful pattern of coordinated attacks on the causes of low income and its associated evils will require the operation of several types of projects which will give, at the same time, a practical demonstration of what can be done with a coordinated attack in each selected area while providing the experimental opportunities necessary to sharpen existing tools.

The hope and expectation of results from the proposed "war on poverty" will be greatly enhanced, we believe, by the general support given it by the minority members of this committee in their separate views. The program which they propose, we are gratified to note, finds much basis in the earlier studies and reports of this committee.

[3] "Low-Income Families and Economic Stability," S. Doc. 146, 81st Cong., 2d sess.; "A Program for the Low-Income Population at Substandard Levels of Living," S. Rept. 1311, 84th Cong., 2d sess.; "Selected Government Programs Which Aid the Unemployed and Low-Income Families," joint committee print, 81st Cong., 1st sess.; and "The Low-Income Population and Economic Growth," joint committee print, 86th Cong., 1st sess.

THE PROMISE AND PROBLEMS OF AUTOMATION AND TECHNOLOGICAL CHANGE

The most important recommendation which this committee can make respecting the problems created by rapid technological change is that the objectives of the Employment Act of 1946 be vigorously pressed to assure maintenance of a healthy and dynamic economy to the end that those fired or not hired as a consequence of automation will have little difficulty in finding a demand for their services elsewhere.

Our second recommendation has two facets: (1) that, in its decisions to automate, management accept retraining and other human displacement costs as charges against the alleged savings rather than avoid them by shifting such costs onto the shoulders of Government or the displaced individual laborer, and (2) that both management and labor follow policies which permit the gains of productivity to be generalized through price reductions so that those in trades and places remote from automated manufacturing lines share in the economic gains.

These recommendations are solidly founded upon the conclusions and study over a period of several years by our subcommittee.[4] These studies remind us that automation and technological change are not new but in one form or another have been a conspicuous characteristic of American industry for generations. The undeniable benefits of increased productivity become troublesome and painful only when the personal, mental, and physical hardships on displaced workers are neglected and when the levels of economic activity fail to create job opportunities for a constantly expanding labor force.

Too often managers, engrossed in the capital planning and investment processes essential and necessary in themselves, have been oblivious or unthinking of their concomitant responsibility for retraining, reassigning, and relocating workers to new tasks. But the problems in this field fall not merely within the areas of managerial responsibility. They are problems within the realm of organized labor and all levels of government. We are fortunate to have a labor movement in the United States which recognizes that an improved level of living for all cannot be achieved by attempts to preserve all existing jobs, or to capture for a few a major share of the gains from progress.

A conspicuous instance of this broad involvement is notable this year in the programmed war against poverty. So long as we have substantial numbers of comparatively underprivileged and lower-income groups, no sector of the economy can, in conscience or hope of profit, turn its back on this problem. The declaration of policy in the Employment Act recognizes the large role which governmental plans and resources may play when properly coordinated and utilized with an eye to growth and employment.

Government programs which we recommend as capable of helping to soften the impact of rapid automation range from the relatively

[4] "Automation and Technological Change": Hearings, 84th Cong., 1st sess., and S. Rept. 1308, 84th Cong., 2d sess.

new Manpower Training Program to the long-standing U.S. Employment Service Program. With the cooperation of the States, we believe the USES could better live up to the hopes of its founders.

CONSUMER PROTECTION

Congress should enact legislation designed to protect the consumer against fraudulent or misleading advertising, deceptive packaging, and hidden interest or carrying charges on installment sales.

The activities of consumers are as important to the vitality of the national economy as the complementary activities of producers. Yet consumers, in contrast to producers, are too numerous and too disorganized to exert a proportionate influence on the rules of economic behavior. For this reason, the necessity of Government action on behalf of consumers has long been recognized. Existing Federal Government programs, however, do not provide adequate consumer protection. We, therefore, support the President's efforts to reemphasize the Federal Government's obligation to the consuming public.

In particular, we urge the Congress to enact legislation to insure truth in lending and truth in packaging. Such legislation is not designed to establish rigid conformity in packaging nor to dictate interest rates on installment sales. It merely seeks to protect the consumer from misleading practices which obscure the relative costs of competing purchases. Truth-in-lending legislation would provide consumers with a uniform, unambiguous statement of potential interest costs and facilitate rational choices on installment sales. Truth-in-packaging legislation would provide the same simple, accurate standard with regard to the nature and the quantity of packaged items, again to aid the consumer in making rational choices among competing products, according to his particular preferences.

COMPETITION AND MARKET STRUCTURE

Vigorous Government action to preserve the benefits of competition through regulation and the elimination of Government-supported inefficiency is essential to the success of policies to promote domestic expansion while preserving a competitive position in world markets.

Serious interference with competitive market structures, if uncorrected, impedes the prompt changes in factor rewards and product prices which bring about the shifts in resource allocation so essential to a dynamic, growing economy. When powerful groups control prices, all too often the result has been inordinately high prices, the inefficient allocation of resources, and a distorted distribution of income. High prices which support the inefficient allocation of resources are even less tolerable today than in the past. High prices achieved through the exercise of economic power rather than the normal operation of the competitive system will weaken our international competitive standing. Unless this standing can be maintained and strengthened, the success of expansionary domestic fiscal policy will be jeopardized.

Therefore, we urge, as in the past, more vigorous efforts on the part of Federal regulatory agencies to curb unfair practices and to preserve the benefits of competition in cases in which competition itself cannot be preserved. As a corollary to renewed efforts to protect competition in the private sector, we urge a careful scrutiny of Government policies aimed at the eventual elimination of inefficient practices now supported by Government.

HOUSING AND COMMUNITY DEVELOPMENT

The President's comprehensive recommendations for improving the housing available to minorities, low-income families, the elderly, rural families, and families of military personnel, deserve speedy and sympathetic action by the Congress. We also believe that Congress should consider proposals aimed at assuring the more orderly future growth of urban and rural communities. Additional funds should be provided for the Area Redevelopment Administration.

Housing and community development programs to be effective must be coordinated at all levels of government with efforts of the private sector. We are pleased that the President's recommendations emphasize this traditional partnership by programs which place emphasis on matching grants to States, on government insurance programs to guarantee the endeavors of private individuals, and on such programs as area redevelopment under which the Federal Government provides low-cost loans to private individuals and local communities.

We particularly applaud the emphasis on matching grants to States for the establishment of urban public service training programs. One of the shortcomings of many community development efforts has been the shortage of trained personnel.

Coordination in housing and community development programs is lacking in one critical area, notably the myriad methods of taxing real property. The State and local governments have failed to make maximum use of the enormous potential inherent in the property tax for either the prevention or the cure of poor housing and other blight conditions. In fact, since the tax is based on the value of land and improvements, those who permit their property to deteriorate, reducing area property values, are rewarded with lower property taxes. Landlords who enhance the value of their property have their assessments raised.

We do not undertake to suggest what would be a proper method for a State or local community to tax the property of its citizens. We do recommend, however, that a model, uniform property tax code be drafted which would encourage, rather than discourage, the best economic uses of land.

TRANSPORTATION POLICY

We recommend that Congress forthwith enact legislation which will modernize national transportation policy to recognize the presence in today's economy of alternative means whose creative, competitive forces

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for movement of both passengers and freight are now checked by law and regulation.

We further recommend cooperative efforts to modernize city and regional mass transportation facilities by the several State and local governments and transportation authorities, encouraged and aided as needed by the National Government.

The future stability and growth of the economy depend in part on overcoming the present shortcomings of our transportation facilities. Exploding urban areas threaten to strangulate if left to depend entirely upon personal transportation devices. This threat becomes particularly a government responsibility, since no individual driver or shipper can solve the problem and private enterprise is inhibited by regulation from making the effort. Specifically, we endorse the concept of regional authorities to manage high speed rail service that would carry our citizens throughout burgeoning urban and suburban areas, often called megalopolitan areas, taking the burden off our increasingly saturated automobile and airline facilities in these areas. Such authorities represent appropriate cooperation among Federal, State and local governments and private enterprise.

As to longer distance freight movements, one can hardly hope that regulation enacted at a time when canals were giving way to railroads can be made to fit today's conditions. National distances, formerly reckoned in days and weeks and steam locomotives and mules, must now be reckoned in hours, extra-high-voltage and gas transmission lines. Competitive forces for improvement should be encouraged to make their contribution to the best of their capacity on a specialized-commodity basis rather than be subject to the restraints which were necessary when they constituted the sole source of transportation in all fields.

[Representative Reuss was unable to participate in committee discussion on this section and reserves judgment on the specific recommendations.]

EDUCATION

Few investments, public or private, can yield such rich returns to the Nation as a broad and coordinated program to increase educational facilities and programs.

It is disturbing that the financing and quality of education remain major national problems when the benefits are so obvious and well known. Everyone favors education; no one opposes it. Yet our Nation's schools, at all levels, are inadequate to cope with today's needs and the requirements of tomorrow.

At its best, education can be a creative adventure for its participants at the same time that it enriches the Nation. Studies suggest that education is responsible for around 40 percent of American growth in recent years. We need more and better teachers, and must provide them with financial incentives more closely related to the importance of their function. We must improve teaching techniques. The educational plant must be enlarged. We must bring improved education within the reach of all our population. Above all, we must make headway in solving other social problems so that the schools can be freed of responsibilities which are not properly theirs to devote themselves to education.

National expenditures for education, at all levels of government, have increased substantially in recent years, both in absolute terms and in relation to GNP. Yet, despite past progress, we are far from reaching our educational goals. Education has been primarily the responsibility of State and local governments and private institutions. However, the Federal Government, without extending its area of control, must play a large part in identifying national goals, providing financial assistance, eliminating impediments to progress, and encouraging the adoption of improved management techniques. One way to diminish the pockets of poverty and whole areas of prolonged substantial unemployment is to concentrate on the youth of today.

We cannot afford to overlook the large returns that can be realized from investment in educational programs outside the usual elementary school to university ladder. Worker training and retraining programs are well-known examples. Less obvious, but possibly more important, are the opportunities for raising national productivity and living standards through upgrading of managerial skills. The best operated establishments are typically several times as efficiently run as the poorly managed operations in the same line of business. Coordinated public and private efforts to reduce the disparity between the best and the poorest management practices should pay social dividends far beyond the usual return on capital outlays.

HEALTH

Provision of the best in medical care serves an economic as well as a humanitarian purpose. The Nation derives its greatest strength from its human resources. Expenditures for improved health standards are investments in human resources which yield great returns.

Medical science continues to make outstanding advances in the prevention and treatment of disease. The accelerated rate of progress in this field poses a challenge. As medical costs rise, financial considerations become increasingly important to the provision of adequate care. The potential contributions of medical science cannot be fully realized unless new developments are made available to all. We join the President in urging that the Federal Government's contribution to better health be strengthened.

Federal efforts to improve health standards have several dimensions. Local communities require support in their efforts to provide necessary medical facilities; stepped-up programs are needed to train new personnel; and private individuals must be assured the means to pay for the care they require. The aged face particularly burdensome problems. Medical costs are heaviest in old age, when incomes typically are low. Prolonged illness can be a financial disaster for even comparatively well-to-do elderly families. We therefore support increases in expenditures for new facilities, further aid to the indigent, and the provision of medical care for the aged through the Social Security System.

ADDITIONAL VIEWS OF SENATOR PROXMIRE

AREAS OF AGREEMENT WITH THE REPORT

I concur with the general philosophy expressed by my majority colleagues in some respects.

Economy in Government

The report indicates at several points a general desire for economy in Government. I concur. The report is correct in singling out for particular praise the economy actions taken within the Department of Defense.

At the same time, economy is a particular area where generalities fail us. If we truly support economy in Government, then we should be prepared to point out those specific areas where reductions are possible. We should indicate a principle of economy, namely, that no Government expenditures are justified unless their total returns to the Nation exceed their social and economic costs, and then stick to this principle. Under this criterion, many public works by the Corps of Engineers and the Bureau of Reclamation have been wasteful. We should take a whole new look at the projects now being proposed by these two agencies.

Similarly, there is substantial waste of resources in some of our old line agencies. For example, the Secretary of Commerce, in his presentation before this committee a year ago, recognized that such waste was present within his own Department. As I point out later in these views, considerable economy can be obtained within some of our regulatory agencies.

Tax reforms

I fully support the position taken in the report concerning tax reforms. We certainly need much more revision of our tax structure than has been obtained to date.

The Revenue Act of 1964 contains within it more new tax loopholes than any legislation since the Revenue Act of 1954 which continues to stand as the all-time monument to tax erosion. Among these loopholes is a drastic reversal in national tax policy that had previously always limited depreciation to 100 percent of the cost of depreciable property. This bill permits an effective 114-percent depreciation on the net cost of equipment on which the 7-percent investment credit has been taken.

Also, for the first time Federal regulatory agencies are told in this tax bill that they must ignore the effect of tax benefits (from the investment credit) in determining a fair return. This destroys the whole concept of a fair return. It will cost electric, gas, and other consumers $600 million the first year and $6 billion a year within several years. The act relaxes the rule governing deductions for the expense of travel passed 2 years ago. The cost of domestic travel will be fully deductible no matter how little actual business is conducted on the trip. The act extends favorable capital gains treatment to yet another source of ordinary income—iron ore royalties. Favorable installment basis treatment is extended to all sales under so-called revolving credit plans—a $100 million tax reduction for large department stores and similar business firms.

Other areas of agreement

The annual report has taken the correct position with respect to monetary policy, although I would have emphasized somewhat more strongly the targets which should be established for the Federal Reserve System and by which we can judge its performance.

The committee, in its forthcoming report on the balance of payments, has taken appropriate policy positions.

The committee is right in pressing its investigation of shipping rates and the disparities among these rates, in stressing problems of poverty in the United States, in supporting legislation for truth in lending and packaging, and in emphasizing the initial importance of education in strengthening our economy.

Areas of Disagreement With the Majority Report

Economic consequences of the tax cut

The report implies that we are more likely to have price stability with the tax cut than without it. This is wrong.

It is true that there tends to be reasonable price stability during the early periods of recovery, but this is assuredly not the present state of the economy. We have had expansion and economic growth for 3 years. In the later stages of expansion, price rises typically occur; in fact, such price rises are already becoming apparent, both in the Consumer Price Index and in the Wholesale Price Index. Now, impose this tax reduction on top of a presently booming expansion and inflation soon occurs.

It has been argued that such inflation cannot occur because of the unfortunately high levels of unemployment, both of men and machines. However, these men and machines are not now prepared to produce the additional goods and services which will be demanded in the abrupt expansion that is around the corner. They are only doing so now at rising prices. Pressures of demand will be placed against resources which are limited and the only escape valve for these increased pressures is through rising prices.

At the same time, the inflationary pressures may be short-lived. I think the majority is implying a lack of faith in our economy by suggesting that, without tax reduction, a depression is imminent. Quite the contrary. I have faith that the economy will continue to grow as it has so successfully during the last year without tax reductions.

The basic problem with the tax cut is that it generates a destabilizing influence. Suddenly, a sharp upward increase in demand is driven into this economy. This comes at a time when Government expenditures will still be rising. On a national income basis, the Federal deficit—now running around $1.5 billion—will suddenly widen to about $10 billion.

Now, look ahead to 1965. Here the rate of Government expenditures will begin to decline somewhat. At the same time, contrary to what the majority report states, no further tax reduction will be likely. Rates of tax payments from individuals to the Treasury are going to continue at the same rate, not be reduced further. The significant rates, of course, are not the final tax payment rates but withholding rates.

Moreover, since the economy is rising so rapidly, tax payments will actually be increasing from the levels that they reach immediately following the tax reduction. Therefore, in 1965 a sharp upward pressure on demand is being followed by two fairly significant downward pressures: (1) increasing tax payments, and (2) reduced Government expenditures. The Federal deficit in the national income accounts may actually turn into a brief surplus. These sharp artificial fluctuations in economic components could well trigger new cyclical fluctuations.

In view of the obvious and imminent inflationary dangers, especially due to the tax cut, a heavy responsibility is now imposed on all economic decisionmakers—business executives, labor leaders, and Government officials—to exercise restraint in exploiting opportunities for price increases. Such opportunities will certainly be available.

Business firms should consider all possibilities for expanding production and profits at present price levels. Labor unions must keep constantly in mind that wage increases not in excess of productivity rises are most likely to permit the further employment of union members who do not now have jobs. Such limited wage increases will also avoid the worst repercussions of technological substitution. Government, both Federal and State, must search further for ways to hold down expenditures which put pressure on prices.

Voluntary restraint, in my judgment, is vital if inflation is not to reach serious proportions. Such restraint would obviate any justification by the Federal Reserve System for further increases in interest rates. Substantial inflation could necessitate consideration by the Government of arbitrary price and wage controls. These controls would be extreme measures that would stultify the workings of our free enterprise economy.

Unbalanced budget as way of life

As we move into relatively more prosperous periods, we should also move into a position of budget balance. In fact, however, the budget is being arbitrarily unbalanced. We could balance our budget within approximately 1 year, if no tax reduction bill were enacted. With the bill we are indefinitely postponing the time when budget balance is to be achieved. It is obvious, in the first instance, that a tax cut bill reduces tax revenues.

In the happy land—for the politician—of cutting taxes and thereby increasing revenues, there is no problem. But in the actual world, tax revenues never catch up.

Prices and costs

The majority report erred, in my judgment, in several respects during the discussion in the report of prices and costs.

First, it seems both a vain and unrealistic hope to assume that industrial prices will automatically decline during the forthcoming year. Such a decline would be contrary to all our historic evidence and contrary to our knowledge of imperfections in industrial market structures. The slenderness of this reed indicates the fragility of the whole majority assumption that inflationary problems are a myth.

Second, the majority report is just plain wrong in its conclusion that unit costs will fall as expansion in economic growth continues. This has, to my knowledge, never occurred historically and there is no economic reason that it should. Quite the contrary. As expansion continues, pressure is placed upon existing plant and equipment with the result that unit costs rise. Moreover, as expansion continues, marginal resources, which by definition are less efficient, must be brought into use. This factor, of course, raises costs. It is also clear from historical data that manufactured goods prices and raw material prices follow the cycle and rise during expansion periods.

The effect of these rises in unit costs must be reflected in increased prices of final goods and services; just another reason for assuming that inflationary pressures are a real danger in the immediate future. If the majority report were correct, of course, we should be concerned about inflation only during periods of depression.

Third, I was shocked to read in the majority report the statement that our excellent price indexes do not show the true nature of price changes. This is simply another rationalization by which to avoid the rough fact that inflationary danger is present. I prefer to accept the quality of our price indexes and say that what they reveal is true; namely, that prices are rising. I think my faith in the conclusion demonstrated by the price indexes would be confirmed by the practical experience of millions of American consumers.

Structural problems

I agree with much of the section in the annual report dealing with automation. However, in suggesting that the phenomenon of automation has been with us since the invention of the wheel, the report clearly overlooks the obvious changes that are, in fact, occurring in our economy.

First, it should not be assumed, as the report assumes, that the introduction of automated techniques will necessarily lead to unemployment. In fact, of course, such techniques can be labor using as well as labor saving. The problem exists in the fact that different types of labor are involved.

We cannot blink away the fact that people who are now being replaced by machines are not the same people who will be employed as a result of the machines or who can be readily employed in other completely divergent fields. This is simply another way of pointing out that our economy is increasingly complex and this means increasing difficulty in shifting labor between jobs. Jobs are more specialized, and it is more difficult to move from one area of specialization to another. The result is structural unemployment, and this is not readily served by such aggregative techniques as the tax reduction bill. In fact, the tax cut can lead to inflation while not meeting this basic unemployment problem.

I think it is a shocking omission that there is virtually no mention in the Economic Report of policies needed to meet structural unemployment. Many of these policies, such as earlier retirements, requirements for longer periods in school, more effective information about the nature of existing job opportunities, better job guidance of students, and many others should have been considered in detail in a report following the edicts of the Employment Act.

One of the reasons for our present unemployment levels is that many persons near retirement age are not encouraged to actually retire. This prevents some persons now unemployed from filling the jobs occupied by the persons near retirement age.

In many cases, persons are actually discouraged from retiring because of the nature of retirement plans, both public and private. These plans frequently provide only a reduced benefit through the retirement period if individuals retire prior to a specified age, frequently 65. One simple change, therefore, would be to encourage retirement plans that would pay full benefits beyond the specified retirement age, as well as the reduced benefits for the period prior to that age. Another proposal which should receive serious consideration is simply to reduce the average retirement age for social security recipients.

Mass transportation

In my own judgment, the annual report is inconsistent when it urges reductions in Government expenditures, increases in Government efficiency, greater reliance on the free market mechanism, and then concludes with support of Federal aid to local mass transportation.

It must be recognized that the lion's share of this aid will be received only by a few of the largest cities in the Nation. These cities are already the richest in resources and have far higher per capita income than the rest of the Nation. Therefore, aid in this case will simply represent a redistribution of funds toward the wealthiest sectors of our economy.

Here is almost a classic area in which private enterprise should be required to meet a market test uninfluenced by the Federal Government. The problem is a local one, it is peculiarly capable of matching prices with services to individuals, it has direct competitors and also a tradition of local regulations, and its services are uniquely local rather than national in scope. There is essentially no economic, social, or even political justification for the Federal Government to enter this field.

William Proxmire.

MINORITY VIEWS

SUMMARY OF RECOMMENDATIONS

The unemployment dilemma: (*a*) Recommend maintaining time-and-a-half pay for overtime work; (*b*) incentives should be developed for employers to hire unskilled teenagers through collective bargaining and broadening of temporary training exemptions under the minimum wage law. (Also, see "Other recommendations" below).

Monetary and debt management policies: (*a*) Urge a readiness to make timely and aggressive use of monetary policy as conditions warrant, in order to hold the expansion within noninflationary and sustainable bounds; (*b*) suggest that time may come this year when the Treasury should be prepared to finance new public debt by selling long-term bonds; (*c*) for the near future refunding of existing debt should lengthen the debt structure and reduce liquidity in the economy.

The Johnson budget: (*a*) Urge that improvements be made in the budget document along the lines recommended in "The Federal Budget as an Economic Document," issued last year by the Subcommittee on Economic Statistics; (*b*) proceeds of the sale of assets should be listed in the budget as revenue rather than as a reduction of Federal spending; (*c*) establish a bipartisan Commission on Federal Expenditure Policy to study the following areas: (1) Establishment of spending priorities among Federal programs; (2) appraisal of Federal activities to determine those which retard economic growth; (3) improvement of Federal budgeting process; (4) examination of Government functions which could be better performed by private economy; (5) review of Federal responsibilities to determine which could be performed at State and local levels; (6) determination of proper level of user charges and other fees charged the public for special Government services; (7) improvement in Government operations to increase efficiency.

The war on poverty: (*a*) Developing each program—including those concerned with regional development—to insure that the benefits will accrue directly to families and individuals living in poverty; (*b*) providing solutions to the problems of low-income families growing out of programs, such as urban renewal and public housing, which were originally designed to assist them; (*c*) improving rehabilitation programs for the physically handicapped; (*d*) lifting children out of a poverty environment by federally assisted programs, including residence schools for certain disadvantaged children; (*e*) increasing the number of professionally trained public and private welfare and social workers; (*f*) upgrading schools in "poverty impacted" neighborhoods; and (*d*) conducting research on the relationship between population control and the reduction of poverty.

The deteriorating farm situation: (*a*) Reorient the whole network of Government price supports toward a market economy for agriculture; (*b*) reject the repudiated doctrine of "supply management";

(*c*) support efforts to develop new and increased industrial uses for agricultural products; (*d*) recommend against permitting growing of surplus crops on new reclamation and irrigation acres; (*f*) urge measures to assist the farm unemployed in moving into productive employment; (*g*) recommend stopping Government subsidy of crops in one area in preference to another area.

The balance of payments: Urge rejection of interest equalization tax proposal. (Other recommendations in this area will be made in a separate committee report on the balance of payments to be issued at a later date.)[1]

Research and development and economic growth: (*a*) Recommend a tax deduction as a business expense of outlays for machinery and equipment to be used directly in R & D; (*b*) urge strengthening of the patent laws; (*c*) the Small Business Administration should promote cooperative research firms catering to the needs of small business; (*d*) a technological clearinghouse should be established; (*e*) depreciation schedules should be reviewed.

Other recommendations:

I. Facilitating adjustment to the technological revolution.—

A. Education and training.—(1) Government should encourage in every way possible the expansion of business training programs; (2) existing private programs to guarantee long-term private loans to students should be improved upon and extended; (3) accelerate and extend vocational, apprenticeship, and manpower development and training programs; (4) coordinate and modernize Health, Education, and Welfare's vocational education program, Labor's apprenticeship program and military vocational training; (5) review draft law provisions as they impede education and employment of young men; (6) eliminate redundancy and inconsistency among Trade Expansion Act of 1962, the Area Redevelopment Act, the Manpower Development and Training Act, the unemployment insurance program and the military manpower training programs; (7) amend tax laws to permit a tax credit for education or training in either academic or vocational subjects at the post-high-school level;[1] (8) provide incentives for companies to plan for technological changes by, among other measures suggested herein, encouraging States to broaden merit ratings under unemployment insurance laws; (9) encourage States to permit individuals undergoing training or retraining to receive unemployment compensation up to normal amounts and limits; (10) consider disqualifying from unemployment compensation workers who refuse referral to training without good cause.

B. Mobility.—(1) Amend tax laws to change definition of "home" to the place where a worker owns a home and maintains his family; (2) reduce barriers to mobility caused by pensions and job rights; (3) pay subsistence and transportation allowances to unemployment insurance claimants who look for work in areas beyond a predetermined distance from their home; (4) modernize the tax treatment of moving costs.

C. Job information activities.—(1) Strengthen private employment agencies and improve the U.S. Employment Service so that it supplements rather than competes with private agencies; (2) establish a nationwide "early warning system" to allow preparation for tech-

[1] See Senator Javits' additional views.

nological job displacement; (3) favor establishment of a national clearinghouse of skills and job vacancies; (4) support establishment of a Commission on Automation.

D. Unemployment insurance.—(1) Support permanent State programs for temporary extension of unemployment insurance;[1] (2) improve administration of unemployment insurance benefits; (3) consideration should be given to establishing a system of mortgage unemployment insurance designed to prevent foreclosures resulting from high and prolonged unemployment.

II. Antitrust.—Favor establishment of a Commission on Antitrust Laws to review U.S. laws and procedures as they affect growth, foreign economic policy, and the national security.

III. National emergency strikes.—(*a*) Recommend that a joint congressional committee be established to study all aspects of industrywide collective bargaining and industrywide strikes and lockouts with a purpose of shaping new legislation to deal with national emergency strikes;[1] (*b*) urge that organization of tripartite labor, management, and government committees on local, regional, and industry basis be pressed, in order to improve productivity.

IV. Discrimination in employment and training.—(*a*) Require faster progress in eliminating discrimination, not only on the basis of race and age, but discrimination against the handicapped as well; (*b*) urge that a Fair Employment Practices Commission be established.

V. Economic policy goals.—Employment Act of 1946 should be amended to add reasonable stability of the price level, equilibrium in the balance of payments and promotion of efficiency in the use of resources as goals of economic policy.

VI. Statistical research.—Step-up efforts to extend and improve Federal statistical programs upon which sound economic decision-making depends. Special emphasis should be placed on: (1) Improved definitions and measurements of economic growth; (2) improved regional and State economic accounting; (3) statistical series measuring job vacancies; (4) measures of productive capacity; (5) better guidance regarding the margins of error to which our economic statistics are subject.

VII. Economic and policymaking machinery.—Urge establishment of an ad hoc Commission on the Economic Report.

VIII. Miscellaneous.[1]—(*a*) Encourage profit sharing by employees; (*b*) encourage export expansion; (*c*) urge tax reform; (*d*) educational campaign needed to inform potential home buyers of the current and future financial requirements of home purchase.

[1] See Senator Javits' additional views.

INTRODUCTION *

After 3 years of economic recovery, it is useful to take stock of the progress that has been made in overcoming the Nation's fundamental economic problems and to assess the outlook in the light of economic policies now being offered by the administration.

At the outset, we wish to make clear that although our comments on the Economic Report focus on areas of disagreement, there is much in the report which is commendable and with which we agree. The Council's chapter on technological change, for example, is a balanced and highly useful essay on an economic and social phenomenon which has been heavily stressed in our minority views for the past several years. We also are appreciative of the Council's continuation of interest in the causes and cures of poverty which was initiated by former President Eisenhower's Council in chapter 3 of its 1956 report.

We do, however, have misgivings about the blend of professional expert opinions and of political value judgments in various sections of the report. It has become increasingly usual to claim that authoritative professional analysis is being presented to the public and that the implied political judgments "go without saying." We hope that in the future these reports will more clearly distinguish the particular value judgments that translate these professional conclusions into policy decisions.

A Record of Economic Failures

We welcome the optimism of the President's Economic Report and of the majority of this committee as evidence that they believe—as we do—in the underlying strength and vitality of our free enterprise system. That vitality was proven last year when the increase in the gross national product—without a tax cut— exceeded the upper range of estimates made by the Council of Economic Advisers which were based upon the assumption of a tax cut.

Unlike the administration, we find little cause for comfort or complacency in the record of the past 3 years or in the outlook for the future. Judged on the basis of its own promises and the goals set down in the 1962 Economic Report, the administration has written a dismal catalog of economic failures. Its inability to solve our serious and fundamental economic problems is all the more remarkable in the light of its unique opportunity to implement its policies in the favorable climate of economic recovery.

The administration came to power as the economy was reaching the low point of a very mild business contraction and was beginning—under its own free enterprise dynamics and assisted by the wise

* These minority views are not in response to the majority report. The minority began writing its separate views as the committee's annual hearings closed on Jan. 29. The majority began writing its report at the same time and completed and distributed to the minority its final draft on Feb. 26. Since the minority views had to be completed by Feb. 27, to have prepared these views on the basis of the majority report would have given us insufficient time to properly develop the case we wish to make. The careful reader will be able to distinguish between the majority opinion and our own, both as to the areas of agreement and disagreement.

policies of the previous administration—to turn upward again. The strong gain from the 1960–61 recession—as the Department of Commerce recently pointed out—reflects to some extent its moderate dimensions as compared to those of earlier postwar downturns.

Yet, in spite of the favorable climate in which the administration has been able to operate, the soft spots which blight our general economic well-being are still with us. A searching look beneath the veneer of prosperity shows that:

- The number of persons unemployed was 4 percent higher in 1963 than in 1962.
- The unemployment rate last year was the third highest in the past decade, exceeded only by 1961 and 1958.
- Consumer prices increased 1.7 percent from the end of 1962 to the end of 1963—the greatest rise in 5 years—and more price pressures are expected this year.
- Last year's balance-of-payments deficit on regular transactions was $3 billion, while the deficit including special Government transactions was $2.6 billion—or $400 million more than the 1962 total.
- The gold drain of $461 million in 1963 further impaired the Nation's international financial position, and the continuing balance-of-payments deficit promises more gold losses in the future.
- With the farm parity ratio at the lowest level since 1939, the income of our farm population dropped last year and it is expected to drop again this year.
- Nonfarm real estate foreclosures increased 68 percent between 1960 and 1962, and mortgage loan delinquencies have been on the uptrend for the past 3 years.
- Increases in the economy's output of goods and services have depended to an unusual degree upon a rapidly rising level of public and private debt.
- The obstacles to job-creating investment arising from the squeeze on profits as a return on stockholders' equity persists.
- Business failures in the over-$100,000 liability class hit a post-World War II peak in 1963.
- Bankruptcy cases filed rose 40 percent between 1960 and 1963.

The policies advanced by the Johnson administration as curatives to our persistent economic ills must be evaluated in the light of this record.

The Danger of "Boom" and "Bust"

In its anxiety to insure a particularly good economic performance in 1964, the Johnson administration has forsaken the opportunity of presenting a program of balanced and sustainable economic growth. It offers instead an economic policy which—by its own admission—will heat up the economy this year more than three times greater than in any other peacetime year.

The tax cut proposal, which was originally to have taken effect in three stages over an 18-month period, has been virtually compressed into a one-stage cut to take effect this year. This is the practical effect of the immediate reduction in the withholding rate from 18 to 14 percent, rather than to 15 percent this year and 14 percent next year, as originally planned. Thus, practically all the shortrun stimulus of the tax cut intended for 1965 has been moved forward into 1964.

In our judgment, this concentration is excessive and is likely to result in a buildup of inflationary pressures which, once they develop, are difficult to curb. Moreover, the almost total concentration of the tax cut in 1964, together with other features of the administration's economic strategy, may well produce destabilizing consequences in the period after 1964.

As far as 1964 is concerned, what Chairman Heller has referred to as a "massive" fiscal stimulus will also consist of a $2½ billion rise in Federal purchases of goods and services. In conjunction with these highly expansionary fiscal moves, the administration is indulging its easy money bias with stern warnings that any monetary tightening would be "self-defeating" and even sterner warnings to the private sector to mind the wage-price guideposts.

Additional stimulus will arise from a second step of the Federal Government pay increase, which became effective in January and which will boost personal income by $400 million annually. Another accelerated GI life insurance dividend payment—totaling $234 million—also was made in January.

GNP Growth Strong

These expansionary policies are being pursued at a time of already vigorous growth in GNP. The fourth quarter of 1963 showed a larger increase than in any other quarter of the year. Thus far, no signs of a slowdown in the expansion have appeared. In fact, the upward revision of capital spending plans in 1964 from a 4- to a 9-percent increase points to an acceleration of the expansion.

Overstimulating the economy in 1964 will lay the groundwork for a stepping-up of the persistent, creeping inflation of recent years. Not only would a rise in the cost of living worsen the plight of the unemployed and those living in poverty, but it would also adversely affect our balance-of-payments and gold problems.

As suggested above, a sharp upturn in prices undoubtedly would also bring forth demands for more direct wage and price controls. The threat of direct controls would seriously impair business confidence; their imposition would fundamentally alter and disturb the relationship between Government and the private sector to the detriment of the Nation as a whole.

A "boom" policy in 1964 also runs the risk of a "bust" in a later year with all that means in terms of lost output and higher unemployment of our people. An expansion as long as the current one leads to maladjustments which may not be readily visible now but which will require correction. A period of excessive economic expansion compresses consumer purchases and business investment spending into too short a period of time. The Nation enjoys the sense of exhilaration this brings, but such booms normally are unsustainable since they tend to generate inconsistent plans and commitments. Generally the more expansionist the policy mix, the more exuberant will be the response and the more disruptive the process of correction, whatever its specific form.

The economy already is carrying a heavy and rapidly increasing debt load, and many observers, including the Chairman of the Federal

Reserve Board, recently have raised questions about the quality of credit.

The Johnson administration's economic policy will contribute little new stimulus beyond 1964, relying as it does to so large an extent on the tax cut this year. On the contrary, the impetus to large wage increases and higher prices which are implicit in the administration's fiscal program subsequently may act to retard the growth of real output. Another consequence may be a buildup of excess capacity in some lines as industry responds to burgeoning but temporary demand in the immediate future.

Expenditure Policy

The promised leveling off of Government expenditures in 1965, though an element of long-run economic strength, would further reinforce the restrictive influences in the period after 1964. Another restrictive factor, caused by the immediate drop in the withholding rate to 14 percent, will be the lower than normal lump-sum tax refunds and the higher than normal tax payments (other than from withholding) in the spring of 1965.

Those who are confident that a tax cut is insurance against recession should recall the Nation's 1948 experience. In April of that year a tax cut of about the same size as this year's, in terms of gross national product, was signed into law and made retroactive to January 1. The economy hit a peak in November of the same year and then began a slide into recession which did not end until October 1949.

Instead of a balanced and sustainable expansion, the administration is inviting inflation and other excesses in its effort to pack most of the stimulus of its fiscal program into 1964. It is gambling that expansion will continue throughout 1965 and beyond, in spite of the many destabilizing factors that will make themselves felt at that time. If a downturn results, it is certain that the response of the Johnson administration will be the scrapping of the current estimates for 1965 budget expenditures. A new surge of Federal spending designed to stave off an economic decline brought on in large part by inept and poorly timed use of its policy weapons will surely follow.

THE INFLATIONARY THREAT

It is ironic that the Johnson administration—while warning the private sector to observe the "noninflationary guideposts"—is following policies which are laying the groundwork for a renewed burst of inflation. Price pressures already are beginning to show up throughout the economy, as recent increases in the consumer price index and in the index of industrial raw materials prices indicates.

In contrast to what the President implies in his Economic Report, price pressures by no means originate solely in market power exercised by unions and businesses. Most arise from the natural workings of the market economy, especially during a period of expansion whose duration and vigor are extended and intensified by Government policy actions. Aside from supply and demand factors, price pressures will arise when productivity improvements begin to slow down with the lengthening of the business advance.

Another source of pressure will arise as organized labor steps up its wage demands. AFL-CIO President Meany has already announced that labor will not permit itself to be "stymied" by the wage-price guideposts and will seek "substantial increases" in wages. One hundred and nineteen major collective bargaining agreements, each covering 5,000 or more workers, expire this year. They cover a a total of 1.9 million workers, compared to the 1.2 million covered by expiring agreements in 1963. The United Auto Workers is reported planning to seek its largest contract gains since 1955. The agreement already signed in the trucking industry provides more than a 4.5-percent increase this year, two-thirds in wages and the rest in fringe benefits. In addition to expiring agreements, over 3 million workers are covered by most of the remaining major contracts, providing for previously agreed upon wage reopenings, possible cost-of-living adjustments, deferred increases or a combination of these provisions.

We believe that the administration underestimates the inflationary potential of its program. Its optimism rests largely on the assumption that idle plant and manpower are available to absorb increases in demand arising from the tax cut. The validity of this assumption—which we doubt—is crucial to the administration's economic program.

Our analysis points to an inflation problem far short of the administration's full employment goal. It indicates that the economy is closer to full employment of plant and equipment than of its human resources and that it is closer to full employment of its skilled manpower than of the labor force in general. The administration's fascination with the vague and fuzzy global measurements of capacity and unemployment conceal the nature of the components which alone reveals whether capacity and manpower shortages of specific kinds will not result in inflationary pressures.

THE EXCESS CAPACITY ARGUMENT

At the committee's annual hearings, Chairman Heller was asked whether pushing the use of obsolete machinery and equipment beyond the point where it could operate efficiently would not lead to an increase in prices and an inflationary trend. He replied, "It would, indeed * * *" and went on to admit that some industries were going to have higher costs as the result of the administration's program. Under further questioning he admitted that to the extent excess capacity is inefficient and obsolete it constitutes a "serious problem".

Many industries already are operating at or close to their preferred operating rates. In others, excess capacity is technologically outmoded, inefficient, or only able to produce products for which there is no longer demand. Agriculture offers an extreme example. No matter how much aggregate demand is pumped up, the economy is not going to take off the market the abundance which our agricultural sector is capable of producing at full capacity operation.

McGraw-Hill last year pointed out that 20 percent of all industrial capacity and 22 percent of all manufacturing capacity was technologically outmoded, which suggests that industry already is using obsolescent facilities. An operating rate of 87 percent today is much closer to true or economic capacity than it was 6 or 7 years ago.

The National Machine Tool Builders Association has said that 64 percent of American metal cutting and forming tools are obsolete, compared to 38 percent at the start of the post-World War II period. The Machinery & Allied Products Institute has pointed out that the average age of the Nation's production equipment is now 9.6 years, up from 8.5 in 1955. Under Secretary of the Treasury Fowler remarked in a recent speech that "the proportion of our machinery and equipment over 10 years old has risen alarmingly."

New data being developed by the Census Bureau also points up the possibility of widespread obsolescence in U.S. industrial capacity. The data shows that in industry after industry the productivity of the most efficient firms is two to four times greater than that of the average, not simply the very least efficient, firm.

Once operating rates move close to 90 percent or above, production is likely to become less efficient and more costly. A new surge in demand would lead to severe pressure on industries operating close to economic capacity with the additional result that price increases in these industries would be likely to "spill over" into other sectors of the economy.

Although the new demand would call forth more investment in plant and equipment, there would be an inflationary lag before the new capacity could be built to supply the added demand. Not infrequently new capacity built in response to a boom has been ready to supply the market only after the surge in demand has subsided.

THE UNEMPLOYMENT DILEMMA

The second crucial assumption of the administration's expansionary policy is that the unemployed will be readily absorbed by a new wave of expansion in aggregate demand. This is a misreading of the evidence arising from a fascination with the overall unemployment rate that conceals more than it reveals.

We believe that the Johnson administration's policy will create skilled manpower bottlenecks that will lead to inflationary problems throughout the economy. More importantly, its policies will prolong the cruel hardships of unemployment by delaying an all-out and effective attack on the roots of the problem. The administration's conscious effort to sweep unemployment under the welfare rug is not responsive to the problem.

The Johnson administration pays lip service to policy measures aimed at attacking structural unemployment. But it lacks a deep and compelling commitment to more than mere tokenism in developing the selective weapons of an active labor market policy that would bring together the manless job and the jobless man.

In the face of mounting evidence and increasing professional opinion, the administration still relies upon pumping up aggregate demand as the "central prerequisite" of its policy to combat unemployment. Considering how little it now expects its highly expansionary policies to reduce unemployment—one-half a percentage point this year—one wonders whether the Council still really believes its own theory.

For the past several years our minority views have stressed the increasingly structural nature of the unemployment problem. We have said that the rapid rate of technological change—often loosely termed "automation"—as well as the sharp shifts in consumer demand from goods to services were creating a need for more highly trained and skilled manpower while eliminating jobs at the lower end of the skill and education ladder. The process has been most dramatically illustrated by the 40-percent decline in farm employment since 1947 and the 64-percent increase in employment in services.

The rapid rate of obsolescence of skills and knowledge in our dynamic economy forces us to scrap the traditional idea that education is completed at a certain age. Skills and knowledge developed early in life can no longer be assumed to remain unaffected during a person's working years. New skills and skill requirements will apply to a growing segment of the labor force and to a wider range of tasks. This is the reason why the statistics on unemployment among experienced workers do not show a substantially lower growth rate than total unemployment. Training and retraining—a general upgrading of our human resources—are massive problems that are certain to grow in size and complexity in the coming years.

Improving our human resources is becoming an increasingly important factor in economic growth. Building new, modern, and efficient plant and equipment without upgrading the knowledge and skills of our people at the same time will intensify the current shortage of highly developed manpower and increase unemployment among the less skilled. The shortage of qualified instructors and other trained manpower required to direct a vast training and retraining effort already is limiting the Nation's ability to correct the deficiencies in education and training developed in the past.

Scope of the Task

The magnitude of the task has been indicated by Eli Ginzberg, Professor of Economics at Columbia University, who estimated that between one-third and one-half of the young people reaching 18 do not have adequate control over the fundamentals of knowledge to be able eventually to obtain a skilled or technical job.

An important contribution to our understanding of the effects of automation and changing patterns of demand on employment has been made by Professor Charles C. Killingsworth, of Michigan State University, in a statement of September 20, 1963, before the Senate Subcommittee on Employment and Manpower.

Dr. Killingsworth says that the President's Council of Economic Advisers is "the victim of a half truth" in believing that our current unemployment problem is caused by a lagging growth rate as contrasted to basic structural changes in the economy. Dr. Killingsworth believes that the administration's economic program is seriously incomplete because it gives "woefully inadequate attention to * * * a key aspect of the unemployment problem of the 1960's; namely, labor market imbalance."

He points out that the fundamental effect of automation on the labor market is to twist the pattern of demand. In other words, it pushes down the demand for workers with little training while pushing up the demand for workers with greater amounts of training.

The shift from goods to services that appears characteristic of the highly advanced stage of a mass-consumption society is a second major factor which twists the labor market in the same way. There are some low-skilled, blue-collar jobs in service-producing industries, but the most rapidly growing parts of the service sector are health care and education—both of which require a heavy preponderance of highly trained people.

Between 1950 and 1962, there was a redistribution of unemployment, with the unemployment rates at the top of the educational attainment ladder going down and the rates at the middle and lower rungs of the ladder going up substantially. Since 1950, many of those at the lower end of the education ladder have been squeezed out of the labor market, whereas more of those at the upper end have been pulled in.

Congressman Clarence Long, Democrat, of Maryland, former Professor of Economics at Johns Hopkins University, also has pointed to the structural nature of unemployment by comparing the years 1949–50, when the average unemployment rate was 5.6 percent and the labor force participation rate 58.2 percent, and 1959–60, when the average unemployment rate was also 5.6 percent and the labor force participation rate 58.3 percent. His comparison showed unemployment rates rose for Negroes, for the average of manual, unskilled, and domestic service occupations, and for poorly educated males. They fell for whites, for the average of professional, skilled, clerical, sales, and non-domestic-service occupations and for better educated males.

During the same years, the analysis showed that the average duration of unemployment lengthened from 11 to 13.7 weeks, and the proportion of persons whose unemployment had lasted longer than 26 weeks rose while the share of the short-duration unemployed fell. The occupational composition of employment also altered dramatically, as did the labor force participation rates of Negroes and poorly educated persons compared to those of the whites and the well educated. The picture is one of marked changes in the structure of unemployment and the labor force independent of the total level of unemployment. The unemployed either do not live where the jobs are appearing or, when they do, their lack of wanted skills make them unqualified for the openings.

Labor Bottlenecks

The evidence supports the view that severe bottlenecks in the labor supply will appear before the achievement of the overall 4-percent unemployment rate. As Dr. Killingsworth says, "We would have a severe shortage of workers at the top of the education ladder. This shortage would be a bottleneck to further expansion of employment."

The unemployment statistics further buttress the case. In January, the seasonally adjusted rate of unemployment for married men was only 3.2 percent—far below the administration's full employment target of 4 percent for the entire labor force. The rate for all men 20 years and over (including single men) was 4.3 percent; for women 20 years and over, 5.5 percent; and for teenagers, 14.9 percent.

A recent article from Steel Magazine points up the problem of labor bottlenecks. The article reports the results of an annual survey of 7,500 managers in the metalworking industries and shows that 29.1 percent of those surveyed expect skilled personnel shortages in 1964. Only 23.2 percent expressed similar concern last year. At the same time, help-wanted advertising has risen sharply in recent months from year-ago levels, even in some cities with high levels of chronic unemployment. Further, the Department of Labor last year classified 37 occupations as critical for draft deferment because of labor shortages.

In his recent book "Challenge to Affluence," the eminent Swedish economist, Gunnar Myrdal, also makes the case for the increasingly structural nature of American unemployment and the likelihood that too rapid an economic expansion would lead to inflationary bottlenecks. He says:

> This structural character of unemployment in America means, first, that already at the present low rate of economic growth and the high and rising level of unemployment there is a scarcity of highly educated and skilled labor which shows up in the high figures for overtime by employees belonging to that elite. A rising trend of business activity would very soon be bottlenecked by a lack of this type of worker, long before the hard core of unemployed of an inferior quality has become employed. Expansion can simply not proceed very far before it meets this physical limitation, which must also have inflationary effects since their wages must tend to rise. A balanced employment situation cannot be achieved simply by business expansion.

Dr. Myrdal points out that the high level of overtime work existing during a period of high unemployment illustrates the structural discrepancy between labor demand and labor supply. The overtime work, he says, is concentrated among the educated and trained, where skills are in short supply, and the unemployment is concentrated among the less-educated and trained or those whose skills are no longer needed.

More Cost Pressures

The President's only new idea for reducing unemployment—double-time penalty rates for overtime in selected industries—is wrong in theory and worse in practice. If much of the overtime occurs when skilled workers are in short supply, as appears to be the case, then increasing the overtime penalty would fail to increase employment but it would increase costs. In cases where machinery is fully manned and there is no room for extra workers, the only way to get extra production is to work overtime. Here again the President's proposal would increase costs without increasing employment. In still other industries overtime is sporadic. Hiring more workers to replace those on overtime would mean that the new workers would have to be laid off frequently.

Many industries which do schedule overtime to avoid hiring new workers probably would continue to do so in spite of higher penalties. Others might lay off workers and reduce production rather than schedule overtime at excessively high rates. The net effect of the proposal would be more Government intervention and compulsion and the legislating of increasing cost pressures with little or no effects in reducing unemployment.

Actions which raise wage costs too rapidly tend to eliminate job opportunities. This is particularly true in the case of teenagers when the lowest wage is set above their worth to an employer. Many jobless youths are not unemployable at any wage, but only at the going wage. It is no favor to the inadequately trained to price them out of opportunity. High wage rates have an unfavorable effect on some of those who need jobs the most.

Several recent reports of the Department of Labor point to localized displacement effects of minimum wage extension. The Council of Economic Advisers also has admitted that "the labor force adjustments created by minimum wage extension will be concentrated among unskilled and inexperienced workers, including teenagers."

One of the most difficult problems in our economy is the tendency for higher total demand to be translated into higher wage rates before full employment. A GNP of $600 billion would "buy" 200 billion hours of labor at $2.50 an hour (leaving $100 billion for other factors). If aggregate demand rises by $10 billion and if this increase all goes to labor, an additional 4 billion hours of employment are created—providing wages remain at $2.50 an hour. If wages were to rise to $2.60 an hour, however, the $510 billion now available to labor would not even pay for 200 billion hours of employment. Depending upon the cost of labor, as well as other factors, increases in aggregate demand do not necessarily insure more employment.

One of the most critical needs is to increase job opportunities for unskilled and inexperienced teenagers. We believe that employers should be provided incentives to hire unskilled help and thus to broaden job and training opportunities for teenagers. Collective-bargaining contracts should permit lower wage rates for unskilled teenagers, and a broadening of training exemptions under the minimum wage laws should be granted by the Federal Government.

Another critically important need is for a statistical series on job vacancies throughout the economy. To the extent such figures pinpoint unfilled jobs by occupation and geographic location they would be invaluable in shaping effective manpower training and guidance programs.

Perhaps more importantly, information on the relationship between the number of persons unemployed and the number of vacant jobs would help to settle what may be the major economic policy problem of our times. If job vacancy statistics were available and evaluated in terms of actual market conditions, policymakers could determine with greater certainty whether aggregate demand at any particular time was deficient and, if so, develop appropriate policies to deal with it. Such a statistical series would assist immeasurably in resolving the disagreement between those who see deficient demand as the major cause of our unemployment and those who lay stress on structural imbalances.

The administration's almost exclusive emphasis on measured unemployment—with little or no attention to unfilled jobs—obscures understanding of labor market developments in our dynamic and technologically changing economy. We have repeatedly urged that a statistical series on job vacancies be developed. A beginning has been made. However, progress has been much too slow, and we strongly urge the administration to press forward with this project with a greater sense of urgency than it has thus far shown.

Admittedly, a high and rising level of aggregate demand facilitates the attack on structural and frictional unemployment. But making the expansion of aggregate demand the central focus of unemployment policy risks serious inflation without helping—indeed hurting—the jobless and those of our citizens who live in poverty.

Monetary and Debt Management Policies

At the opening of the debate on the tax bill last year, the Council of Economic Advisers said that passage of the tax cut would give "* * * greater freedom to monetary policy * * *" in insuring a balanced expansion without inflation. It now appears as though the administration is wavering on its commitment to use monetary policy to curb speculative excesses and structural imbalances that may arise as a result of the tax cut.

In spite of talk about "flexibility," there is no doubt that strong pressures are being brought to bear against a tightening of money and credit. The emphasis this year has shifted to the use of monetary policy, along with fiscal policy, as an expansive influence on the economy.

There are times when the administration could safely indulge its easy-money bias. This is not such a time.

The prospect this year is for a strong—perhaps an overly strong—expansion and a renewal of inflationary pressures. The economy already is highly liquid. Since excess liquidity and credit cannot as a practical matter be quickly withdrawn once they are created, monetary policy must respond to economic developments as they occur. The tardy adoption of a more restrictive monetary policy will not do. Under the conditions that are likely to exist this year, the readiness to make timely and aggressive use of monetary policy will be imperative.

Our concern stems from the extraordinary scale on which liquid assets and credit have been created during the current expansion, coupled with the prospect of even more to come. Liquid assets and debt must grow as the economy grows. If the rate of increase is too slow, the advance may falter; if it is too fast, the expansion may prove unsustainable and the economy may drop into recession.

The increase in liquid assets and credit that is "just right" is difficult to judge. But we believe the evidence indicates that the rate of increase in recent years has been at the upper extreme of the tolerable limits.

In a recent speech, Alfred Hayes, president of the Federal Reserve Bank of New York, noted that in earlier postwar expansion periods the liquidity of the economy typically sustained a marked decline. Discussing the situation today, he said, "* * * the economy is about as liquid, and by some standards even more liquid, now than in the recessionary period of a few years ago when the Federal Reserve was aggressively pushing reserves into the financial stream. In dollar terms, the economy's liquidity has scaled unprecedented heights." Mr. Hayes said that the pace of increase in liquidity and credit "bears careful watching," and that liquidity conditions are "enough to give one pause."

Monetary Expansion

Regardless of the specific definition or concept one chooses or the dates one selects, recent monetary expansion certainly has been ample. It may have been overample. For the year 1963 the total reserves of the banking system, the magnitude which the Federal Reserve can regulate through its open market operations, increased by 3.4 percent. The money supply narrowly defined, to include currency and demand deposits, increased 3.7 percent. If time deposits at commercial banks are included, the rate of increase was 8.0 percent, and if other liquid claims, such as savings and loan shares, are added in the rate was 7.4 percent.

If one takes the period from August through January—the months since the last change in the policy by the Federal Open Market Committee, and adjusts the data for the normal seasonal variation, the results are even more striking. Total reserves increased at an annual rate of 6.2 percent. The narrowly defined money supply was up 6.9 percent. For the money supply plus time deposits, the annual rate of increase was 10.5 percent.

Credit is being manufactured on a scale and to a degree which may imperil future economic stability. From the fourth quarter 1961 to the fourth quarter 1962, GNP and disposable personal income (seasonally adjusted annual rates) rose 5.1 percent and 4.9 percent; but from year end to year end, consumer credit rose 9.5 percent; mortgage debt, 11.2 percent; and net public and private debt, 7.8 percent. Similarly, from fourth quarter 1962 to fourth quarter 1963, GNP and disposable personal income (seasonally adjusted annual rates) rose 6.2 percent and 5.1 percent, while consumer credit increased 10.4 percent; mortgage debt, 11.8 percent; and net public and private debt, 7.7 percent.

Stock market credit rose 31 percent from December 1962 to December 1963 after declining slightly the previous year. Consumer credit outstanding now amounts to 17.3 percent of disposable personal income, a postwar high. In each year since 1960, net public and private debt as a percent of GNP has set a new high. The $78 billion increase in net public and private debt from 1962 to 1963 was 260 percent of the rise in GNP—far above normal for the period since 1929.

The high level of installment debt suggests an approaching limit to the sale of consumer goods based upon new expansions in the use of credit, while the exceptional level of automobile sales in recent years makes it unlikely to expect much of an added stimulus from that source. The stock market also is at a high level—as is stock market credit—and there is mounting concern with the possibility of overbuilding in residential construction, apartments, motels and hotels, shopping centers, and office buildings.

It has also been pointed out that the spread in yields between low-grade investments and high-grade investments has narrowed markedly as many investors have apparently placed increasing emphasis upon low-grade, high-yielding assets.

Quality of Credit

There are signs that the quality of credit has experienced some deterioration over the past 4 years of credit ease. The Council's report has remarkably little to say about monetary policy and nothing to say about the deterioration in the quality of credit. Yet warnings by members of the Federal Reserve Board about possible deterioration have been frequent over the past year. The Federal Reserve Bank of Philadelphia, for example, has said that "the evidence indicates some deterioration in the quality of credit," with lenders offering more liberal terms and accepting greater risks. In the speech already referred to, Alfred Hayes noted, "occasional outcroppings of poor credit," and Home Loan Bank Board authorities have expressed their concern about lowered standards in mortgage lending.

Judging the quality of credit admittedly is difficult. However, the evidence does point in the direction of deterioration. Since 1959 "no-down-payment" home loans guaranteed by the Veterans' Administration have increased from 52 percent to 65 percent of the total.

The loan-to-value ratio on FHA-guaranteed loans has risen during this period on both new and existing homes. The average FHA maturity on new homes has risen above 30 years, and in 1962 almost 60 percent of all VA primary mortgages were for 30 years.

The percentage of direct new-car loans made by commercial banks with terms over 30 months has risen from 53 percent in 1959 to 71 percent in 1962. Repayment periods for used cars, boats, and appliances, and certain home-improvement loans have also lengthened.

Delinquencies as a percentage of total mortgages are up about 50 percent on FHA-insured loans, and about 20 percent on VA-insured loans since 1959. Defaults on FHA mortgage loans, while still accounting for only a small percent of the total, have increased more than 100 percent since 1959. The increase in VA defaults has been about 30 percent. Between 1959 and 1962, FHA foreclosures jumped from 2 to 9 per 1,000 mortgages, while nonfarm foreclosures rose 96 percent.

Major business failures (over $100,000 liability class) hit a postwar high last year, while bankruptcy cases filed totaled over 155,000—a rise of 40 percent over the 1960 level.

The passage of the tax cut gives monetary and debt management authorities the opportunity to correct excesses and imbalances that may be developing in the economy and thus prevent the expansion from going too far, too fast at the risk of a general price rise, a worsening of our balance-of-payments problem and a deflationary correction.

The Treasury's debt management policies can affect aggregate demand by influencing the level and maturity-structure of interest rates and the availability of credit at various maturities. We believe that the time may come in the near future when the Treasury should be prepared to finance new public debt by selling long-term bonds. Similarly, the refunding of existing debt should be carried out in such a manner as to lengthen the debt structure and thereby reduce liquidity in the economy.

The budget deficit of $10 billion this year and of nearly $5 billion now estimated for the next year creates new problems for monetary and debt management policy. The theory that the budget should be balanced over the business cycle apparently has been abandoned with the administration projecting deficits at least until fiscal 1967, a period which it claims will be one of unparalleled prosperity. The burden of these deficits and the added public debt to which they give rise prevents the administration from using debt management policy with the flexibility that may be required.

Monetary and debt management policies are the first line of defense against economic excesses and imbalances. Although policy can be shaped only in response to economic developments as they occur, we believe that current indications point to the need for a far greater reliance in the future upon monetary and debt management policies to hold the expansion within noninflationary and sustainable bounds.

The Wage-Price Guideposts

The administration insists that its overall economic program will not lead to a renewed wave of inflation, but its Economic Report goes to considerable length to discuss the containment of inflationary pressures. It repeats the guidelines for noninflationary price and wage behavior which were first set forth in 1962. In addition, the

President makes the deeply disturbing promise "to draw public attention to major actions by either business or labor that flout the public interest in noninflationary price and wage standards." Machinery is to be set up in the form of "an advance early warning system" to keep the President informed of "industry situations that threaten to overstep the bounds of responsible price and wage making." The guidelines and their enforcement represent a dangerous concentration of Government power that is not sanctioned by law and largely unchecked by legal process.

Like most governmental pronouncements in this area, the report attempts to put the blame for inflation on business and labor and to argue that the prevention of inflation is the responsibility of business and labor. Professor Milton Friedman, of the University of Chicago, points out that he knows of no example in the history of this or any other country in which there has been a substantial price rise without an accompanying substantial rise in the quantity of money or in which there has been a substantial rise in the quantity of money in a short period without a price rise.

The quantity of money is the responsibility of Government and, if inflation occurs, the Government itself, not private business or labor, will be the culprit. As Dr. Friedman has pointed out, "Business and labor are the channels through which the inflationary effects of excess money creation take place; but they are no more responsible for inflation that the pipes carrying steam are responsible for the overheating of a house."

Not only will the administration's "banging on the economic machinery" fail to bring price stability, but it will serve as an impediment to economic growth by seriously interfering with the effective operation of the free market economy.

Our economic system is designed to economize on limited natural and human resources. By its very nature, economizing involves the disposition of conflicting claims to these resources. The heart of this economizing process is competitive profit seeking in the free market. Any substantial lessening of competition is likely to violate society's pattern of resource use and enjoyment and to shift from the millions of independent businesses and individuals to a small number of bureaucrats the performance of the key economizing function which only the public in all is diversity and individuality is competent to perform.

Exhortation Unnecessary

The administration's exhortations to the private economy to be "responsible" in wage and price policies are unnecessary in a free market economy. If the competitive system operates effectively, responsibility consists in seeking maximum reward within the limits of recognized rules and procedures. The administration's exhortations would be far more meaningful if they demonstrated a greater concern for measures to maintain and increase competitive conditions in the economy.

Exhorting the private sector to be "responsible" dulls the economic motivation upon which society must rely to insure responsible economic performance from private individuals and groups. Appeals to conscience or responsibility cannot be equated with enlightened self-interest and are of no use as a substantive guide to policymaking.

In its 1962 report, the Council pointed out that "Mandatory controls in peacetime over the outcome of wage negotiations and over individual price decisions are neither desirable in the American tradition nor practical in a diffuse and decentralized continental economy." The same can be said about the control arising from the administration's coercive policy statement. Surely the ultimate result of setting guideposts to "responsible" price and wage behavior will be more stringent Government controls. The response of the private sector to the Government's exhortation is likely to be less than complete and wholehearted. Under these circumstances Government cannot afford to take a position which it does not intend to enforce. Failure to achieve its objectives would weaken the Government more than if the effort had never been tried.

In addition to these general considerations, some of the economic difficulties inherent in the administration's approach should be noted.

Aside from the exceedingly baffling problems of measuring productivity, there is a serious question whether using the overall productivity measure in the economy as the basis for the guideposts is sound. If we are going to apply the productivity measurement in the nonagricultural sector, it would make better sense to base it on the change in productivity in that sector and to exclude the productivity rate in agriculture. The considerable gain in measured agricultural productivity since the end of World War II has pulled up the overall productivity performance above the nonagricultural average.

The overall productivity increase for the entire economy does not necessarily apply to specific industries, companies, or groups of workers in a particular company. Using the overall productivity figure based upon historical relationships as a guidepost for specific industries and companies currently and in the future would lessen economic flexibility, impair the allocative function of the market and impose static relationships that would work against the needs of a dynamic and expanding economy.

Other Factors Carry Weight

In addition, for smaller companies and industries and in local bargaining many other factors peculiar to the particular situation must carry greater weight than the proposed guideposts of productivity. The guideposts cannot be used throughout the entire economy. In fact, they are least applicable in those areas which take by far the largest part of the consumer dollar, such as housing, transportation, medical care, and services. These areas are outside the reach of the President's program. In manufacturing—where the guideposts seem least inapplicable—there has been no significant upward movement of prices since 1958. This observation applies particularly to price trends for durable goods.

Another complicating factor is the changing composition of the labor force with increasingly large proportions of those employees in manufacturing industries engaged in research and development and other nonproduction work. An increasing proportion of production workers also is found in the higher paid, skilled categories. Both of these trends, which are likely to accelerate, result in a built-in increase in average labor compensation costs and thus reduce the amount of productivity gain available for distribution in the form of higher wages, higher profits, or lower prices.

There is the additional possibility that adherence to the guideposts would have the undesirable effect of freezing the worker's share of the national income. To the extent this occurs, the needs of our economic progress would be more difficult to meet.

It is interesting to examine the record of productivity and total compensation per man-hour of employees in manufacturing since the guideposts were first stated in early 1962. The trend productivity in the private economy in 1962 was 3 percent, whereas total compensation per man-hour in manufacturing increased 3.5 percent. In 1963, trend productivity rose 3.2 percent and total compensation, 3.6 percent.

What was intended as a ceiling for settlements has been almost universally regarded by unions as a floor. It would appear that the guideposts will have little effect on stabilizing unit labor costs without stricter sanctions being imposed by the Government.

The guideposts simply do not serve as an adequate basis for wage-price policymaking. The proposition which they express is a very crude first approximation to "long-run results," but it is not a useful proposition for wage-price policymakers. The guideposts merely tell us that something is wrong if wage rates on the average keep rising in excess of overall productivity. They do not tell us how to "copy" or transfer the workings of a healthy market mechanism into specific industries with their myriad and diverse conditions. Nor are the guideposts an appropriate or useful substitute for the wise use of monetary and debt management policies to control inflationary pressures.

The Nation must move toward its full employment goal, but it can do so successfully only if it moves in a manner which is compatible with the avoidance of arbitrary administrative wage-price interferences. This requires that as we move along gradually, we should make a more determined effort to overcome the structural rigidities that now stand in the way of moving rapidly without creating labor bottlenecks, new structural distortions and inflationary pressures.

The Johnson Budget

Since the fiscal 1965 budget was presented, administration spokesmen have variously described it as "tight" or "austere" but "not a standstill budget." The elaborate attempt that has been made to project the image of an economy budget is remarkable, particularly coming from administration spokesmen who not long ago said that a reduction in expenditures would be self-defeating and even damaging to the economy.

We would be the last to criticize a forthright effort to bring Federal expenditures under better control. Indeed, Republicans have led in that effort. To the extent that the President means what he says about economy, he can count on the determined and steadfast assistance of Republicans to help him achieve that goal.

Any budget—and particularly one for which such extravagant economy claims are made—must be subjected to close and searching scrutiny to separate illusory savings from real savings. Enough time has elapsed since the budget was presented to make clear that, while some real savings have been made, the fiscal 1965 budget savings are largely illusory.

It has been customary in the past for actual budget expenditures to exceed the January estimates. In the past 8 years, for example, the final spending figure has averaged $3.1 billion above the early estimate. The coming fiscal year promises to be no exception.

Before looking briefly at those techniques by which the administration has tried to create an image of economy, we call attention to the fact that at the very moment it was publicly claiming to be cutting spending, the Johnson administration was increasing estimated outlays for the current fiscal year. On November 19, 1963, Budget Director Gordon estimated 1964 expenditures at $97.8 billion. At the time, he said "* * * I am confident that the probable range of error around that figure is relatively small." Yet 2 months later—after considerable budget-cutting hoopla—President Johnson announced that fiscal 1964 expenditures would be $98.4 billion. After 2 months of budget cutting, the spending estimate under the Johnson administration had gone up $600 million over the final Kennedy administration estimate.

It should also be noted that President Johnson is requesting more than $5 billion in new spending authority than the Congress approved in the last session and $1.2 billion more than the grand total for the 1964 fiscal year. (The total includes a request for $4.2 billion in supplemental authorizations requested by the President in January.)

Moreover, the $103.8 billion in new spending authority which the President is requesting is nearly $6 billion more than he proposes to spend during the coming fiscal year. Who can doubt, on the basis of this evidence, that "cuts" in outlays are only temporary—if they exist—and that authorizations are being accumulated for much higher spending in later years?

President Johnson said in his budget message that expenditure control depends substantially on the careful control of obligations. By this standard, the President is failing his own test of expenditure control.

It should also be noted that Federal expenditures in the national income accounts will increase $2.4 billion from fiscal 1964 to 1965 to a total of $121.5 billion. Cash payments to the public will remain steady at $122.7 billion. The public debt is expected to rise $5.2 billion to a total of $317 billion. Unspent authorizations enacted in prior years and new spending authority being requested by the administration will total $194.2 billion in fiscal 1965.

Rapid Growth in Spending

Furthermore, estimated budget expenditures for fiscal 1965 are $16.4 billion, or 20 percent, above the level of fiscal 1961. During the same period the public debt will have increased by an estimated $28 billion. In the light of this record of rapid spending increases, it is not only desirable but urgently necessary that Federal spending be brought under more firm and effective control.

During the fiscal debate of the past year and a half, the administration has insisted that its persistent and large budget deficits were not the result of increased expenditures, but rather were caused by lagging revenues in a stagnant economy. The January 1964 Survey of Current Business published by the U.S. Department of Commerce refutes this contention. It points out that the Federal Government's fiscal position during the economic expansion which began in February

1961 has differed sharply from previous expansions. The Survey points out that following the recession low points in 1954 and 1958, budget balance on a national income accounts basis was achieved about 1 year after the GNP trough. "The continuing deficit this time," says the Department of Commerce, "reflects mainly a steeper rise in expenditures; the growth in receipts has been about average."

Having in mind this background, how has the administration been able to submit an administrative budget for 1965 showing a small reduction in spending from the 1964 level?

(*a*) The administration plans to sell to private investors $2.3 billion of Government-held Export-Import Bank loans and home mortgages. The budget treats these sales as reducing net spending rather than increasing revenue. Success in making these sales at prices reasonably favorable to the taxpayer depends upon several highly uncertain assumptions, including action by the Congress.

(*b*) A spending cut of about $610 million depends upon proposed farm legislation for which there is little enthusiasm in Congress.

(*c*) Nearly $600 million of military spending that normally would have been made in fiscal 1965 appears to have been moved up into the current year, easing the task of showing a cut in spending next year.

(*d*) About $165 million will be "saved" next year by eliminating a requirement that various agencies pay the Treasury interest for money borrowed during the Korean war.

(*e*) The budget omits $65 million that ordinarily would have been paid into the retirement fund for civil service workers.

(*f*) A number of new health and welfare programs have been budgeted at what are considered unrealistically low levels, and Budget Bureau officials themselves have been reported as saying they doubt that space spending will be held to the amount proposed.

On the revenue side, the estimates for receipts for the year may prove to be excessively optimistic, even if the economy expands as vigorously as expected. Revenue estimates also assume new income of $264 million from various new special fees, taxes, and user charges, a number of which Congress has balked at passing in recent years.

If all of the techniques discussed above are taken into consideration, spending for the next fiscal year will be greater than during the current fiscal year although—barring any unforeseen increases in spending—not as great as the large increases of recent years. Rather than cutting spending—as he claims to have done—the President is increasing expenditures but at a less rapid rate than in recent years. This in itself is welcomed, but an evaluation of final results will have to wait until the end of the fiscal year in June 1965.

Long-Run Outlook Unfavorable

The spending outlook beyond fiscal 1965 is decidedly unfavorable. Several of the special budget techniques to give the appearance of reduced spending in 1965, such as the sale of Government-owned assets, cannot be used for long. Furthermore, the budget contains many new Government programs which call for fairly small outlays in the coming fiscal year but which will require considerably larger expenditures in future years. Another forerunner of higher spending is the relentless climb in Federal debt and the increasing interest costs.

Interest on the public debt alone will increase in 1965 by $400 million because of the higher debt and somewhat higher interest rates.

The need for more effective control of Federal expenditures is growing in importance with the increasing complexity of Government, the high and rising level of its spending, and its deeper involvement in our life and in international affairs. We believe that more effective expenditure policy can result if improvements are made in the budgetary process in the executive branch as well as within the Congress.

The budget document itself has been vastly improved in recent years, and we commend the administration highly for maintaining the progress underway when it took office. We urge that it continue to improve the document, particularly along the lines of the report entitled, "The Federal Budget as an Economic Document," issued by our Subcommittee on Economic Statistics in August 1963. Another way in which the budget document might be improved would be by more logical treatment of the sale of Government assets, such as listing them under revenue rather than as a reduction in Federal spending.

In Congress the budget tends to be considered as a series of unrelated parts without focusing attention on major budget issues. Unfortuntely Congress does not give sufficient consideration to the relationship between revenues and expenditures. A means of coordinating expenditure decisions and revenue decisions should be found to insure that they are set to achieve some desired relationship.

To assist in the reform of Federal expenditure policy, we further recommend that:

(*a*) Congress establish a Joint Committee on the Budget which could improve the appropriations process and Congressional control over expenditure of Federal funds. Creation of such a committee is provided for in S. 537, introduced by Senator John L. McClellan and sponsored by 76 other Members of the Senate. The committee would serve in the area of appropriations roughly the same function which the Joint Committee on Internal Revenue Taxation has in the field of taxation. It should have a high level professional staff which includes minority representation.

(*b*) A bipartisan Commission on Federal Expenditure Policy be appointed. We have introduced legislation to implement this suggestion. Such a Hoover-type Commission should be composed of private citizens from business, labor, education, the professions, and Members of Congress (equally from both parties) and members of the executive branch. The Commission should conduct studies and periodically make public its recommendations in the following areas:

(1) Establishment of spending priorities among Federal programs, separating the merely desirable from the essential, in order to serve as a guide to the administration in drawing up the executive budget.

(2) Appraisal of Federal activities in order to identify those programs which tend to retard economic growth, conflict with other goals of national policy, or which have outlived much or all of their usefulness and for which expenditures should be reduced or eliminated.

(3) Improvement of the Federal budgeting process in order to increase effective control of expenditures.

(4) Examination of responsibilities and functions which have been assumed by the Federal Government, but which could be performed with superior effectiveness by the private economy.

(5) Review of present Federal functions in order to determine which could be better performed at the State and local levels.

(6) Improvement of Government organization and procedures in order to increase efficiency and promote savings, including a review of the recommendations of the first and second Hoover Commissions, in order to determine how those already implemented have worked out in practice and whether those not yet implemented should be given further consideration.

(7) Determination of policies with regard to the level of user charges and fees to be made for special services furnished to individuals, groups, and businesses.

The recommendations of an objective and bipartisan commission of the kind described should command widespread support among the public and within the Congress. Its proposals would offer a sound basis upon which to begin the reform of Federal expenditure policy.

The War on Poverty

No one can travel through our Nation's major urban centers, its small towns or its rural areas without becoming acutely and painfully aware that too many of our citizens, of all races, creeds, and colors, live outside the mainstream of American society. Many of these individuals have an inadequate opportunity to develop their full potential as human beings and citizens. The greatest domestic challenge before the Nation is to accentuate and extend the vast successes of our system in order to realize the promise of the free and open society for all our people. We shall continue to support the assault on poverty as a major step toward this goal.

A war on poverty will not be won by slogans; nor by shopworn programs dressed up in new packaging; nor by the defeatist relief concept of the 1930's; nor by the cynical use of poverty for partisan political ends; nor by overstating the problem and thereby inexcusably lowering America's prestige in the eyes of the world.

The war on poverty will cruelly deceive the poor and their children unless it is new in concept and embraces programs which hit at the root causes of poverty rather than its symptoms. Programs designed to relieve symptoms may produce quick and apparent results. But if our limited physical and intellectual resources are devoted primarily to attacking symptoms, rather than root causes, the war on poverty will turn into a hopelessly inadequate salvage operation that will be judged as having done "too little, too late."

Our approach to the problem, which will be outlined in more detail in the recommendations section of this statement, emphasizes programs to prevent the rise of more poverty and to help the existing poor break out of the vicious cycle of poverty in which they find themselves.

There are two preconditions to the success of specific and selective antipoverty measures. One is balanced and sustained economic growth without inflation. The other requirement is vigorous civil rights enforcement to guarantee equal job and educational opportunities for our minorities.

It is also important not to sweep the unemployed under the welfare rug. The unemployed person wants a job, not a caseworker.

The administration has ignored the seriousness of the continued increase in the cost of living and the steady erosion of the purchasing power of our people—especially of those living on social security, pensions and insurance. Millions of our citizens will not receive a tax reduction from the multibillion-dollar tax bill because they do not have enough income to pay an income tax. But they will suffer from the inflation that will accompany the administration's fiscal policies. There is no more certain way of worsening poverty in America than by permitting a continuation and acceleration of the postwar inflation.

Aside from the general comments above, we believe that specific antipoverty actions should include, but not necessarily be limited to: (*a*) developing each program—including those concerned with regional development—to insure that the benefits will accrue directly to families and individuals living in poverty; (*b*) providing solutions to the problems of low-income families growing out of programs, such as urban renewal and public housing, which were originally designed to assist them, (*c*) improving rehabilitation programs for the physically handicapped; (*d*) lifting children out of a poverty environment by federally assisted programs, including residence schools for certain disadvantaged children; (*e*) increasing the numbers of professionally trained public and private welfare and social workers; (*f*) upgrading schools in "poverty-impacted" neighborhoods; and (*g*) conducting research on the relationship between population control and the reduction of poverty.

We also wish to call attention to the initiative and imagination of President Eisenhower and his Council of Economic Advisers in coming to grips with the problem of poverty in America. In 1956, the President's Economic Report, particularly chapter 3, discussed "the extension of prosperity to the less flourishing sectors of the economy" in detail, with particular emphasis on the pockets of chronic unemployment, low-income families in rural areas, vocational rehabilitation and the need for a more general program of insurance against catastrophic illness. President Eisenhower's 1956 Report is a valuable tool for understanding the causes and cures of poverty in America. The late President Kennedy also called attention to these problems.

How Many Are Poor?

Before proceeding to discuss our own policy proposals, we wish to examine the standards by which poverty is measured and the progress that has been made in reducing poverty in the past decade.

All estimates of the extent of poverty of the kind presented in the 1964 Economic Report of the President have a systematic upward bias which paints conditions worse than they are. For example, in most cases a family with insufficient income for a year or less will not be reduced to poverty. Usually a family is not "poor" in the accepted sense if in the first year of its existence as a family it earns a small income on an annual basis; families are formed in December as well as in January. An independent businessman is not "poor" just because he earns practically no net income during a year or two while he is establishing his business. A graduate student and his family are not "poor" within the meaning relevant to the present context. A family with a fluctuating income—high in one year, low in another—is not "poor" in each year in which its income is low. And some of the well-to-do may live on their accumulated wealth rather than on income for a number of years, while retired persons may live comfortably on the savings they have set aside for just that purpose.

A given money income provides for widely differing levels of living. The administration says that a family lives in poverty if it has a cash income of under $3,000. But families differ substantially in size, age, and living costs. Regional living costs vary substantially and may be twice as great in dollar terms in a northern city as on a southern farm.

The administration's definition of poverty also excludes a family's assets. A family with 600 shares of IBM stock would have had an income of $3,000 in 1963, but the shares were worth more than $300,000. In 1962, the Survey of Consumer Finances found that over half of the aged with incomes below $3,000 had liquid assets of $1,000 or more and that 18 percent had liquid assets of $5,000 or more. Moreover, income in kind is excluded, although this is important for many families, particularly in rural areas.

The Office of Business Economics of the U.S. Department of Commerce confirms the generally accepted and sensible view that noncash income, such as the net-rent or owner-occupied dwellings and home-produced food and fuel, should be included in a family's total income. By this more reasonable definition, 13.6 percent of the U.S families—not 20 percent—had incomes under $3,000 in 1961. Although not yet available, the figures for 1962 and 1963 will almost certainly be lower. Another measure of poverty is provided by a census study showing that one in eight—rather than one in five—Americans is poor, based upon ability to qualify for assistance under the welfare laws of the State where they live.

In the February issue of the Morgan Guaranty Survey, it is pointed out that fault can be found with the selection by the Council of Economic Advisers, for yardstick purposes, of the Census Bureau's household survey data. For the most part these are based on memory rather than records. They also are characterized by a substantial underreporting of income.

When the sample data for 1962 are blown up to full population size, they yield a money income of $352 billion, or $53 billion *less* than that calculated by the Department of Commerce on the basis of consolidated income tax returns. The Commerce Department's estimate is $68 billion higher (roughly equivalent to total personal income in the United Kingdom) if total nonmoney income also is included.

A study by the University of Michigan Survey Research Center found that 40 percent of those families with incomes of less than $3,000 in 1960 owned cars. About 45 percent of the families in the $2,000 to $3,000 income range owned their own homes in 1962, as did 42 percent in the $1,000 to $2,000 income bracket and 35 percent in the less than $1,000 bracket. Of those homeowners with incomes between $2,000 and $3,000, 66 percent had no mortgage on their homes. The Economic Report notes parenthetically that about 40 percent of all poor families have some equity in a house.

Herman P. Miller, a special assistant in the U.S. Census Bureau, pointed out recently that "when we probe a little deeper" into living conditions in the severely depressed areas of Harlan County, Ky., it is found that 88 percent of the homes have washing machines, 67 percent have a television, 45 percent have a telephone, and 59 percent have a car.

No objective definition of poverty exists. The definition varies from place to place and time to time. In America as our standard of living rises, so does our idea of what is substandard. Although too many Americans remain poor, most of them are better off than the poor of earlier years and far better off than the poor in other countries around the world.

How Far Have We Come?

As we look ahead to the task before us, we should be aware of how far America has come in conquering poverty. Since 1947, the proportion of all families with low incomes (in constant 1962 prices) has declined from 32 to 20 percent in 1962. The principal reason for this progress has been rapid economic growth. Also contributing to reducing poverty has been the development of social security, private pension and deferred profit-sharing plans, unemployment compensation, hospitalization and other forms of insurance. Favorable developments have been offset to some degree by population trends, principally the faster than average increase in the population over 65 and the increasing desire of the aged to maintain separate households.

The total public and private effort to reduce poverty and human suffering has resulted in an increase of 78 percent in constant (fiscal 1963) dollar per capita annual expenditures for health, education, and welfare from 1953 to 1963. During the same 10-year period, the share of the total output of the U.S. economy devoted to health, education, social insurance, and welfare has risen from nearly 12 percent of the gross national product to nearly 18 percent. This is a particularly impressive performance in the light of other heavy drafts on the economy for defense, space exploration, new highways, urban renewal, and higher consumption.

The percentage of persons in paid employment covered or eligible for coverage under the old-age, survivors and disability insurance program rose from 80 to 90 percent between the end of 1952 and the end of 1962. At the end of 1962, 78 percent of the population over 65 were eligible and 71 percent were receiving benefits under the program. Total monthly OASDI benefits rose from $205 million in December 1952 to nearly $1.2 billion in December 1962.

Private pensions increased more than threefold from $600 million to $2.2 billion between 1953 and 1963—and they are certain to grow considerably in the years ahead. Private pensioners and their wives now total about 15 percent of the aged population. These private pensions largely supplement benefits of all public programs under which 80 percent of all aged persons in mid-1962 were getting a regular income. About 84 percent of all poor families were covered by social security or other governmental pensions in 1959.

Vendor medical payments under public assistance increased nearly sevenfold from $154 million to $1 billion during the 1953–63 period. Annual cash benefits under private employee benefit plans tripled from $1.5 to $4.5 billion. Medical benefits under private insurance quadrupled from $1.8 to $7 billion annually, with about three-fourths of private medical insurance being provided through private employee benefit plans.

Private philanthropy for institutional care, family counseling, recreation and day-care services, and emergency relief rose to $1.3 billion in 1963 from $785 million 10 years earlier. All private charitable contributions now exceed $8.5 billion per year.

During the 1953–63 period, expenditures on medical research increased from $88 million annually to $938 million, while expenditures for maternal and child health and for crippled children's services rose sharply, as did expenditures for vocational rehabilitation programs.

New Approach Needed

To point out the vast amount that has been done to reduce poverty is not to say that the job is finished. It is ironic that many of our welfare programs, such as unemployment insurance, help the poor least of all. Even social security is not primarily for the very poor. The breadwinner of a retired couple would have to earn an income considerably above the administration's $3,000 poverty line most of his life in order to get the maximum social security payment.

The farm situation also is illustrative. Under this administration's policies, there has been an increase in the cost-price squeeze of farmers and a decline in the farm sector's share in the national net income. In turn, millions of small farmers, tenant farmers and farmworkers and their families have been thrust into the poverty sector.

Similarly slum clearance programs primarily have benefited the middle third of the Nation while many of those made homeless by these programs often have been pressed into other slum areas or areas about to become slums.

Greater concentration and attention must be devoted to solving problems of our low-income citizens caused by programs which originally were designed to assist them. House Republicans have already taken the initiative in the area of housing by introducing a comprehensive housing bill directed to perfecting urban renewal and public housing projects on behalf of low-income citizens.

The fact that the poor are out of the direct reach of many Federal welfare-type programs means that a wholly new approach is needed. One of the most difficult problems in finding new approaches is that they should help to cure poverty and mitigate its penalties without undermining incentives to effort and success.

One fact is clear. In the American system, the Federal Government's role in the war on poverty will be far less than that which will be played at the State, local, and neighborhood level, particularly by business, organized labor, and nonprofit enterprises.

The primary reason for local and selective approaches is that persons living in poverty are not a homogeneous group. Nearly all have one or more "handicapping" characteristics but differ in others. The racial minority family, the family with a female head, or with a head over 65 years of age, the family with no earner, or with a head not in the labor force—these are particularly susceptible to poverty, although granted that many of these families are in average or better than average circumstances. One unifying characteristic, aside from prolonged illness or physical handicaps, is the coincidence of poverty and little education.

One area of decisive importance for Federal Government action is civil rights. Poverty arising from the denial of adequate job and educational opportunities to members of minority groups is a blight on the Nation, the removal of which can be greatly hastened by vigorous Federal leadership.

The policies which the administration has thus far proposed to combat poverty are inadequate to the task. Not a single policy is directed specifically at poor families. Instead, they are directed at all families. In some cases, such as improving regional economies, it is likely that as much as 80 percent of the benefits would accrue to nonpoor families. Each policy recommended by the administration to deal with poverty should be examined to see what share of the benefits will accrue to families with cash and noncash incomes under $3,000.

Effective work in attacking poverty is being done by welfare agencies, both private and public, at the local evel. Much of this work is assisted by Federal funds. We must not permit Federal programs to draw off from the local level trained personnel that are in tragically short supply. Local welfare workers already are underpaid and overworked. They are on the frontlines of the war on poverty. That war will not be won soon, but progress requires that the ranks of professionally trained welfare and social workers be increased and the quality of training improved. We recommend that immediate attention be given to developing a combined Federal-State-local matching grant program to work toward these objectives.

Children of the Poor

It is only realistic to recognize that in some cases it will be difficult to lift adults out of a poverty status. Rehabilitation can do much for the physically handicapped, and such programs should be broadened and improved. However, lack of basic education, inadequate motivation, health or mental deficiencies, handicapping habits, such as alcoholism, as well as other factors often will militate against a successful effort.

This tragic condition points to the special importance which should be attached to helping the children of the poor. It is they who have the best chance of escaping poverty. A child lifted out of poverty breaks the vicious cycle by which poverty can be passed on to the next generation.

For some children the best hope of lifting them out of poverty is to remove them from a poverty environment which may dull or deaden motivation, incentives and learning. Often this environment is in the slum centers of our major cities.

We recommend that consideration be given to setting up a pilot program on a Federal-State matching grant basis which would work toward this objective. Carefully selected underprivileged children would live and study at public expense at special residence schools operated by States outside of the slum area. Admission should be strictly voluntary. The program should be developed and operated in such a manner as to draw on the knowledge and experience of private educational, charitable, business, and labor groups to the maximum extent possible.

The cost of such a program would be small compared to the $4.3 billion in payments to public assistance recipients in 1963. To this figure, which is about 15 percent of the Nation's total public and private education bill, should be added the other staggering social costs of poverty. Such a program—if successful—would richly reward us all in terms of children equipped to build a future for themselves and to make a constructive contribution to society.

Why is it that schools in poverty neighborhoods so often deteriorate? Shouldn't schools for disadvantaged children be among the best? Who needs good schools more than the children of the poor? A clean, attractive, well-equipped and well-staffed school in a deteriorating neighborhood could serve as an example and an inspiration for many of our disadvantaged children. We urge that public and private educational groups direct their attention to upgrading the quality of schools in poverty neighborhoods. The Federal Government now provides special financial assistance to schools in so-called federally impacted areas. We urge that a similar approach be considered for "poverty impacted" neighborhoods.

No discussion of poverty would be complete without a comment on the impact of population control on the reduction of poverty both at home and abroad. A relationship exists between the population explosion and the conditions existing in many of the underdeveloped nations. Education and research hold out real hope for solutions to this problem.

In this connection, we call attention to the fact that in our own country nearly 4 million persons now receive relief under the aid to dependent children program—a rise of 78 percent since 1955. A tragically increasing number of these are unwed mothers whose children frequently go on the relief rolls once they reach the required age. This is only one manifestation of the population control problem, but its increasing incidence in the United States calls for action.

The most underdeveloped resource in America is the poor. Recognizing this, America has been conducting a war on poverty since its foundation. More progress in reducing poverty has been made within the framework of the people's capitalism of the United States than anywhere else in the world.

The challenge which still remains is twofold: (1) to provide the poor with job opportunities in an environment of balanced and sustained economic growth without inflation and (2) to raise the productivity of the poor who already have jobs. Meeting this challenge will realize the promise of our free and open society for all citizens.

The Deteriorating Farm Situation

The farm sector of the economy experienced a setback last year with realized net farm income declining to \$12.3 billion from \$12.6 billion in 1962. This failure of the farm sector to share in the advance in the economy results from a worsening of the cost-price squeeze—decreases in prices farmers receive for their products and continuing inflationary increases in the prices farmers pay for all goods and services.

The parity ratio for the year as a whole fell to 78—a 24-year low. By December of 1963 it had fallen to 76, compared to 81 in December of 1960. The embarrassment this causes the administration, which promised "full parity of income" in the 1960 presidential election campaign, is now demonstrated by the recent announcement from the Department of Agriculture that in the future it will publish an "adjusted" parity ratio. For the first time since parity figures have been compiled, Government payments to farmers will be included in addition to prices received by farmers for all commodities. The effect of this change would artificially raise the 1963 parity ratio from 78 back to 81. The idea, of course, is to enable the administration to claim that the 1963 ratio was at least equal to the level of two of the Eisenhower years. We deplore this brazen statistical manipulation designed to fool the farmer and the public.

The outlook for the current year is for a further tightening of the cost-price squeeze. The Department of Agriculture has said that total realized net farm income this year is expected to be at least 5 percent lower than in 1963. In the light of this, the administration prefers to emphasize the increase in realized net income per farm, which calls attention to the fact that the number of farms is declining faster than total realized net farm income.

The administration's farm proposals are little more than a restatement of discredited and futile retreads. They hold out no promise either of curtailing the glut of farm products or of wiping out the spread of rural poverty.

We recommend that the Democratic administration with its strong control over both Houses of Congress take coordinated action along the following lines:

1. Reorient the whole network of Government price supports toward a market economy for agriculture. Reductions in price supports should, of course, be gradual, but consumers and taxpayers in paying the price of gradualness should be assured the fruits of certainty. Moving broad areas of agriculture (along with other types of industry) toward a position of independence of the Federal Government will take years if harsh social consequences of such an adjustment are to be avoided. Unjustified increases in price supports should be avoided, since these encourage excess production, depress markets, and lead to Government controls requiring more Government employees to enforce.

2. Reject the repudiated doctrine of "supply management" based on strict Government control and supervision over the daily lives of each and every American farmer by following the mandate of over a half million wheat farmers who voted "no" in last year's national referendum.

3. Far greater efforts should be made to develop new and increased industrial uses for agricultural products—especially those in excess production. Emphasis in research activities should be shifted to the objective of more balanced research.

4. Soundly determined inventory policies should be established for all price-supported commodities. Government inventories should be used to strengthen market prices, not destroy them.

5. The expenditure of millions of dollars on reclamation and irrigation projects, while at the same time permitting the growing of crops (or substitutes) determined to be in surplus by the U.S. Department of Agriculture, is inconsistent, wasteful, and should be stopped.

6. Since 1947, the number of persons employed in agriculture declined by 40 percent. This structural dislocation requires

consideration of measures to assist the voluntary transition of such people to more productive employment in accordance with traditional American practices and in an economic atmosphere of full employment.

7. In the absence of disaster-type situations, Government subsidy of crops in one area in preference to another area should be stopped. It is discriminatory and moves away from the market forces which characterize our free enterprise economic system.*

THE BALANCE OF PAYMENTS

Our position on the continuing U.S. balance-of-payments deficit and the related outflow of gold will appear in detail in a separate committee report on the series of hearings conducted on the balance of payments in the summer and fall of 1963.

However, we wish to point out here that we regard with deep concern the continuation of the deficit at a high level during 1963. The overall deficit for the year was $2.6 billion, or $400 million more than the deficit in 1962, figured on the same basis. Excluding special Government transactions, the deficit last year was about $3 billion, down from nearly $3.6 billion in 1962 and about the same as the 1961 deficit. Most of the gain last year occurred in the second half and largely resulted from temporary developments.

The improvement in the second half of the year resulted from the increase in the discount rate in July, the proposed interest equalization tax, and an improvement in our trade surplus. We believe that the benefits arising from the proposed interest equalization tax will be short lived and the improvement in the trade surplus difficult to maintain. Much of the gain in trade occurred from greater sales of farm products, arising from an exceptionally unfavorable crop year in Europe and cannot be expected to continue.

The effect of the tax reduction bill on the balance of payments remains to be seen. We are unconvinced by administration assurances that the tax cut will powerfully assist in bringing our international accounts into balance. If an economic expansion of the magnitude expected by the administration occurs, the immediate effect would be a sharp increase in U.S. imports which—without a compensating increase in exports—would mean a shrinkage of the trade surplus. The long-run effects of the tax cut in improving the investment climate are difficult to judge. However, if the combination of a highly expansionary fiscal policy and an easy money bias leads to a renewal of inflation, the result for our balance of payments will be severely damaging.

There is almost unanimous agreement that the retroactive provision in the interest equalization tax proposal has created uncertainty in the financial community which, for the moment, has sharply reduced foreign borrowings in the United States. If the bill is passed, there is likely to be a sharp resumption of foreign borrowing in the United States. It may well be that the interest equalization tax is more effective as a proposal than it would be as a reality.

* Serious consideration should be given to the problem of imported livestock products, particularly beef and veal. Livestock producers in the United States have for the main part remained free from Government control and subsidy. Both our foreign and domestic policies should recognize the importance of the livestock industry.—Comment by Senator Jack Miller.

Lack of Enthusiastic Support

Nearly every witness before this committee who was questioned about the interest equalization tax proposal either opposed it or supported it only with the greatest reluctance. Even its advocates admitted that it would not be desirable as a permanent measure, yet experience suggests that such "temporary" taxes often become permanent. In spite of this general lack of enthusiasm, the administration continues to press for its approval with the unconvincing argument that if the bill does not pass, foreigners will feel that the United States is not serious about eliminating its balance-of-payments deficit.

We believe that the proposed tax is neither necessary nor desirable. It would erect an artificial wall to the free flow of private capital with longrun effects that would be damaging to both our domestic economy and our foreign economic policy. As the New York Times commented editorially July 24, 1963:

> This is inconsistent with the position of the United States as the world's banker and with the longstanding objective of lowering barriers to trade and capital movements. Instead, it suggests that we are regressing toward direct controls over capital, which led to the breakdown of international finance a generation ago.

The persistent deficit in our balance of payments is not attributable to private investment abroad. As the Brookings Institution's recent report on the balance of payments pointed out, receipts of dividends and interest on U.S. investment abroad have consistently exceeded new outflows of U.S. capital to foreign countries, with the exception of the 1957–58 period. The Brookings study said that, although current earnings primarily reflect investments made in previous years, recent new U.S. investments abroad already seem to be contributing to higher return flows to the United States.

We are not unmindful of the temporary strain placed upon our balance of payments by foreign borrowers seeking advantage of relatively low U.S. long-term interest rates. However, the bill is not specifically directed at that type of transaction. The bill adopts a "shotgun" approach, with loopholes built in for "favored" U.S. lenders or foreign borrowers.

The bill would exempt direct foreign investments, loans for terms of less than 3 years, and all bank loans, irrespective of term. It would also exempt lending to underdeveloped countries and to Canada, by far the largest borrower in the U.S. market. The bill also provides for the possibility of extending this blanket exemption to other countries which can show injury as a result of the tax.

The results sought to be achieved by this bill depend more upon a "control" over the transactions which are exempt than upon a tax on the transactions which are nonexempt. As the minority of the Ways and Means Committee pointed out in its report on the bill, the Congress is being called upon to enact this legislation as a "club" for the Treasury to hold over certain segments of the financial community, both at home and abroad, in order to obtain from those who are exempt from the tax, voluntary compliance with a program of control over capital outflow which will be left to the sole discretion of the President and the Treasury Department.

The Ways and Means minority further showed that the exemptions provided for in the bill exclude from tax the major areas of capital outflow, taxing only a relatively insignificant total of transactions, such as the purchase of foreign stocks and the purchase of new foreign bonds (other than Canadian) where the borrower is precluded from obtaining the funds from a bank. Since most lending abroad, and for the most part foreign bonds, are purchased by institutional investors such as banks, insurance companies, and the like, the net effect is to permit banks to lend money abroad tax free, but to deny to the other institutional investors the same right. The foreign borrower is "funneled" into the bank loan route. Interestingly, U.S. bank loans to foreigners have increased substantially since the tax was proposed.

A Regulatory Measure

In accounting for the seeming lack of scope in the bill, the Ways and Means minority has noted that the Secretary of the Treasury was forced to disclose the real effect of the bill—not as a tax, but as a regulatory measure. Recognizing that the bill exempts much more than it taxes, the Secretary stated that the Treasury does not anticipate any problem with respect to the exempt transactions because Canada and United States banks are expected to "cooperate." The threat of taking away the bank loan exemption will be counted on to prevent U.S. banks and foreign borrowers from taking advantage of that loophole without Treasury consent.

Even after a 1-percent increase in the interest cost to foreign borrowers in the U.S. market, it will still be cheaper, or as cheap, to borrow here as in most European countries. Underwriting costs in Europe, for example, are considerably higher than in the United States so that even with the tax, borrowing in the United States may be more attractive than borrowing elsewhere.

Furthermore, a decrease in U.S. capital supplied to foreign markets will result in an increase in demand for foreign capital and in higher interest rates abroad. While the interest rate spread between the United States and Europe initially would be reduced by about 1 percentage point under the bill, after the offsetting increase in foreign rates that would be likely to result, the spread probably would return to approximately its pretax size.

An increase in long-term interest costs for foreign borrowers may not achieve the desired result for still another reason. As Secretary of the Treasury Dillon pointed out in a letter to Senator Javits of May 28, 1963:

> Even if long-term interest rates in the United States rose above those in Europe and Japan, we would expect foreign governments and corporations, particularly those needing relatively large amounts of money, to resort to the highly developed U.S. market.

The tax might very well worsen our balance-of-payments position. Dr. Lawrence Krause of the Brookings Institution has noted that "you must always distinguish between improving the balance of payments and stopping a capital flow. These are not identical. You may deter some capital flow and you pay for it in lower exports or some other feedback in the balance of payments." As a nation increases its capital exports, its exports of goods and services also tend to increase; conversely, decreasing capital exports are likely to bring on decreasing exports of goods and services. The program to tax American capital investments abroad thus may offset the benefits of efforts to increase U.S. exports.

A Contradictory Policy

It would be highly unfortunate if the United States should restrict the flow of private capital at a time when we have been so successful in our efforts to encourage other countries to remove such restrictions of their own. The proposed bill also is contrary to the administration's policy of trying to attract foreign investment to the United States. It is reasonable to assume that the fear of further controls on the movement of capital would deter foreigners from making investments in the United States. Finally, a fear of further controls could lead to a withdrawal of foreign capital from U.S securities and to a flight of U.S. capital abroad. Secretary Dillon's statement before the Ways and Means Committee on October 21 that no evidence has developed of any "significant withdrawal" of capital out of the United States is not sufficiently reassuring.

According to the Brookings economists, long-term capital transactions of the United States will contribute strength rather than weakness to our balance of payments. A cessation of long-term capital outflows, the study says, would improve the balance of payments in any single year, but this improvement would be more than offset by subsequent losses. As the study says:

> The U.S. balance of payments has already felt the strain of adjusting to an increased level of capital outflows, and now it is moving into a position where it will reap benefits from these outflows. Only in the very unlikely event of an accelerated growth of outflow of new funds would long-term capital transactions be a negative force.

The interest equalization tax proposal is a shortsighted and potentially damaging way of attacking the balance-of-payments problem without coming to grips with it. It is another example of the administration's efforts to buy time without being certain of what it is buying time for. The chief hope is that prices will rise in Europe more than in the United States and that, as a result, our trade surplus will increase. Prices are rising in Europe—although not much in the export sector. The strong action being taken by European governments to control inflation, including raising interest rates, tends to worsen our balance-of-payments position. This is happening at the very moment the administration is embarking upon a highly expansionary fiscal policy with inflationary potential and cautioning against using monetary policy to insure controlled expansion.

We are far from hopeful about the balance-of-payments outlook in this setting. Our more specific comments and recommendations will be contained in the committee's report on the subject.[1]

Research and Development and Economic Growth

Economists are paying increasing attention to the relationship between research and development and economic growth. On the basis of evidence thus far available, we believe that the impact of

[1] See Senator Javits' additional views.

R. & D. on economic growth is large and likely to grow even larger in the future. It would not be too much to say that innovation—the development of new products, processes, and techniques—is the foundation upon which the most valued economic growth rests.

The importance of encouraging research and development activities is critical. Not only does our domestic growth rate depend upon success in this area, but the U.S. position in international trade requires that the Nation maintain its technological leadership and increase its productivity. Available statistics indicate that the United States has a large favorable balance of "technological payments" reflecting her position of technical excellence among nations.

If the United States lags behind in technology and product innovation, it will be at a severe disadvantage in world markets. There already is some evidence that our margin of technological superiority may be diminishing as other nations step up their research and development efforts. The Survey of Current Business published by the U.S. Department of Commerce, notes in its January issue that "* * * technological advances in foreign countries are rapidly catching up with our own. * * *" One indication of increasing competitive pressures in an area where the United States has long been a leader is the steady increases in imports of capital equipment into the United States in the postwar period.

The United States is making a major research and development effort with a total annual R & D bill of almost $17 billion. But there is reason to beleve that the level and the allocation of R & D expenditures may be inappropriate for sustained and rapid economic growth. The large increase in military and space research in recent years may have created an imbalance in the allocation of our research talent leading to a short changing of research in many parts of the private sector. More than $12 billion of total R. & D. expenditures is for defense, space, atomic energy, and health, while less than $5 billion is spent for the development of new products, processes, and techniques in the private sector.

Some of the Nation's most basic industries are making an inadequate research and development effort. In 1957, the average company-financed research expenditure per employee in companies performing research was $353 in manufacturing industries, but only $54 in nonmanufacturing industries. In such industries as food processing, transportation, textiles, machine tools, lumber and wood products, only slightly more than 1 percent of total employees were scientists and engineers, contrasted to growth industries, such as chemicals and electronics, where the number of scientists and engineers is almost 10 times greater. In 1962 there were only seven Ph. D.'s in the United States with a specialty in textiles. The petroleum industry has estimated that in 1963 the schools supplied only one-third of its need for graduate engineers with petroleum specialties.

Skilled Manpower Shortages

The Nation's research and development effort is being held back by a lack of scientific and technical manpower, which is the key to technological change. Because of the complexity of modern technology, the Nation needs more and better trained technical personnel, including semiprofessional engineering and scientific technicians who are vitally necessary as a supporting part of the R. & D. team.

Another problem is the rapidly rising cost of research and development, partly caused by the complexity and sophistication of the new technology. As an example of increasing costs, salaries of professional manpower engaged in research and development rose 69 percent from 1952 to 1962. The considerable risk involved in research investment tends to limit such spending to a low level for many individual firms; consequently research is concentrated heavily in large firms with the great majority of small firms not performing any research at all.

A McGraw-Hill survey released last year showed that as a result of new discoveries in the laboratories, manufacturers expect that by 1966, 13 percent of their sales will be in new products not now known. The survey also pointed out the manufacturers as a whole said that 25 percent of their 1962 sales were in new products not made 10 years ago. Unfortunately, research and development—which the survey shows makes this kind of new product development possible—is expected to level off over the next few years. When asked why they were planning to slow down their spending on research and development—a prime source of economic growth—the major reason given by the largest proportion of the companies was the pressures of the profit squeeze. With many companies dissatisfied about profit margins, there has been some belt tightening in their research and development budgets.

The continuing squeeze on profits as a percentage of stockholders' equity, which is the most basic and important measure of profits, has been eased somewhat in the recent expansion. However, for all manufacturing industries, the annual profit rate on stockholders' equity (after taxes) in the first three quarters of 1963 was 8.6 percent, 11 percent, and 10 percent, still considerably below the level of reported profits in the 1947–56 period. We wish to note the unfortunate removal in the recently passed tax bill of the 4 percent dividend tax credit. In addition to its double taxation effect, the elimination of the credit will remove an important incentive to investment and discourage corporations from raising funds through issuance of new stocks. At the same time, it will encourage greater debt financing by corporations, thereby increasing the debt burden on the economy.

In order to encourage a greater research and development effort in the private economy, we recommend:

(1) A tax deduction as a business expense of outlays for machinery and equipment to be used directly in research and development.

(2) Strengthening of the patent laws to afford a higher degree of protection to investment for research and development and thus to encourage business to undertake the financial risks of a research and development program. We do not wish to move towards a system under which government will in all cases hold all patent rights arising from research financed wholly or in part by Federal funds.

(3) The Small Business Administration undertake a study of ways to promote the establishment of cooperative research firms catering to the needs of small business.

(4) The establishment within the executive branch of a technological clearinghouse to investigate civilian applications of space

and defense technology and to serve as a center for the collection, evaluation, and distribution of information on all aspects of technological development and its actual and potential effects on employment, foreign trade, the price level, and economic growth.

(5) Constant review of depreciation schedules. In spite of the long-needed revision of depreciation schedules in 1962, it is not yet clear that the new schedules will be sufficiently responsive to the needs of the economy. Depreciation schedules must be kept up to date to reflect the economic reality of useful life. In addition, allowances for obsolescence arising from advancing technology must be promptly provided for. In this way, we can encourage investment in modern and efficient plant and equipment and not only provide more and better jobs for our people, but also strengthen America's competitive position in world trade. We also want to stress again that revision of depreciation schedules is not tax cutting, but a change in the timing of tax liabilities.

Other Comments and Recommendations

I. Facilitating adjustment to the technological revolution

A. Education and training.—Young people without job experience, persons without skills or with obsolescent skills, and members of minority groups suffer the highest rates and the longest duration of unemployment. The direct relationship between the bulk of our unemployment and poverty problems and lack of education and skills as well as other personal handicaps requires that we focus our attack in the area of education, training, and rehabilitation.

The solution to the problem of technological displacement demands a broad national effort to upgrade the labor force by small stages all along the line—providing the unskilled with minor skills, preparing the semiskilled for skilled work, and turning the skilled into advanced technicians, and rehabilitating the handicapped. Workers on all levels of the skill ladder must be encouraged and helped to move up into higher and more demanding jobs, leaving the positions which they once held to be filled by the less skilled, but striving applicant. Every level of government and every sector of the private economy must contribute in this national effort to upgrade skills to the demands of our increasingly service-oriented and technologically advancing society.

While these recommendations primarily concern activities by Government, we must not lose sight that business and labor play the key role. Business has long recognized that rapidly advancing technology requires continual retraining of employees.

Gunnar Myrdal has pointed out that American industry spends nearly a third of what government—Federal, State, and local—spends on formal education up to the college level. This effort includes formal programs and informal training which take place during business hours or after work, in plants, offices, and classrooms with instruction provided by supervisors, other staff members, or outside experts and teachers. He comments:

> This is a highly commendable activity, and industry should be praised for its foresight in regard to vocational training unsurpassed in any other Western country. With-

out this great effort by industry itself, the whole employment situation in the United States would look even blacker than it does.

We believe that Government should encourage in every proper way such activities in the private sector.

To promote the education and training required by the technological revolution, we suggest the following:

(1) The mounting costs of education beyond the high school level, including both college and vocational and technical training, means that in the future more and more students will be compelled to seek financial assistance. Scholarships and fellowships—which can meet only a small part of the need—should be awarded primarily for merit. Other requirements must be met mainly through student loans.

Loan assistance has a double advantage. Because of repayments, a given amount of loan funds will assist a great many students over a period of time. Loans also enable a student to "buy" his education on the installment plan in the same way he would buy a car. This is the kind of installment buying that brings vast future returns to the individual as well as to society.

Although many loan plans have been established by banks, private companies, universities and States, it is generally felt that there are special risks involved in student loans which restrict their growth. It should be noted, however, that a recent study of selected loan plans showed that the rate of delinquencies and defaults was very low. We urge that every encouragement be provided by government to improve upon and extend those private plans which guarantee long-term private loans to students.

(2) The acceleration and extension of vocational and apprenticeship training programs and of training opportunities under the Manpower Development and Training Act.

(3) We urge that the vocational programs of the Department of Health, Education, and Welfare and the apprenticeship program of the Department of Labor be coordinated to the fullest extent possible with one another and with the vocational training programs of the military services.

(4) We urge the administration to review the statutes bearing on military service obligations in order to determine how and to what extent they interfere unnecessarily with the smooth transition of our young men from school to civilian employment. Such a review should yield recommendations for changes in the law, as well as in procedures under the law, to minimize such impediments and to promote more effectively the preparation of our young men for civilian careers.

(5) The redundancy and inconsistency which exist among the adjustment provisions of the Trade Expansion Act of 1962, the retraining features of the Area Redevelopment Act, the Manpower Development and Training Act, the unemployment insurance program and the military manpower training programs are impairing the effectiveness of our training and retraining efforts. We believe it is urgent for the administration to examine the relationship of these programs to one another and to provide for the elimination of redundant programs and the more effective coordination of the others in order to better promote the overall policy objective.

(6) Our tax laws should be amended to eliminate obstacles in the path of new skill development. For example, we should permit a

taxpayer to deduct, as a business expense, the amount spent for education or training to obtain a new or better job. Today such expenditures are deductible only if required to maintain existing skills or to keep a present job. Further, we should encourage individuals to train, either in academic or vocational subjects, at the post-high-school level by providing a tax credit of 30 percent of the amount spent for such education or training up to a limit of $450 in any one year. The credit could be taken either by the student himself, or by a parent or benefactor who is supporting such a student in furthering his academic or vocational education.[1]

(7) Companies planning technological changes should be given an incentive to train for new jobs in the company the workers who would be displaced, thereby keeping them off the unemployment rolls. They should also be encouraged to train temporary employees during their period of employment in skills known to be in demand in other industries and areas. Among other recommendations to this end, we believe States should be encouraged to broaden merit ratings under the unemployment insurance laws to include the concept of such on-the-job training so as not to penalize the employer who extends this opportunity to his workers.[1]

(8) Twenty-five States now permit an individual to receive unemployment compensation up to the normal amounts and limits while undergoing training or retraining. Efforts must be made to encourage all of our States to take this vital step to encourage individuals to upgrade their skills. Furthermore, an offer of suitable work should not disqualify an individual from receiving unemployment benefits, if the offer is refused during the period of training or if the job would prevent him from completing the course.

(9) Just as workers who refuse employment without good cause are disqualified from further unemployment insurance benefits, we should consider disqualifying workers receiving such benefits who are referred to training, but who refuse it without good cause.[1]

B. Mobility.—Mobility in the labor market is essential to smooth adjustment in our changing economy. The following steps would promote mobility:

(1) The tax laws should be amended to change the tax definition of "home" from the place of a worker's principal employment to the place where a worker owns a home and maintains his family.

(2) In order to ease the impact of automation and other causes of economic dislocation in a dynamic economy, both governmental and nongovernmental means should be considered to encourage the transferability of pensions and other job rights for individual workers who must change jobs.

(3) We should consider paying subsistence or transportation allowances to unemployment insurance claimants who look for work in areas beyond a predetermined distance from their home.

(4) The concept of tax deductions for costs of moving to a job in another geographic area should be brought up to date. The opportunity to modernize tax treatment of moving costs, which was presented by the recently passed tax bill, was only partially and imperfectly realized in that legislation.

C. Job information activities.—(1) The U.S. Employment Service should be encouraged to put more emphasis on preventing unemploy-

[1] See Senator Javits' additional views

ment, rather than on alleviating its effects alone, as by increased emphasis on counseling. At the same time, it should supplement—not compete with—private employment services, which should be strengthened so that they can better perform their key role in facilitating labor market adjustments.

(2) The Department of Labor should pursue with great urgency its efforts to establish a nationwide job displacement "early warning system" to facilitate advance planning for technological change by business, labor, and government at the community level.

(3) In order to assure that training is in needed skills, we recommend the establishment of a national clearinghouse for the identification and classification of emerging skill requirements, of existing skill needs, and of obsolescent skills. The clearinghouse should also maintain a list of job vacancies throughout the country for the use of the U.S. Employment Service, employers, private employment services, and others, in matching the jobless man and the manless job.

(4) A Presidential Commission on Automation should be established to make recommendations in this critical area and ease the adjustment of workers and businesses to rapid technological change. Such a commission should be empowered to make findings with respect to the identification and description of the major types of economic and technological changes which are likely to occur during the next decade and their effect on the nature of employment requirements; and the recent and prospective pace of technological change, its impact on productivity, its incidence on particular occupations and groups of workers, and its other effects on the Nation's economy, communities, families, social structure, and human values. On the basis of these findings, the Commission would be in the position to describe those actions which are properly the responsibility of management, labor and State and local governments and also to make recommendations to the President and the Congress on the kind of administrative and legislative measures which fulfills the proper responsibility of the Federal Government.

D. Unemployment insurance.—(1) To alleviate the hardships resulting from long-term unemployment, we believe that the States—not the Federal Government—should adopt a permanent system of temporary extension of unemployment insurance which would go into effect when certain National or State indexes or recession-level unemployment are reached. Six States already have adopted such a permanent system.[1]

(2) Administration of unemployment insurance benefits needs to be greatly improved in order to reduce the drain on funds for the deserving. A person who loses a job because of misconduct, who quits without good cause, or who refuses to take a suitable job should be excluded from receiving insurance benefits. In numerous areas, such exclusion is now only nominal.

(3) We urge that consideration be given to establishing a system of mortgage unemployment insurance designed to prevent foreclosures resulting from high and prolonged unemployment. Such insurance, which should cover only the payment of interest, taxes, and home insurance, would sharply reduce foreclosures related to extended unemployment.

[1] See Senator Javits' additional views.

II. Antitrust

We recommend the establishment of a Commission on Antitrust Laws to determine the impact of antitrust laws upon U.S. productivity, long-range economic growth, trade, foreign investment, foreign economic policy generally and on the national security. This Commission, which should be comprised of experts, selected on a bipartisan basis, from the executive department, Congress, and private life, should make such recommendations for changes in the substance and procedures of the antitrust laws as seem necessary to promote our economic objectives.

III. National emergency strikes

(1) Loss of time through work stoppages constitutes a heavy drag on economic growth. In fact, there is considerable opinion that the protracted steel strike in 1959 had this precise effect on our economy.

Because the adjustments required by rapid technological advance may contribute to a rise in serious and protracted labor disputes, we strongly urge that a joint congressional committee be created to study and report on problems relating to industrywide collective bargaining and industrywide strikes and lockouts. The committee should study:

(*a*) Improvements in the collective bargaining process so as to avoid or minimize strikes and lockouts which affect an entire industry or region.

(*b*) Concentration of economic power under the control of business and labor organizations and practices which tend to concentrate power affecting the collective bargaining process.

(*c*) The effectiveness of mediation, conciliation, arbitration, and other possible methods for supplementing the collective bargaining process.

(*d*) Existing Federal laws relating to collective bargaining, strikes, or lockouts affecting an entire industry or region.

Legislation should be developed as a result of the studies of such a committee in order to deal with emergency strikes which cause nationwide economic paralysis or which endanger the public health or safety.[1]

(2) In the area of labor-management relations there is much room for cooperation between labor, management, and Government to resolve differences over wages, the impact of rapid technological change, and other problems which involve the public interest. The Manpower Development and Training Act of 1962 contains section 205(b) calling for the establishment of such tripartite groups on a local, regional, and industry basis. Forty-seven State and 740 local groups have been formed across the country under this provision of the act. This movement needs to be pressed, since there were 5,000 of these committees in the United States during World War II.

IV. Discrimination in employment and training

(1) The Council of Economic Advisers on September 24, 1962, estimated the economic loss to the United States resulting from racial discrimination in employment at about $13 billion a year. The full utilization of the present capabilities of the nonwhite population, the Council said, would increase gross national product by about 2.5 percent and assist significantly in promoting a higher rate of growth

[1] See Senator Javits' additional views.

in the coming years. The drag which racial discrimination in employment and training exerts upon our growth makes it imperative that management and labor undertake a major effort to eliminate such discrimination.

We urge that a Fair Employment Practices Commission to deal with discrimination in employment be established.

(2) While we hear more about racial discrimination, we should also be aware of the heavy costs involved in discrimination in employment of the young and older workers of all races. The relatively heavy concentration of unemployment among our young and older workers makes it important for both labor unions and businesses to eliminate bias against any person because of his age when no distinction is warranted by the reasonable demands of the job. In the case of labor unions, progress should be made particularly in opening up the opportunities for union membership, and especially for apprenticeship training, to young people. Further, we should consider the desirability of legislation to prevent businesses engaged in interstate commerce from practicing age discrimination.

Nor should we neglect what is certainly one of the most discriminated against minorities in the Nation, the physically and mentally handicapped. The rehabilitation of a handicapped person so that he or she is able to work represents a clear economic gain for the Nation as well as a service to the individual. Rehabilitation programs and employer-directed educational campaigns should be pressed with imagination and urgency.

V. Economic policy goals

The Employment Act of 1946 declares that it shall be the policy of the Federal Government "to promote maximum employment, production, and purchasing power." The act, which was passed during a period of deep national concern over unemployment, largely focused on means to alleviate and prevent the widespread joblessness which many feared would follow the end of World War II.

Since the Employment Act was passed, other goals of economic policy also have come to the fore. The achievement of a reasonably stable price level, the strengthening in the Nation's international financial and trade position, and the achievement of greater efficiency in the use of the Nation's resources have become urgent policy goals. These goals are interrelated with one another as well as with the basic goal of full employment.

Yet one searches in vain in the Employment Act for any mention of these policy goals. Since economic policy must consider each of our national goals and their accommodation to one another, we believe that the Employment Act should be broadened to state explicitly all of the major goals of economic policy.

We recommend that the Employment Act be amended to give weight to other national goals such as reasonable stability of the price level, maximum efficiency in the use of resources, both public and private, and equilibrium in the balance of payments.

Public awareness of the tasks and complexities of economic policy would be increased vastly by an explicit statement of these policy goals. Policymakers themselves would be likely to give greater respect and attention to all major goals if they were explicitly stated in the Employment Act. The tendency in Government too often has been to minimize problems relating to inflation, efficiency, and the balance of payments with the result that efforts to expand employment have themselves suffered.

VI. Statistical research

Our statistical programs are the best in the world, but considerable work remains to be done in strengthening them. Improved economic statistics will lead to better economic decisionmaking. We recommend that the statistical agencies of the Government undertake or accelerate their efforts to:

(*a*) Develop an improved means of defining and measuring economic growth so that reliance need not be placed so heavily upon the gross national product computation.

(*b*) Develop improved regional and State economic accounting.

(*c*) Develop figures on job vacancies throughout the economy.

(*d*) Measure and forecast productive capacity both in major industries and in the economy as a whole.

(*e*) Determine to the greatest degree possible the margins of error in our economic statistics and prominently publish these estimates along with the figures themselves.

VII. Economic policymaking machinery

There is an urgent need for the improvement in our economic policymaking machinery. We have suggested earlier in these views that the Economic Report of the Council of Economic Advisers should divorce professional expert opinions from political value judgments. In order to improve the quality of the Economic Report, we recommend a suggestion first proposed by Dr. Arthur Burns, formerly Chairman of President Eisenhower's Council of Economic Advisers.

We recommend the establishment through an amendment to the Employment Act of an ad hoc Commission on the Economic Report. This Commission would advise the Congress, within 3 or 4 weeks of the submission of the President's and the Council's Economic Reports, of its views concerning the findings and recommendations of the reports, and on such other matters as in its judgment require public attention. Once the Commission has testified at hearings held by the Joint Economic Committee, it would pass out of existence. A new Commission would be established the following year. The Commission should be selected in such a way as to establish the widest possible public confidence in competence and objectivity.

We believe Dr. Burns' suggestion offers the most promising method of selection. He suggests that: The ranking member of the Democratic contingent on the Joint Economic Committee draw up a panel of 10 economists outside the Government service, each of whom is deemed to be exceptionally qualified by training and experience to evaluate the President's Economic Report. The ranking Republican member of the Joint Economic Committee would likewise draw up a list of 10 exceptionally qualified economists. Next, the ranking Democrat would designate three economists from the panel submitted by the Republican, and the ranking Republican would designate three economists from the panel submitted by the Democrat. The six thus chosen would constitute the Commission on the Economic Report. They would elect their own chairman or, if need be, cochairmen.

Such a Commission would help create public confidence in the findings and recommendations of the annual report of the Council of

Economic Advisers, and would raise public discussions of economic issues to a high plane.

VIII. Miscellaneous [1]

(1) We recommend consideration of means to encourage profit sharing by employees, including restricted stock options, stock-purchasing plans, and other methods of stockholding, as part of or in lieu of increases in wages and salaries. Contrary to the administration's tax philosophy, we believe tax policy should encourage—not discourage—such activity.

(2) We urge additional incentives and aids to encourage business participation in the export expansion program initiated during the Eisenhower administration—including constant review of the Export-Import Bank and Foreign Credit Insurance Association export credit guarantee program; consideration of tax incentives for exports, consistent with our obligations under the General Agreement on Tariffs and Trade; and coordination of all Federal programs for export promotion in order to make them available to the maximum to the individual businesses throughout the country.

(3) We urgently recommend that the administration press for essential tax reform as the key to sound economic growth.

(4) In order to assist borrowers from overextending themselves, educational efforts should be undertaken by the Federal Housing Administration and the Veterans' Administration to help potential home buyers in planning for the financial requirements of home purchase. Financial planning information should include an examination of future taxes and maintenance and repair expenses to insure that adequate attention is given to the continual upward trend in property taxes and to the necessary expenditures for home maintenance and repair. We believe this step, along with the suggestion for a system of mortgage insurance for the unemployed, would do much to lower the rising rate of mortgage delinquencies and foreclosures.

Senator Jacob K. Javits.
Senator Jack Miller.
Senator Len B. Jordan.
Representative Thomas B. Curtis.
Representative Clarence E. Kilburn.
Representative William B. Widnall.

[1] See Senator Javits' additional views.

ADDITIONAL VIEWS OF SENATOR JAVITS

I wish to give particular support in the minority's views to the excellent section dealing with the "war on poverty." The problem of poverty, so prominently in the public's mind today, is an extremely complex one, which will require careful study and thoughtful action and the expenditure of sizable funds by the Federal Government, State and local governments, and by nonprofit organizations, business firms, and private welfare agencies. Hasty action and a failure to provide a sound conceptual formulation and the proper organizational framework at the outset could aggravate rather than cure the intolerable conditions confronting a large segment of our people. I am convinced that successful action to curb poverty must be founded on the basis of close cooperation between private enterprise and public agencies at the neighborhood, community level. To leave this "war on poverty" largely to the Federal Government would be a mockery of the American people's confidence in the ability of our economic system to meet the challenges of our time. The specific antipoverty actions proposed by the minority represent the kind of effort that ought to be undertaken. The thoughtful analysis underlying its recommendations must also be commended.

The recent enactment of the tax bill represents a major victory to those of us who have pressed for its enactment for over 2 years. It will stimulate our economy and will also benefit the competitive position of the United States in world markets by providing needed incentives for increasing the productivity and efficiency of U.S industry.

Because there is no assurance that there will not be a downturn in the business cycle sometime in 1965—the economic expansion which began in February 1961 is now 36 months old, one of the longest periods of expansion in the past hundred years of the U.S. economy in times of peace—careful plans should be made now to meet the unfulfilled needs of our people. This would require the broadening of existing programs in such fields as Federal aid to education and manpower retraining, and the initiation of economic programs of major character, including one dealing with problems caused by rapid technological change (automation), such as stock ownership, profit sharing, and transferability of pension rights, a program dealing with problems caused by rapid social and economic change related to the so-called war on poverty, and medical care for aged citizens.

The tax cut, therefore, represents but a beginning. Its beneficial effects on unemployment and on our low-income families, for example, are, in my view, minimal. Its stimulative effects must be augmented by programs specifically addressed to need. Should 1965 see a slowdown in the Nation's economy, there should be no hesitation on the part of the Congress and the President to undertake such an effort.

Having embarked on one road to aid higher education, by supporting the passage last year of a measure providing for a 5-year program of $1.2 billion in Federal grants and loans for construction or improvement of academic and other facilities in higher education, and committed to a 20-percent across-the-board tax cut for individuals, I believe that a tax incentive to parents with children attending college should be based on a better balanced plan devised in committee.

I am pleased that the minority accepted additions to the list of measures required to insure adequate economic growth I proposed—those on an antitrust laws review; and added incentives to encourage exports. In addition, I suggest two areas of activity needed to supplement an effective incentive tax cut:

(1) Establishment of a Federal Limited Profit Housing Corporation to finance middle-income housing through the sale of tax-free bonds in the capital market; and

(2) Establishment of a Federal Department of Urban Affairs with regional councils which can handle problems—such as transportation, sewage disposal, water supply, air pollution, etc.—extending across traditional lines of State and city.

The program to deal with the problems of urban renewal and public housing as related to low-income citizens advocated by the minority should be augmented by a comprehensive program of middle-income housing through private enterprise. There should also be greater utilization made of air rights sites—over railroad rights-of-way, bridge and tunnel entrances, subway storage yards, and highways—for middle-income housing. A committee appointed by Gov. Nelson A. Rockefeller, of New York, concluded that with the kind of Federal support that is now available in the urban renewal matching grant formula, the development of such sites is feasible. I also wish to express my support for the main outlines of the administration's omnibus housing bill, which is basically an extension of present programs. I particularly support the one striking innovation in this program—Federal aid to "new cities."

I also believe that the additional measures listed below would also be beneficial to a sound public policy:

(1) I recommend that permanent improved Federal standards of unemployment compensation should be enacted to support and help those workers who, through lack of training and other factors, are at present at a disadvantage in the current stage of our economic development, and to strengthen their low level of demand until other selective measures give the needed impetus to U.S. economic growth.

(2) Passage of S. 1330, a bill to amend the Taft-Hartley Act, would broaden and strengthen Presidential power to deal with national interest in labor disputes. I introduced this legislation on April 18, 1963, to reflect the growing consensus that we must have an established procedure to assess the public interest in critical labor disputes.

(3) Legislation providing for the health care of all persons 65 years of age or over through contributory social insurance and a complementary national standard private insurance plan is long overdue.

In the matter of unemployment insurance, I urge basic safeguards to prevent injustice in the means by which workers could be disqualified from receiving benefits for refusing to take certain retraining courses. As has been demonstrated by the present system of depriving workers of benefits for refusing to take available work, this requirement can be evaded. On the other hand, problems of individual freedom in choosing appropriate retraining programs may arise. Therefore, although I support this suggestion in principle, I believe the mechanism for its application must protect against abuse of authority or its arbitrary exercise.

A full discussion of the U.S. balance-of-payments problem must await the publication of the committee's report on the subject; however, I wish to take this opportunity to associate myself with the minority's criticism of the interest equalization tax measure proposed by the administration. I wish, also, to associate myself with the concern of the majority concerning a unilateral effort by the United States to resolve its international payments deficit problem and urge that while the United States must do all it can to put its house in order, this problem should be dealt with within the framework of a meaningful reform of the international monetary system.

JACOB K. JAVITS.

COMMITTEE AND SUBCOMMITTEE ACTIVITIES IN THE PAST YEAR

The Joint Economic Committee is directed by the Employment Act of 1946 (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.

The work of the full committee and the subcommittees for the past year is summarized below:

FULL COMMITTEE

January 1963 Economic Report of the President

In late January and early February the committee held hearings on the 1963 Economic Report of the President, receiving testimony from the Council of Economic Advisers, members of the Cabinet, and other officials of the executive departments, and economic experts from universities and research groups. Part 2 of the printed hearings contains statements from leaders of banking, business, labor, and agriculture, commenting on the President's report.

1963 Joint Economic Report

The annual Economic Report of the Committee was filed with the Congress on March 14, the March 1 deadline being extended by unanimous consent. This report also contained minority and individual views.

Steel Prices, Unit Costs, Profits, and Foreign Competition

Hearings were held April 23–29 and May 29 on the subject of steel prices, unit costs, profits, and foreign competition. Impartial government technicians presented data on steel prices, profits, production, unit labor costs, raw material costs, and the effects of foreign competition.

Discriminatory Ocean Freight Rates and the Balance of Payments

During the course of the committee's hearings on steel prices, it was brought out that ocean freight rates on American exports of steel and steel products were considerably higher than those on imports of foreign steel products.

As a result of this testimony the committee undertook an investigation of discriminatory ocean freight rates and their effects on the balance of payments. Hearings were held June 20 and 21, October 9 and 10, and November 19 and 20. This investigation revealed that while the Federal Maritime Commission had long been aware of these disparities, no action had been taken even though previous legislation had so directed. Following recommendations made by the Joint Economic Committee, the Maritime Commission has been vigorous in its efforts to eliminate freight rate differentials or to receive sufficient justifications from foreign and domestic steamship operators.

The U.S. Balance of Payments

The balance of payments of the United States was an area of major concentration for the Joint Economic Committee in 1963. Three sets of hearings before the full committee were devoted to this problem, and resulted in a printed record of more than 600 pages.

In July the committee received testimony from Treasury Secretary Dillon and Under Secretary Roosa on current problems and policies, and from a group of Brookings Institution authors on the outlook for the balance of payments. Four expert witnesses provided the committee with critical appraisals of the Brookings study entitled "The United States Balance of Payments in 1968." In November the committee conducted its most extensive hearings of the year on this subject, exploring the functioning and possible reform of the international monetary system with the assistance of ten leading authorities.

A compendium of 68 critical statements on the Brookings study, later supplemented by 3 additional statements, was published to assist the Congress and the public assess the likelihood that the favorable Brookings projection would actually be realized. In addition, a committee print titled "The United States Balance of Payments—Perspectives and Policies" contains staff materials dealing with the U.S. international financial position, foreign aid, defense programs, and the effects on the balance of payments of economic growth at home and abroad.

A report containing the committee's findings and recommendations is in press at this writing.

SUBCOMMITTEE ON DEFENSE PROCUREMENT

The Subcommittee on Defense Procurement is composed of Senator Paul H. Douglas (chairman), Senators John Sparkman, William Proxmire, and Jacob K. Javits; and Representatives Wright Patman, Martha W. Griffiths, Thomas B. Curtis, and William B. Widnall.

The subcommittee staff brought up to date its study of "Background Material on Economic Aspects of Military Procurement and Supply" to be used in connection with the subcommittee hearings held March 28, 29, and April 1. At that time it received, among other information, a progress report on what actions the Department of Defense had taken in the fields of procurement and supply to make these activities more efficient. In July the subcommittee issued a report entitled "Impact of Military Supply and Service Activities on the Economy."

SUBCOMMITTEE ON ECONOMIC STATISTICS

The Subcommittee on Economic Statistics is composed of Senator William Proxmire (chairman), Senators Paul H. Douglas, J. W. Fulbright, and Jack Miller; and Representatives Richard Bolling and Thomas B. Curtis.

The Federal Budget as an Economic Document

In April the subcommittee held hearings on "The Federal Budget as an Economic Document." Testimony was concentrated on the meaning of the figures contained in the budget document and possible changes that would make the document more useful for economic analysis of Federal policies. As a result, some very important and significant changes were made in the budget document presented to the Congress in January 1964.

A report was unanimously adopted and submitted to the full committee on August 5; this report was approved by the full committee and transmitted to the Congress on August 14 (S. Rept. No. 396).

Measuring Employment and Unemployment

On June 6 and 7 the subcommittee held hearings on the findings and recommendations of the President's Committee to Appraise Employment and Unemployment Statistics contained in their report titled "Measuring Employment and Unemployment." Members of the President's Committee presented the principal issues before them and their major findings and recommendations; and representatives of the various agencies involved in carrying out the committee's recommendations discussed their plans for implementing these directives.

SUBCOMMITTEE ON INTER-AMERICAN ECONOMIC RELATIONSHIPS

The Subcommittee on Inter-American Economic Relationships is composed of Senator John Sparkman (chairman), Senators Claiborne Pell, Jacob K. Javits, and Len B. Jordan; and Representatives Richard Bolling, Hale Boggs, Martha W. Griffiths, and Thomas B. Curtis.

Private Investment in Latin America

The subcommittee held hearings in January 1964 on Private Investment in Latin America. These hearings besides considering the channels of capital also studied (*a*) the Government programs guaranteeing private investment, and (*b*) the opportunities for private investment arising from trade expansion in the broader perspective of hemispheric integration of the Western Hemisphere as a whole.

OTHER COMMITTEE STUDIES COMPLETED SINCE MARCH 1963

In connection with its "continuing study" of the economy, the Joint Economic Committee has from time to time released for public information pertinent materials prepared for the committee under the direction of the staff.

Economic Policies and Practices

A series of brief studies planned as aids to understanding comparative economic policies and institutions in the various industrial countries were published under the general title "Economic Policies and Practices." Those published to date are:

Paper No. 1: Comparative Features of Central Banks in Selected Foreign Countries.

Paper No. 2: Governmental Policies To Deal With Prices in Key Industries in Selected Foreign Countries.

Paper No. 3: A Description and Analysis of Certain European Capital Markets.

Probable Effects of the Proposed Quality Stabilization Act on Prices, Incomes, Employment, and Production

At the request of Chairman Douglas, the Council of Economic Advisers prepared an analysis of effects of the proposed Quality Stabilization Act on prices, incomes, employment, and production.

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 1963:

Conference of Business Economists.
American Bankers Association: Symposium on economic growth.
The Business Council: Technical consultants to Committee on Domestic Economy.
Treasury-Internal Revenue Service Committee on Statistics.
National Bureau of Economic Research: Brookings Conference on Roles of Direct and Indirect Taxes.
George Washington University: Project Advisory Committee to the Wealth Inventory Planning Study.
Brookings Institution: Advisory Committee on Structural Unemployment.
Social Science Research Council.
American Economic Association.
Observer at annual meetings of the Board of Governors of the International Monetary Fund.

The Executive Director and other professional staff members made addresses or presented papers to the following groups:

Ohio Celebration—50th Anniversary of the U.S. Department of Labor.
American University Conference on Government Relations in Marketing.
Forecasters Club of New York.
National Planning Association: Fifth Annual Conference, Center for Economic Projections.
National Association of Tax Administrators.
U.S. Department of Agriculture: Outlook session.
U.S. Civil Service Commission: Institute in Public Problems and Federal Programs.
Washington Trade Association Executives.
American Statistical Association annual meeting.
Fiftieth National Foreign Trade Convention.
Foreign Service Institute.

Conferences were held with the following foreign groups seeking information on the activities of the Joint Economic Committee: Korean international group—Center for International Economic Growth; representatives from Royal Commission on Taxing, Ottawa, Canada; Netherlands Embassy industrial group; and IFO Institute für Wirtschaftsforschung, Germany; as well as with student groups from colleges and high schools in the United States.

CHANGES IN COMMITTEE STAFF

John R. Stark, clerk of the committee, resigned in March to become chief counsel of the House Banking and Currency Committee. The clerk's duties were divided between two members of the staff: Mrs. Marian T. Tracy was appointed as financial clerk and Mr. Hamilton D. Gewehr as administrative clerk.

Gerald A. Pollack was appointed to the committee staff on April 22 as its expert on international economics. On September 2 Roy E. Moor resigned to become administrative assistant to Senator Proxmire. Alan P. Murray joined the staff on October 21 and will advise on tax and fiscal matters.

DISTRIBUTION OF COMMITTEE PUBLICATIONS

During the past year the Joint Economic Committee and its subcommittees issued 24 publications. Over 120,000 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, exceeded $38,000. This figure does not include the 10,000 copies of the monthly publication "Economic Indicators" put on sale by the Superintendent of Documents.

PUBLICATIONS ISSUED SINCE MARCH 1963

January 1963 Economic Report of the President:
- Hearings:
  - Part 1. January 28, 29, 30, 31, February 1, 4, 5, and 6, 1963.
  - Part 2. Statements of Economic Interest Groups: March 1963.
- Joint Economic Report on the 1963 Economic Report of the President (S. Rept. 78): March 1963.

Background Material on Economic Aspects of Military Procurement and Supply. Staff report of the Subcommittee on Defense Procurement: March 1963.

Impact of Military Supply and Service Activities on the Economy. Hearings before the Subcommittee on Defense Procurement, March 28, 29, and April 1, 1963.

Impact of Military Supply and Service Activities on the Economy. Report of the Subcommittee on Defense Procurement: July 1963.

Steel Prices, Unit Costs, Profits, and Foreign Competition. Hearings, April 23, 24, 25, 26, 29, and May 2, 1963.

The Federal Budget as an Economic Document. Hearings before the Subcommittee on Economic Statistics, April 23, 24, 25, and 30, 1963.

The Federal Budget as an Economic Document. Report prepared by the Subcommittee on Economic Statistics (S. Rept. 396): August 1963.

Measuring Employment and Unemployment. Hearings before the Subcommittee on Economic Statistics, June 6 and 7, 1963.

Discriminatory Ocean Freight Rates and the Balance of Payments:
- Hearings:
  - Part 1. June 20 and 21, 1963.
  - Part 2. October 9 and 10, 1963.
  - Part 3. November 19 and 20, 1963.

The United States Balance of Payments:
- Hearings:
  - Part 1. Current Problems and Policies, July 8 and 9, 1963.
  - Part 2. Outlook for the United States Balance of Payments, July 29 and 30, 1963.
  - Part 3. The International Monetary System: Functioning and Possible Reform, November 12, 13, 14, and 15, 1963.

The United States Balance of Payments—Perspectives and Policies. Staff materials and other submissions; November 1963.

The United States Balance of Payments. Statements by Economists, Bankers, and Others on The Brookings Institution Study, "The United States Balance of Payments in 1968"; November 1963.

Probable Effects of the Proposed Quality Stabilization Act on Prices, Incomes, Employment, and Production. A summary analysis prepared by the Council of Economic Advisers: October 1963.

Economic Policies and Practices:

Studies:

Paper No. 1. Comparative Features of Central Banks in Selected Foreign Countries: October 1963.

Paper No. 2. Governmental Policies To Deal With Prices in Key Industries in Selected Foreign Countries: October 1963.

Paper No. 3. A Description and Analysis of Certain European Capital Markets: January 1964.

Private Investment in Latin America. Hearings before the Subcommittee on Inter-American Economic Relationships, January 14, 15, and 16, 1964.

Annual Economic Indicators for the U.S.S.R. Materials prepared for the Joint Economic Committee. February 1964.

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